

NEW BRUNSWICK BUDGET 2018

January 31, 2018

A plan for three more deficits as New Brunswick heads for an election

Overview

The Liberal party laid out the last budget of their mandate today setting the stage for New Brunswickers to head to the polls later this year. The budget features new money for health care and education leading to a larger deficit next year. Over the past four years, New Brunswick has generally avoided cuts to program spending by making only incremental progress on its once-wide fiscal shortfall. Budget 2018 continues on the same tack: outlining a delayed 4-year path back to balance and a temporary dip deeper in the red this year.

Fiscal balance

New Brunswick came into this budget in a stronger position than expected thanks to higher corporate income tax and HST revenues. Following a revised deficit of \$115 million in 2017-18, Budget 2018 forecasts a larger \$189 million deficit in 2018-19. The expected shortfall in 2018 is equivalent to 0.3% of GDP; significant, but a far cry from deficits that routinely exceeded 2% of GDP in the early 2010s. The government is hoping to slim those deficits in the years ahead eventually achieving a small surplus by 2021-22. The timetable for eliminating the deficit has been pushed out a year compared with last year's budget.

Revenue growth driven by federal transfers

The province is expecting a \$102 million increase in revenues this year driven entirely by equalization and other transfers from the Federal government. Own-source revenues are expected to decline slightly (-1%) with last year's jump in corporate tax revenues expected to reverse. While there are no major changes to taxes this year, gasoline and motive fuel taxes are being reclassified and dedicated to a *Climate Change Fund*. It is unclear whether this change represents a first step toward, or the province's full response to, the Federal government's requirement that provinces put a price on carbon by 2019. As of 2013, New Brunswick has reduced its emissions by 23% relative to 2005 putting the province well on the way to achieving its target of a 28% decline from 2005 levels by 2020.

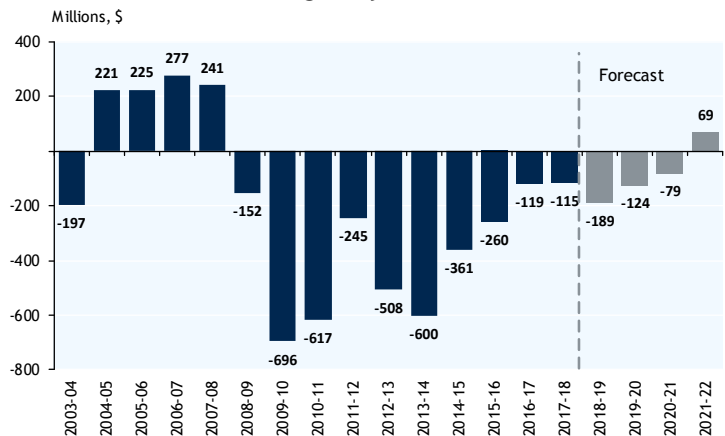
Table 1: Economic Assumptions

Year-over-year % change	Forecast	
	2018	2019
2018 Budget		
Real GDP growth	1.1	0.9
CPI	1.5	1.6
Nominal GDP growth	2.5	2.2
Unemployment Rate*	8.2	8.3
Employment growth	0.2	0.1
RBC Economics		
Real GDP growth	0.7	0.4
CPI	1.8	1.9
Nominal GDP growth	2.3	2.0
Unemployment Rate*	7.9	7.5
Employment growth	-0.1	-0.3

*Average level

Source: RBC Economics, New Brunswick Department of Finance and Treasury Board

New Brunswick Budgetary Balance



Source: RBC Economics Research, New Brunswick Government

New expenditures focus on health, jobs and education

Finance Minister Rogers named jobs, education and health care as the key challenges the province is tackling in Budget 2018 and spending increases reflect these priorities. After growing by 1.4% on average over the past 3 years, the province is increasing Health Care spending by 3.4% this year. This is partly owing to a raft of small initiatives aimed at reducing wait times, improving mental health care, hiring new home care workers, and supporting caregivers. Similarly, education and early childhood development spending is up by 6.5% this year after an average increase of 1.9% over the past three years. Much of this increase will go to raising the wages of early childhood educators and to build Early Learning Centers throughout the province. On the economic front, the province is focused on retaining and employing young people and fostering innovation and tourism. This includes \$40 million for the innovation agenda, boosting investment in tourism infrastructure, and boosting funding for a summer jobs program for post-secondary students.

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The Capital Plan

As the government makes targeted increases in operational expenditures, it is also boosting capital spending. The 2018 Capital Plan expects to spend \$815 million this year, a 9% increase over last year. Spending increases are concentrated in roads, bridges and other infrastructure but also include spending on new and renovated schools, hospitals, and provincial parks.

Borrowing and Net Debt

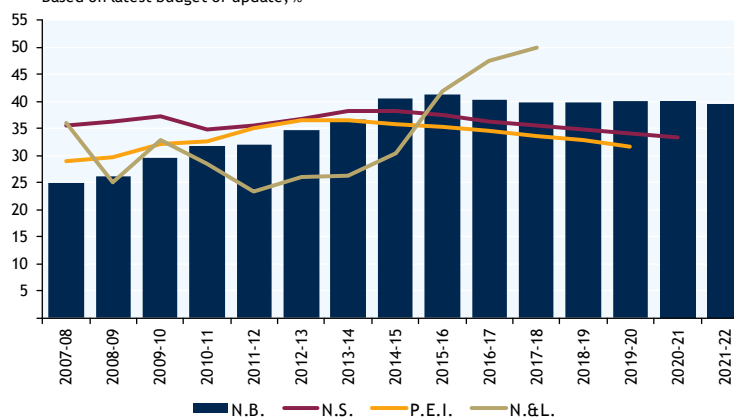
The ongoing provincial deficit and an increase in the capital budget are driving borrowing needs in New Brunswick. The province plans to borrow \$2.3 billion in 2018 including \$610 million on behalf of NB Power, slightly less than last year. The province's net debt is expected to climb to \$14.5 billion this year and \$15.2 billion by 2021-22. However, the province projects the debt stabilizing as a share of GDP at 40% through the forecast horizon thanks to a growing economy.

Commentary

As the province heads for an election later this year, the New Brunswick government is loosening the purse strings and delaying a return to a balanced budget for another year. With a new projection of a balanced budget in 2021-22, New Brunswick will increase its debt burden over the coming four years but hopes that economic growth stoked by infrastructure spending will keep debt stable as a share of the economy. As the finance minister noted in her address, fiscal sustainability is a long-term goal for the province, and they prefer slow progress on the deficit to cuts to government programs. Our view is that Canada's economy is operating at or near its potential and in this environment, governments should be replenishing their fiscal capacity to prepare for whatever comes down the pike. This is especially true for New Brunswick which is Canada's most exposed province to U.S. trade and may be disproportionately impacted by any possible protectionist action. Beyond political and cyclical considerations, New Brunswick is a rapidly ageing province and is facing both the long-term decline of its workforce and a growing retiree population. Given the implications for health care and other spending, the province needs to adhere to its fiscal goals and begin to chip away at its debt burden in the near future. With that in mind, we are disappointed that the province is allowing the deficit to rise this year and is postponing the elimination of the deficit.

Net debt-to-GDP ratio: New Brunswick and peers

Based on latest budget or update, %



Source: RBC Economics Research, Provincial Departments of Finance

Table 2: Budget Summary (millions of dollars)

	Revised	Forecast			
	2017-18	2018-19	2019-20	2020-21	2021-22
Total Revenue	9,263	9,427	9,685	9,902	10,115
Departmental and Other Expenses	8,695	8,941			
Public Debt Charges	683	675			
Total Expenses	9,378	9,616	9,809	9,981	10,046
Net Budgetary Balance	-115	-189	-124	-79	69
Net Debt	14,100	14,473	14,819	15,106	15,206
Nominal GDP (Govt. Forecast)	35,353	36,237	37,034	37,738	38,455
Net debt to GDP Ratio	40%	40%	40%	40%	40%

Source: New Brunswick Department of Finance

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