



Not your father's Saskatchewan

By Warren Lovely & Ethan Currie (Sales & Trading Intern)

The year was 1994. The place Saskatchewan. In the provincial capital, Premier Roy Romanow was presiding over an NDP government that had risen to power a few years earlier and would last until 2007 (before handing the reins of power to a Sask Party that has ruled since). The average house sold for roughly \$73,000, less than one quarter of what the average property goes for today. The Saskatchewan Roughriders went 11-7 during the 1994 CFL season but bowed out to the Stampeders in the West Semi-Final, ending dreams of hoisting the Grey Cup.

As it happens, 1994 was also the last time Saskatchewan printed a bond deal in the U.S. dollar market—a US\$400 million 10-year offering (SCDA 8% 07/15/2004) that matured long ago. Fast forward 28 years and here was Sasky mandating dealers (including National Bank Financial) for a prospective 5-year U.S. dollar benchmark offering and (virtually) walking a fresh presentation around to any number of international investors.

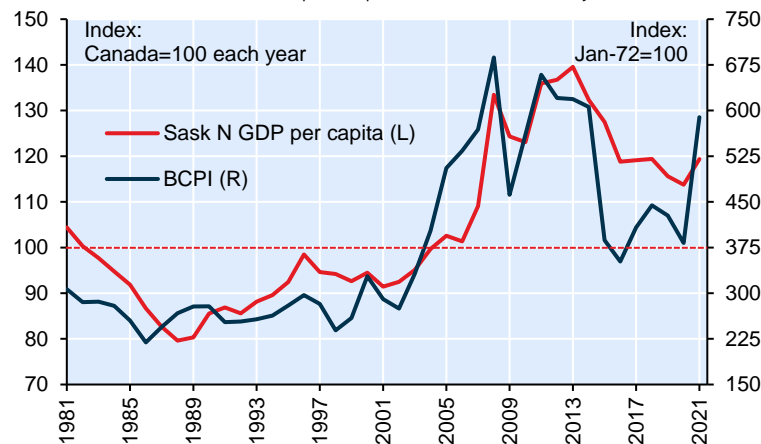
So it's been a generation since Saskatchewan was last in the U.S. market. Fair to say a lot has changed in that time, much of it for the better—at least from the provincial bondholder's perspective. Quite simply, this is not your father's (or your mother's) Saskatchewan. Take a look...

Note: This Market View is not a solicitation of interest for any prospective Saskatchewan bond offering. Rather, it's designed to offer an objective take on select elements of the economic, fiscal and credit outlook, highlighting relative risks and opportunities for the province.

Saskatchewan in the spotlight: 22 charts over 4 pages

Chart 1: Resource wealth key to Saskatchewan prosperity

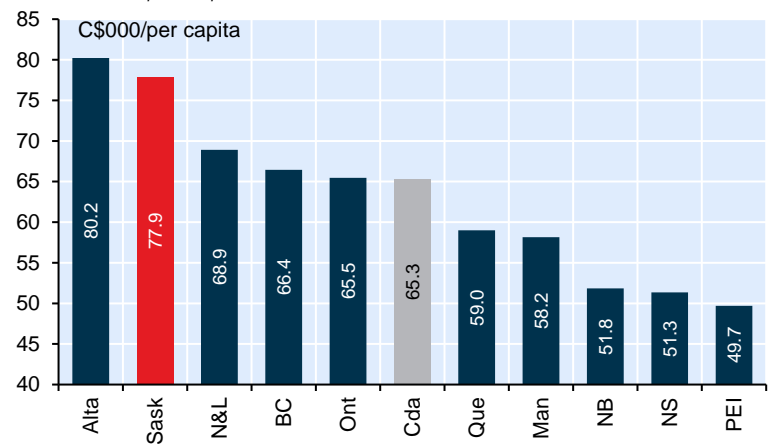
Saskatchewan's relative GDP per capita & BoC Commodity Price Index



Source: NBF, StatCan, BoC | Note: Nominal GDP per capita indexed to Cda each year

Chart 2: A relatively 'rich' province

Nominal GDP per capita: 2021 (NBF estimate)

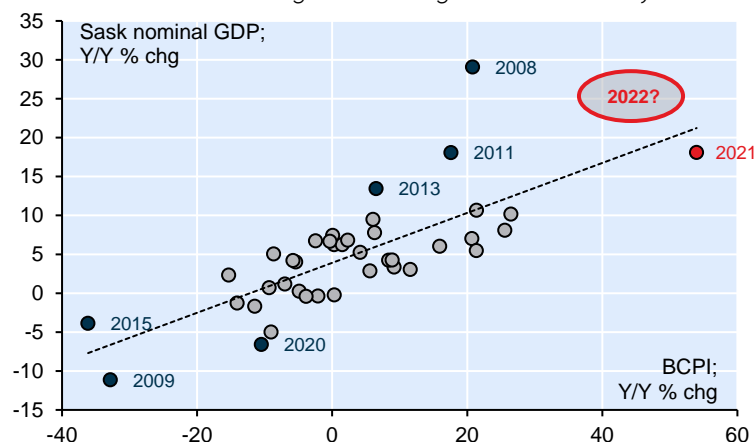


Source: NBF, StatCan | Note: Based on NBF's estimates for 2021 nominal GDP

A generation ago, Saskatchewan was characterized by below-average levels of income per capita. But as commodities drove higher in the 2000s, wealth was generated at exceptional rates. Today, Saskatchewan's nominal GDP per capita stands nearly 20% above the national average. By this yardstick, Saskatchewan remains one of the wealthiest provinces in Canada, behind only Alberta.

Chart 3: Commodities drive exceptional GDP gains of late

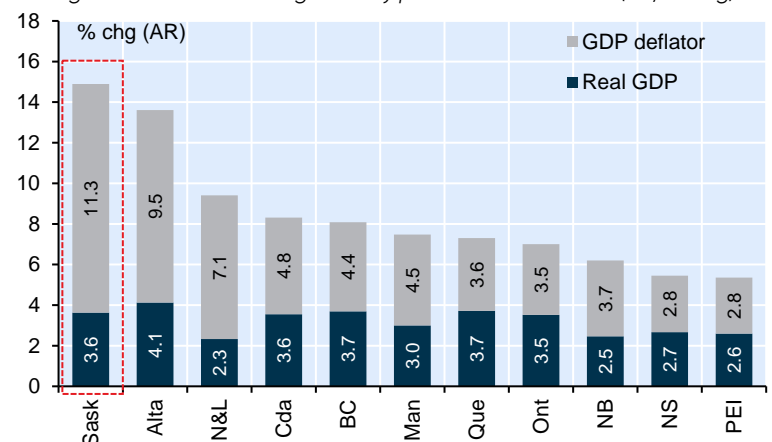
Saskatchewan nominal GDP growth & change in BoC Commodity Price Index



Source: NBF, StatCan, BoC | Note: Includes NBF est/fcst for GDP; 2022 is approximation

Chart 4: Nation-leading GDP growth in COVID recovery

Average real & nominal GDP growth by province: 2021 to 2023 (i.e., 3Y avg)

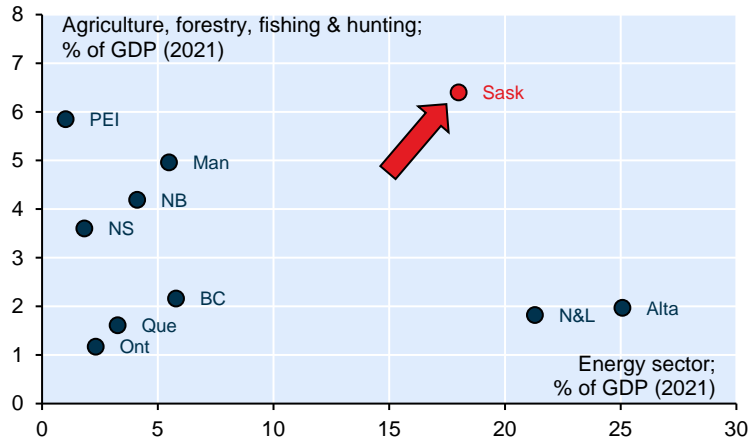


Source: NBF | Note: Compound average annual growth rate, based on NBF est/fcst

Saskatchewan has been pressing its income advantage of late. We estimated 2021 nominal GDP growth at -18% and believe a stronger advance is possible in 2022 (as brisk at 26%). Refer to our [Monthly Economic Monitor](#) for details. Even allowing for a come down in 2023, it's likely that Saskatchewan will post the strongest average nominal GDP gain over the 3-year COVID recovery period.

Chart 5: Saskatchewan has a lot of what the world wants/needs...

Share of GDP: Energy sector vs. agriculture & other primary industries

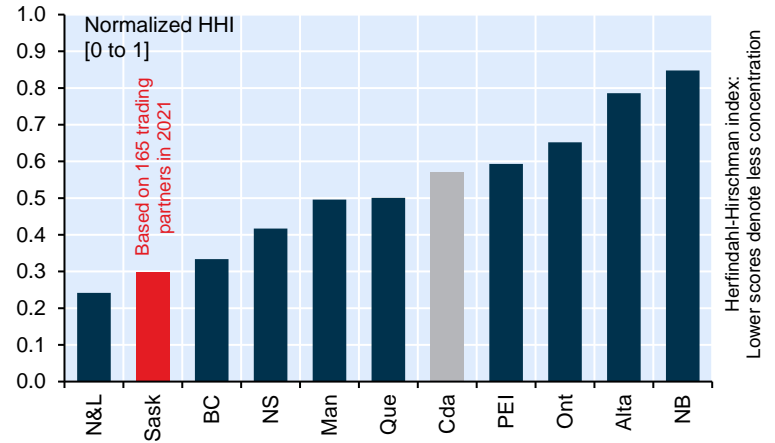


Source: NBF, StatCan

Saskatchewan is well positioned to benefit from global commodity demand and the resulting high prices. The energy sector accounted for 18% of Saskatchewan GDP in 2021 and no province has a relatively larger agricultural footprint. Saska already sends its goods to all corners of the globe, exporting to 165 nations last year and boasting one of the more geographically diversified export baskets.

Chart 6: ... and already exports to a diverse set of nations

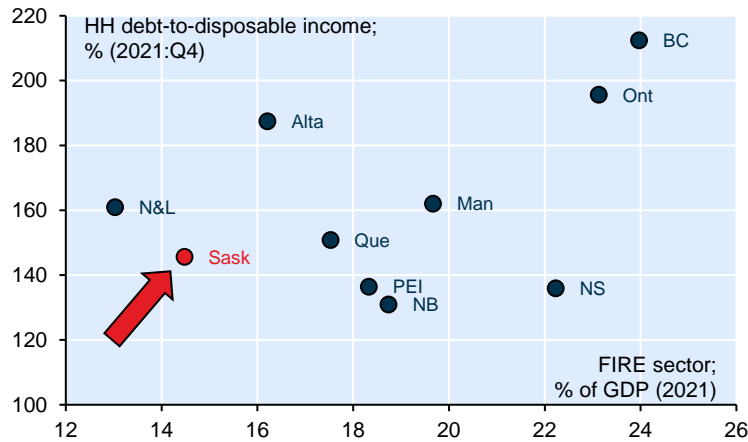
Index of export diversification (based on goods exports by country): 2021



Source: NBF, Industry Canada | Note: Individual scores based on trade with all countries

Chart 7: Household debt/housing exposure less of a worry...

Finance/insurance/real estate share of GDP vs. household debt-to-income

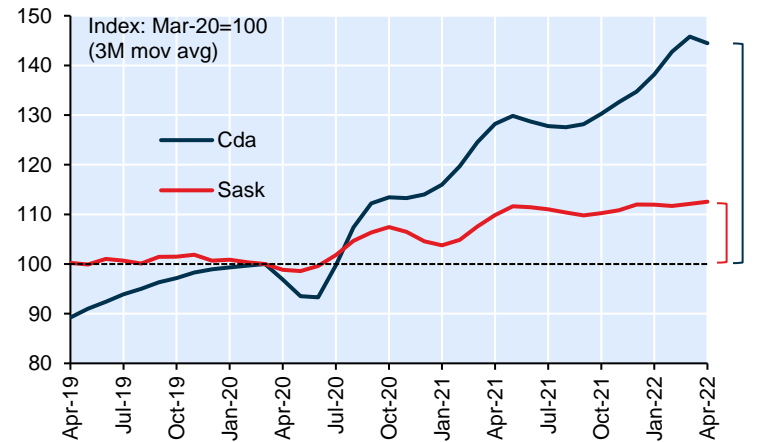


Source: NBF, StatCan

On the flipside, exposure to key interest rate-sensitive sectors is relatively modest in Saskatchewan. Outside of the Maritimes you won't find a lower household debt-to-disposable income ratio. Meanwhile, local real estate prices were bid up much less aggressively prior to the BoC pivoting to rate hikes. Affordability pressures are thus less acute, with seemingly less downside for home prices.

Chart 8: ... with resale housing prices much less inflated

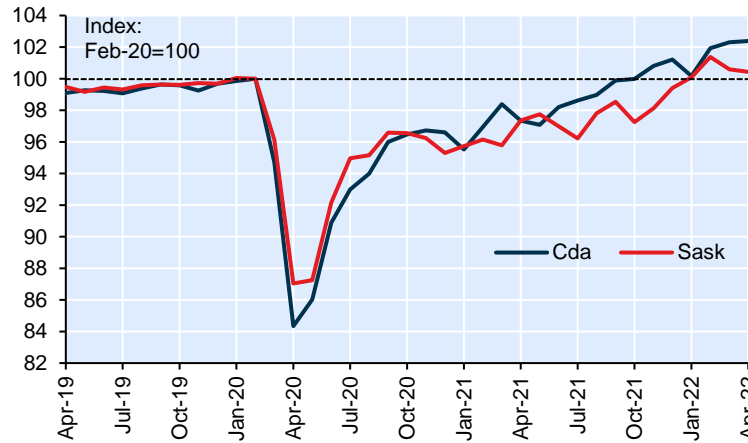
Index of average housing resale price: Pre-COVID to latest (Apr-22)



Source: NBF, CREA | Note: Mar-20 was last BoC rate cut; first hike was Mar-22

Chart 9: Provincial labour market has staged full recovery

Index of total employment: Pre-COVID to latest (Apr-22)

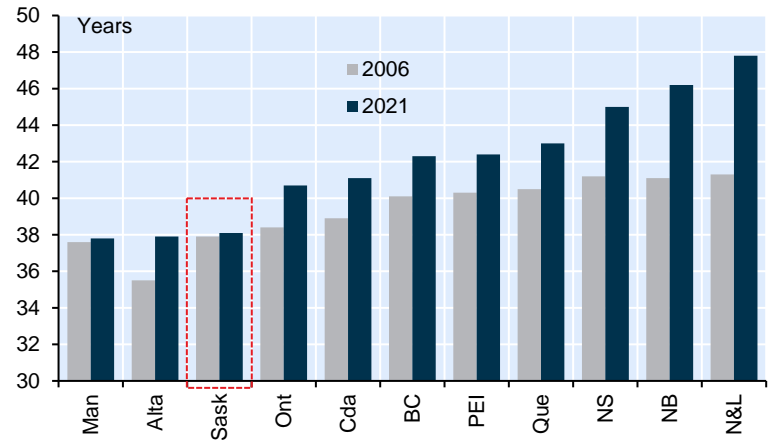


Source: NBF, StatCan | Note: Feb-20 was pre-COVID peak for Cdn employment

Housing and consumption draw support from healthy labour markets, with employment fully recovering COVID-related losses and the jobless rate one of the lowest in Canada. Population growth is picking back up, having proven correlated with commodity prices in the past. The median age remains relatively low, with Saskatchewan avoiding the relative aging that has characterized many peers.

Chart 10: Population relatively younger than most provinces

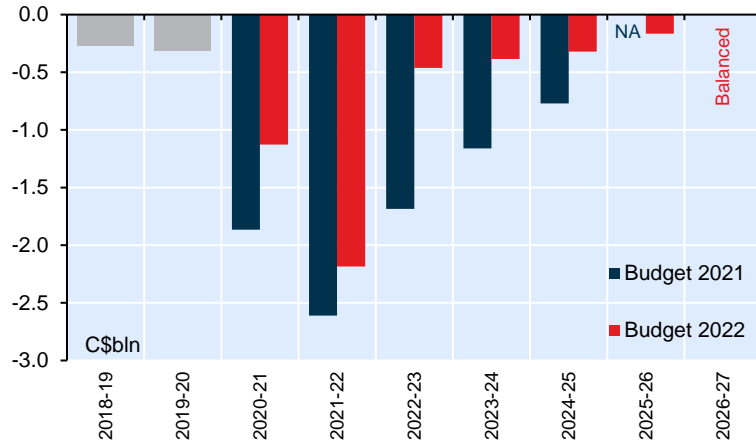
Median age by province



Source: NBF, StatCan | Note: Sask's relatively strong population gains started in 2007

Chart 11: Budget 2022 revealed stronger fiscal trajectory...

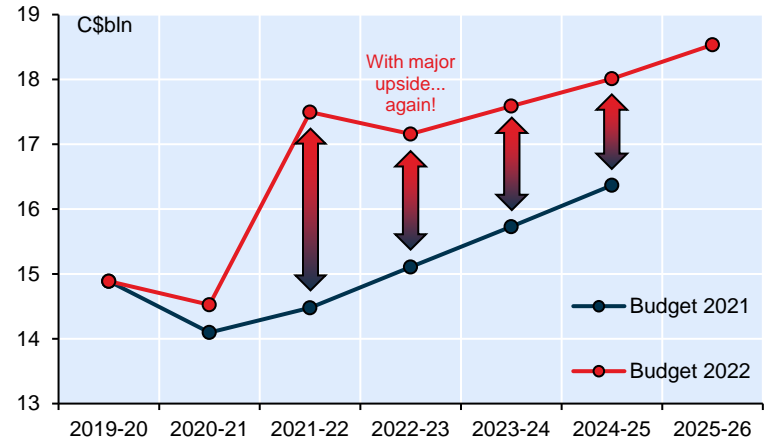
Saskatchewan budget balance outlook: Budget 2022 vs. Budget 2021



Source: NBF, Sask | Note: Budget 2022 pledged to balance the budget by 2026-27

Chart 12: ... as provincial revenue jumps higher

Saskatchewan total revenue: Budget 2022 vs. Budget 2021

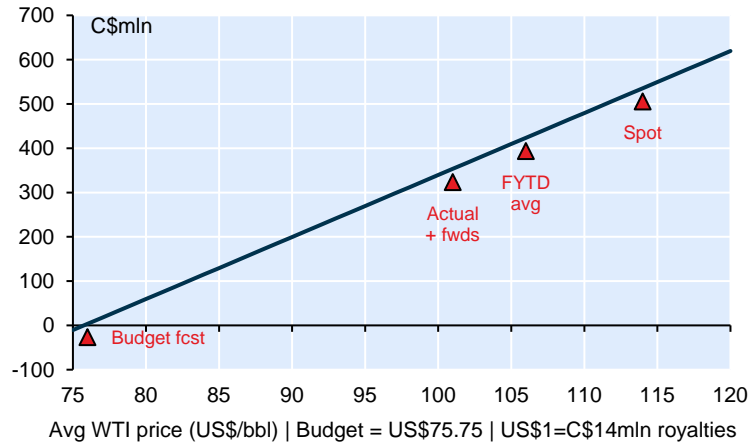


Source: NBF, Sask

Fiscally, Saskatchewan felt the impact of weaker growth and lower commodity prices as COVID hit. But the budget balance is on an improving track, Budget 2022 making notable positive revisions to prior guidance. Revenue has been revised decisively higher, and with still-major upside potential (particularly for resource royalties) the province could be back in the black as early as this fiscal year.

Chart 13: Oil royalties could vastly exceed budget plan (again)

Illustration: Extra Saskatchewan oil royalties in 2022-23 for given WTI oil price

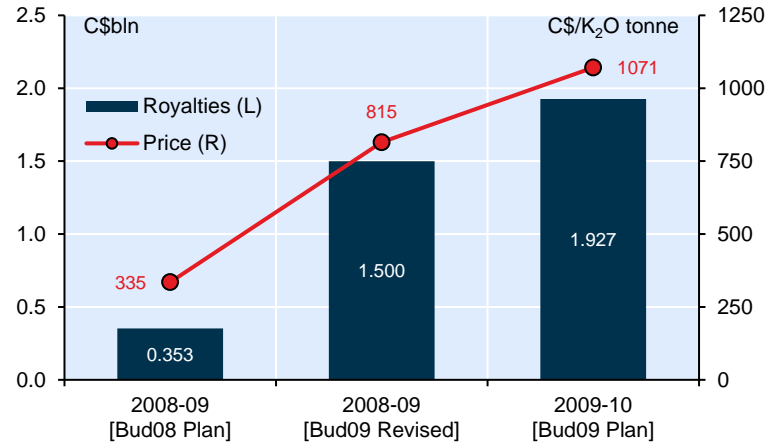


Source: NBF, Sask | Note: Sensitivities applied to average oil price for 2022-23 fiscal year

By way of illustration, Saskatchewan estimates each US\$1/bbl increase in WTI adds C\$14 million in oil royalties. The 2022 budget assumed WTI would average ~US\$76/bbl this fiscal year, so revenue upside here is material. Ditto for potash, where prices have recently shot up. Looking back, a surge in potash prices in 2008 led to a major royalty windfall, before the GFC really weighed on the globe.

Chart 14: Don't forget potash, where 2008-09 was informative

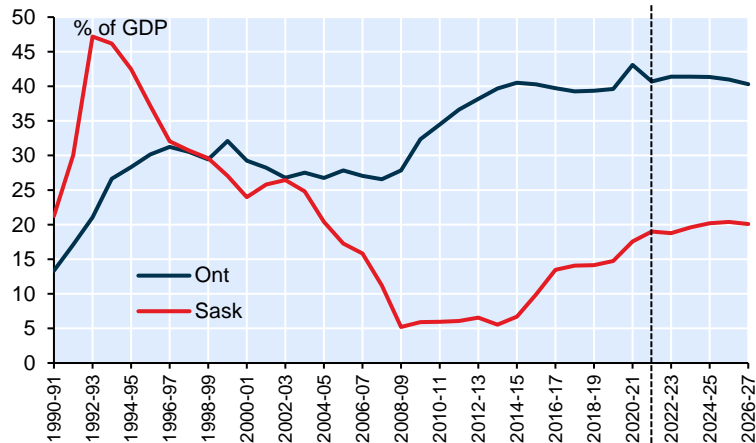
Saskatchewan potash price & royalties: Budget 2009 vs. Budget 2008



Source: NBF, Sask | Note: As per Bud22, each US\$10/KCl tonne = C\$50mIn in royalties

Chart 15: Debt burden has increased, but still relatively low

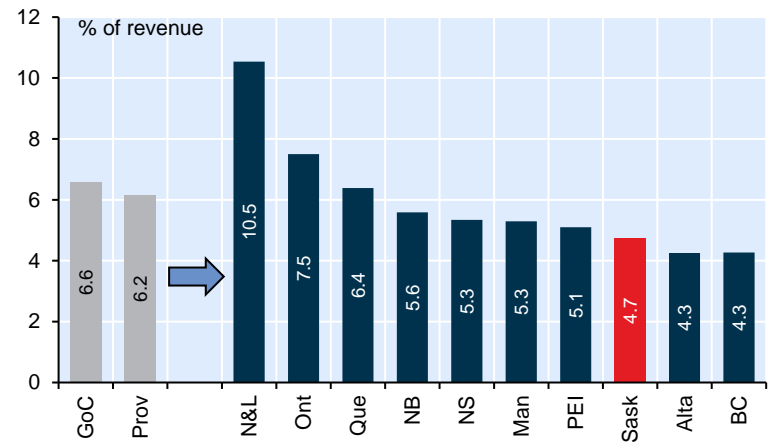
Net debt-to-GDP ratio



Source: NBF, Sask, Ont | Note: Official forecasts for 2022-23 & beyond

Chart 16: A manageable 'interest bite', despite higher rates

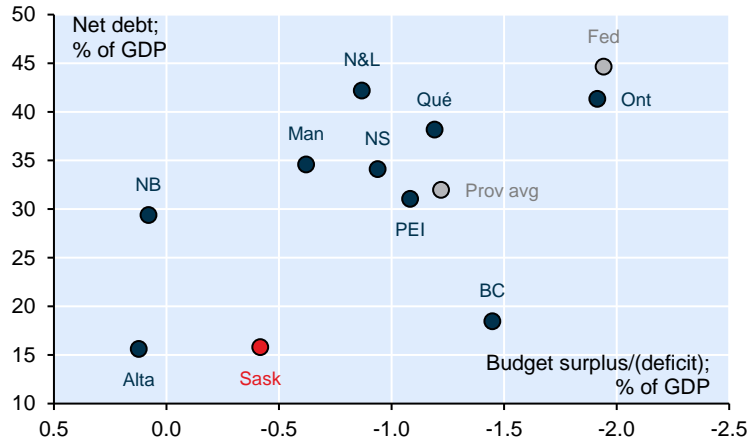
Federal-provincial consolidated interest bite: 2022-23 (latest projection)



Source: NBF, fed-prov gov'ts | Note: Based on 2022 budgets, subject to revisions

A generation ago, Saskatchewan's debt burden was nearing 50%. But substantial/rapid progress was made right up to the GFC. Since then, the debt burden has edged up and is projected to rise over the forecast horizon. But this is still one of the lower debt burdens of all the provinces. The 'interest bite' is similarly modest, with interest rate reset risk relatively well managed across the provinces.

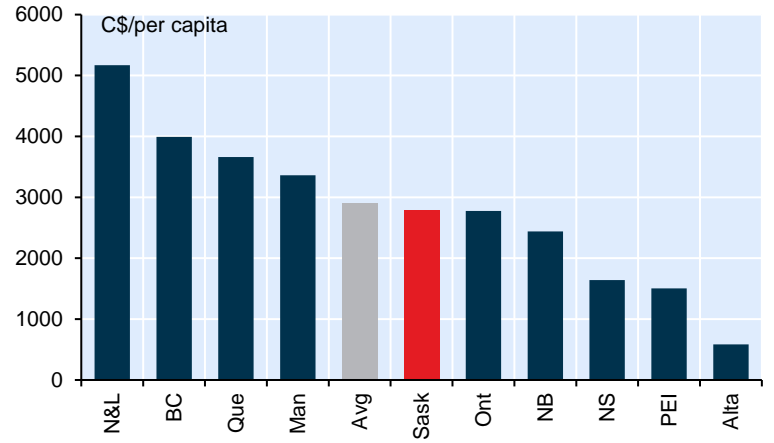
Chart 17: Fiscal snapshot puts Sasky in relatively good place
Federal-provincial budget balance vs. net debt burden: 2022-23



Source: NBF, fed-prov gov'ts | Note: Based on 2022 budgets, using NBF est for GDP

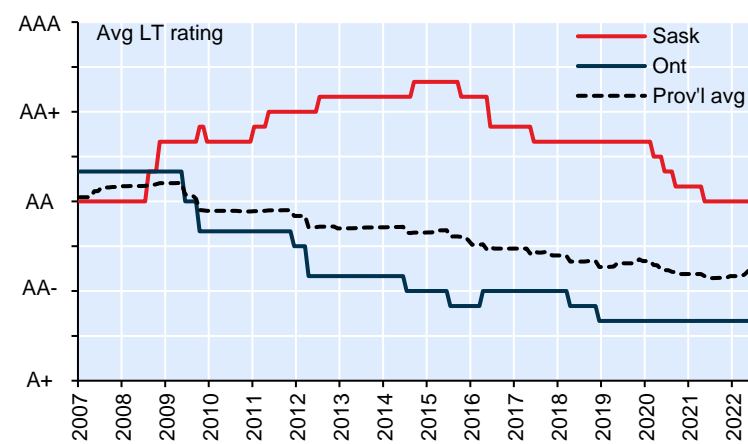
The current fiscal snapshot makes for a relatively attractive picture in Saskatchewan, the province having a healthier budget balance and lower debt burden vs. the provincial average. There's some borrowing to do, with C\$3.295 billion of term issuance projected for 2022-23. Mind you, actual cash requirements could be *much* lower, given all the bonus resource revenue we expect to wash up.

Chart 18: Some borrowing to do (although req'ts could come down)
Per capita gross long-term borrowing requirements: 2022-23 (latest forecast)



Source: NBF, prov gov'ts, StatCan | Note: Gross requirements scaled to total population

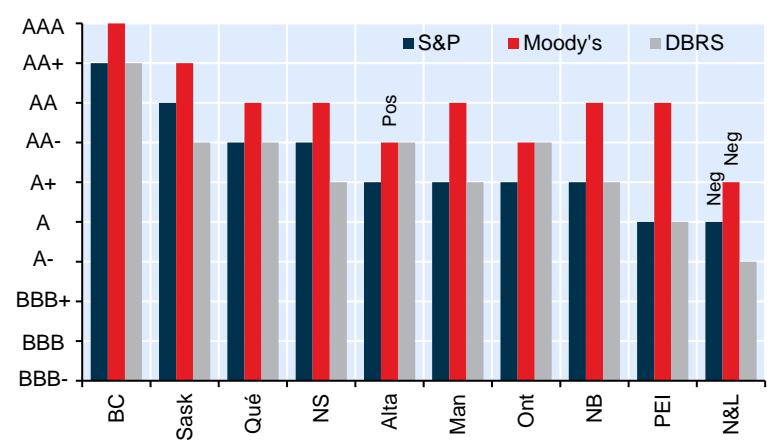
Chart 19: Saskatchewan retains above-average credit rating
Average long-term credit rating



Source: NBF, S&P, Moody's, DBRS | Note: Avg rating controls for +ve/-ve outlooks

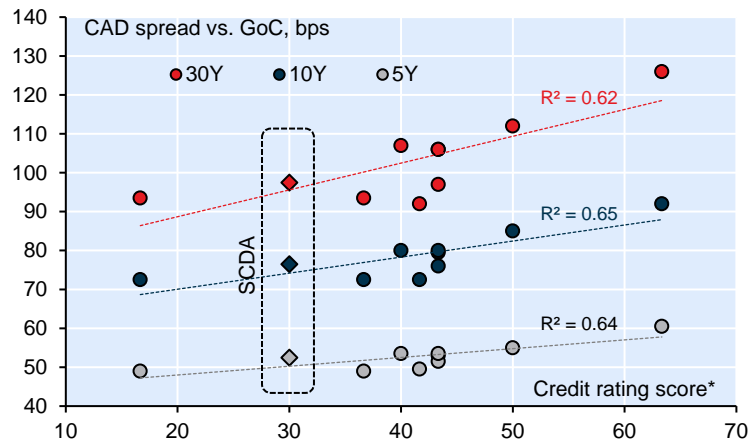
Saskatchewan's credit rating wasn't entirely immune to earlier commodity price weakness and related debt accumulation. Long-term ratings currently range from AA- to AA+, making Saskatchewan the second strongest provincial credit (based on average rating). With scope for marginal fiscal improvement (vs. budget planning assumptions), we like the near-term risk profile here.

Chart 20: On average, second strongest rating in provi land
Long-term credit ratings: Latest



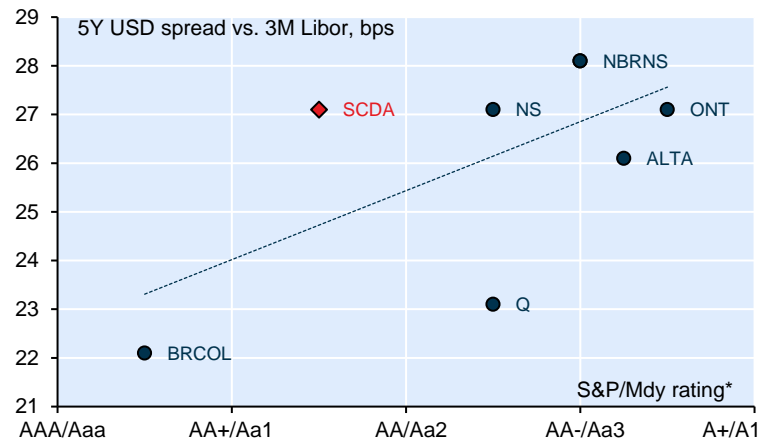
Source: NBF, S&P, Moody's, DBRS | Note: Arranged by avg rating; outlooks noted

Chart 21: Assessing fair value in CAD bond market
Indicative CAD bond spreads vs. average credit rating score



Source: NBF, S&P, Moody's, DBRS | Note: Indicative CAD spreads as at 27-May; credit rating score controls for +ve/-ve outlooks, where AAA=10, AA+=20, AA=30, etc

Chart 22: Notional USD valuation looks compelling
Indicative USD bond spreads vs. average S&P/Moody's rating



Source: NBF, S&P, Moody's | Note: Indicative USD spreads as at 26-May, subject to change; avg S&P/Moody's rating controls for +ve/-ve outlooks

Finally, bond pricing doesn't appear stretched. Admittedly, ratings are but a single factor impacting valuations, but even controlling for relative liquidity we'd see some value in Saskatchewan. On a purely indicative basis, Saskatchewan may allow U.S. dollar bond investors to up-tier in credit quality with little to no give vs. provincial peers. In fact, a pick might be available vs. some names.



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