

The Honourable Donna Harpauer  
Minister of Finance



SASKATCHEWAN BUDGET UPDATE

**17-18**

**MEETING THE  
CHALLENGE**

**MID-YEAR REPORT**

2017-18 Mid-Year Report  
Government of Saskatchewan  
November 29, 2017

# TABLE OF CONTENTS

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## **MID-YEAR REPORT**

Introduction .....	1
Economic Update .....	3
Budget Update .....	11

## **SUPPLEMENTARY INFORMATION**

Schedule of Revenue .....	19
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# INTRODUCTION

## 2017-18 Mid-Year Report

The Saskatchewan economy is performing well and remains on track to post positive growth for the first time in two years, despite the weather-related challenges facing crop production in 2017.

The fiscal results also remain on track to achieve the budget deficit target in 2017-18 as the caution incorporated in the budget estimates through the contingency has been adequate to offset both a relatively modest \$44 million net deterioration in government operations and the unrealized compensation savings.

The Saskatchewan economy is rebounding in 2017.

Strong performance in the oil and potash sectors is more than offsetting the negative effects of the hot and dry weather on crop production this year.

- The number of new oil wells drilled in the first ten months of 2017 is over 80 per cent higher than in the same period last year.
- Oil production is expected to increase by 6.1 per cent in 2017, to 178.5 million barrels.
- Potash production is expected to increase by 7.3 per cent in 2017, to 11.8 million K<sub>2</sub>O tonnes.

Other key indicators are also strongly positive in 2017, including growth of:

- 13.1 per cent in manufacturing sales;
- 11.7 per cent in international goods exports;
- 10.2 per cent in new motor vehicle sales;
- 8.3 per cent in wholesale trade;
- 7.4 per cent in building permits; and,
- 4.3 per cent in retail trade.

Fueled by a strong performance in the resource sector, Saskatchewan's 2017 real GDP is forecast to grow by 1.5 per cent and nominal GDP is forecast to grow by 5.1 per cent.

A return to normal crop production in 2018, in addition to rising oil prices and strong oilfield investment, is expected to support stronger growth in 2018. In 2018, real GDP is projected to grow 2.2 per cent.

The private sector forecasters have also increased their expectations of Saskatchewan's economic performance, increasing 2017 real GDP growth, on average, from 1.7 per cent this spring to 2.2 per cent. The private sector average 2018 real GDP growth is 2.1 per cent.

At mid-year, the 2017-18 deficit projection is \$679 million – on track with the budget estimate of \$685 million.

Revenue is projected to be down \$53 million from budget, primarily reflecting a relatively large reduction in tax revenue and a smaller reduction in resource revenue, largely offset by increases in the other revenue sources.

- Both personal and corporate income tax revenue are down from budget on the basis of 2016 tax year assessments reported by the federal government.
- Provincial sales tax revenue is also down from budget, largely reflecting the impact of transition effects on the construction sector and the late implementation of the base expansions to insurance, partially offset by other strength in the sales tax base.
- The effects of lower-than-budgeted oil prices and higher-than-budgeted exchange rates are largely offset by higher-than-budgeted oil production, a narrower light-heavy differential, higher Crown land sales and higher-than-budgeted Resource Surcharge revenue.

Expense is projected to be down \$9 million from budget, with a large reduction in Crop Insurance claims offsetting utilization driven spending increases for medical services, income assistance and child and family services, forest fire-fighting costs and higher custody counts.

The allocation for human resources compensation measures is removed as it is unlikely any savings will be realized during 2017-18.

To compensate for lower revenue and unrealized compensation savings, the contingency is fully utilized.

Overall, both the economy and provincial finances remain on-track with budget expectations.

# ECONOMIC UPDATE

## INTRODUCTION

The Saskatchewan economy remains on track to post positive growth in 2017.

Despite some challenges this year, such as weak employment growth and hot and dry weather conditions that affected crop production, many other indicators are positive.

The province's oil and potash sectors continue to improve following a disappointing 2016, while population growth remains strong.

Overall, Saskatchewan real GDP is forecast to rise by 1.5 per cent in 2017.

The outlook for 2018 remains positive. A rebound in crop production, in addition to higher oil prices and investment, is

expected to support stronger growth in 2018.

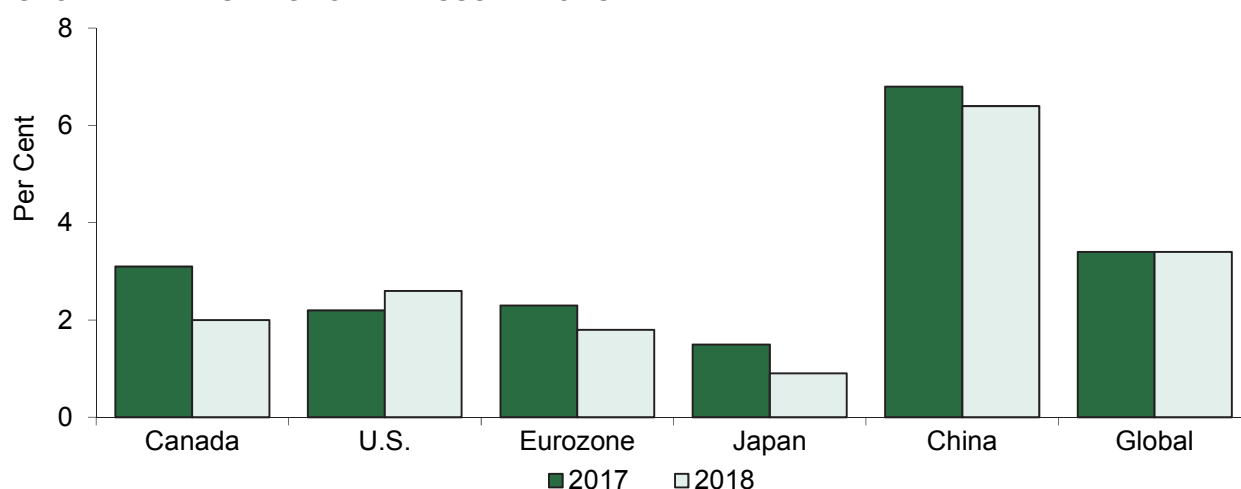
Real GDP is forecast to rise by 2.2 per cent in 2018.

## GLOBAL ECONOMIC OUTLOOK

Global economic growth has been strong in 2017, especially in the Eurozone, U.S. and Canada.

The Eurozone economy has performed robustly, growing by an average of 2.3 per cent over the first three quarters of 2017. Domestic demand is the key driver supplemented with strong job growth and expansionary monetary policy. The Eurozone is forecast to grow by 2.3 per cent in 2017 and 1.8 per cent in 2018.

### GLOBAL REAL GDP GROWTH ASSUMPTIONS



Sources: Bank of Canada (October 2017) and Conference Board of Canada (September 2017)

Japan's economy posted 1.5 per cent growth in the first quarter and 1.0 per cent growth in the second quarter of 2017, the fastest pace in more than two years. Overall, Japan's economy is forecast to grow by 1.5 per cent in 2017 and 0.9 per cent in 2018.

China's economy remains the leader in economic growth and is expected to grow by 6.8 per cent in 2017 and 6.4 per cent in 2018.

U.S. economic growth was weak in the first quarter of 2017, coming in at only 1.2 per cent. U.S. real GDP, however, picked up strongly and grew by 3.1 per cent in the second quarter and 3.0 per cent in the third quarter of 2017. Growth was mainly driven by consumer spending, business investment and exports. Overall, U.S. real GDP is expected to grow by 2.2 per cent in 2017 and 2.6 per cent in 2018.

## CANADIAN ECONOMIC OUTLOOK

Canadian economic growth has accelerated sharply since the second half of 2016. This momentum has continued and is broadly based across most sectors and regions in 2017.

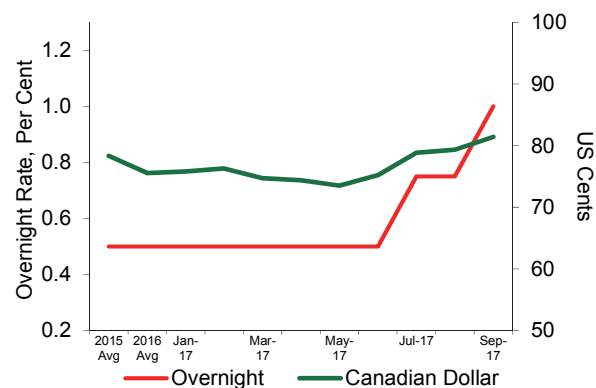
Canadian real GDP grew at an annualized rate of 3.7 per cent in the first quarter and 4.5 per cent in the second quarter of 2017, well above other advanced economies. Overall, Canadian real GDP is forecast to grow by 3.1 per cent in 2017 and 2.0 per cent in 2018.

There are still challenges to the Canadian outlook including high household debt, global geopolitical risks and uncertainties related to U.S. trade and fiscal policies.

## Canadian Interest Rates and the Canadian Dollar

Amid buoyant economic growth, the Bank of Canada raised its overnight lending rate twice since July 2017, by a total of 50 basis points to 1.0 per cent.

### OVERNIGHT RATE AND CANADIAN DOLLAR



Source: Bank of Canada

## CANADIAN AND U.S. GROWTH ASSUMPTIONS

	Actual	2017-18 Budget			2017-18 Mid-Year		
	2016	2017	2018	2019	2017	2018	2019
Can. real GDP growth (%)	1.5	1.9	2.0	1.8	3.1	2.0	1.7
U.S. real GDP growth (%)	1.5	2.3	2.3	2.3	2.2	2.6	2.3
Short-term Interest Rate (%)	0.49	0.51	0.72	1.19	0.75	1.53	2.27
10-yr Government of Canada Bond (%)	1.24	1.65	2.14	2.61	1.78	2.61	3.38
Canadian Dollar (US cents)	75.50	74.70	75.70	77.10	77.20	81.00	81.20



In reaction to central bank rate hikes, the value of the Canadian dollar gained about 6.2 U.S. cents from an average of 75.2 U.S. cents in June to 81.4 U.S. cents in September – the highest level since May 2015.

The value of the Canadian dollar is expected to appreciate from an average of 77.2 U.S. cents in 2017 to about 81.0 U.S. cents in the near-term.

## SASKATCHEWAN 2017 PERFORMANCE

Many indicators are up substantially from last year.

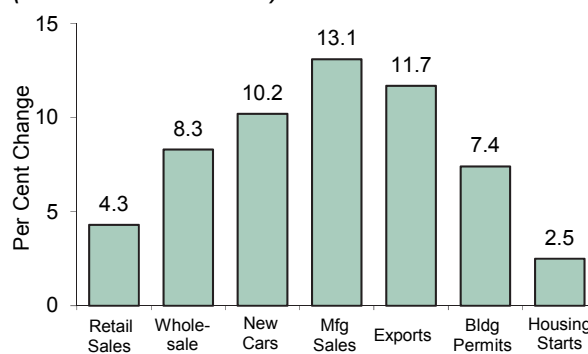
The number of new oil wells drilled was up by over 80 per cent in the first ten months of 2017 over the same period last year.

Oil and potash production have rebounded this year. Oil production fell

by 5.3 per cent in 2016 to 168.2 million barrels, but is now anticipated to increase by 6.1 per cent in 2017. In the first eight months of 2017, oil production was up by 5.7 per cent over the same period last year. In addition, potash production is expected to increase by 7.3 per cent.

Other indicators like manufacturing sales, international goods exports, new motor vehicle sales, wholesale trade, building permits, retail sales and housing starts are all up as well this year.

### KEY ECONOMIC INDICATORS (2017 YTD over 2016 YTD)



### SASKATCHEWAN ECONOMIC INDICATORS

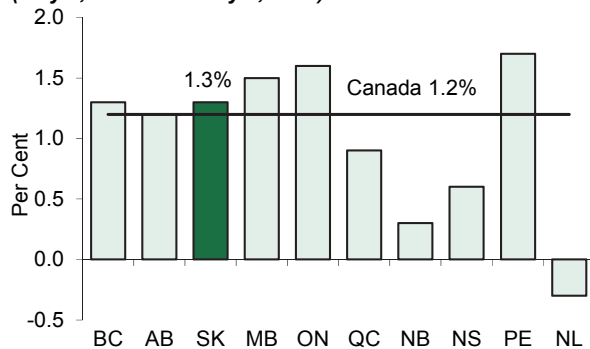
	2016 Actual	2017 Estimate*	2017 (YTD) % Change	2017 Rank	2011 to 2017		
					Saskatchewan % Change	Saskatchewan Rank	Canada % Change
Population at July 1 (000s)	1,148.5	1,163.9	1.3	4th	9.2	2nd	6.9
Employment (000s)	568.8	568.1	(0.1)	9th	6.0	5th	6.9
Unemployment Rate (%)	6.3	6.3	6.3	6th	5.0	lowest	7.0
Consumer Price Index (2002=100)	132.2	133.9	1.3	7th	9.8	3rd	8.7
Average Weekly Earnings (\$)	988.4	1,008.0	2.0	3rd	15.2	2nd	11.1
Retail Sales (\$B)	19.1	20.0	4.3	8th	23.2	5th	29.1
Wholesale Trade (\$B)	25.3	27.4	8.3	6th	27.7	7th	31.8
New Motor Vehicle Sales (# of Units)	52,099	57,427	10.2	2nd	12.4	9th	29.2
Manufacturing Sales (\$B)	14.1	16.0	13.1	3rd	25.9	3rd	14.4
International Exports (\$B)	26.7	29.8	11.7	5th	0.9	8th	21.7
Building Permits (\$B)	2.0	2.1	7.4	9th	(19.0)	9th	31.2
Housing Starts (# of Units)	4,775	4,895	2.5	8th	(30.4)	8th	10.9
Investment in New Housing							
Construction (\$B)	1.2	1.2	(0.9)	10th	(16.7)	9th	39.0
Investment in Non-residential							
Building Construction (\$B)	1.9	1.6	(14.4)	9th	7.4	3rd	3.6

Source: Statistics Canada

\* Estimates based on 2017 year-to-date growth and 2016 actual, except for the unemployment rate which is the year-to-date average.

Between July 1, 2016 and July 1, 2017, Saskatchewan's population increased by 1.3 per cent. This was the fourth-highest percentage increase among provinces.

**POPULATION GROWTH BY PROVINCE**  
(July 1, 2017 over July 1, 2016)



Source: Statistics Canada

Saskatchewan's economy has been one of the strongest economies in Canada over the last several years. From 2011 to 2017, Saskatchewan ranks:

- second in terms of growth in population and average weekly earnings;
- third in terms of growth in manufacturing sales;

- third in terms of growth in investment in non-residential building construction; and,
- fifth in terms of growth in retail sales and employment.

## SASKATCHEWAN ECONOMIC OUTLOOK

The Saskatchewan economy is expected to post positive growth in 2017, for the first time since 2014, led by a recovery in oil and potash.

The price of West Texas Intermediate (WTI) oil is now expected to average US\$50.00 per barrel in 2017. In the 2017-18 Budget, WTI oil was expected to average US\$55.00 per barrel in 2017.

Despite being US\$5.00 less than the 2017-18 Budget assumption, the current WTI price assumption of US\$50.00 per barrel for 2017 is still 15.2 per cent higher than the 2016 average price.

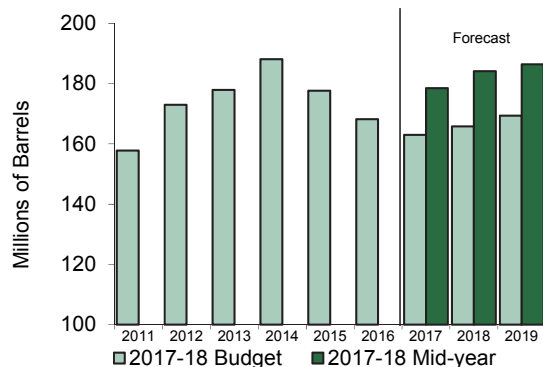
## COMMODITY PRICE ASSUMPTIONS - CALENDAR YEAR

	Actual	2017-18 Budget			2017-18 Mid-Year		
	2016	2017	2018	2019	2017	2018	2019
WTI Oil (US\$ per barrel)	43.40	55.00	60.00	65.00	50.00	53.00	57.50
Natural Gas (C\$ per GJ)	2.06	3.25	3.25	3.30	2.65	2.65	2.70
Potash (C\$ per K <sub>2</sub> O tonne) <sup>1</sup>	373.56	385.67	385.99	386.12	390.56	381.04	376.53
Potash (US\$ per KCl tonne) <sup>1</sup>	171.90	175.74	178.24	181.60	183.92	188.27	191.33
Wheat (C\$ per tonne)	219.63	209.61	232.19	227.78	250.98	254.89	255.46
Canola (C\$ per tonne)	473.93	468.18	502.73	502.73	470.15	465.82	472.66

<sup>1</sup> The potash industry quotes prices in US dollars per KCl tonne. Provincial royalty calculations, however, are based on the Canadian dollar price per K<sub>2</sub>O tonne.

Sources: Ministry of the Economy, Ministry of Agriculture

### SASKATCHEWAN OIL PRODUCTION



Source: Ministry of the Economy

Oil production is expected to increase by 6.1 per cent in 2017, from 168.2 million barrels in 2016 to 178.5 million barrels.

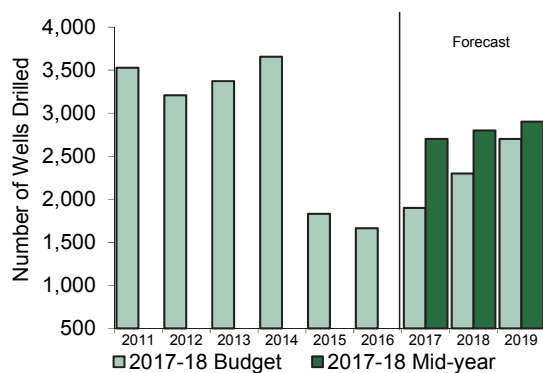
Over the forecast period, oil production is expected to grow at a faster pace than was assumed in the 2017-18 Budget.

Higher oil prices in 2017 have led to a greater-than-expected increase in investment.

In 2016, 1,664 new oil wells were drilled in the province. In 2017, 2,700 are expected, an increase of 62.3 per cent. The 2017-18 Budget forecast had assumed 1,900 new oil wells for 2017.

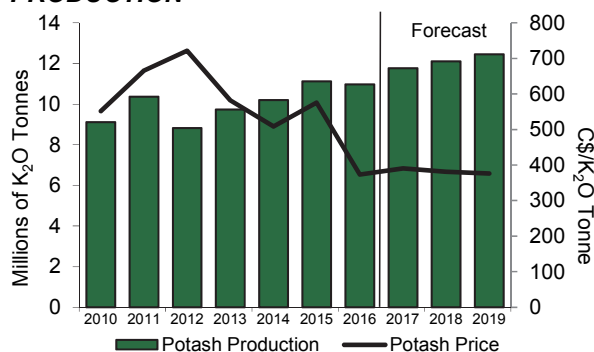
Potash production is anticipated to rise by 7.3 per cent in 2017.

### SASKATCHEWAN OIL WELLS DRILLED



Source: Ministry of the Economy

### SASKATCHEWAN POTASH PRICE AND PRODUCTION



Source: Ministry of the Economy

### SASKATCHEWAN FORECAST AT A GLANCE

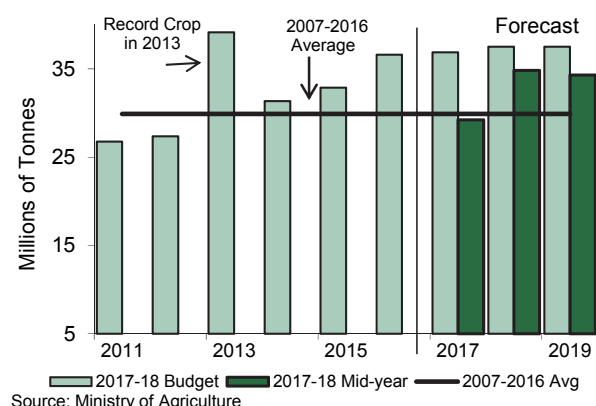
(Per Cent Change Unless Otherwise Noted)

	Actual	2017-18 Budget			2017-18 Mid-Year		
	2016	2017	2018	2019	2017	2018	2019
Real GDP	-0.5	0.8	2.0	1.9	1.5	2.2	2.0
Nominal GDP	-4.0	4.9	5.7	4.5	5.1	4.2	5.6
CPI	1.1	1.6	1.8	1.4	1.2	1.9	1.8
Employment growth (000s)	-5.2	1.2	4.9	5.5	0.0	3.5	4.7
Unemployment rate (%)	6.3	6.2	6.0	5.8	6.5	6.3	6.1
Retail sales	2.2	2.7	3.2	2.9	4.0	2.7	2.5

The price of potash is expected to average US\$183.92 per KCl tonne in 2017, up from US\$171.90 per KCl tonne in 2016.

Crop production in 2017 is expected to be well below what had been assumed in the 2017-18 Budget. Due to weather-related issues, crop production is anticipated to fall by 20.1 per cent to 29.2 million tonnes, based on recent estimates.

### SASKATCHEWAN CROP PRODUCTION



Employment growth has been weaker than expected as well. The 2017-18 Budget forecast had projected employment to rise by 1,200. However, through the first ten months of 2017, total employment growth has been slightly negative.

Saskatchewan real GDP is now expected to rise by 1.5 per cent in 2017, bolstered by increased oil investment. Nominal GDP is forecast to increase by 5.1 per cent.

The outlook for 2018 remains positive.

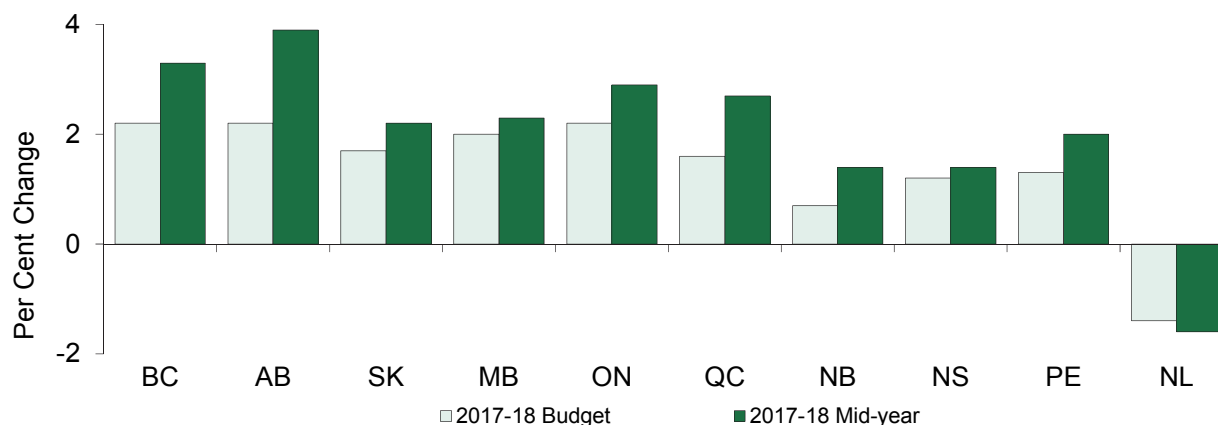
A rebound in crop production, in addition to higher oil prices and investment, is expected to support strong growth in 2018.

Real GDP is forecast to rise by 2.2 per cent in 2018. Nominal GDP is projected to increase by 4.2 per cent.

### PRIVATE SECTOR REAL GDP GROWTH FORECASTS FOR SASKATCHEWAN (Per Cent Change)

	2017	2018	Cumulative Growth	Release Date
IHS Global Insight	2.5	2.2	4.8	Nov-17
Conference Board of Canada	2.7	1.7	4.4	Aug-17
The Centre for Spatial Economics	2.1	1.7	3.8	Aug-17
TD Bank	2.2	2.0	4.2	Sep-17
RBC	1.4	2.8	4.2	Sep-17
BMO	1.7	2.0	3.7	Oct-17
CIBC	2.9	2.1	5.1	Sep-17
Scotiabank	2.0	1.9	3.9	Nov-17
National Bank	2.4	2.0	4.4	Nov-17
Laurentian Bank	2.1	2.3	4.4	Aug-17
Average of Private Sector Forecasts	<b>2.2</b>	<b>2.1</b>	<b>4.3</b>	
<b>2017-18 Mid-year</b>	<b>1.5</b>	<b>2.2</b>	<b>3.7</b>	

**PRIVATE SECTOR FORECASTS OF 2017  
REAL GDP GROWTH BY PROVINCE**



Sources: Major Canadian banks, IHS Global Insight, CBOC, C4SE.  
Private sector forecast average as at November 16, 2017.

**FORECAST COMPARISON**

Private sector forecast agencies see strength in Saskatchewan’s economy and have revised up their real GDP growth forecasts for 2017 from an average of 1.7 per cent at budget to 2.2 per cent.

Private sector forecasts for 2017 range from a low of 1.4 per cent (RBC) to a high of 2.9 per cent growth (CIBC).

These private forecasters expect Saskatchewan’s economy to grow by 2.1 per cent in 2018, the third-highest growth among provinces.

Private sector forecasters, on average, expect the provincial unemployment rate to improve, dropping from 6.3 per cent in 2017 to 6.0 per cent in 2018 and 5.9 per cent in 2019.

**PRIVATE SECTOR FORECASTS OF REAL GDP GROWTH BY PROVINCE  
(Per Cent Change)**

	2016		2017	Rank	2018	Rank
	Actual*	Rank				
British Columbia	3.5	1	3.3	2	2.4	1
Alberta	(3.7)	10	3.9	1	2.4	1
<b>Saskatchewan</b>	<b>(0.5)</b>	<b>9</b>	<b>2.2</b>	<b>6</b>	<b>2.1</b>	<b>3</b>
Manitoba	2.2	4	2.3	5	1.8	5
Ontario	2.6	2	2.9	3	2.2	2
Quebec	1.4	6	2.7	4	1.9	4
New Brunswick	1.2	7	1.4	8	1.0	8
Nova Scotia	0.8	8	1.4	8	1.2	7
Prince Edward Island	2.3	3	2.0	7	1.6	6
Newfoundland and Labrador	1.9	5	(1.6)	9	1.0	8
<b>Canada</b>	<b>1.4</b>		<b>3.0</b>		<b>2.2</b>	

\* Statistics Canada, Provincial Economic Accounts, November 8, 2017

## CONCLUSION

Following two consecutive years of negative growth, due to low commodity prices and modest global demand, the Saskatchewan economy is on track to post positive growth once again in 2017.

Though there are still challenges, the province's oil and potash sectors and many other indicators have rebounded significantly from just one year ago. Further, population growth remains strong.

Overall, Saskatchewan real GDP is forecast to rise by 1.5 per cent in 2017. Nominal GDP is projected to increase by 5.1 per cent.

A rebound in crop production, in addition to higher oil prices and investment, is expected to support strong growth in 2018.

Real GDP is forecast to rise by 2.2 per cent in 2018. Nominal GDP is projected to increase by 4.2 per cent.

# 2017-18 BUDGET UPDATE

## Mid-Year

### OVERVIEW

At mid-year, a deficit of \$679.0 million is forecast – a \$5.7 million improvement from budget – prior to the adjustment to account for pensions on an accrual basis.

Total revenue is forecast to decrease \$53.2 million from budget while total expense is forecast to decrease \$8.9 million.

The allocation for human resources compensation measures is removed as it is unlikely any savings will be realized during 2017-18.

The contingency is fully utilized to compensate for lower revenue and unrealized compensation savings.

#### 2017-18 BUDGET UPDATE - MID-YEAR (Millions of Dollars)

	Budget	First Quarter Forecast	Mid-Year Projection	Mid-Year Change from	
				Budget	First Quarter
<b>Revenue</b>					
Taxation	7,286.6	7,326.6	<b>7,105.6</b>	(181.0)	(221.0)
Non-renewable resources	1,406.4	1,370.8	<b>1,382.3</b>	(24.1)	11.5
Other own-source revenue	1,964.9	1,980.3	<b>2,027.6</b>	62.7	47.3
Transfers from the federal government	2,453.5	2,479.1	<b>2,501.9</b>	48.4	22.8
Net income from government business enterprises	1,053.7	1,050.3	<b>1,094.5</b>	40.8	44.2
<b>Total Revenue</b>	<b>14,165.1</b>	<b>14,207.1</b>	<b>14,111.9</b>	<b>(53.2)</b>	<b>(95.2)</b>
<b>Expense</b>					
Agriculture	800.5	841.2	<b>709.6</b>	(90.9)	(131.6)
Community development	700.6	704.0	<b>702.1</b>	1.5	(1.9)
Debt charges <sup>1</sup>	380.9	380.9	<b>380.2</b>	(0.7)	(0.7)
Economic development	246.0	246.0	<b>244.3</b>	(1.7)	(1.7)
Education <sup>1</sup>	3,643.3	3,641.1	<b>3,655.6</b>	12.3	14.5
Environment and natural resources	247.9	247.9	<b>262.3</b>	14.4	14.4
Health <sup>1</sup>	5,627.4	5,663.9	<b>5,663.9</b>	36.5	-
Protection of persons and property	643.7	643.7	<b>654.0</b>	10.3	10.3
Social services and assistance	1,356.7	1,379.6	<b>1,385.7</b>	29.0	6.1
Transportation	567.4	548.0	<b>546.7</b>	(20.7)	(1.3)
Other <sup>1</sup>	585.4	585.4	<b>586.5</b>	1.1	1.1
<b>Total Expense before Adjustments</b>	<b>14,799.8</b>	<b>14,881.7</b>	<b>14,790.9</b>	<b>(8.9)</b>	<b>(90.8)</b>
<b>Adjustments</b>					
Human resources compensation measures	250.0	125.0	-	(250.0)	(125.0)
Contingency	(300.0)	(135.1)	-	300.0	135.1
<b>Deficit<sup>1</sup></b>	<b>(684.7)</b>	<b>(684.7)</b>	<b>(679.0)</b>	<b>5.7</b>	<b>5.7</b>

<sup>1</sup> Before adjustment to account for pensions on an accrual basis.

## REVENUE UPDATE

Revenue is forecast to be \$14.1 billion at mid-year, a decrease of \$53.2 million (0.4 per cent) from budget.

At first quarter, revenue was forecast to increase \$42.0 million from budget, reflecting stronger-than-anticipated Fuel and Provincial Sales Tax revenue in the fourth quarter of the prior year.

The mid-year revenue update, however, includes declines totaling \$95.2 million since first quarter. These losses are primarily due to lower-than-anticipated income tax assessments for the 2016 tax year and lower-than-expected revenue from implementation of the Provincial Sales Tax expansion.

Significant changes from budget are described below.

### 2017-18 REVENUE RECONCILIATION

(Millions of Dollars)

<b>2017-18 Budget</b>	<b>14,165.1</b>
Forecast Changes from Budget:	
Taxation	(181.0)
Non-Renewable Resources	(24.1)
Other Own-Source	62.7
Federal Transfers	48.4
GBE Net Income	40.8
<b>Total Change from Budget</b>	<b>(53.2)</b>
<b>2017-18 Mid-Year Projection</b>	<b>14,111.9</b>

**Taxation revenue** is forecast to decrease \$181.0 million from budget.

Individual Income Tax is forecast to decrease \$110.0 million from budget, primarily due to lower-than-expected tax assessments for the 2016 tax year.

Corporation Income Tax is forecast to decrease \$39.0 million from budget, primarily due to weaker-than-expected 2016 assessments, as ongoing low resource prices continue to impact the profitability of major corporations.

Provincial Sales Tax is now expected to finish the year \$75.0 million lower than forecast at first quarter, or \$55.0 million lower than budget. The downward revision since first quarter is primarily due to timing impacts of transitioning to the new sales tax base.

Fuel Tax is forecast to increase \$20.0 million from budget, reflecting stronger-than-expected tax receipts in the fourth quarter of 2016-17.

**Non-renewable resources revenue** is forecast to decrease \$24.1 million from budget. This decrease primarily reflects a higher exchange rate and lower-than-budgeted oil and uranium prices, partially offset by higher-than-expected potash prices, Resource Surcharge and Crown land sales.



The value of the Canadian dollar is now expected to average 78.05 U.S. cents in 2017-18, up from 74.95 U.S. cents at budget. Through the end of the second quarter (September), the Canadian dollar averaged 77.12 U.S. cents, including 81.42 U.S. cents in September. Over the first six weeks of the third quarter, the dollar averaged 79.07 U.S. cents.

A one U.S. cent increase in the fiscal-year average exchange rate results in about a \$24 million decrease in resource revenue. The higher exchange rate is forecast to reduce total non-renewable resource revenue by approximately \$74 million from budget.

At mid-year, oil and natural gas revenue is forecast to decrease \$51.3 million from budget. The decline is primarily due to a lower West Texas Intermediate (WTI) oil price forecast and the higher exchange rate, partially offset by an increase in production and a lower light-heavy differential.

WTI oil prices are now forecast to average US\$50.25 per barrel in 2017-18, an

increase of US\$0.50 since first quarter, but a decrease of US\$6.00 from budget.

Through the end of the second quarter, WTI oil prices averaged US\$48.25. However, in recent weeks oil prices reached their highest level in two years and averaged US\$52.80 over the first six weeks of the third quarter.

A US\$1 per barrel change in the fiscal-year average WTI oil price results in about a \$17 million change in oil revenue. The lower WTI price forecast at mid-year is estimated to reduce oil revenue by approximately \$102 million from budget.

An increase in production and a narrower light-heavy differential partially offsets the decline in WTI oil prices and the increase in the average exchange rate.

Oil production is now forecast at 180.7 million barrels in 2017-18, an increase of 16.9 million barrels (10.3 per cent) from budget, while the light-heavy differential has decreased from 19.5 per cent to the current forecast of 15.7 per cent.

#### 2017-18 NON-RENEWABLE RESOURCES FORECAST ASSUMPTIONS

	Budget	First Quarter Forecast	Mid-Year Projection	Mid-Year Change from	
				Budget	First Quarter
WTI Oil Price (US\$/barrel)	56.25	49.75	50.25	(6.00)	0.50
Light-Heavy Differential (% of WTI)	19.5	18.5	15.7	(3.8)	(2.8)
Well-head Oil Price (C\$/barrel) <sup>1</sup>	55.30	48.54	48.86	(6.44)	0.32
Oil Production (million barrels)	163.8	180.1	180.7	16.9	0.6
Potash Price (mine netback, US\$/KCl tonne) <sup>2</sup>	176	183	185	9	2
Potash Price (mine netback, C\$/K <sub>2</sub> O tonne) <sup>2</sup>	386	395	388	2	(7)
Potash Sales (million K <sub>2</sub> O tonnes) <sup>2</sup>	11.8	11.8	11.8	-	-
Uranium Price (C\$/Kg) <sup>2</sup>	124	107	108	(16)	1
Canadian Dollar (US cents)	74.95	76.00	78.05	3.10	2.05

<sup>1</sup> The average price per barrel of Saskatchewan light, medium and heavy oil.

<sup>2</sup> Ministry of Finance calculations derived from calendar-year forecasts.

Other non-renewable resources revenue, including uranium, coal and other minerals, is forecast to decrease \$38.2 million from budget largely due to lower-than-budgeted uranium prices.

Potash royalties are forecast to increase \$16.3 million from budget, primarily due to the positive impact of a decreased forecast for capital spending deductions. Prices are now forecast to average US\$185 per KCl tonne (C\$388 per K<sub>2</sub>O tonne), up from the budget assumption of US\$176 (C\$386).

Crown land sales revenue is forecast to increase \$24.1 million from budget, primarily reflecting larger-than-expected June and October sales, while Resource Surcharge revenue is forecast to increase \$25.0 million on the basis of year-to-date strength in industry installment payments.

**Other own-source revenue** is forecast to increase \$62.7 million from budget.

Investment income is up \$27.1 million, mainly due to a one-time gain realized from the restructuring of sinking fund assets.

Miscellaneous revenue is up \$24.2 million, primarily related to refunds of prior-year expenses and higher revenue received by the Regional Health Authorities.

Insurance revenue is up \$15.9 million, mainly as a result of higher producer premiums for increased acreage insured through Crop Insurance.

Transfers from other governments are up \$7.0 million, primarily due to higher revenue from out-of-province fire-fighting.

Fee revenue is down \$11.5 million from budget, mostly due to the wind-up of operations at Saskatchewan Transportation Company (STC).

**Transfers from the federal government** are forecast to increase \$48.4 million from budget.

Saskatchewan's increased share of the national population relative to budget expectations has resulted in a \$14.9 million increase in the Canada Health Transfer and a \$5.5 million increase in the Canada Social Transfer in 2017-18.

Other transfers from the federal government are forecast to increase \$28.0 million, primarily due to federal flow-through funding for the Early Learning and Child Care Agreement, as well as an increase in the federal share of Crop Insurance premiums.

**Government Business Enterprise (GBE) net income** is forecast to increase \$40.8 million from budget.

Saskatchewan Auto Fund net income is forecast to increase \$40.6 million from budget, mainly due to lower claims costs and higher investment earnings, partially offset by lower premium revenue.

Saskatchewan Government Insurance net income is forecast to increase \$23.0 million from budget, mainly due to higher premium revenue from Ontario, higher investment earnings, lower claims costs and expense management savings.

Workers' Compensation Board net income is forecast to increase \$18.4 million from budget, primarily as a result of lower claims costs, partially offset by lower revenue from lower estimated employer payroll.

SaskPower net income is forecast to decline by \$35.3 million, mainly due to lower revenue from Saskatchewan electricity sales.

SaskEnergy net income is forecast to decline by \$5.4 million, mostly due to lower transportation revenue and reduced storage contracting.

Other GBE net income is forecast to decrease by a combined total of \$0.5 million.

## EXPENSE UPDATE

Expense is forecast to be \$14.8 billion at mid-year, a decrease of \$8.9 million (0.1 per cent) from budget.

At first quarter, expense was forecast to increase \$81.9 million, largely due to utilization pressures in the ministries of Health and Social Services, as well as an increase in expected Crop Insurance indemnities.

The mid-year update includes decreases totaling \$90.8 million since first quarter, largely due to a significant reduction in Crop Insurance expense.

Significant changes from budget are described below.

### 2017-18 EXPENSE RECONCILIATION

(Millions of Dollars)

<b>2017-18 Budget</b>	<b>14,799.8</b>
Forecast Changes from Budget:	
Agriculture	(90.9)
Transportation	(20.7)
Health	36.5
Social Services and Assistance	29.0
Environment and Natural Resources	14.4
Education	12.3
Protection of Persons and Property	10.3
All other expense themes	0.2
<b>Total Change from Budget</b>	<b>(8.9)</b>
<b>2017-18 Mid-Year Projection</b>	<b>14,790.9</b>

**Agriculture** expense is forecast to be down \$90.9 million from budget, largely due to lower Crop Insurance claims. Crop Insurance claims are now forecast to be \$96.6 million lower than budget, and \$128.3 million lower than at first quarter.

**Transportation** expense is forecast to be down \$20.7 million from budget, primarily due to the wind-up of operations at STC, which is partially offset by lower own-source fee revenue.

**Health** expense is forecast to be up \$36.5 million from budget, mainly due to utilization of medical services.

**Social Services and Assistance** expense is forecast to be up \$29.0 million from budget, largely due to increases for Child and Family Services and Income Assistance and Disability Services, as well as costs associated with the response to northern forest fires.

**Environment and Natural Resources** expense is forecast to be up \$14.4 million from budget, largely due to higher forest fire-fighting costs, partially offset by various net savings at the Water Security Agency.

**Education** expense is forecast to be up \$12.3 million from budget, mostly due to additional funding allocated to the College of Medicine at the University of Saskatchewan and federal flow-through funding for the Early Learning and Child Care Agreement, partially offset by savings at the Boards of Education and other education sector entities.

**Protection of Persons and Property** expense is forecast to be up \$10.3 million from budget, largely due to utilization pressures at the Ministry of Justice for custody services.

**All other expense themes** are forecast to be very close to budget.

At mid-year, the adjustment to account for pension costs on an accrual basis is estimated at \$97.6 million. This is an improvement of \$108.9 million from budget and represents a corresponding forecast reduction to the pension liability. Consistent with the 2017-18 Budget presentation, the pension adjustment is not included in expense. Government's current cash pension payment requirements are included in the expense budget and forecasts.

## DEBT UPDATE

The Province's debt consists of:

- Government Service Organization Debt – all debt of government entities other than government business enterprises; and,
- Government Business Enterprise Debt – amounts borrowed by self-sufficient government organizations.

Government business enterprises have the financial and operating authority to sell goods and services to individuals and organizations outside government as their principal activity. Amounts borrowed by these entities are classified separately because they are expected to be repaid from cash flows generated by these business enterprises.

In other words, this debt has been incurred to finance the business activities of Crown corporations, and it is supported by revenue from those Crown business activities.

Public debt is comprised of:

- Gross Debt – the amount of money owed to lenders; less,
- Sinking Funds – the amount of money which has been set aside for the repayment of debt.

Public debt at March 31, 2018 is forecast to be \$323.3 million lower than budgeted, primarily due to decreased debt for government business enterprises.

### 2017-18 PUBLIC DEBT UPDATE - MID-YEAR

As at March 31

(Millions of Dollars)

	Budget	Mid-Year Projection	Change
General Revenue Fund			
- Operating	5,750.0	<b>5,750.0</b>	-
- Saskatchewan Builds Capital Plan	2,755.6	<b>2,755.6</b>	-
Other Government Service Organizations	556.9	<b>520.8</b>	(36.1)
<b>Government Service Organization Debt</b>	9,062.5	<b>9,026.4</b>	(36.1)
<b>Government Business Enterprise Debt</b>	9,137.5	<b>8,850.3</b>	(287.2)
<b>Public Debt</b>	18,200.0	<b>17,876.7</b>	(323.3)
<b>Guaranteed Debt</b>	27.0	<b>22.5</b>	(4.5)

## 2017-18 SCHEDULE OF PUBLIC DEBT

As at March 31

(Millions of Dollars)

	Budget	Mid-Year Projection	Change
<b>Government Service Organization Debt</b>			
General Revenue Fund			
- Operating	5,750.0	<b>5,750.0</b>	-
- Saskatchewan Builds Capital Plan <sup>1</sup>	2,755.6	<b>2,755.6</b>	-
Boards of Education	174.8	<b>175.2</b>	0.4
Global Transportation Hub Authority	26.0	<b>32.3</b>	6.3
Regional Health Authorities	154.0	<b>107.0</b>	(47.0)
Saskatchewan Housing Corporation	17.4	<b>17.4</b>	-
Saskatchewan Immigrant Investor Fund Inc.	89.6	<b>90.0</b>	0.4
Saskatchewan Opportunities Corporation	56.0	<b>56.0</b>	-
Water Security Agency	37.1	<b>37.1</b>	-
Other	2.0	<b>5.8</b>	3.8
<b>Government Service Organization Debt</b>	<b>9,062.5</b>	<b>9,026.4</b>	<b>(36.1)</b>
<b>Government Business Enterprise Debt</b>			
Municipal Financing Corporation of Saskatchewan	208.9	<b>208.9</b>	-
Saskatchewan Liquor and Gaming Authority	104.7	<b>104.7</b>	-
Saskatchewan Power Corporation	6,422.4	<b>6,191.2</b>	(231.2)
Saskatchewan Telecommunications Holding Corporation	967.4	<b>954.1</b>	(13.3)
Saskatchewan Water Corporation	78.3	<b>68.8</b>	(9.5)
SaskEnergy Incorporated	1,355.8	<b>1,322.6</b>	(33.2)
<b>Government Business Enterprise Debt<sup>2</sup></b>	<b>9,137.5</b>	<b>8,850.3</b>	<b>(287.2)</b>
<b>Public Debt<sup>3</sup></b>	<b>18,200.0</b>	<b>17,876.7</b>	<b>(323.3)</b>
<b>Guaranteed Debt</b>	<b>27.0</b>	<b>22.5</b>	<b>(4.5)</b>

<sup>1</sup> General Revenue Fund - Saskatchewan Builds Capital Plan consists of amounts borrowed by the General Revenue Fund to finance investment in infrastructure assets.

<sup>2</sup> GBE debt includes both general debt and GBE-specific debt. General debt of GBEs is the amount transferred from the General Revenue Fund to a GBE and recorded as a loan receivable in the Summary Financial Statements. GBE-specific debt is debt issued by, or specifically on behalf of, GBEs. GBE-specific debt is included in "Investment in government business enterprises" in the Summary Financial Statements.

<sup>3</sup> Public debt is shown net of sinking funds. Debt repayable in foreign currency is restated in equivalent Canadian dollars.

**2017-18 SCHEDULE OF REVENUE**
*(Millions of Dollars)*

	Budget	First Quarter Forecast	Mid-Year Projection	Mid-Year Change from	
				Budget	First Quarter
<b>Taxation</b>					
Corporation Income	729.4	729.4	<b>690.4</b>	(39.0)	(39.0)
Fuel	515.4	535.4	<b>535.4</b>	20.0	-
Individual Income	2,540.6	2,540.6	<b>2,430.6</b>	(110.0)	(110.0)
Property	753.9	753.9	<b>755.9</b>	2.0	2.0
Provincial Sales	2,049.5	2,069.5	<b>1,994.5</b>	(55.0)	(75.0)
Tobacco	280.3	280.3	<b>280.3</b>	-	-
Other	417.5	417.5	<b>418.5</b>	1.0	1.0
<b>Total Taxation</b>	<b>7,286.6</b>	<b>7,326.6</b>	<b>7,105.6</b>	<b>(181.0)</b>	<b>(221.0)</b>
<b>Non-Renewable Resources</b>					
Crown Land Sales	52.0	79.1	<b>76.1</b>	24.1	(3.0)
Oil and Natural Gas	670.4	612.2	<b>619.1</b>	(51.3)	6.9
Potash	260.6	289.9	<b>276.9</b>	16.3	(13.0)
Resource Surcharge	272.5	272.5	<b>297.5</b>	25.0	25.0
Other	150.9	117.1	<b>112.7</b>	(38.2)	(4.4)
<b>Total Non-Renewable Resources</b>	<b>1,406.4</b>	<b>1,370.8</b>	<b>1,382.3</b>	<b>(24.1)</b>	<b>11.5</b>
<b>Other Own-Source Revenue</b>					
Fees	1,124.4	1,124.4	<b>1,112.9</b>	(11.5)	(11.5)
Insurance	282.3	297.7	<b>298.2</b>	15.9	0.5
Investment Income	80.7	80.7	<b>107.8</b>	27.1	27.1
Transfers from Other Governments	89.7	89.7	<b>96.7</b>	7.0	7.0
Miscellaneous	387.8	387.8	<b>412.0</b>	24.2	24.2
<b>Total Other Own-Source Revenue</b>	<b>1,964.9</b>	<b>1,980.3</b>	<b>2,027.6</b>	<b>62.7</b>	<b>47.3</b>
<b>Transfers from the Federal Government</b>					
Canada Health Transfer	1,161.2	1,161.2	<b>1,176.1</b>	14.9	14.9
Canada Social Transfer	429.8	429.8	<b>435.3</b>	5.5	5.5
Other	862.5	888.1	<b>890.5</b>	28.0	2.4
<b>Total Transfers from the Federal Government</b>	<b>2,453.5</b>	<b>2,479.1</b>	<b>2,501.9</b>	<b>48.4</b>	<b>22.8</b>
<b>Net Income from Government Business Enterprises</b>					
Municipal Financing Corporation	0.8	0.8	<b>0.7</b>	(0.1)	(0.1)
Saskatchewan Auto Fund	65.3	74.5	<b>105.9</b>	40.6	31.4
Saskatchewan Gaming Corporation	23.5	22.9	<b>23.8</b>	0.3	0.9
Saskatchewan Government Insurance	37.2	33.2	<b>60.2</b>	23.0	27.0
Saskatchewan Liquor and Gaming Authority	523.3	521.3	<b>521.3</b>	(2.0)	-
Saskatchewan Power Corporation	179.5	159.6	<b>144.2</b>	(35.3)	(15.4)
Saskatchewan Telecommunications Holding Corporation	122.1	122.1	<b>122.1</b>	-	-
Saskatchewan Water Corporation	5.8	5.9	<b>7.1</b>	1.3	1.2
SaskEnergy Incorporated	90.6	85.2	<b>85.2</b>	(5.4)	-
Saskatchewan Workers' Compensation Board	11.2	30.4	<b>29.6</b>	18.4	(0.8)
Consolidation Adjustments	(5.6)	(5.6)	<b>(5.6)</b>	-	-
<b>Total Net Income from Government Business Enterprises</b>	<b>1,053.7</b>	<b>1,050.3</b>	<b>1,094.5</b>	<b>40.8</b>	<b>44.2</b>
<b>Total Revenue</b>	<b>14,165.1</b>	<b>14,207.1</b>	<b>14,111.9</b>	<b>(53.2)</b>	<b>(95.2)</b>

