

Manitoba: 2019–20 Q2 Update

YEAR PROCEEDING AS PLANNED; BALANCE STILL EXPECTED IN FY23

SUMMARY

The Province of Manitoba's mid-year Fiscal and Economic Update (Update) for fiscal year 2019–20 (FY20) projected a deficit of \$350 mn (0.5% of GDP) in the current fiscal year. That is just \$10 mn narrower than the forecast as of the March 7, 2019 budget (*Budget*) (table). Recall that the FY19 *Public Accounts* published revised outer-year balance projections; black ink is still anticipated in FY23 (chart), though new non-cash accounting charges are expected in FY21.

Manitoba's net debt is expected to reach \$25.8 bn (34.5% of GDP) in FY20, slightly smaller than the \$26.1 bn (34.7% of GDP) forecast in *Budget*. The change stems almost entirely from an income tax revenue windfall that eroded the FY19 shortfall, and keeps the Province on track to lower its debt burden this year.

Fiscal planning is based on a generally weaker economic outlook than laid out in March. Real GDP growth of just 1.2% is forecast for calendar year 2019—versus the 1.7% advance penciled in at budget time—with a 1.4% gain—a further 0.1 ppt markdown from *Budget*—anticipated next year. Amid heightened global uncertainty, retail, wholesale, and manufacturing sales have slowed versus 2018. However, economic indicators such as job creation, wages, and residential and non-residential investment are on track to outpace last year's gains.

Despite more muted economic growth prospects than outlined as of *Budget*, total revenues are expected to beat *Budget* plans by \$70 mn. The *Update* included modestly higher own-source receipts, federal transfers, and government business enterprise profits.

When in-year lapses are included, total expenditures are forecast to come in \$10 mn higher than budgeted. Salary, drug and supply costs, as well as medical remuneration are expected to push health costs \$30 mn higher than anticipated in March. Spending reductions of \$115 mn are expected across other programs plus lower interest costs vis-à-vis the Province's improved debt trajectory. However, *Budget* had assumed that \$95 mn of planned expenditures would lapse; *Update* expects that lapse to be achieved and erode the bottom line by \$95 mn. The new fiscal plan also incorporates a \$50 mn contingency for writedown.

As part of ongoing efforts to reduce costs and maximize value for money, Strategic Infrastructure will be scaled back by \$177 mn in FY20. The prior plan had called for \$1.55 bn in outlays this fiscal year.

IMPLICATIONS

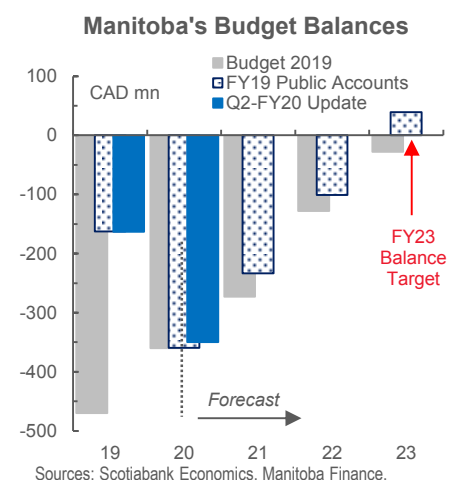
The fiscal year is proceeding largely as planned for Manitoba. *Update* is unlikely to alter market perception of the Province's credit. In spite of the recent slowdown in growth, the Government continues to demonstrate fiscal discipline—a positive trend given its persistent structural deficits. Unfortunately adherence to plan comes at the expense of capital investment, but that trend is being observed across many provinces.

CONTACTS

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| Updated Fiscal Figures | | | |
|--------------------------------|---------------|---------------|---------------|
| \$ millions except where noted | | | |
| | FY19 | FY20 | |
| | Final | Bud. | Q2 |
| Own-Source Revenue | 11,535 | 11,404 | 11,424 |
| Gov. Enterprise Net Inc. | 919 | 806 | 839 |
| Federal Transfers | 4,200 | 4,815 | 4,832 |
| Total Revenue | 16,975 | 17,025 | 17,095 |
| Health | 6,572 | 6,651 | 6,681 |
| Other Programs | 9,566 | 9,741 | 9,671 |
| Debt Servicing | 1,000 | 1,088 | 1,043 |
| Total Expenditure | 17,138 | 17,480 | 17,395 |
| Contingency for Writedown | — | — | 50 |
| In-Year Adjustment/Lapse | — | -95 | — |
| Budget Balance | -163 | -360 | -350 |
| Net Debt | 24,999 | 26,113 | 25,799 |
| Memo Items, % of GDP | | | |
| Bud. Balance | -0.2 | -0.5 | -0.5 |
| Own-Source Revenue | 15.9 | 15.1 | 15.3 |
| Program Spending | 23.6 | 23.2 | 23.3 |
| Net Debt | 34.6 | 34.7 | 34.5 |

Sources: Scotiabank Economics, Manitoba Finance.



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