

PRINCE EDWARD ISLAND BUDGET 2011

April 7, 2011

Making progress

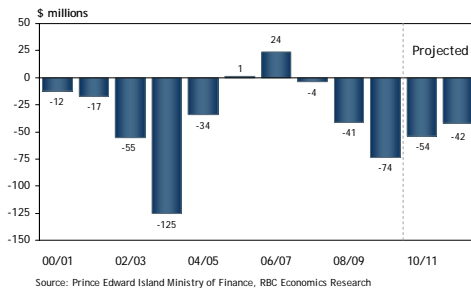
The 2011 PEI budget, released Wednesday, combined modest new revenue measures and significant expenditure restraint in an attempt to move the province towards balanced budgets. After hitting \$74 million in 2009/10, the deficit is now projected to have narrowed to \$53.7 million in 2010/11 (revised from \$54.8 million projected in the 2010 budget.) The downward trend is expected to continue this year, with a projected deficit of \$42 million for 2011/12. This represents further progress for the government towards its goal of eliminating the deficit by 2014. (As is the usual practice by the province, the budget did not provide specific deficit projections for future years.)

The government is planning for 2.1% revenue growth in 2011/12, combined with 1.1% program expenditure growth. Given the budget's conservative GDP forecast of 1.7% for 2011 (we expect 2.2% growth) and new revenue measures announced in the budget, the revenue target seems reasonable. The expenditure growth target, however, is quite aggressive as it relies on substantial restraint in growth in health and education spending (projected to grow by just 2.6% and 3.5%, respectively). Were these components to grow at their three-year average rates of 10.1% and 6.7%, respectively, growth in program spending would nearly quadruple to 4.2%.

Revenues are projected to increase by 2.1% in 2011/12, to \$1.5 billion. This reflects a 5.6% increase in own-source revenues, combined with a 1.8% drop in federal transfers. The strong growth in own-source revenues is driven by increases in revenues from personal and sales taxes (benefiting from sustained economic growth) and from liquor and tobacco taxes. The increase in projected tobacco and liquor tax revenues results from new rate increases announced in the budget taking effect immediately. The drop in federal transfers results from the elimination of core transfer protection, implemented by the federal government last year to ensure that provinces did not see a reduction in overall transfers in 2010/11.

Program expenditures are projected to rise to \$1.4 billion in 2011/12, a 1.1% increase from 2010/11. This is the result of moderate increases in the big ticket areas of education and health, combined with small increases or decreases in other areas. Innovation and Advanced Learning, and Transportation and Infrastructure Renewal, which together make up nearly one-fifth of provincial expenditures, will see their budgets shrink by 5.3% and 1.1%, respectively. Spending in both of these areas has been unusually high over the past two years in order to stimulate the economy during the recession. With the recovery being sustained, this spending will be brought back to lower levels. The government has also promised to find \$5 million in public sector efficiencies.

Prince Edward Island budget balance



Source: Prince Edward Island Ministry of Finance, RBC Economics Research

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Prince Edward Island fiscal plan

\$ millions	Actual	Estimate	Forecast	Projection
	<u>2009-10</u>	<u>2010-11</u>	<u>2010-11</u>	<u>2011-12</u>
Revenue	1,507	1,461	1,459	1,489
Expense	1,581	1,516	1,512	1,531
Surplus/ (deficit)	-74	-55	-54	-42

Source: Prince Edward Island Ministry of Finance, RBC Economics Research

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