

Nova Scotia: 2018–19 December Forecast Update

SUMMARY

The Province of Nova Scotia released its **December Forecast Update for fiscal year 2018–19 (FY19) Wednesday**. The document outlined a \$27.3 mn¹ surplus for FY19—smaller than the September *Forecast Update* and March 20, 2018 Budget (*Budget*) projections by \$7.2 mn and \$2.1 mn, respectively (chart 1).

The Province continues to forecast moderating economic growth over 2018 and 2019, but the timing and expected drivers continue to shift. A 1.0% advance is anticipated for 2018—20 bp higher than in September—with 0.6% gains projected for 2019. Trade and business investment are forecast to provide a greater contribution to growth this year than they were in March or September, and the Province notes year-to-date rises over 20% in merchandise exports to China and Europe. Residential construction gains are now expected to exceed 5% in 2018—in contrast to the 0.8% retreat outlined in September—before falling back next year. Household consumption was edged lower this year and higher in 2019, mirroring job creation.

Total revenue is projected to come in \$51.6 mn higher than outlined in *Budget* but \$41.8 mn less than foreseen in September. Softer personal income tax receipts—\$110.5 mn lower than *Budget* and \$141 mn below September—are expected to underlie the change. The Province identifies a weaker-than-anticipated profile for taxable income through calendar year 2019 as the proximate cause. A \$19.4 mn prior years' adjustment is forecast to provide an additional hit to the bottom line as stronger corporate income tax revenues provide a partial offset. A \$23.4 mn bump in equalization payments is also expected to lift the fiscal balance.

The projection for total expenditures was revised \$99.9 mn higher than *Budget* and \$13.3 mn lower than in September. The bulk of the second quarter savings came via a \$77.9 mn decrease in forecast restructuring costs. The Province attributes this to lower-than-anticipated budget requirements for non-wage corporate initiatives, which had previously been revised higher in September. This offset climbing health-related costs largely owing to unexpectedly strong demand for various health care services.

Capital spending estimates are not expected to vary significantly from past estimates. The Province forecasts FY19 capital outlays of \$602 mn, moderately lower than the *Budget* and September projections.

OUR TAKE

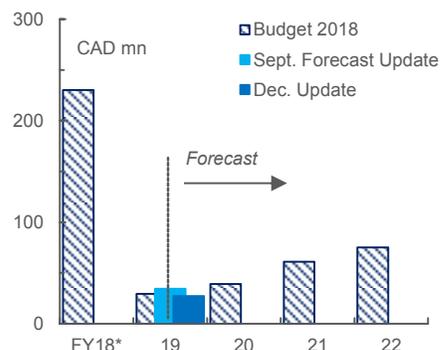
We do not anticipate significant changes with respect to Nova Scotia's deficit, debt levels or borrowing going forward. The Province maintains one of the strongest fiscal positions of any jurisdiction in Canada. Personal income tax receipts' progress along a weaker arc as the Government expects could indeed eat into the budget surplus forecast for next fiscal year. Yet upward revisions to 2019 job creation projections since *Budget* likely limit downside on this front. The health spending overshoot does not appear sufficiently large to warrant concern at this time.

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Chart 1

Nova Scotia's Budget Balances



* Final result. Sources: Scotiabank Economics, Nova Scotia Finance.

Fiscal Update

\$ millions except where noted

| | FY18 | | FY19 | |
|-----------------------------------|---------------|---------------|---------------|---------------|
| | Final | Budget | Q1 | Q2 |
| Personal Income Tax (PIT) | 2,768 | 2,816 | 2,847 | 2,706 |
| Corporate Income Tax (CIT) | 539 | 531 | 532 | 622 |
| Harmonized Sales Tax (HST) | 1,804 | 1,858 | 1,859 | 1,860 |
| Other Taxes | 652 | 663 | 654 | 653 |
| Total Tax Revenues | 5,763 | 5,868 | 5,892 | 5,840 |
| Prior Years' Adjustments | 231 | 0 | 0 | -19 |
| Royalties - Petroleum | 9 | 6 | 3 | 6 |
| Other Own-Source Revenue | 871 | 619 | 684 | 696 |
| Total Own-Source Revenue* | 6,625 | 6,493 | 6,579 | 6,523 |
| Gov.Bus. Enterprises - Net Income | 390 | 381 | 382 | 386 |
| Ordinary Recoveries | 716 | 656 | 660 | 655 |
| Federal Transfers* | 3,240 | 3,281 | 3,282 | 3,299 |
| Total Revenue | 10,971 | 10,810 | 10,903 | 10,862 |
| Program Spending | 9,964 | 9,969 | 10,072 | 10,044 |
| Debt Service | 836 | 894 | 879 | 876 |
| Total Expenditure | 10,800 | 10,863 | 10,951 | 10,921 |
| Consolidation & Adjustments | 60 | 82 | 82 | 86 |
| Provincial Balance | 230 | 29 | 34 | 27 |
| Memo Items, % | | | | |
| Tax Revenue / GDP | 13.5 | 13.3 | 13.4 | 13.3 |
| Program Spending / GDP | 23.3 | 22.6 | 22.9 | 22.8 |
| Budget Balance / GDP | 0.5 | 0.1 | 0.1 | 0.1 |
| Debt Service / Revenue | 7.6 | 8.3 | 8.1 | 8.1 |
| Annual Change, % | | | | |
| Total Tax Revenue | 3.4 | 1.8 | 2.2 | 1.3 |
| Personal Income Tax (PIT) | 5.0 | 1.7 | 2.8 | -2.3 |
| Corporate Income Tax (CIT) | 5.1 | -1.5 | -1.3 | 15.4 |
| Harmonized Sales Tax (HST) | 1.4 | 3.0 | 3.1 | 3.1 |
| Total Revenue | 3.8 | -1.5 | -0.6 | -1.0 |
| Program Spending | 3.1 | 0.1 | 1.1 | 0.8 |
| Total Expenditure | 2.7 | 0.6 | 1.4 | 1.1 |

* Excluding ordinary recoveries. Source: Nova Scotia Finance; Statistics Canada; nom. GDP forecast: Scotiabank Economics.

¹ Figures reported in Canadian dollars unless otherwise stated.

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