

BUDGET ANALYSIS

New Brunswick: Budget 2024 Still a Fiscal Bright Spot

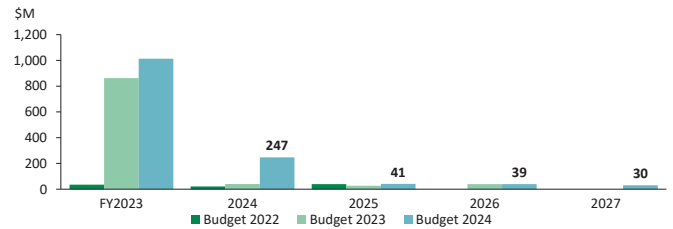
By Marc Desormeaux, Principal Economist, and Kari Norman, Economist

HIGHLIGHTS

- ▶ New Brunswick’s (NB) fiscal year 2024–25 (FY2025) budget continued to pencil in surpluses for the foreseeable future (graph 1). Table 1 on page 2 summarizes the province’s updated fiscal forecasts.
- ▶ The net debt-to-GDP ratio is still expected to decline over time. If current fiscal forecasts come true, by FY2027, New Brunswick’s net debt-to-GDP ratio would reach third place among Canadian provinces for the first time ever.
- ▶ New policy announced in the budget looks largely incremental. It included funding for the healthcare system and public housing, as well as wage increases for various health and social services workers. The government opted not to offer new affordability measures.
- ▶ New Brunswick expects to borrow \$1.6B in FY2025, net of pre-financing in FY2024.

Graph 1
Surplus Plans Intact

New Brunswick budget balance projections



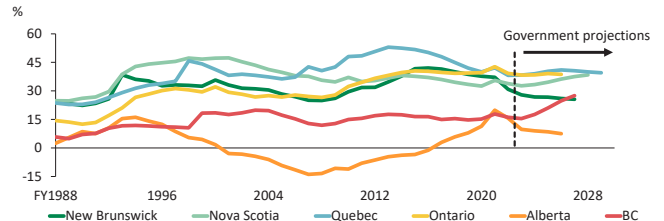
New Brunswick Ministry of Finance and Desjardins Economic Studies

Our Takeaways

New Brunswick remains a bright spot in the provincial fiscal landscape, and this year’s budget arguably makes it shine even more. It already stood out as the only province in the federation to maintain black ink throughout the pandemic. If today’s projections come to fruition, black ink will persist. Even more striking, this year’s blueprint could change NB’s rank with respect to the public debt burden. If current fiscal forecasts come true, NB’s net debt-to-GDP ratio would be lower than BC’s by FY2027, which would put it in third place among Canadian provinces—for now behind just Alberta and Saskatchewan—for the first time (graph 2). The 25.6% ratio penciled in for FY2027 would also be the lowest since the late 2000s. Upward revisions versus last year’s forecast trajectory for this indicator reflect accounting changes (as noted in the FY2023 Public Accounts).

Graph 2
How New Brunswick’s Debt Sustainability Compares

Net debt to GDP ratio*



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

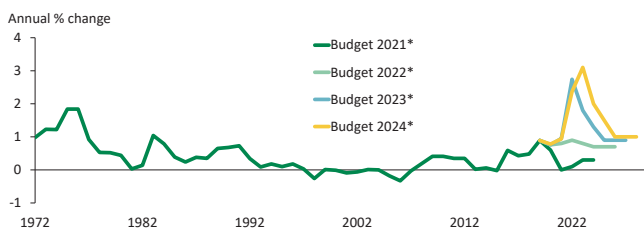
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Still, NB will not be without challenges in the years ahead. While there's no question that record-high population growth has added to the province's economic dynamism and boosted government revenues significantly, it's also putting pressure on spending and infrastructure. With historically strong headcount gains expected to persist (graph 3), these pressures will intensify. For that reason, we like the recent boost to New Brunswick's [Capital Budget, released in late 2023](#), particularly given the fiscal room provided by the province's relatively low debt burden. But as we've seen in many jurisdictions over the past few years, delivering on these objectives is often easier said than done in an environment of construction industry labour shortages and major project delays. Moreover, despite the recent growth surge, [population aging will increasingly hit all the provinces' finances](#) in the coming years, with Atlantic Canada's relatively older demographics likely leaving the region particularly exposed to this effect. And of course, recession risk remains. The good news is that heading into this challenging period, New Brunswick enjoys one of its healthiest fiscal positions—in relative and absolute terms—in recorded history.

Graph 3
Near-Record Population Gains Expected to Persist

New Brunswick population forecasts



* Assumed average for final three years of plan applies to each individual year
Statistics Canada, New Brunswick Ministry of Finance and Desjardins Economic Studies

Absent more meaningful changes to the province's fiscal trajectory, we would be surprised to see its credit rating change in the months ahead. Positive ratings action in recent years have emphasized the reduction in debt levels and commitment to fiscal discipline; today's plan continues to prioritize both. However, longer-run economic growth prospects are a concern for some rating agencies, and Budget 2024 did notably pencil in muted private sector investment gains over the next two years. Stimulating private sector investment should be a focus for the province, particularly amid population aging and moribund Canadian GDP per capita. But we also think NB's [strong affordability and low levels of household indebtedness](#) compared to other provinces mean that it's likely to emerge from any forthcoming economic slowdown relatively unscathed. The province also noted upside growth potential over the medium term, associated with projects related to its climate and energy goals.

Revenue Details

Economic assumptions underpinning the plan look reasonable. In line with incoming economic data and the trajectory of private sector forecasts, NB expects growth to slow this year before picking up in 2025. That follows a faster-than-anticipated expansion in 2023, particularly for nominal GDP. Desjardins Economic Studies still has a [below-consensus outlook](#) when it comes to Canadian economic growth this year, so there's some risk to output and tax revenues to the extent that our forecasts come to fruition. But the government's growth projections are within the range of private sector forecasts.

With the benefit of a stronger starting point for revenues, NB's forecasts for government receipts were lifted by \$1.7B combined for FY2025 and FY2026.

TABLE 1
Summary of Fiscal Forecasts

IN \$M (EXCEPT IF INDICATED)	2022–2023	2023–2024		2024–2025		2025–2026		2026–2027
	Actual	Q2 FY2024	Bud. 2024	Bud. 2023	Bud. 2024	Bud. 2023	Bud. 2024	Bud. 2024
Total revenues	12,452	12,703	12,703	12,423	13,296	12,814	13,628	14,024
% change	9.3	2.0	2.0	1.9	4.7	3.1	2.5	2.9
Total expense	11,439	12,456	12,456	12,396	13,255	12,775	13,589	13,994
% change	7.7	8.9	8.9	2.0	6.4	3.1	2.5	3.0
Budget balance	1,013	247	247	27	41	39	39	30
% of GDP	2.3	0.5	0.5	0.1	0.1	—	0.1	—
Net Debt, % of GDP	27.9	27.2	26.8	24.2	26.7	23.4	26.0	25.6
Real GDP, % change*	1.1	1.1	1.1	1.6	0.7	—	1.7	—
Nominal GDP, % change*	7.4	2.3	3.5	4.1	3.2	—	4.4	—

* Calendar year: 2022–23 corresponds to calendar year 2022 and so on

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Spending and New Measures

After today’s increases, New Brunswick still ranks towards the low end of pandemic era total spending. Relative to Budget 2023, expenditure forecasts were lifted by \$1.7B—the same as revenues—roughly evenly split over FY2025 and FY2026. As we’ve seen in prior plans, the government expects to reduce the rate of spending growth beyond the upcoming fiscal year (graph 4). Given strong rates of population growth forecast for the future and inflation expected to hover above 2% through 2025, that translates into declining real per capita expenditures beyond FY2025.

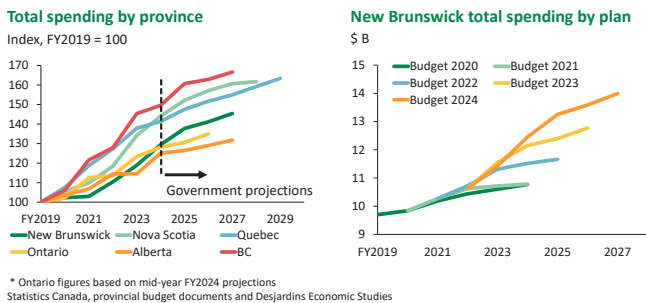
delays have impacted prior infrastructure plans, and the province now intends to make up the difference—as well as support the needs of a rapidly growing population—in the years ahead.

Borrowing and Bond Market Commentary

Though not detailed within the main budget document, supplementary government information revealed that New Brunswick expects to borrow \$1.6B in FY2025. That builds on roughly \$1.8B expected in FY2024 and does not include the \$100M in financing activity associated with the Municipal Finance Corporation. Of the FY2025 total, \$854M is linked to new long-term borrowing from the budget, while refinancing requirements amount to \$867M. These figures are expected to be partially offset by \$278M in prefinancing in FY2024.

Long bond spreads did not move meaningfully after the release of the budget, which is to be expected given little change versus last year’s plan combined with messaging from the government that this year’s blueprint would contain few surprises. In the near-term, we expect spreads in all provinces—particularly those with smaller borrowing programs—to be affected significantly by risk sentiment. But we’re also of the mind that continued fiscal outperformance versus other provinces should support NB borrowing costs over time. Indeed, spread tightening versus the rest of the Atlantic Region has been unmistakable during New Brunswick’s more recent period of strong results.

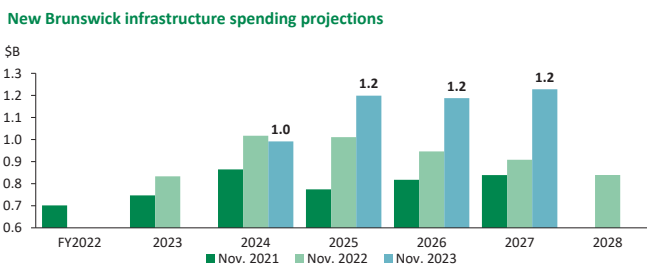
Graph 4
How New Brunswick’s Spending Plans Compare



New policies announced in the budget look largely incremental. They include funding support for regional health authorities and electronic systems in the health sector, and money to build and upgrade public housing units. Funds of roughly \$30 million will be allotted to wage increases for various health and social services workers. Amid an ongoing risk of re-invigorating inflationary pressures, the government opted not to offer any new affordability measures.

Per the FY2025 capital budget, released in November 2023, NB expects infrastructure spending to reach \$1.2B in each of the next three fiscal years (graph 5). As most elsewhere in Canada,

Graph 5
Infrastructure Plans Boosted Again



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