

# Department of Finance

## Economic and Fiscal Update

Second Quarter Projections  
2015-2016

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Second Quarter Projections  
2015-2016**

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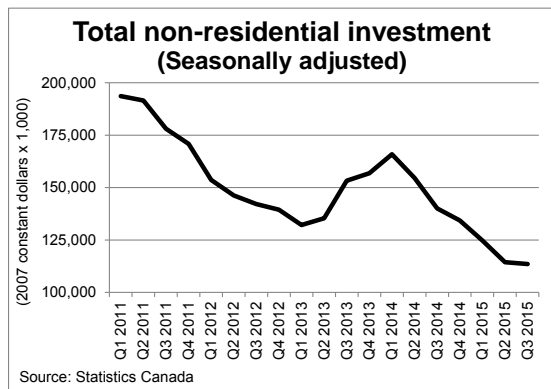
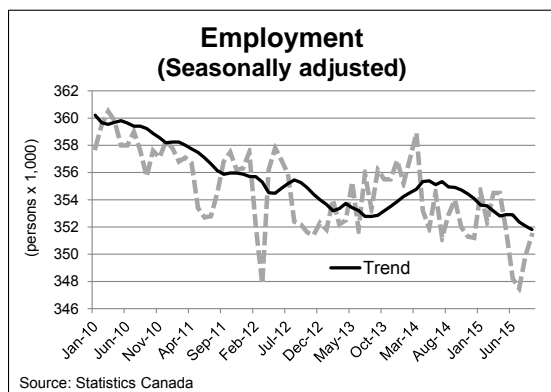
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## 2015 Economic Update



New Brunswick Economic Outlook			
	2013	2014	2015F
Real GDP	-0.5	0.0	1.3
Household Final Consumption Expenditures	2.8	1.6	2.0
Primary Household Income	2.1	0.7	2.2
Employment	0.4	-0.2	-0.6
Unemployment Rate (%)	10.3	9.9	10.2
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 October 20, 2015

improvement, with retail trade up 2.3 per cent on a year-to-date basis. Excluding gasoline station sales, retail trade is up 5.5 per cent.

- The International Monetary Fund (IMF) is forecasting global economic growth of 3.1 per cent in 2015. This is a downgrade from its forecast in the July edition of its World Economic Outlook.

- U.S. real GDP increased at an annual rate of 3.9 per cent in the second quarter of 2015, which represents an improvement over first quarter activity. Despite recent improvement, growth for the year remains below initial projections.

- According to Statistics Canada, economic activity at the national level declined during the first five months of the year. A decline in oil prices has undermined positive expectations regarding investment and exports.

- The Department of Finance now projects real GDP growth for New Brunswick of 1.3 per cent for 2015. This is consistent with the consensus among private sector forecasters.

- The current forecast reflects weaker growth at the national and global level, a decline in manufacturing sales, slower-than-expected growth in investment and continued weakness in the labour market.

- Some positive drivers remain and include growth in income and retail sales, as well as a supportive exchange rate.

- Exports (-2.8%) and manufacturing (-7.8%) have both weakened in recent months. Wood products manufacturing remains a bright spot, posting growth of 4.1%.

- Three-quarters of the way through 2015, employment is down by 1.0 per cent over the year prior. Weakness remains concentrated in the goods sector (-6.0%), while growth in the services-producing sector has been modest (+0.4%).

- Despite weak employment conditions, average weekly earnings are up 3.1 per cent on a year-to-date basis - above the national growth rate of 2.2 per cent.

- Consumer spending continues to show

## 2015-2016 Fiscal Update

Based on second quarter information, there is a projected deficit of \$453.1 million for 2015-2016. This is an improvement of \$23.7 million compared to the budget deficit of \$476.8 million.

Net debt is projected to increase by \$569.0 million, an improvement of \$16.5 million from budget. Net debt is projected to reach \$12,991 million by March 31, 2016.

### Revenue:

Revenue is \$37.1 million higher than budget. The major variances include:

- Personal Income Tax is higher by \$34.0 million attributable to an anticipated underpayment for the 2014 taxation year, which also positively impacts the forecast base for 2015. This counteracts weakness in the economy.
- Miscellaneous Revenue is up \$11.8 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.
- Gasoline and Motive Fuels Tax is up \$7.8 million due to higher than anticipated gasoline volumes.
- Conditional Grants are up \$5.0 million predominantly due to federal recoveries for Disaster Financial Assistance.
- Tobacco Tax is up \$4.2 million as a result of stronger than anticipated volumes.
- Return on Investment is down \$33.3 million primarily as a result of lower projected net income for NB Power. This is mainly due to unanticipated generation station outages, low water levels for hydro-electric power generation and investment market volatility.

### Expense:

Total expenses were \$13.4 million higher than budget.

The major variances include the following:

- General Government (\$7.0 million over): Mainly due to higher than budgeted expenses under Revenue Sharing Agreements with First Nations.
- Opportunities New Brunswick (\$5.5 million under): Mainly due to lower than anticipated financial assistance to companies.
- Public Safety (\$12.3 million over): Due to higher than budgeted expenses under the Disaster Financial Assistance program associated with storm and flood events that occurred in 2014, as well as costs associated with damages from the heavy rain event in

the fall of 2015. These expenses are partially offset by increased recoveries from the federal government.

- Social Development (\$7.9 million over): Mainly due to higher than anticipated program delivery costs and the previously announced changes with respect to nursing home funding policies. These increased costs are partially offset by savings in other areas.
- 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.
- Special Operating Agency Account (\$5.7 million under): Mainly due to lower than anticipated expenses in the Regional Development Corporation Special Operating Agency due to project timing changes from budget.

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

	<b>2015-2016 Budget</b>	<b>2015-2016 1<sup>st</sup> Quarter Projection</b>	<b>2015-2016 2<sup>nd</sup> Quarter Projection</b>	<b>Variance from Budget</b>
<b>Revenue</b>				
Ordinary Account.....	7,984,551	7,991,662	8,023,185	38,634
Capital Account.....	10,705	8,424	8,424	(2,281)
Special Purpose Account.....	61,342	61,104	63,006	1,664
Special Operating Agencies.....	57,634	57,251	56,762	(872)
Sinking Fund Earnings.....	193,700	193,700	193,700	0
<b>Total Revenue.....</b>	<b>8,307,932</b>	<b>8,312,141</b>	<b>8,345,077</b>	<b>37,145</b>
<b>Expense</b>				
Ordinary Account.....	8,007,021	8,005,301	8,029,174	22,153
Capital Account.....	82,903	85,067	80,595	(2,308)
Special Purpose Account.....	74,228	74,205	74,297	69
Special Operating Agencies.....	53,372	52,512	47,638	(5,734)
Amortization of Tangible Capital Assets.....	417,238	415,652	416,507	(731)
<b>Total Expense.....</b>	<b>8,634,762</b>	<b>8,632,737</b>	<b>8,648,211</b>	<b>13,449</b>
<b>Contingency Reserve</b>	(150,000)	(150,000)	(150,000)	0
<b>Surplus (Deficit).....</b>	<b><u>(476,830)</u></b>	<b><u>(470,596)</u></b>	<b><u>(453,134)</u></b>	<b><u>23,696</u></b>

**CHANGE IN NET DEBT**  
Thousands  
\$

	2015-2016 Budget	2015-2016 1 <sup>st</sup> Quarter Projection	2015-2016 2 <sup>nd</sup> Quarter Projection	Variance from Budget
<b>Net Debt - Beginning of Year.....</b>	<b>(12,018,306)</b>	<b>(12,018,306)</b>	<b>(12,421,892)</b>	<b>(403,586)</b>
<b>Changes in Year</b>				
Surplus (Deficit).....	(476,830)	(470,596)	(453,134)	23,696
Investments in Tangible Capital Assets.....	(525,898)	(528,911)	(532,325)	(6,427)
Amortization of Tangible Capital Assets.....	<u>417,238</u>	<u>415,652</u>	<u>416,507</u>	<u>(731)</u>
(Increase) Decrease in Net Debt.....	<b>(585,490)</b>	<b>(583,855)</b>	<b>(568,952)</b>	<b>16,538</b>
<b>Net Debt - End of Year.....</b>	<b><u>(12,603,796)</u></b>	<b><u>(12,602,161)</u></b>	<b><u>(12,990,844)</u></b>	<b><u>(387,048)</u></b>

At second quarter, Net Debt - Beginning of Year has been updated to reflect the ending net debt that was published in the 2014-2015 Consolidated Financial Statements (Public Accounts Volume I).

**APPENDIX A**

**ORDINARY ACCOUNT REVENUE BY SOURCE**

Thousands

\$

	2015-2016 Budget	2015-2016 1 <sup>st</sup> Quarter Projection	2015-2016 2 <sup>nd</sup> Quarter Projection	Variance from Budget
<b>Taxes</b>				
Personal Income Tax.....	1,587,000	1,582,000	1,621,000	34,000
Corporate Income Tax.....	258,000	258,000	258,000	0
Provincial Real Property Tax.....	488,100	498,100	498,100	10,000
Harmonized Sales Tax.....	1,184,200	1,184,200	1,184,200	0
Gasoline and Motive Fuels Tax.....	268,200	270,200	276,000	7,800
Tobacco Tax.....	135,800	135,800	140,000	4,200
Pari-Mutuel Tax.....	600	600	420	(180)
Insurance Premium Tax.....	53,546	53,546	52,229	(1,317)
Real Property Transfer Tax.....	12,000	12,000	13,000	1,000
Financial Corporation Capital Tax.....	27,000	27,000	27,000	0
Penalties and Interest.....	13,000	13,000	13,000	0
<b>Subtotal - Taxes.....</b>	<b>4,027,446</b>	<b>4,034,446</b>	<b>4,082,949</b>	<b>55,503</b>
<b>Return on Investment.....</b>	<b>295,765</b>	<b>283,160</b>	<b>262,481</b>	<b>(33,284)</b>
<b>Licences and Permits.....</b>	<b>148,333</b>	<b>148,019</b>	<b>147,902</b>	<b>(431)</b>
<b>Sale of Goods and Services.....</b>	<b>325,187</b>	<b>324,221</b>	<b>323,120</b>	<b>(2,067)</b>
<b>Lottery and Gaming Revenues.....</b>	<b>140,300</b>	<b>139,900</b>	<b>141,900</b>	<b>1,600</b>
<b>Royalties.....</b>	<b>107,230</b>	<b>107,230</b>	<b>105,830</b>	<b>(1,400)</b>
<b>Fines and Penalties.....</b>	<b>8,165</b>	<b>8,165</b>	<b>8,178</b>	<b>13</b>
<b>Miscellaneous.....</b>	<b>61,189</b>	<b>72,407</b>	<b>73,035</b>	<b>11,846</b>
<b>Total - Own Source Revenue.....</b>	<b>5,113,615</b>	<b>5,117,548</b>	<b>5,145,395</b>	<b>31,780</b>
<b>Unconditional Grants – Canada</b>				
Fiscal Equalization Payments.....	1,668,900	1,668,900	1,668,900	0
Canada Health Transfer.....	717,800	717,800	719,900	2,100
Canada Social Transfer.....	273,400	273,400	272,900	(500)
Other.....	1,866	1,866	1,866	0
<b>Subtotal - Unconditional Grants – Canada.....</b>	<b>2,661,966</b>	<b>2,661,966</b>	<b>2,663,566</b>	<b>1,600</b>
<b>Conditional Grants – Canada.....</b>	<b>219,252</b>	<b>222,143</b>	<b>224,219</b>	<b>4,967</b>
<b>Total - Grants from Canada.....</b>	<b>2,881,218</b>	<b>2,884,109</b>	<b>2,887,785</b>	<b>6,567</b>
<b>Subtotal.....</b>	<b>7,994,833</b>	<b>8,001,657</b>	<b>8,033,180</b>	<b>38,347</b>
Inter-account Transactions.....	(10,282)	(9,995)	(9,995)	287
<b>Ordinary Account Revenue.....</b>	<b><u>7,984,551</u></b>	<b><u>7,991,662</u></b>	<b><u>8,023,185</u></b>	<b><u>38,634</u></b>



**APPENDIX B**

**ORDINARY ACCOUNT EXPENSE**

Thousands

\$

<b>DEPARTMENT</b>	<b>2015-2016 Budget</b>	<b>2015-2016 1<sup>st</sup> Quarter Projection</b>	<b>2015-2016 2<sup>nd</sup> Quarter Projection</b>	<b>Variance from Budget</b>	<b>%</b>
Agriculture, Aquaculture and Fisheries.....	37,495	37,495	37,495	0	0.0%
Education and Early Childhood Development.....	1,118,623	1,118,623	1,118,623	0	0.0%
Energy and Mines.....	8,617	8,617	8,617	0	0.0%
Environment and Local Government.....	139,381	139,381	139,381	0	0.0%
Executive Council Office.....	19,148	19,038	19,023	(125)	-0.7%
Finance.....	17,282	17,182	17,132	(150)	-0.9%
General Government.....	554,951	553,619	562,001	7,050	1.3%
Government Services.....	53,657	53,657	53,657	0	0.0%
Health.....	2,596,039	2,596,039	2,596,039	0	0.0%
Human Resources.....	3,421	3,421	3,421	0	0.0%
Justice.....	42,491	42,491	42,491	0	0.0%
Legislative Assembly.....	21,721	21,721	21,721	0	0.0%
Natural Resources.....	93,267	93,267	93,267	0	0.0%
Office of the Attorney General.....	17,975	17,975	18,299	324	1.8%
Office of the Premier.....	1,616	1,616	1,616	0	0.0%
Opportunities New Brunswick.....	50,883	45,215	45,429	(5,454)	-10.7%
Other Agencies.....	259,387	258,446	259,914	527	0.2%
Post-Secondary Education, Training and Labour.....	613,793	613,793	613,793	0	0.0%
Public Safety.....	166,262	171,563	178,547	12,285	7.4%
Regional Development Corporation.....	65,012	65,012	65,012	0	0.0%
Service of the Public Debt.....	685,000	685,000	685,000	0	0.0%
Social Development.....	1,113,693	1,115,218	1,121,593	7,900	0.7%
Tourism, Heritage and Culture.....	52,382	54,802	54,802	2,420	4.6%
Transportation and Infrastructure.....	296,942	296,942	296,942	0	0.0%
<b>Subtotal.....</b>	<b>8,029,038</b>	<b>8,030,133</b>	<b>8,053,815</b>	<b>24,777</b>	<b>0.3 %</b>
Investment in Tangible Capital Assets.....	(11,735)	(14,837)	(14,646)	(2,911)	24.8 %
Inter-account Transactions.....	(10,282)	(9,995)	(9,995)	287	-2.8 %
<b>Ordinary Account Expense.....</b>	<b>8,007,021</b>	<b>8,005,301</b>	<b>8,029,174</b>	<b>22,153</b>	<b>0.3 %</b>

**APPENDIX C**

**CAPITAL EXPENDITURES**

Thousands

\$

	2015-2016 Budget	2015-2016 1 <sup>st</sup> Quarter Projection	2015-2016 2 <sup>nd</sup> Quarter Projection	Variance from Budget
<b>Regular Capital Investments</b>				
Agriculture, Aquaculture and Fisheries.....	900	500	900	0
Education and Early Childhood Development.....	77,111	76,129	76,277	(834)
Environment and Local Government.....	1,000	1,000	1,000	0
Health.....	58,900	57,021	55,456	(3,444)
Legislative Assembly.....	735	735	735	0
Natural Resources.....	1,510	1,510	1,510	0
Post-Secondary Education, Training and Labour.....	5,600	5,820	5,820	220
Regional Development Corporation.....	5,668	5,668	5,668	0
Tourism, Heritage and Culture.....	1,437	1,437	1,437	0
Transportation and Infrastructure.....	329,578	324,617	330,684	1,106
<b>Regular Capital Investments.....</b>	<b>482,439</b>	<b>474,437</b>	<b>479,487</b>	<b>(2,952)</b>
<b>Strategic Infrastructure Initiative</b>				
Education and Early Childhood Development.....	16,250	16,891	15,924	(326)
Health.....	1,300	1,300	350	(950)
Regional Development Corporation.....	3,500	3,500	2,500	(1,000)
Tourism, Heritage and Culture.....	1,127	563	563	(564)
Transportation and Infrastructure.....	70,610	70,610	70,610	0
Energy Retrofit and Renewable Energy.....	11,840	11,840	11,840	0
New Strategic Projects.....	10,000	10,000	7,000	(3,000)
<b>Strategic Infrastructure Initiative.....</b>	<b>114,627</b>	<b>114,704</b>	<b>108,787</b>	<b>(5,840)</b>
<b>Total - Capital Expenditures.....</b>	<b>597,066</b>	<b>589,141</b>	<b>588,274</b>	<b>(8,792)</b>
Investments in Tangible Capital Assets.....	(514,163)	(504,074)	(507,679)	6,484
<b>Capital Account Expense.....</b>	<b>82,903</b>	<b>85,067</b>	<b>80,595</b>	<b>(2,308)</b>