



Overview of the Saskatchewan Economy

By Jim Marshall
and Adam Mills

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SASKATCHEWAN

OVERVIEW OF THE SASKATCHEWAN ECONOMY

By JIM MARSHALL AND ADAM MILLS

WINTER 2008

SASKATCHEWAN INSTITUTE OF PUBLIC POLICY



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CHAPTER 1 ~ INTRODUCTION

The economy continues to be a matter of great discussion in Saskatchewan from coffee row to the halls of the Legislative building. The economy matters to people in the way it affects their daily lives, their incomes, their standard of living, the way they earn their living, and the way they spend their time every day.

To governments, the state of the economy is a key consideration in much of their policy formulation. The economy affects the flow of revenue to government because economic activity is the source of that flow of revenue. The condition of certain types of economic activity may also determine the nature and type of demands on governments for services provided by government agencies. For example, in times of economic slowdown, there may be greater need for government income support and other forms of social assistance. In times of strong economic growth, there tends to be higher demands on government for infrastructure development in streets and roads, sewer and water systems, as well as community infrastructure such as schools and other public facilities.

It is understandable that there is much interest in the state of the economy and a positive and intelligent debate on policy issues can be well served by a wider and deeper understanding of economic conditions in Saskatchewan. The Saskatchewan Institute of Public Policy supports informed policy debate in Saskatchewan on a wide variety of public policy issues, many of which are driven or affected by economic conditions within the province. In support of this informed debate, the Institute has compiled, from published materials, an overview of the latest data on the Saskatchewan economy. This is the second such overview produced by the Institute. The first *Overview of the Saskatchewan Economy* was published in the summer of 2006.

It is often difficult to understand an economy from within. Any particular level of economic performance may have little meaning except as viewed relative to the performance of other economies with which we are familiar.

In this overview, the context for the Saskatchewan economy will be established first within the world in terms of how Canada's recent economic performance compares with other countries with whom we trade and compete in world markets and who also must provide support and sustenance for their citizenry through their own economic activity.

Second, the overview will examine Saskatchewan's economy as compared to those in other Canadian jurisdictions and at other periods of time. Economic data are sometimes difficult to fathom on their own and the placement of Saskatchewan's performance within national and historical contexts may help to illustrate the strengths and weaknesses within the province's economy.

CHAPTER 2 ~ CANADA IN A WORLD CONTEXT

Many of the data presented on Saskatchewan's economy in later chapters will be examined as compared to the performance of the broader Canadian economy. But, to understand even that broader context, it is important that we understand how the Canadian economy has been faring relative to other economies in the world.

For example, if Saskatchewan is doing well as compared to the rest of Canada, that may mean a very good performance for the Saskatchewan economy if Canadian performance has also outpaced the rest of the world. On the other hand, if the Canadian economy is performing below the average of other countries, a mediocre performance for Saskatchewan may appear very good within the Canadian economy when it would actually pale in comparison to the rest of the world.

Unfortunately, it is very difficult to find consistent, comparable data for other countries in the world. There are many different measures of economic performance and not all economies focus on the same data when describing their own performance. As well, there are many economies where data are not routinely collected or are not collected in a manner which would ensure their comparability to other countries. Canada is well known for the volume and quality of data collected by agencies such as Statistics Canada, however, data which are readily available on the performance of Canadian economies are rarely available on an equivalent basis for other world economies.

While this may limit our ability to examine Saskatchewan within a world context in many dimensions, we can gain an overall appreciation for Saskatchewan's place in the world by looking at Canada's performance in a world context or at least in the context of other countries which routinely collect comparable national performance data.

Economic Growth Rates

Some comparable economic data are available through the Organization for Economic Cooperation and Development (OECD), an international organization of 30 developed nations, that, among other things, maintains data on the performance of its member nations.

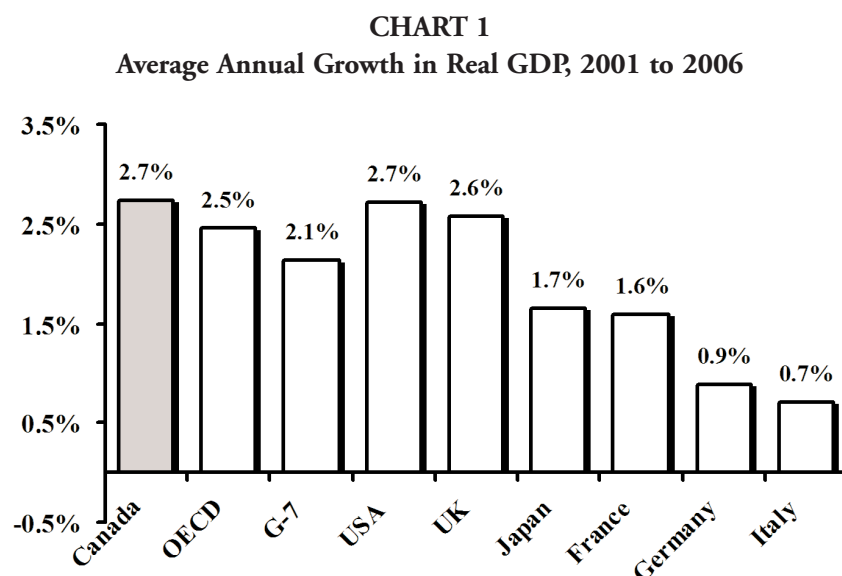
In addition to the other work the OECD does in economic development, the maintenance of consistent data comparisons among member nations supports the development of informed policies within the member nations.

One key indicator of economic performance is the gross domestic product (GDP) of countries. GDP is a measure of the total value of economic output produced within an economy and is usually measured in local currency (in Canada, the Canadian dollar). But, a rising GDP could result from nothing more than rising prices, confusing inflation in prices with real growth in output. To correct for this possibility, and especially to allow for consistent comparisons of real growth over time, the GDP data are often divided by inflation rates (deflated) to find the growth in the volume of output as opposed to the value of output. This deflated GDP is generally referred to as "real GDP" because if real GDP is growing, it is due to growth in the volume of things produced, not just in their prices.

As noted, GDP is measured in local currencies, making international comparisons difficult. To correct for this, economies are often compared based on the rate of change in their real GDP, or, in other words,

in terms of their rate of growth. In this case, an economy growing at 3 per cent can be compared to an economy growing at 2 per cent, even if their output is measured in different currencies.

Chart 1, below, compares the average rate of growth in real GDP in Canada for the five years between 2001 and 2006 with growth rates in other countries. For example, Canada averaged 2.7 per cent real economic growth over the period, while the 30 OECD countries averaged 2.5 per cent real economic growth from 2001 to 2006.



Source: OECD, *Main Economic Indicators*, November, 2007, p. 2.

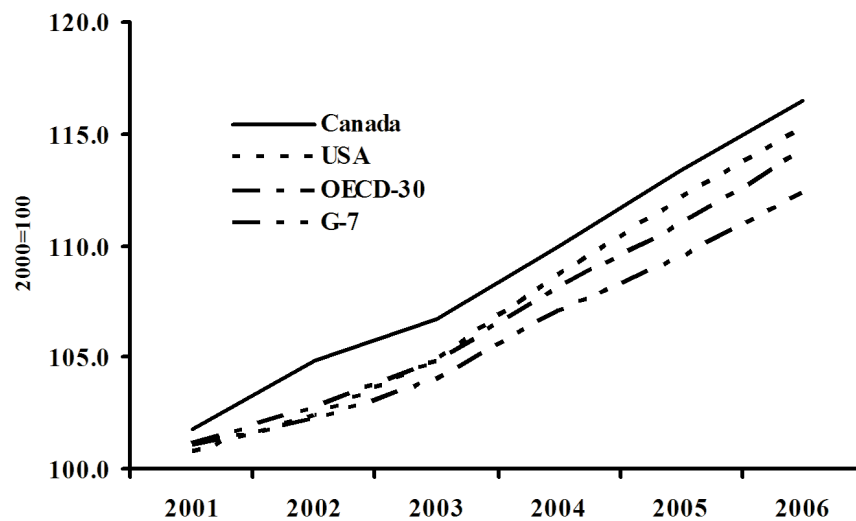
The other so-called Group of Seven or “G-7” countries are also shown in Chart 1. The data indicate that Canada outperformed the G-7 average growth of 2.1 per cent and outperformed all of the other G-7 countries with the exception of the United States (US), where growth also averaged 2.7 per cent from 2001 to 2006.

This comparison illustrates how economic conditions in Canada have fared relative to other key countries in the world. Canada’s real output has increased significantly in the past five years, especially when it is noted that Canada’s average growth rate is one-and-a-half times the growth rate in Germany, two-and-one-third times the growth rate in the United Kingdom and three-and-one-half times the growth of Italy. When higher growth rates are sustained for several years, the output of countries can diverge significantly in a fairly short period.

Cumulative Growth

Chart 2 compares the effects of cumulative growth rates over the past five years. In this case, the chart examines real GDP in any given year for any given country with that country’s output level in 2001.

CHART 2
Real GDP, 2001 to 2006



Source: OECD, *Main Economic Indicators*, November, 2007, p. 2.

This chart illustrates that Canada has consistently led in growth in output among the developed countries from 2000 to 2006. In 2006, Canada's real GDP was 16.5 per cent above 2000 levels, while the cumulative growth in the US, at 15.3 per cent, was slightly lower than Canada's over the period.

While Canada's average annual growth was less than 0.4 percentage points higher than the OECD average from 2000 to 2006, by 2006, Canada's cumulative GDP growth was 16.5 per cent and the OECD's cumulative GDP growth was only 14.3 per cent. Canada's cumulative 16.5 per cent growth in real output also compares favourably with the total for the G-7, which grew by only 12.4 percentage points from 2000 to 2006.

This chart illustrates how a fairly small difference in annual growth rates can quickly compound into major growth advantages as compared to other economies. From 2000 to 2006, Canada's real GDP grew 15.4 per cent more than the average growth in the 30 OECD countries and 33.1 per cent more than the total growth in the G-7 countries.

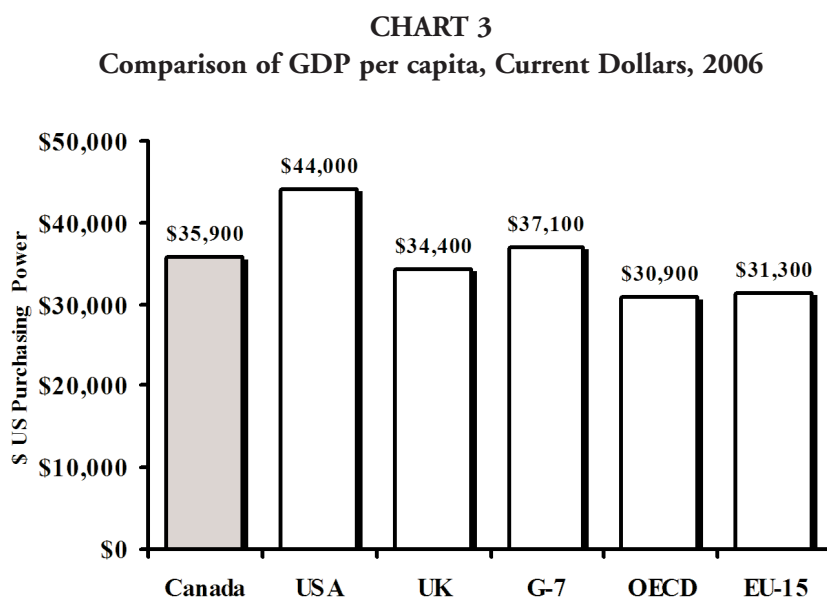
Economic Activity Levels

Of course, these data refer to growth rates over a period of time and can be affected by the start and end points in making comparisons. Additional perspective on economic performance can be gained by examining levels of output (GDP) as well as changes in levels of output (growth in GDP) as seen in Chart 2.

The OECD also produces data on GDP levels in various countries. To make these data comparable between countries, they are expressed in terms of GDP relative to population, or in per capita terms. In addition, the data are adjusted to a common currency (in this case, US dollars) and are adjusted to take into account the fact that exchange rates do not necessarily reflect the actual purchasing power of

currencies at any point in time. This adjustment is referred to as “purchasing power parity” (PPP) wherein each country’s GDP is measured in terms of what the value of that GDP would purchase in the US.

Chart 3, below, provides some selected comparisons from this OECD data set, illustrating that, for example, in 2006, Canada’s GDP per capita stood at \$35,900 in US dollars on a PPP equivalent basis as compared to a level of \$44,000 in the US. Canada’s per capita GDP was also slightly below the \$37,100 average of the G-7 countries. In fact, Canada stood in second place within the G-7 in terms of GDP per capita, surpassed only by the US. As compared with other countries, Canada’s output levels fare quite well.



Source: OECD, *OECD in Figures*, 2007 Edition, p. 79.

The per capita GDP in Canada in 2006 was already about \$1,500 (or 4.4 per cent) higher than that in the United Kingdom; \$4,600 (or 14.7 per cent) higher than the average for members of the European Union; and \$5,000 (or 16.2 per cent) higher than the average for the 30 OECD countries combined.

Notably, then, Canada’s growth has outperformed many other developed countries in the past five years, and Canada’s level of output compares favourably to most other countries by the end of the period.

Outlook for Canada

Some other data have also made favourable comparisons of Canada’s performance. The Economist Intelligence Unit, maintained by *The Economist* (an international weekly publication), ranked Canada’s “business environment” as fifth best out of 82 economies, behind only Denmark and Finland and just ahead of Singapore in 4th place.¹ Canada’s fifth-place ranking compared favourably to other recent powerhouse economies such as Hong Kong in 6th place, the US in 7th place, and Ireland in 12th place out of 82.

Another recent issue of *The Economist* estimated Canada's economic growth rate for 2007 at 2.5 per cent in real terms and forecasted real growth of 2.0 per cent for 2008. This compares with 2007 growth of 2.1 per cent for the US and 2.6 per cent for the Euro Area, and 2008 growth of 2.0 per cent for the US and only 1.9 per cent for the Euro Area.²

Summary of Canada's Performance

In summary, several indicators suggest that Canada's economy has performed relatively well when compared to similar economies over the past five years and has achieved a comparable level of output per person. Beyond that, the outlook for the Canadian economy for the next few years remains fairly optimistic in the eyes of a number of forecasting agencies. This survey of the performance of the larger Canadian economy will provide a benchmark for a closer examination of the Saskatchewan economy in the following chapters.

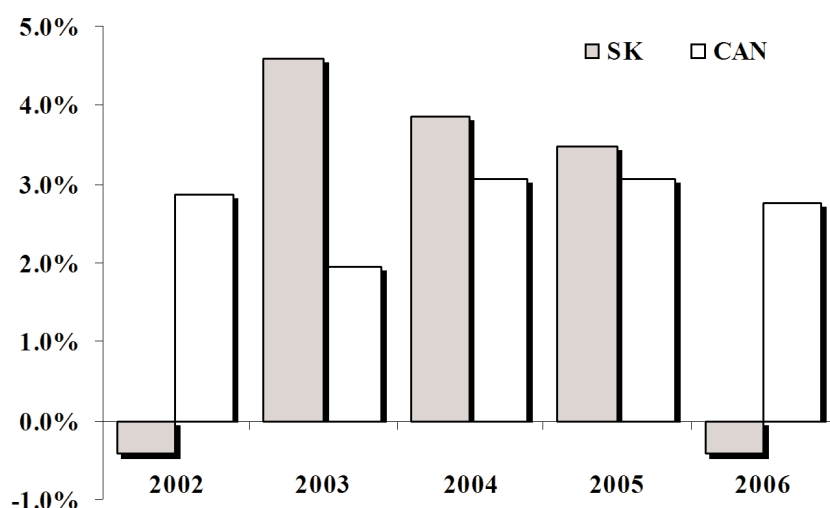
CHAPTER 3 ~ SASKATCHEWAN: PROVINCE-WIDE INDICATORS

Chapter 2 placed Canada's performance within a world context to help clarify and situate Saskatchewan's performance, especially as compared to Canada's overall performance. Statistics Canada economic data for the provinces allows for a more detailed examination of Saskatchewan's position within Canada.

Economic Growth

As with the international comparisons in Chapter 2, the growth in the Saskatchewan economy can be compared with the rates of growth in other Canadian provinces in several ways. To try to eliminate the effects of price changes on growth, the first examination will look at the rate of growth in real GDP, as in Chart 4, below, which compares Saskatchewan's real economic growth over the previous year in percentage terms with that of Canada for each of the five years from 2001 to 2006.

CHART 4
Annual Growth in Real GDP, Canada and Saskatchewan, 2001 to 2006



Source: Statistics Canada. *Provincial Economic Accounts*, CANSIM Table 384-0002.
Author's Calculations.

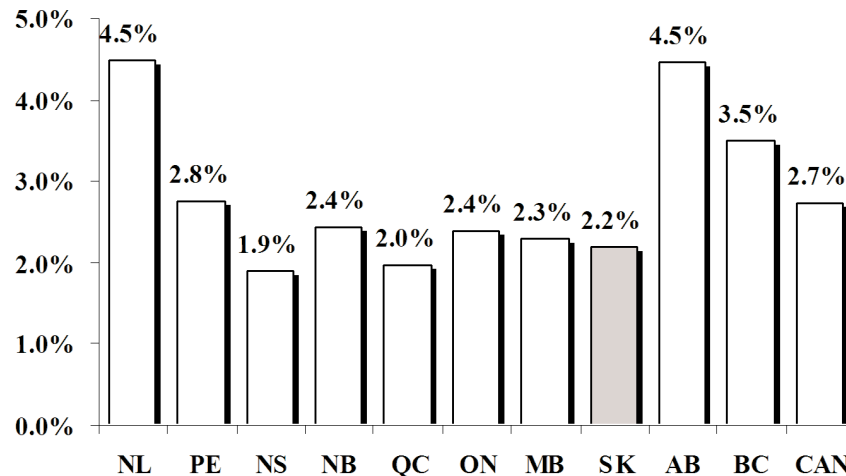
The chart shows that the Saskatchewan economy's rate of growth was actually negative in real terms in 2002 and 2006, as Saskatchewan's volume of production fell by 0.4 per cent in both years while the national real output increased by 2.9 per cent in 2002 and 2.8 per cent in 2006.

However, Saskatchewan's economy grew significantly in the years 2003, 2004, and 2005 as output volumes grew by 4.6 per cent in Saskatchewan as compared to only 1.9 per cent for Canada in 2003. In 2004 and 2005, Saskatchewan's real economic activity increased by 3.8 per cent and then 3.5 per cent more, respectively, as compared to a national growth rate of 3.1 per cent in each of those years.

Saskatchewan's performance can also be compared with that of other provinces over the same time frame. In this case, Saskatchewan's average growth rate of 2.2 per cent per year was below the national

average rate of 2.7 per cent per year, making it the third lowest in Canada; only Nova Scotia (at 1.9 per cent per year) and Quebec (at 2.0 per cent per year) had annual growth rates lower or equal to Saskatchewan's over this five-year period.

CHART 5
Average Annual Growth in Real Gross Domestic Product by Province, 2001 to 2006



Source: Statistics Canada, *Provincial Economic Accounts*, CANSIM Table 384-0002.
Author's Calculations.

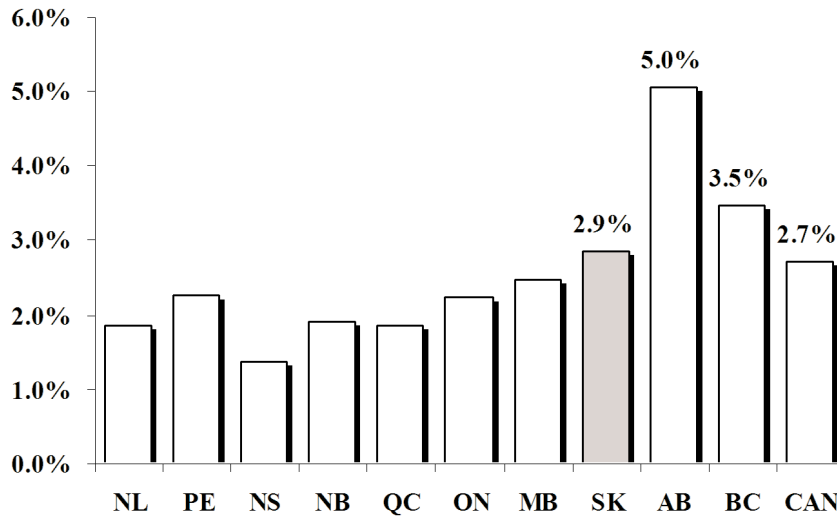
However, the picture looks considerably brighter if a more recent period is examined. Chart 6 compares the average of annual growth in real GDP from 2002 to 2006 (the last four years) for all the provincial economies. In this case, the growth in the Saskatchewan economy compares with other jurisdictions in Canada more favourably.

Chart 6, on the following page, compares the overall average of annual growth rates in real GDP from 2002 to 2006 (the last four years) for Saskatchewan with the growth rates in the other provincial economies in the same period.

By beginning the comparison from a 2002 base (thereby leaving out the poor growth period from 2001 to 2002), the results show an average annual growth rate of 2.9 per cent for Saskatchewan as compared with rates of 5.0 per cent for Alberta, 3.5 per cent for British Columbia, and a national average real growth rate of 2.7 per cent over four years. Notably, in this more recent period, Saskatchewan's average real growth rate has been higher than the national average and all other provinces except Alberta and British Columbia.

CHART 6

Average Annual Growth in Real Gross Domestic Product by Province, 2002 to 2006



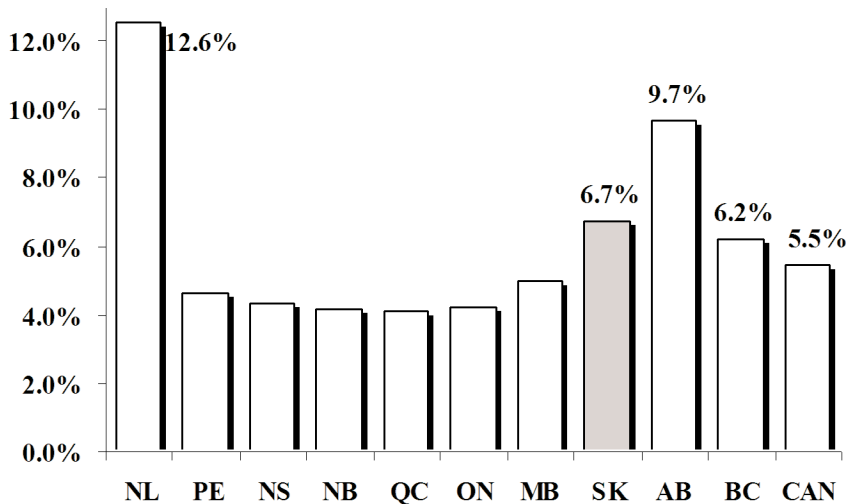
Source: Statistics Canada, *Provincial Economic Accounts*, CANSIM Table 384-0002.

The Value of Output

While it is common to compare economies in terms of the rate of growth in the volume of output by examining real GDP, there is also value in considering the rate of growth in the value of output within the economy. When growth in volume of output is combined with price changes (usually increases), “nominal GDP” or the GDP in “current dollars” is obtained. This indicator reflects changes in the value of the output of an economy in terms of what is paid for the products of economic activity. Chart 7, below, examines the average annual growth rate in nominal GDP for the provinces and Canada from 2001 to 2006.

CHART 7

Average Annual Growth in Nominal Gross Domestic Product by Province, 2001 to 2006

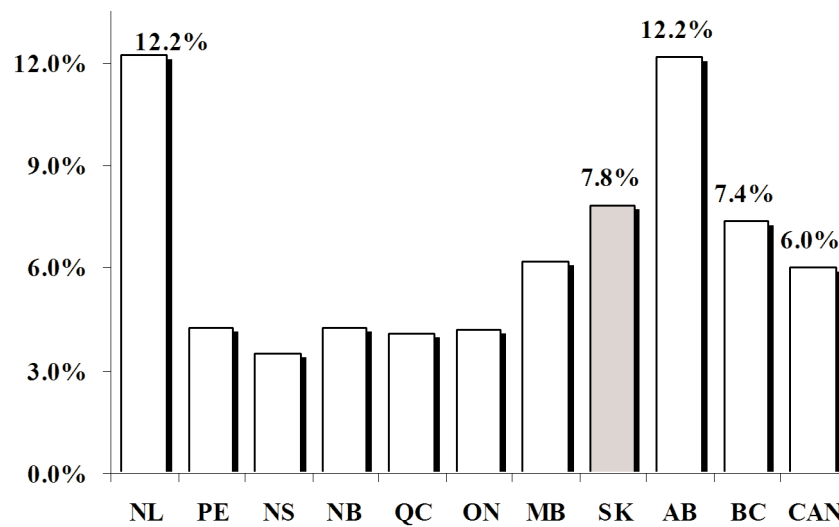


Source: Statistics Canada, *Provincial Economic Accounts*, CANSIM Table 384-0002.

The Chart illustrates that Saskatchewan's nominal GDP increased by an average of 6.7 per cent per year from 2001 to 2006, above the national average of 5.5 per cent per year for the same period. Three other provinces, Newfoundland (at 12.6 per cent), Alberta (at 9.7 per cent), and British Columbia (at 6.2 per cent) also exceeded the national average per annum growth rate of 5.5 per cent over this period.

Similar to the examination of the real GDP data above, an examination of the growth in nominal GDP over the past three years (from 2003 to 2006) provides a different perspective on recent growth in Canadian economies. Chart 8 illustrates the average annual rate of growth in nominal GDP for each of the provincial economies and the national rate, for comparison, over the past three years.

CHART 8
Average Annual Growth in Nominal Gross Domestic Product by Province, 2003 to 2006



Source: Statistics Canada, *Provincial Economic Accounts*, CANSIM Table 384-0002.

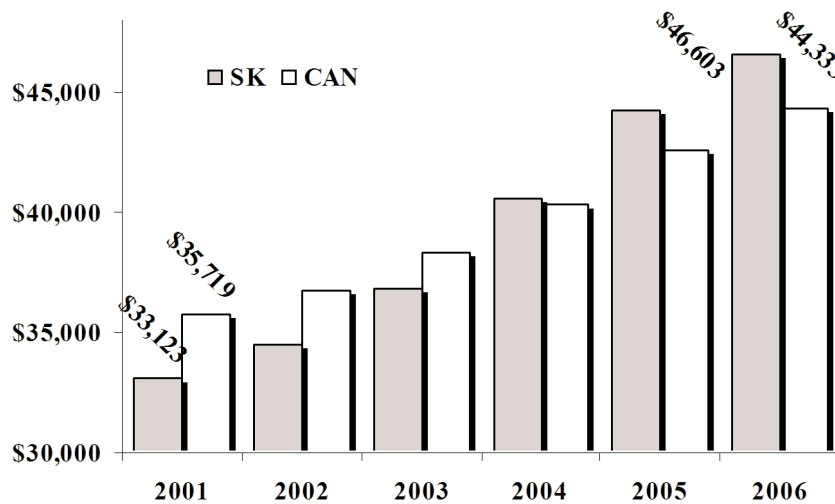
From this perspective, Saskatchewan's average annual growth rate in nominal GDP averaged 7.8 per cent per year between 2003 and 2006, exceeding the national growth rate which averaged 6.0 per cent per year for the same period. Newfoundland (at a rate of 12.2 per cent) and Alberta (also at a rate of 12.2 per cent) exceeded Saskatchewan's average growth rate; only British Columbia (at 7.4 per cent growth) also exceeded the national average growth rate.

By comparing the growth rates in real GDP and nominal GDP, it is clear that Saskatchewan's volume of production has increased over the past few years. The increase in the value of production as shown by nominal GDP growth has been even greater than the rate of growth in real GDP and by a greater factor for Saskatchewan than for most other provinces, to the point where Saskatchewan's nominal GDP has expanded at a rate above the national rate over the last number of years.

Output per Person

The data above illustrate the rates of growth in economic output but do not provide insight into how the levels of output compare among Canadian jurisdictions. Since the total value of output in an economy must support the population of that economy, comparisons in level of output can only be readily accomplished by conducting comparisons on a per person, or per capita, basis. Chart 9 compares Saskatchewan's per capita nominal GDP to the Canadian economy as a whole in each of the years from 2001 to 2006.

CHART 9
GDP per capita, Current Dollars, Canada and Saskatchewan, 2001 to 2006



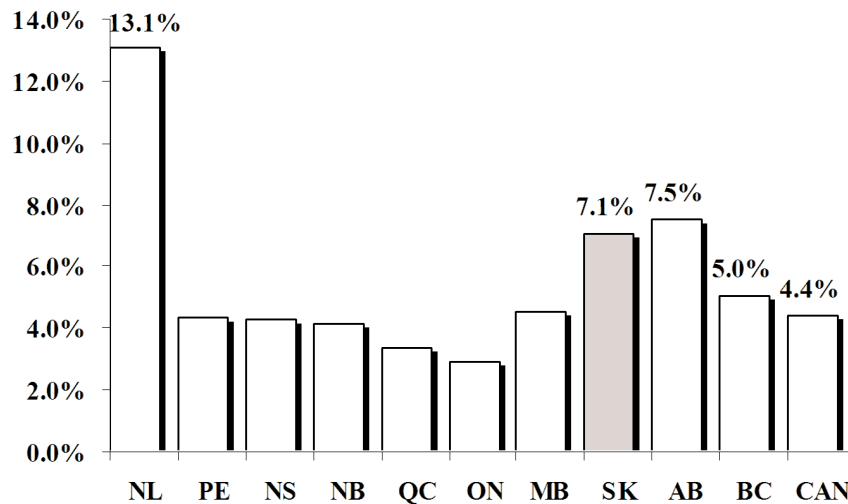
Source: Statistics Canada, *Provincial Economic Accounts*, CANSIM Table 384-0002.

As shown in Chart 9, Saskatchewan's GDP per capita was about \$33,100 in 2001, or approximately 92.7 per cent of the national GDP per capita of about \$35,700. Over the course of the next five years, Saskatchewan's output per capita caught up with and surpassed the national output level such that, by 2006, Saskatchewan's GDP per capita stood at about \$46,600 per person, 5.1 per cent above the national GDP per capita of about \$44,300.

This progress in the per person output value in Saskatchewan also can be seen in comparison to the other provincial economies as shown in Chart 10, on the following page.

In this case, Saskatchewan's output per person averaged an annual growth rate of 7.1 per cent per year from 2001 to 2006 as compared to the national growth rate of 4.4 per cent per year, which explains the catching up seen in Chart 9, above, while the growth in output per person exceeded Saskatchewan's only in Newfoundland (at 13.1 per cent per year) and Alberta (at 7.5 per cent per year).

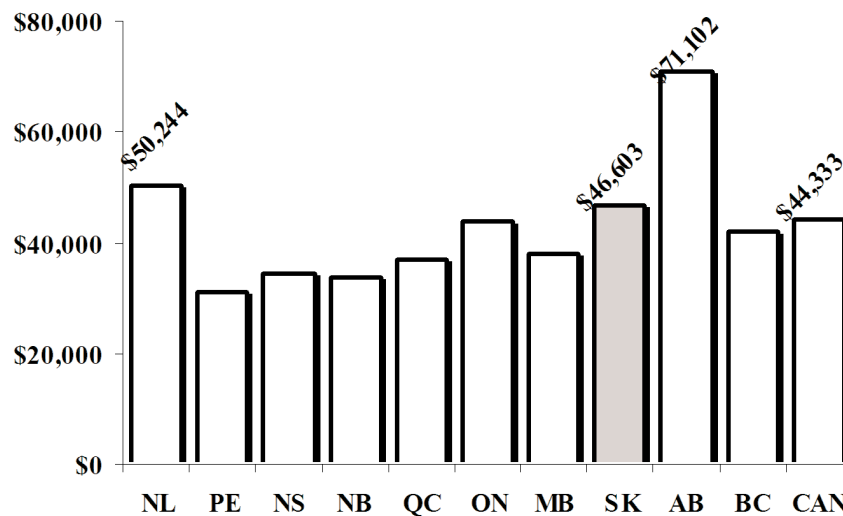
CHART 10
Average Annual Growth in GDP per capita by Province, 2001 to 2006



Source: Statistics Canada, *Provincial Economic Accounts*, CANSIM Table 384-0002.

Again, this speaks to the rate of growth in per capita GDP without reference to the levels of output that this represents either at the beginning or end of the period. Chart 11 shows the nominal GDP per capita in each of the provinces in 2006 as compared to the national average.

CHART 11
GDP per capita by Province, Current Dollars, 2006



Source: Statistics Canada, *Provincial Economic Accounts*, CANSIM Table 384-0002.

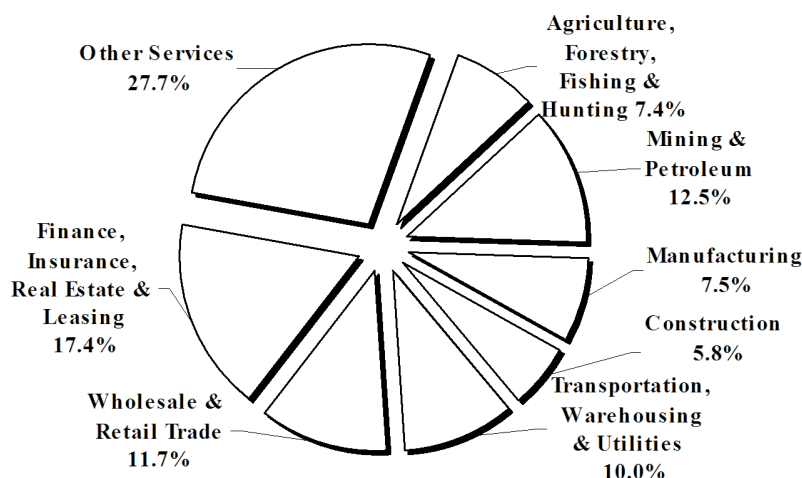
These data reveal that, in 2006, Saskatchewan had the third highest level of output per capita in Canada at an average of over \$46,600 per person, and, as we saw earlier in Chart 9, surpassed the

national average of \$44,300 per person. Only Alberta (at an output of about \$71,100 per person) and Newfoundland and Labrador (at an output of \$50,200 per person) had higher output levels than Saskatchewan in 2006. Only those three provinces (major producers of petroleum and/or natural gas) exceeded the national average output per person.

Composition of the Saskatchewan Economy

As many will be surprised to learn that Saskatchewan's output per person is now the third highest in Canada, there may also be some surprising information revealed in the composition of the Saskatchewan economy as shown in Chart 12, which illustrates the shares of economic activity for 2006.

CHART 12
Saskatchewan Real GDP by Industry, 2006



Source: Statistics Canada, *Provincial GDP by Industry*, CANSIM Table 379-0025.

In 2006, the traditional sector of agriculture, forestry, fishing, and hunting made up 7.4 per cent of the economic activity of the province. While this sector remains important to the provincial economy, it is also important to note that, in the same year, manufacturing represented 7.5 per cent of economic activity and mining and petroleum represented 12.5 per cent of activity.

From another perspective, the “service producing” sectors of the Saskatchewan economy (on the left side of Chart 12) represented 66.8 per cent of all activity in 2006, as compared to the remaining 33.2 per cent of activity in the “goods producing” sectors (on the right side of Chart 12).

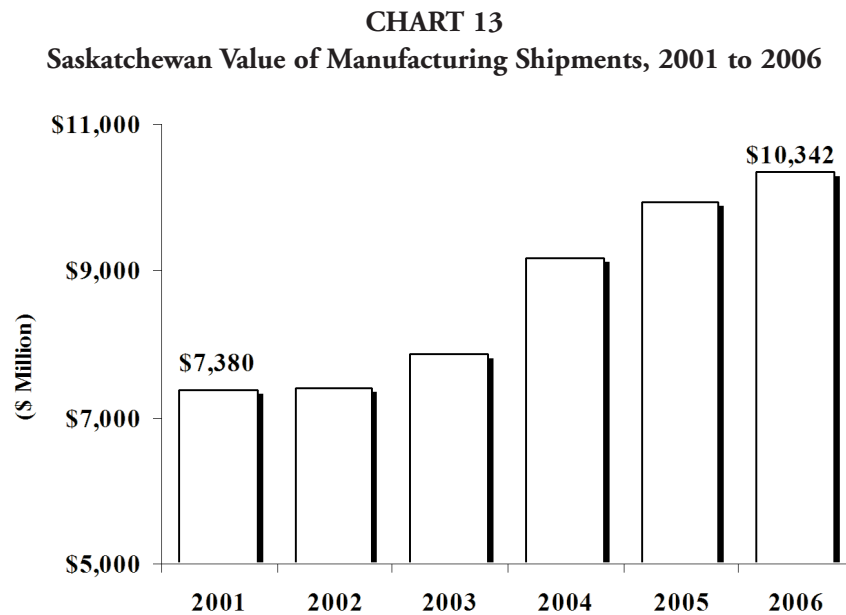
The following chapters will examine some of the more focused data on the Saskatchewan economy and help to illustrate the growing importance of the non-agricultural sectors of the economy and the gradual move from a goods-based economy towards the current service-based economy.

CHAPTER 4 ~ SASKATCHEWAN: BUSINESS AND INDUSTRY

As the Saskatchewan economy has matured through the growth of the service sector and through diversification of the goods-producing sector into secondary goods production, the complexity of the economy has also increased. It is important to examine a variety of standard business indicators to understand the Saskatchewan economy.

Manufacturing

As noted in Chapter 3, in 2006 manufacturing formed 7.5 per cent of the province's GDP at basic prices. The evolution and development of the Saskatchewan manufacturing sector is illustrated in Chart 13, below, which shows the value of manufacturing shipments in the province over the past five years.



Source: Statistics Canada, *Manufacturing Industries of Canada*, CANSIM Table 304-0015.

The growth in the manufacturing sector can be seen in the 40.1 per cent increase in shipments between 2001 and 2006, as the value of shipments increased from \$7.4 billion in 2001 to over \$10.3 billion in 2006. Growth has been especially strong in the most recent years as shipments increased by 16.9 per cent in 2004, by 8.3 per cent in 2005, and by 4.1 per cent more in 2006.

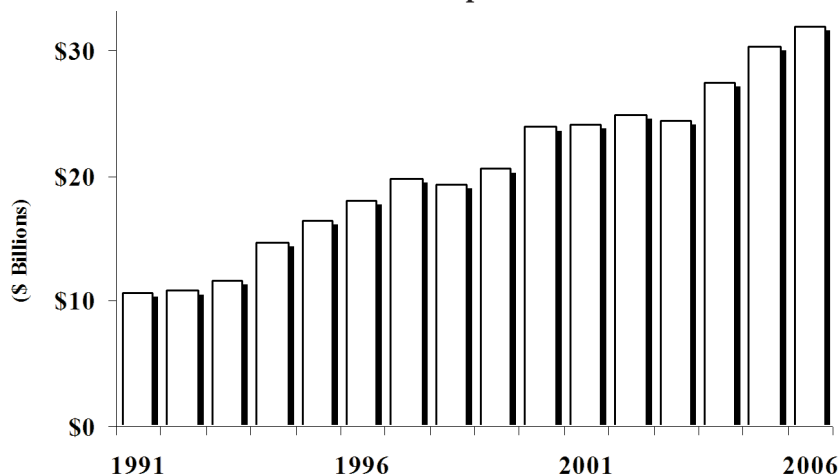
The value of manufacturing shipments in the province has doubled in the past ten years from a 1996 level of \$5.2 billion³ to the 2006 level of \$10.3 billion, indicating that there has been a longer-term trend towards increased manufacturing activity within the province.

Exports

Saskatchewan has always been a major exporter of goods and services. Chart 14, on the following page, shows the level of export activity from the province since 1990. Since the value of exports in

current dollars has the advantage of reflecting the prices the world is prepared to pay for our commodities, these data are expressed in current dollars, as opposed to “real” terms.

CHART 14
Value of Saskatchewan Exports, 1991 to 2006

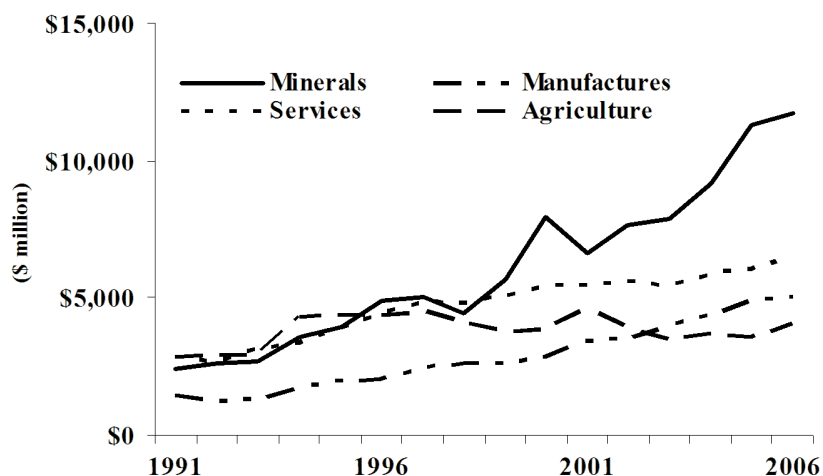


Source: Saskatchewan Bureau of Statistics, *Provincial Economic Accounts*, May, 2007.

Total exports from the province have grown from \$10.7 billion in 1991 to about \$31.9 billion in 2006. This includes all exports to the rest of Canada as well as the rest of the world.

Some breakdown of this data is available and is shown in Chart 15, below, which compares the growth in exports by major commodity grouping: agricultural goods, minerals, manufactured goods, and services.

CHART 15
Saskatchewan Exports by Category, 1991 to 2006



Source: Saskatchewan Bureau of Statistics, *Provincial Economic Accounts*, May, 2007 and author's calculations.

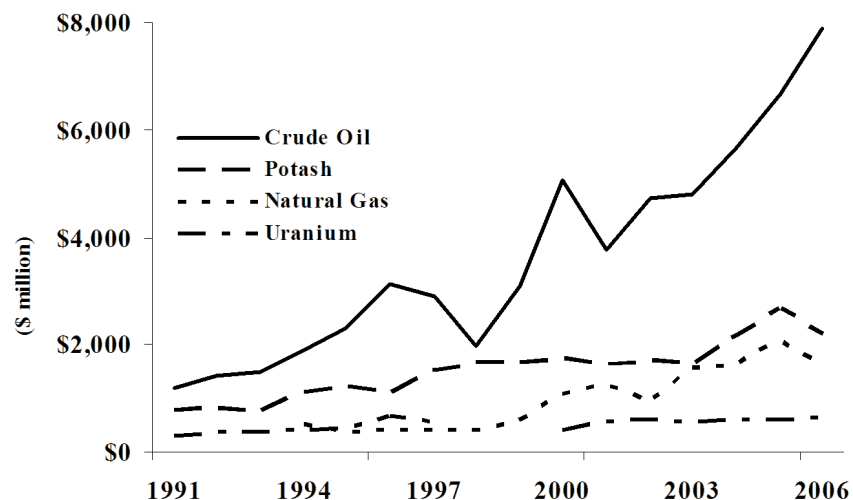
In this case, the value of mineral exports from the province has grown from about \$2.4 billion in 1991 to over \$11.7 billion by 2006. There has also been growth in service exports from a level of \$2.8 billion in 1991 to \$6.6 billion in 2006, more than doubling in value in 15 years. Exports of manufactured goods have also increased over this period, rising from a level of \$1.5 billion in 1991 to almost \$5.1 billion in 2006, an increase of 248 per cent. Agricultural products remain an important part of the province's export activity, starting at about \$2.9 billion in 1991 and rising 43 per cent to \$4.1 billion in 2006.

It is interesting to note that while mineral exports and exports of services were roughly on par with agricultural exports in 1991 (between \$2.5 and \$3.0 billion each), by 2006, mineral exports were almost three times (2.89 times) the level of agricultural exports and service exports were about 61 per cent higher than agricultural exports. Also of note, manufactured goods were exported from Saskatchewan at 51 per cent of the rate of agricultural goods in 1991, but, by 2006, exports of manufactured goods were 24 per cent higher than exports of agricultural products.

Mineral Production

As seen above, the mineral industry has become vital to the Saskatchewan economy, led particularly by developments in the oil and gas industries. This growing importance can be seen in Chart 16, below, which shows the value of mineral shipments in Saskatchewan since 1991; the chart is presented in current dollars to reflect prices paid for these commodities.

CHART 16
Value of Saskatchewan Mineral Shipments, 1991 to 2006



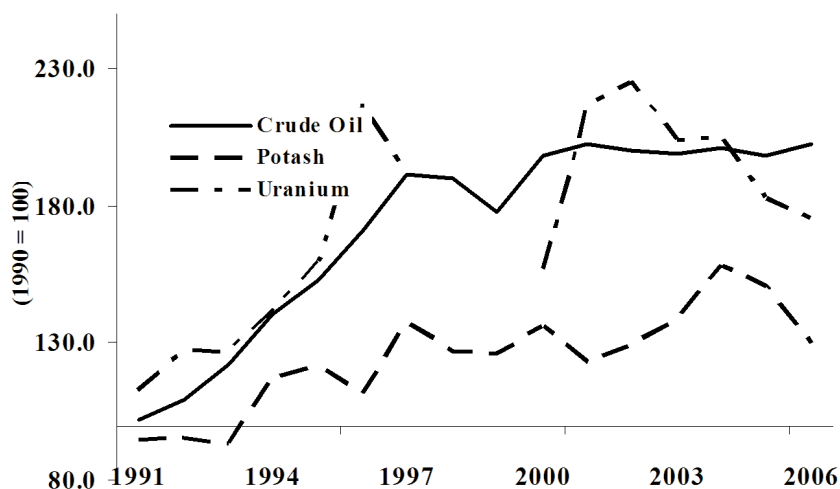
Source: Saskatchewan Bureau of Statistics, *Provincial Economic Accounts*, May 2007 and *Economic Review*, 2006, Number 60.

With fluctuations reflecting the variability of world prices, oil shipments in Saskatchewan have grown from a level of \$1.2 billion in 1991 to \$7.9 billion in 2006. Over the same period, potash shipments have grown from about \$765 million to \$2.2 billion, and uranium shipments have grown from an annual rate of \$304 million to \$640 million in 2006.⁴ Natural gas data were only revealed separately

beginning in 1994 when shipments totaling \$527 million were recorded. By 2006, natural gas shipments in Saskatchewan had more that tripled, with shipments totaling over 1.6 billion.

As noted, shipments data is valuable because it includes the effect of price changes and is useful in understanding what the world is prepared to pay Saskatchewan for its products. Another measure, the volume of shipments, is more suited to identifying levels of activity and is shown in Chart 17, below, which identifies volume of shipments in terms of an index linked to the 1990 shipment level. The use of an index simply allows the illustration of these commodities on a single chart.

CHART 17
Volume of Saskatchewan Mineral Shipments, 2001 to 2006



Source: Saskatchewan Bureau of Statistics, *Provincial Economic Accounts*, May 2007 and *Economic Review*, 2006, Number 60.

In this case, the data reveal that the volume of crude oil shipments increased fairly steadily from 1990 to 1997 when they leveled off at about 90 per cent above the 1990 level. Since then, there has been some increase in oil shipments, stabilizing at about 200 per cent of 1990 levels since 2000. Uranium shipments also increased in volume over the period, peaking at 225 per cent of 1990 levels in 2002; in 2006, uranium shipments were about 175 per cent of their 1990 levels.⁵ While potash shipments remained fairly stable throughout the early 1990s, they have shown fairly steady growth since 1993 and, in 2006, were about 30 per cent above their 1990 levels, although this level was down from the level of production in both 2004 and 2005.

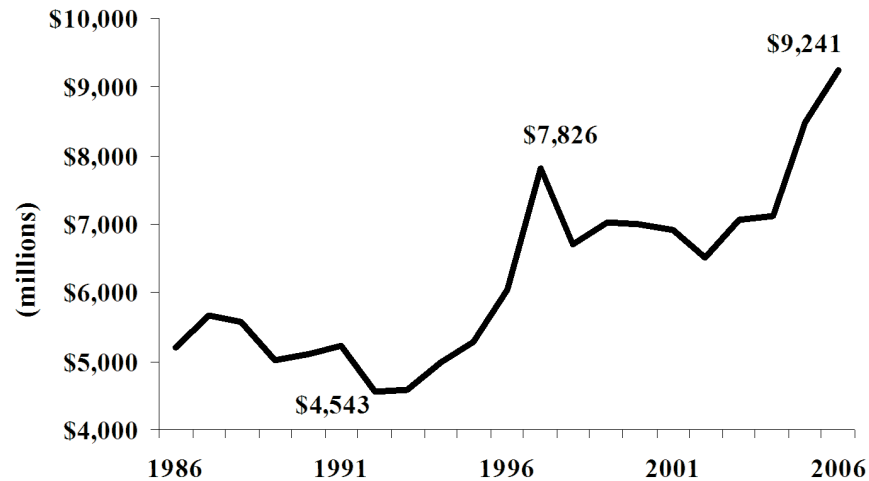
Business Investment

Other indicators of general business and industrial activity are available in examining levels of investment activity, especially in the formation of physical capital – the plant and equipment used in the production process. Examining such measures of investment activity provides an understanding of the extent to which future production capacity is being maintained or enhanced in the economy.

One such measure is “gross fixed capital formation,” which illustrates the construction or installation of new and repaired capital plant and equipment in the course of a year. The data for Saskatchewan

from 1986 to 2006 are included in Chart 18, below. Since the data cover a long period of time, they are shown in “real” (deflated) dollars to remove the effect of price increase and maintain a consistency of comparison.

CHART 18
Gross Fixed Capital Formation in Saskatchewan, 1997 Dollars, 1986 to 2006



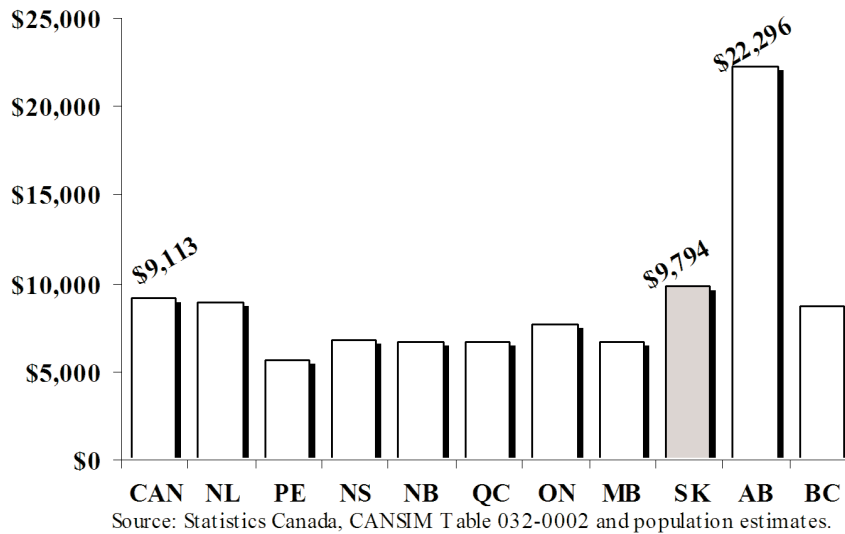
Source: Saskatchewan Bureau of Statistics, *Provincial Economic Accounts*, May 2007 and
Economic Review, 2006, Number 60.

As can be seen, Saskatchewan’s annual capital formation was fairly consistent, between \$4.5 billion and \$5.5 billion from the mid-1980s to the mid-1990s, before rising abruptly to a level of \$7.8 billion in 1997. Since then, capital investment in the province remained about \$7.0 billion per year before rising sharply to \$8.5 billion in 2005 and over \$9.2 billion in 2006, more than twice the investment level of the early 1990s.

Another Statistics Canada database tracks “public and private investment” (P&PI), which measures expenditures on the construction and purchase of new and replacement capital plant and equipment. To compare Saskatchewan with other provinces, the expenditures on P&PI for the Saskatchewan economy are shown on a per capita basis in Chart 19.

In this case, Saskatchewan’s 2006 investment level of \$9,800 per person compares quite favourably with other Canadian jurisdictions, exceeded only by Alberta’s resource boom driven level of investment (at about \$22,300 per person). The national average investment level of just over \$9,100 per person is heavily influenced by the high investment rate in Alberta. Only Saskatchewan and Alberta have investment rates above the national average.

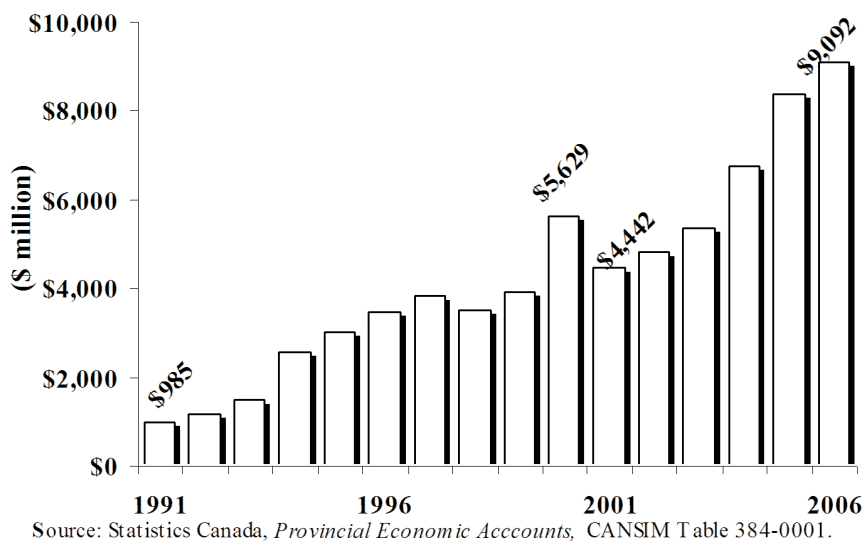
CHART 19
Public and Private New Capital Investment per capita, 2006



Corporation Profits

Statistics Canada data of “corporation profits before taxes” are included as a factor in the economic accounts for the province and indicate the general health of businesses. Chart 20, below, illustrates the corporation profit history for Saskatchewan since 1991. In this case, the data are shown in current dollars and, therefore, include the effects of inflation; nevertheless, they provide an indication of Saskatchewan’s current business climate in the context of recent history. It should also be noted that these data do not include the profits of unincorporated businesses within the province and should only be viewed as an indicator of trends in profits overall.

CHART 20
Saskatchewan Corporation Profits before Taxes, 1991 to 2006



Corporation profits before taxes in Saskatchewan grew from a level of just under \$1.0 billion in 1991 to \$5.6 billion in 2000. Although profit levels dropped back to \$4.4 billion in 2001, since then there has been a fairly steady increase in profitability to the 2006 level of almost \$9.1 billion. This represents a 105 per cent increase in corporate profits before tax in the five years between 2001 and 2006.

Summary of Business and Industry

This chapter has examined Saskatchewan's recent record with respect to a number of measures of business and industry activity.

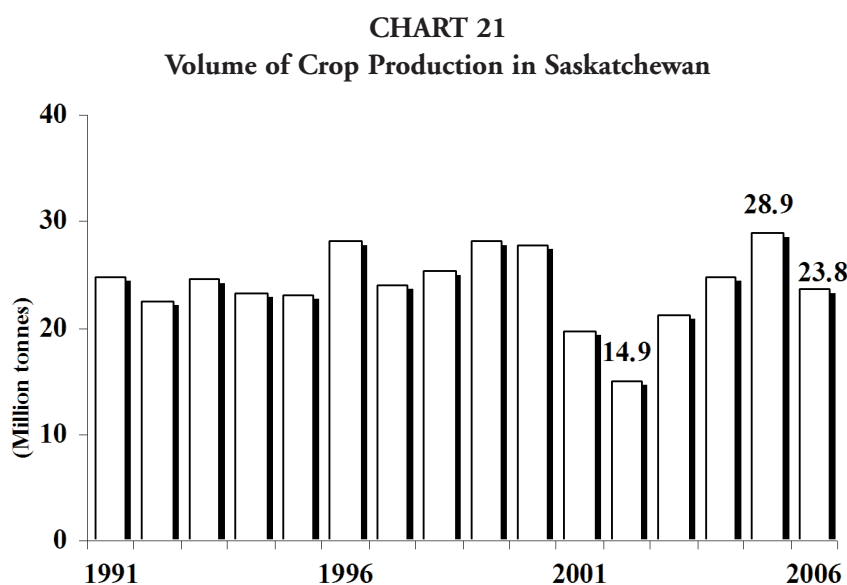
There has been strong growth in production and exports, especially with respect to minerals, but also in services and in manufactured goods. Investment levels in the province have been strong compared to historical levels and investment activity elsewhere in Canada. There has also been strength in profitability within the business sector in Saskatchewan, especially since 2001.

CHAPTER 5 ~ SASKATCHEWAN: AGRICULTURE

As discussed above, agriculture remains an important part of the Saskatchewan economy. This industry has undergone many changes over the past few years and should not be viewed as monolithic, especially as diversification continues within the farm sector. Nevertheless, some general measures of farm activity are examined below to provide a broad overview of the state of Saskatchewan's agricultural industry.

Crop Production

Saskatchewan has traditionally been involved in the production of major cereal grains and has moved more into the production of oil seeds, pulse crops, and other specialty crops over the years. In 2006, 69.2 per cent of the volume of crop production in Saskatchewan was comprised of the “seven major grains,”⁶ while another 18.8 per cent was composed of flax and canola and another 11.3 per cent was composed of the pulse crops of peas, lentils, and chick-peas.⁷ Production volumes for all crops in the province from 1991 to 2006 are illustrated in Chart 21, below.

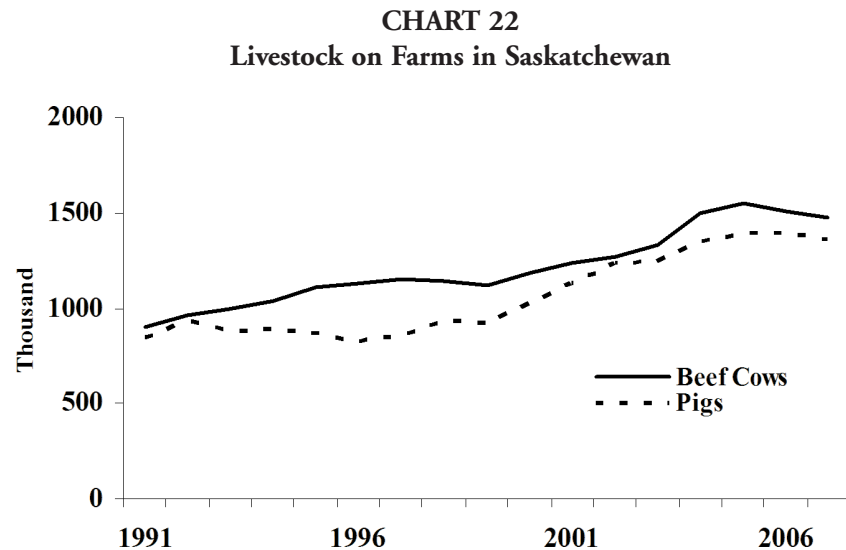


Source: Saskatchewan Agriculture and Food, *Crops - StatFact*, 10.01, 2007.10.04.

While there has been some fluctuation in crop production reflecting variability in growing conditions within the province, the past five years have been particularly volatile, with 2002 seeing the smallest crop since before 1990 at only 14.9 million tonnes and 2005 seeing the largest crop ever at 28.9 million tonnes. The average crop between 1991 and 2006 was 24.1 million tonnes; the 2002 crop was only 62 per cent of average and the 2005 crop was 120 per cent of average for the province. The 2006 crop, at 23.8 million tonnes, was just slightly below the 15-year average but was down almost 18 per cent from the previous year.

Livestock

The total number of beef cows and pigs on farms in Saskatchewan since 1991 is illustrated in Chart 22, below. In this case, the province has seen a steady trend to increase livestock production.



Source: Saskatchewan Agriculture and Food, *Livestock - Statfact* 5.01 and 6.01 (August 16, 2007).

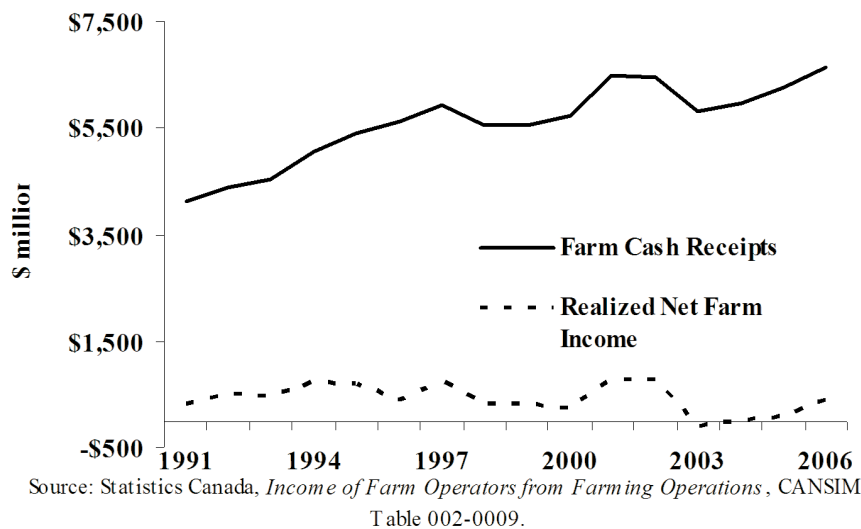
From 1991 to 2007, the number of beef cows on farms in Saskatchewan increased from just under 900,000 to about 1.5 million, an increase of about 65 per cent. From 1991 to 2007, the number of pigs on farms in the province grew from 0.8 million to just under 1.4 million in 2007, an increase of over 60 per cent.

Farm Incomes

Farm incomes reflect the trends seen above but are also affected by the prices for farm commodities and the costs of production on farms. Chart 23, on the following page, examines two standard measures of farm incomes: farm cash receipts and realized net farm income.

Farm cash receipts consist of the proceeds from the sale of farm produce over the course of the calendar year. In this case, they are expressed in nominal terms, allowing for the inclusion of any changes in prices of farm commodities. Realized net farm income is derived from farm cash receipts by deducting operating expenses and depreciation on capital and equipment, and allowing for inventory changes and in-kind income from farm operations. Therefore, it reflects the net proceeds from farm operations on an accrual basis.

CHART 23
Farm Cash Receipts and Realized Net Farm Income in Saskatchewan, 1991 to 2006



As shown in Chart 23, there has been a general tendency towards an increase in farm cash receipts which grew from about \$4.1 billion in 1991 to over \$6.6 billion in 2006, an increase of 60.7 per cent over the 15-year-period.

But, with rising farm operating costs and increasing depreciation, there has been little increase in realized net farm income over this period. In fact, realized net farm income for the province was -\$82 million in 2003 and \$32 million in 2004, the lowest levels over the 15-year period. Even the relatively good years of 2001 and 2002, when realized net farm income reached \$788 million and \$768 million, respectively, were not substantially better than previous good years in 1994 and 1997.

The 2006 realized net farm income of \$418 million was near the \$421 million average for the past 15 years.

Summary of Saskatchewan Agriculture

There have been many changes in the agriculture industry in Saskatchewan with diversification in crops and movement towards increased livestock production. While farm cash receipts have increased at a fairly steady rate, rising operating and capital cost on farms have resulted in stagnant realized net farm incomes. In 2003, in particular, these latter indicators suggest real losses from farm operations in the province, coincident with a particularly small crop in 2001 and 2002 and a smaller number of cattle and hogs marketed in 2003.

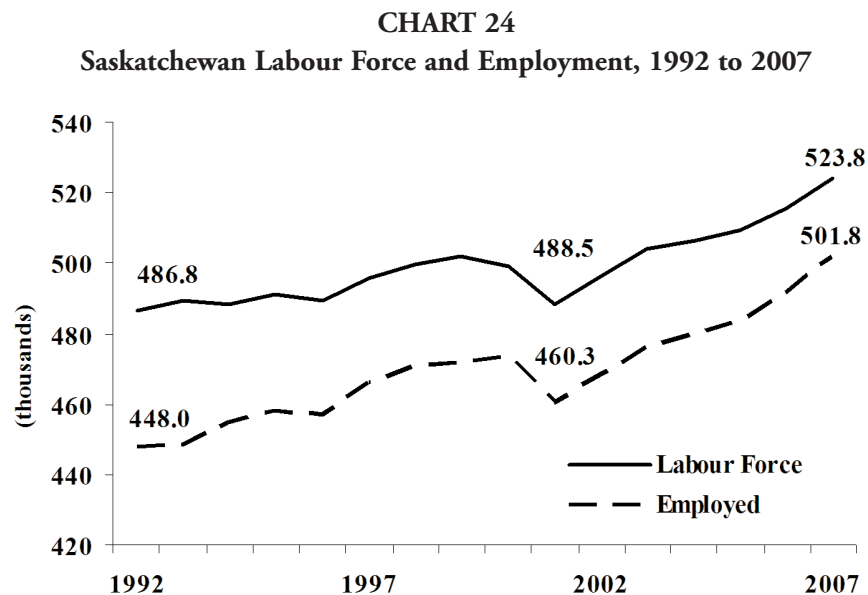
CHAPTER 6 ~ SASKATCHEWAN: LABOUR FORCE

Several common measures of economic performance are linked to the labour force and, more specifically, to the economy's use of labour. These data are indicative of the extent to which the economy is providing jobs to people and, since most people in our economy derive their livelihood from employment, are often considered to be primary indicators of an economy's health or effectiveness.

Labour Force and Employment

The labour force in Canada is defined to include those people ages 15 and older who are either employed or available for employment. This indicator excludes the very young who are not considered eligible for employment and anyone who is not interested in employment regardless of their reasons for being out of the labour force. The number of people in the labour force is estimated through a Statistics Canada monthly survey of households in which selected households are asked about the activities of household members. The results of this sample survey are extrapolated to estimate the activities of the general population at large. Employment data reflect those people who have been employed in any capacity (full-time or part-time) over the period of the survey.

Chart 24, below, provides a 15-year history of the estimated labour force and employment levels for Saskatchewan.



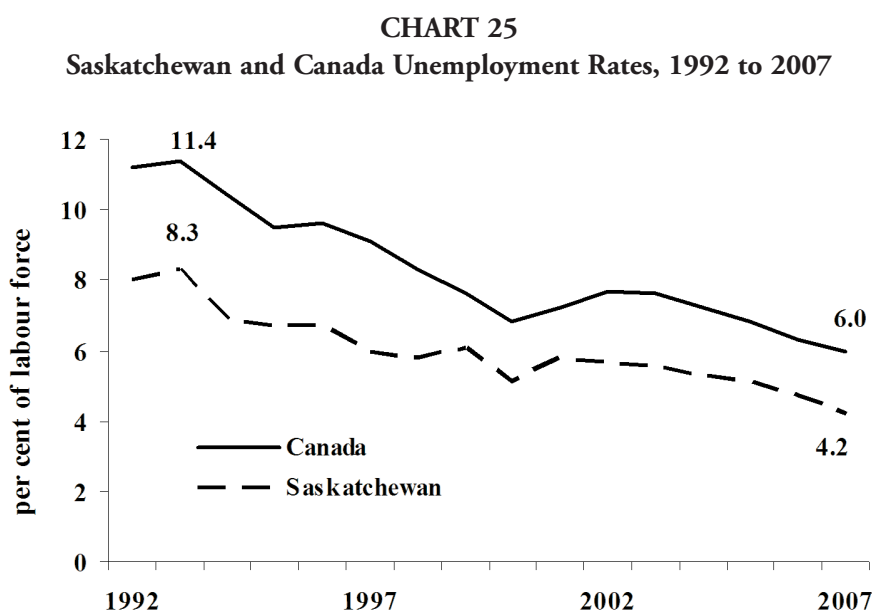
Source: Statistics Canada, *Labour Force Survey Estimates*, CANSIM Table 282-0002.

As can be seen from the chart, Saskatchewan's labour force grew fairly consistently from 1992 to a peak of 501,900 in 1999 before dropping to 488,800 in 2001. Since then, there has been a steady increase in the labour force which averaged 523,800 in 2007, an increase of 7.2 per cent or nearly 35,300 people between 2001 and 2007.

Employment levels in Saskatchewan have followed a similar pattern, peaking in 2000 before dropping to 460,300 in 2001. Since then, employment has grown by 9.0 per cent or 41,500 to a new level of 501,800 in 2007. In 2007, employment averaged 95.8 per cent of the labour force in the province as compared to 92.0 per cent in 1992, 94.0 per cent at the previous peak in 1999, and 94.2 per cent in 2001.

Unemployment Rate

The unemployment rate is the statistical inverse of the employment rates discussed above. Using the same labour force survey, Statistics Canada estimates the number of people in each area who have not worked during the reference period but were willing to work and were seeking employment. The annual average unemployment rates for Saskatchewan and Canada are shown in Chart 25, below.



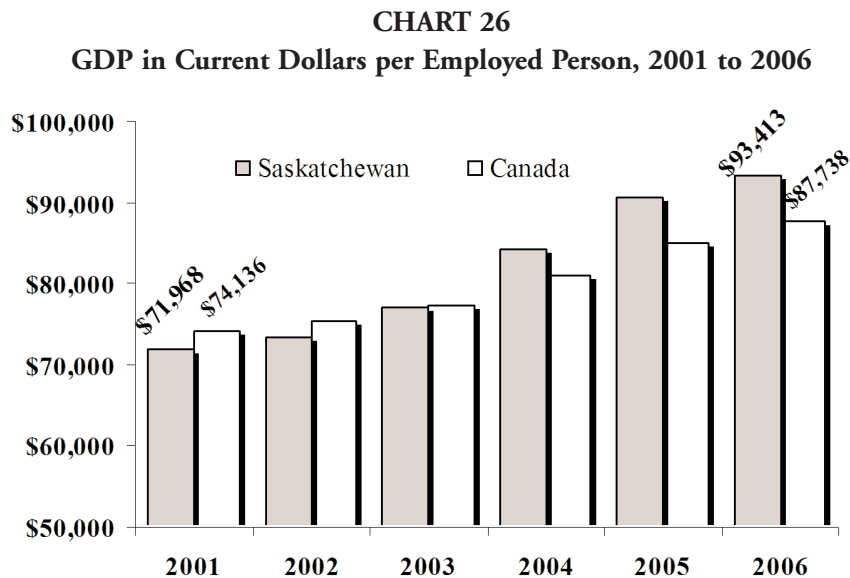
Source: Statistics Canada, *Labour Force Survey Estimates*, CANSIM Table 282-0002.

The data in Chart 25 reveal that unemployment rates have declined fairly consistently in both Canada and Saskatchewan from a peak in 1993 of 11.4 per cent of the labour force (for Canada) and 8.3 per cent of the labour force (for Saskatchewan). The downward trend continued until there was a slight increase in unemployment rates in 2001 for both Canada and Saskatchewan, and the trend has resumed since for both jurisdictions.

By 2007, the average annual unemployment rate for Canada had dropped to 6.0 per cent, down 47.4 per cent (or 5.4 percentage points) from the unemployment peak in 1993. In Saskatchewan, the 2007 average annual unemployment rate was 4.2 per cent of the labour force, down 50.6 per cent (or 4.1 percentage points) from the peak in 1993. It is also noteworthy that the unemployment rate in Saskatchewan is consistently well below the national average for Canada; the 2007 Saskatchewan unemployment rate averaged only 70 per cent of the national rate.

Productivity

There are several measures to indicate the level of productivity in an economy and one commonly used is the ratio of gross domestic product (GDP) to average employment (GDP per employed person). Calculated on an average annual basis, the average employment measure indicates the rate at which an economy's output is growing relative to the rate at which employment is increasing and provides a rough measure of the output per worker or the productivity of labour. The GDP per employed person for Saskatchewan is shown in Chart 26 and compared with the national average rates for Canada from 2000 to 2006 (the last year for which GDP data is available).



Source: Statistics Canada, CANSIM Table 282-0002 and Table 384-0002.

In this case, the average Saskatchewan worker generated over \$93,400 in GDP in 2006, up 29.8 per cent from the GDP per worker in 2001. This compares with an average Canadian productivity of just over \$87,700 in 2006, an increase of only 18.3 per cent from 2001. It is also noteworthy that Saskatchewan's labour productivity increased from 97.1 per cent of the national average in 2001 to a level of 106.5 per cent of the national average in 2006. Saskatchewan workers went from being slightly (2.9 per cent) less productive than other Canadians to slightly (6.5 per cent) more productive over this five-year period.

Labour Force Summary

While growth in the labour force and employment was slow throughout most of the 1990s, and set back both nationally and provincially in 2001, growth has resumed since then. There has been a fairly consistent downward trend in unemployment rates in Saskatchewan, interrupted by the 2001 trough, and rates in Saskatchewan have stayed consistently well below national rates. In recent years, Saskatchewan's labour productivity has grown substantially, both in absolute terms and relative to the rest of Canada.

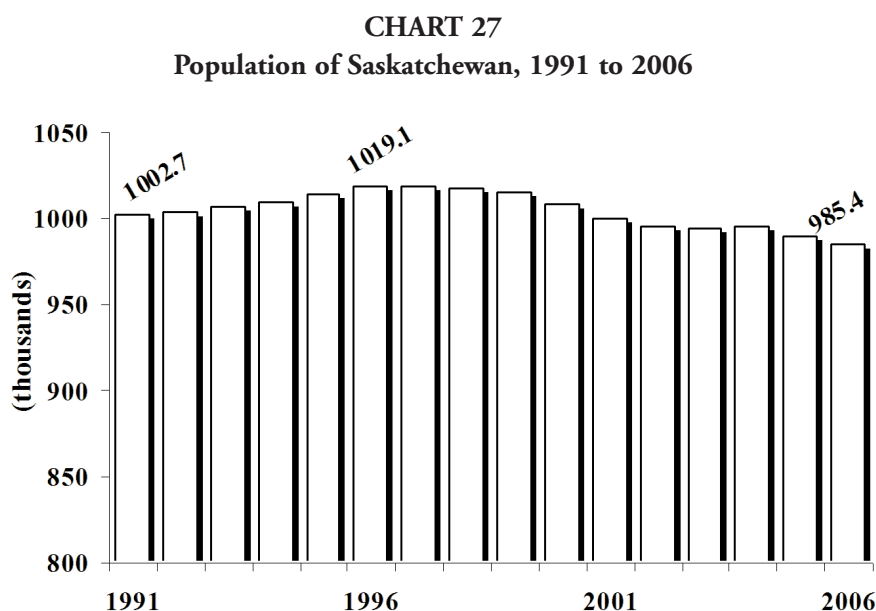
CHAPTER 7 ~ SASKATCHEWAN PEOPLE AND PERSONAL INCOMES

It is important to remember that economies must provide support for the people who live within them, and there are a number of indicators for the extent to which an economy is serving or supporting its people. While many of the measures examined in previous chapters focus on the production of goods and services or the use of inputs such as capital and labour, the focus of this section will be on populations and their incomes.

People

Population counts reflect the extent to which the economy is attracting people or the capacity of the economy to support the population on the basis that people's migration habits reflect at least their estimation of economic performance.

Statistics Canada conducts census counts of the population every five years in Canada and estimates the population using various data sources and statistical techniques in the interim years. Those Statistics Canada estimates of the population for Saskatchewan are shown in Chart 27, below, for the period between 1990 and 2006.



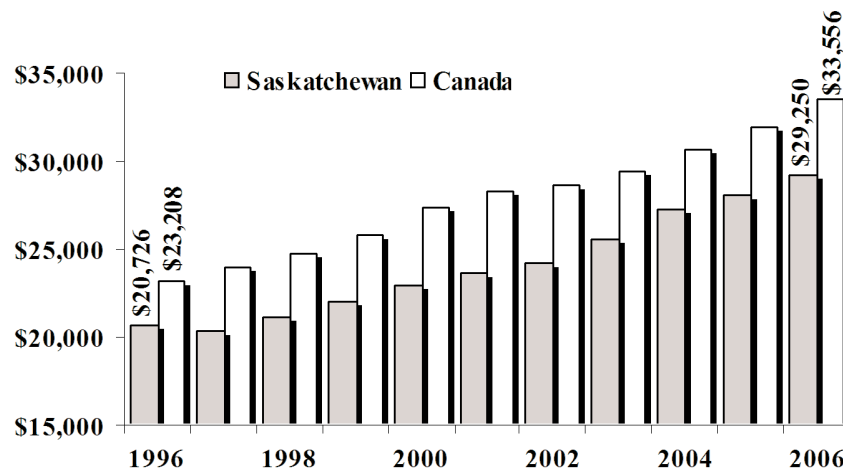
Source: Statistics Canada, *Estimates of Population*, CANSIM Table 051-0001.

According to the data provided in Chart 27, the province's population experienced some growth between 1991 and 1996, peaking at just over 1,019,000 before falling to an estimated 985,400 in 2006. This equals a decline of about 34,000 people or 3.3 per cent over the 10 years.

Personal Incomes

Another measure of the well-being of people within an economy is provided by data on personal incomes, which includes income from all sources, such as wages and salaries; income from farms and unincorporated businesses; interest and investment income; and transfers from governments and businesses. Personal incomes are often analyzed on a per capita basis to allow for comparisons between economies of different population sizes. The data on personal incomes per capita for Saskatchewan and Canada since 1995 are shown in Chart 28, below.

CHART 28
Per Capita Personal Income, Current Dollars, 1996 to 2006

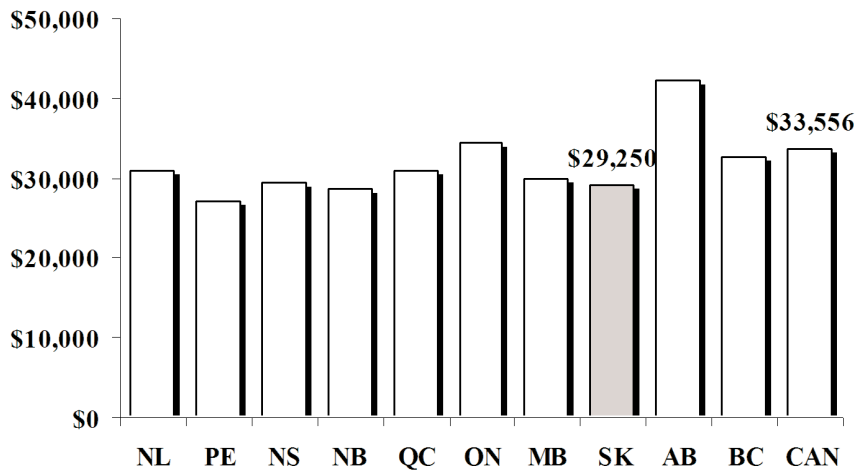


Source: Statistics Canada, *Provincial and Territorial Economic Accounts, Selected Economic Indicators*, CANSIM Table 384-0013.

This chart shows that personal incomes in Saskatchewan have gradually gained ground on the average of personal incomes nationally. In 1996, Saskatchewan per capita personal incomes were an average of about \$20,700 as compared to about \$23,200 nationally. In 2006, Saskatchewan incomes averaged about \$29,300 per person as compared to a national average of just over \$33,500. Over this period, Saskatchewan average incomes from all sources grew by 41.1 per cent, while national average income growth was 44.6 per cent. From 2001 to 2006, however, Saskatchewan's average personal income grew by 23.7 per cent, which is more than one-quarter higher than the national average personal income growth of only 18.8 per cent.

While incomes seem to be growing in Saskatchewan more or less in line with the rate of growth in the national average, they continue to lag behind the level experienced elsewhere in the country. Chart 29, on the following page, shows Saskatchewan's personal income per capita for 2006 compared to the national average and the average in other provinces.

CHART 29
Per Capita Personal Income, Current Dollars, 2006



Source: Statistics Canada, *Provincial and Territorial Economic Accounts, Selected Economic Indicators*, CANSIM Table 384-0013.

In this case, Saskatchewan's personal income per capita in 2006 (\$29,250) averaged 87.2 per cent of the national average of \$33,600 per person. Saskatchewan's personal income per capita was more or less on par with those in Manitoba and Nova Scotia but behind the income levels in Quebec (\$30,800), Newfoundland and Labrador (\$30,900), British Columbia (\$32,700), Ontario (\$34,500), and Alberta (\$42,200). Only Ontario and Alberta had average per capita personal income levels above the national average in 2006.

People and Personal Incomes Summary

In this chapter, data have indicated that there has been a tendency towards a declining population in Saskatchewan over the past 15 years. Saskatchewan incomes have grown on a par with the average for Canada. While average incomes in Saskatchewan are still below those in some provinces such as Alberta, British Columbia, Ontario, Quebec, and Newfoundland and Labrador, they are on par or above the levels in other provinces.

CHAPTER 8 ~ SUMMARY

Economies may be best understood by examining trends in data rather than single pieces of information, moving pictures rather than still photos. This SIPP Provincial Progress Report on the Saskatchewan economy has examined those recent trends to better see what progress has been made.

In the context of the rest of the world, the Canadian economy has performed relatively well, outpacing other developed economies in terms of growth in real economic output and in terms of level of economic output. The fact that the Canadian economy has performed relatively well provides a high bar against which to compare the performance of the Saskatchewan economy.

As with most economies, the performance of the Saskatchewan economy has produced mixed results.

Against the national standard, Saskatchewan has fared well in terms of growth in output, level of investment, and number of business performance indicators, and has exceeded the performance of other provincial economies. Saskatchewan incomes have also grown at a rate similar to the national average (and higher in recent years) and are on par with most other provinces.

Growth has been strong in manufacturing and in export activity where minerals, manufactures, and services all have surpassed agricultural exports in value. Mineral shipments, led by crude oil production, have expanded rapidly.

Investment levels have continued to be strong in comparison to historical levels and when compared to other Canadian provinces. This has been encouraged by strong growth in corporate profits, especially in the past five years.

While agricultural production continues to experience ups and downs as a result of weather conditions, the largest crop ever produced was in 2005 and livestock inventories continue to be high by historical comparisons, at least up until 2006.

There has been a decline in population within Saskatchewan but employment growth, temporarily stalled in 2001 along with the national employment growth, appears to have resumed in the past few years.

ENDNOTES

1. “Business Environment, June 2007”, Economist.com rankings, accessed January 16, 2008, at <http://www.economist.com/markets/rankings/displaystory.cfm?story_id=8908422>.
2. “Output, Prices and Jobs”, *The Economist*, Volume 385, Number 8560, December 22, 2007, p. 161.
3. Saskatchewan Bureau of Statistics, *Economic Review*, 2005, Number 59, p. 18.
4. Uranium shipment data are not available for 1998 and 1999 due to confidentiality rules.
5. Uranium shipment data are not available for 1998 and 1999 due to confidentiality rules.
6. Including winter wheat, spring wheat, durum, oats, barley, fall rye, and spring rye.
7. Saskatchewan Agriculture and Food, *Crops - StatFact*, 10.01, 2007.10.04.

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Jim Marshall is the Chief Economist at the Saskatchewan Institute of Public Policy. In his 30 years of government service, Jim Marshall has held many prestigious positions, such as Assistant Deputy Minister, Economic and Resource Policy Saskatchewan Industry and Resources; Senior Project Manager, Crown Investments Corporation of Saskatchewan; Executive Director, Economic and Fiscal Policy Branch, Department of Finance; and, Senior Economist, Taxation and Economic Policy Branch, Department of Finance.

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