



**NATIONAL
BANK**

FINANCIAL MARKETS

A division of National Bank of Canada

NEW BRUNSWICK

2017 BUDGET

Economics and Strategy

February 7, 2017

Still on course for a balanced budget by 2020-21

Highlights

- Revenues and expenses in both the 2016-17 revised estimates and estimates for 2017-18 now reflect the consolidation of nursing homes. Also, the contingency reserve has been eliminated. With these changes in mind, the Government now projects a deficit of \$231.1 million for 2016-17, a \$16 million improvement from the budgeted deficit.
- The deficit for 2017-18 is projected at \$191.9 million.
- As a result of the damages from the severe winter storm that occurred recently, there may be unforeseen expenses in the last quarter of 2016-17 and in the first quarter of 2017-18 that could negatively impact these deficit projections. The Government will seek to minimize these impacts through federal recoveries and internal efficiencies.
- The Department of Finance estimates real economic growth of 0.4% in 2016, unchanged from last year's budget. It anticipates real GDP growth of 0.6% in 2017, 0.2 percentage points below the consensus among private sector forecasters. The respective growth rates of nominal GDP are 1.8% and 1.9%.
- Effective April 1st 2017, the Small Business Income Tax rate will be lowered from 3.5% to 3.0%.
- As a result of the projected budget deficit and of acquisition of tangible capital assets (net of amortization expense), net debt is projected to increase \$362.1 million (2.6%) to \$14.36 billion in the year ending March 31, 2018.
- With less than two months left in fiscal 2016-17, \$168 million of financing has to be completed. For 2017-2018, the financing requirement will amount to \$2.4 billion, of which \$980 million is refinancing. Therefore, from now on, the Government plans to borrow \$2.6 billion when combining borrowing requirements for next fiscal year with the remaining borrowings for the current fiscal year.

NEW BRUNSWICK • 2017 BUDGET

There have been changes in the presentation of financial statements compared to last year's budget and the three quarterly updates. The revised estimates of revenues and expenses published today reflect the consolidation of nursing homes within the provincial reporting entity. Also, the contingency reserve has been eliminated. Moreover, as of the Second Quarter Update, net debt at the beginning of FY 2016-17 was revised up \$670 million in order to reflect the revision published in the 2015-16 Consolidated Financial Statements.

Finally, a Supplement to Capital Estimates was tabled today to reflect the consolidation of nursing homes and also upgrades to assets of cultural and historic significance.

The deficit for 2016-17

The \$231.1 million deficit estimated for 2016-17 had already been reported in the Third Quarter Update published less than two weeks ago. So the \$16 million improvement over last year's budget was already known. According to the Third Quarter Update, revenues were revised up \$25.6 million while total expenses were increased by \$9.6 million. In the table on next page, you see revenue increasing \$107.7 million and expenses rising \$91.7 million. The differences in variations of revenue and expenses from the Third Quarter Update comes from the consolidation, in the revised estimates, of nursing homes. The effect of this consolidation was therefore to raise both revenues and expenses \$82.1 million.

The small \$25.6 million revision in revenues (before consolidation of nursing homes) hides wider revisions in components. For instance, revenue from the Harmonized Sales Tax is revised down \$86.2 million (-6.5%) from budget. This was partly offset by a \$54 million upward revision in Corporate Income Taxes. These two items account for most of the \$34.1 million downward revision in total taxes (see table). This was offset by a \$43.2 million increase in federal transfers and a \$16.5 million revision in own-source revenue other than taxes.

The deficit for 2017-18

The deficit for 2017-18 is projected at \$191.9 million, a \$39.1 million improvement over the deficit estimated for the current fiscal year. Revenues are projected to increase \$362 million or 4.1%. Meanwhile, expenses are expected to rise \$323.2 million or 3.6%.

Taxation revenues are projected to increase \$235.7 million or 2.7%, most of it through higher revenues from the Harmonized Sales Tax (\$169.2 million or 13.5%), Personal Income Tax (\$45 million or 2.8%) and the Tobacco Tax (\$14 million or 3.8%).

The Small Business Income Tax rate will be lowered from 3.5% to 3.0%. The Government remains committed to lowering the rate to 2.5% over the course of its mandate.

The increase in expenses is focused on jobs, education and health care. Compared to 2016-17 budget, today's budget for 2017-18 increases funding for Department of Health by 3.3%. The budget for the Department of Education and Early Childhood Development is increased by 4.9%, the largest increase since 2008-09.

Over the following three fiscal years, total revenues are expected to grow at an average annual rate of 1.9%, while total expenses are expected to grow 1.1%. If these targets are met, the budget will be balanced by fy 2020-21 as scheduled.

Economic conditions

Real GDP growth is estimated at 0.4% in 2016 and is expected at 0.6% in 2017. The latter growth rate is 0.2 percentage points below the consensus of private forecasters. There is therefore an implicit forecast allowance imbedded in the budget. Economic growth is projected at 0.8% in 2018 and at an average of 0.7% over the three following years. But do not consider these low growth rates as indicating underperformance. They are mainly the reflection of the reduction in the working-age population (population aged 15 to 64 years old) that has taken place for a few years now. The reduction in working-age population limits potential GDP growth.

From 2009 to 2016, jobs in the Province declined in every year except 2013, the unemployment rate going from 8.5% to 9.6% over the period. The Government is expecting an improvement in job creation over the coming years, with employment growing 0.2% in 2017, 0.3% in 2018 and 0.1% on average over the following three years. Total population declined each year from 2013 to 2015. This sequence was interrupted in 2016 with an increase in the net flow of international migrants. In the future, the Government wants to work on attracting new migrants and retaining them in the Province as an effort to maintain a positive growth in population.

The expected 1.9% growth in revenue over the mid-term can be compared to that of nominal GDP, which is expected to grow 1.9% in 2017, 2.1% in 2018 and 2.0% on average over the three following years.

Marc Pinsonneault

NEW BRUNSWICK • 2017 BUDGET

New Brunswick

\$'000	Budget	Revisions	Budget	Multi-Year Plan		
	2016/17	2016/17	2017/18	2018/19	2019/20	2020/21
Gross revenue, ordinary account	8,354,502	8,429,526	8,749,709			
<i>Taxes</i>	4,317,408	4,283,320	4,519,020			
<i>Other revenue</i>	1,076,992	1,142,917	1,168,785			
<i>Transfers from Government of Canada</i>	2,960,102	3,003,289	3,061,904			
Sinking fund earnings	190,200	192,300	188,900			
Other accounts	174,063	204,599	250,084			
Gross revenue	8,718,765	8,826,425	9,188,693	9,365,000	9,519,000	9,729,000
Gross expenditure, ordinary account	8,261,450	8,336,574	8,523,323			
<i>Including: service of public debt</i>	700,000	695,000	701,000			
Other accounts	269,153	282,555	396,513			
Amortization expense	435,186	438,356	460,802			
Gross expenditure	8,965,789	9,057,485	9,380,638	9,482,000	9,543,000	9,708,000
Surplus (Deficit)	(247,024)	(231,060)	(191,945)	(117,000)	(24,000)	21,000
Change in net debt		669.68				
Net debt (\$ million) at the beginning of the year	12,989.9	13,659.6	13,997.4			
Gross consolidated revenue	(247,024)	(231,060)	(191,945)	(117,000)	(24,000)	21,000
Acquisition of tangible capital assets	(556,661)	(545,122)	(630,925)			
Amortization expense	435,186	438,356	460,802			
Decrease (Increase) in net debt	(368,499)	(337,826)	(362,068)			
Net debt (\$ million) as of March 31	13,358.4	13,997.4	14,359.5			
Borrowing requirements (\$ million)		Remaining		Total		
New Borrowing	762	168	813	981		
Refinancing Requirements	488	-	980	980		
Carryover 2016/17	277	-	-	-		
Borrowing on behalf of NB Electric Finance Corp	300	-	470	470		
Total New Brunswick and NBEFC borrowing requirements	1,827	168	2,262	2,430		
NB Municipal Finance Corp.	150	-	150	150		
Total	1,977	168	2,412	2,580		

Source: Main Estimates 2017-2018, Department of Finance, Province of New Brunswick.

NEW BRUNSWICK • 2017 BUDGET

ECONOMICS AND STRATEGY

Montreal Office

514-879-2529

Stéfane Marion

Chief Economist & Strategist
stefane.marion@nbc.ca

Paul-André Pinonnault

Senior Fixed Income Economist
paulandre.pinonnault@nbc.ca

Krishen Rangasamy

Senior Economist
krishen.rangasamy@nbc.ca

Marc Pinsonneault

Senior Economist
marc.pinsonneault@nbc.ca

Matthieu Arseneau

Senior Economist
matthieu.arseneau@nbc.ca

Angelo Katsoras

Geopolitical Analyst
angelo.katsoras@nbc.ca

Kyle Dahms

Economist
kyle.dahms@nbc.ca

Toronto Office

416-869-8598

Warren Lovely

MD, Public Sector Research and Strategy
warren.lovely@nbc.ca

General – National Bank Financial (NBF) is an indirect wholly owned subsidiary of National Bank of Canada. National Bank of Canada is a public company listed on Canadian stock exchanges.

The particulars contained herein were obtained from sources which we believe to be reliable but are not guaranteed by us and may be incomplete. The opinions expressed are based upon our analysis and interpretation of these particulars and are not to be construed as a solicitation or offer to buy or sell the securities mentioned herein.

Research Analysts – The Research Analyst(s) who prepare these reports certify that their respective report accurately reflects his or her personal opinion and that no part of his/her compensation was, is, or will be directly or indirectly related to the specific recommendations or views as to the securities or companies.

NBF compensates its Research Analysts from a variety of sources. The Research Department is a cost centre and is funded by the business activities of NBF including, Institutional Equity Sales and Trading, Retail Sales, the correspondent clearing business, and Corporate and Investment Banking. Since the revenues from these businesses vary, the funds for research compensation vary. No one business line has a greater influence than any other for Research Analyst compensation.

Canadian Residents – In respect of the distribution of this report in Canada, NBF accepts responsibility for its contents. To make further inquiry related to this report, Canadian residents should contact their NBF professional representative. To effect any transaction, Canadian residents should contact their NBF Investment advisor.

U.S. Residents – With respect to the distribution of this report in the United States, National Bank of Canada Financial Inc. (NBCFI) is regulated by the Financial Industry Regulatory Authority (FINRA) and a member of the Securities Investor Protection Corporation (SIPC). This report has been prepared in whole or in part by, research analysts employed by non-US affiliates of NBCFI that are not registered as broker/dealers in the US. These non-US research analysts are not registered as associated persons of NBCFI and are not licensed or qualified as research analysts with FINRA or any other US regulatory authority and, accordingly, may not be subject (among other things) to FINRA restrictions regarding communications by a research analyst with the subject company, public appearances by research analysts and trading securities held a research analyst account.

All of the views expressed in this research report accurately reflect the research analysts' personal views regarding any and all of the subject securities or issuers. No part of the analysts' compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report. The analyst responsible for the production of this report certifies that the views expressed herein reflect his or her accurate personal and technical judgment at the moment of publication. Because the views of analysts may differ, members of the National Bank Financial Group may have or may in the future issue reports that are inconsistent with this report, or that reach conclusions different from those in this report. To make further inquiry related to this report, United States residents should contact their NBCFI registered representative.

UK Residents – In respect of the distribution of this report to UK residents, National Bank Financial Inc. has approved the contents (including, where necessary, for the purposes of Section 21(1) of the Financial Services and Markets Act 2000). National Bank Financial Inc. and/or its parent and/or any companies within or affiliates of the National Bank of Canada group and/or any of their directors, officers and employees may have or may have had interests or long or short positions in, and may at any time make purchases and/or sales as principal or agent, or may act or may have acted as market maker in the relevant investments or related investments discussed in this report, or may act or have acted as investment and/or commercial banker with respect thereto. The value of investments can go down as well as up. Past performance will not necessarily be repeated in the future. The investments contained in this report are not available to retail customers. This report does not constitute or form part of any offer for sale or subscription of or solicitation of any offer to buy or subscribe for the securities described herein nor shall it or any part of it form the basis of or be relied on in connection with any contract or commitment whatsoever.

This information is only for distribution to Eligible Counterparties and Professional Clients in the United Kingdom within the meaning of the rules of the Financial Conduct Authority. National Bank Financial Inc. is authorised and regulated by the Financial Conduct Authority and has its registered office at 71 Fenchurch Street, London, EC3M 4HD.

National Bank Financial Inc. is not authorised by the Prudential Regulation Authority and the Financial Conduct Authority to accept deposits in the United Kingdom.

Copyright – This report may not be reproduced in whole or in part, or further distributed or published or referred to in any manner whatsoever, nor may the information, opinions or conclusions contained in it be referred to without in each case the prior express written consent of National Bank Financial.



**NATIONAL
BANK**

FINANCIAL MARKETS

A division of National Bank of Canada