

NEW BRUNSWICK BUDGET 2019

March 20, 2019

Holding the line on spending and keeping the books in the black

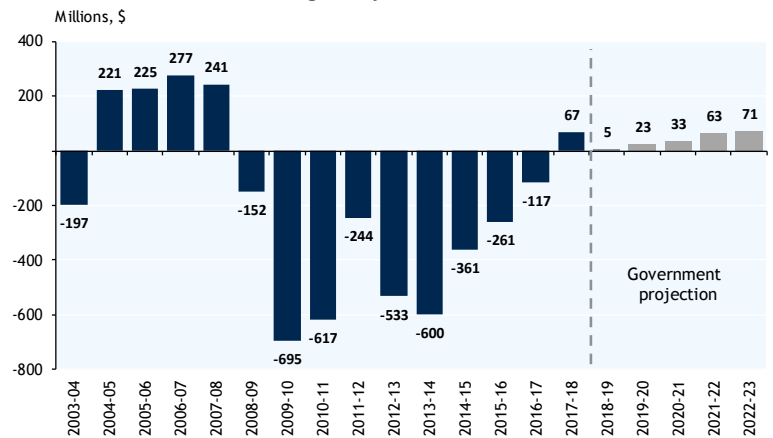
Overview

The Conservative party’s first budget since coming to power landed a small surplus, one of several planned over the next four years. The budget also projects net debt to decline for the first time in 13 years but there is more work to do. While the previous budget projected a deficit in FY 18/19, the revised estimates suggest a slight surplus which provided a stronger handoff to the next fiscal year. Without raising or slashing any taxes, the government has found efficiencies by cutting expenditures in several programs.

Fiscal balance

After back to back surpluses, the New Brunswick government plans to continue balancing its books over the forecast horizon. Following an upwardly revised surplus of \$4.5 million in FY 18/19 (after initially estimating a deficit of \$188 million), Budget 2019 forecasts a \$23 million surplus in 2019-2020.

New Brunswick Budgetary Balance



Source: RBC Economics Research, New Brunswick Government

Limited spending increase with a focus on health, education

Total spending increase will be limited to 1.4% per year over the fiscal horizon with \$9.8 billion being spent in FY 19/20. Education will see a 2.9% increase in expenditure in FY 19/20 which includes an increase in wages among trained early childhood educators. The government has also vowed to bring back the tuition tax credit which will enable students to claim this personal income tax credit in 2020. Healthcare will grow by 1.8%. An issue that was debated heavily during the provincial election last year—labour shortages in critical services like nursing was tackled in Budget 2019 with the creation of a new nursing human resource strategy. This initiative will see an investment of \$2.4 million towards hiring, education, and retention of nurses. Another \$16 million has been pledged to increase wages for home support workers. Tourism, Heritage and Culture will see a cut to its expenditure by over 10%. Some other departments will also see cuts to a smaller degree including Post-Secondary Education, Training and Labour and Opportunities New Brunswick.

Table 1: Economic Assumptions

Year-over-year % change	Forecast	
	2019	2020
2019 Budget		
Real GDP growth	0.6	1.1
CPI	2.1	2.0
Nominal GDP growth	1.9	2.3
Unemployment Rate*	7.9	7.8
Employment growth	0.0	0.2
RBC Economics		
Real GDP growth	0.5	0.8
CPI	1.6	2.6
Nominal GDP growth	1.5	2.6
Unemployment Rate*	7.6	7.4
Employment growth	0.2	0.3

*Average level

Source: RBC Economics, New Brunswick Department of Finance and Treasury Board

Revenue growth driven by federal transfers

The province is expecting a \$141 million or 1.5% increase in revenues this year driven mostly by equalization and other transfers from the Federal government. Own-source revenues are expected to increase slightly (0.4%) driven by HST and gasoline and motive fuels tax, compensating for the fall in personal and corporate income tax. Revenue is expected to grow at 1.6% on average over the next four years.

The Capital Plan

The capital plan will see spending of \$600.6 million, down from the \$865.6 million committed in the previous budget. This spending will be focused on maintaining infrastructure—schools, hospitals and improvements to maintain transportation assets.



Borrowing and Net Debt

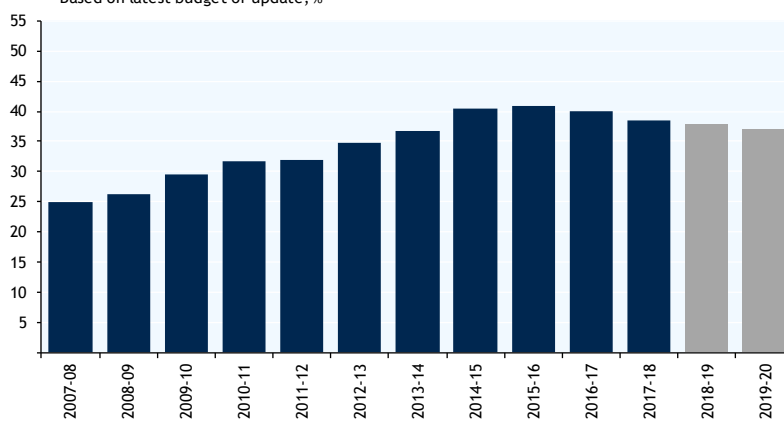
The province's net debt is expected to fall by \$49 million for the first time in 13 years in FY 19/20 to \$14.1 billion. The net-debt-to-GDP will decline to 37% in FY 19/20 from 37.8% the previous year, still the 4th highest among the provinces. The province plans to borrow \$1.5 billion in 2019 including \$600 million on behalf of NB Power, significantly lower than the \$2.3 billion last year.

Commentary

The aptly titled “Acting with Urgency” budget by the newly elected Conservative government followed through with the campaign promise of balancing the budget sooner than expected. By sustaining small surpluses over the fiscal plan, the government charts a path that emphasizes expenditure restraint at a time when the economy is unlikely to deliver much in the way of revenue upside. With real GDP forecast to grow only 0.6% in 2019, New Brunswick is currently in a low growth environment given economic headwinds—particularly trade and an aging population. The government's expenditure efforts are hence focussed on a few targeted programs within key areas like healthcare and infrastructure spending.

Net debt-to-GDP ratio: New Brunswick

Based on latest budget or update, %



Source: RBC Economics Research, Provincial Departments of Finance

Estimate: ■

Table 2: Budget Summary (millions of dollars)

	Revised		Forecast		
	2018-19	2019-20	2020-21	2021-22	2022-23
Total Revenue	9,704	9,846	9,999	10,181	10,332
Departmental and Other Expenses	9,045	9,146			
Public Debt Charges	655	677			
Total Expenses	9,700	9,823	9,966	10,118	10,261
Net Budgetary Balance	5	23	33	63	71
Net Debt	14,105	14,056			
Nominal GDP (Govt. Forecast)	37,279	37,987			
Net debt to GDP Ratio	38%	37%			

Source: New Brunswick Department of Finance

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