

Treasury Board and Department of Finance

Economic and Fiscal Update
Second Quarter 2018–2019

**Economic and Fiscal Update
Second Quarter 2018–2019**

Published by:

Treasury Board and Department of Finance
Government of New Brunswick
P.O. Box 6000
Fredericton, New Brunswick
E3B 5H1
Canada

Internet: www.gnb.ca/finance

December 2018

Translation:

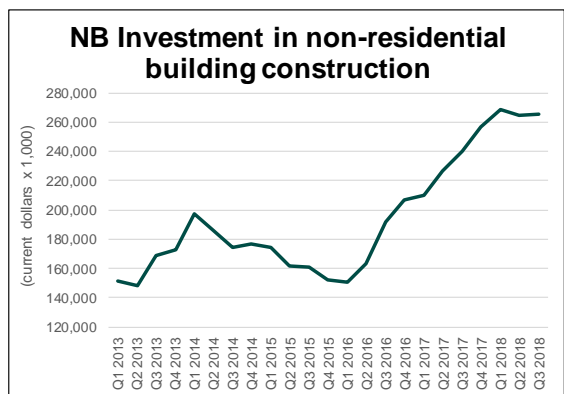
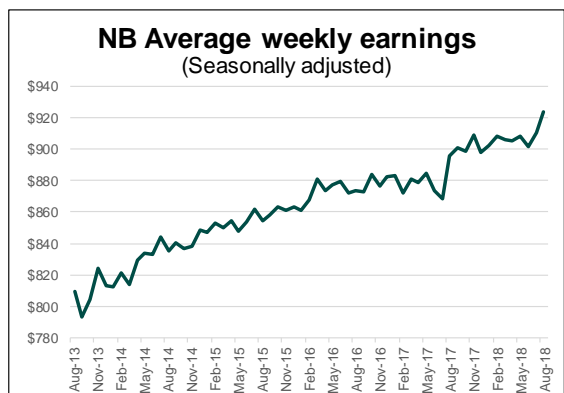
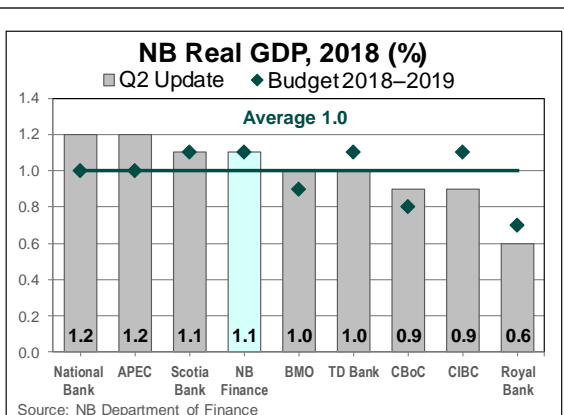
Translation Bureau, Service New Brunswick

ISBN 978-1-4605-1884-7



Think Recycling!

2018 Economic Update



New Brunswick Economic Outlook			
	2016	2017	2018 F
Real GDP	1.2	1.9	1.1
Household Final Consumption Expenditures	2.7	4.0	2.4
Primary Household Income	3.9	3.2	2.8
Employment	-0.1	0.4	0.4
Unemployment Rate (%)	9.5	8.1	8.2
Consumer Price Index	2.2	2.3	2.2

Sources: Statistics Canada, NB Department of Finance
F = Forecast
% change unless otherwise indicated

Based on data available as of November 8, 2018

- The International Monetary Fund (IMF) is projecting slower global economic growth than was projected in April, resulting in their revised forecast standing at 3.7 per cent for 2018. Some key factors linked to the lower outlook are trade tensions and slower growth in emerging markets.

- After a 2.2 per cent increase in the first quarter, the U.S. real GDP increased at an annual rate of 4.2 per cent in the second quarter, mainly driven by a rise in personal consumption expenditures and higher exports. Moreover, the IMF is projecting growth in the U.S. of 2.9 per cent for 2018.

- The Bank of Canada (BoC) anticipates growth of 2.1 per cent in 2018. Solid gains in both foreign and domestic demand, and continuing favourable financial conditions will be the key drivers.

- The Department of Finance projects real GDP growth for New Brunswick of 1.1 per cent for 2018. This is consistent with the 1.0 per cent growth rate consensus among private sector forecasters.

- Labour market conditions continue to show modest growth. Employment is up by 0.4 per cent for the January-October period.

- Average weekly earnings are up 3.2 per cent on a year-to-date basis due to gains in the service producing industries. The national average weekly earnings are up 2.9 per cent.

- Domestic exports have increased 11.8 per cent so far this year. Advances were mainly driven by gains in energy products, and basic and industrial chemical, plastic and rubber products.

- Manufacturing sales are up by 11.6 per cent on a year-to-date basis, caused by gains in both the non-durable goods industries and the durable goods industries. Wood product manufacturing shows continued strength, posting growth of 30.8 per cent.

- Housing starts in the province have increased 2.3 per cent through the first three quarters of the year, while investment in non-residential building construction has increased by 18.7 per cent.

- Consumer inflation in the province has averaged 2.3 per cent so far this year, slightly lower than the national rate of 2.4 per cent.

2018–2019 Fiscal Update

Based on second quarter information, there is a projected deficit of \$131.4 million for 2018–2019. This is an improvement of \$57.3 million compared to the budgeted deficit of \$188.7 million.

Second Quarter Fiscal Summary			
(\$ Millions)	2018–2019 Budget	2018–2019 2 nd Quarter Projection	Variance from Budget
Revenue	9,427.3	9,578.9	151.7
Expense	9,616.0	9,710.4	94.4
Surplus (Deficit)	(188.7)	(131.4)	57.3

Net debt is projected to increase by \$337.8 million, an improvement of \$34.5 million from budget. Net debt is projected to reach \$14.3 billion by March 31, 2019.

Revenue:

Revenue is \$151.7 million higher than budget. The major variances include:

- Corporate Income Tax revenue is up \$91.1 million due to the anticipated improvement to both in-year and prior-year revenue reflecting stronger than expected 2017 assessments and a higher forecast of national corporate taxable income.
- Conditional Grants are up \$56.5 million mainly due to projected recoveries under the Disaster Financial Assistance program and the new Healthy Seniors Pilot Project.
- Personal Income Tax revenue is up \$39.0 million from budget due to a strengthened forecast base and an anticipated positive prior-year adjustment related to the 2017 taxation year.
- Unconditional Grants are up \$29.8 million to reflect official federal estimates for the Canada Health Transfer and the Canada Social Transfer, including the positive impact of revised population estimates based upon the 2016 Census.
- Sale of Goods and Services is up \$6.3 million mainly due to increased projections of revenue from the Regional Health Authorities and Department of Health recovery levy, as well as various other accounts across departments.
- Return on Investment is down \$45.6 million mainly as a result of lower net income being projected by the New Brunswick Power Corporation. This is due to a lower-than-planned rate increase, a delay in the implementation of this increase, as well as higher in-and-out-of-province fuel and purchased power costs.
- Capital Revenue is down \$13.4 million as a result of lower recoveries due to changes in the timing of work under the New Building Canada Fund.
- Tobacco Tax is down \$10.0 million due to lower than projected volumes.
- Special Operating Agencies revenue is down \$7.1 million mainly due to the timing of projects being completed.

- Cannabis-related revenue is down \$3.9 million to reflect the October 17, 2018 legalization date. This includes reductions in the projected Cannabis Duty, revenues from the Cannabis Management Corporation, and the Cannabis Education and Awareness Fund.

Expense:

Total expenses are projected to be over budget by \$94.4 million. The major variances include the following:

- Justice and Public Safety is \$67.2 million over budget mainly due to expenses incurred under the Disaster Financial Assistance program primarily associated with the 2018 spring flood. These expenses are offset to a large extent by federal recoveries.
- Social Development is \$36.6 million over budget mainly due to the high costs in the Disability Support Services program, Child Welfare Services program, Housing program, and expenses in the Aging Secretariat Program (offset by federal revenue from the Healthy Seniors Pilot Project).
- Special Purpose Accounts are over budget by \$15.6 million mainly due to the reallocation of various projects from the Capital Budget to the Climate Change Fund. This is partially offset by lower Capital Account expense.
- Post-Secondary Education, Training and Labour is \$7.2 million over budget mainly due to additional expenditures in the Student Financial Assistance program.
- Other Agencies are \$3.0 million over budget mainly due to increased expenditures associated with several consolidated entities (offset by an increase in revenue).
- Amortization Expense is \$2.7 million under budget mainly due to implementation delays in various projects.
- General Government is under budget by \$6.5 million mainly due to lower than expected expenses in Supplementary Funding Provision and Pension and Employee Benefits.
- Service of the Debt is \$10 million lower primarily due to higher interest income earned.

**PROVINCE OF NEW BRUNSWICK
FISCAL UPDATE
Thousands
\$**

	2018–2019 Budget	2018–2019 1st Quarter Projection	2018–2019 2nd Quarter Projection	Variance from Budget
Revenue				
Ordinary Account.....	8,946,303	9,033,020	9,121,659	175,356
Capital Account.....	48,264	44,121	34,903	(13,361)
Special Purpose Account.....	117,289	118,526	114,073	(3,216)
Special Operating Agencies.....	124,198	118,848	117,076	(7,122)
Sinking Fund Earnings.....	191,200	191,200	191,200	0
Total Revenue.....	9,427,254	9,505,715	9,578,911	151,657
Expense				
Ordinary Account.....	8,773,358	8,840,815	8,867,260	93,902
Capital Account.....	153,502	147,967	139,763	(13,739)
Special Purpose Account.....	86,099	101,305	101,728	15,629
Special Operating Agencies.....	117,635	120,844	118,913	1,278
Amortization of Tangible Capital Assets.....	485,398	482,173	482,688	(2,710)
Total Expense.....	9,615,992	9,693,104	9,710,352	94,360
Surplus (Deficit).....	<u>(188,738)</u>	<u>(187,389)</u>	<u>(131,441)</u>	<u>57,297</u>

CHANGE IN NET DEBT
Thousands
\$

	2018–2019 Budget	2018–2019 1 st Quarter Projection	2018–2019 2 nd Quarter Projection	Variance from Budget
Net Debt - Beginning of Year.....	(14,099,847)	(14,099,847)	(13,926,249)	173,598
Changes in Year				
Surplus (Deficit).....	(188,738)	(187,389)	(131,441)	57,297
Investments in Tangible Capital Assets.....	(668,993)	(680,199)	(689,086)	(20,093)
Amortization of Tangible Capital Assets.....	<u>485,398</u>	<u>482,173</u>	<u>482,688</u>	<u>(2,710)</u>
(Increase) Decrease in Net Debt.....	(372,333)	(385,415)	(337,839)	34,494
Net Debt - End of Year.....	<u>(14,472,180)</u>	<u>(14,485,262)</u>	<u>(14,264,088)</u>	<u>208,092</u>

At second quarter, Net Debt - Beginning of Year has been updated to reflect the ending net debt that was published in the 2017–2018 Consolidated Financial Statements (Public Accounts Volume I).

APPENDIX A

ORDINARY ACCOUNT REVENUE BY SOURCE

Thousands

\$

	2018–2019 Budget	2018–2019 1st Quarter Projection	2018–2019 2nd Quarter Projection	Variance from Budget
Taxes				
Personal Income Tax.....	1,682,000	1,702,000	1,721,000	39,000
Corporate Income Tax.....	311,800	311,800	402,900	91,100
Metallic Minerals Tax.....	1,900	1,900	1,900	0
Provincial Real Property Tax.....	514,750	514,750	518,000	3,250
Harmonized Sales Tax: net of credit.....	1,492,500	1,492,500	1,492,500	0
Gasoline and Motive Fuels Tax.....	248,600	248,600	246,600	(2,000)
Tobacco Tax.....	156,000	152,000	146,000	(10,000)
Pari-Mutuel Tax.....	500	500	500	0
Insurance Premium Tax.....	57,600	59,600	59,600	2,000
Real Property Transfer Tax.....	25,000	28,000	28,000	3,000
Financial Corporation Capital Tax.....	27,000	27,000	27,000	0
Cannabis Duty.....	6,000	3,600	3,600	(2,400)
Penalties and Interest.....	13,000	13,000	13,000	0
Subtotal - Taxes.....	4,536,650	4,555,250	4,660,600	123,950
Return on Investment.....	264,235	263,451	218,652	(45,583)
Licences and Permits.....	158,479	160,900	161,010	2,531
Sale of Goods and Services.....	448,125	453,155	454,455	6,330
Royalties.....	69,730	69,730	69,730	0
Agency Revenues.....	160,900	161,100	161,100	200
Fines and Penalties.....	6,804	6,804	6,804	0
Miscellaneous.....	91,578	92,598	93,038	1,460
Total - Own Source Revenue.....	5,736,501	5,762,988	5,825,389	88,888
Unconditional Grants – Canada				
Fiscal Equalization Payments.....	1,873,898	1,873,898	1,873,898	0
Canada Health Transfer.....	791,900	791,900	813,669	21,769
Canada Social Transfer.....	290,600	290,600	298,662	8,062
Other.....	1,866	1,866	1,866	0
Subtotal - Unconditional Grants – Canada.....	2,958,264	2,958,264	2,988,095	29,831
Conditional Grants – Canada.....	266,466	326,696	322,961	56,495
Total - Grants from Canada.....	3,224,730	3,284,960	3,311,056	86,326
Subtotal.....	8,961,231	9,047,948	9,136,445	175,214
Inter-account Transactions.....	(14,928)	(14,928)	(14,786)	142
Ordinary Account Revenue.....	8,946,303	9,033,020	9,121,659	175,356

APPENDIX B

ORDINARY ACCOUNT EXPENSE

Thousands

\$

DEPARTMENT	2018–2019 Budget	2018–2019 1st Quarter Projection	2018–2019 2nd Quarter Projection	Variance from Budget	%
Agriculture, Aquaculture and Fisheries.....	37,196	38,696	38,596	1,400	3.8%
Education and Early Childhood Development.....	1,258,007	1,253,007	1,258,007	0	0.0%
Energy and Resource Development.....	101,820	102,820	103,220	1,400	1.4%
Environment and Local Government.....	142,035	142,505	142,670	635	0.4%
Executive Council Office.....	12,546	12,521	12,521	(25)	-0.2%
Finance.....	10,797	10,797	10,797	0	0.0%
General Government.....	792,547	777,055	786,037	(6,510)	-0.8%
Health.....	2,753,351	2,753,351	2,753,351	0	0.0%
Justice and Public Safety.....	231,885	283,749	299,111	67,226	29.0%
Legislative Assembly.....	30,717	30,717	30,717	0	0.0%
Office of the Attorney General.....	20,256	20,256	20,256	0	0.0%
Office of the Premier.....	1,598	1,598	1,598	0	0.0%
Opportunities New Brunswick.....	47,186	45,492	46,986	(200)	-0.4%
Other Agencies.....	386,108	390,997	389,112	3,004	0.8%
Post-Secondary Education, Training and Labour.....	644,758	649,006	651,908	7,150	1.1%
Regional Development Corporation.....	70,148	70,148	70,148	0	0.0%
Service of the Public Debt.....	675,000	665,000	665,000	(10,000)	-1.5%
Social Development.....	1,194,547	1,231,147	1,231,147	36,600	3.1%
Tourism, Heritage and Culture.....	62,633	62,693	62,693	60	0.1%
Transportation and Infrastructure.....	307,404	307,404	307,404	0	0.0%
Treasury Board.....	16,342	16,267	15,848	(494)	-3.0%
Subtotal.....	8,796,881	8,865,226	8,897,127	100,246	1.1%
Investment in Tangible Capital Assets.....	(7,195)	(8,083)	(12,881)	(5,686)	79.0%
Inter-account Transactions.....	(16,328)	(16,328)	(16,986)	(658)	4.0%
Ordinary Account Expense.....	8,773,358	8,840,815	8,867,260	93,902	1.1%

APPENDIX C

CAPITAL EXPENDITURES

Thousands

\$

	2018–2019 Budget	2018–2019 1 st Quarter Projection	2018–2019 2 nd Quarter Projection	Variance from Budget
Provincial Source Capital Investments				
Agriculture, Aquaculture and Fisheries.....	2,300	2,300	2,300	0
Education and Early Childhood Development.....	103,303	91,411	87,313	(15,990)
Energy and Resource Development.....	4,220	3,020	3,070	(1,150)
Environment and Local Government.....	1,000	1,000	1,300	300
Health.....	96,892	108,606	132,136	35,244
Justice and Public Safety.....	3,215	3,215	1,030	(2,185)
Legislative Assembly.....	50	50	50	0
Post-Secondary Education, Training and Labour.....	6,251	6,251	6,269	18
Regional Development Corporation.....	77,455	81,486	75,580	(1,875)
Social Development.....	12,000	12,000	12,000	0
Tourism, Heritage and Culture.....	12,590	15,530	14,412	1,822
Transportation and Infrastructure.....	448,870	451,787	446,212	(2,658)
Subtotal - Provincial Source Capital Investments.....	768,146	776,656	781,672	13,526
Other Source Capital Investments				
Transportation and Infrastructure.....	41,690	37,405	28,274	(13,416)
Other Departments.....	5,464	6,022	6,022	558
Subtotal - Other Source Capital Investments.....	47,154	43,427	34,296	(12,858)
Total - Capital Expenditures.....	815,300	820,083	815,968	668
Investments in Tangible Capital Assets.....	(661,798)	(672,116)	(676,205)	(14,407)
Capital Account Expense.....	153,502	147,967	139,763	(13,739)