BUDGET ANALYSIS

Alberta: Mid-Year Fiscal Update 2024

Mo' Money, No Problem

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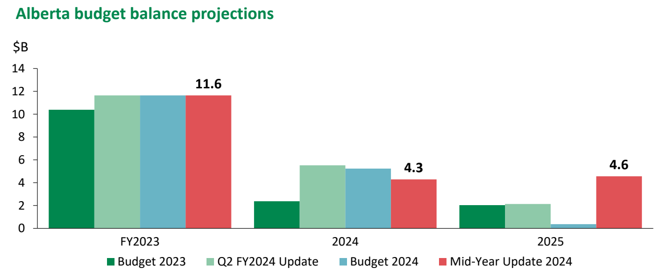
HIGHLIGHTS

- The Government of Alberta had a lot of good news to deliver in its Q2 Update, with its projected budget surplus for the 2024–2025 fiscal year (FY2025) being much larger than expected in Budget 2024 (graph 1). It is now anticipated to come in at $4.6B this year, up from $0.4B in the budget plan and $2.9B in the Q1 Update.

- Revenues were revised substantially higher than projected in the budget, largely on the back of stronger bitumen royalites (up $3.1B to $15.6B) and, to a lesser extent, higher personal and corporate income tax revenues (up $0.9B and $0.3B, respectively) due to population and employment gains. But in contrast to Ontario's and Quebec's fall updates, there was no mention of greater revenues due to the federal government's increase in the capital gains inclusion rate.

Graph 1
The FY2025 Surplus is Expected to be Much Larger than in Budget 2024



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- Operating expenses moved higher (up $1.2B to $61.3B) on broad-based spending related to health, seniors and communities, and education services. Notably, nearly $0.8B in additional spending was used for disaster and emergency assistance, primarily for fighting wildfires. However, projected debt servicing costs were down $0.2B from the budget, mainly due to lower required borrowing.

- The much-improved deficit outlook for FY2025 should lead to lower borrowing requirements and, hence, a much-reduced net debt-to-GDP ratio than expected in the spring (to 8.2% from 9.2% previously). This has helped to maintain Alberta's position as the province with the strongest fiscal position in the Federation, and gives the Government of Alberta ample room to strategically prefund future debt maturities in FY2026.

- But risks to Alberta's latest forecast update are largely to the downside. The expected average WTI oil price for FY2025 is unchanged from Budget 2024 at US$74/barrel (but down from $US76.50/bbl in the Q1 Update), a level the light, sweet crude benchmark hasn't closed at since early October. Further, if the federal government's plans for newcomer admissions comes to fruition, population growth could be much weaker than expected. Finally, while we expect some exemptions to be made for energy imports to the US, the threat of tariffs looms large over the economic outlook.

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Alberta did it again in its Q2 Update, outperforming expectations by posting a larger-than-anticipated budget surplus and lower net debt-to-GDP ratio (table 1). Driven by surging royalty revenues, Wild Rose Country outshined its peers by maintaining the best-in-class fiscal position among Canadian provinces.

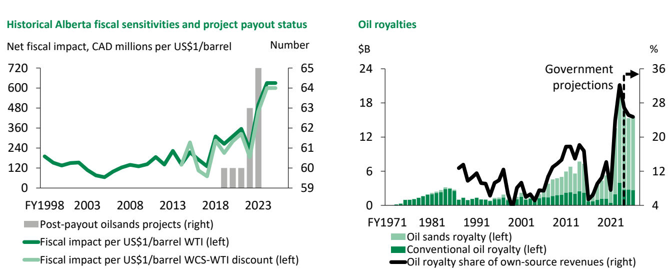
TABLE 1
Alberta's Updated Fiscal and Economic Forecasts

$M (UNLESS OTHERWISE INDICATED)	2023–2024		2024–2025	
	Bud. 2024	**Actual**	**Bud. 2024**	**Mid-Year**
Total revenues	75,628	74,732	73,537	77,887
% change	*-0.6*	*-1.8*	*-2.8*	*4.2*
Bitumen and crude oil royalties	17,506	17,490	15,317	18,585
% change	*-16.0*	*3.6*	*-12.5*	*6.3*
Total expense*	70,394	70,447	71,182	73,045
% change	*9.2*	*9.3*	*1.1*	*3.7*
Operating expense	57,876	58,143	60,124	61,292
% change	*5.7*	*6.8*	*3.9*	*5.4*
Debt charges	3,136	3,149	3,389	3,173
% of total revenues	*4.1*	*11.3*	*8.1*	*0.8*
Contingency	0	—	2,000	279
Budget balance	**5,234**	**4,285**	**355**	**4,563**
Net Debt, % of GDP	*9.3*	*9.4*	*9.2*	*8.2*
Alberta Capital Plan	7,077	6,300	8,299	8,265
Real GDP, % change	*2.9*	*3.0*	*3.3*	*2.7*
Nominal GDP, % change	*3.5*	*5.2*	*6.1*	*4.9*
Population, % change	*3.7*	*4.4*	*2.3*	*2.5*
Alberta CPI inflation, % change	*2.5*	*2.9*	*2.2*	*2.0*

Solid Revenues on Higher Oil Royalties

The big story in Alberta's Q2 Update is the sharp bounce in revenues it expects to receive. At a planned $77.9B in FY2025, it's $4.4B more than projected in Budget 2024. The bulk of this additional take comes from higher bitumen royalties. This $3.1B windfall pushes expected oil royalties to $18.6B for FY2025, up from the planned $15.3B in Budget 2024. The still historically high fiscal sensitivity to oil prices has proved a blessing so far this fiscal year (graph 2). But it's a mixed blessing. The expected average WTI oil price for FY2025 is unchanged in the Q2 Update from Budget 2024 at US$ 74/barrel (but down from $US 76.50/bbl in the Q1 Update). The per barrel price of WTI hasn't closed at or above that level since early October, and it could go lower still. Further, while we anticipate some exemptions to be made for energy imports to the US under the incoming Trump administration, the threat of tariffs looms large over the economic outlook.

Graph 2
Still Historically High Fiscal Sensitivity to Oil Prices



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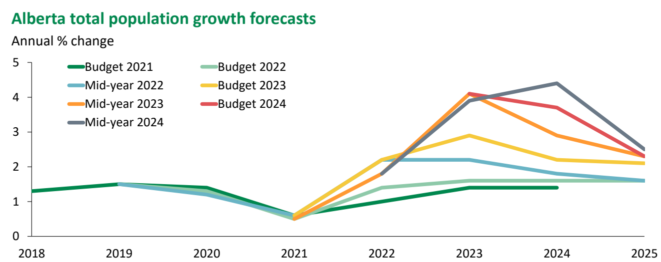
The remainder of the better-than-anticipated revenues should come from personal and corporate income taxes (up $0.9B and $0.3B, respectively), which the provincial government chalks up to "strong population growth and employment gains." That said, the upwardly revised population projection for 2025 stands in contrast to the federal government's stated plans to reduce newcomer admissions, which could pose a downside risk to the non-resource revenue outlook if realized (graph 3).

Graph 3
Population Growth Projections Were Again Revised Higher



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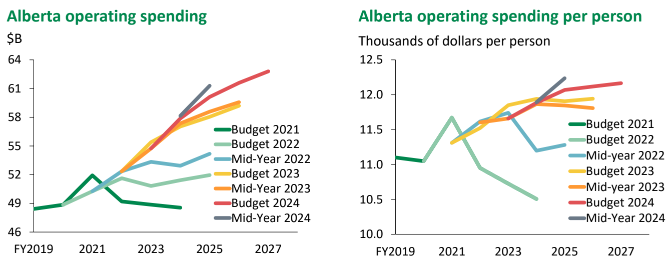
It should also be noted that there was no mention of the increase in the capital gains inclusion rate introduced in the federal government's spring budget. This featured prominently in Ontario's Fall Economic Statement released in late October, as well as Quebec's released today, and is a notable absence in Alberta's equivalent. If implicitly included in the current outlook for personal and corporate income taxes, this could pose a modest downside risk to revenues in later years if reversed in the future.

Expenses are Up but Not as Much as Revenues

On the expense side of the ledger, the outlook for total expenses before contingencies was revised higher by $1.9B relative to Budget 2024, to $73.0B (graph 4 on page 3). The main culprit was a $1.2B increase in planned operating expenses, with new spending in Health services ($0.7B); Senior, Community and Social services ($0.2B); and Education ($0.1B); among other priorities. Greater spending on disaster and emergency assistance also added to the higher expense total, coming in $0.8B above the budget plan. However, this higher spending was partially offset by debt servicing costs tracking $0.2B lower for the year.

Graph 4
Spending Plans Increased Incrementally



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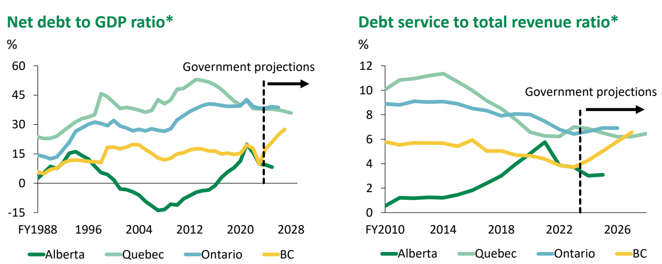
Importantly, the Q2 Update's higher expense profile was largely offset by a drawdown in the $2.0B contingency set aside in Budget 2024. At $0.3B now, there is still some cash left in the kitty in case of sudden and unexpected need. The Government of Alberta also maintained a $2B allocation in FY2025 to the Heritage Fund. No further details were provided on plans to grow the fund to between $250B and $400B by 2050 beyond what was outlined in Budget 2024.

Larger Surpluses Mean Lower Debt

With additional revenues coming in well ahead of new spending, it's no surprise that the Government of Alberta is now expecting to post a bigger budget surplus of $4.6B in FY2025. That's well above the $0.4B is projected in Budget 2024 and the $2.9B in the Q1 Update.

Larger surpluses typically mean lower debt, and Alberta's Q2 Update was no exception. The provincial government now expects to have a net debt-to-GDP ratio of 8.2% at the end of FY2025, well below its Budget 2024 outlook of 9.2% (graph 5). Indeed, the Government of Alberta's surplus position gives it ample room to strategically prefund future debt maturities in FY2026. And thanks to a lower borrowing requirement, Alberta's debt service-to-total revenue ratio is the lowest of any province. This has helped Alberta to maintain its ranking as the province with the strongest fiscal position in the Federation.

Graph 5
Alberta Has the Lowest Debt Load of Any Province



* Quebec and Ontario and figures based on mid-year FY2024 projections
Provincial budget documents and Desjardins Economic Studies

Conclusion

We've said before and we'll say it again: Alberta continues to have the strongest fiscal position among Canadian provinces. And while there are risks to the outlook, Wild Rose Country is well positioned to weather the storm of potential lower oil prices, slower population growth, and a tariff-wielding Trump administration.