2017 NEW BRUNSWICK BUDGET

TD Economics

February 7, 2017

NEW BRUNSWICK ON TRACK TO MEET FISCAL TARGETS

Highlights

- New Brunswick is on track to balance its budget by FY2020-21 – in line with projections made a year ago. Net debt is expected to rise slightly to near 42% of GDP in the upcoming fiscal year.
- The economic outlook has improved somewhat, with the province upgrading growth and employment projections for both 2017 and 2018.
- No major revenue or spending measures were announced in the budget. However, the Province elected to eliminate the contingency reserve in its plan, following in the footsteps of the federal government in its Fall Update.

New Brunswick tabled its fiscal 2017-18 Budget Plan today, indicating that it remains on track to balance the budget by fiscal year 2020-21. This year's plan builds on the foundation that was created in last year's budget, with focus on growing the economy, and investing in education and healthcare. The provincial government has made some headway in tackling the deficit thanks to a number of measures that were announced in last year's budget. These include tax hikes – HST, corporate taxes, land transfer tax, tobacco tax – as well as paring back expenses through efficiencies. All told, the deficit is on course to fall to $231 million in FY2016-17, ahead of the $347 million projection laid out in last year's budget. The bulk of the improvement, however, stems from the removal of the $100 million contingency reserve. Despite the smaller deficit, net-debt as a share of GDP is expected to rise slightly, reaching nearly 42% in the 2017-18 fiscal year.

Economic outlook slightly improved

Despite the improvement in the fiscal position, the New Brunswick government is still faced with a challenging environment, with a slow-growing economy and aging population remaining chief concerns. The economy has evolved largely in line with the government's estimates a year ago, although the outlook for 2017 has improved somewhat. Real and nominal GDP growth are forecast to come in at 0.7% and 2%, respectively, in 2017 and 2018, a touch ahead of expectations a year ago. What's more, the employment outlook has also improved, with jobs forecast to grow by 0.2-0.3% over the next two years, versus a decline of similar magnitude expected in last year's budget. These forecasts are largely in line with our own, with the exception of nominal GDP, where the outlook is much more conservative than ours.

NEW BRUNSWICK GOVERNMENT FISCAL POSITION

Millions of C$ unless otherwise indicated

	Last year's Estim.*	Current Estim.	2017 Budget
Fiscal Year	16-17	16-17	17-18
Revenues	8,719	8,826	9,189
% change	5.1	5.3	4.1
% of GDP	25.8	26.2	26.8
Expenditures	8,966	9,057	9,381
% change	3.5	4.7	3.6
Surplus (+)/Deficit (-)	-347.0	-231.1	-191.9
% of GDP	-1.0	-0.7	-0.6
Net Debt - End of year	13,458	13,997	14,359
% of GDP	39.9	41.6	41.9

Source: New Brunswick Department of Finance, Budget 2017.
Contingency reserve has been eliminated. *Includes last year's GDP projection.

Contrary to the experience of the past three years, New Brunswick's population rose in 2016. The reversal in trend

Michael Dolega, Director & Senior Economist, 416-983-0500
Dina Ignjatovic, Economist, 416-982-2555
Admir Kolaj, Economic Analyst 416-944-6318

NEW BRUNSWICK ECONOMIC ASSUMPTIONS [Per cent change unless otherwise noted]				
	2017 Budget			
	2016*	2017	2018	2019-21
Real GDP	0.4	0.6	0.8	0.7
Nominal GDP	1.8	1.9	2.1	2.0
Population	0.3	0.3	0.2	0.1
Unemployment rate (%)	9.5	9.5	9.4	9.4
Employment	-0.1	0.2	0.3	0.1

*GDP numbers are estimates.
Source: New Brunswick Budget 2017.

was triggered by a sharp jump in net international migration, driven in large part by an influx of Syrian refugees. While the three-year Atlantic Immigration Pilot Project, set to begin in March, should help to support immigration, last year's growth is unlikely to be sustained. Still, international immigration is one source that may help mitigate the longer-term impact of the aging population on the economy.

Few new revenue or expenditure measures

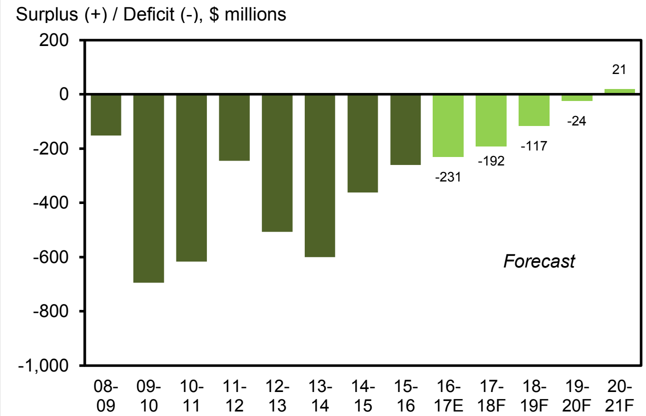
The revenue-raising measures outlined in last year's budget will continue to help balance the budget over time. Indeed, a healthy 4% increase in revenues expected for the upcoming fiscal year will be driven largely by the full implementation of the previously announced tax hikes. As such, there were few new spending or revenue enhancing initiatives revealed this year. In line with its key focus areas, the budget included a 4.9% increase in spending for education (including early-childhood education) and a 3.3% increase for healthcare. Meanwhile, the government is honouring its commitment to lower taxes for small businesses, with a reduction from 3.5% to 3.0% set to take effect on April 1st. Interestingly, there was no mention of any carbon pricing strategy – a plan that the provincial government will need to shape by 2018, unless it is willing to adopt the federal government pricing plan.

Of note, this budget reflects the consolidation into the government's books of nursing homes. The impact of this change is relatively neutral on the deficit, but did add somewhat to the overall debt level – raising it by over $500 million.

Budget still on track to balance by FY2020-21

The Province has met – and exceeded – its fiscal targets thus far and remains on track to bring the budget back to balance by FY2020-21. Keep in mind that the bulk of the improvement in the deficit reflects the elimination of the contingency reserve. While the economic conditions have

DEFICIT FORECAST TO NARROW IN FISCAL 2017-18



Source: New Brunswick Department of Finance. *E: expected, F: forecast.

improved, such a safety net can guard against any unforeseen circumstances. The recent ice storm in the province is one example of how the government may have to increase spending unexpectedly. Moreover, the current environment is riddled with uncertainty, with potential change in U.S. policies related to the new White House Administration, and the Softwood Lumber Agreement in particular, being front and center. Still, the Province has a relatively conservative economic outlook, suggesting that the timeline for the path to balance seems feasible.

The bigger challenge for the province stems from the elevated level of net debt amidst a slow growing economy. Despite a reduction in the deficit, net debt as a share of GDP has been gradually rising - set to reach nearly 42% of GDP in the upcoming fiscal year - partly reflecting borrowing to finance capital spending plans. Spending on transportation and infrastructure – which tends to have a bigger impact on economic growth – accounts for about half of the increase in the capital spending plan. Still, with debt levels already elevated, it remains a concern and can limit the pace at which the deficit is narrowed. Indeed, even with low interest rates, servicing this debt will continue to put pressure on government finances – already accounting for nearly 8% of total revenues.

Bottom line

Aside from the elimination of the contingency reserve, today's budget contained no big changes on the revenue or spending front. Despite being on course to eliminate the deficit, the provincial debt remains elevated and will remain a concern.

This report is provided by TD Economics. It is for informational and educational purposes only as of the date of writing, and may not be appropriate for other purposes. The views and opinions expressed may change at any time based on market or other conditions and may not come to pass. This material is not intended to be relied upon as investment advice or recommendations, does not constitute a solicitation to buy or sell securities and should not be considered specific legal, investment or tax advice. The report does not provide material information about the business and affairs of TD Bank Group and the members of TD Economics are not spokespersons for TD Bank Group with respect to its business and affairs. The information contained in this report has been drawn from sources believed to be reliable, but is not guaranteed to be accurate or complete. This report contains economic analysis and views, including about future economic and financial markets performance. These are based on certain assumptions and other factors, and are subject to inherent risks and uncertainties. The actual outcome may be materially different. The Toronto-Dominion Bank and its affiliates and related entities that comprise the TD Bank Group are not liable for any errors or omissions in the information, analysis or views contained in this report, or for any loss or damage suffered.