NEW BRUNSWICK GENERATES A DEFICIT ELIMINATION TIMETABLE

Highlights

• The New Brunswick government is forecasting a deficit of $564 million in fiscal 2013-14 (1.8% of GDP). This revision represents a $26 million deterioration relative to the December Fall Update.

• Net debt for fiscal 2013-14 is now forecast to be $12.8 million higher versus what was presented in the 2013 budget. It sits at $11.7 billion in fiscal 2013-14 or 36.8% of GDP.

• Annual deficits are expected over the next three years. They range in size from 0.4%-1.2% of GDP.

• In contrast to last year’s budget, a deficit reduction timetable was included in the documents today. The Province hopes to restore budgetary balance in fiscal 2017-18. Ontario and New Brunswick are poised to be the last two provinces to convert budgetary deficits into surpluses.

• No new tax measures and fee changes were announced today.

• Although the theme of expenditure restraint remained loud and clear, there were a few new spending measures. Of note, social assistance rates will increase by 3% beginning in April and $27 million will be allocated to the New Brunswick Drug Plan.

• The medium-term fiscal plan includes anywhere from $125-300 million in measures yet to be identified, starting in fiscal 2015-16. Initiatives could be on the expenditure or revenue side of the ledger. These placeholders represent a downside risk to the fiscal plan if the necessary funds are not secured.

• This will be the last provincial budget before New Brunswick heads to the polls on September 22nd.

New Brunswick’s fiscal challenge remains nothing less than daunting. The government recognizes the tall task ahead. In the 2014 budget (which is titled “Putting our Resources to Work”), the government published a medium-term fiscal plan which sets out a path to restore fiscal order. It did not do this last year, as consultations with relevant stakeholders were still ongoing. The Province now plans to return to a surplus position by fiscal 2017-18. In the interim, deficits are large relative to the size of the economy and net debt as a share of GDP has not yet reached its peak. In fiscal 2013-14, the deficit is projected to be $564 million (1.8% of GDP) and net debt-to-GDP is 36.8%. These revised estimates are slightly worse than what was shown in the last budget and/or fiscal update.

A disappointing 2013 on the economic and fiscal front

2013 was simply disappointing for the New Brunswick economy. The government estimates that real economic growth increased by just 0.1% in 2013. This performance follows an outright 1.1% contraction in 2012 and a mere 0.3% increase in 2011. Economic
growth was impacted in 2013 by the closure of the Brunswick Mine and the completion of several major projects. A higher tax burden – recall that last year’s budget increased personal income tax and corporate tax rates – likely contributed to a flat consumer expenditure profile. Employment growth was also in negative territory, as 200 jobs were shed.

The economic backdrop helps explain the deterioration seen in the government’s bottom line in fiscal 2013-14. The Province is now forecasting a deficit of $564 million, or 1.8% of GDP. This revision represents a $26 million deterioration relative to the December Fall Update. Reduced tax and royalty revenues were the primary culprit – two revenue sources which are highly linked to the pace of nominal economic growth. Spending coming in lower-than-expected helped mitigate the erosion in the overall bottom line.

The future looks brighter, but deficit reduction will require a multi-year effort

The near-term economic future for the province certainly looks brighter. The government expects the province to grow by an average 1.7% over the next five years, generally in line with our real GDP forecast. While New Brunswick is poised to under-perform the national picture over the forecast period, the provincial growth profile is still much better than what we have seen over the past three years. The improved showing will likely come from higher investment activity – led by gains in the primary and agriculture sectors – and a pickup in export demand thanks to a brightening in U.S. and global economic fortunes.

The government’s budgetary revenue intake will certainly take its cue from the improved economic backdrop. Revenues are set to increase by an average 3.6% per year, over the next four years – a marked amelioration relative to the -1.0% showing in fiscal 2013-14. No new tax measures or higher user fees were announced, a noticeable difference relative to the 2013 budget.

To restore fiscal order, the government will continue to clamp down on total expenditures going forward. Spending is set to grow at 2.3% per year, on average, over the next four years. This target is roughly in line with the pace of inflation. The need to responsibly manage the public purse continued to be highlighted throughout the speech and the accompanying documents. Several measures fall under this umbrella, but nothing new and of note was announced.

When revenues and expenditures are all summed up, the government hopes to return to a budgetary surplus in fiscal 2017-18. Ontario and New Brunswick are poised to be the last two provinces to accomplish this feat. However, the fiscal plan hinges on a line item of yet-to-be-identified measures. These measures could be revenue-enhancing and/or additional cost-cutting, but the placeholders are sizeable at $125-300 million per year. The fiscal plan has a downside risk if these monies cannot be secured. Given the small surplus forecast for fiscal 2017-18, a miss could easily push the deficit reduction timetable back one or two years.

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416-982-8063

NEW BRUNSWICK ECONOMIC ASSUMPTIONS

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<th>2013E</th>
<th>2014</th>
<th>2015</th>
<th>2016-18</th>
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<tbody>
<tr>
<td>Real GDP</td>
<td>0.1</td>
<td>1.1</td>
<td>2.1</td>
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<tr>
<td>Nominal GDP</td>
<td>0.5</td>
<td>2.0</td>
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<td>Unemployment rate (%)</td>
<td>10.4</td>
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<tr>
<td>Employment</td>
<td>-0.1</td>
<td>0.6</td>
<td>0.4</td>
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Note: *Estimate presented.

NEW BRUNSWICK GOVERNMENT FISCAL POSITION

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<tr>
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<th>Actual</th>
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<th>Est.</th>
<th>2014 Budget</th>
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<tbody>
<tr>
<td>Revenues*</td>
<td>6,387</td>
<td>6,756</td>
<td>7,190</td>
<td>7,231</td>
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<tr>
<td>% change</td>
<td>5.7</td>
<td>5.8</td>
<td>6.4</td>
<td>0.6</td>
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<tr>
<td>% of GDP</td>
<td>25.3</td>
<td>25.6</td>
<td>25.8</td>
<td>25.4</td>
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<td>Expenditures**</td>
<td>6,161</td>
<td>6,481</td>
<td>6,950</td>
<td>7,384</td>
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<tr>
<td>% change</td>
<td>5.8</td>
<td>5.2</td>
<td>7.2</td>
<td>6.2</td>
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<tr>
<td>Measures yet to be identified</td>
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<td>n/a</td>
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<td>Surplus (+)/Deficit (-)</td>
<td>226</td>
<td>275</td>
<td>240</td>
<td>-153</td>
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<tr>
<td>% of GDP</td>
<td>0.9</td>
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<td>Net Debt</td>
<td>6,905</td>
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<td>7,616</td>
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<tr>
<td>% of GDP</td>
<td>27.3</td>
<td>25.7</td>
<td>25.7</td>
<td>26.8</td>
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Note: *Includes contribution to and from Fiscal Stabilization Fund. ** Includes a one-time pension expense for fiscal 2013-14 of $110 million.
Source: New Brunswick Department of Finance, Budget 2014.