March 20, 2019

New Brunswick: 2019–20 Budget

SUMMARY

- **As widely anticipated, New Brunswick's budget (*Budget*) for fiscal year 2019–20 (FY20) unveiled surpluses[1] from FY19 onward** (chart 1)**.**
- ***Budget* was fairly light on major new policy measures and was largely focused on modest public spending reductions across several government departments.**
- **The Government expects to lower its net debt from FY19 to FY20, the first annual drop in 13 years** (chart 2)**; this followed a December 2018 pledge to target a declining net debt-to-GDP ratio upon return to balance.**
- **We do not anticipate credit rating moves at this time. Foundational assumptions look reasonable and continued progress on the current fiscal path will likely encourage the Province's creditors.**

ECONOMIC CONDITIONS

New Brunswick lowered its economic growth forecast for 2018–19. Real GDP gains of 0.9% and 0.6% are expected for in 2018 and 2019, respectively, down from the 1.1% and 0.9% advances projected in last year's budget. A more modest Canadian expansion is expected to translate into slower import demand from New Brunswick's domestic trading partners. Repairs to the Saint John refinery should limit oil output and exports this year as well, with remediation work at a major mine likely to further dampen production in early 2019. No major private-sector ventures wait in the wings, but the Province cited upside potential for capital investment and employment growth via natural gas development. It also continued to note its aging population and expectations of slower government spending growth.

NEW POLICY MEASURES

Budget contained few new taxes or fee increases. The front license plate on vehicles will be eliminated, as will fees paid by volunteer firefighters for their license plates. The Government had earlier signaled its intent to make business taxation more competitive in the province; it stopped short of offering new tax cuts in this fiscal plan but pledged take a broader look at the tax system. On this front, the Province did announce that, unlike the federal government, it will not phase out access to the small business corporate income tax rate based on the amount of passive investment income earned by a corporation. It estimates that the phase out would have raised the effective corporate income tax rate by more than 10 ppts for firms subject to the federal change.

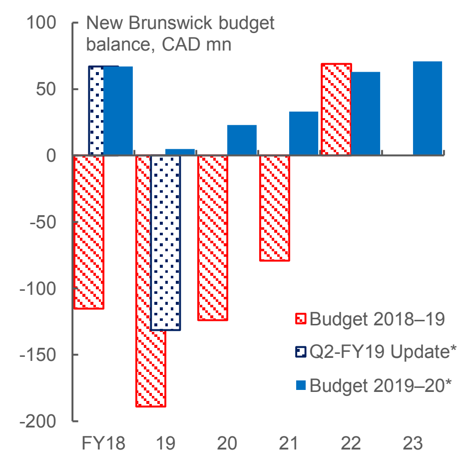
Modest spending in the public sector will be key to a balanced budget in FY20. Social Development expenditures are forecast to rise just 0.5%. A 4% climb in funding for Seniors and Long Term Care is expected to offset weaker spending on Housing Services, Income Security ($229.8 mn, -4%), and Child Welfare and Disability Support Services. Tourism, Heritage and Culture, Post-secondary Education, Training and Labour, and Opportunities New Brunswick will also see reduced funding next fiscal year.

CONTACTS

Marc Desormeaux, Provincial Economist
416.866.4733
Scotiabank Economics
marc.desormeaux@scotiabank.com

Chart 1

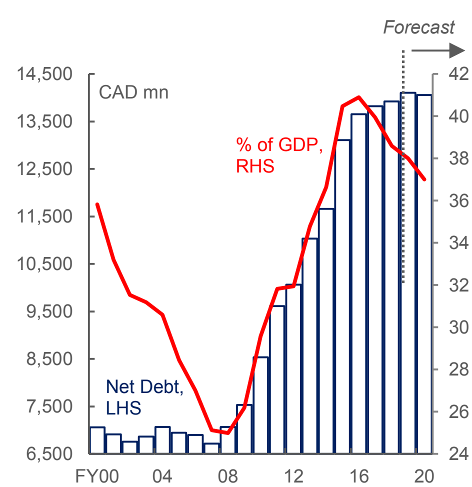
A Return to Black Ink...



* Surplus in FY18 represents final result. Sources: Scotiabank Economics, NB Finance.

Chart 2

...Lowers New Brunswick's Debt



Sources: Scotiabank Economics, NB Finance.

[1] Figures reported in Canadian dollars unless otherwise stated.

The Government also sprinkled in modest funding increases for FY20. Total Health spending is projected to rise 1.8%, and *Budget* pledged some $16 mn for wage hikes for home support workers, and $2.4 mn for recruitment and retention of nurses. Department of Education and Early Childhood Development spending is forecast to increase by 2.9%. On education, the government will also introduce legislation to revive the New Brunswick Tuition Tax Credit, which was eliminated by the prior administration in favour of a free tuition program. As well, it announced a renewed bursary program for students who attend New Brunswick post-secondary institutions, and will attempt to reduce barriers with respect to classroom teaching.

FISCAL PROJECTIONS

The level of total revenues is projected to be higher than anticipated as of last year's budget in every year of the planning horizon, but annual growth is expected to be more subdued. Recall that prior-year adjustments to personal and corporate income tax receipts have already put FY19 revenues on a stronger trajectory. FY20 receipts will receive a further boost via a hefty increase of more than $149 mn in Equalization payments. Still, with a more modest New Brunswick economic outlook, total revenues are forecast to rise by an annual average of just 1.6% during FY20–23, below the 2.4% average per annum rise outlined for FY20–22 in last year's fiscal plan.

Spending plans are largely in line with the prior blueprint. Some re-profiling is expected to occur in the outer years of the forecast horizon. Rather than respective total expenditure increases of 1.8% and 0.7% in FY21 and FY22 as outlined in last year's fiscal plan, *Budget* holds growth in total outlays flat at about 1.5% through FY23. Some of the shift presumably reflects a pullback in infrastructure spending announced in December 2018.

New Brunswick's estimated FY19 net debt of $14.1 bn is expected to fall by $49.2 mn in FY20. This would represent the first annual decline in Province's the debt since FY07, and is consistent with a law implemented last year that now requires the Province to maintain a balanced budget and reduce the net debt-to-GDP ratio every year so long as it is not in recession. The decrease is a result of a return to surplus, plus lower FY20 investments in tangible capital assets, likely influenced by the aforementioned reduction in strategic infrastructure outlays.

OUR TAKE

The information contained in *Budget* is unlikely to alter market perceptions of New Brunswick's credit. Balanced books and lower debt burdens were widely expected, and new policies and their price tags are modest. The updated fiscal plan sets the stage for future tax reductions and supports for business competitiveness.

The FY19–20 surpluses stem largely from factors beyond the current administration's control, and we still view the balanced budget law as unnecessarily restrictive, we support the Province's attention to debt reduction. Expectations of softer economic growth and revenue gains are reasonable at this advanced stage of the cycle, especially for a province with modest longer-term growth potential given its aging population and muted outlook for private-sector capital outlays. Keeping the proverbial fiscal powder dry—whether for stimulus in the event of an economic downturn or for productivity-enhancing investment—looks prudent at this time. Federal financing for infrastructure may also assist the Province should it pursue either avenue.

Updated Fiscal Forecast
$ millions except where noted

	FY18	FY19				FY20	FY21	FY22	FY23
	Final	Bud. 2019	Q1	Q2	Q3	Bud. 2020	Bud. 2020	Bud. 2020	Bud. 2020
Total Revenue	9,339	9,427	9,506	9,579	9,704	9,846	9,999	10,181	10,332
% change	*4.9*	*0.9*	*1.8*	*2.6*	*3.9*	*1.5*	*1.6*	*1.8*	*1.5*
Total Expenditure	9,272	9,616	9,693	9,710	9,700	9,823	9,966	10,118	10,261
% change	*4.9*	*3.7*	*4.5*	*4.7*	*4.6*	*1.3*	*1.5*	*1.5*	*1.4*
Budget Balance	**67**	**-189**	**-187**	**-131**	**5**	**23**	**33**	**63**	**71**
% of GDP	*0.2*	*-0.5*	*-0.5*	*-0.4*	*0.0*	*0.1*	*0.1*	--*	--*
Net Debt	**13,926**	**14,472**	**14,485**	**14,264**	**14,105**	**14,056**	--*	--*	--*
% of GDP	*38.6*	*39.0*	*39.0*	*38.4*	*38.0*	*37.0*	--*	--*	--*

Figures may not add due to rounding. * Projection not available. Source: NB Finance; nominal GDP forecasts: Scotiabank Economics.

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