

# BUDGET ANALYSIS

## New Brunswick: Budget 2023

### Population Growth Should Boost the Economy and Finances

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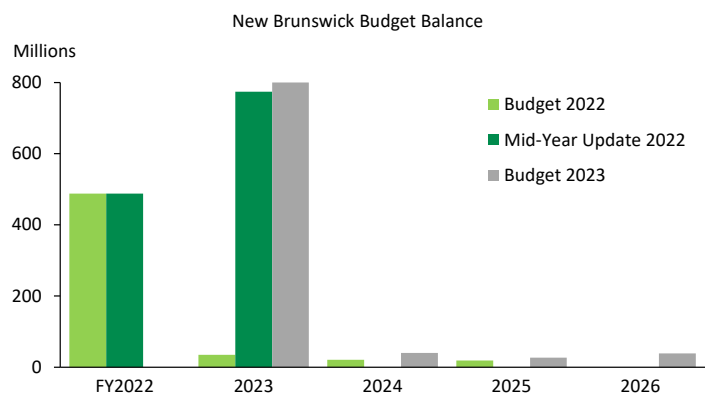
#### HIGHLIGHTS

- ▶ New Brunswick's fiscal year 2023–24 (FY2024) budget maintained plans for balanced books in the coming years (graph 1).
- ▶ The province expects to borrow \$1.8B in FY2024, following \$1.7B in FY2023. The increase appears to primarily reflect stepped-up capital spending plans.
- ▶ Much of the FY2023 revenue windfall lifted the trajectory of government revenues in the later years of the fiscal plan. That enabled \$1.4B in new spending in FY2024 and FY2025 combined versus last year's fiscal plan.
- ▶ Economic forecasts for calendar year 2023 were revised lower in respect of a softer global backdrop. But the government's base case projections do not assume a recession.
- ▶ Key to that assumption are expectations of more near-record population growth, with hefty support from international immigration and interprovincial migration.
- ▶ Base case projections keep New Brunswick's net debt burden on a downward trajectory, as well as the lowest of any province east of Saskatchewan.
- ▶ Adherence to the targets laid out in this fiscal plan should support New Brunswick's long bond spreads over time, but near-term movement will be dominated by overall risk sentiment.

#### Our Takeaways

New Brunswick has been lauded during the pandemic for its attention to spending control and debt reduction, and this plan should help it maintain its status. As one of Canada's smallest provinces, New Brunswick is especially vulnerable to economic conditions outside its borders as well as financial market fluctuations. Against that backdrop, forecasts for continued surplus and a declining net debt burden that is low relative to that of most provinces should be well-received by creditors.

**GRAPH 1**  
Surplus Projections Maintained



Sources: New Brunswick Ministry of Finance and Desjardins Economic Studies

Still, the viability of the plan rests heavily on continued population growth. We like the prudence of projections on this front, but recognize that there is still downside risk. Accordingly, efforts to continue to attract newcomers and Canadians alike are wise. So are complementary increases in infrastructure outlays and new measures to stimulate provincial business investment. Going forward, the province must continue to strike a balance between keeping the powder dry and supporting the needs of a growing population.

**Surpluses, Declining Debt Burden Maintained**

New Brunswick continues to anticipate black ink throughout the forecast period. The province now projects surpluses of \$863M (1.8% of nominal GDP) in FY2023, and \$40M (0.1%) in FY2024. Its net debt is expected to decline steadily from just north of 25% of provincial output in FY2023 to 23.4% by FY2026. That puts net debt at the end of FY2023 at about 11% lower than the targets unveiled in last year’s budget (graph 2) and at the moment exceeds only the trajectories projected by Alberta, BC, and Saskatchewan.

New Brunswick’s FY2024 borrowing program is estimated at \$1.84B. That figure includes \$661M related to new long-term borrowing, and \$150M for the New Brunswick Municipal Finance Corporation. That follows \$1.66B completed in FY2023, with only \$60M was linked to the Municipal Finance Corporation. The increase in the coming year presumably incorporates expected infrastructure outlays, which were raised by \$587M (18%) versus prior year plans for FY2024 to FY2027.

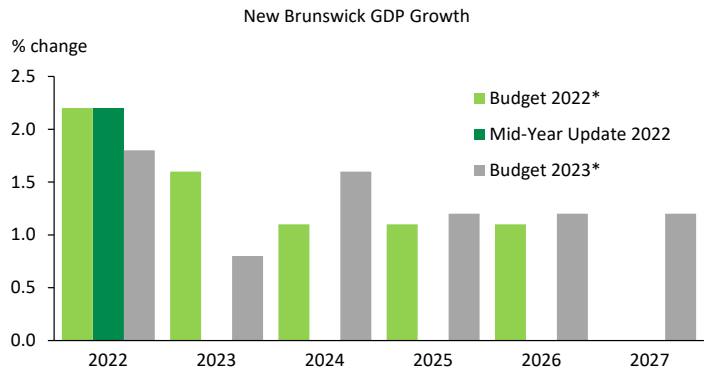
**Revenues Stronger Despite Softer Economic Outlook**

New Brunswick downgraded its economic outlook for calendar year 2023. The province now expects real growth close to zero in the coming year (graph 3), noting the effects of higher interest rates, weakening investment, and a softer global backdrop. Still, the government expects the province’s economy to be more resilient to the coming downturn than most jurisdictions, in part because of more limited exposure to the housing market.

Part of the reason for that relatively upbeat outlook is that New Brunswick expects strong population growth to persist. Surging international immigration and in-migration from other parts of Canada cushioned the province’s economy and housing market against the effects of the pandemic. They also drove a spike in tax revenues that looks as though it will persist beyond FY2023. As a result of this shift, the province has revised its population forecasts higher in successive fiscal plans, and now

**GRAPH 3**

**Growth Expected to Slow, but No Recession Expected**



\* Applied forecast annual average to each of last three years of projection window  
Sources: New Brunswick Ministry of Finance and Desjardins Economic Studies

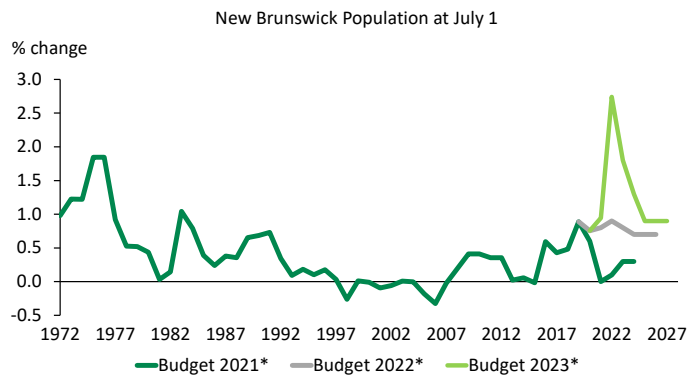
expects near-record headcount gains even after easing from this year’s peak (graph 4). Though components of the population projections were not provided, slowing growth rate plus the expected rise in immigration suggest the province has baked in a substantial drop-off in interprovincial migration amid reduced telework arrangements. That is prudent in our view.

**Revenue Windfall Enables New Spending**

With the benefit of additional revenues, the province will raise its spending profile for the next three fiscal years. Total expenditures for FY2024 and FY2025 exceed the targets in last year’s budget by \$0.6B and \$0.7B, respectively, to partly undo the increase in government receipts. For FY2024 to FY2026, the average annual rate of total expenditure growth is forecast at 3.4%. That is higher than last year’s 2.8% mean for FY2023 to FY2025, and modestly below the expected rate of inflation plus population growth for the next three years.

**GRAPH 4**

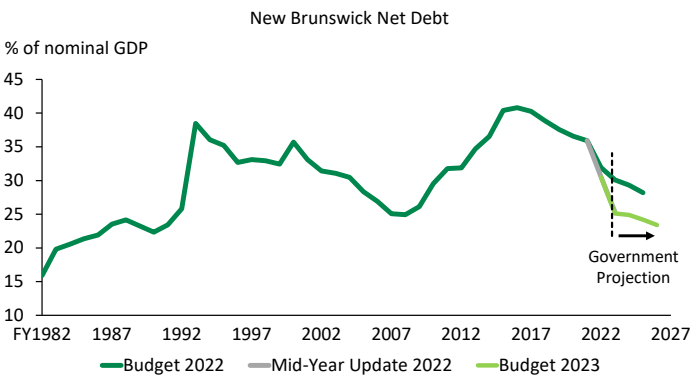
**Population Growth Expected to Ease from Peak, but Remain High**



\* Applied forecast annual average to each of last years of projection window  
Sources: Statistics Canada, New Brunswick Ministry of Finance and Desjardins Economic Studies

**GRAPH 2**

**Debt Burden Shifts Lower**



Sources: New Brunswick Ministry of Finance, Finance Canada, and Desjardins Economic Studies

New spending appears to primarily reflect new health care spending, some of which will be offset by increased transfers from Ottawa. New Brunswick will receive a top-up to the Canada Health Transfer (CHT) as part of the federal-provincial health accord signed in February. The province also recently signed a bilateral agreement with the national government, which focuses on service in remote and rural areas and will offer various supports for the healthcare workforce.

Complementing population growth and infrastructure spending, the province will also attempt to spur new business investment. A new venture capital fund will be established to attract private-sector interest in the province's economy. Development of the Small Modular Reactor (SMR) and natural gas sectors remains a priority, as are efforts to attract and retain international students.

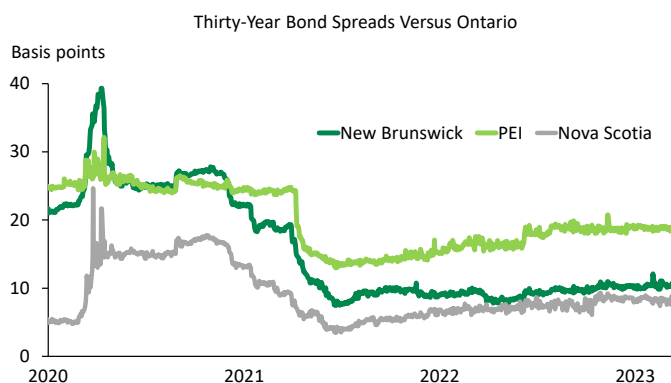
### Bond Spreads Tight

As with most of Canada's smaller provinces, we expect New Brunswick's bond yields to be driven primarily by risk sentiment in the coming months. New Brunswick's spreads tightened versus Canada and Ontario to begin 2023 amid positive economic news, but have since fluctuated amid financial market volatility in the wake of Silicon Valley Bank's collapse.

Still, markets—like rating agencies—have clearly taken notice of New Brunswick's fiscal performance. Long bond spreads have compressed versus most other governments' benchmarks since early last year when the province unveiled plans for persistent surpluses. Notably, New Brunswick 30-year rolls have traded significantly through those of PEI over the last year-plus, and tighter to those of Nova Scotia than at any point for which data are available (graph 5). This suggests further delivery against fiscal blueprint targets should support New Brunswick bond spreads, particularly versus the other Maritime Provinces.

GRAPH 5

### Pandemic-Era Prudence Helped Tighten New Brunswick Spreads



Sources: Bloomberg and Desjardins Economic Studies

The authors thank Farjad Khan of Desjardins Economic Studies for his contributions to this report.

TABLE 1

### Summary of Fiscal Forecasts

IN \$M (EXCEPT IF INDICATED)	2021–2022		2022–2023		2023–2024		2024–2025		2025–2026
	Actual	Q2 FY2023	Bud. 2023	Bud. 2022	Bud. 2023	Bud. 2022	Bud. 2023	Bud. 2023	
Total revenues	11,213	12,264	12,413	11,537	12,193	11,699	12,423	12,814	
% change	8.7	9.4	10.7	1.7	-1.8	1.4	1.9	3.1	
Total expense	10,725	11,490	11,551	11,516	12,152	11,660	12,396	12,775	
% change	8.2	7.1	7.7	1.8	5.2	1.3	2.0	3.1	
<b>Budget balance</b>	<b>488.0</b>	<b>774.4</b>	<b>862</b>	<b>21</b>	<b>40</b>	<b>39.0</b>	<b>27.0</b>	<b>39.0</b>	
% of GDP	1.1	1.7	1.9	0.0	0.1	0.1	0.1	—	
Net Debt, % of GDP	30.5	25.3	25.1	29.3	24.9	28.2	24.2	23.4	

Sources: New Brunswick Ministry of Finance and Desjardins Economic Studies