

And the hits just keep on coming...

By Warren Lovely

Like the best DJs around, Canada's finance ministers have been spinning some pretty groovy tracks this year, stringing one constructive financial report after the other. If you've lost track, there have been 21 fiscal revisions to the prior or current fiscal year since the spring budget season wrapped. Of those 21 reports, 19 have produced better-than-estimated budget balances, keeping bond investor toes a'tappin. The latest hit-maker was New Brunswick, where a fresh Q2 update pushed the 2021-22 budget balance further into the black. As it stands, NB was the only province to avoid a deficit in 2020-21 and is currently the only province projecting a surplus for 2021-22.

New Brunswick might not have the biggest weight in Canada, but the fiscal consolidation here is impressive all the same. The province's debt-to-GDP ratio has eased notably. So if you buy our argument (advanced [here](#)) that hefty December cash flows support peripheral spreads, all else equal, then New Brunswick bonds could (read should) perform on a relative basis. For the record, NB's latest budgetary beat adds to an already heady tally for the provincial sector as a whole. The combined fiscal upgrade is now C\$66.474 billion for the two-year period covering 2020-21 and 2021-22. It's more like C\$82 billion if you allow for future-year improvements in Ontario. Best of all, the hit parade isn't over, not by a long shot. The coming days/weeks will bring what we firmly believe will be further positive news from the likes of Quebec, Alberta, British Columbia, Saskatchewan, Newfoundland and Labrador, etc. So catch the beat and dance along!

Table: Provinces generally beating the budget... and by no small margin... as 19 of 21 post-budget reports skew positive

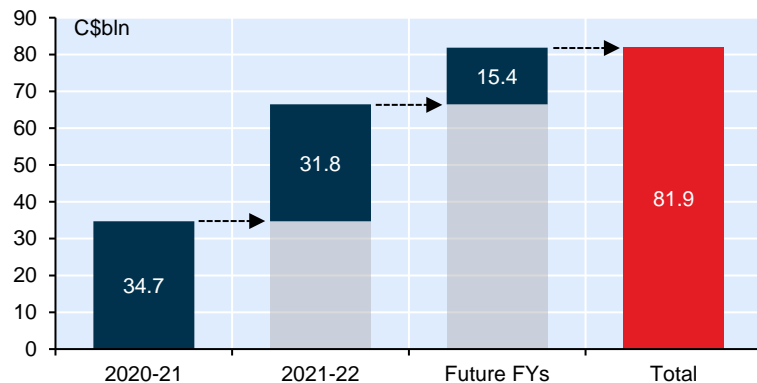
Net improvement in budget balances vs. Budget 2021 estimates by province, fiscal year & report

Fiscal Year	Report	Ont	Que*	BC	Alta	Man	Sask	NS	NB	N&L	PEI
2020-21	PA	22,064	5,000	2,676	3,230	-37	738	364	421	152	114
2021-22	Update 1	677	4,383	4,864	10,462	34	-127	140	283		52
	Update 2	10,932							51		
Combined adjustment (C\$mnl)		33,673	9,383	7,540	13,692	-3	611	504	755	152	166

Source: NBF, prov'l gov'ts | Note: Figures refer to *marginal change* in budgetary position for a given province relative to prior estimate, not to be confused with actual/estimated budget balances; combined adjustment/improvement is two-year total; based on latest official figures/guidance; Que based on preliminary/partial year results; more updates to come

Chart 1: Provincial fiscal revisions up, up and away!

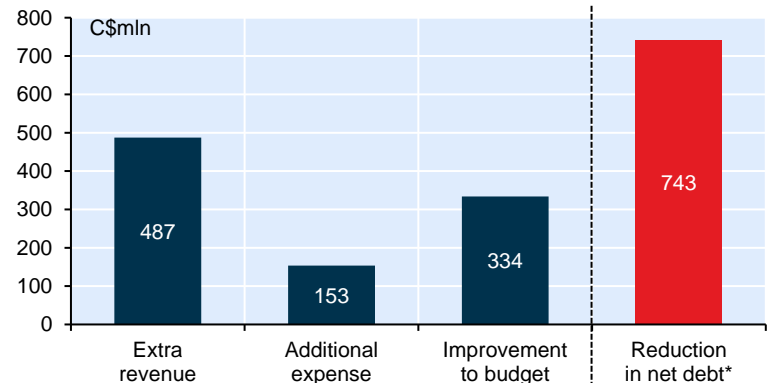
Total improvement in provincial budget balances vs. Budget 2021 estimates



Source: NBF, prov'l gov'ts | Note: Combined improvement is multi-year total for all provinces; based on latest official figures/guidance; more to come!

Chart 2: NB Q2 latest example of a net fiscal improvement

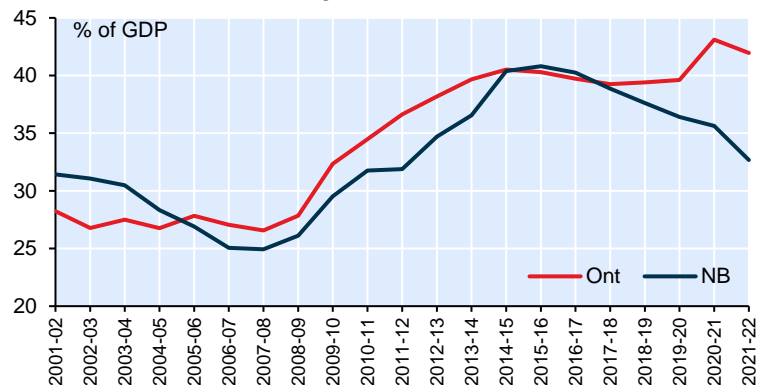
Change in New Brunswick's 2021-22 fiscal position: Q2 Update vs. Budget 2021



Source: NBF, NB | Note: Cumulative improvement since budget, some of which was communicated earlier; reduction in net debt includes +ve base effect from prior year

Chart 3: NB's debt burden has eased notably

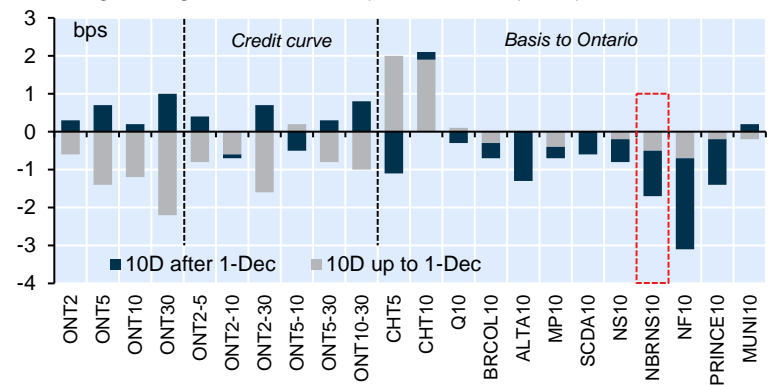
Net debt-to-GDP ratio, including latest estimate for 2021-22



Source: NBF, NB, Ont | Note: Actuals to 2020-21; ratios for 2021-22 based on latest official budget estimates scaled to NBF estimates for nominal GDP

Chart 4: Peripheral spreads supported by December cash

5Y average change in select credit spreads/curves pre & post 1-Dec



Source: NBF | Note: Based on daily constant maturity NI indications for 5Y sample (2016-20); bars represent cumulative changes pre & post 1-Dec



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