2019 New Brunswick Budget

A Focus on Debt Reduction and Fiscal Discipline

Omar Abdelrahman, Economist | 416-734-2873

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Highlights

- In its first budget that focused on maintaining fiscal discipline, New Brunswick's new PC government unveiled a $23 million surplus for the current fiscal year.
- The government is planning to keep the books in the black despite a weaker economic environment. The softening in the growth outlook in the year ahead can be chalked up to both transitory challenges in the province's export sector and a slowdown in consumer spending.
- With little in the way of new tax changes and with slower growth, revenues are expected to advance at a modest 1.5% in fiscal 2019-20. On the opposite side of the ledger, spending restraint will limit expenditure growth to 1.3%, notably lower than in prior years.
- Net debt is expected to decline by $49 million in the upcoming year. While still relatively elevated at around $14 billion, the drop, the first in more than a decade, is a bright spot.

New Brunswick's new PC government tabled its first budget, reinforcing its focus on debt reduction and fiscal discipline. The most notable changes are seen in spending and borrowing curbs, with no major policy changes implemented on the revenue side of the ledger. Meanwhile, an improved starting point has left the Province in a better-than-expected position to target a balanced budget and debt reduction in the year ahead. Indeed, higher-than-expected personal and corporate tax revenues are estimated to have yielded a modest surplus of $4.5 million in FY2018-19 – an unchanged estimate from the government's third quarter fiscal update. However, this comes against an initial estimate of a $189 billion deficit in last year's budget plan.

Looking ahead, the government has targeted gradually rising budget surpluses over the next few years, from $23 million (0.06% of GDP) in FY2019-20 to $71 million (0.18% of GDP) in FY2022-23. Revenues are expected to grow at a modest 1.5% in fiscal 2019-20, supported by rising harmonized sales tax revenues (HST), and more importantly, by a significant increase in federal equalization payments. In order to keep the books in the black, the government plans to hold the line on spending to only 1.3%, a sharp reduction relative to last year's 4.6% growth rate. This modest picture is expected to extend throughout the government's medium-term plan, with both the revenue take and outlays projected to grow at around 1.5% annually. The combined restraint in spending growth and the pace of borrowing for capital expenditure will help support a modest downward trend in net debt, with the net debt to GDP ratio reaching 37% by 2020.

New Brunswick Government Fiscal Position
[Millions of C$ unless otherwise indicated]

	Budget 2018	Budget 2019	
Fiscal Year	2018-19	2018-19	2019-20
	Estimate	Revised	Estimate
Revenues	**9,427**	**9,704**	**9,846**
% change	1.8	3.9	1.5
Expenditures	**9,616**	**9,700**	**9,823**
% change	2.5	4.6	1.3
Surplus (+)/Deficit (-)	-189	4.5	23
% of GDP	-0.50	0.01	0.06
Net Debt	14,472	14,105	14,056
% of GDP	39.4	37.8	37.0

Note: 2018-19 numbers based on last year's GDP projections.
Source: New Brunswick Department of Finance, Budget 2019, TD Economics.

Economic backdrop somewhat weaker

Our latest Provincial Economic Forecast included a downgrade to New Brunswick's real GDP growth in 2019, driven by transitory weakness in its key manufacturing and export sectors, a slowdown in consumer spending, and a generally weaker macroeconomic environment. The government is estimating real GDP growth of 0.6% and 1.1% for 2019 and 2020, respectively. This is only slightly more optimistic than our estimates (0.5% and 0.8%, respectively). Still, the government's forecast for 2019 is meaningfully lower than consensus and its nominal GDP assumption lies significantly below ours. Given the province's demographic challenges, and the downside risks that these entail, these prudent economic assumptions for budget planning appear to be warranted. The government is also assuming employment and labour force growth will remain virtually flat.

Spending restraint to support ongoing surpluses

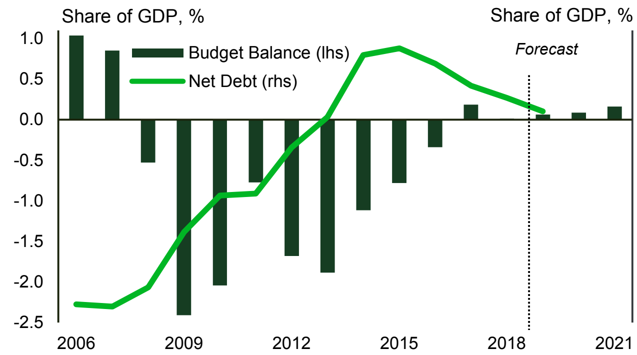
In light of modest economic growth going forward, revenues are expected to grow at less than last year's estimated 3.9% pace. The gain in FY 2019-20 will be largely driven by an increase in equalization payments. At the same time, corporate and income tax revenues are expected to drop in the current fiscal year. Importantly, the government stayed its hand on any significant new revenue-raising measures as well as tax cuts.

Most of the changes were seen on the expenditure side. As part of its promised initiative to maintain fiscal discipline and balanced budgets, the government's focus centered on spending restraint – mostly with measures that were previously announced in its capital budget. Some of the areas contributing to the below-inflation spending pace include cuts to the Tourism, Culture, and Heritage and Energy and Resource Development budgets, in addition to minor reductions in housing services and other program spending. At the same time, large departments, such as health, will see their spending grow more slowly (1.8% in FY2019-20).

New Brunswick Economic Assumptions [Per cent change unless otherwise noted]					
Budget 2019					
	2017	2018	2019F	2020F	2020-23F
Nominal GDP	4.3	3.3*	1.9	2.3	2.0
Real GDP	1.8	0.9*	0.6	1.1	0.8
Employment	0.4	0.3	0.0	0.2	0.0
Unemployment rate (%)	8.1	8.0	7.9	7.8	7.9
Population	0.5	0.5	0.4	0.3	0.3
Retail Trade	6.8	1.3	1.6	2.1	2.0
CPI	2.3	2.1	2.1	2.0	1.9
Housing Starts	26.4	0.2	-1.9	0.2	0.3

*2018 GDP numbers are estimates.
Source: New Brunswick Budget 2019, TD Economics.

Ongoing Surpluses Projected



* 2018 Estimates
Source: NB Dept. of Finance, TD Economics.

Net debt to GDP to modestly decline, supported by capital spending cuts

Net debt, currently at $14.1 billion, is expected to decline by around $49 million this year, a significant development since this would mark the first reduction in more than a decade. As a share of GDP, the net debt is poised to edge down from 38% to 37% by 2020. Most of this will come through a reduction in tangible capital assets' investment. The government plans to scale back its capital plan by $200+ million relative to last year ($601 million in FY2019-20 against $814 million in FY2018-19), while focusing on maintaining existing transportation and healthcare infrastructure.

Minor new policy initiatives announced

While light on tax policy changes, the budget still contained some minor policy initiatives. For instance, the minimum wage is scheduled to increase by 25 cents in April. The government also committed to holding the line on taxes on small businesses. The government also committed to seek support from the federal government for a onetime "demographic-weighted" healthcare agreement– in an effort to address its demographic challenges and pressures on its healthcare system.

Bottom line

In a somewhat surprising development, New Brunswick has entered FY 2019-20 joining a relatively small group of provincial governments in budget surplus territory. Looking ahead, the government plans to maintain fiscal improvement and further curb debt by keeping a tight lid on operating and capital spending within the projection horizon. Still, the province's net debt to GDP will remain elevated relative to other provinces, and its demographic challenges will continue to present downside risk to its medium-term fiscal position.