

2022 New Brunswick Budget

Healthy Fiscal Position Begets Tax Relief, Spending Pledges

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Highlights

- In Budget 2022, the New Brunswick government used its healthy fiscal position to implement income and property tax relief, as well as relief for seniors. At the same time, government spending is projected to grow at a solid pace in FY 2022/23, which is important as the public sector accounts for 30% of New Brunswick’s GDP.
- Even with these measures rolled out, the province is expecting to maintain a small surplus over the projection horizon, while solid economic growth leaves the debt burden on a downward trajectory. On the latter front, net debt-to-GDP is projected to fall from 31.9% in FY 2021/22 to 28.2% by FY 2024/25.

In Budget 2022, the New Brunswick government has leveraged its sizeable surplus (estimated at 1.2% of GDP) to roll out income and property tax relief, alongside support for seniors. This should help mitigate the impacts of elevated consumer price inflation on household budgets, at least to some degree. Robust spending growth is also pledged, concentrated in areas such as healthcare and early childhood education. However, even with these spending and revenue measures, the province is expecting to run modest surpluses (averaging about 0.1% of GDP) over its planning horizon. These will eat into the province’s net debt burden, with debt-to-GDP projected to drop by 3.7 ppts to 28.2% by FY 2024/25.

Yet Another Surplus in FY 2021/22

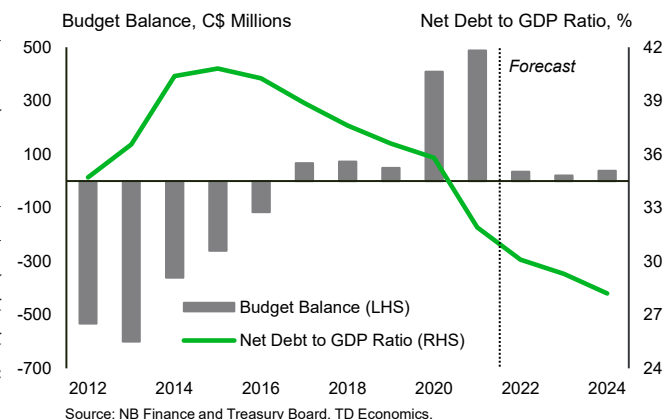
With an estimated \$487.8 million surplus (or the equivalent of 1.2% of GDP) in FY 2021/22, New Brunswick has managed to stay in the black for five straight years. This outcome also compares favourably to the \$245 million deficit forecast in last year’s budget. The impressive improvement was driven entirely by higher-than-projected revenues. Strong economic growth and robust housing activity padded the intake of income, property and transfer taxes among other revenue categories.

Solid Economic Growth Projected for This Year

The government estimates that real GDP advanced by 3.4% in 2021, matching our own forecast and fully recouping the pandemic driven 2020 decline. This year, the government has projected a 2.2% gain in real GDP, also roughly in line with our view.

For this year, growth is likely to be supported by further recovery in high touch industries, firm U.S. demand and above-trend growth in major domestic trading partners like Ontario, Quebec, and Nova Scotia. Government capital spending is also set to play an important supporting role, with New Brunswick’s FY 2022/23 capital budget pointing to 6.4% gain in investment this year. This squares with the investment intentions data, in which a double-digit gain in govern-

Chart 1: Solid Economic Growth, Surpluses to Drive Debt-to-GDP Lower



New Brunswick Economic Assumptions [Per cent change unless otherwise noted]				
Budget 2022				
Calendar Year	2021	2022	2023	2024-26
Nominal GDP	8.2*	6.2	3.8	3.3
Real GDP	3.4*	2.2	1.6	1.1
Employment	2.5	1.4	1.0	0.8
Unemployment rate (%)	9.0	8.5	8.1	7.6
Population	0.8	0.9	0.8	0.7
Retail Trade	13.0	3.0	2.3	1.6
CPI	3.8	3.9	2.2	2.0

*2021 GDP numbers are estimates.
Source: New Brunswick Budget 2022-23, TD Economics.

ment capital spending is projected for 2022. On the negative side, food and energy products are set to consume a relatively large share of the spending basket in New Brunswick, meaning that the recent leg up in these prices is likely to weigh on household incomes and spending this year.

Similar to other governments across the country, New Brunswick’s revenue picture is set to benefit from higher inflation and nominal GDP assumptions (a better proxy than real GDP for the revenue base). For this year, nominal GDP growth is expected to run at a lofty 6.2% before slowing to 3.8% next year. Relative to NB Finance, we project a slightly higher level of nominal GDP at the end of next year.

Surplus Set to Shrink in FY 2022/23

For the current fiscal year, the surplus is projected to drop to \$35 million on the back of robust spending and a slowdown in revenue growth. The province is also planning to run modest surpluses (amounting to 0.1% of GDP) in FY 2023/24 and 2024/25.

Total revenues are forecast to increase by 1.2% in FY 2022/23. Weighing on this year’s increase in own-source revenues is the government plan to offer \$40 million in personal income tax relief through an increase in the province’s basic personal amount from \$10,817 to \$11,720 and the Low-Income Tax Reduction threshold from \$18,268 to \$19,177. These measures will be effective in the 2022 tax year.

In addition, the government will be rolling out a previously-proposed reduction in property tax rates (phased in over three years), which sees them fall by 50% for non-owner-

occupied residential properties (e.g., rental buildings). This is done with the intention of boosting new housing supply. Meanwhile, property tax rates for other residential and non-residential properties are slated to fall by 15%.

Support to renters is also on offer, with the government proposing a one-year cap on rent increases of 3.8%, while also pledging to amend the Residential Tenancies Act to offer more recourse to renters whose tenancy is terminated without cause. The government will also increase the wage exemption for social assistance recipients while introducing an income exemption on the first \$200 of CPP income.

Much slower growth in federal transfers will also undercut this year’s revenue tally. Meantime, corporate income taxes and HST revenues are projected to drop – a somewhat curious forecast given the anticipation of firm economic growth, underpinned by a healthy gain in consumption.

On the other side of the ledger, expenses are projected to grow at a robust 5.5% pace in FY 2022/23, driven by strong gains healthcare, early childhood education, and social development programs (most notably spending on seniors and long-term care). They are projected to slow markedly after this fiscal year, however.

Net Debt to GDP to Remain Well Below Recent Highs

The combination of a surplus and the expectation of robust economic growth adds up to a projected decline in net debt-to-GDP from 31.9% in FY 2021/22 to 30.1% in the upcoming fiscal year. Note that this expectation comes even as capital spending is slated to increase this year. After FY 2022/23, the province’s debt burden is forecast to drop to 28.2% by FY 2024/25, which, barring any major surprises in other budgets, would leave its debt profile as the lowest within the Atlantic region. Notably, borrowing requirements this year total \$1.9 billion.

Bottom Line

Helped by the room generated by last year’s surprising positive swing in its fiscal fortunes, the government has simultaneously pledged tax relief and robust program spending in FY 2022/23 – and while maintaining its debt burden on a downward track. The spending commitment is particularly notable from a growth perspective as the public sector accounts for nearly one-third of economic output in New Brunswick. Lastly, the budget is based on reasonable economic assumptions.

New Brunswick Government Fiscal Position				
[Millions of C\$ unless otherwise indicated]				
<i>Fiscal Year</i>	2021-22 Revised	2022-23 Plan	2023-24 Plan	2024-25 Plan
Revenues	11,213	11,346	11,537	11,699
% change	8.7	1.2	1.7	1.4
Expenditures	10,725	11,311	11,516	11,660
% change	8.2	5.5	1.8	1.3
Surplus (+)/Deficit (-)	488	35	21	39
% of GDP	1.20	0.1	0.0	0.1
Net Debt	12,981	12,997	13,106	13,070
% of GDP	31.9	30.1	29.3	28.2

Source: New Brunswick Budget 2022-23, TD Economics.

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