

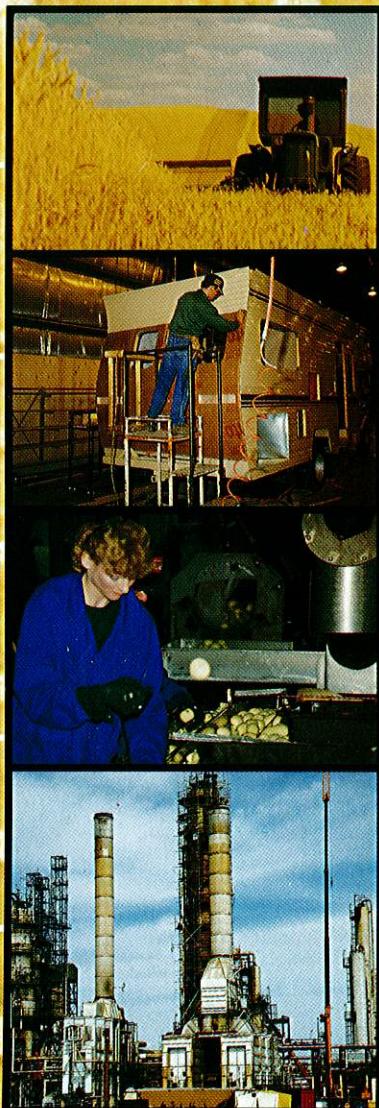
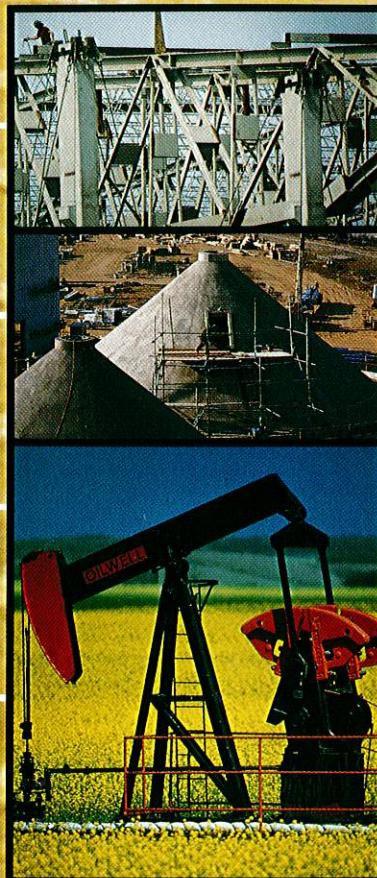
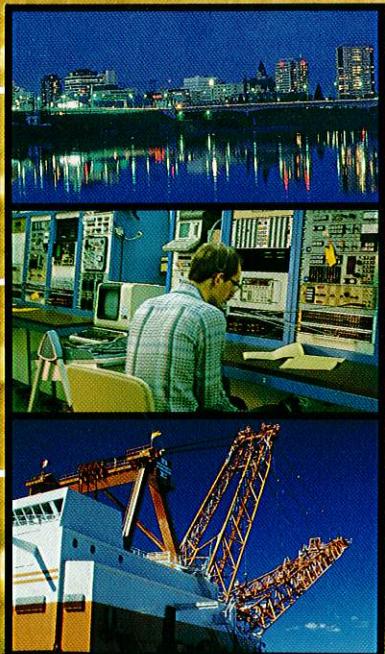


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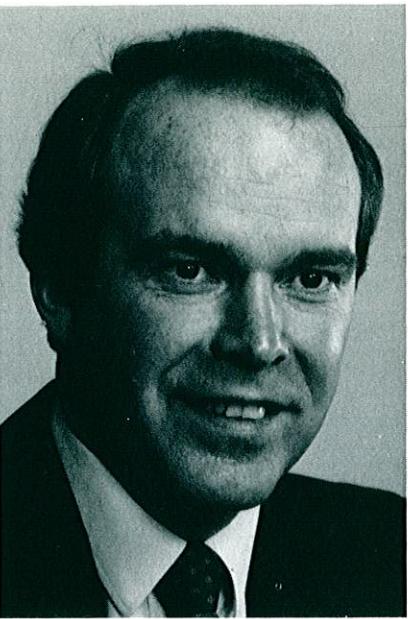
# Economic Review 1987

Number Forty-One



Saskatchewan

## Foreword



Dramatic changes occurred in Saskatchewan's trading environment in 1987. Through the year, the protectionist pressures grew with trade actions in potash, uranium, steel and agriculture and continued in the grain trade and subsidy war between the United States and the European Community. Volatile world financial markets and stock exchanges further contributed to global uncertainty.

Saskatchewan continues to perform well in these difficult economic circumstances. Our farms, businesses and people are no strangers to the adversity that periodically tests our economic resolve. While the 1987 crop was smaller than the previous year and commodity prices were low, capital spending in manufacturing has doubled, and new records were established in potash sales to China, gold exploration and production, uranium production and new technology employment. Major initiatives in the heavy oil upgrader, irrigation, paper manufacture and steel production built important new diversified layers into the provincial economy. The provincial unemployment rate fell through the year.

My government will continue to position our province and people to benefit from the new global trading environment. The forthcoming Canada/U.S. Trade Agreement will offer many opportunities for provincial growth and diversification. New education and entrepreneurial initiatives will allow our residents to successfully compete. The protection of farms, individuals and families will continue as a central priority in these uncertain times.

The evidence of economic diversification is taking root in the province. I am confident that Saskatchewan people will demonstrate the initiative and enterprise for expanding jobs and economic opportunity in the year ahead.

A handwritten signature in black ink, appearing to read "Grant Devine".

Grant Devine  
Premier of Saskatchewan  
Regina, Saskatchewan

## Economic Review 1987

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### December 1987

**Cover Photos:** (Background Photo) Southern Grainbelt; Others, top to bottom: (Left) Saskatoon Skyline, High Technology Industry, Coal Mining; (Centre) Construction, Pulp Mill, Oil and Canola; (Right) Saskatchewan Harvest, Manufacturing, Packaging, Heavy Oil Upgrader.

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## Agriculture

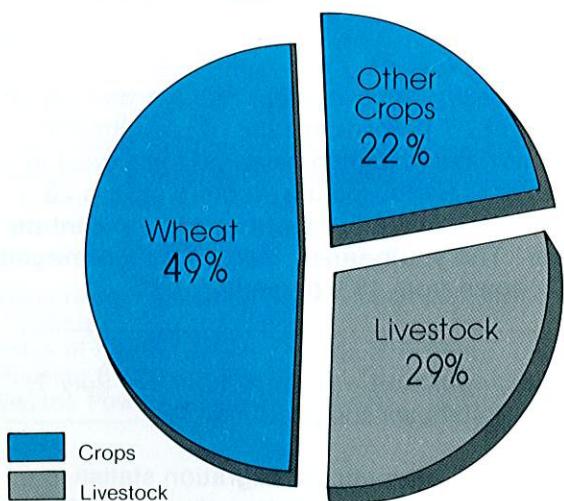
Saskatchewan farmers harvested 22.2 million tonnes of grains and oilseeds from 29 million acres of crops in 1987. The harvest was down from the record 1986 crop of 25.3 million tonnes. Crop production was eight percent above average, yields were slightly above average and the quality was slightly less than the five year average. In contrast to the two previous years, the weather allowed for a timely harvest.

Durum production surged one million tonnes above average due to higher yields and seeded area. Oats, barley, canola and flax production were also above average due to yields and acreage. Specialty crops and mixed grains production increased to 783,800 tonnes, up 32 percent from 1986 with the major expansion in pulse acreage.

Grain exports were at record levels. However, prices weakened from 1986 as initial wheat prices fell 15 percent to \$110 per tonne in 1987 in response to measures in the U.S. Farm Bill. Producer deliveries to elevators were at near record levels.

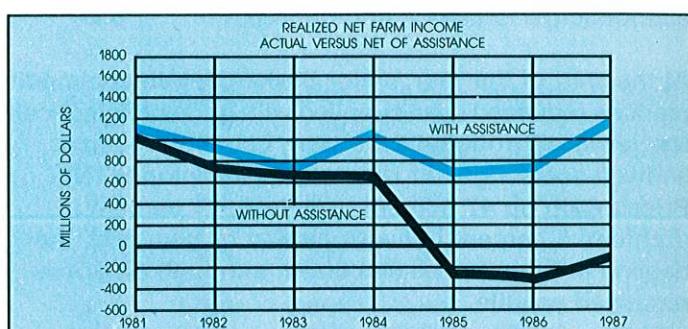
Statistics Canada's semi-annual livestock survey estimates there were 2.05 million cattle and calves on Saskatchewan farms on July 1, 1987, up marginally from the previous year. Hog numbers increased by 12 percent at the mid-year census to reach 685,000. Livestock prices remained strong throughout the year, although hog prices weakened in the last third of the year.

### Farm Cash Receipts Derived from the Sale of Agricultural Products, Saskatchewan, 1987



Farm policy around the world degenerated into chaos. The U.S. and European Community engaged in a dangerous price and subsidy war in the grains market. The U.S. spent nearly \$23 billion in 1987 to support its 1985 Farm Bill. Canada, and other previously non-subsidizing wheat producers, were caught in the cross-fire and forced to protect their exporting grain farmers. Farm debt approaching \$6 billion in 1987, remained a significant policy issue.

Provincial farm cash receipts rose by three percent to \$4.3 billion in 1987. Realized net incomes, including government assistance, rose by 36 percent to \$1.06 billion.



In 1987, the Government of Canada paid out \$408 million in Saskatchewan to compensate export producers for the unfair subsidy competition. In addition, a \$759 million payout under the Western Grain Stabilization Act significantly improved net farm incomes in 1987. Without the protection and assistance from these and other farm programs, such as crop insurance, the provincial Production Loan Program and farmers' oil royalty refunds, farm incomes would have been negative.

## Natural Resources

Improved, though volatile, price levels, a new fiscal regime, federal grants and a leaner, restructured oil industry contributed to a more positive outlook and performance by the oil industry in 1987. Together, these factors led to increased land sale revenues, higher drilling levels, more employment and new investment. Quarterly land sale revenues, that had averaged \$2.5 million in late 1986, exceeded \$20 million in 1987. Drilling activity rose through the year from five to ten wells per week, to 30 and 35 wells per week by year end.

Deep oil finds in the southeast of the province further stimulated seismic, land sale and drilling activity. A new \$15 million steamflood pilot heavy oil recovery project by Sceptre Resources and Murphy Oil in the Tangleflags oil field consisting of horizontal wells is expected to substantially increase conventional oil recovery rates in the area.

Natural gas deregulation was introduced in two phases in 1987. Phase One, effective at the start of the year, eliminated government regulation of prices and established a new royalty/tax regime for provincial gas production. In October, Phase Two allowed natural gas consumers to purchase directly from producers, who now have enhanced access to markets both inside and outside Saskatchewan. Several producers introduced new drilling programs in response to deregulation and over 500 natural gas wells were drilled in 1987.

The potash industry made political and economic adjustments to global over-capacity experienced by the industry in 1987. World stocks amounted to 4.9 million K<sub>2</sub>O tonnes in June. The anti-dumping suit brought by two New Mexico producers led to the imposition of preliminary U.S. duties ranging from 9.1 percent to 85.2 percent on provincial producers. In September, the Saskatchewan Government passed the Potash Resources Act to address the world over-supply problem and thereby secure provincial employment. Accordingly, provincial producers raised their U.S. selling prices by some 60 percent and prices firmed in offshore markets.

Provincial potash sales to North America declined 3 percent in the first nine months of the year. Offshore sales were up 23 percent by September as record sales to China approached one million tonnes. Provincial potash inventories declined through the year to about 800,000 tonnes, the lowest level since August, 1981. Mine flooding at PCA and IMC K-2 reduced Saskatchewan productive capacity in 1987. The 1.2 million tonne expansion of the Potash Corporation of Saskatchewan Lanigan mine became operational in September.

Uranium production rose 20 percent in the first three quarters of 1987 as both Key Lake and Collins Bay operated well above design capacity. Sales kept pace with production as U.S. spot markets remained very active pending resolution of the uncertainty over the permitted level of American imports. The Cigar Lake Mining Corporation received environmental approval to proceed with construction and operation of a \$40 million test mining program scheduled to run through the end of 1989.

Exploration for gold and other precious metals set records in 1987 by doubling to reach \$35 million. The Star Lake gold mine reached its full design capacity in 1987 and several other gold projects advanced for new mine development, expansion and co-production from uranium tailings.

Market conditions were better in the forest products industry because of a high level of activity in the U.S. housing market. Saskatchewan lumber producers accommodated a 15 percent federal export tax on shipments of softwood lumber to the U.S. following the Canada/U.S. dispute on softwood lumber. The short term impact has been a reduction in the profits of softwood lumber exporters, but to date the industry seems to have tolerated the export change without a significant change in the level of activity. Forest fires were severe in 1987, with the largest fire alone destroying an estimated \$80 million worth of commercial timber.

Mining and forest industry employment declined by some 3,000 employees in 1987, as companies adjusted to the extremely low price environment.

## Construction

Construction activity increased by three percent in the first nine months of 1987. The value of building permits declined by 12 percent in the residential, industrial and government sectors, but rose by 70 percent in the commercial sector.

Housing investment weakened in the first half of 1987 with housing starts dropping three percent in Saskatoon and 15 percent in Regina.

Provincial construction activity was sustained in 1987 by several large development projects including the \$650 million NewGrade Heavy Oil Upgrader and \$65 million IPSCO continuous caster projects in Regina, the \$498 million Weyerhaeuser Paper Mill in Prince Albert, the \$25 million Arena in Saskatoon and the \$100 million irrigation development around Lake Diefenbaker.

## Manufacturing and Technology

Manufacturing employment was down an average of 2,000 in 1987, compared to 1986. Manufacturers continued to meet the challenges of increased competition and, in some cases, depressed market conditions by streamlining operations and reducing production costs.

Statistics Canada estimated that new manufacturing investment doubled in 1987 to reach \$437 million. The value of manufacturing shipments rose by two percent in the first eight months of the year, compared to the same period in 1986. Shipments increased by less than five percent in the food and beverage sector, four percent in fabricated metals and 10 percent in non-metallic minerals. Shipments declined in the printing, publishing and machinery industries.

The food and beverage sector saw major growth in capacity in 1987, with the opening of the Gainer's bacon plant in North Battleford and the Canada Packers' poultry processing plant in Saskatoon. In addition, expansions were completed by Thompson Meats in Melfort, Canada Packers in Moose Jaw, and Intercontinental Packers in Saskatoon.

Other industrial projects opened in 1987 include the Vanguard recreational vehicles plant in North Battleford, a liquid phosphate plant near Moose Jaw and several steel fabricators supplying the upgrader development in Regina.

During 1987 the advanced technology industry in Saskatchewan further established its national and international position in micro-electronics, communications, instrumentation, computer hardware and software, and biotechnology. The industry's 170 firms generated approximately \$500 million in sales and employed some 2,600 people. It is estimated that 80 percent of total sales were destined for export and 80 percent of these for the U.S. market.

Saskatchewan's future role in the development of space technology was confirmed by the announcement that SED Systems Inc. was chosen as an industrial partner with Spar Aerospace Limited in the Canadian Space Program. Efforts in the development of advanced technology markets in the Asian-Pacific region continued to produce results with expanded new product sales to the East. Saskatchewan's research and development capability was bolstered by the establishment of Northern Telecom Canada's fibre optic research and development facilities.

Since 1982, employment in the Saskatchewan advanced technology sector has recorded a 50 percent increase. The industry has also expanded its distribution across the province so that by 1987 50 percent of the industry was located in Saskatoon, 30 percent in Regina and 20 percent in other provincial communities.

### **Prices, Incomes and Sales**

Small increases in Saskatchewan consumer prices, which rose 4.9 percent to November, compared to 3.1 percent for the same period in 1986, were partially offset by falling mortgage rates and a 1.5 percent increase in the industrial aggregate of wages and salaries in the first half of 1987. The consumer price index in Canada rose by 4.4 percent in the first eleven months of 1987. Retail sales increased 4.5 percent in the first half of 1987.

### **The Outlook**

It seems probable that commodity prices finally bottomed in 1987 and the prospects for recovery will strengthen into 1988 and beyond. Policy developments in the outlook will have a significant impact on provincial opportunities for continued growth and diversification in Saskatchewan.

Agricultural and grain negotiations in the General Agreement on Tariffs and Trade (GATT) will determine the pace of recovery in agriculture, although stocks of wheat and coarse grains that still exceed 324 million tonnes worldwide will keep grain prices depressed.

In the interim, continued support from government to match offshore subsidies will be required. The federal announcement in December of a second Canadian Special Grains Program Payment and the extension of the Provincial Production Loan Program and Farmland Security Act ensure this support into 1988.

The Canada/U.S. Trade Agreement will offer important new development and diversification opportunities for Saskatchewan. Food and beverage exports south of the border can be expected to increase, while new consumer benefits will be available to all provincial residents.

Diversification is now underway in many sectors of the economy. Cash receipts for specialty crops doubled in 1987. Manufacturing exports continue to rise in spite of the difficult economic environment. Further processing projects in oils, forest products, minerals, foods, health care and recreational products are adding essential new layers to the provincial economy, supported by both the provincial Saskatchewan Builds Program and the new federal \$1.2 billion Western Diversification Fund.

## **Statistical Tables and Charts**

















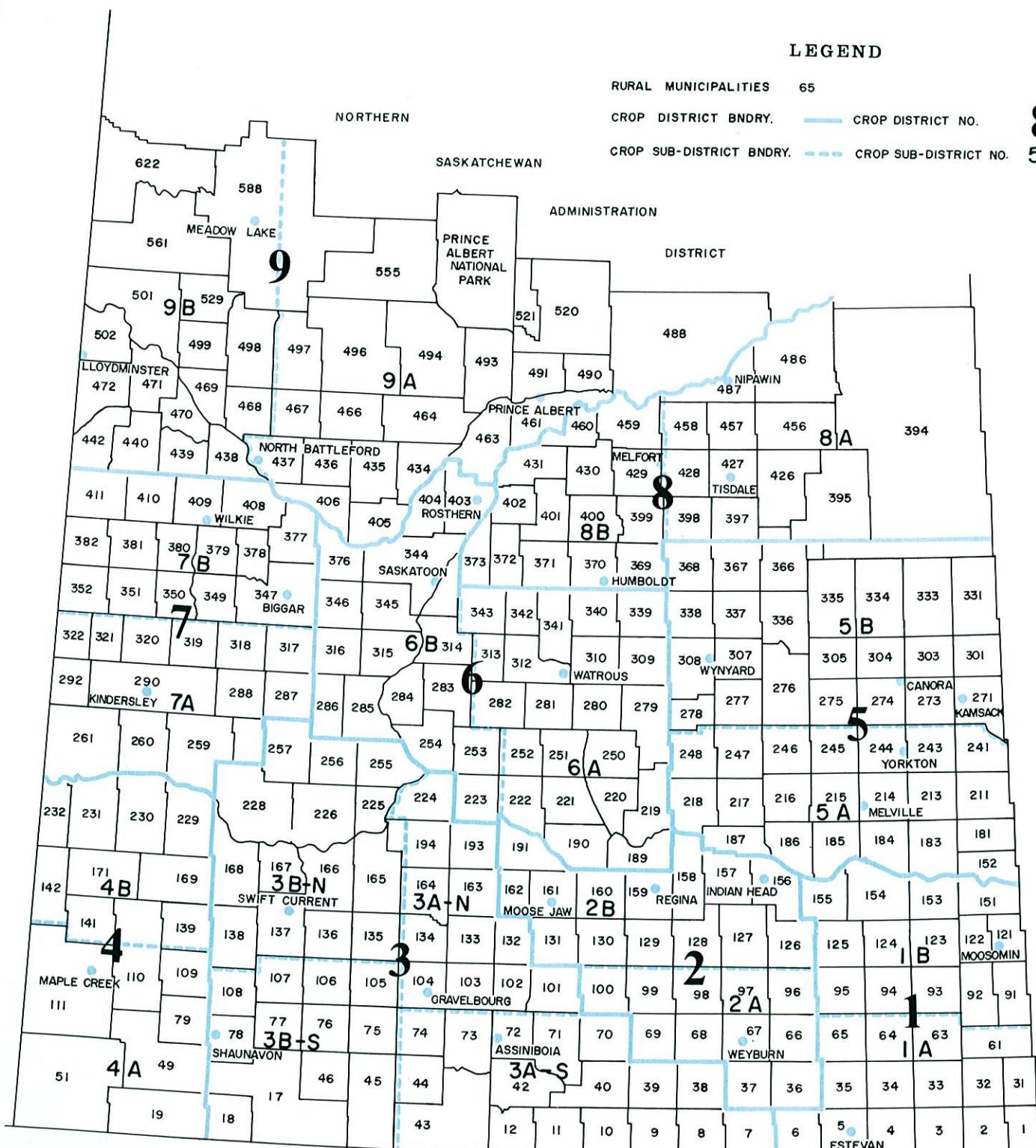




## SASKATCHEWAN BY CROP DISTRICTS

### LEGEND

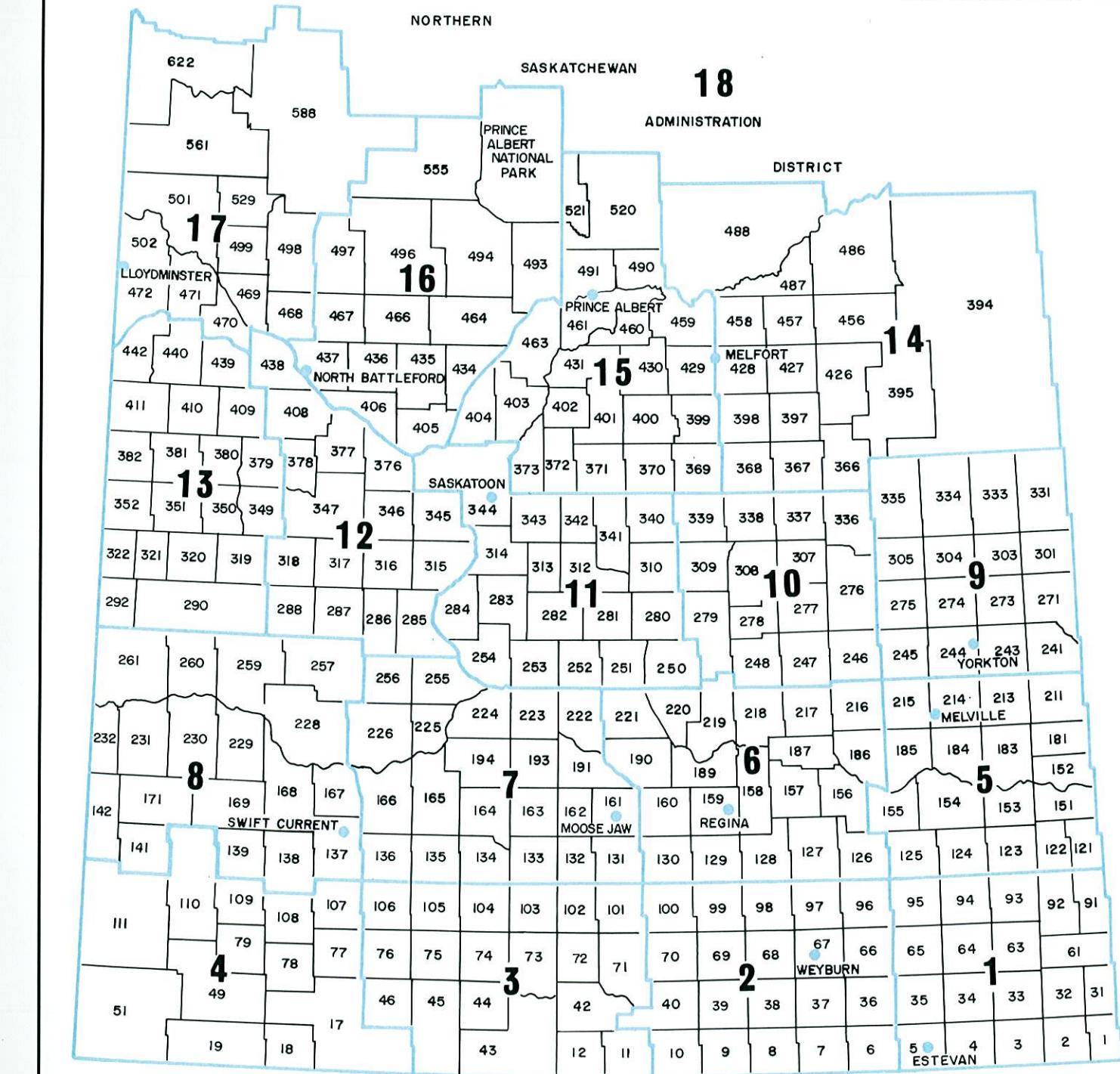
RURAL MUNICIPALITIES 65  
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 CROP SUB-DISTRICT BNDRY. - - - CROP SUB-DISTRICT NO.



## SASKATCHEWAN BY CENSUS DIVISION

### LEGEND

RURAL MUNICIPALITIES 493  
 CENSUS DIVISION NO. CENSUS DIVISION BOUNDARY



The Saskatchewan Bureau of Statistics has developed a set of economic accounts which can be used to trace the development and growth of the Saskatchewan economy.

The purpose of the accounts is to measure the value of economic activity in each sector of the economy. This is done by means of a balancing set of accounts similar to the annual income and expenditure statements of a commercial enterprise.

The Accounts have many useful functions. They consolidate information which is now provided through a number of scattered sources and organize it into a central framework. This allows many kinds of economic analysis to be performed ranging from monitoring current economic performance to analysis of structural change in the economy.

The Saskatchewan Bureau of Statistics has available, upon request, many more detailed tables and other information concerning the Saskatchewan Economic Accounts.

### 1986 Saskatchewan Economic Accounts

Saskatchewan Gross Domestic Product (GDP) measures the total value of goods and services in the province. By removing the effects of inflation (or deflation) it is possible to measure the volume of output.

In 1986 the Saskatchewan economy grew by 4.7 percent. After adjusting for price changes, the real Gross Domestic Product increased by 6.3 percent. This represents the first time in twenty years that Saskatchewan has had deflation occur rather than inflation. This is largely a result of a significant drop in grain and other commodity prices. Real growth in GDP was led by inventory accumulations following a good crop and slow export markets. Consumer expenditure expanded by 3.5 percent, however, this was not carried over to the business sector as investment declined by more than 10 percent. Imports and exports both decreased slightly.

Saskatchewan's record crop production in 1986 is reflected in the net income received by farm operators from farm production. Farmers were able to build up their grain stocks which had been depleted in previous years. The mining industry recorded a large decrease following a substantial drop in world oil prices.

### Revisions to the Economic Accounts

These estimates have incorporated the historical revisions by Statistics Canada to the National Accounts and methodology and data improvements made by the Bureau of Statistics. In the accounts, an attempt was made to remove price effects from each current dollar series by dividing by an appropriate base-weighted price index. Since these patterns change over time, particularly in periods of rapid or fluctuating inflation, it is necessary to change the base year periodically in order that the constant dollar series may more closely approximate the appropriate patterns. Beginning with 1986 estimates, the GDP constant dollar series have been rebased to 1981 = 100 from 1971 = 100. At this point, the rebased series are still preliminary.

Significant revisions resulting from new information were made to the estimates of expenditures on residential alterations and repairs which had effects on the estimates of residential construction, net rents and personal expenditures; to the estimates of wages and salaries and to the corporate profits before taxes. There is a new item in the accounts — net exports of services — which has been added to the residual error on the expenditure side of the accounts.

In addition to rebasing the constant dollar series to 1981 = 100, a quality index for grains was introduced. This index affects grain inventories and exports.

## Saskatchewan Economic Accounts 1976 to 1986















