

New Brunswick: 2020–21 Budget

SUMMARY

- The Province of New Brunswick set out a path of continued surpluses in its 2020–21 Budget (*Budget*) over the planning horizon.
- An expected surplus for FY21 of \$92.4 mn (0.2% of nominal GDP) will deliver a fourth consecutive balanced budget for the Province.
- *Budget* also announces modest new spending measures targeting pocketbooks and social spending priorities, but otherwise keeps expenditure outlays in line with revenue growth.
- The government expects to once again reduce its net debt as a share of its economy from nearly 35% in FY21 to 32% by FY24, which should continue to support its credit outlook.

OUR TAKE

Budget delivers against plans with a fiscal path that continues to project modest surpluses over the horizon. Importantly, it firmly puts debt on a downward path as a share of its economy which should be interpreted positively by markets. It achieves a delicate balance of achieving debt reduction while investing selectively in priority social areas including in health and education, all the more challenging in a minority government context.

In the near term, weaker growth in 2020 owing to the novel coronavirus (COVID-19) outbreak may require targeted support particularly to businesses most exposed given weakness heading into the shock. Today's modest tax cut for businesses (through the non-residential property tax reduction) will provide some cashflow relief in this regard. Longer-term, the Province will require stepped-up productivity to achieve stronger potential growth to offset aging demographics. An unchanged capital plan demonstrates a strong commitment to fiscal discipline, but increased productivity-enhancing capital outlays—with a priority on those that will enable greater private sector activity—will be key to unlocking stronger provincial growth down the road.

ECONOMIC OUTLOOK

The Province anticipates slightly above consensus-economic growth for 2020. It forecasts real GDP growth of 1.2% relative to average private sector forecasters of 0.9% following estimated output growth of 0.8% in 2019. Part of the gains are predicated on robust international migration, while solid employment growth for a fourth consecutive year is also expected. A recovery in manufacturing and exports is anticipated with the new USMCA, as well as a potential resolution on US duties on softwood lumber.

The potential fallout from the novel coronavirus (COVID-19) represents an important risk to the Province's economic outlook. As with other provincial budgets to-date this year, much of the forecasting has been finalized prior to the more recent deterioration in the outlook vis-à-vis the global spread of the virus.

CONTACTS

Rebekah Young
Director, Fiscal & Provincial Economics
 416.862.3876
 Scotiabank Economics
rebekah.young@scotiabank.com

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

Updated Fiscal Forecast

\$ millions except where noted

	FY19	FY20	FY21
	<u>Final</u>	<u>Q3</u>	<u>Bud.</u>
Personal Income Tax	1,787	1,886	1,902
Corporate Income Tax	443	332	368
Harmonized Sales Tax	1,468	1,501	1,538
Other Taxes	1,045	1,090	1,135
Total Taxes	4,742	4,808	4,944
Resource Royalties	77	71	70
Federal Transfers	3,431	3,486	3,705
Other Revenues	1,448	1,573	1,559
Total Revenue	9,697	9,938	10,278
Program Spending	8,976	9,189	9,555
Debt Service	648	651	631
Total Expenditure	9,625	9,840	10,186
Budget Balance	72.6	97.8	92.4
Memo Items, %			
Own-Source Revenue / GDP	17.0	17.0	16.7
Program Spending / GDP	24.3	24.2	24.2
Total Expenditure / GDP	26.0	25.9	25.8
Budget Balance / GDP	0.2	0.3	0.2
Debt Service / Revenues	6.7	6.6	6.1
Net Debt	13,959	13,810	13,681
% of GDP	37.8	36.3	34.7

Sources: Scotiabank Economics, New Brunswick Finance.

Dampened growth across Canada—and globally—at least for the first several quarters of 2020 will weigh on New Brunswick's activity through trade, as well as consumption channels.

FISCAL PATH

The Province of New Brunswick projects continued budgetary surpluses over the planning horizon in *Budget*. An expected balance of \$92.4 mn in FY21 against budgeted expenses of \$10.2 would mark the fourth consecutive year of balanced budgets for the province. The province expects to be in the black by \$97.8 mn in FY20, well above the original \$23 mn set out in last year's budget (and modestly above the revised \$88.1 mn estimate in the Fall Update). Subsequent surpluses will sit at or above the \$50 mn mark in following years (chart 1).

The Government is achieving balance by managing expenditure growth in line with revenue forecasts. For FY21, it anticipates total revenue growth around 3.4%, while total spending is expected to grow by 3.5% in FY21 before moderating to rate of 1.4% in FY24. This represents a stronger pace of government outlays than outlined in last year's fiscal plan (chart 2). The change appears to largely reflect modest increases in funding for health care initiatives, which received a 3.9% boost in Budget, to address cost pressures created by an aging population. Still, planned growth in infrastructure outlays was set to remain muted as of the FY21 Capital Budget released late last year (chart 3).

Own-source revenue growth—anticipated at 2.3% for 2021—is largely driven by gains in personal income tax receipts. These represent almost a third of own-source revenues. On the back of employment and wage growth, receipts have been revised up by over 6% from earlier forecasts for 2020 though growth is expected to moderate to less than 1% y/y in 2021. The harmonized sales tax (comprising another third of own-source revenues) is expected to pick up some of the slack in 2021 with 2.5% y/y growth as household income increases are expected to translate into stronger consumption. Corporate income tax receipts, on the other hand, have been revised downward by 13% from earlier forecasts for 2020, but annual growth is expected to pick up by over 10% y/y in 2021.

KEY POLICY MEASURES

Key new pocketbook measures were concentrated in tax relief. Taxes on residential non-owner-occupied properties will be reduced by 50% over four years, beginning in 2021, while the non-residential property tax rate will be reduced by about 15% on a similar timeline. The government estimates that these will provide a combined \$100 mn boost to the provincial economy. Further relief will be provided to students in the form of a reduction in interest rates on the provincial portion of student loans, from the prime rate plus 2.5% to the prime rate.

Consistent with a prior announcement in January, New Brunswick will target an annual increase of 10,000 newcomers by 2027 in collaboration with the federal government. *Budget* also included a range of supports for immigrant workers and business operators, such as a customized training program for newcomers with language barriers, which this year will include \$900k of federal funding.

Longer-run growth and economic diversification efforts were modest. The Province stated its intent to encourage innovation in the manufacturing and services

Chart 1

Stronger New Brunswick Surpluses

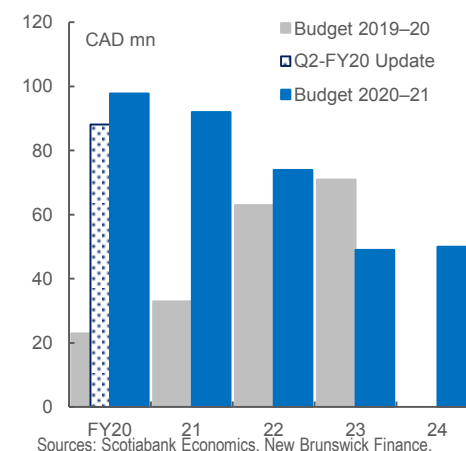


Chart 2

Previous Spending Restraint Lifted

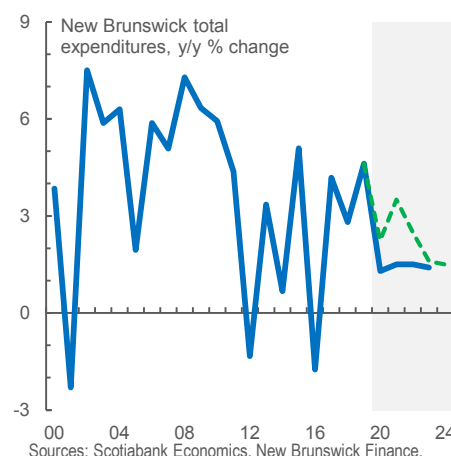
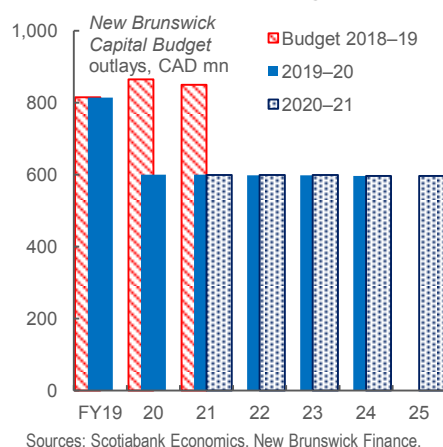


Chart 3

Infrastructure Spending To Hold Steady



sector and foster new networks among high-performing firms, and create clusters in three emerging sectors: cybersecurity, digital health, and energy innovation. Some \$500k will be allocated this fiscal year to support labour force transitions for workers impacted by the Brunswick Lead smelter closure.

New Brunswick's carbon pricing plan takes effect April 1, 2020, and includes a price on carbon of 6.63 ¢/L on gasoline and 8.05 ¢/L diesel. To mitigate pass-through costs to consumers, the Province will lower its gasoline and motive fuel taxes by 4.63 ¢/L and 6.05 ¢/L, respectively. The Government expects related proceeds of \$36 mn in FY21, which will be invested in climate change initiatives, with an additional \$9 mn to address boost the competitiveness of the provincial natural gas distribution system.

Amid a challenging fiscal environment in the City of Saint John, the Province asserted its commitment to assist the municipality in restructuring efforts.

DEBT AND BORROWING

In line with previous fiscal plans, the Province will target annual reductions in debt levels. As a result, net debt as a share of nominal GDP is forecast to fall from 34.7% in FY21 to 32% in FY24. That anticipated easing stems from expected reductions of \$126 mn or more in the Province's level of net debt for each of the next four fiscal years, in line with the new *Fiscal Transparency and Accountability Act* released in late 2018. For the moment, New Brunswick's projected debt burden puts it in the middle of the pack—outweighing those in Alberta, Saskatchewan, BC, Prince Edward Island throughout the forecast window, and on track to beat Nova Scotia by FY23.

As of January 22, 2020, the Province had completed just over \$1.6 bn in borrowing. Some \$901 mn of that figure is attributable to long-term borrowing, with an additional \$600 conducted on behalf of the provincial utility.

New Brunswick's Longer-Run Fiscal Plan								
(millions of dollars)								
	FY21		FY22		FY23		FY24	
	<u>Bud. '20</u>	<u>Bud. '21</u>	<u>Bud. '20</u>	<u>Bud. '21</u>	<u>Bud. '20</u>	<u>Bud. '21</u>	<u>Bud. '20</u>	<u>Bud. '21</u>
Total Revenue	9,999	10,278	10,181	10,514	10,332	10,656	--*	10,819
% change	1.6	3.4	1.8	2.3	1.5	1.4	--*	1.5
Total Expenditure	9,966	10,186	10,118	10,440	10,261	10,607	--*	10,769
% change	1.5	3.5	1.5	2.5	1.4	1.6	--*	1.5
Budget Balance	33	92	63	74	71	49	--*	50
% of GDP	0.1	0.2	--*	0.2	--*	0.1	--*	0.1
Net Debt	--*	129	--*	126	--*	126	--*	149
% of GDP	--*	34.7	--*	34.0	--*	33.0	--*	32.0

* Projection not available. Sources: Scotiabank Economics, NB Finance.

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