

This Boom Goes On | A lesson from Saskatchewan on building a recession-resistant economy

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Unlike Alberta, Saskatchewan spread its newfound prosperity across enough baskets that the province was last into the recession. Now it's ready to be the first out

by Amy Jo Ehman

Check out these numbers: Since 2007, A market cap increase from \$35 million to more than \$500 million, output of 450 tonnes per day, a hold on one-third of Saskatchewan's international export market and sales to more than 80 countries eager for a commodity the province has more of than just about anywhere else in the world.

Potash? Uranium? Oil?

Try lentils.

"In a recession, people don't consider whether they'll buy their basic protein. They do consider whether they'll buy a new car or new clothes, but not their basic diet," says Murad Al-Katib, president, CEO and founder of Regina-based Alliance Grain Traders Inc., whose primary markets are in Turkey, South Asia and North Africa. "Our company has seen explosive growth over the past two years."

Al-Katib, who grew up in the farming community of Davidson, 145 kilometres northwest of Regina, started marketing lentils from his basement in 2001 and took Alliance Grain Traders onto the TSX three years ago after constructing a \$5-million lentil- and pea-splitting facility in Regina with financing from one of his biggest customers, the Arbel Group of Turkey. Last September, he bought Arbel.

Millions of acres sown to lentils represent a dramatic diversification in Saskatchewan's agricultural sector over the past 20 years. It also symbolizes a healthy diversification across sectors, which has helped the province weather the global economic storm.

"We used to sell a little bit of oil and a bunch of wheat, and now we're selling things I didn't even know the world wanted," says Steve McLellan, CEO of the [Saskatchewan Chamber of Commerce](#) ^[1].

"We've become so diversified as a province that when one sector declines, as we've seen with potash, others seem to pick up the ball and run with it. It's allowed us to sustain our profitability as a province at a time when the rest of the world is feeling the pinch."

As Albertans dare to hope for a modest recovery in 2010, folks in Saskatchewan dare to wonder if the recession has simply passed them by. Activity is returning to the oilpatch, economic indicators are holding steady and prosperity appears to hang in the balance. There's a chance that, unlike its western neighbour – and almost every province and territory in Canada, for that matter – Saskatchewan has managed its boom so deftly that it might continue without the worry of something so severe as a bust.

Several forecasters back that up. CIBC and RBC are predicting Saskatchewan will lead the nation in economic growth in 2010, while BMO has placed it second to British Columbia with its Olympic-sized economic boost.

Their bullish forecasts are predicated on a rebound in the resource sector, particularly potash, whose meteoric rise in 2008 crashed to the floorboards last year. That unpredictability has forecasters at TD and Scotiabank pegging Saskatchewan in fourth place among the provinces.

However, those sour predictions don't curb the enthusiasm of boosters like McLellan: "We were the last into the recession – what I refer to as a recess – and we're going to be the first out of it as well."

That "recess" couldn't have come at a better time, according to those on the inside of Saskatchewan's overheated economy two years ago.

While potash royalties soared and drilling companies flocked to the oilpatch, many sectors – from construction to service industries – felt the strain of rapid growth and a shortage of qualified employees. The pace was exhilarating, but exhausting.

"Honestly, we needed a correction," says Derrick Big Eagle, of [Eagle Drilling Services Ltd.](#) ^[2], a contract driller with 175 employees operating six rigs primarily in the burgeoning Bakken oil play in southeast Saskatchewan. With its extensive pool of light crude, excitement over the Bakken field was a key factor in that province's record-high resource land sales in 2008.

"It was getting a little 'green' out there. The experience level got rushed and people were moving up ladders before putting in their time," says Big Eagle, whose company was recently commended for surpassing one million hours without time lost to accidental injury.

From a high of 95 to 100 rigs drilling in the Bakken at the height of the boom, to a low of 20 rigs just a few months later, the pace has recovered to a comfortable 75 rigs, according to Big Eagle.

Besides the contribution a favourable royalty regime has made to that rebound, Big Eagle's Calgary-based business partner Rob MacCuish identifies another advantage vis-à-vis Alberta: the price of oil has recovered more quickly than the price of natural gas, neither of which holds a grip on Saskatchewan's economy.

"When the oil and gas industry picked up, it was a bonus for Saskatchewan, whereas when it dropped off, it really hit Alberta hard," says MacCuish.

"Saskatchewan has a lot more oil waiting than gas waiting, whereas Alberta has more gas waiting than oil, on the conventional side."

However, the big boom-and-bust headlines in Saskatchewan were reserved for another resource commodity: potash (see sidebar, next page). Record sales in 2008 were followed by a 37-year low as prices and sales plummeted, due in part to a decision by belt-tightening farmers around the world to forgo fertilizer, of which potash is a key component.

The Saskatchewan government was slow to see the oncoming crash. The provincial budget, which had optimistically swelled by an estimated \$1.9 billion in potash royalties had, by the end of 2009 shrunk, by roughly \$1.8 billion.

In what Saskatchewan's finance minister Rod Gantefer called "a bit of a nightmare," one-fifth of the provincial budget evaporated before his eyes, prompting the government to announce plans to trim the civil service and cap health spending at 3% above the previous year.

Roll over the years or months for more information

Recent headlines are raising hopes the slump will be short lived. In February, Canada made its first sale of potash to China in a year. In January, the Australian mining giant BHP Billiton, a new player in the Saskatchewan potash industry, bought upstart Athabasca Potash and announced it was spending a other US\$240 million to initiate development of a new mine.

"If the biggest mining company in the world is that confident in the potash capacities of Saskatchewan, nobody needs worry where potash will be in a year from now," says McLellan.

While all eyes are on potash, Saskatchewan's small business sector has not pinned its hopes on a resource rebound. Retail sales have dipped, but optimism has not.

In January, Saskatchewan's small business owners, alongside those in B.C. and Nova Scotia, topped the country for overall confidence in the economy, according to a survey by the Canadian Federation of Independent Business.

They were also the most optimistic about hiring new employees: 16% said they would add full-time positions before the summer, compared to a national rate of 14%. Only 8% said they planned to cut the number of employees, compared to 15% across the nation.

"The small business sector in Saskatchewan has been pulling its weight a great deal to keep this province ahead of Canada and ahead of Alberta," says Dale Lemke, president and CEO of Display Systems International Inc., a software company with 10 employees based in Saskatoon.

"Everybody looks to the big companies for the home runs, but if we have a bunch of small

companies who are continuously hitting base hits, it serves the economy much better. Slow and steady wins the race."

By all accounts, Lemke's business is anything but slow and steady. In each of the past four years, he reports an increase in sales of 20% to 25%, with 90% of sales in the United States. He has suffered little from the North American economic downturn. If anything, he was poised to profit from the financial angst of others.

DSI makes and markets software systems for digital signage on cable and private television channels, generating a graphic scroll for services such as news, real estate, car trader and TV listings. He has been in business 26 years, but it took a recession to really take off.

"Cable television is fairly recession-proof," says Lemke. "When people stop going to restaurants, and stop going out for entertainment, and stop going to concerts because they can't afford it, they still pay their cable bill."

He has also profited from the economic uncertainty south of the border by purchasing a struggling U.S. competitor. While most Canadian exporters feel squeezed by the strong Canadian dollar, Lemke says his company, and many others in Saskatchewan, remain profitable because they are "run well and run lean."

Saskatoon's Vecima Networks Inc. is also beating the downturn by marketing Saskatchewan-designed technology to computer and cable companies across the continent. Among its products is a system for delivering wireless broadband Internet in rural areas.

"Although there's been a downturn, people still want to be on the Internet. They are online, buying and selling and looking for ways to get ready for the future. They are still getting connected," says Vecima's director and chief operating officer Hugh Wood.

The rising demand for social networking, pay-per-view movies, picture sharing and high-definition digital television is fuelling sales of another Vecima software product that compresses old-fashioned analog signals, thus opening up more bandwidth on the cables that carry the digital signals of the 1,000-channel universe.

With 750 employees, a corporate office in Victoria, B.C., and a client list that includes Time Warner, Motorola and Cisco, Vecima would be at home in any major city. But Saskatoon is home.

"We have a good, strong labour base, our real estate didn't go through the roof and land prices are reasonable. Taxes are always too high. But for us, it's really an issue of being able to grow at the steady rate of 20% to 25%," says Wood.

While few business owners would laud Saskatchewan's higher tax base, it has helped diversify and strengthen the province's small business and entrepreneurial sectors, according to DSI's Lemke. He says many successful large companies have already moved to Alberta to take advantage of more favourable corporate tax rates, but for smaller businesses, the disparity in tax burden is less apparent.

"So while the taxes we pay are higher than they would be in Alberta, it's not a lot higher," explains Lemke. "Small businesses stay [in Saskatchewan] because the style of life is great, the water is great, the schools are great and the crime rate is low. It's a great place to live and raise a family."

Among the reports, forecasts and news clippings on his desk at the chamber of Commerce, McLellan is pleasantly absorbed in his copy of a Saskatchewan bestseller that has been topping local book charts since it was launched in early December.

[*Birth of a Boom: Lives & Legacies of Saskatchewan Entrepreneurs*](#) ^[3] is the first comprehensive attempt to tell the stories of Saskatchewan's entrepreneurial class which until now has been characteristically shy to talk publically about its road to success.

Had that title been penned in Alberta, it might now be earning criticism not kudos, but in Saskatchewan there is no irony in speaking of the boom in the present tense.

"Frankly, I've never seen it so good," says Norm Wallace of Wallace Construction Specialties Ltd., a

successful building supply company whose story appears in the book. Despite a provincial drop in the value of commercial building permits in 2009 over 2008, Saskatoon recorded its second best year on record.

"It's exciting," Wallace told a book reviewer. "Our children don't have to go to Alberta or other countries to find jobs."

McLellan believes the timing and popularity of the book illustrate a growing confidence in what he calls the "new Saskatchewan."

"Our boom is unique. It's not going to have the yo-yo effects," he says. "When we get up to high speed again, we're going to continue flying for a long time and we don't need to worry about putting our landing gear down."

From his mountain of lentils, Al-Katib could not agree more: "When I went public in 2007, Saskatchewan was still an unsure, unproven province. Today on Bay Street, when you say you're from Saskatchewan, it means opportunity, growth and prosperity. It's a positive dynamic and the future looks bright."

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[1] Saskatchewan Chamber of Commerce: <http://www.saskchamber.com/default.aspx>

[2] Eagle Drilling Services Ltd.: <http://www.eagledrillingservices.ca/>

[3] *Birth of a Boom: Lives & Legacies of Saskatchewan Entrepreneurs*:
<http://www.albertaventure.com/?p=8940>