

NEW BRUNSWICK BUDGET 2012

March 28, 2012

Keeping the squeeze on spending

The New Brunswick 2012 Budget, released yesterday, reaffirmed the provincial government's commitment to eliminate its deficit by 2014/15. The government plan appears to have been successful in controlling expenditures so far, with total expenditures estimated to have declined in 2011/12. The fiscal plan presented yesterday will keep expenditure growth subdued over the forecast horizon, with the bulk of the restraint expected to come from restructuring within government, public sector wages freezes and savings from 'efficiencies'. Program expenditure restraint is necessary to balance the budget on target because the government projects significantly slower revenue growth in the future than was the case in the recent past. This slower revenue growth comes in spite of a number of new revenue-raising initiatives, including an increase in the financial corporation capital tax. This was a somewhat surprising move, as the trend in recent years has been for provinces to lower or eliminate capital taxes due to their distortive effects on economic activity.

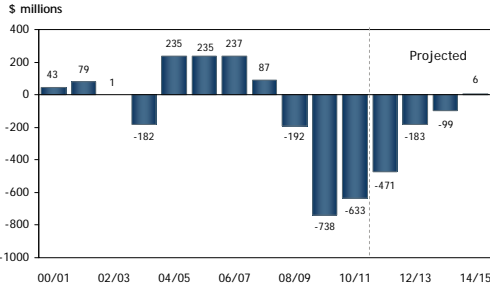
For the first time, the provincial government presented the revenue, expenditure and deficit details of its fiscal plan for the next three years (instead of only the coming year). The plan shows the deficit falling from \$471 million in 2011/12, to \$183 million in 2012/13 and \$99 million in 2013/14, and turning into a surplus of \$6 million in 2014/15.

Budget highlights

Program expenditures are forecast to rise by 1.4% in 2012/13, to \$7.5 billion. Healthcare expenditures are projected to rise by 1.6%, while education spending will rise by 1.0%. Social development spending growth will increase by 3.9%, reflecting a number of new initiatives, including \$10.3 million for affordable housing and \$9.8 for nursing home renovations and replacements. Total expenditures (including debt service) are projected to rise by 1.3%, after falling by 0.5% in 2011/12. This was the first decline in overall expenditures in the province since 2001.

Over the course of the three-year plan, total expenditures are planned to rise by an average of 0.6% per year, significantly slower than the 4.8% average growth that has prevailed over the past ten years. This slower pace of growth is expected to be accomplished through the province's government renewal plan, which aims to save \$226 million in government operations costs this fiscal year. The measures include \$123 million in so-called 'corporate savings' (generated, among other things, by public sector employment declines via attrition and by a two-

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Source: New Brunswick Ministry of Finance, RBC Economics Research

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year wage freeze on some government employees) and \$55 million in service delivery efficiencies. The remainder of the \$226 million will be derived from other administrative savings.

Revenues are expected to rise substantially by 5.2% in 2012/13, to \$8.0 billion. The budget document notes that the rapid rate of revenue growth is mainly due to a one-time capital transfer from the federal government related to the Route One Gateway Project. Excluding capital transfers in transportation and infrastructure, revenues are planned to increase by a smaller 2.1%. The province's plan to 2014/15 shows average revenue growth of 2.7% per year over the three years, slower than the province's ten-year average revenue growth of 3.8%. This slowdown comes in spite of the fact that the budget introduced a handful of new revenue initiatives, including increases in property transfer taxes, financial corporation capital taxes and user fees. These new initiatives are expected to add about \$100 million to revenues in 2012/13.

Provincial debt is expected to rise by 6.0%, to \$10.8 billion in 2012/13 (representing 34.0% of GDP). The budget document noted that around half of this increase is attributable to the funding of the Route One Gateway Project.

Capital spending estimates, released in December, show a 63% increase in government capital spending in 2012/13, to \$978 million. More than half of this year's amount is related to the Route One Gateway Project.

Economic projections used in the budget forecasts are reasonable, with the government forecasting 1.3% real GDP growth in 2012 (below RBC's forecast of 1.6%) and 2.1% in 2013 (identical to our call.)

New Brunswick fiscal plan

\$ millions	Actual	Estimate	Revised	Estimate	Estimate	Estimate
	<u>2010-11</u>	<u>2011-12</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>
Revenue	7,497	7,657	7,620	8,013	8,045	8,243
Expense	8,130	8,105	8,091	8,196	8,144	8,237
Surplus/ (deficit)	-633	-449	-471	-183	-99	6

Source: New Brunswick Ministry of Finance, RBC Economics Research

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