

Feature article

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## **From lagging to leading: Newfoundland and Saskatchewan dig into the resource boom**

*by Diana Wyman\**

In recent years, the resource sector boom in Alberta and to a lesser extent in British Columbia has been the focus of attention in Canada's economy. While the surge has continued, it is no longer confined to these two provinces, as it now encompasses both Saskatchewan and Newfoundland.

What do Saskatchewan and Newfoundland have in common? Their landscapes hardly conjure up similar imagery but, geography aside, these two provinces have moved beyond old stereotypes and stepped into a new era of prosperity as the ongoing commodity boom starting in 2002 offered a unique opportunity to tap into their natural resources as never before.

Most significantly, both provinces have reversed their long-term trend of a declining population. The movement of workers from these provinces into Alberta helped fuel that province's growth, but also allowed Saskatchewaners and Newfoundlanders to build wealth and return to their home provinces after a certain degree of financial security or work experience had been established. The recent pick-up in their economies has motivated people to move into these provinces while out-migration slowed. As a result, in both provinces the trend of net out-migration was suddenly reversed last year. Saskatchewan's population turnaround was the more pronounced, moving from a shrinking population to an increase so far in 2008 surpassed only by Alberta.

As well, Newfoundland and Saskatchewan led all of the provinces in GDP growth in 2007, driven by export growth for energy, mineral and agricultural products. As incomes have risen and population growth has resumed, Newfoundland and Saskatchewan consumers have gone on a buying binge, leading provincial growth in retail, housing and auto sales. Investment intentions for 2008 soared as companies expand mining and refining output to capitalize on high prices. Like their minerals counterparts, Saskatchewan farmers are maximizing planting capacity while replacing oats and barley with higher priced crops such as canola and wheat.<sup>1</sup> Employers in Saskatchewan and parts of Newfoundland are also sharing the frustrations of doing business in an increasingly tight labour market.

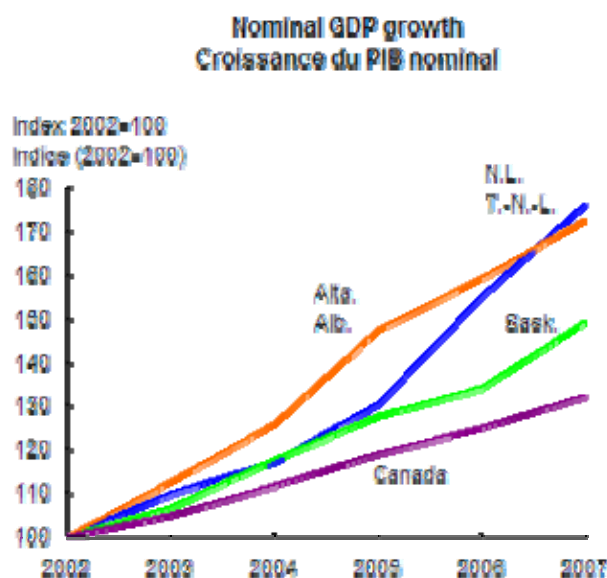
This paper explores the contributions of higher commodity prices and inter-provincial migration to the revival in these provinces. It examines recent changes in output, labour markets, exports, housing and retail sales, all of which mark a significant departure from past trends.

## Newfoundland and Saskatchewan led provincial economic growth in 2007

Newfoundland's economy led nominal GDP growth<sup>2</sup> at 13.4% in 2007, followed by Saskatchewan's 11.4% and ahead of Alberta's 8.3%. Newfoundland's real GDP growth of 9.1% was also the fastest among the provinces, and more than three times the national average. Saskatchewan's growth was driven by higher prices for its exports, as a poor crop dampened the volume of GDP.

In fact, Newfoundland edged out Alberta as the leader in GDP income growth from 2002 to 2007. Newfoundland's nominal GDP rose 76%, compared with 73% in Alberta. Saskatchewan's growth ranked third at 49% over the last five years, although Saskatchewan's boom continues to accelerate as the province's other commodities (such as potash, grains and uranium) experience a resurgence in demand.

**Figure 1**



Newfoundland's rapid growth is summarized by its GDP per capita. Less than a decade ago, it was \$10,000 below the Canada average, and as recently as 2005 it remained below-average. But in 2007, it jumped to \$57,348, over \$10,000 above the Canada average of \$46,441, marking the largest turnaround in one decade in Canadian history.<sup>3</sup> Alberta (\$74,825), Newfoundland and Saskatchewan (\$51,327) were the only three provinces where GDP per capita was above average last year.

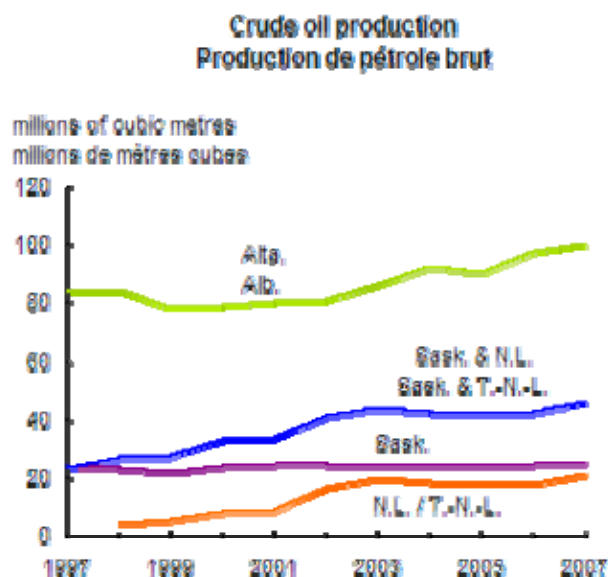
### Rising oil prices drive growth

The rising price of oil since 2002 kicked off the turnaround in these provinces, with Saskatchewan's black gold extracted from conventional wells and Newfoundland's pumped from offshore drilling platforms. Saskatchewan and Newfoundland are the top producers of

crude petroleum in Canada after Alberta.

In 2007, Saskatchewan and Newfoundland accounted for almost one-third of Canada's crude oil production, at 17% and 14%, respectively.<sup>4</sup> While Saskatchewan's overall oil production still exceeds that occurring off the shores of Newfoundland, output gains from Newfoundland in recent years have narrowed the gap.

**Figure 2**



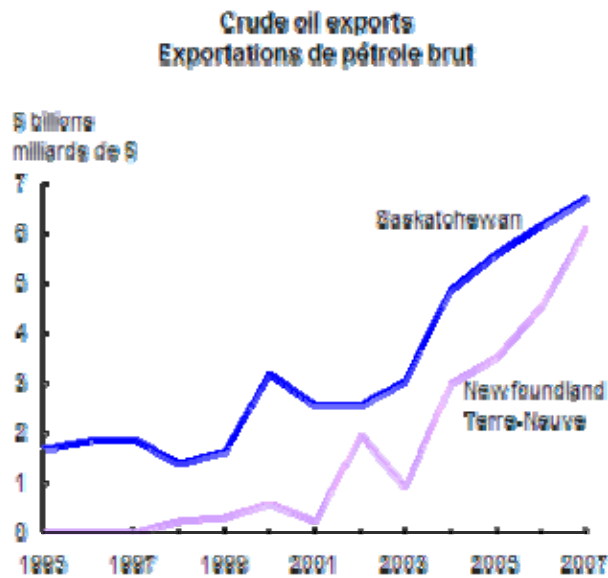
Canada produced 150 million cubic metres of crude oil in 2007, an increase of nearly 40 million cubic metres over the past decade. The expansion occurred mostly in Newfoundland and Alberta, with the former adding a bit more than half and the latter a bit less. Production in Saskatchewan was stable, but given the recent discovery of the Bakken shale formation, this may change in upcoming years.<sup>5</sup>

Since 1997, three offshore projects have come online in Newfoundland—Hibernia, Terra Nova and White Rose. In August 2007, a deal between the province and industry was reached to establish a fourth at Hebron, which is expected to be in production by 2015. These oil fields are located 350km southeast of St. John's in 'Iceberg Alley', a name bestowed upon the area for the masses of ice that float south from Greenland's glaciers each year.

Higher oil prices have been driving the boom in Newfoundland and Saskatchewan, pushing up export receipts and operating profits far beyond that indicated by output gains. Oil prices at the end of 2007 recently jumped above US\$100 per barrel, having more than quadrupled since 2002. The expansion of infrastructure and manufacturing in emerging economies such as China and India has meant expanding global energy demand, which has been the impetus behind this price rise. For China alone, the quantity of imported crude oil more than doubled

between 2002 and 2007. With rising prices factored in, China's spending on imported crude oil ballooned from US\$13 billion in 2002 to US\$80 billion in 2007.

**Figure 3**



While the emerging economies are propelling prices higher, Canada's oil exports continue to be destined for the US, which remains the global leader in crude oil consumption. Connected by thousands of kilometres of pipelines as well as by shipping lines from Newfoundland, Canadian oil exporters earned over \$40 billion from sales to the US in 2007. While volumes shipped since 2002 have increased by just over 25%, sales have more than doubled from \$18 billion.

Newfoundland led the year-over-year gain in oil export revenues, registering a 35% rise to \$6.1 billion in 2007. Export revenues for Newfoundland have more than tripled since 2002, outpacing both Alberta and Saskatchewan as a result of larger output gains. Saskatchewan's crude oil exports garnered \$6.7 billion in 2007, up 9% from 2006 and also more than doubling since 2002.

In addition to rising export receipts, soaring prices meant higher receipts from shipments to the rest of Canada. Newfoundland ships 40% of its crude oil to refineries in Canada, while Saskatchewan distributes one-quarter of its production within Canada.<sup>6</sup>

### **Saskatchewan: Not all of its bread in one basket**

While crude oil is Saskatchewan's top export, recent increases in global demand and prices for grains, potash, and uranium suggest that Saskatchewan's economic momentum is just getting underway. Heralded as 'Saskaboom', it is certainly harvesting attention.

**Figure 4**



In 2007, Saskatchewan exported \$21 billion worth of goods to other countries, a 13% increase over 2006. This placed Saskatchewan behind only Newfoundland for the title of fastest growing provincial exports. Of this \$21 billion, 35% was accounted for by crude oil, a further 30% by agricultural products, 15% by potash, and 5% by uranium. The remaining 15% was spread among metals, agricultural machinery, and other products. Saskatchewan shipped an additional \$15 billion worth of goods to other provinces.

Crude oil export receipts initiated the surge in the province's international exports in 2003. However, since 2005, Saskatchewan's non-oil commodities, notably agricultural products, potash, and uranium, have been making major gains. Agricultural products, dominated by wheat but also including canola and lentils, posted stellar growth in 2006 and 2007 after several lacklustre years.

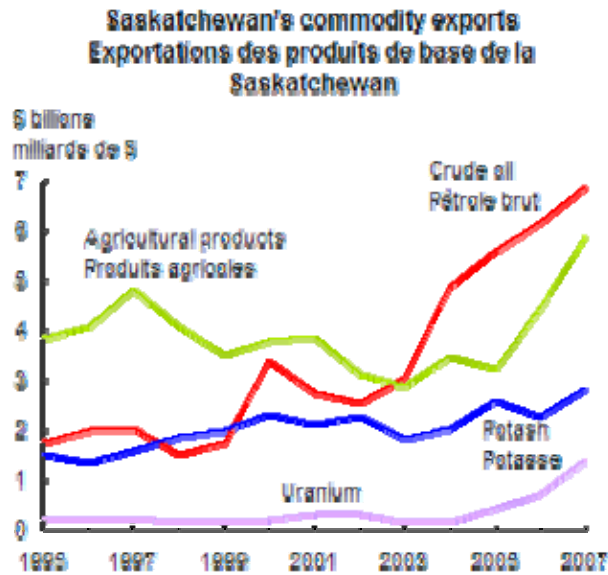
Saskatchewan exported between 9 and 10 million tonnes of wheat in each of the last two years, yielding export revenues of \$2 billion in 2006 and \$2.5 billion in 2007 as prices rose. Exports to countries in every continent were on the rise.

In addition to wheat, Saskatchewan's sales of canola, flaxseed, and peas and lentils have also flourished. In 2004, their export sales stood at nearly \$1.5 billion. Two years later, sales had jumped to \$2.6 billion. The surge in prices for agricultural products early in 2008 promises large gains this year, weather permitting. In fact, the field area left fallow in 2008 in Saskatchewan is expected to be the lowest since 1920. One factor contributing to higher prices has been the rising middle class in emerging economies such as India and China, who are consuming more wheat, vegetables, legumes, and meat.<sup>7</sup>

This expansion of global agriculture has also meant increased demand for Saskatchewan's

‘pink gold’—potash, the potassium component of fertilizer<sup>8</sup>. As crops are harvested, the potassium in the soil needs replenishing, making potash in-demand. Saskatchewan, in combination with Belarus and Russia, dominates the global potash supply, with the province accounting for over one-quarter of the total.

**Figure 5**



While the \$2.7 billion funnelled into Saskatchewan’s potash companies via exports in 2007 made headlines, 2008 seems to be the year for potash. In April 2008, a price of US\$576 per tonne of potash was negotiated between Canpotex, the marketing company owned by Saskatchewan potash producers, and China’s major player, Sinofert.<sup>9</sup> This was more than triple the 2007 price. Similarly, the main buyer in India recently agreed to a price of US\$625 per tonne, 2.5 times last year’s price. Exports to China and India are behind only those to the US, and ahead of the fourth destination, Brazil.

With 2008 shaping up to be a record year and investments in potash mines in Saskatchewan (as well as in New Brunswick<sup>10</sup>) on the rise, Saskatchewan’s Potash Corp. attracted the attention of investors and shot up to the top spot on the Toronto Stock Exchange in terms of weighting. While it may surprise some to find a prairie province’s potash producer in such a prestigious position, its caché is that “grains and fertilizer are need products, not want products.”<sup>11</sup>

Saskatchewan is also a major global supplier of uranium, satisfying approximately 30% of worldwide demand. Milled uranium oxide from Saskatchewan is refined and then used in nuclear reactors to generate electricity. As the prices of fossil fuels have skyrocketed, uranium prices responded in kind. After sitting below US\$40 in 2006, prices soared to US\$72 per pound in 2007<sup>12</sup> and remain in the US\$70 range in 2008. In 2007, Saskatchewan’s exports reached \$1.4 billion, more than triple their 2005 value and ten times

their 2004 value. This made uranium the fastest growing export from Saskatchewan, exceeding even crude oil.

While descriptions of the commodity boom in Canada often paint it as a zero sum game in which commodity producers win and manufacturers lose, the reality is that many manufacturing industries are thriving, a reminder to not paint such a large and diverse sector with the same brush. Potash, canola oil and agricultural machinery in Saskatchewan and refineries in Newfoundland are all examples of manufacturing success stories. For example, Saskatchewan's agricultural machinery sales equalled \$635 million in 2007, a 30% increase over 2006.

### Newfoundland: Mining rock, mining sea

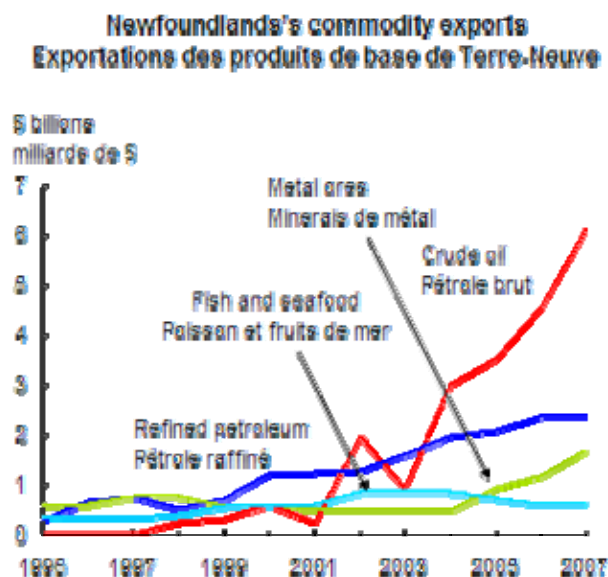
Newfoundland's international exports soared 20% in 2007, the most rapid growth of any province. Exports were steady at below \$2 billion in the early 1990s, following the cod moratorium. By 2002, crude and refined petroleum production and a recovering fishery lifted exports to nearly \$6 billion. Over the next five years, exports doubled to reach \$12 billion, as a combination of Newfoundland's energy and non-energy commodities entered an era of higher prices.

**Figure 6**



Of this \$12 billion in international export receipts, just over half is from crude oil, while refined petroleum is the second largest export. By 2007, rising production and prices meant that refined petroleum contributed \$2.5 billion to exports, double its 2002 level, bringing crude and refined oil exports to \$8.5 billion, or over 70% of all exports. A further \$8 billion was shipped to other provinces, comprised primarily of crude oil (\$4.3 billion) and metal ores (\$2.9 billion).

**Figure 7**



In addition to mining oil offshore, the Rock has lived up to its name and extracted iron, nickel and copper ores, which all figure into Newfoundland's top exports. Metal ores accounted for \$1.7 billion of international exports in 2007, with iron ore contributing \$1 billion and nickel and copper ores making up the remainder. Iron ore is mined in western Labrador. The top destinations for these pellets are China, Germany, Japan and the US. China in particular has emerged as the top consumer of iron ore, as steelmakers in that country feed the insatiable demand for infrastructure-building and manufacturing. While iron ore exports from Newfoundland have not shown a year-over-year increase in the first two months of 2008, negotiations resulted in contracts with a 70% price increase scheduled for 2008 shipments, which will put upward pressure on global prices.<sup>13</sup> Responding to this increased demand, investors plan to expand production by 30% over three years.<sup>14</sup>

While Newfoundland's nickel and copper ores have been produced and exported only since the end of 2005, their rise is notable, with international nickel exports valued at \$340 million in 2007, while copper exports hit \$325 million for the year. Moreover, most of Newfoundland's nickel and copper ores are currently shipped to other provinces for processing before being exported abroad.

The fishery, a traditional employer in Newfoundland, has also contributed to the recent boom, with snow crab, shrimp and groundfish fetching higher prices on international markets. While prices have waned slightly since 2005, they remain at historically high levels. The province's seafood goes primarily to the US, China and Japan.

### **No longer bidding farewell to the Eastern (or Prairie) town<sup>15</sup>**

Migration from the Atlantic Provinces, notably Newfoundland, to central and western

Canada has long been a part of their history. However, this out-migration escalated between 2002 and 2007 as individuals and families uprooted and headed for Alberta. While not as large in magnitude as the out-migration that occurred over a decade earlier following the cod moratorium, this exodus was felt throughout Newfoundland as it included many skilled workers, leaving a void in their rural communities.

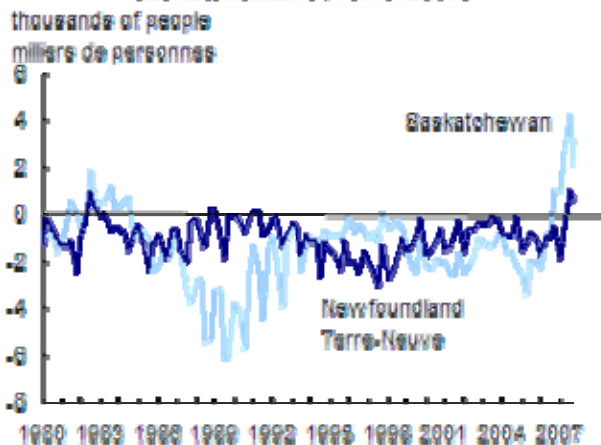
On top of this out-migration, the demographic impact was heightened as a result of Newfoundland's fertility rates declining from one of the highest in Canada in the 1980s to the lowest (at 1.3 children per child-bearing woman) in recent years. The population of Newfoundland peaked during the 1980s at 580,000 people. Since the cod moratorium began in 1992, Newfoundland's population fell steadily, reaching a low of 506,000 people in mid-2007.

However, in the last two quarters of 2007, the number of people moving into Newfoundland was the highest that it had been in 30 years. At the same time, out-migration slowed, shrinking net migration in 2007. By early 2008, the population began to climb for the first time in 15 years.

Saskatchewan too has historically lost workers to the rest of Canada. After hitting a population of 1 million in the 1980s, it hovered around this mark until 1996 before steadily declining to a low of 988,000 people a decade later.

Since then, Saskatchewan's population has rebounded. In 2007, people flocked to the province, more than offsetting out-migration and pushing the population once again to 1 million. Saskatchewan's population grew 0.8% last year, its first increase in over a decade. Moreover, population growth for the 15 and over age group in the first four months of 2008 in Saskatchewan has been 2.0%, a rate behind only Alberta's 2.2% year-over-year increase.

**Net interprovincial migration to Saskatchewan and Newfoundland**  
**Migration interprovinciale nette vers la Saskatchewan et Terre-Neuve**



Newfoundland's population growth has been concentrated among those 45 and over, suggesting a return to their home province, while Saskatchewan's is more of a mixed bag of old and new faces. Gains in the latter province were concentrated in the 20 to 40 age group (demonstrating that young people are choosing Saskatchewan to start careers and families) as well as the 50 to 65 group. In the past, it could have been that these latter individuals were returning to retire. However, as many delay the age of retirement,<sup>16</sup> especially in such a lucrative labour market, it may very well be the case that these individuals are "making hay while the sun shines."

### **With population and money comes a buying binge**

The individuals moving to Newfoundland and Saskatchewan have acquired skills or a financial health that is facilitating their mobility. Moving to urban centres, such as St. John's, Regina and Saskatoon, they are also entering a labour market different from the one of a few years back. Unemployment rates in these cities are at all-time lows, with Saskatchewan and parts of Newfoundland now reporting labour shortages. Indeed, both provinces registered average earnings gains of 11% per year over the last decade, a rate exceeded only in Alberta.<sup>17</sup> These increases in earnings have been most pronounced since 2004.

In addition to earnings growth, Newfoundland and Saskatchewan have seen an increase in the inflow of incomes from workers in Alberta who 'commute' from these provinces. These individuals work schedules such as three weeks on in Alberta followed by eight days off in their home province, where they spend most of their incomes. In these situations, the employee stays in a camp, in which food and shelter are provided, minimizing opportunities for consumption.<sup>18</sup> While it is difficult to estimate the number engaged in this sort of work arrangement, the Newfoundland government suggests that it could be as many as 10,000 people, with hundreds of millions of dollars flowing to Newfoundland communities.<sup>19</sup>

This inflow of dollars into the Newfoundland economy is apparent when comparing the gains in 2007 in the province's labour income, up 6% in 2007, and retail sales, which increased by 9.5% (notably auto sales, up 17%) in 2007. Saskatchewan, where cross-border commuting to Alberta is much easier, also showed a much larger rise in retail sales than income in 2007, with labour income increasing 8% while the rise in retail sales surpassed both Newfoundland and Alberta, rising nearly 13%.

This increased income has also caused a housing boom in both Newfoundland and Saskatchewan. Housing starts were up 19% in Newfoundland and 62% in Saskatchewan in 2007 and existing home sales reached their highest level ever in Saskatchewan and their second-highest in Newfoundland in the first quarter of 2008.<sup>20</sup> New housing prices in Saskatoon and Regina have soared, registering the fastest pace of all of the metropolitan areas in Canada, with February 2008 prices in Saskatoon nearly 60% higher and in Regina nearly 30% higher than a year earlier. Population gains combined with higher incomes and reverse sticker shock for housing and services after time spent in Alberta may help explain this spending spree.

## **Conclusion**

Since 2002, prices for oil, metals and agricultural products have skyrocketed, and with Newfoundland and Saskatchewan each laying claim to two out of three of these products in their soil and rock, they are in an enviable position. After consistently lagging behind the Canada average for GDP growth during the 1980s and 1990s, Newfoundland and Saskatchewan have shot ahead and in 2007, surpassed even Alberta.

With this growth have come additional job opportunities. Combined with a much lower cost of living than Alberta, this has meant that Newfoundland and Saskatchewan have become attractive to workers and their families. As a result, these two provinces reversed a shrinking population trend. Newfoundland's population edged up at the end of 2007 and continued to do so in early 2008, while Saskatchewan's population is increasing at a rate comparable to Alberta's.

Higher prices, incomes, and profits as well as money flowing in from Alberta have meant a windfall for these provinces, allowing the resource sector boom to echo throughout the real economy. The Newfoundland and Saskatchewan economies have gone from stagnant to stellar. As former residents and new faces pour in, a period of renewal has been ushered in for both provinces.