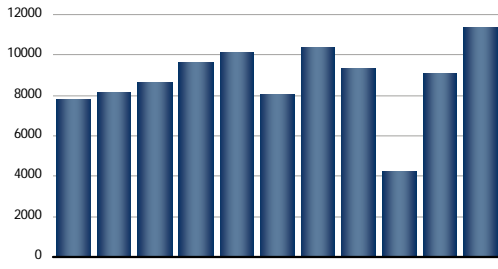


Saskatchewan potash production

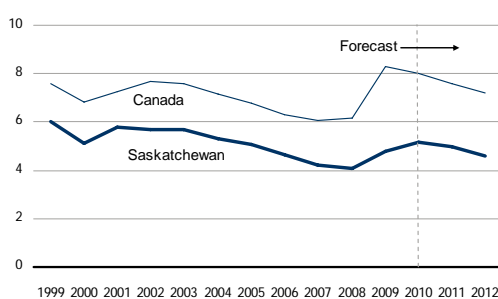
Thousands of metric tonnes per month



Source: Saskatchewan Industry and Resources, RBC Economics Research
*Estimate based on data through March 2011.

Saskatchewan unemployment rate

%, annual averages



1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012
Source: Statistics Canada, RBC Economics Research

Saskatchewan forecast at a glance

% change unless otherwise indicated

	2009	2010	2011	2012
Real GDP	-3.9	4.5	3.8	4.7
Employment	1.3	0.9	1.3	2.7
Unemployment rate (%)	4.8	5.2	5.0	4.6
Retail sales	-0.5	3.1	6.0	4.8
Housing starts (units)	3,866	5,907	5,500	5,300
Consumer price index	1.1	1.3	2.6	2.7

shaded area is forecast

Moderating the pace just a notch

The recently released provincial industry output numbers suggested that the Saskatchewan economy grew strongly in 2010 and was consistent with the 4.5% that we had projected for the province last quarter. This strength largely reflected a sharp rebound in potash production, which caused the mining and oil and gas extraction sector to surge by 19% and which handily offset an 18% drop in the comparatively smaller agriculture sector that was knocked down by adverse growing conditions last year.

The mining sector is expanding from a higher base

The potash industry is expected to continue to expand rapidly this year, with output rising around 25% and would be consistent with gains recorded during the first quarter of this year. This rate, however, would be down sharply from increases of more than 100% that occurred last year when the industry recovered from particularly depressed conditions in 2009. We, therefore, expect growth in the mining sector to moderate to around 4.5%. The other benefit of strong global demand for natural resource commodities is that it is contributing to driving business investment up in the province. An earlier released Statistics Canada survey suggested a 7.0% increase in capital expenditure in Saskatchewan in 2011.

The province benefits from favourable in-migration trends

The Saskatchewan economy's quick snapback last year from the 2009 recession, a low unemployment rate, and expectations that the good times will keep on rolling are attracting more people to move to the province. We expect such attractive prospects will continue to keep Saskatchewan a net beneficiary of in-migration to the province from other areas of the country. In turn, this will sustain solid demand for housing in the province and support growth in housing construction. The ongoing strength in housing and increased capital expenditure is expected to send construction activity up 6% this year following a 1.2% rise in 2010.

Poor weather still hampering growing conditions this year

In the previous *Provincial Outlook*, we assumed that the agriculture sector would benefit from a return to more normal weather conditions in 2011, fully reversing the 2010 decline; nonetheless, excessively wet conditions have persisted early in the current year, and this has materially delayed seeding this spring. A possible return of drier conditions could limit any impairment to the eventual harvest in the fall; however, at this juncture, we assume only a partial 6.0% retracement of last year's decline in agricultural output. Growth at this pace will still contribute to an increase in real GDP in the province of a solid 3.8% in 2011 although growth at this rate will be down modestly relative to 2010, therein reflecting the effect of slower growth in the mining sector.

Full agricultural recovery delayed until 2012

Assuming that more normal weather conditions will indeed return in 2012, we believe that full recovery in the province's agricultural sector will be achieved next year, contributing to growth re-accelerating to a rate of 4.7% in 2012. Economic strength this year and next will result in the province continuing to have the lowest provincial unemployment rate in the country.

Paul Ferley
Assistant Chief Economist