



Treasury Board and Department of Finance

Economic and Fiscal Update
Third Quarter 2018–2019

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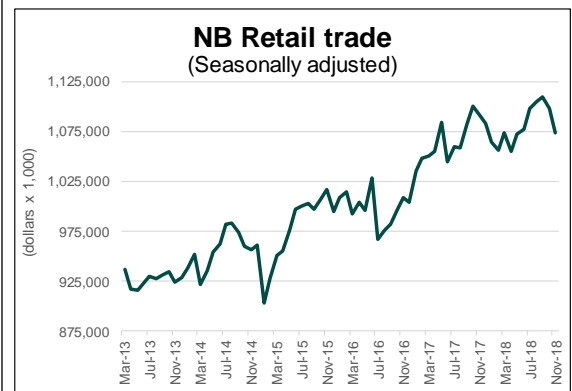
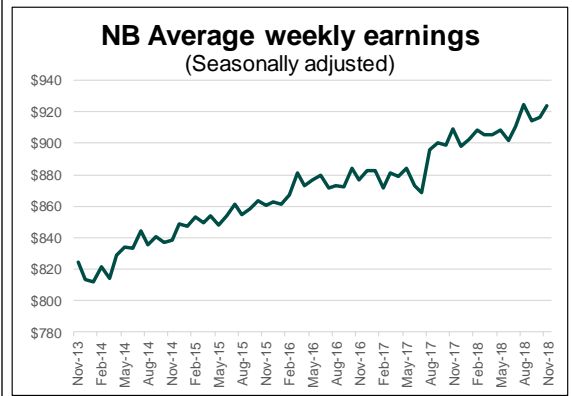
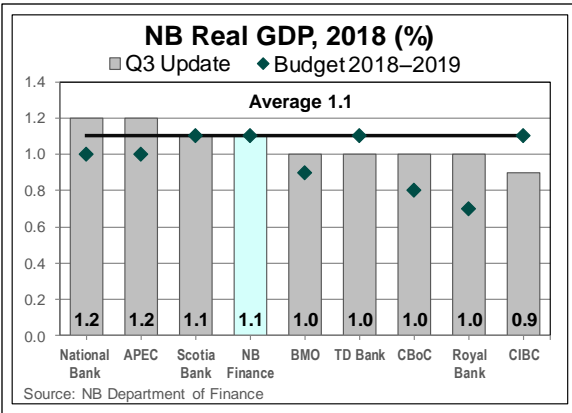
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Think Recycling!

2018 Economic Update



| New Brunswick Economic Outlook | | | |
|--|------|------|--------|
| | 2016 | 2017 | 2018 F |
| Real GDP | 1.4 | 1.8 | 1.1 |
| Household Final Consumption Expenditures | 2.5 | 4.0 | 2.7 |
| Primary Household Income | 1.9 | 3.2 | 3.4 |
| Employment | -0.1 | 0.4 | 0.3 |
| Unemployment Rate (%) | 9.5 | 8.1 | 8.0 |
| Consumer Price Index | 2.2 | 2.3 | 2.1 |

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

Based on data available as of January 30, 2019

- The International Monetary Fund (IMF) is forecasting global economic growth for 2018 at 3.7 per cent, unchanged from the fall forecast.
- U.S. real GDP increased at an annual rate of 3.4 per cent in the third quarter supported by fiscal stimulus, with the IMF projecting growth of 2.9 per cent for 2018.
- The Bank of Canada anticipates growth of 2.0 per cent in 2018 with the economy operating near capacity for over a year. Growth is expected to slow in the fourth quarter mainly due to lower oil prices.
- The Department of Finance’s outlook for the provincial economy is unchanged since the last fiscal update, with real GDP growth forecast to be 1.1 per cent for 2018 and consistent with the consensus among private sector forecasters.
- Labour market conditions continue to show modest growth. Employment grew by 0.3 per cent in 2018, with gains in both full-time and part-time employment.
- Average weekly earnings are up 2.8 per cent in 2018 over the January-to-November period compared to the same period in 2017. Gains in the service producing industries (+4.0%) led this growth. The national average weekly earnings are up 2.7 per cent.
- Following a strong year, retail trade is up 1.7 per cent in 2018 over the January-to-November period compared to 2017.
- Manufacturing sales are experiencing modest growth of 1.5 per cent in 2018 over the January-to-November period compared to the same period in 2017. Wood product manufacturing shows continued strength, posting growth of 21.1 per cent.
- Merchandise exports are up 1.8 per cent in 2018 over the January-to-November period compared to the same period last year. Lower oil prices in the fourth quarter of 2018 has dampened growth in this sector.

- Consumer inflation in the province was 2.1 per cent in 2018, slightly lower than the national rate of 2.3 per cent.

2018–2019 Fiscal Update

Based on third quarter information, there is a projected surplus of \$4.5 million for 2018–2019. This is an improvement of \$193.3 million compared to the budgeted deficit of \$188.7 million.

| Third Quarter Fiscal Summary | | | |
|------------------------------|------------------|--|----------------------|
| (\$ Millions) | 2018–2019 Budget | 2018–2019 3 rd Quarter Projection | Variance from Budget |
| Revenue | 9,427.3 | 9,704.3 | 277.1 |
| Expense | 9,616.0 | 9,699.8 | 83.8 |
| Surplus (Deficit) | (188.7) | 4.5 | 193.3 |

Net debt is projected to increase by \$178.5 million, an improvement of \$193.8 million from budget. Net debt is projected to reach \$14.1 billion by March 31, 2019.

Revenue:

Revenue is \$277.1 million higher than budget. The major variances include:

- Corporate Income Tax revenue is up \$130.9 million due to the improvement to both prior-year and in-year revenue reflecting stronger than expected 2017 assessments and a higher forecast of national corporate taxable income.
- Personal Income Tax revenue is up \$101.0 million from budget due to an anticipated positive prior-year adjustment related to the 2017 taxation year and a strengthened forecast base.
- Conditional Grants are up \$54.6 million mainly due to projected recoveries under the Disaster Financial Assistance program.
- 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 \$28.6 million due to increased revenue projections from the Regional Health Authorities, the Department of Health recovery levy, and anticipated adjustments to various other accounts across departments and agencies.
- Miscellaneous revenue is up \$23.3 million due to anticipated miscellaneous revenue increases across various departments and agencies.
- Return on Investment is down \$40.9 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.
- Harmonized Sales Tax revenue is down \$26.3 million reflecting official federal estimates from December.

- Capital Revenue is down \$19.0 million as a result of lower recoveries due to changes in the scope and timing of work under the New Building Canada Fund.
- Tobacco Tax revenue is down \$12.0 million due to lower than projected volumes.
- Special Operating Agencies revenue is down \$11.3 million mainly due to the timing of projects being completed.

Expense:

Total expenses are projected to be over budget by \$83.8 million. The major variances include the following:

- Public Safety is \$76.0 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 \$34.3 million over budget mainly due to the high costs in the Disability Support Services program, Child Welfare Services program, Housing Services program, and partially offset by lower expenses in the Seniors and Long-Term Care Program.
- Capital Account expenses are over budget by \$21.7 million mainly due to projects that are not proceeding.
- Special Purpose Accounts are over budget by \$19.6 million mainly due to the reallocation of various projects from the Capital Budget to the Climate Change Fund and higher costs in the Health Services Liability Protection Plan.
- Opportunities New Brunswick is under budget by \$3.0 million mainly due to its Cyber line of business, and a lower than anticipated bad debt expense.
- General Government is under budget by \$4.6 million mainly due to lower than expected expenses in Supplementary Funding Provision and Pension and Employee Benefits.
- Regional Development Corporation is under budget by \$9.0 million mainly due to projects not progressing as anticipated.
- Other Agencies are \$11.1 million under budget mainly due to decreased expenditures associated with several consolidated entities.
- Service of the Debt is \$20.0 million lower primarily due to higher interest income earned.

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

| | 2018–2019 Budget | 2018–2019 2nd Quarter Projection | 2018–2019 3rd Quarter Projection | Variance from Budget |
|--|-----------------------------|--|--|-------------------------------------|
| Revenue | | | | |
| Ordinary Account..... | 8,946,303 | 9,121,659 | 9,254,128 | 307,825 |
| Capital Account..... | 48,264 | 34,903 | 29,255 | (19,009) |
| Special Purpose Account..... | 117,289 | 114,073 | 113,901 | (3,388) |
| Special Operating Agencies..... | 124,198 | 117,076 | 112,865 | (11,333) |
| Sinking Fund Earnings..... | 191,200 | 191,200 | 194,200 | 3,000 |
| Total Revenue..... | 9,427,254 | 9,578,911 | 9,704,349 | 277,095 |
| Expense | | | | |
| Ordinary Account..... | 8,773,358 | 8,867,260 | 8,823,395 | 50,037 |
| Capital Account..... | 153,502 | 139,763 | 175,155 | 21,653 |
| Special Purpose Account..... | 86,099 | 101,728 | 105,678 | 19,579 |
| Special Operating Agencies..... | 117,635 | 118,913 | 111,804 | (5,831) |
| Amortization of Tangible Capital Assets..... | 485,398 | 482,688 | 483,780 | (1,618) |
| Total Expense..... | 9,615,992 | 9,710,352 | 9,699,812 | 83,820 |
| Surplus (Deficit)..... | <u>(188,738)</u> | <u>(131,441)</u> | <u>4,537</u> | <u>193,275</u> |

CHANGE IN NET DEBT
Thousands
\$

| | 2018–2019 Budget | 2018–2019 2 nd Quarter Projection | 2018–2019 3 rd Quarter Projection | Variance from Budget |
|--|----------------------------|--|--|----------------------------|
| Net Debt - Beginning of Year..... | (14,099,847) | (13,926,249) | (13,926,249) | 173,598 |
| Changes in Year | | | | |
| Surplus (Deficit)..... | (188,738) | (131,441) | 4,537 | 193,275 |
| Investments in Tangible Capital Assets..... | (668,993) | (689,086) | (666,850) | 2,143 |
| Amortization of Tangible Capital Assets..... | 485,398 | 482,688 | 483,780 | (1,618) |
| (Increase) Decrease in Net Debt..... | (372,333) | (337,839) | (178,533) | 193,800 |
| Net Debt - End of Year..... | <u>(14,472,180)</u> | <u>(14,264,088)</u> | <u>(14,104,782)</u> | <u>367,398</u> |

At second quarter, Net Debt - Beginning of Year was 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 2 nd Quarter Projection | 2018–2019 3 rd Quarter Projection | Variance from Budget |
|--|---------------------|--|--|----------------------------|
| Taxes | | | | |
| Personal Income Tax..... | 1,682,000 | 1,721,000 | 1,783,000 | 101,000 |
| Corporate Income Tax..... | 311,800 | 402,900 | 442,700 | 130,900 |
| Metallic Minerals Tax..... | 1,900 | 1,900 | 1,900 | 0 |
| Provincial Real Property Tax..... | 514,750 | 518,000 | 522,000 | 7,250 |
| Harmonized Sales Tax: net of credit..... | 1,492,500 | 1,492,500 | 1,466,200 | (26,300) |
| Gasoline and Motive Fuels Tax..... | 248,600 | 246,600 | 246,600 | (2,000) |
| Tobacco Tax..... | 156,000 | 146,000 | 144,000 | (12,000) |
| 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 | 25,000 | (2,000) |
| Cannabis Duty..... | 6,000 | 3,600 | 3,600 | (2,400) |
| Penalties and Interest..... | 13,000 | 13,000 | 14,000 | 1,000 |
| Subtotal - Taxes..... | 4,536,650 | 4,660,600 | 4,737,100 | 200,450 |
| Return on Investment..... | 264,235 | 218,652 | 223,289 | (40,946) |
| Licences and Permits..... | 158,479 | 161,010 | 163,957 | 5,478 |
| Sale of Goods and Services..... | 448,125 | 454,455 | 476,690 | 28,565 |
| Royalties..... | 69,730 | 69,730 | 75,930 | 6,200 |
| Agency Revenues..... | 160,900 | 161,100 | 162,100 | 1,200 |
| Fines and Penalties..... | 6,804 | 6,804 | 5,818 | (986) |
| Miscellaneous..... | 91,578 | 93,038 | 114,849 | 23,271 |
| Total - Own Source Revenue..... | 5,736,501 | 5,825,389 | 5,959,733 | 223,232 |
| Unconditional Grants – Canada | | | | |
| Fiscal Equalization Payments..... | 1,873,898 | 1,873,898 | 1,873,898 | 0 |
| Canada Health Transfer..... | 791,900 | 813,669 | 813,669 | 21,769 |
| Canada Social Transfer..... | 290,600 | 298,662 | 298,662 | 8,062 |
| Other..... | 1,866 | 1,866 | 1,866 | 0 |
| Subtotal - Unconditional Grants – Canada..... | 2,958,264 | 2,988,095 | 2,988,095 | 29,831 |
| Conditional Grants – Canada..... | 266,466 | 322,961 | 321,086 | 54,620 |
| Total - Grants from Canada..... | 3,224,730 | 3,311,056 | 3,309,181 | 84,451 |
| Subtotal..... | 8,961,231 | 9,136,445 | 9,268,914 | 307,683 |
| Inter-account Transactions..... | (14,928) | (14,786) | (14,786) | 142 |
| Ordinary Account Revenue..... | 8,946,303 | 9,121,659 | 9,254,128 | 307,825 |

APPENDIX B

ORDINARY ACCOUNT EXPENSE

Thousands

\$

| DEPARTMENT | 2018–2019 Budget | 2018–2019 2nd Quarter Projection | 2018–2019 3rd Quarter Projection | Variance from Budget | % |
|--|-----------------------------|--|--|-------------------------------------|-------------|
| Agriculture, Aquaculture and Fisheries..... | 37,196 | 38,596 | 37,196 | 0 | 0.0% |
| Education and Early Childhood Development..... | 1,258,007 | 1,258,007 | 1,258,007 | 0 | 0.0% |
| Energy and Resource Development..... | 101,820 | 103,220 | 101,720 | (100) | -0.1% |
| Environment and Local Government..... | 142,035 | 142,670 | 141,225 | (810) | -0.6% |
| Executive Council Office..... | 12,546 | 12,521 | 12,446 | (100) | -0.8% |
| Finance..... | 10,797 | 10,797 | 10,797 | 0 | 0.0% |
| General Government..... | 792,547 | 786,037 | 787,901 | (4,646) | -0.6% |
| Health..... | 2,753,351 | 2,753,351 | 2,753,351 | 0 | 0.0% |
| Justice and Office of the Attorney General*..... | 54,132 | 54,132 | 53,661 | (471) | -0.9% |
| Legislative Assembly..... | 30,717 | 30,717 | 30,717 | 0 | 0.0% |
| Office of the Premier..... | 1,598 | 1,598 | 1,598 | 0 | 0.0% |
| Opportunities New Brunswick..... | 47,186 | 46,986 | 44,186 | (3,000) | -6.4% |
| Other Agencies..... | 386,108 | 389,112 | 375,001 | (11,107) | -2.9% |
| Post-Secondary Education, Training and Labour..... | 644,758 | 651,908 | 646,455 | 1,697 | 0.3% |
| Public Safety*..... | 198,009 | 265,235 | 274,051 | 76,042 | 38.4% |
| Regional Development Corporation..... | 70,148 | 70,148 | 61,101 | (9,047) | -12.9% |
| Service of the Public Debt..... | 675,000 | 665,000 | 655,000 | (20,000) | -3.0% |
| Social Development..... | 1,194,547 | 1,231,147 | 1,228,884 | 34,337 | 2.9% |
| Tourism, Heritage and Culture..... | 62,633 | 62,693 | 62,133 | (500) | -0.8% |
| Transportation and Infrastructure..... | 307,404 | 307,404 | 307,404 | 0 | 0.0% |
| Treasury Board..... | 16,342 | 15,848 | 15,487 | (855) | -5.2% |
| Subtotal..... | 8,796,881 | 8,897,127 | 8,858,321 | 61,440 | 0.7% |
| Investment in Tangible Capital Assets..... | (7,195) | (12,881) | (12,940) | (5,745) | 79.8% |
| Inter-account Transactions..... | (16,328) | (16,986) | (21,986) | (5,658) | 34.7% |
| Ordinary Account Expense..... | 8,773,358 | 8,867,260 | 8,823,395 | 50,037 | 0.6% |

* The 2018–2019 Budget has been restated to reflect government reorganization.

APPENDIX C

CAPITAL EXPENDITURES

Thousands

\$

| | 2018–2019 Budget | 2018–2019 2 nd Quarter Projection | 2018–2019 3 rd Quarter Projection | Variance from Budget |
|--|---------------------|--|--|----------------------------|
| Provincial Source Capital Investments | | | | |
| Agriculture, Aquaculture and Fisheries..... | 2,300 | 2,300 | 2,269 | (31) |
| Education and Early Childhood Development..... | 103,303 | 87,313 | 84,402 | (18,901) |
| Energy and Resource Development..... | 4,220 | 3,070 | 1,275 | (2,945) |
| Environment and Local Government..... | 1,000 | 1,300 | 1,300 | 300 |
| Health..... | 96,892 | 132,136 | 132,225 | 35,333 |
| Legislative Assembly..... | 50 | 50 | 50 | 0 |
| Post-Secondary Education, Training and Labour..... | 6,251 | 6,269 | 6,276 | 25 |
| Public Safety*..... | 3,215 | 1,030 | 980 | (2,235) |
| Regional Development Corporation..... | 77,455 | 75,580 | 75,580 | (1,875) |
| Social Development..... | 12,000 | 12,000 | 12,000 | 0 |
| Tourism, Heritage and Culture..... | 12,590 | 14,412 | 14,857 | 2,267 |
| Transportation and Infrastructure..... | 448,870 | 446,212 | 458,061 | 9,191 |
| Subtotal - Provincial Source Capital Investments..... | 768,146 | 781,672 | 789,275 | 21,129 |
| Other Source Capital Investments | | | | |
| Transportation and Infrastructure..... | 41,690 | 28,274 | 20,597 | (21,093) |
| Other Departments..... | 5,464 | 6,022 | 3,022 | (2,442) |
| Subtotal - Other Source Capital Investments..... | 47,154 | 34,296 | 23,619 | (23,535) |
| Total - Capital Expenditures..... | 815,300 | 815,968 | 812,894 | (2,406) |
| Investments in Tangible Capital Assets..... | (661,798) | (676,205) | (637,739) | 24,059 |
| Capital Account Expense..... | 153,502 | 139,763 | 175,155 | 21,653 |

* The 2018–2019 Budget has been restated to reflect government reorganization.