Laurentian Bank Securities
ECONOMIC RESEARCH AND STRATEGY

The 2018 New Brunswick Budget:

Short-Term Fiscal Improvement, But Long-Term Balanced Budget Objective Delayed

Similar to the last two years, the 2018 Canadian budget season begins with the release of the New Brunswick budget.

NAFTA uncertainty is high and the New Brunswick is one of the most vulnerable provincial economies to protectionist trade policies from the White House (details in last year's write-up available at www.vmbl.ca). Also, softwood lumber producers such as J.D. Irving are hit by punitive U.S. countervailing and anti-dumping duties since late 2017. The Province nevertheless improved its fiscal situation in FY 2017-18. Revenues coming from the harmonized sales tax and the corporate income tax were higher-than-expected, thanks to stronger economic activity in manufacturing, tourism and food sectors as well as robust growth in household spending. The 2018 budget estimates the deficit at only $115M for FY 2017-18 (0.3% of NGDP), an improvement of $77M from the 2017 budget and an improvement of $20M from the *Second Quarter Update* released last November.

The 2018 budget projects a slightly larger deficit in FY 2018-19 ($189M, 0.5% of NGDP). Thus, the long-term objective to return to a balanced budget was pushed back from FY 2020-21 to FY 2021-22. This small, temporary deficit increase projected in FY 2018-19 comes from new targeted initiatives announced in this pre-electoral budget. First, the small business corporate income tax rate will fall from 3.0% to 2.5% on April 1st, 2018 (as stipulated in the Bill 23 presented in November 2017). This tax cut, although small, is a step in the right direction following the passing into law of the U.S. tax reform. Second, new funding to improve youth employment will contribute to boost economic potential. Third, the budget includes additional funding for seniors' health care (New Brunswick has the highest proportion of residents aged 65 years and old, at 19%). Altogether, these targeted initiatives are expected to increase total spending by $238M in FY 2018-19.

Even though economic activity will remain supportive, the projected increase in fiscal revenues in FY 2018-19 ($164M) will likely fall short of the increase in total spending, explaining the $189M deficit. Real GDP growth is on track to stay above the 1% mark for a third consecutive year in 2018.

The $189M deficit, combined with investments and amortization in tangible capital assets, will lead to a $372M increase in net debt from a year ago. The Province's net debt will total $14.472B at the end of FY 2018-19 (40% of NGDP). The government's financing program for FY 2018-19 amounts to $2.112B, very similar to the borrowing requirements of FY 2017-18 ($2.130B; $196M remaining).

In summary, the Province's fiscal situation has improved significantly in recent years. In FY 2014-15, the deficit stood at $389M, $200M more than the deficit projected in FY 2018-19. Furthermore, the fiscal shortfalls projected in the medium-term are manageable, assuming the global economic momentum remains favorable. In this pre-electoral budget, the provincial Liberals government announced targeted measures to boost competitiveness, improve youth employment and provide more health care services for seniors. The general election is scheduled to be held on September 24.

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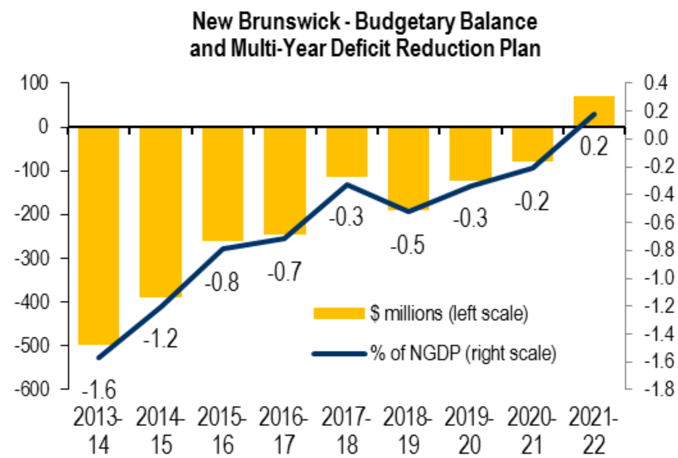
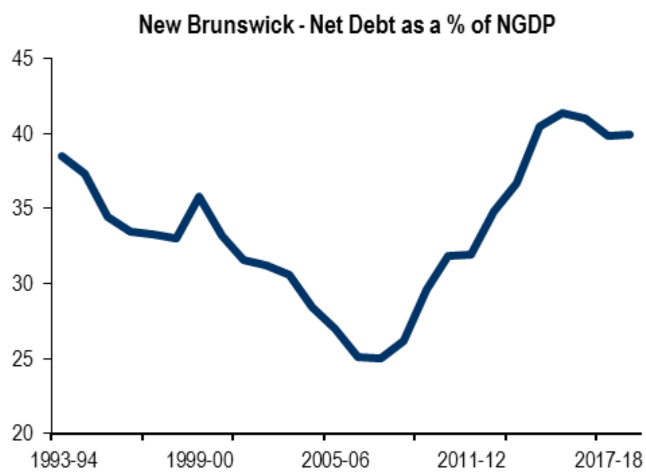


Source: New Brunswick Government



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