

Manitoba: 2018–19 Q2 Update

SUMMARY

The Province of Manitoba released its second quarter *Fiscal and Economic Update (Update)* fiscal year 2018–19 (FY19) yesterday. A summary net income loss of \$518 mn¹ is forecast for FY19—in line with the budgetary shortfalls expected in both the March 12, 2018 Budget (*Budget*) and Q1 update (chart 1).

There was little change to the economic outlook. The Province foresees 1.8% real GDP growth both this year and next, in line with Q1 estimates. Job creation expectations were edged down 10 bp in 2018 and maintained in 2019. Residential construction has proved resilient to rising interest rates and easing employment gains, with the pace of housing starts to date in 2018 approaching the 30-year high witnessed in 2017. Given Manitoba’s small share of direct exports to the Western Canadian oil and gas sector, the Government forecasts only modest downside from Alberta oil production cuts in 2019.

Total revenue projections were edged up \$11 mn versus Budget and \$71 mn relative to Q1. Income tax receipts and net income of government business enterprises (GBEs), projections for neither of which were revised in the first quarter, are forecast to come in \$64 mn and \$45 mn higher than anticipated, respectively. Modest upward revisions to components such as corporate income taxes, federal transfers and sinking funds and other earnings also buoyed the Government’s financial position.

Foregone carbon tax revenues of \$143 mn represented the Update’s most substantial line-item change. Manitoba opted out of the Federal Carbon Tax program on October 3rd, citing what it saw as insufficient recognition for the Province’s environmental and green energy programs. It subsequently withdrew a \$1,010 boost to the Basic Personal Amount planned for the 2019 tax year. This will presumably result in a net fiscal loss of \$92 mn in FY20 as \$248 mn in lost carbon tax proceeds are partly offset by greater personal income tax receipts.

Total expenditures are expected to come in \$107 mn lower than estimates in both Q1 and Budget (chart 2, p.2). As such, the Province no longer expects to use in-year adjustments or lapses—which could be derived from its revenue sources or spending program and were forecast at \$175 in Q1—to boost its FY19 bottom line.

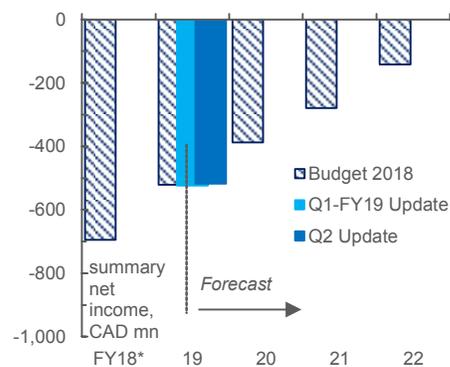
Net debt was revised downward to \$25.4 bn—\$269 mn lower than Budget and \$81 mn below the Q1 forecast. The change from the first quarter largely reflected a \$162 mn decrease in projected net investment in tangible capital assets. Recall that the Province removed the Workers Compensation Board from the Government Reporting Entity and the Manitoba Agricultural Services Corporation’s contributions to trust accounts in its FY18 *Public Accounts*. These changes had a negative fiscal impact but were dominated by improved operating results, leading to a downward revision of historical net debt figures. The change in reporting standards raised questions from the Province’s Auditor General.

¹ Figures reported in Canadian dollars unless otherwise stated.

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Chart 1
Manitoba's Budget Balances



* Final result. Source: Scotiabank Economics, Manitoba Finance.

Fiscal Update*				
\$ millions except where noted				
	FY18	FY19		
	Final**	Budget**	Q1	Q2
Tax Revenue	8,573	8,841	8,778	8,783
Gov't Enterprise Net Income	758	842	842	887
Other Own-Source Revenue	2,664	2,608	2,608	2,625
Own-Source Revenue	11,995	12,291	12,228	12,295
Federal Transfers	4,200	4,496	4,499	4,503
Total Revenue	16,195	16,787	16,727	16,798
Health	6,483	6,751	6,751	6,702
Education	4,384	4,453	4,453	4,461
Family Services	2,183	2,144	2,147	2,174
Other Program Spending	2,888	3,041	3,041	2,953
Program Spending	15,938	16,389	16,392	16,290
Debt Service	952	1,034	1,034	1,026
Total Expenditures	16,890	17,423	17,426	17,316
In-Year Adjustments/Lapse	0	115	175	0
Summary Net Income	-695	-521	-521	-518
Net Debt	24,365	25,645	25,457	25,376
Memo Items, %				
Summary Net Income / GDP	-0.9	-0.7	-0.7	-0.7
Own-Source Revenue / GDP	16.3	16.7	16.6	16.7
Program Spending / GDP	21.7	22.3	22.3	22.1
Net Debt / GDP	33.1	34.8	34.6	34.5
Annual Change, %				
Tax Revenue	2.6	3.1	2.4	2.4
Total Own-Source Revenue	3.4	2.5	1.9	2.5
Federal Transfers	1.7	7.0	7.1	7.2
Total Revenue	3.0	3.7	3.3	3.7
Program Spending	2.4	2.8	2.8	2.2
Total Expenditures	2.4	3.2	3.2	2.5

* Figures may not sum due to rounding. ** Restated to reflect the removal of Workers Compensation Board equity from the Government Reporting Entity. Source: Manitoba Finance; nominal GDP forecasts: Scotiabank Economics.

Strategic infrastructure outlays were also scaled back versus *Budget* and Q1.

The most material downward revisions pertained to water-related infrastructure (\$62 mn), health (\$54 mn) and education (\$40 mn). The Province reiterated its commitment to spend more than \$1 bn annually on strategic infrastructure.

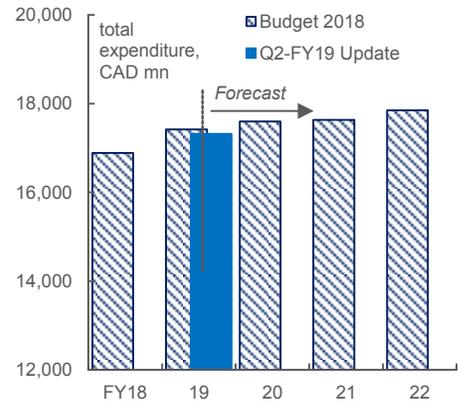
OUR TAKE

The *Update* does not materially change our view of Manitoba’s financial position. The Province looks as though it will be able to remedy the hit to its bottom line from foregone carbon tax revenues via higher income tax receipts and GBE profits. Revenue generation and debt reduction will become more challenging in a slowing growth environment—even for an economy like Manitoba’s that is known for stability. Yet the Government’s progress on the expenditure side of the ledger leaves it, for now, on track to meet its ambitious target of holding total spending growth to an annual average just above 1% over FY19–22.

Accounting changes continue to cloud the outlook somewhat. We await the 2019 Manitoba Budget to see what, if any impact they have on the Government’s resource allocation and debt burden in future fiscal years.

Chart 2

Budget Spending Plans on Track



Source: Scotiabank Economics, Manitoba Finance.

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