

NEWFOUNDLAND & LABRADOR BUDGET 2011

April 20, 2011

Something for everyone

The Newfoundland and Labrador government (perhaps mindful of the provincial election coming up in the fall) presented a budget yesterday that contained a myriad of new spending initiatives designed to appeal to a variety of interests. Program spending will be up 4.9% this year, and capital spending will increase by 62%, to \$1.4 billion. The government was also able to present some other good news: the \$194 million deficit forecast in the 2010 budget is now projected to be a \$485 million surplus, due to stronger than expected commodity prices and oil production. While strong economic growth is expected to continue in 2011, the government is projecting a smaller surplus of \$59 million for 2011/12. The lower surplus relative to 2010/11 is the result of declining revenues due to lower oil and gas production, combined with higher program spending.

The government's economic projections appear to be relatively conservative: they are forecasting real GDP growth of 3.0% in 2011 and 0.2% in 2012, well below our estimates of 4.5% and 1.5%, respectively. The crude oil price assumption (US\$108.50 per barrel, Brent) in calendar year 2011 is slightly higher than RBC's forecast (US\$106.00 per barrel).

Highlights

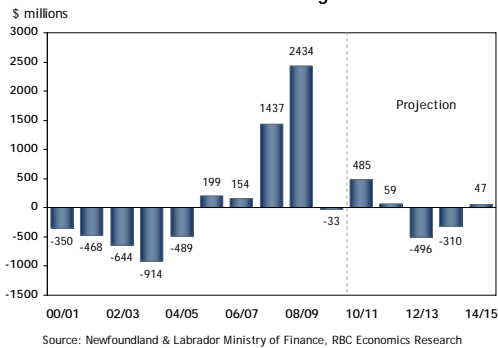
Revenues are projected to be \$7.1 billion in 2011/12, 1.9% lower than in 2010/11. The decline in revenue is the result of a drop in both offshore oil and gas royalties (expected to be down \$142 million or 6%, due to declining production) and in federal transfers (down \$77 million or 4.3%, due to a decline in revenues from the 1985 Atlantic Accord.) This is partially offset by growth in taxation revenues, expected to be up \$104 million or 3.6%. The growth in taxation revenues occurs in spite of an expected decrease in personal and corporate income tax revenues, and is driven by increases in mining royalties and taxes, along with revenues from gasoline and sales taxes.

Planned expenditures are \$7.3 billion in 2011/12, up 4% relative to 2010/11. This includes \$6.5 billion in program expenses, an increase of 4.9%. The increase in program expenses is due entirely to increases in the "social sector", which makes up about 75% of total spending. All components of social sector spending are expected to see growth, with the largest increases in education (up 11%) and health (up 5.1%). This is partially offset by a 3.7% decline in general government spending (about 22% of total spending) and a 5.6% decline in resource sector spending (4.4% of total spending.)

Capital expenditures are expected to be \$1.4 billion in 2011/12, a substantial increase over the \$870 spent in 2010/11. A large part of this is accounted for by a \$348 million investment in Nalcor (the province's energy corporation), related to the Lower Churchill hydroelectric project. The province will also spend \$216 million on roads and bridges.

Net debt is expected to increase in 2011/12, from \$8.2 billion in March 2011 to \$8.7 billion in March 2012. As a percentage of GDP, this represents a decline from 27.7% to 26.7%.

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Newfoundland & Labrador fiscal plan

(\$ millions)	Actual	Estimates	Revised	Estimates	Projection		
	<u>2009/10</u>	<u>2010/11</u>	<u>2010/11</u>	<u>2011/12</u>	<u>2012/13</u>	<u>2013/14</u>	<u>2014/15</u>
Total revenues	7,297	6,791	7,484	7,343	6,916	7,255	7,576
Fiscal revenue	7,112	6,585	7,283	7,124			
Net income of government business enterprises	185	207	201	219			
Total expenditures	7,329	6,986	6,999	7,284	7,412	7,565	7,528
Program expenses	6,426	6,177	6,176	6,479	6,585	6,701	6,635
Debt servicing expenses	903	809	823	804	828	865	894
Surplus/(Deficit)	-33	-194	485	59	-496	-310	47

Source: Newfoundland & Labrador Ministry of Finance, RBC Economics Research

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