

New Brunswick: 2019–20 Q2 Update

PRIOR-YEAR ADJUSTMENT LOWERS DEBT TRAJECTORY

HIGHLIGHTS

The Province of New Brunswick's *Fiscal and Economic Update* for the second quarter of fiscal year 2019–20 (FY20) laid out a larger-than-anticipated \$88.1 mn surplus (0.2% of nominal GDP). That beat the \$38.0 mn in black ink forecast as of the first quarter, also an improvement versus the March 19, 2019 budget (*Budget*).

Expectations of a positive prior-year adjustment related to the 2018 taxation year—projected to lift personal income tax revenues \$72 mn higher than assumed in *Budget* and in Q1—anchored the improved financial forecast. Federal Gas Tax transfers are still expected to pad the government's coffers relative to the March fiscal blueprint. Weaker-than-previously anticipated corporate income tax receipts are expected to provide a partial offset. The province's economic outlook was largely unchanged from Q1, with real output still forecast to advance just 0.6% in calendar year 2019.

Planned expenditures were \$36.6 mn higher than outlined in *Budget*; that is about \$10 mn less than the overshoot projected in Q1. Spending related to health and infrastructure is still anticipated to underlie overages versus March expenditure plans. The change in forecast government outlays since the first quarter stemmed from a further reduction in projected debt servicing costs, now penciled in at \$658 mn—\$11 mn less than in Q1.

The Province now expects its net debt to total \$13.8 bn (36.8% of nominal GDP) in FY20, \$233 mn less than forecast in *Budget* and \$218 mn less than in the Q1 fiscal update. Better-than-anticipated FY19 results lowered the starting point for FY20 net debt by \$146 mn, with additional help from a \$65 mn increase in the predicted surplus for this fiscal year. The government still expects to lower its net debt in FY20—the first time since FY07 (chart)

IMPLICATIONS

The weaker debt trajectory is clearly positive for a Province carrying a large debt burden relative to its peers that will increasingly bump up against cost pressures associated with an aging population in the coming years. The improvement relative to *Budget*, driven by tax adjustments, will likely be limited to this fiscal year. Nevertheless, demonstrated progress on planned cost control may result in further positive credit ratings action alongside this windfall.

Our view is that accelerated debt repayment is the best use of the stronger surplus beyond FY20. An offer of stimulative tax relief may be tempting given that the provincial economy is expected to witness muted growth over the next few years. Yet New Brunswick is particularly susceptible to the risks presently hanging over the global economy given its strong trade ties to the US.

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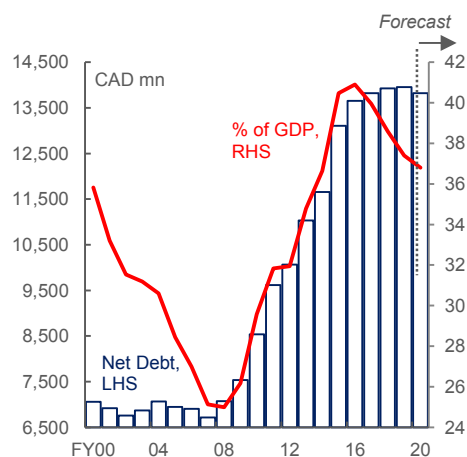
Updated Fiscal Figures

\$ millions except where noted

| | FY20 | | |
|--------------------------|---------------|---------------|---------------|
| | Bud. | Q1 | Q2 |
| Personal Income Tax | 1,773 | 1,773 | 1,845 |
| Corporate Income Tax | 381 | 381 | 350 |
| Harmonized Sales Tax | 1,539 | 1,539 | 1,539 |
| Other Taxes | 1,098 | 1,091 | 1,091 |
| Total Taxes | 4,791 | 4,784 | 4,825 |
| Resource Royalties | 70 | 70 | 71 |
| Federal Transfers | 3,485 | 3,503 | 3,489 |
| Other Revenues | 1,500 | 1,550 | 1,563 |
| Total Revenue | 9,846 | 9,907 | 9,947 |
| Program Spending | 9,146 | 9,200 | 9,201 |
| Debt Service | 677 | 669 | 658 |
| Total Expenditure | 9,823 | 9,869 | 9,859 |
| Budget Balance | 23.1 | 38.0 | 88.1 |
| Net Debt | 14,056 | 14,041 | 13,823 |
| % of GDP | 37.4 | 37.4 | 36.8 |

Nom. GDP forecast: Scotiabank Economics. Sources: Scotiabank Economics, New Brunswick Finance.

New Brunswick's Debt



Sources: Scotiabank Economics, NB Finance.

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