



MANITOBA BUDGET 2012

April 18, 2012

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Deficit balloons, but tax hikes keep fiscal plan intact

The Manitoba 2012 Budget, presented yesterday, outlined the province's attempts to get back on track with its deficit reduction plan after last year's deficit ballooned to more than \$1.1 billion, \$682 million higher than planned. A large part of this increase in the deficit was due to costs related to severe spring flooding; however, based on estimates from the third-quarter report, it appears that the government would have missed its target even in the absence of this flooding. As a result, new measures were needed to ensure that the province remained on the path to balance by 2014/15, as previously planned. These measures came in the form of several new tax increases, which are expected to add around \$184 million in new revenues this year. Even with this increase, the deficits for the next two years are now expected to be higher than previously planned, and the surplus in 2014/15 has been lowered to just \$23 million. This suggests that even a small miss on the expenditure or revenue side could keep the province in the red beyond its target date.

Budget highlights

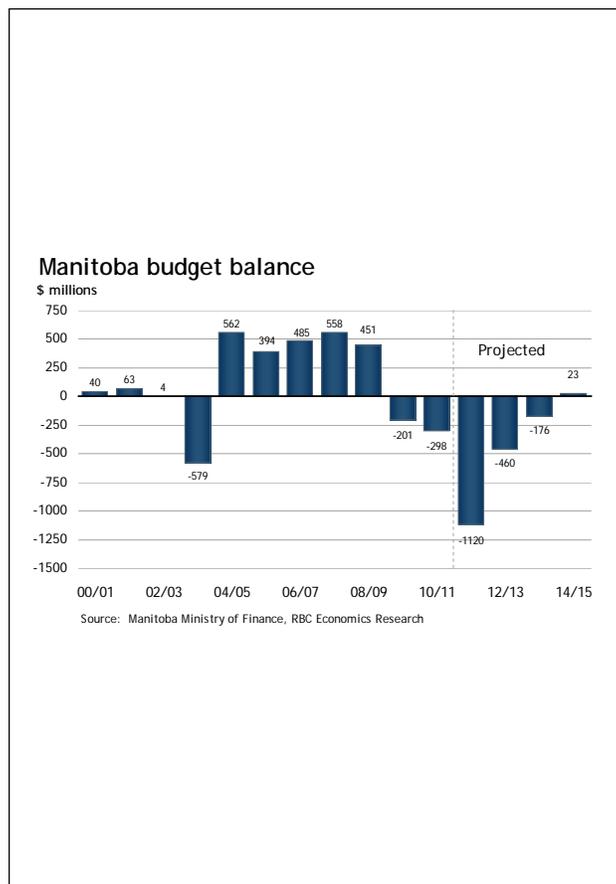
Program expenditures are planned to fall by 4.4% in the coming fiscal year, from \$14.2 billion to \$13.6 billion. However, this decline is due entirely to unusually high expenditures last year as a result of severe spring flooding. Based on flooding cost figures reported in the province's third quarter update, program expenditures will rise by 1.1% in 2012/13, excluding flooding-related expenditures. This is the result of moderate increases in health, education and family services budgets, combined with a decline in community, economic and resource development spending. The budget undertook a number of smaller measures to constrain growth in expenditures, including reducing the number of health authorities, merging provincial corporations and reducing cabinet pay; however, estimates of the fiscal impact of these measures were not provided. The province's medium-term plan shows continued modest expenditure growth averaging 1.8% annually to 2014/15 (again excluding the impact of the flood.)

Revenues are expected to rise by 0.3% to \$13.9 billion in 2012/13; excluding flood relief revenues from the federal government in 2011/12, however, revenues are planned to be up a stronger 3.6%. The budget introduced several new measures on the revenue side, including a 2.5 percentage point increase in the fuel tax, a reduction in the dividend tax credit and an increase in the financial corporations capital tax to 4% from 3% previously. The base for the provincial sales tax will also be extended to include some personal services and insurance premiums. New tax measures are expected to add \$184 million to provincial revenues in 2012/13. Excluding the impact of the flood, revenue growth is expected to average 3.6% to 2014/15, well below the province's 10-year average growth of 7.0%.

Capital spending will be \$1.7 billion in 2012/13. The largest components of this spending are highways and transportation, housing and educational facilities. **Borrowing requirements** will be \$3.6 billion.

The Fiscal Stabilization Account, the province's rainy day fund built up in previous years, is forecast to have a balance of \$329 million on March 31st, 2013, down from \$525 million at the end of the 2011/12 fiscal year. This is largely due to \$140 million in debt repayment, in line with the province's plan last year to retire \$600 million of debt over a five-year period.

Economic forecasts used in the budget are conservative. The budget forecasts show real GDP growth in Manitoba of 2.3% in 2012 and 2.4% in 2013, well below RBC's forecasts of 3.4% and 3.0%, respectively. As is usual in the province, no contingency funds were budgeted for the case of unexpected expenditures or lower-than-expected revenues. Additionally, the budget plans for \$113 million this year in "in-year lapses and/or adjustments" (a catch-all item accounting for unspent department budgets and upward revenue surprises), rising to \$145 million in the next two years. With the budget surplus forecast at just \$23 million in 2014/15, the failure to realize these positive surprises could prevent the province from returning to surplus on schedule. While this gives us some cause for concern, the cautious GDP growth embedded in the budget plan should provide some offset by creating upside risk to the revenue forecasts.



Manitoba's fiscal plan

| \$ millions | Actual | Forecast | Budget | Projection | |
|---------------------------|-------------|---------------|-------------|-------------|-----------|
| | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 |
| Revenue | 13,205 | 13,809 | 13,851 | 14,339 | 14,868 |
| Expense | 13,503 | 15,002 | 14,424 | 14,660 | 14,990 |
| In-year adjustments/lapse | - | -73 | -113 | -145 | -145 |
| Surplus/ (deficit) | -298 | -1,120 | -460 | -176 | 23 |

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