

Department of Finance

Economic and Fiscal Update

First Quarter Projections
2015-2016

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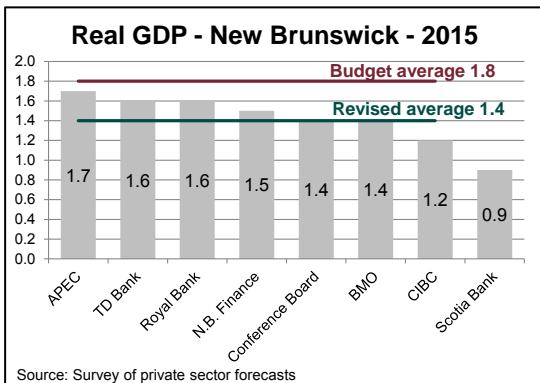
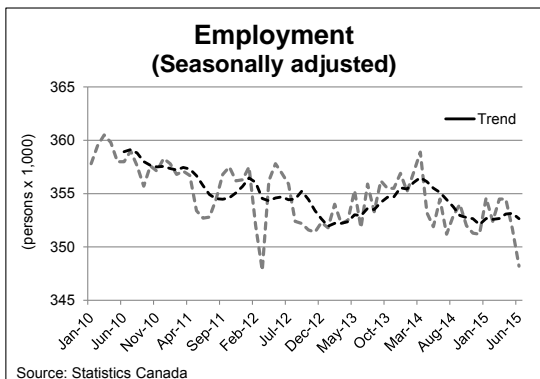
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Think Recycling!

2015 Economic Update



New Brunswick Economic Outlook			
	2013	2014	2015F
Real GDP	-0.5	0.0	1.5
Household Final Consumption Expenditures	2.8	1.6	1.3
Primary Household Income	2.1	0.7	2.2
Employment	0.4	-0.2	-0.2
Unemployment Rate (%)	10.3	9.9	10.6
Consumer Price Index	1.5	1.1	0.8

Sources: Statistics Canada, NB Department of Finance
% change unless otherwise indicated

Based on data available as of July 31, 2015

- The International Monetary Fund (IMF) is forecasting global economic growth of 3.3 per cent in 2015. This is a downgrade from its forecast in the fall edition of its World Economic Outlook.

- U.S. real GDP increased at an annual rate of 2.3 per cent in the second quarter of 2015, which represents an improvement over first quarter activity. The slow start to the year, however, will result in weaker-than-expected growth for 2015.

- The Bank of Canada estimates that real GDP declined during the first half of 2015. Much of the weakness is related to the decline in oil prices, resulting in slower growth in investment and exports.

- The Department of Finance now projects real GDP growth for New Brunswick of 1.5 per cent for 2015 - a downgrade from the 1.8 per cent projection at budget. This is consistent with the consensus among private sector forecasters, which has trended downwards and currently sits at 1.4 per cent.

- Midway through 2015, employment is down by 0.9 per cent over the year prior. Weakness was concentrated in the goods sector (-7.2%), largely as a result of a slowdown in the construction sector.

- Average weekly earnings are up 3.4 per cent, on a year-to-date basis - above the national growth rate of 2.4 per cent. However, combined with the decline in employment, household income growth is expected to moderate.

- After a slow start to the year, exports are up 2.2 per cent on a year-to-date basis. The largest gains were observed in energy products (+\$286.8 million), consumer goods (+\$52.1 million) and metal ores and non-metallic minerals (+\$43.7 million).

- Manufacturing sales are down by 5.3 per cent compared to prior year levels. Significant growth in durable goods industries (+10.1%) has

not been sufficient to offset a decline in the larger non-durable goods industries (-7.8%) grouping. Wood products manufacturing remains a bright spot, posting growth of 4.8%.

- Consumer spending continues to show modest improvement, with retail trade up 1.0 per cent on a year-to-date basis. Gasoline station sales (-15.5%) have been impacted by lower prices for crude-based products. Excluding gasoline station sales, retail trade is up 4.7 per cent.

2015-2016 Fiscal Update

Based on first quarter information, there is a projected deficit of \$470.6 million for 2015-2016. This is an improvement of \$6.2 million compared to the budget deficit of \$476.8 million.

Net debt is projected to increase \$583.9 million to \$12,602.2 million, a decrease of \$1.6 million from the budget estimate of \$12,603.8 million.

Revenue:

Revenue is \$4.2 million higher than budget. The major variances include:

- Miscellaneous Revenue is up \$11.2 million mainly due to increased revenue from the Regional Health Authorities.
- Provincial Real Property Tax is up \$10.0 million due to base improvements in the previous year.
- Return on Investment is down \$12.6 million primarily as a result of lower projected net income for NB Power. This is mainly due to unanticipated outages at the Point Lepreau Nuclear Power Station.
- Personal Income Tax is lower by \$5.0 million attributable to weaker-than-anticipated employment growth.

Expense:

Total expenses are projected to be \$2.0 million lower than budget.

The major variances include the following:

- Opportunities New Brunswick (\$5.7 million under): Mainly due to lower than anticipated financial assistance to companies.
- Public Safety (\$5.3 million over): Due to higher than budgeted expenses under the Disaster Financial Assistance program associated with storm and flood events that occurred in 2014. These expenses are partially offset by increased recoveries from the federal government.
- Tourism, Heritage and Culture (\$2.4 million over): Due to costs associated with the completion of an archaeological impact assessment for the proposed Sisson Mine project.

**PROVINCE OF NEW BRUNSWICK
FISCAL UPDATE
Thousands
\$**

	2015-2016 Budget	2015-2016 1st Quarter Projection	Variance from Budget
Revenue			
Ordinary Account.....	7,984,551	7,991,662	7,111
Capital Account.....	10,705	8,424	(2,281)
Special Purpose Account.....	61,342	61,104	(238)
Special Operating Agencies.....	57,634	57,251	(383)
Sinking Fund Earnings.....	193,700	193,700	0
Total Revenue.....	8,307,932	8,312,141	4,209
Expense			
Ordinary Account.....	8,007,021	8,005,301	(1,720)
Capital Account.....	82,903	85,067	2,164
Special Purpose Account.....	74,228	74,205	(23)
Special Operating Agencies.....	53,372	52,512	(860)
Amortization of Tangible Capital Assets.....	417,238	415,652	(1,586)
Total Expense.....	8,634,762	8,632,737	(2,025)
Contingency Reserve	(150,000)	(150,000)	0
Surplus (Deficit).....	<u>(476,830)</u>	<u>(470,596)</u>	<u>6,234</u>

CHANGE IN NET DEBT
Thousands
\$

	2015-2016 Budget	2015-2016 1st Quarter Projection	Variance from Budget
Net Debt - Beginning of Year.....	(12,018,306)	(12,018,306)	0
Changes in Year			
Surplus (Deficit).....	(476,830)	(470,596)	6,234
Investments in Tangible Capital Assets.....	(525,898)	(528,911)	(3,013)
Amortization of Tangible Capital Assets.....	417,238	415,652	(1,586)
(Increase) Decrease in Net Debt.....	(585,490)	(583,855)	1,635
Net Debt - End of Year.....	<u>(12,603,796)</u>	<u>(12,602,161)</u>	<u>1,635</u>

APPENDIX A
ORDINARY ACCOUNT REVENUE BY SOURCE
Thousands
\$

	2015-2016 Budget	2015-2016 1 st Quarter Projection	Variance from Budget
Taxes			
Personal Income Tax.....	1,587,000	1,582,000	(5,000)
Corporate Income Tax.....	258,000	258,000	0
Provincial Real Property Tax.....	488,100	498,100	10,000
Harmonized Sales Tax.....	1,184,200	1,184,200	0
Gasoline and Motive Fuels Tax.....	268,200	270,200	2,000
Tobacco Tax.....	135,800	135,800	0
Pari-Mutuel Tax.....	600	600	0
Insurance Premium Tax.....	53,546	53,546	0
Real Property Transfer Tax.....	12,000	12,000	0
Financial Corporation Capital Tax.....	27,000	27,000	0
Penalties and Interest.....	13,000	13,000	0
Subtotal - Taxes	<u>4,027,446</u>	<u>4,034,446</u>	<u>7,000</u>
Return on Investment	295,765	283,160	(12,605)
Licences and Permits	148,333	148,019	(314)
Sale of Goods and Services	325,187	324,221	(966)
Lottery and Gaming Revenues	140,300	139,900	(400)
Royalties	107,230	107,230	0
Fines and Penalties	8,165	8,165	0
Miscellaneous	61,189	72,407	11,218
Total - Own Source Revenue	<u>5,113,615</u>	<u>5,117,548</u>	<u>3,933</u>
Unconditional Grants – Canada			
Fiscal Equalization Payments.....	1,668,900	1,668,900	0
Canada Health Transfer.....	717,800	717,800	0
Canada Social Transfer.....	273,400	273,400	0
Other.....	1,866	1,866	0
Subtotal - Unconditional Grants – Canada	<u>2,661,966</u>	<u>2,661,966</u>	<u>0</u>
Conditional Grants – Canada	219,252	222,143	2,891
Total - Grants from Canada	<u>2,881,218</u>	<u>2,884,109</u>	<u>2,891</u>
Subtotal	7,994,833	8,001,657	6,824
Inter-account Transactions.....	(10,282)	(9,995)	287
Ordinary Account Revenue	<u><u>7,984,551</u></u>	<u><u>7,991,662</u></u>	<u><u>7,111</u></u>

APPENDIX B

ORDINARY ACCOUNT EXPENSE

Thousands

\$

DEPARTMENT	2015-2016 Budget	2015-2016 1st Quarter Projection	Variance from Budget	%
Agriculture, Aquaculture and Fisheries.....	37,495	37,495	0	0.0%
Education and Early Childhood Development.....	1,118,623	1,118,623	0	0.0%
Energy and Mines.....	8,617	8,617	0	0.0%
Environment and Local Government.....	139,381	139,381	0	0.0%
Executive Council Office.....	19,148	19,038	(110)	-0.6%
Finance.....	17,282	17,182	(100)	-0.6%
General Government.....	554,951	553,619	(1,332)	-0.2%
Government Services.....	53,657	53,657	0	0.0%
Health.....	2,596,039	2,596,039	0	0.0%
Human Resources.....	3,421	3,421	0	0.0%
Justice.....	42,491	42,491	0	0.0%
Legislative Assembly.....	21,721	21,721	0	0.0%
Natural Resources.....	93,267	93,267	0	0.0%
Office of the Attorney General.....	17,975	17,975	0	0.0%
Office of the Premier.....	1,616	1,616	0	0.0%
Opportunities New Brunswick.....	50,883	45,215	(5,668)	-11.1%
Other Agencies.....	259,387	258,446	(941)	-0.4%
Post-Secondary Education, Training and Labour.....	613,793	613,793	0	0.0%
Public Safety.....	166,262	171,563	5,301	3.2%
Regional Development Corporation.....	65,012	65,012	0	0.0%
Service of the Public Debt.....	685,000	685,000	0	0.0%
Social Development.....	1,113,693	1,115,218	1,525	0.1%
Tourism, Heritage and Culture.....	52,382	54,802	2,420	4.6%
Transportation and Infrastructure.....	296,942	296,942	0	0.0%
Subtotal.....	8,029,038	8,030,133	1,095	0.0 %
Investment in Tangible Capital Assets.....	(11,735)	(14,837)	(3,102)	26.4 %
Inter-account Transactions.....	(10,282)	(9,995)	287	-2.8 %
Ordinary Account Expense.....	8,007,021	8,005,301	(1,720)	0.0 %

APPENDIX C
CAPITAL EXPENDITURES
Thousands
\$

	2015-2016 Budget	2015-2016 1 st Quarter Projection	Variance from Budget
Regular Capital Investments			
Agriculture, Aquaculture and Fisheries.....	900	500	(400)
Education and Early Childhood Development.....	77,111	76,129	(982)
Environment and Local Government.....	1,000	1,000	0
Health.....	58,900	57,021	(1,879)
Legislative Assembly.....	735	735	0
Natural Resources.....	1,510	1,510	0
Post-Secondary Education, Training and Labour.....	5,600	5,820	220
Regional Development Corporation.....	5,668	5,668	0
Tourism, Heritage and Culture.....	1,437	1,437	0
Transportation and Infrastructure.....	329,578	324,617	(4,961)
Regular Capital Investments.....	482,439	474,437	(8,002)
Strategic Infrastructure Initiative			
Education and Early Childhood Development.....	16,250	16,891	641
Health.....	1,300	1,300	0
Regional Development Corporation.....	3,500	3,500	0
Tourism, Heritage and Culture.....	1,127	563	(564)
Transportation and Infrastructure.....	70,610	70,610	0
Energy Retrofit and Renewable Energy.....	11,840	11,840	0
New Strategic Projects.....	10,000	10,000	0
Strategic Infrastructure Initiative.....	114,627	114,704	77
Total - Capital Expenditures.....	597,066	589,141	(7,925)
Investments in Tangible Capital Assets.....	(514,163)	(504,074)	10,089
Capital Account Expense.....	82,903	85,067	2,164