LAURENTIAN BANK

December 22, 2022

Sébastien Lavoie,
Chief Economist
LavoieS@vmbl.ca
514 350-2931

Luc Lapointe,
Senior Economist
LapointeL@vmbl.ca
514 350-2924

Manitoba 2022-23 Mid-Year Report — Close to a Balanced Budget

The first quarter report published last September had the $548B budgeted deficit cut to $202B, mostly due to better-than-expected revenue from Manitoba Hydro supported by friendly weather. At $193B (0.2% of nominal GDP), the new projected deficit included in the mid-year update is thus largely unchanged.

In the September report, Manitoba kept taxation revenue unchanged from the budget due to uncertainty surrounding the economic outlook. While still cautious on this issue with a $200M in revenue contingency being retained, the government now projects tax revenue to increase by $557M in FY 2022-23, driven by PIT (+$355M), CIT (+$135M) and retail sales tax (+$83M). This rise in taxation income represents half of the total revenue change from budget (+$1.1B to $20.5B). Manitoba Hydro profits from above-average water levels and higher export market prices, boosting net income by $625M over budget. This represents a huge turnaround from last year when the crown corporation posted a $248M loss due to low water levels. However, a $101M decrease in the other revenue category is related to a reduction in the waterpower rental rates paid by Manitoba Hydro. Finance Minister Cameron Friesen said last November that the government will cut fees paid by its Crown-owned hydro utility to keep customers rates low and stabilize Manitoba Hydro's financial situation. The crown corporation has an elevated debt of $24.6B. Friesen anticipates these fees reduction, retroactive to April 2022, will save Manitoba Hydro about $190M a year.

At $20.7B, expenses are up $774M compared to the budget. A $438M increase is related to fund new affordability measures and to provide support for Ukrainian temporary residents. Spending in health climbs by $175M reflecting price increases in the drug benefit program. Debt servicing upward revision of $95M over budget to $1.1B, due to rising interest rates, is almost entirely offset by lower borrowing requirements. The latter are reduced by $800M relative to the budget to $3B. Our tracking indicates that $830M in financial needs remain to be done.

The net debt-to-GDP ratio forecast stands at 33.5% for FY 2022-23, back to the 33%-34% tight range observed during the second half of the 2010s decade after the brief pandemic-led increase to 38% in FY 2020-21 and 35.7% in FY 2021-22.

While recognizing uncertainty in respect to inflation, higher interest rates and utilization of excess savings by households, the province remains optimistic with a real GDP growth forecast of 1.4% in 2023 (down from 2.8% at Budget) and a nominal GDP growth forecast of 3.2% (down from 4.4% last March). Solid employment gains for a second consecutive year (+2.6% year-over-year as of November) and a rebound in agriculture sector after last year's drought propelled economic activity this year.

In summary, the $193M deficit projected in the mid-year report represents a major improvement relative to the $2.1B shortfall registered during the pandemic time of FY 2020-21 and the $704M net loss of FY 2021-22 caused by climate shocks. The province is moving very close to a balanced budget, an event that occurred in FY 2019-20 prior to the pandemic. The current PC government succeeded in gradually eliminating a large deficit when they took office in 2016.

Luc Lapointe | Senior Economist
514 350-2924| Lapointel@vmbl.ca

Sébastien Lavoie | Chief Economist
514 213-4571| LavoieS@vmbl.ca