

NEW BRUNSWICK BUDGET 2015

March 31, 2015

Struggling to find steady (balanced) ground

After struggling to achieve its fiscal targets in recent years, the New Brunswick government aimed to alter the province's fiscal course by delivering a budget today that aims to "strike a balance" between revenues measures, expenditure restraint and economy-boosting investments. In contrast to previous budget releases, the recently elected government presented an outlook for only the upcoming 2015/16 fiscal year as it awaits recommendations resulting from a Strategic Program Review. This initiative, undertaken in January 2015, is expected to provide a foundation for the development of a more detailed plan with infrastructure, education and health spending as well as a review of revenue enhancing measures on the table. In the meantime, the government expects that its fiscal challenges will persist in the near-term with a deficit of \$476.8 million projected for 2015/16 compared to the projection in Budget 2014 of a \$262 million shortfall.

Of note, the province is adopting the strategy of many of its counterparts by incorporating a contingency reserve into its estimate. For 2015/16, the budget deficit incorporates a \$150 million reserve to protect against potential revenue weakness.

Better than expected in 2014/15 thanks to one-time revenue windfalls

Deterioration in the province's bottom line in 2015/16 comes on the heels of better-than-expected fiscal performance in 2014/15, albeit largely reflects one-time revenue gains. The 2014/15 deficit is estimated at \$255 million compared to a shortfall of \$391 million projected in last year's budget. The improvement predominantly reflects \$156 million in one-time revenue gains in part owing to funding resulting from the province joining the Cooperative Capital Markets Regulatory System. As a result, total revenues are estimated to be 2.7% higher than the initial budget figure (at \$8.3 billion), more than offsetting total expenditures coming in 1.0% higher than initially projected (at \$8.5 billion).

Relying on taxes to boost revenue growth

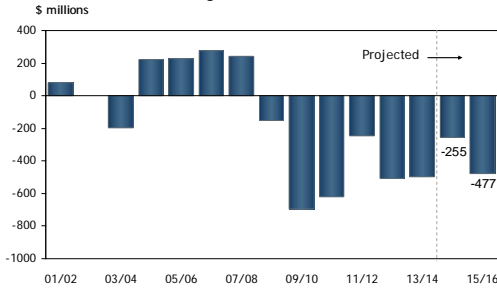
The creation of two new tax brackets is expected to lift taxation revenues in 2015/16, resulting in **total revenues** set to edge up 0.6% to \$8.3 billion in 2015/16. Effective January 1, 2015, New Brunswickers earning between \$150K and \$250K will see their personal income tax rate rise to 21% from 17.84% while individuals with incomes exceeding \$250K will see their rate rise to 25.75%. Together, these changes to personal income tax rates are expected to boost revenues by \$30 million annually. Increases in fuel taxes (1.9cents/L for gas and 2.3 cents/L for diesel), effective at midnight tonight, are also contributing to the anticipated revenue improvement, with total taxation revenues set to rise 1.9% to \$4.0 billion in 2015/16.

Additional tax initiatives include the modification of the New Brunswick Dividend Tax Credit for small businesses (to 4% from 5.3%), an increase in the Small Business Investor Tax Credit (from 30% to 50% resulting in a boost to the maximum tax credit to \$125K from \$75K) and an earlier announced reduction in the small business corporate tax rate to 4.0% from 4.5%.

Reining in expenditure growth in anticipation of the Strategic Review

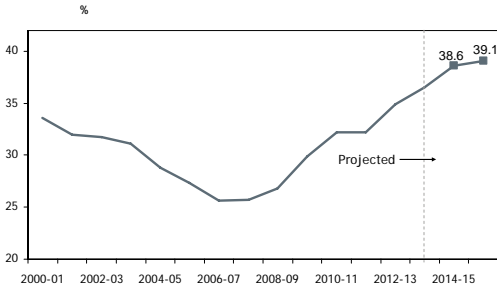
Ahead of the results of the province's Strategic Program Review set up by the new government in January, the government is setting the course to control

New Brunswick budget balance



Source: New Brunswick Ministry of Finance, RBC Economics Research

New Brunswick net debt-to-GDP



Source: New Brunswick Ministry of Finance, RBC Economics Research

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spending growth in 2015/16. **Total expenditures** are slated to rise 1.5% to \$8.6 billion in 2015/16. To restrain expenditure growth, the government announced changes to current funding arrangements (removing the daily maximum for nursing home care, eliminating the New Brunswick tuition rebate) as well as its plans to eliminate 249 teaching positions (3% of workforce), largely through attrition. The possibility of assets sales was put forth; however, further details will be prepared in advance of the 2016/17 budget.

Capital spending to “kick start” the economy

The December 2014 release of the province’s 2015-16 Capital Budget revealed \$597 million in planned capital spending for the upcoming fiscal year, up from \$555 million in 2014/15. The bulk of the investment once again will be directed to Transportation and Infrastructure spending (\$549M) reflecting sizeable increases in both highway and bridge infrastructure investment (collectively up 63% to \$293M). As part of the government’s attempt to “kick-start” the economy in the near-term, a new Strategic Infrastructure Initiative accompanied the release of the capital plan. Under this initiative, 1,200 jobs are expected to be created in 2015/16 and a \$10M Strategic Economic Infrastructure Fund for economy-boosting capital investments will see funding for Regional Development Corporation increase nearly five-fold to \$19.2M in 2015/16.

Net debt to rise in 2015/16

With a larger deficit expected in 2015/16 and an increase in capital spending, net debt in the province is projected to increase by \$585.5 million to \$13.1 billion by March 31, 2016. Against a backdrop of modest economic growth, the ratio of net debt-to-GDP is projected to rise to 39.1% from 38.6%. This would represent the highest this measure has been since at least 1980.

Economic outlook

The Ministry of Finance anticipates economic growth in the province will improve to 1.8% in 2015 from an estimated 0.8% in 2014. The net oil-consuming position of the province sets up for benefits to accrue from lower energy prices spurring non-energy investment and consumer spending. Improved export performance, reflecting rising demand from a stronger US economy, and a ramping up in production at the province’s mines further contribute to the optimistic economic outlook. The economic growth forecast is in line with RBC’s forecast for 1.9% growth in 2015, which would be a welcome development for the province as weak economic growth over the past decade has impeded the government’s ability to generate sufficient revenues, resulting in a current structural deficit of \$400 million.

New Brunswick fiscal plan

\$ millions	Actual	Estimate	Revised	Estimate
	<u>2013-14</u>	<u>2014-15</u>	<u>2014-15</u>	<u>2015-16</u>
Revenue	7,764	8,036	8,254	8,308
Expense	8,262	8,427	8,510	8,635
Contingency Reserve				150
Surplus/ (deficit)	-499	-391.1	-255.3	-476.8

Source: New Brunswick Ministry of Finance, RBC Economics Research

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