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# Perspective 86

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Saskatchewan



Government  
of Canada

Regional Industrial  
Expansion

Gouvernement  
du Canada

Expansion industrielle  
régionale

Canada

**SASKATCHEWAN**

**ECONOMIC DEVELOPMENT PERSPECTIVE**

**1986**

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(All statistics and conclusions are contingent upon data available  
as of March, 1986.)

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1. SUMMARY

The economic history of Saskatchewan has been shaped by agriculture and, more recently, by non-renewable resource development. The province's prairie location, distance from ports and distance from Central Canada commerce have been disadvantages since settlement. In addition, most people of native ancestry remain outside the economic mainstream.

The province's resource-based economy requires it to depend heavily on foreign exports, primarily of unprocessed commodities, and is subject to the vagaries of international markets.

Northern Saskatchewan, where uranium production, forestry and traditional native pursuits are found, is the province's most economically disadvantaged region. Southern Saskatchewan contains most of the province's economic activity. Agriculture, oil and gas, potash and uranium are the major economic sectors. The service sector and manufacturing are important secondary activities.

Relative to other regions of Canada, this resource-rich province has weathered the economic cycles of the past decade with ease. However, in economic downturns there usually has been significant outmigration.

There is concern that the economically buoyant outlook of the late seventies and early eighties is waning. Canada is facing increasing competition in international resource markets. The subsidies provided by the European Economic Community and the U.S. are particularly perplexing to the grain industry and as world production is increasing, markets for Canadian products are becoming less secure.

Other resource industries such as potash and uranium, once considered bright spots, are export-dependent and are facing difficult times in international markets, although uranium sales have improved recently. The fall in international oil prices has resulted in considerable uncertainty with respect to the immediate potential in heavy-oil extraction and upgrading and other oil industry activity.

A bumper grain crop combined with poor harvests for Canada's international competitors would improve Saskatchewan's economic performance, but the underlying issue of international market security will remain for at least the medium term.

The major issues facing Saskatchewan are agriculture sector viability, international trade development, the impact on the Saskatchewan economy of increasingly competitive resource markets and native economic development.

2. INTRODUCTION

The economy of Saskatchewan has several main themes:

- \* the dominance of agriculture;
- \* a sparsely populated province far from tide-water ports and major markets;
- \* dependence on export trade and volatile international markets for the sale of mainly unprocessed resource commodities;
- \* a large number of native Canadians generally outside the economic mainstream; and
- \* the emergence of a small but successful manufacturing and service industries sector with roots in agriculture, resource industries and, more recently, in new high-technology products.

This paper outlines a current perspective on the Saskatchewan economy covering the economic outlook, the major elements in the economy and major economic issues.

### 3. ECONOMIC OVERVIEW

Saskatchewan has the smallest population and lowest gross domestic product (GDP) of any Western Canada province. The province also has one of the lowest unemployment rates in Canada and its employment has increased by 13 000 during the last year. It has a higher than average labour force participation rate, but lags the national average in personal income per capita, as is shown below.

#### ECONOMIC INDICATORS\*

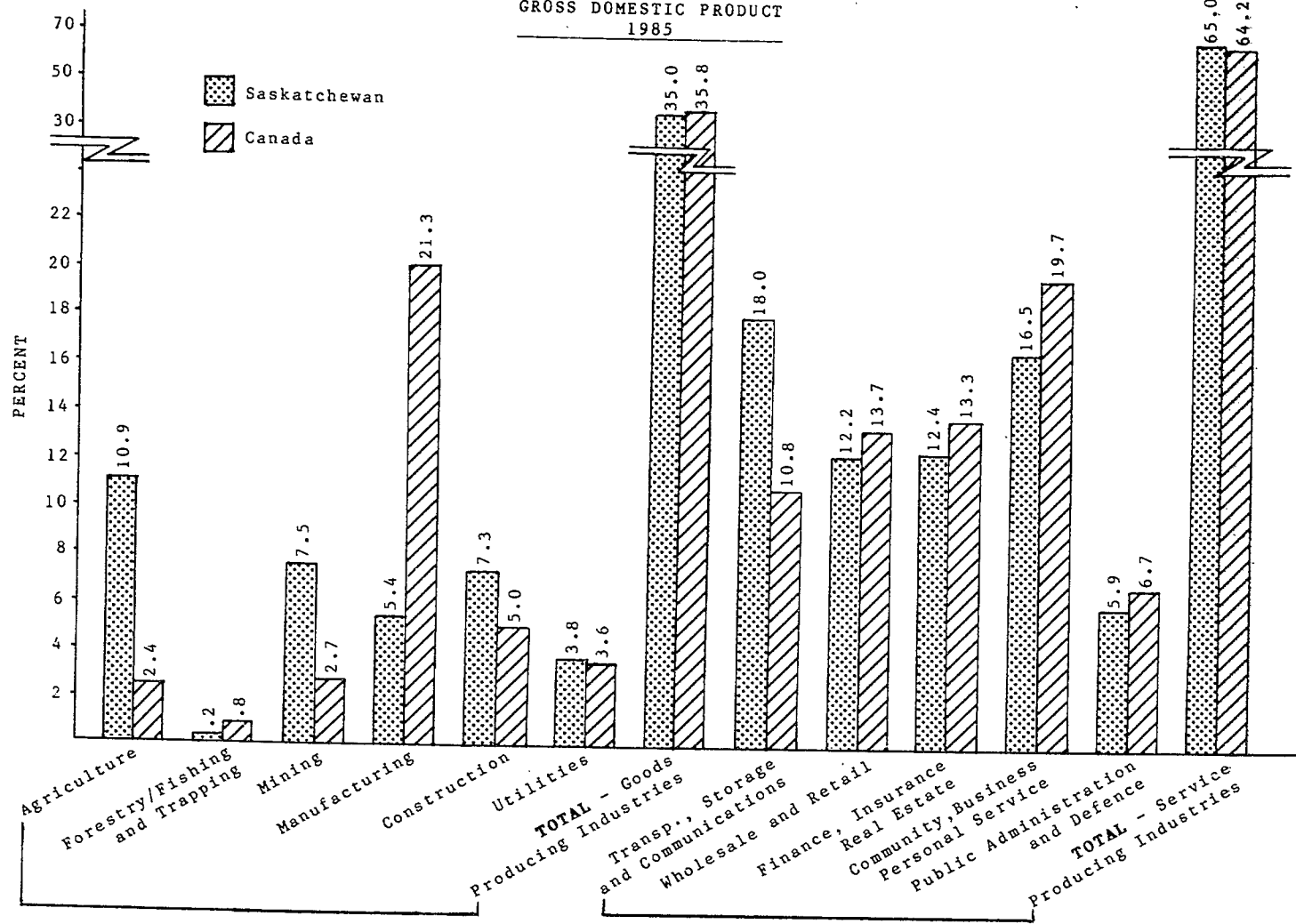
	<u>Saskatchewan</u>	<u>Western Provinces</u>	<u>Canada</u>	<u>Sask. as % of West Prov.</u>	<u>Sask. as % of Canada</u>
Population <sup>1</sup>	1 020 100	7 350 500	25 444 900	13.9	4.0
Real Domestic Product <sup>2</sup>	4 838	39 479	130 343	12.3	3.7
Labour Force <sup>3</sup>	491 000	3 694 000	12 639 000	13.3	3.9
Participation Rate (%) <sup>3</sup>	66.4	67.1	65.2	99.0	101.8
Employment <sup>3</sup>	452 000	3 283 000	11 311 000	13.8	4.0
Unemployment Rate (%) <sup>3</sup>	8.1	10.1	10.5	80.2	77.1
Personal Income Per Capita (1984)	\$13 006	\$14 574	\$14 412	89.2	90.2

\*Statistics Canada and Conference Board of Canada

1. October 1985
2. 1985 estimate, Conference Board of Canada
3. 1985

The proportion of the goods-producing industries and the service-producing industries in Saskatchewan was close to the national average in 1985 (see chart, page 4). However, Saskatchewan's agriculture sector was proportionately five times larger and the mining sector proportionately more than twice as large as national averages for these sectors. In addition, the province's transportation, storage and communications sector was significantly larger than the national average, reflecting its importance to this province. The manufacturing sector represents only 5.0 percent of the provincial economy, whereas it represents 21.3 percent of the national economy. The strength of the Saskatchewan economy lies mainly in the production and export of unprocessed resource commodities led by grain, crude oil, potash and uranium, and much less in manufactured goods.

CANADA/SASKATCHEWAN  
GROSS DOMESTIC PRODUCT  
1985



Source: Conference Board AERIC Forecast

Employment data further underscore the importance of agriculture in the Saskatchewan economy with 19 percent of provincial employment being in this sector, compared to only 4.3 percent for Canada as a whole and 7.7 percent for the western provinces (see chart, page 6). The reverse is demonstrated in the manufacturing sector, with it accounting for only 6.0 percent of Saskatchewan employment as compared to more than 17.5 percent of Canadian employment and 9.8 percent of total western provinces employment. There is little difference in proportion of employment in other sectors, although the service sector has a somewhat smaller proportion of employment than for the nation as a whole.

The accumulated Saskatchewan government deficit was projected to reach \$1.24 billion in the last provincial budget. The deficit was forecast to be \$395 million in 1984/85 and \$291 million in 1985/86. Falling world oil prices will negatively impact provincial revenues. Oil revenues represent 20 percent of total government revenues, the largest single source. According to the Saskatchewan Department of Energy and Mines, a US\$1 fall in the price of a barrel of oil results in a loss of \$22 million in potential revenues from oil royalties on an annual basis. In addition, and because of recent droughts, the provincial government has substantially increased expenditures to the agriculture sector. The increasing debt burden compounded with declining resource revenues considerably hampers the fiscal flexibility of the provincial government to respond to emerging needs.

**i) Outlook**

The Conference Board of Canada forecasts Saskatchewan's real economic growth rate to be 4.0 percent in 1986, slightly below the 4.3 percent national average. In 1987 the board expects Saskatchewan to exceed the forecasted national growth of 2.0 percent. However, the forecast is based on a return to normal weather conditions following two years of drought. Furthermore, these projections do not fully account for the effects of falling world oil prices, although it is assumed that the construction of the Bi-Provincial (Husky) Heavy Oil Upgrader will not proceed in 1986, a project which the board states would have positively affected the 1987 forecast. The fall in world oil prices will negatively impact exploration activity and the service industries, bright spots in the economy for the last couple of years.

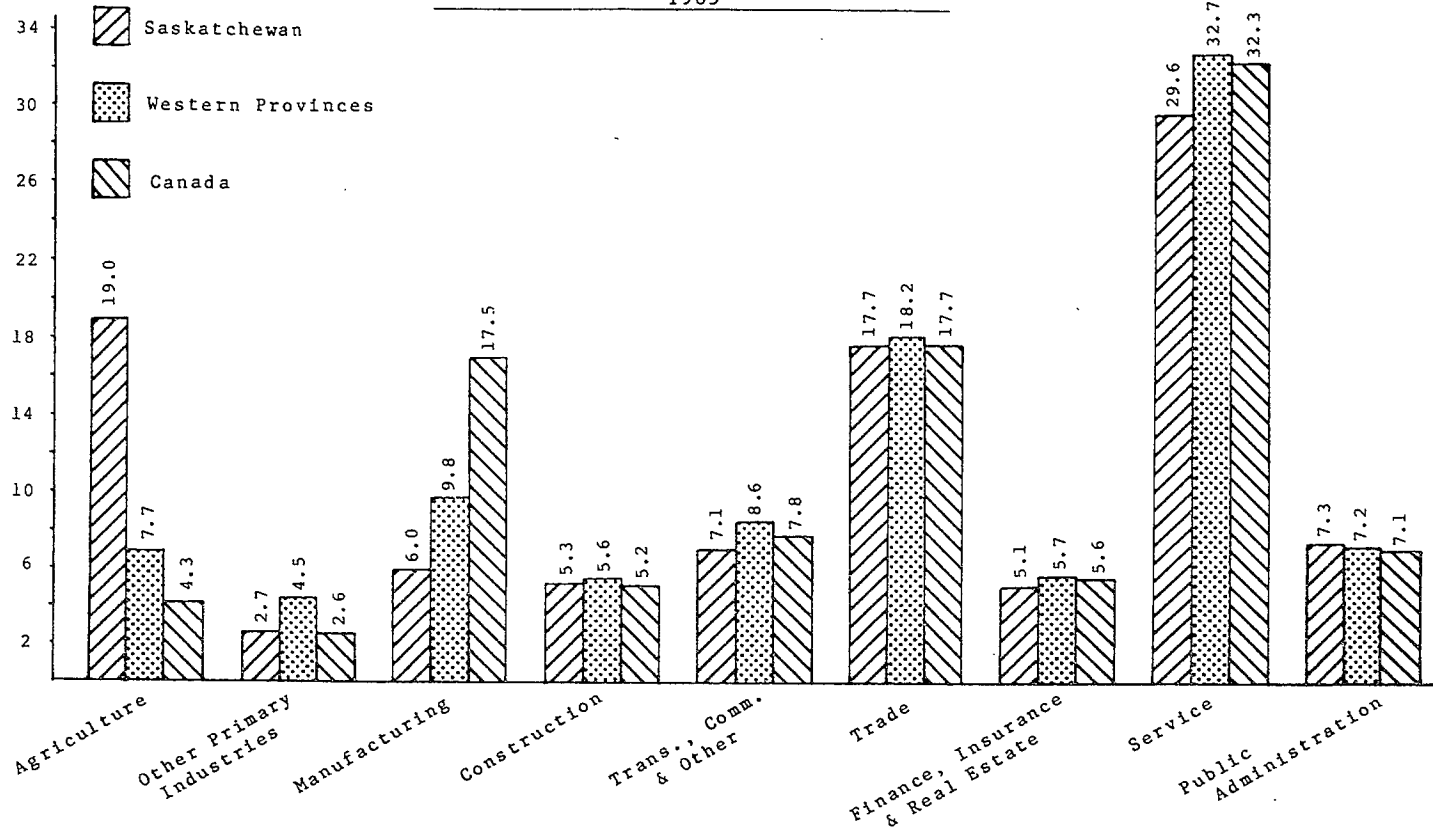
With a recovery in farm production and resultant personal income increases, economic growth in the province in 1986 could surpass the national average. The provincial unemployment rate is expected by the board to marginally increase to 8.2 percent in 1986 and to fall to 7.8 percent in 1987. Essentially, the Conference Board is assuming a return to a more normal year in 1986.

**ii) Settlement Pattern**

The bulk of Saskatchewan's population lives in the southern half of the province. Only 2.5 percent live in the northern half. Regina (population of 164 313 in 1981) and Saskatoon (population of 154 210 in 1981) are the urban focal points and together represent a third of provincial population. In



DISTRIBUTION OF EMPLOYMENT BY INDUSTRY  
Saskatchewan, West, Canada  
1985



Source: Statistics Canada

addition, there are two other cities of significant size, Moose Jaw (33 941) and Prince Albert (31 380).

While the trend to greater urbanization has been continuing, Saskatchewan still has one of the most dispersed populations in the country. Forty-one percent of the total population lives in rural communities, the greatest proportion of any western province. This rural structure includes hundreds of small towns, villages and hamlets which were focal points of the agricultural economy of the earlier settlement period but in some cases are now questionable as viable economic communities.

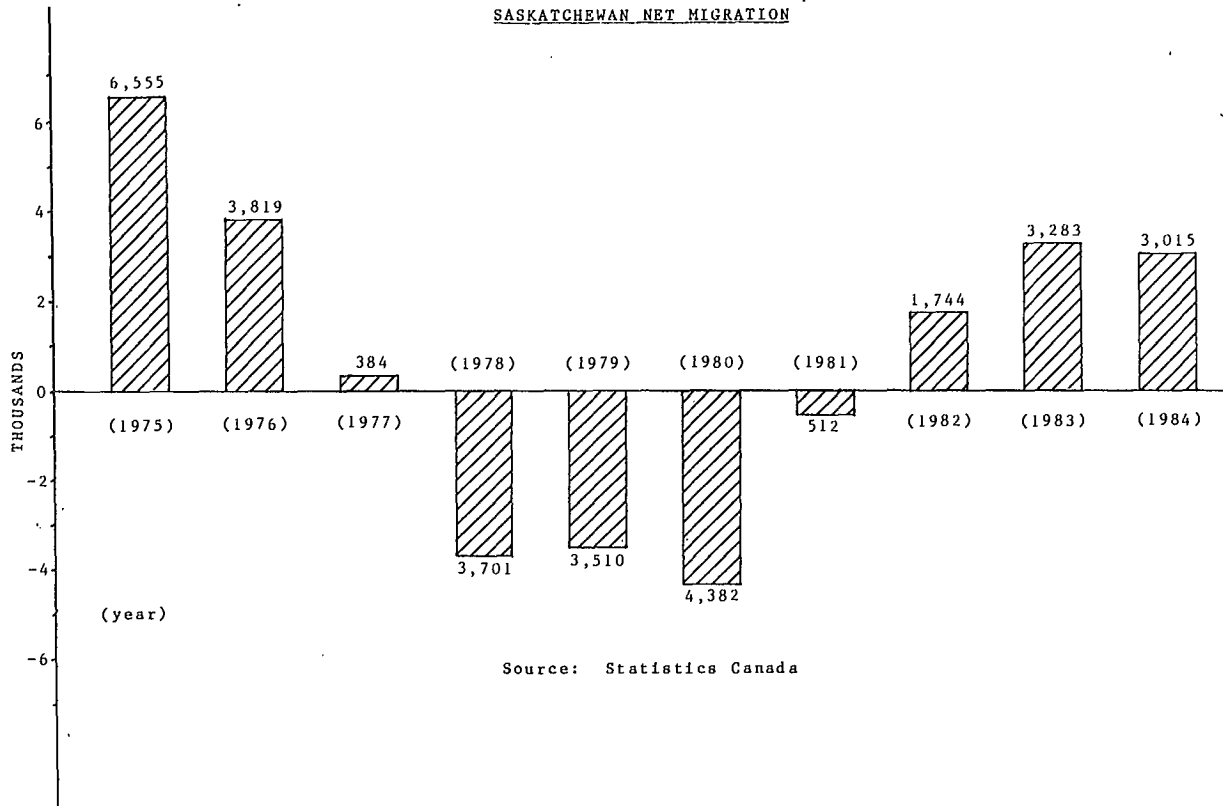
Saskatchewan only recently reached a population of one million and its population growth has not been stable. Migration in and out of the province varies considerably, generally coincident with economic activity (see chart, page 8).

The highly dispersed nature of Saskatchewan's population has its effects on economic development. In the Economic Council of Canada's report, Western Transition, the importance of agglomeration economies was emphasized, particularly in terms of service industries where much of the future employment growth is expected. The report states that "in most economies, the largest cities are the most efficient, the most economically stable and the most successful in attracting new activities". It also noted that in the western provinces the preservation of small communities has been an important aspect of regional development policy.

While it is recognized that it is very difficult to obtain a balance between conflicting social, cultural and economic goals, the council notes that "too much emphasis on preserving small communities could have economic costs".

On the other hand, the Government of Saskatchewan's Task Force Report on Rural Development (May 1985) recommended a strategy for the development of rural Saskatchewan. The task force concluded that Saskatchewan has the potential to expand greatly the level of industrial and commercial activity in rural Saskatchewan. Some specific recommendations include a proposal for an in-depth review of ground transportation, especially as it relates to grain transportation and economic development, the formation of Area and Community Development Corporations which would encourage local initiative and intermunicipal co-operation (the report recognized these factors as the basic elements of a new rural development strategy).

The report also put forward the view that the continued reliance and emphasis on cereal production for export in unprocessed form and the neglect of other agricultural opportunities are serious problems and that more targeted research and development programs are needed to assist producers to meet future challenges. It noted that rural residents have substantial capital and human resources which are largely unutilized and recommended the establishment of Provincial Development Corporations to promote investment of local capital into provincial projects.



The report concluded that freer trade would benefit rural areas. It stated that the land base is Saskatchewan's most valuable resource and that governments must ensure it is farmed rather than mined. Additional recommendations put forward were for further development of tourism, economic development assistance in the form of the development of a Food Technology Council, a co-ordinated approach and structure to assist industrial development, industrial park assistance, farm machinery industry assistance and financial assistance for rural enterprises. The provincial government has not responded formally to the task force recommendations.

Northern Saskatchewan represents a unique region. With half the province's area, it holds only 25 000 persons in about 30 small communities. Its economy is divided between the forestry and mining sector and more traditional renewable resource activities. Several major uranium mines and recent gold and platinum prospects represent the highly capital-intensive industrial economy. In addition, the forest industry relies upon the north to furnish a significant proportion of its wood supply. In contrast, however, are the traditional pursuits such as commercial fishing and trapping, accompanied by developing small-scale activities represented by wild rice. Tourism, utilizing the physical attractions and wildlife of the north, holds future development potential.

People of Indian and Métis ancestry constitute about two-thirds of the northern Saskatchewan population. With their strong links with the traditional, renewable resource economy, the Indian and Métis residents of the north do not participate fully in the wider economy.

In this respect, northern native residents share many of the circumstances of the province's total Indian and Métis population, who represent the most clearly disadvantaged group in the province.

Aboriginal people (including 54 000 Status Indians and between 30 000 and 50 000 Métis and non-Status Indians) comprise roughly 8-10 percent of Saskatchewan's population. (It should be noted that demographic data for native people are inadequate) Socio-economic conditions are similar to those experienced by aboriginal people across Canada and include low educational and income levels, high unemployment rates and a high proportion of the prison population.

The native population is scattered throughout the province with the largest proportion of Status Indians living on 87 Indian reserves. A relatively recent development is an accelerating movement of native people from rural communities to the three major urban centres of Regina, Saskatoon and Prince Albert. A recent study estimated this urban population at 25 000. The associated survey of socio-economic circumstances indicated that:

\* native unemployment rates were three times higher than those experienced by the general urban population;

- \* native household incomes were 60 percent of those received by households comprising the total city population;
- \* the majority of native households are dependent upon transfer payments, most commonly social assistance, for income support; and
- \* the native population is characterized by young, single female parent families.

#### 4. MAJOR ELEMENTS OF THE ECONOMY

Saskatchewan's economy can be divided into three broad classifications. The first is renewable resources, of which agriculture is the most important sector. Second is non-renewable resources, of which oil and gas, uranium, and potash are major contributors to the economy. Third are manufacturing and services, which are generally dependent on the resource sectors (see map, page 12).

##### i) Renewable Resources

##### a) Agriculture

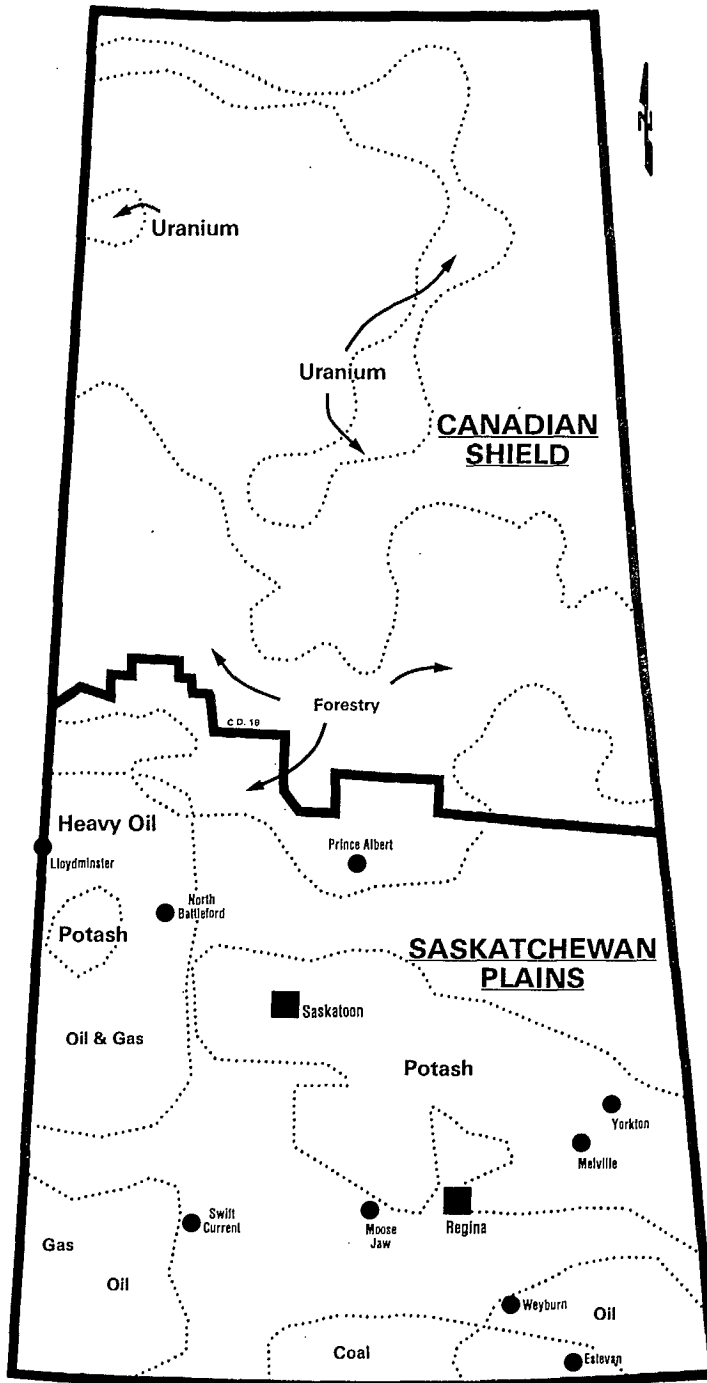
Agriculture, with projected 1985 cash receipts of over \$4 billion, remains the single most important contributor to the Saskatchewan economy, representing 37 percent of GDP of goods-producing industries and 13 percent of total provincial product. These data under-represent the broad impact of this sector on the Saskatchewan economy.

The province's agricultural production is primarily grain and livestock. The largest proportion by value (80 percent) is represented by grain, mainly wheat. Livestock production of cattle, pork and poultry represents the remaining 20 percent of production.

In 1985, the situation for Saskatchewan agriculture was highlighted by a continuation of the cost/price squeeze faced by all North American farmers as a result of highly competitive world markets and rising input costs. Increased agricultural production by Third World countries and heavily subsidised agricultural support programs in the U.S.A. and the European Economic Community (EEC) were key contributing factors. In addition, adverse weather conditions in large areas of the province placed additional burdens upon affected farmers. Drought sharply reduced crops on 30 000 farms in the southern Palliser Triangle area while, conversely, cold, wet weather lowered grain quality in much of the remainder of the province.

As a result, Agriculture Canada expects realized net farm income in Saskatchewan to drop in 1986 to \$686 million from \$830 million in 1985 and \$1.082 billion in 1984. The situation would have been significantly worse without the addition of substantial support payments by the Western Grain Stabilization Program (WGSP), crop insurance and special federal and provincial drought assistance programs.

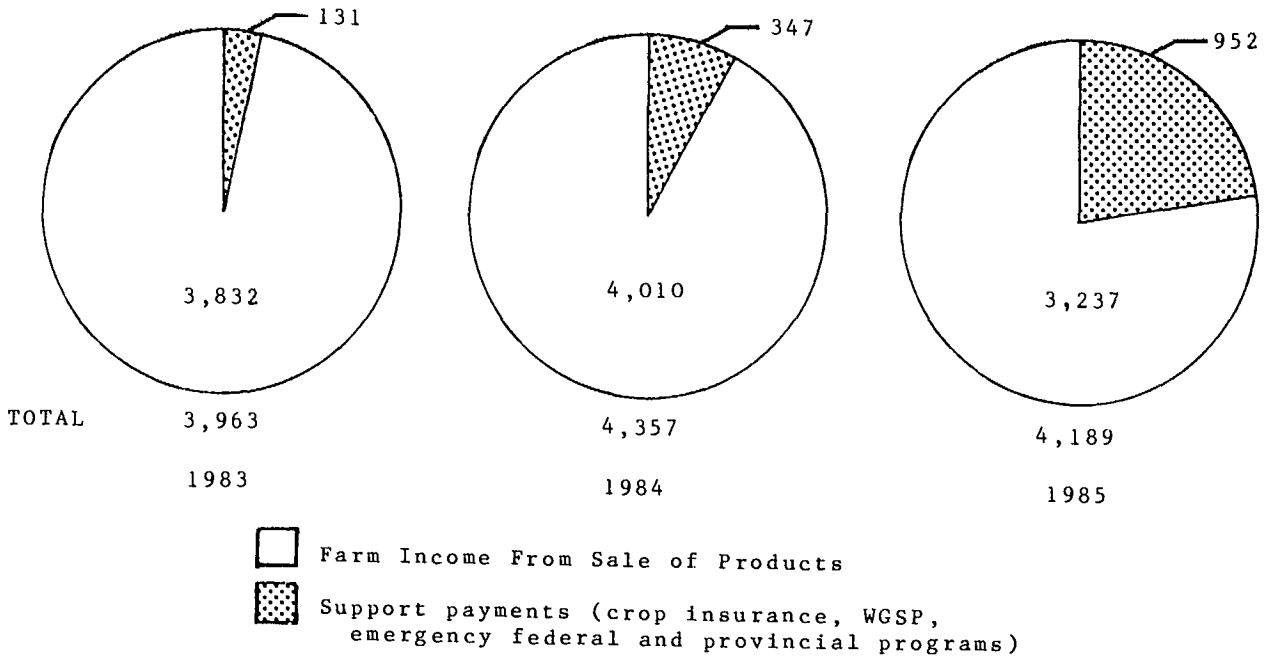
It should be noted that producer levies generate about 30 percent of WGSP funds and slightly less than 50 percent of crop insurance costs. A record \$365 million in crop insurance, for example, was paid out to producers in 1985, exceeding the previous record of \$260 million set in 1984. Support payments in 1985 exceeded net farm income, indicating that without the insurance, stabilization and special income support measures, Saskatchewan net farm income would have been negative (see chart, page 13).



**Saskatchewan Resource Regions**

FARM CASH RECEIPTS - SASKATCHEWAN

\$ MILLION



Source: Agriculture Canada, Statistics Canada



The impact of the farm income decline is heightened by the division in the farming community between older, established producers who are largely debt-free and viable, and the younger producers with a large debt load. As a result, the newer entrants into the farm business, who are often the most productive, are often in financial difficulty. The future ability of the Saskatchewan farm economy to replace those farmers who will soon be retiring with younger producers warrants attention.

The forecast for 1986, given an average year in terms of climate and precipitation, is for a return to more normal production and quality levels for grain, but continued low prices.

The 1985 U.S. Farm Bill, which has both lowered the price at which U.S. grain is exported and also continued domestic price supports, is expected to heighten the competition in the world grain export market, and Agriculture Canada does not expect world market conditions to improve in the foreseeable future. In other words, recent market conditions are likely the new reality for the province's agricultural economy.

A process of adaptation and adjustment by producers is expected to be the challenge of the next decade as issues of competitiveness and productivity come to the fore. The role of wheat in the future of Saskatchewan agriculture and the opportunities for alternate products are expected to be among the issues addressed.

Other factors needed to improve agricultural development include continued productivity improvement in the bulk transportation system, measures to address declining soil productivity, improved management and product diversification into selected markets, and the development of irrigation, primarily based upon continued development of the major existing water supply infrastructure at Lake Diefenbaker. The significance of water supply and quality in a historically drought-prone region will continue to be an underlying theme. Development of a national agriculture policy, in which the province of Saskatchewan is playing a key role, could be a significant contribution to clarifying the future direction of, and opportunities for, Saskatchewan's agricultural economy.

**b) Forestry**

The commercial forest zone covers 27 percent of total provincial land area, and comprises 6.5 percent of Canada's commercially accessible forest land. Nearly all the forest land area is held by the province or the federal Crown. Less than one percent is privately owned. The commercial forest zone contains 61 percent softwoods and 39 percent hardwoods. At periods of peak activity, some 3600 direct and 4300 indirect jobs are attributed to the industry.

In 1984, the value of forest industry shipments in Saskatchewan totalled \$165 million, a continuation of the steady decline from the production value of \$244 million in 1981. The principal market for Saskatchewan forest products is the United States.

The forest products industry is concentrated in two northern Saskatchewan communities, Hudson Bay and Prince Albert. The pulp and paper sector consists of one firm, Prince Albert Pulp Company Ltd. (PAPCO), with 95 percent of its production exported, mainly to the United States. Two large-capacity mills at Hudson Bay are the source of nearly all the specialty wood products, including plywood and waferboard, produced in the province.

Issues facing the forestry sector include regional supply problems, the need for reforestation, outdated timber rights allocation, inadequate utilization of pulpwood and sawmill wastes and an obsolete Crown timber dues structure currently being renegotiated between the province and the forest industry. An underlying issue facing the industry is the heavy utilization of the softwood resource and the associated opportunity to access the under-utilized hardwood supply.

The overall forest management structure is being renegotiated between the province and the forest industry as part of an effort to resolve regional supply shortages, increase reforestation and improve utilization of the wood resource. In addition, the United States' concern about Canadian softwood exports may impact upon the Saskatchewan forest industry. If pulpwood products, which represent the majority of Saskatchewan forestry exports to the U.S., are included in the trade agenda in the future, the impact could be even more significant.

ii) Non-Renewable Resources

a) Oil and Gas

Considerable crude oil and natural gas resources are located in western and southern Saskatchewan. Oil sales were 10 800 thousand cubic metres with a value of \$1.87 billion in 1984. This represented nearly 11 percent of Canadian production.

The most significant single event that has affected this sector recently is the fall in international oil prices. It is not possible to forecast future world oil prices with any degree of certainty. However, because of the size of the price drop and the uncertainty with respect to future prices, the industry is re-evaluating its development plans. It is expected that if prices do not recover substantially, activity in the industry will decline. This will negatively affect related service industries and the provincial economy in general.

The Saskatchewan government introduced a taxation/royalty holiday regime for crude oil production covering new wells drilled from June 1, 1982, to the end of 1983, with subsequent extensions to the end of 1986. Its result has

been a significant increase in oil-well drilling, oil production and sale of petroleum rights. However, at the time of the announcement of the last extension, the province stated that after this extension it wishes to develop a permanent royalty structure. The effect of falling world oil prices or provincial policy in this area is unknown at this time.

Saskatchewan imports natural gas from Alberta for domestic use at favourable rates. In-province natural gas production supplements Alberta gas supplies. An extensive rural gasification program is being implemented and the province has introduced industry incentives to encourage natural gas production. It is hoped that these incentives will yield sufficient expansion of gas production to replace Alberta supplies and to permit gas exports to United States markets at some future date. About two percent of Canadian natural gas production occurred in the province in 1984.

In addition to gas and oil production, Saskatchewan has lignite coal mines with reserves of some 7.6 billion tonnes for use in thermal-electric power generation.

Saskatchewan has substantial amounts of heavy oil, a product which is currently selling well in the U.S., but may have a limited long-run market potential under existing circumstances. Asphalt production capability exists locally, but lack of upgrading capacity (the closest facility is located at Minneapolis) has meant that synthetic crude from heavy oil could not be produced in Canada. The NewGrade (at Regina) and proposed Husky (at Lloydminster) upgraders will result in considerably expanded Canadian heavy oil production if they both go ahead. Industrial benefits from these projects would accrue to Alberta and Central Canada as well as Saskatchewan. The Husky project is now being re-evaluated in light of international oil markets.

Without question, the oil industry has been a true bright spot, making Saskatchewan one of the most active areas in the country in this sector. This activity has been spurred on by the provincial government's royalty holiday, now extended until 1986. Falling world oil prices make the future uncertain, especially as Saskatchewan is endowed with large heavy oil resources which require costly upgrading before they can be refined into higher valued products.

**b) Potash**

Canada, and specifically Saskatchewan, is the second largest world producer of potash, surpassed only by the U.S.S.R. Potash, together with phosphorous and nitrogen, is one of the major sources of agricultural fertilizer. Most of Canada's potash production is exported, making Canada by far the largest world exporter and supplying about 20 percent of world demand. Canadian deposits, estimated at 56 billion tonnes (two-thirds of the world's reserves), are sufficient to continue production at present levels for several thousand years. Most of these deposits are in Saskatchewan, with an extension into Manitoba. The remaining Canadian deposits are situated in New Brunswick where they represent an important mineral potential in that province.

The primary advantage of the Saskatchewan potash resource is the relatively low cost at which it can be mined due to mechanization and the quality of the deposits. The primary economic disadvantage is high transportation costs, which means that continued improvements in productivity in the bulk transportation network will be an important factor in the long-term competitiveness of the potash industry. About two-thirds of current Saskatchewan production is sold in the United States and one-third overseas. Forecasts generally indicate that the greatest potential for long-term market development exists in the Pacific Rim and several other countries such as Brazil and India.

The potash industry accounts for about five percent of Saskatchewan's GDP. In the peak sales year of 1980 sales reached \$1 billion, but have been declining since then to an estimated \$613 million in 1985. Difficult economic circumstances for farmers in the U.S.A., debt loads in third world countries and increasing competition from new producers were key elements in both declining volumes and price levels.

Current prices are at their lowest levels in five years. As a result, potash inventories are high and temporary mine closures are widespread. The Potash Corporation of Saskatchewan, Canada's largest producer, reported a loss of \$21 million for the first nine months of 1985, down dramatically from a \$28-million profit for the same period the year before.

The long-term forecast for the industry anticipates a generally flat market in the U.S.A. and fierce competition in the growing Pacific Rim market. Expansion of co-operative and sustained marketing and agronomic education programs in the countries of the Pacific Rim, including China and Indonesia, as well as other areas such as Brazil and India, may represent the most effective approach to retaining and enhancing Canada's world market share. It seems clear, however, that the "boom years" of the 1970s have been transformed into the competitive era of the 1980s.

### **c) Uranium Development**

Uranium was first discovered in The Beaverlodge area of northern Saskatchewan in the early 1940s and has been mined commercially since the early 1950s when underground operations were established at Uranium City.

In recent years, the discovery of high-grade deposits accessible by open-pit mining techniques has transformed the Saskatchewan uranium industry into one of the most competitive in the world. In 1984, the Key Lake operation reached its annual design capacity, making it the largest uranium producer in the world in terms of output. Total value of production in 1985 reached \$440 million, with direct employment approaching 1100.

Saskatchewan's uranium production has been a major factor in Canada replacing the U.S.A. as the largest world exporter in 1984, with around 30 percent of the non-Communist world's production. Saskatchewan itself represents over 50 percent of Canadian production. There are several other

prospective uranium-producing properties in Saskatchewan, which ensure that it will remain an important world supplier for some decades. Of particular importance is an extremely rich deposit discovered at Cigar Lake which holds the potential for further production expansion by the early 1990s.

The key factors in the decision to increase uranium production are the size of the world market and product pricing. One factor affecting the size of the future world market is the growing opposition to the nuclear industry on the basis of environmental concerns. If, as some sources predict, the current world surplus of uranium stocks is exhausted by 1990, prices may begin to recover from the recent low of US\$15 per pound. In recent months prices have been recovering modestly, which may reinforce this prediction.

The requirement for exporting primarily processed uranium, to promote value-added exports, may limit export potential. In addition, the Canadian uranium mine ownership requirement may have a limiting effect on foreign investment in mine development.

A final issue is the finding contained in a recent U.S. Department of Energy report which concluded that uranium imports have damaged the high-cost U.S. uranium industry. Although a subsequent study conducted by the U.S. Department of Trade found that imports were not directly linked to decline of the U.S. uranium industry, measures are still being proposed by industry supporters in the U.S. to ensure that U.S. producers receive a guaranteed share of uranium purchases made by the U.S. nuclear utility industry.

### **iii) Manufacturing and Service Industries**

Most Saskatchewan businesses operate in a provincial and regional context. Businesses face a small, dispersed market as well as a shrinking market in a rural context. For instance, within 800 kilometres of Regina, only 5.3 million people can be found, whereas within a similar distance of Toronto more than 100 million people can be found.

In total, there are an estimated 35 000 businesses in Saskatchewan in more than 600 different communities. Accounting for well over half of all provincial employment, these businesses are critical to the overall economic prosperity, especially that of the smaller and medium-sized communities in the province. In the past 20 years, the province has developed a stable base of manufacturing industries which regularly contribute about 14 percent of provincial value-added in the goods-producing primary and secondary sectors. This is despite a slow decline in manufacturing's share of provincial GDP in the past five years.

Of the total number of businesses in the province, approximately 750 are manufacturers. Many of these operations are small: more than 56 percent have fewer than 10 employees and only a handful have 250 or more employees.

An estimated 120 firms export outside Canada. These manufacturers have grown and developed largely through their ability to identify and compete in markets, initially at the local level but now also regionally, nationally and outside the country. The most current analysis indicates 43 percent of the output from Saskatchewan manufacturers is shipped outside the province, compared with rates of 47 percent in Ontario and 46 percent in Quebec.

Major manufacturing activity includes food and beverages, wood industries, metal fabricating, non-metallic mineral products, printing and publishing, machinery and, more recently, microelectronic/telecommunications equipment. The advanced technology sector, mainly located in Saskatoon, is led by three major firms and is growing. For example, it has been estimated that there are now 46 companies working in the microelectronics area, up from 15 in 1982. In the past two decades, with the emergence of the resource industries, the service sector has expanded further and is now even more concentrated in the largest urban centres.

The linkages of Saskatchewan's manufacturing, processing and services industries to the resource sector cannot be understated. Almost 70 percent of provincial manufacturing value-added is tied, either forward through processing or backward through inputs, into the resource sector, which demonstrates the importance of the resource sector in fostering economic diversification.

With the exception of some of the advanced technology areas, most firms depend on the resource sectors for their markets (e.g., specialized, short-line farm equipment manufacturers) and many have penetrated international markets. There is still a need to promote further expansion into international markets, and a resultant need for increased productivity and competitiveness. Difficulties in resource industries can be expected to have an adverse effect on manufacturing and service industries.

The manufacturing and service sectors are important as they help provide some economic stability in an economy dominated by resource industry fluctuations. However, if initiatives are to be viable in the longer term it is important to build on existing strengths, such as industries related to the resources where considerable expertise already exists or may be developed, as in satellite terminals and fibre optics.

There will be potential opportunities for industrial development linkages to the heavy oil upgraders (assuming they both proceed) and to further supply the resource sectors with goods and services. There also are international markets for such goods and services.

## 5. MAJOR ISSUES

Saskatchewan's economy remains predominantly resource-based (dominated by agriculture), but does include resource-oriented manufacturing and service industries as well as some vibrant advanced technology firms.

Grain production will continue to be the major economic activity in the foreseeable future and its success will largely determine the economic health of Saskatchewan. Oil and gas, potash, uranium production and manufacturing will likely assume a larger proportion of provincial output over time.

Three major issues have been identified which have significance for Saskatchewan currently and for medium-term growth: agriculture, international trade development and native economic development.

Last year's Perspective identified water constraints and industrial diversification as major issues in addition to the three cited this year. Their exclusion this year from this section of the Perspective is not meant to downgrade their importance. Water has always been a significant factor in the Saskatchewan economy and will continue to be important to economic development. For example, irrigation development is being considered to assist the development of the agricultural sector.

Increased industrial diversification is still crucial to reducing fluctuations in the economy due to the vagaries of international resource markets. However, as the driving force of the Saskatchewan economy is resource industries -- and agriculture is the dominant resource sector -- the message is that the optimistic outlook for the provincial economy based on the resource sector growth has waned from that of the late seventies and early eighties.

### i) Agriculture Sector Viability

A growing perception exists that the difficulties faced by the Saskatchewan agricultural economy in the past several years may not be simply a cyclical downturn, but the precursor of a long-term structural change. Fierce competition from the EEC and the U.S.A. as a result of substantial subsidy programs, coupled with the successes of many of Canada's traditional grain customers in not only reaching self-sufficiency but, in some cases, becoming net exporters of grain in good crop years, suggests that international grain prices will remain low and volumes flat. Added to the input cost increases of recent years, a cost/price squeeze has resulted for many Saskatchewan producers, particularly new entrants. Recurrent droughts in the past several years have accentuated the pressures.

Overlaid on these marketing and financial challenges is the declining quality of the soil resource, which threatens the long-term productivity of the industry.

Development of a national agriculture policy which addresses each of these areas represents a significant first step on the road to reassessing the future of the Saskatchewan agricultural economy and identifying the steps needed to ensure it is producing marketable products at a competitive price in a changing world trade environment.

**ii) International Trade**

While it may be clear that resource industries cannot be expected to be the only engine of growth for Canada's economy, their importance to economies such as Saskatchewan's suggests that serious attention needs to be placed on retaining and further developing their foreign markets. Furthermore, they provide the basis on which to diversify into manufacturing and service areas which can generate exports and provide increased economic stability.

Commodities contribute substantially to Canada's exports and are crucial to the health of Saskatchewan's economy. As mentioned previously, Saskatchewan's dominant resources face varying degrees of international competitive pressure. For example, the view has been put forward that Saskatchewan may soon be dependent on one major grain market, the U.S.S.R. There is a world over-supply of potash and Canada must compete with non-market economies. The oil industry has just suffered a major shock due to the significant fall in world prices. While uranium sales have improved, environmental concerns cloud this sector's growth potential. It may be time to raise the priority of commodity trade to increase and develop foreign markets. Canada/U.S. and GATT freer trade initiatives may contribute substantially to this goal.

**iii) Native Economic Development**

People of native ancestry resident in Saskatchewan represent a significant and growing proportion of the provincial population. If native people remain marginal to the economy, they will place an increasing demand upon the social and economic fabric of the province. The challenge is to identify positive steps which can be taken by native people, with support from the public and private sectors, to participate in and make a contribution to the provincial economy.

Native economic development will depend on the success in bringing people of native ancestry into the urban mainstream as well as developing economic opportunities in rural and northern areas and in agriculture and resources. Linked to native economic development are the national constitutional discussions on aboriginal rights and self-government and the formation of native economic development institutions.



