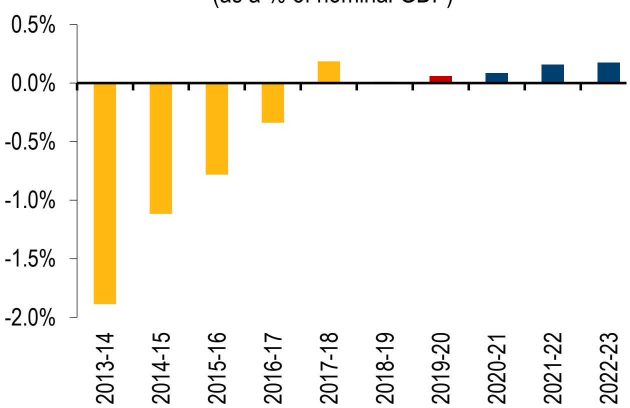
The 2019 New Brunswick Budget: a conservative framework

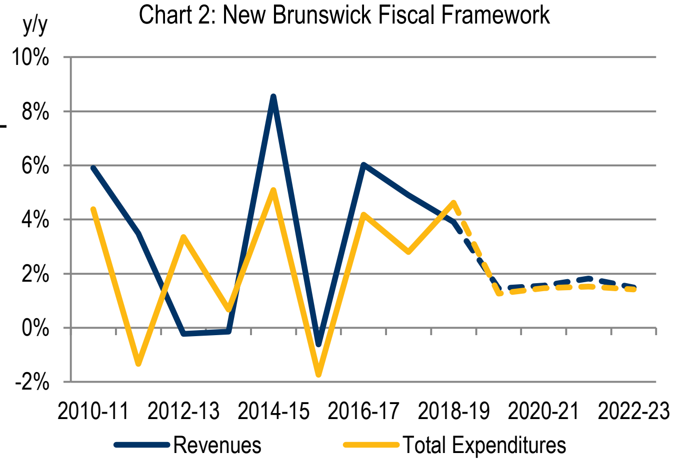
New Brunswick's new Finance Minister Ernie Steeves delivered on March 19th the first budget of the PC government. In line with the third quarter fiscal update released in February, NB registered a small $5M surplus in FY 2018-19, a second consecutive surplus. The long-term outlook proposed in this budget shows modest improvement, from a $23M (0.1% of GDP) surplus in FY 2019-20 to a $71M (0.2% of GDP) surplus in FY 2022-23 (chart 1). This is based on conservative assumptions for revenues and expenditures. Both are forecast to grow by 1.6% and 1.4% on average every year between 2019 and 2022 (chart 2). This is major deceleration for both revenues and expenditures as their average annual growth rate since FY 2010-11 was 3.5% and 2.4%, respectively.

Chart 1: New Brunswick Budgetary Balance (as a % of nominal GDP)



Source: New Brunswick gvt., Stat. Can., LBS Econ. Res. and Strategy.

Chart 2: New Brunswick Fiscal Framework



Sources: Government of New Brunswick, LBS Econ. Res. and Strategy.

Limited revenue growth met with limited spending

On the revenue side, like in many other jurisdictions, the government does not expect an imminent pickup in economic growth. Real GDP growth is forecast at 0.6% in 2019, lower than the 0.9% gain registered in 2018. Building on limited potential growth related to an aging population, the government expects household consumption to be further constrained by higher interest rates. Also, business investment is to be held back by trade uncertainty relative to the signature of the new Canada-U.S.-Mexico trade agreement; a similar outlook to what is observed at the national level. Moreover, the explosion at the Irving refinery in Saint John in October will continue hampering refined petroleum products production for most of this year. All these factors should limit the potential for increased governmental revenues. Of note: the government will seek another agreement on health care cost-sharing with the federal government in order to help the province assume the high health care cost of its aging population. The province is seeking a "one-time" weighted heath care agreement from the Government of Canada, which, based on our understanding, would add-on to, yet preserve, the existing 2016 health-care agreement.

However, on the other side of the ledger, constrained by limited economic growth, the government has little choice but to limit the growth of expenditures. In FY 2019-20, total expenditures growth is capped at 1.3%. Departments, such as tourism and economic development (called Opportunities NB) will see budget reductions. At the same time, the government is limiting cuts to public service employment; the objective being to gradually eliminate 100 positions, mostly through attrition. Health care budget will increase 1.8% with, notably, a $2.4M injection in order to recruit and train more nurses.

Debt-to-GDP, capital investment and borrowing requirements to decline

New Brunswick's public debt-to-GDP is expected to decline for a fourth consecutive year, from a record-high 41% in FY 2015-16 to 37% in FY 2019-20. The provincial debt could also decrease faster than expected since the government mentioned that it will attribute stronger-than-expected revenues to debt reduction rather than new spending. Overall, the province's surplus and fewer investments in tangible capital assets (from $667M in FY 2018-19 to $478M in FY 2019-20) will reduce the need for new long-term borrowing. Consequently, the financing program is estimated at $1.5B in FY 2019-20, down from $2.3B in FY 2018-19, which includes $458M in pre-financing.

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