

Economics

PROVINCIAL BUDGET BRIEFS

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New Brunswick budget 2023

Stronger-than-expected nominal GDP growth in 2022 resulted in higher tax revenues and turned what was anticipated to be a small \$35mn surplus into a much larger \$863mn surplus. Heading into fiscal 2023/24, tax cuts and the adoption of the federal backstop for carbon taxation are expected to lead to a small decline in revenues, while spending is projected to increase meaningfully as the province adjusts to a larger population and higher costs brought on by inflation. The budget is nevertheless expected to stay in the black, with a return to small surpluses through 2025/26. Even with the budget surplus shrinking, borrowing is expected to fall to \$1.7bn in the upcoming fiscal year, down from the \$1.9bn completed this outgoing year, due to pre-borrowing completed and lower refinancing requirements.

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

Fiscal measure	2021/22 Actual	2022/23 22 Budget	2022/23 23 Budget	2022/23 Change	2023/24 23 Budget	2024/25 23 Budget	2025/26 23 Budget
Revenue	11,391	11,346	12,414	1,068	12,193	12,423	12,814
• % change	10.4	1.2	9.0	7.8	-1.8	1.9	3.1
Own source	7,173	7,016	8,052	1,036	7,377	-	-
• % change	15.8	-0.6	12.3	12.9	-8.4	-	-
Federal transfers	4,218	4,330	4,361	32	4,816	-	-
Expenditures	10,614	11,311	11,551	240	12,152	12,396	12,775
• % change	7.1	5.5	8.8	3.4	5.2	2.0	3.1
Program spending	9,979	10,677	10,967	290	11,525	-	-
• % change	7.7	5.9	9.9	4.0	5.1	-	-
Public debt charges	635	634	584	-50	627	-	-
Budget balance	777	35	863	827	40	27	39

Strong population gains support economic growth

The economy of New Brunswick grew at a decent pace in 2022, with real GDP growth of 1.8%, somewhat below the Canadian average. The economy was supported by exceptional gains in population, which now exceeds 812,000, and employment. Manufacturing sales and exports also contributed significantly to growth, with both seeing increases of nearly 30% on the year, though that partly reflects higher prices. Meanwhile, higher imports, rising interest rates and ongoing labour shortages worked to dampen economic growth. Nominal GDP, a broad measure of the tax base, was once again much stronger than anticipated (8.7% vs 6.2% expected last year).

Looking forward, the province sees real GDP growth slowing to 0.8% in 2023, in line with the private sector consensus. Economic growth is expected to rebound to 1.6% in 2024, before averaging 1.2% thereafter. Population growth is expected to remain strong in 2023, but that should not fully translate into employment growth, as the economy slows and the aging population weighs on the participation rate. The housing market is expected to slow, and with the same being true south of the border, that will put pressure on the forestry sector. The outlook is also weak for the tourism and fisheries sectors, while lower commodity prices are expected to put downward pressure on overall exports. In nominal terms, GDP is expected to grow by a much lower 2.3% in 2023, as inflation falls, before rising to 4.1% in 2024.

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

Economic assumptions	2022	2023	2024	2025-27
Real GDP	1.8	0.8	1.6	1.2
• Private sector average	2.0	0.8	-	-
Nominal GDP	8.7	2.3	4.1	3.7
Employment	2.8	0.8	1.3	0.9
Unemployment rate (%)	7.2	7.1	6.8	6.6
Housing starts	22.2	0.8	-2.1	0.5
Primary household income	7.5	3.8	5.6	3.6
CPI	7.3	3.7	2.7	2.2
Population	2.7	1.8	1.3	0.9

Note: 2025-27 is three-year average

A much larger surplus

From expectations of a small \$35mn surplus at this time last year, New Brunswick now projects a much larger \$863mn surplus for fiscal year 2022/23. As in last year's budget, the positive surprise came on the revenue side, as stronger-than-expected nominal GDP growth boosted tax receipts.

Looking forward to fiscal 2023/24, New Brunswick is expected to stay in the black, though it once again projects a very small \$40mn surplus as it seeks to maintain sustainable finances. Revenues are expected to fall slightly as the economy slows and as the tax reductions announced last fall take effect. Also reducing revenues is the adoption by the province of the federal backstop for carbon taxation.

Meanwhile, spending is expected to increase by 5.2%, in part as the province invests to adjust to its rapidly growing population and the impact of high inflation on the costs of delivering public services. Notably, the province is adding an estimated \$200mn in spending to address the latter issue. Moreover, both the education and health care system have been feeling the pressure from a larger population and are set to receive additional funding as a result. Overall, the province is increasing spending for the health care system by 10.6% relative to last year's commitments, a significant jump on the back of what was already a large increase. The province will also add \$37mn in 2023/24 through the Canada-New Brunswick Canada-Wide Child Care Agreement to improve access to affordable child care.

The medium-term projections show spending and revenues growing at about 2% in 2024/25 and 3% in 2025/26, maintaining a small surplus.

Borrowing requirements forecasted to drop due to pre-funding

For this outgoing fiscal year ending next week, the province originally had planned for \$1.8bn in long-term borrowing. However, on the back of the budgetary improvements, plans were subsequently reduced to \$1.3bn throughout the year. Meanwhile, the province accessed the markets seven times this fiscal year, issuing a total of \$1.9bn in long-term debt. All the deals were completed in the domestic markets, with the province's last international deal being in 2019. As a result of borrowing more than required, that has allowed them to allocate \$590mn in pre-funding towards this upcoming year's program.

As for this upcoming year, total borrowing plans after incorporating pre-borrowing are \$1.7bn, down from the \$1.9bn completed this outgoing year. The breakdown of those requirements are \$661mn in new long-term borrowing, \$1,121mn in refinancing requirements, as well as \$500mn on behalf of NB Power. With respect to the latter, requirements are down as there was \$700mn completed on behalf of NB Power in this outgoing year.

Table 3: Borrowing requirements (C\$millions)

Borrowing requirements	2022/23F Budget	2022/23E Update	2023/24F Budget
New long term borrowing	486	-897	661
Refinancing requirements	1,507	1,507	1,121
Prefinancing completed	-400	590	-590
Total province	1,594	1,200	1,192
Borrowing on behalf of NB Power	200	700	500
Total borrowing	1,794	1,900	1,692

Net debt-to-GDP ratio dropping

Due to the fiscal improvement aforementioned, New Brunswick's net debt is forecasted to drop by \$750mn to \$11.6bn on March 31, 2023. Whereas in last year's budget, it was projected to increase by \$15mn. That places net debt-to-GDP at 25.1%, down from 30.1% in last year's budget. As for the upcoming year, net debt is projected to increase by \$183mn, placing it at \$11.8bn. Despite that slight increase in debt, a larger increase in GDP will cause the ratio to drop again, down to 24.9% by March 31, 2024.

Also provided in the budget is a forecast horizon for the following two years. Net debt levels are increasing slightly by \$143mn and \$36mn, respectively, despite small surplus projections. However, increases in the denominator show the ratio continuing to drop to 24.2% in 2024/25 and then again in 2025/26 to 23.4%. That ratio has been on a steady decline from the 40.3% recorded in 2016/17.

Capital investments set to increase

Tabled in December, the province's capital budget calls for spending of \$1.02bn, up from the revised estimate of \$833mn in the outgoing year. The new plan is an increase of \$152mn over the multi-year plan that was tabled last year, with much of the increase as a result of the elevated inflationary environment and supply chain related delays seen around the world. The largest portion of the plan falls under Transportation and Infrastructure (\$850mn), with \$477mn of that earmarked for maintenance and improvement of highways, roads and bridges around the province, an increase of 17.9% over the multi-year capital plan. Meanwhile, the government will also invest \$177mn in health-care infrastructure and \$110mn in education.

The province stated that their transportation infrastructure was valued at around \$5.1bn in 2021, while investments in transportation infrastructure supported more than 3,500 jobs and contributed \$374mn to the economy. Looking ahead, the multi-year capital plan calls for the same level of overall spending in 2024/25 (\$1.01bn), with Transportation and Infrastructure decreasing only some \$40mn.

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