

ECONOMIC RESEARCH AND STRATEGY



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

New Brunswick 2023 Budget

Major Improvement in Own-Source Revenues Reflecting Population Boom

NB is home of a very positive economic vibe feeding both real and nominal GDP. The province experienced its strongest population boom in history, up 3% from a year ago as of 2023Q1. The province welcomes mostly international immigrants but also plenty of residents from other provinces. NB was a rare province in 2022 to benefit from higher residential homebuilding activity. The tightness of resale housing conditions also tops all other provinces. The average resale home price has been stable, near \$160K, during the 2010s decade and then surged since the pandemic to \$275K in early 2023.

Several Canadian provinces underestimated the unusual strength in corporate income and personal income taxes during FY 2022-23, including NB. Total revenues came in approximately \$1B above expectations at \$11.8B, a major upside surprise. The province registered an outsized, temporary surplus of \$864M during FY 2022-23. Investors should take note of the relatively bold debt payment the NB government made. NB's net debt-to-GDP ratio is the lowest among provinces east of Saskatchewan, with the impressive figure of 25% to end FY 2022-23. NB's public debt burden had usually hovered between 30%-40% for most of the last decade. We must go back to the mid-2000s decade to find net debt-to-GDP ratio figures below the 30% mark in NB.

Based on a soft-landing scenario, Budget 2023 proposes very small surpluses for the next three years. For instance, the \$40M surplus estimate for FY 2023-24 reflects a tiny gap between \$12.19B in revenues and \$12.15B in expenditures. Managing solid population growth implies public responsibilities in terms of services delivery. The NB government plans to lift spending by 5.2% in FY 2023-24, including a 11% jump in health care funding. After reducing personal income tax rates of various brackets in recent years, 2023 budget includes the acceleration of property tax rate reductions and the adoption of the federal carbon tax.

Managing solid growth led to the announcement of a very large \$1B capital budget for FY 2023-24 back in December 2022. Funding will be dedicated to improving space in schools, transportation assets, expansion of hospitals, etc. These public infrastructure needs are a big driver of borrowing requirements projected at \$1.7B in FY 2023-24 to \$1.9B in FY 2022-23.



In summary, the NB government concentrated its efforts in FY 2022-23 on debt reduction and tax cuts in previous years. For FY 2023-24, the focus had shifted in favour of spending initiatives, translating into a smaller improvement in terms of financial performance going forward. Of course, the magnitude of the economic slowdown tied to current financial market stress will determine if NB needs to borrow more than projected and return to deficit territory.

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

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