

ECONOMIC RESEARCH AND STRATEGY



LAURENTIAN
BANK

November 14, 2022

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

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

New Brunswick – Second Quarter Fiscal Update – In Bold Black Ink

Already standing out of the crowd with a projected surplus of \$35M in its initial 2022-23 budget, the province of New Brunswick is now seeing that surplus could be multiplied by 22. The province's second quarter fiscal update is showing a \$774M surplus estimate for FY 2022-23 (1.8% of NGDP), just shy of last year's record of \$777M (2.0% of NGDP), thanks mostly to personal and corporate income taxes. The actual year-to-date surplus as of September 30th stands at \$819M. It reflects seasonal patterns in revenues and expenses as well as the timing of when these are recognized.

There are multiple favorable factors behind NB's impressive fiscal results: the stronger Canadian and NB economy led to a strengthening of 2021 assessments; a record-high 2.2% population surge projected in 2022 is caused by the tripling in net international migration and the massive inflow of Canadians coming from other provinces looking to purchase cheaper houses; the province is also home of the fastest growth in weekly earnings year-to-date (+5.8%). With these positive economic pillars, total revenue is projected at \$918M, or 8%, higher than anticipated for the full fiscal year, of which \$852M is related to own source revenue. Personal income tax revenue, the largest revenue category, is expected to reach \$2.3B, \$0.3B more than what the initial budget showed. Corporate income tax revenue, at \$0.9B, is now anticipated 80% higher than initially budgeted, the largest upside surprise responsible of 46% of the revision to own source revenue. In contrast to own-source revenue, FY 2022-23 federal transfers of \$3.7B are not materially changing the broad picture. Additional funding of \$51M to health transfers has been made to clear surgery backlogs.

Total expenses are projected to be higher than budget by \$179M, or 1.4%, of which \$148M come from Ordinary Account Expenses. 55% of that variance (\$81M) was related to more expenses in health, mainly due to the continued response to COVID-19 and higher operating costs within Regional Health Authorities. The other big chunk in higher-than-expected expenses is related to post-secondary education.

The projected net debt stands at \$11.7B, a large reduction of \$1.3B relative to the initial budget released March. It represents 27% of NGDP, a figure lower than the average of other provinces. At \$0.6B, debt servicing is under budget by \$25M on higher net earnings on short-term investments and on projected savings in the overall borrowing program, more than compensating for the higher interest rates environment. No mention on issuance. The province had a \$1.8B target for the current fiscal year, and 56% (\$1B) is done.



On the economic front, the province population stood at a record high of 812K as of July and is increasing at its fastest pace on record. Employment grew by 2.2%, as reflected by the solid addition of 14K in full-time employment. On a year-to-date basis, housings starts are 25% higher than they were from January to September 2021. The NB government's economic outlook does not include projections for 2023, but officials recognized that economic activity is expected to slow.

In summary, NB's performance has been very solid so far in FY 2022-23 according to the second quarter fiscal update. If we go back in time, NB has a remarkable track record of balanced budgets in FY 2017-18 and FY 2019-20, followed by the largest surpluses ever recorded in the province's history. Accordingly, the net debt-to-GDP ratio fell below the 30% mark for the first time since the 2000s decade and improved significantly relative to its peers. This low public debt burden will prevent to bring the province's financial situation near a critical zone in case a recession becomes reality in 2023.

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

Luc Lapointe | Senior Economist
514 350-2924 | LapointeL@vmbi.ca

This document is intended only to convey information. It is not to be construed as an investment guide or as an offer or solicitation of an offer to buy or sell any of the securities mentioned in it. The author is an employee of Laurentian Bank Securities (LBS), a wholly owned subsidiary of the Laurentian Bank of Canada. The author has taken all usual and reasonable precautions to determine that the information contained in this document has been obtained from sources believed to be reliable and that the procedures used to summarize and analyze it are based on accepted practices and principles. However, the market forces underlying investment value are subject to evolve suddenly and dramatically. Consequently, neither the author nor LBS can make any warranty as to the accuracy or completeness of information, analysis or views contained in this document or their usefulness or suitability in any particular circumstance. You should not make any investment or undertake any portfolio assessment or other transaction on the basis of this document, but should first consult your Investment Advisor, who can assess the relevant factors of any proposed investment or transaction. LBS and the author accept no liability of whatsoever kind for any damages incurred as a result of the use of this document or of its contents in contravention of this notice. This report, the information, opinions or conclusions, in whole or in part, may not be reproduced, distributed, published or referred to in any manner whatsoever without in each case the prior express written consent of Laurentian Bank Securities.

