Economics

PROVINCIAL BUDGET BRIEFS

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New Brunswick budget 2024

New Brunswick is projecting an extension of surpluses, although more modest than what's been seen since the pandemic began, following a higher-than-expected surplus in fiscal 2023/24. The outgoing fiscal year's surplus is estimated at $247mn, well above budget 2023's forecast of $40mn, but in line with the projection in the fiscal update in early 2024. That surprise was the result of strong revenue growth tied to tax receipts driven by nominal GDP gains. The more modest $41mn surplus projected for the upcoming 2024/25 fiscal year reflects faster growth in expenditures to accommodate a larger population, against the backdrop of slower expected gains in economic activity. The net debt-to-GDP ratio is at a 16-year low at 26.8% in 2023/24 and is expected to fall modestly by fiscal 2026/27, although debt servicing charges are set to increase by 12% y/y in fiscal 2024/25, reflecting the impact of past interest rate hikes. Meanwhile, long-term borrowing is projected to drop to $1.6bn from $1.8bn, due to $278mn in pre-funding completed this outgoing year.

Table 1: Summary of fiscal position: (C$millions)

Fiscal measure	2022/23 Actual	2023/24 23 Budget	2023/24 24 Budget	2023/24 Change	2024/25 24 Budget	2025/26 24 Budget	2026/27 24 Budget
Revenue	12,452	12,193	12,703	510	13,296	13,628	14,024
• % change	20.7	-1.8	2.0	3.8	4.7	2.5	2.9
Own source	8,144	7,377	7,877	500	8,206	-	-
• % change	31.5	-8.4	-3.3	5.1	4.2	-	-
Federal transfers	4,308	4,816	4,827	11	5,090	-	-
Expenditures	11,439	12,152	12,456	303	13,255	13,589	13,994
• % change	15.4	5.2	8.9	3.7	6.4	2.5	3.0
Program spending	10,904	11,525	11,913	388	12,647	-	-
• % change	17.7	5.1	9.3	4.2	6.2	-	-
Public debt charges	535	627	542	-85	608	-	-
Budget balance	1013	40	247	208	41	39	30

Slower growth in store for 2024 before a rebound in 2025

Akin to what's being seen in other provinces, New Brunswick's economy is expected to slow in 2024, reflecting the loosening in the labour market and slower population growth. Population growth in New Brunswick over the past year was stronger than what was seen in the rest of the country, but that pace is expected to decelerate and average 1.0% in 2026-28. Given the aging population, not all of the growth in the population is reflected in employment. The province's labour market has loosened as a result of higher interest rates, with the job openings-to-unemployed ratio within reach of its pre-pandemic level, and the unemployment rate rising by 0.7%-points over the last year.

In 2024, employment growth is expected to slow, which will dampen aggregate household income growth. Nominal GDP, a broad measure of the tax base, was once again much stronger than anticipated in 2023 (3.5% vs 2.3% expected), and is expected to slow only modestly to 3.2% in 2024. The province sees real GDP growth slowing to 0.7% in 2024, before rebounding to 1.7% in 2025, when interest rates are likely to be falling, supporting a rebound in housing starts ahead. A pickup in housing market activity in the US into 2025 should help the province's forestry sector, but prospects this year are weak for the tourism sector, while lower commodity prices are likely to weigh on overall exports, compounding the weakness seen in 2023.

Table 2: Key assumptions (Y/Y % chg)

Economic assumptions	2023	2024	2025	2026-28
Real GDP	1.1	0.7	1.7	1.3
• Private sector average	1.3	0.8	-	-
Nominal GDP	3.5	3.2	4.4	3.8
Employment	3.5	1.2	1.2	0.8
Unemployment rate (%)	6.6	6.8	7.1	6.9
Housing starts	-2.8	2.8	0.6	1.2
Primary household income	6.2	4.2	3.2	3.6
CPI	3.6	2.7	2.1	2.1
Population	3.1	2.0	1.5	1.0

Note: 2026-28 is a three-year average

Smaller surpluses ahead

Fiscal 2023/24 saw the province record another larger-than-expected surplus, reflecting a jump in revenues on higher tax receipts tied to strong population growth. With population growth expected to slow ahead and expenditures set to rise, the surplus is expected to narrow sharply in fiscal 2024/25.

The $41mn surplus projected in 2024/25 includes stronger spending growth on health care, social development, education and early childhood development, housing, and clean energy. Investment in health care will support the aging population as well as new residents, with $3.8bn allocated to the health care system. Spending tied to clean energy includes $50mn to continue the Enhanced Energy Savings Program, and $12.5mn for nuclear energy site preparation, as well as $47mn to continue the Climate Change Action Plan. The government has reaffirmed its commitment to supporting vulnerable populations, including a monthly household income supplement to recipients of social assistance recipients and youth engagement services. $68.9mn will be allocated to the province's housing corporation, and access to child-care spaces will be facilitated by increasing funding to the Canada-New Brunswick Canada-Wide Child Care Agreement by $7.4mn.

Overall, revenue growth is expected to increase by 4.7% in 2024/25, while expenditures are expected to increase by 6.4%. Given past strong population growth, the increase in expenditures looks more modest in per-capita terms. The province foresees a sustainable fiscal path, with the surplus only expected to narrow to $30mn by 2026/27.

Borrowing requirements forecasted to drop due to pre-funding

For this outgoing fiscal year ending in less than two weeks, the province has borrowed $1.8bn in long-term funding. Overall, the program included $1.3bn for the province and $0.5bn on behalf of NB Power. That amount was completed through six transactions that were each $300mn in size. That compares to the previous fiscal year's seven transactions raising a total of $1.9bn in term debt. Meanwhile, all the deals were completed in the domestic markets with the province's last international deal being transacted in 2019.

For this upcoming fiscal year, new long-term borrowing requirements for the province are $854mn, while refinancing needs are $867mn. That latter requirement is mostly due to the $850mn bond maturing this June that needs to be refinanced. Meanwhile, borrowing on behalf of NB Power is planned at $150mn, bringing total borrowing requirements to $1.871bn. However, due to extra cash mostly relating to the larger surplus in the outgoing year, the province has allocated $278mn towards pre-funding for this upcoming year. That places projected long-term borrowing at $1.593bn for 2024/25.

Table 3: Borrowing requirements (C$millions)

Borrowing requirements	2023/24F Budget	2023/24E Update	2024/25F Budget
New long term borrowing	661	688	854
Refinancing requirements	1,121	1,121	867
Prefinancing completed	-590	-787	-278
Total province	**1,192**	**1,022**	**1,443**
Borrowing on behalf of NB Power	500	500	150
Total borrowing	**1,692**	**1,522**	**1,593**

Net debt-to-GDP ratio dropping over the horizon

Despite net debt forecasted to drop by $62mn this outgoing year, a restated higher starting net debt figure places the debt-to-GDP ratio at 26.8% on March 31, 2024. That compares to last year's budget which projected the ratio to be lower at 24.9%, while net debt increased by $183mn.

As for this upcoming year, investments in tangible capital assets of $1.02bn sees net debt increase by a $315mn, reaching $12.7bn on March 31, 2025. However, that growth is lower relative to the expected growth in GDP, placing net debt-to-GDP at 26.7% by the end of this upcoming fiscal year.

Looking further ahead, fiscal plans have increases in net debt of $241mn in 2025/26 and $270mn in 2026/27, mostly related to investments in capital assets. Despite these increases, the ratio is projected to drop to 26.0% and 25.6% of GDP, respectively.

Overall, net debt-to-GDP is projected to be at the lowest level in 16 years, while placing the province fourth lowest amongst its provincial peers. That ratio has been on a steady decline from the 42.0% in 2016.

Capital spending set to increase by $200mn

Tabled in late November, the province's capital budget calls for spending of $1,199mn, up from the revised lower estimate of $991mn in the outgoing year. The new plan is an increase of $200mn over the multi-year plan that was tabled last year, with much of the increase related to the elevated inflationary environment and supply chain pressures, as well as to the needs of the growing province. The province stated that since 2019/20, the government has invested $3.6bn in public infrastructure. Meanwhile, this current three-year plan through 2026/27 outlines a path that sees the province spending $3.6bn.

The largest portion of the plan falls under Transportation and Infrastructure ($977mn), with $505mn of that earmarked for maintenance and improvement of highways, roads and bridges around the province, an increase of 15% year-over-year. At the same time, the government will also invest $200mn in health-care infrastructure and $187mn in infrastructure for public schools. Over the next three years, investments in health care will total $590mn.

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