Forecast Update

December 19, 2019

The Honourable Karen Casey
Minister of Finance and Treasury Board

NOVA SCOTIA

Introduction

The Forecast Update provides revised information about Nova Scotia's fiscal outlook, including updated information about the major components of revenue and expenses as set out in the 2019–20 Budget Estimates.

Relative to the 2019–20 Budget Estimates, this forecast shows that the province is on track for its fourth balanced budget in a row. The Province of Nova Scotia is forecasting a surplus position of $36.9 million, an increase of $3.2 million from the Budget's estimated surplus position of $33.6 million.

This Forecast Update demonstrates that Nova Scotia is following the path toward fiscal sustainability. Strengthening fiscal health creates a strong foundation upon which government can deliver valuable programs and services to Nova Scotians and the right conditions for the private sector to drive prosperity for Nova Scotians.

Careful management of the province's finances, including adapting to changes in both revenue and expenses, provides government with the means to respond to the needs of citizens today while also making important investments that will support a stronger tomorrow.

This Forecast Update follows the plan that is laid out in Budget 2019–20, which focused on healthcare, education and preparing youth for the workforce, strengthening communities, and creating the conditions for economic growth.

Overview

The Province of Nova Scotia is forecasting a surplus of $36.9 million. This is an increase of $3.2 million from the budgeted surplus in the 2019–20 Budget Estimates.

Total Revenue, including Ordinary Revenue, Recoveries, and Net Income from Government Business Enterprises (GBEs), is forecast to be $11.3 billion, an increase of $245.3 million from the Budget Estimates.

Forecast changes in Ordinary Revenue include a $68.8 million increase in Provincial Tax Revenue, a $31.0 million increase in Other Provincial Revenue Sources, $10.2 million increase for Investment Income, and a $6.7 million decrease in Federal Revenue Sources.

Ordinary Recoveries revenue is forecast to increase by $146.8 million from Budget. Net Income from GBEs is expected to decrease by $4.8 million.

Total Expenses are forecast to be $11.4 billion, which is $247.5 million higher than the Budget Estimates. Expenses are predicted to be higher due to projected increases in Departmental Expenses of $240.0 million and the Pension Valuation Adjustment of $28.3 million, which is partially offset by a decrease in Debt Servicing Costs of $17.4 million.

Consolidation and Accounting Adjustments positively impact the bottom line by $172.6 million, which is $5.4 million more than budgeted.

Fiscal Summary 2019–20

($ thousands)

General Revenue Fund	**Budget**	**September *Update***	**December *Update***	*Increase (Decrease)* **from Budget**	*Increase (Decrease)* **from Sept**
Revenues					
Ordinary Revenue	9,962,736	9,933,233	10,066,031	103,295	132,798
Ordinary Recoveries	658,509	806,042	805,295	146,786	(747)
Net Income from Government Business Enterprises	389,224	390,963	384,455	(4,769)	(6,508)
Total - Revenue	**11,010,469**	**11,130,238**	**11,255,781**	**245,312**	**125,543**
Expenses					
Departmental Expenses	10,101,784	10,244,597	10,341,804	240,020	97,207
Refundable Tax Credits	134,324	130,954	130,954	(3,370)	---
Pension Valuation Adjustment	51,837	55,746	80,125	28,288	24,379
Debt Servicing Costs	856,107	842,450	838,662	(17,445)	(3,788)
Total - Expenses	**11,144,052**	**11,273,747**	**11,391,545**	**247,493**	**117,798**
Consolidation and Accounting Adjustments for Governmental Units	167,206	174,289	172,633	5,427	(1,656)
Provincial Surplus (Deficit)	**33,623**	**30,781**	**36,869**	**3,246**	**6,088**

Note: *Totals may not add due to rounding.*

Revenue

Total Revenue is forecast to be $11.3 billion, $245.3 million or 2.2 per cent more than the 2019–20 Budget Estimates. Revenue estimates are based on administrative data up to December 3, 2019. Information received after this date will be incorporated in future forecasts.

The increase in Total Revenue represents increases of $146.8 million or 22.3 per cent in Ordinary Recoveries, $68.8 million or 1.2 per cent increase in Provincial Tax Revenue, $31.0 million or 8.8 per cent increase in Other Provincial Revenue, and $10.2 million or 5.6 per cent in Investment Income. These increases are partially offset by decreases of $6.7 million or 0.2 per cent in Federal Revenue Sources and $4.8 million or 1.2 per cent in Net Income from GBEs.

Ordinary Revenue — Provincial Revenue Sources

Tax Revenue

Personal Income Tax (PIT) revenue is forecast to be up by $68.2 million or 2.4 per cent from Budget, primarily because of higher personal taxable income and improved yield growth. Personal taxable income is projected to be up by $475.5 million in 2019 and by $525.1 million in 2020 from Budget Estimates. Yield growth is projected to rise by 0.9 per cent in 2019 and by 0.7 per cent in 2020.

Corporate Income Tax (CIT) revenue is forecast to be down by $22.5 million or 3.7 per cent from Budget Estimates, as national corporate taxable income is projected to increase by 1.9 per cent in 2019 and by 3.8 per cent in 2020 while the province's share is forecast to decline by 5.1 per cent. The small business share of taxable income is up marginally from Budget Estimates.

Harmonized Sales Tax (HST) revenue is forecast to be up by $39.7 million or 2.1 per cent from Budget Estimates, primarily due to projected growth in the residential housing investment base of 17.3 per cent in 2019 and by 20.8 per cent in 2020. The increase is partially offset by higher than projected costs of the Your Energy Rebate Program.

Motive Fuel Tax revenue is forecast to be down by $4.4 million or 1.6 per cent from Budget Estimates due to lower than projected volumes of gasoline consumption (-3.3 per cent) partially offset by higher consumption of diesel oil (+1.9 per cent).

Tobacco Tax revenue is forecast to be $14.5 million or 7.1 per cent lower than Budget Estimates. The decline is primarily attributable to a 6.7 per cent decrease in the projected volume of cigarette consumption.

Cannabis Tax revenue is forecast to be $1.1 million or 13.8 per cent lower than Budget Estimates as a result of sales being lower than projected at Budget.

Other Provincial Revenue

Other Provincial Source revenues are forecast to be $31.0 million or 8.8 percent higher than Budget Estimates. The variance is largely driven by Prior Years' Adjustments (PYAs) and is slightly offset by revenues from Other Provincial Sources.

Total Revenue 2019–20

($ thousands)

General Revenue Fund: Revenues	Budget	September *Update*	December *Update*	*Increase (Decrease)* from Budget	*Increase (Decrease)* from Sept
Provincial Revenue Sources					
Tax Revenue:					
Personal Income Tax	2,811,289	2,814,657	2,879,515	68,226	64,858
Corporate Income Tax	604,741	585,670	582,210	(22,531)	(3,460)
Harmonized Sales Tax	1,895,909	1,898,178	1,935,592	39,683	37,414
Cannabis Tax	7,814	7,814	6,737	(1,077)	(1,077)
Motive Fuel Taxes	276,942	271,928	272,495	(4,447)	567
Tobacco Tax	205,432	200,140	190,907	(14,525)	(9,233)
Other Tax Revenue	169,329	172,070	172,818	3,489	748
	5,971,456	5,950,456	6,040,274	68,818	89,818
Other Provincial Revenue:					
Registry of Motor Vehicles	136,076	136,076	136,076	---	---
Royalties - Petroleum		---	---	---	---
Other Provincial Sources	151,981	141,035	143,297	(8,684)	2,262
TCA Cost Shared Revenue	2,439	3,144	3,435	996	291
Other Fees and Charges	63,170	63,275	62,761	(409)	(514)
Prior Years' Adjustments	---	---	39,085	39,085	39,085
	353,666	343,530	384,654	30,989	41,124
Investment Income:					
Interest Revenues	85,574	93,340	100,183	14,609	6,843
Sinking Fund Earnings	95,920	88,843	91,496	(4,424)	2,653
	181,494	182,183	191,679	10,185	9,496
Total - Provincial Sources	**6,506,616**	**6,476,169**	**6,616,607**	**109,992**	**140,438**
Federal Revenue Sources					
Equalization Payments	1,942,628	1,942,628	1,942,628	---	---
Canada Health Transfer	1,039,410	1,039,410	1,043,370	3,960	3,960
Canada Social Transfer	375,514	375,514	376,945	1,431	1,431
Offshore Accord Offset Payments	8,227	8,227	8,227	---	---
Crown Share	---	4,041	4,041	4,041	---
Other Federal Sources	41,260	39,818	36,975	(4,285)	(2,843)
TCA Cost Shared Revenue	49,081	47,426	37,740	(11,341)	(9,686)
Prior Years' Adjustments	---	---	(502)	(502)	(502)
Total - Federal Sources	**3,456,120**	**3,457,064**	**3,449,424**	**(6,696)**	**(7,640)**
Total - Ordinary Recoveries	**658,509**	**806,042**	**805,295**	**146,786**	**(747)**
Net Income from Government Business Enterprises (GBEs)					
Nova Scotia Liquor Corporation	243,415	243,415	239,033	(4,382)	(4,382)
Nova Scotia Gaming Corporation	128,000	128,000	125,400	(2,600)	(2,600)
Halifax-Dartmouth Bridge Commission	8,419	8,358	8,832	413	474
Highway 104 Western Alignment Corporation	9,390	11,190	11,190	1,800	---
Total - Net Income from GBEs	**389,224**	**390,963**	**384,455**	**(4,769)**	**(6,508)**
Total - Revenue	**11,010,469**	**11,130,238**	**11,255,781**	**245,313**	**125,543**

Note: *Totals may not add due to rounding.*

PYAs for provincial revenues are forecast to be $39.1 million. PIT is +$71.7 million based upon higher taxable income and yield growth for the 2018 taxation year, HST accounts for +$35.8 million as a result stronger growth in residential housing investment during the 2018 taxation year, and CIT is -$68.3 million as the result of both lower national corporate taxable income and the province's share for the 2018 taxation year.

The decrease in Other Provincial Sources is mainly attributed to recategorizing certain line items to align with revisions of Public Accounts classifications. These items include Preferred Share Dividends (moved to Other Tax Revenue), Volunteer Firefighter Levy (moved to Other Tax Revenue), and Student Assistance Interest revenue (moved to Investment Income).

Investment Income

Investment Income is $10.2 million or 5.6 per cent higher than Budget Estimates. This variance is driven by an increase in short term interest revenues and the reclassification of Student Assistance Interest revenue from Other Provincial Sources to Investment Income.

Ordinary Revenue — Federal Revenue Sources

Equalization is based upon the province's decision to receive payments calculated according to the Expert Panel approach. This is a one-estimate, one-payment approach and as a result the forecast is equal to Budget Estimates.

The Canada Health Transfer (CHT) and the Canada Social Transfer (CST) are both forecast to be up by 0.4 per cent from Budget Estimates as a result of new national population estimates released by Statistics Canada in September 2019. The CHT is projected to rise by $4.0 million and the CST is projected to rise by $1.4 million.

The Offshore Accord payment is based upon a one-estimate, one-payment approach and as a result the forecast is unchanged from Budget Estimates. The Cumulative Best of Guarantee remains unchanged.

Crown Share Adjustment Payments are $4.0 million higher than Budget Estimates as updated royalty returns for Sable Offshore Energy Project interest holders now include the transportation arbitration settlement.

PYAs for federal revenues are forecast to be a negative $0.5 million. The CHT accounts for $0.4 million while the CST accounts for $0.1 million. The PYAs are due to population revisions for the 2018-19 fiscal year.

TCA Cost Shared Revenue and Other Federal Sources are forecast to be down by $11.3 million or 23.1 per cent and $4.3 million or 10.4 per cent, respectively. These variations are mainly due to delays in timing for projects, mainly related to highways, that are cost shared with the federal government.

Ordinary Recoveries

Ordinary Recoveries revenue is forecast to be $146.8 million or 22.3 per cent higher than the Budget Estimates.

The Department of Education and Early Childhood Development is forecast to be $4.6 million or 18.4 per cent higher than Budget Estimates primarily due to a $3.1 million recovery of unspent reserve funds related to the end of the lease term for Horton High School, and $1.1 million recovery related to a surplus in the Nova Scotia Teachers Union Health and Dental plan.

The Department of Energy and Mines is forecast to be $3.2 million or 11.7 per cent lower than Budget Estimates primarily due to a $4.4 million underspend in Investing in Canada Infrastructure Fund. This decrease is partially offset by a $0.9 million recovery in the Low Carbon Economy Fund from the prior year.

The Department of Labour and Advanced Education is forecast to be $1.9 million or 1.3 per cent higher than Budget Estimates primarily due to increased federal recoveries of $3.0 million related to the Federal Labour Market and Workforce Development Agreements and to purchase equipment for students with accessibility needs. These increases are partially offset by decreases of $0.7 million related to the Women in Construction and Women in Trades Initiatives due to project delays and $0.6 million related to recoverable Workers Compensation Board expenses being lower than anticipated.

The Department of Municipal Affairs and Housing is forecast to be $53.0 million or 38.5 per cent higher than Budget Estimates due to recoveries from federal programs, including a one-time transfer of $58.5 million in Federal Gas Tax. This is offset by net declines in recoveries from Federal infrastructure programs, including Investing in Canada Infrastructure Program ($3.7 million Green, $2.0 million Rural and Northern), $2.3 million in Clean Water and Wastewater, and $1.5 million in New Building Canada Fund (Small Communities).

The Department of Service Nova Scotia and Internal Services is forecast to be $3.6 million or 21.5 per cent higher than Budget Estimates primarily due to the recovery of expenses for health-related equipment.

The Department of Transportation and Infrastructure Renewal recoveries are forecast to be $85.1 million or 724.7 per cent higher than Budget Estimates, primarily due to a federal contribution for Boat Harbour remediation.

The federal government has agreed to contribute up to $100 million for the remediation of Boat Harbour. For this update, $85 million of this total has been recorded as an expected recovery, which reduces the net liability of the province to $145.0 million from the $230.0 million which was previously recorded. The remaining $15 million is expected to be used on post-remediation costs and future site use and will be recognized at that time.

Net Income from Government Business Enterprises (GBEs)

The total Net Income from GBEs is down $4.8 million or 1.2 per cent from Budget Estimates. This variance results from lower beer and cannabis sales at the Nova Scotia Liquor Corporation and a decline in lottery ticket sale revenue at the Nova Scotia Gaming Corporation.

Expenses

Total Expenses for 2019–20 are forecast to be $11.4 billion, $247.5 million or 2.2 per cent higher than the Budget Estimates.

Increases in Departmental Expenses of $240.0 million or 2.4 per cent, and the Pension Valuation Adjustment of $28.3 million or 54.6 per cent are partially offset by decreases in Refundable Tax Credits of $3.4 million or 2.5 per cent and Debt Servicing Costs of $17.4 million or 2.0 per cent.

Departmental Expenses

Total Departmental Expenses for 2019–20 are forecast to be $240.0 million or 2.4 per cent higher than the Budget Estimates.

Departmental Expenses 2019–20

($ thousands)

	Budget	**September** *Update*	**December** *Update*	*Increase (Decrease)* **from Budget**	*Increase (Decrease)* **from Sept**
Agriculture	46,427	46,427	46,427	---	---
Business	152,014	161,467	158,831	6,817	(2,636)
Communities, Culture and Heritage	93,641	93,792	95,376	1,735	1,584
Community Services	947,904	968,603	982,412	34,508	13,809
Education and Early Childhood Development	1,429,342	1,430,131	1,431,240	1,898	1,109
Energy and Mines	49,036	49,036	41,134	(7,902)	(7,902)
Environment	38,524	38,524	38,524	---	---
Finance and Treasury Board	23,683	23,683	23,683	---	---
Fisheries and Aquaculture	21,536	21,536	21,536	---	---
Health and Wellness	4,638,526	4,686,476	4,715,416	76,890	28,940
Justice	361,438	362,838	362,838	1,400	---
Labour and Advanced Education	396,209	398,607	398,510	2,301	(97)
Assistance to Universities	427,782	428,082	428,082	300	---
Lands and Forestry	76,750	77,148	76,968	218	(180)
Municipal Affairs and Housing	283,399	339,900	345,326	61,927	5,426
Public Service	131,162	132,994	133,492	2,330	498
Service Nova Scotia and Internal Services	282,947	282,947	298,942	15,995	15,995
Seniors	2,721	2,721	2,721	---	---
Transportation and Infrastructure Renewal	497,280	498,222	502,183	4,903	3,961
Restructuring Costs	201,463	201,463	238,163	36,700	36,700
Total - Departmental Expenses	**10,101,784**	**10,244,597**	**10,341,804**	**240,020**	**97,207**

The Department of Business is forecast to be $6.8 million or 4.5 per cent higher than Budget Estimates, primarily due to a $6.0 million increase to Nova Scotia Business Inc. (NSBI) for the Nova Scotia Film and Television Production Incentive Fund to meet projected demand, and $5.1 million in additional grants to Develop Nova Scotia to meet its commitments and support its new mandate. These increases are partially offset by $3.1 million in lower than budgeted payroll rebates granted by NSBI.

The Department of Communities, Culture and Heritage is forecasting to be $1.7 million or 1.9 per cent higher than Budget Estimates, primarily due to an investment into community transportation in Cape Breton of $1.5 million, and other recoverable expenses of $0.2 million.

The Department of Community Services is forecast to be $34.5 million or 3.6 per cent higher than Budget Estimates. This is primarily due to $19.0 million in Child, Youth and Family Supports for children with complex needs, $8.4 million for eligible Disability Support Program service provider service award payouts, $6.4 million in Service Delivery and Strategic Services due to supports for children in care and several office relocations, and $3.8 million in Disability Support Programming due to growth in programs supporting clients and additional customized and complex placements. These increases are partially offset by a $3.9 million decrease in Employment Support and Income Assistance program spending, primarily resulting from slower than expected iniitial uptake of new programming.

The Department of Education and Early Childhood Development is forecast to be $1.9 million or 0.1 per cent higher than Budget Estimates primarily due to increased expenses of $2.3 million related to Regional Centres for Education operating pressures relating to increased enrolment.

The Department of Energy and Mines is forecast to be $7.9 million or 16.1 per cent lower than Budget Estimates primarily due to an underspend in Investing in Canada Infrastructure Fund.

The Department of Health and Wellness is forecast to be $76.9 million or 1.7 per cent higher than Budget primarily due to $44.2 million additional funding to the Nova Scotia Health Authority (NSHA) for rising demand in a variety of health care services, and $28.9 million for the new Doctors Nova Scotia Agreement.

The Department of Justice is forecast to be $1.4 million or 0.4 per cent higher than Budget Estimates, primarily because of staffing needs in Sheriff Services.

The Department of Labour and Advanced Education is forecast to be $2.3 million or 0.6 per cent higher than Budget Estimates, primarily due to $3.0 million in increased expenses related to the Federal Labour Market and Workforce Development Agreements, and to purchase equipment for students with accessibility needs, which are fully recoverable from the federal government.

The Department of Municipal Affairs and Housing is forecast to be $61.9 million or 21.9 per cent higher than Budget Estimates primarily due to a one-time payment of $57.7 million Federal Gas Tax transfer to municipalities, as well as $8.4 million in disaster assistance costs associated with Hurricane Dorian, and $7.0 million to Housing Nova Scotia for strengthening housing programs. These increases are partially offset by reductions in the Investing in Canada Infrastructure Program ($4.4 million Green, $3.1 million Rural and Northern), $2.8 million in the Clean Water and Wastewater Fund, and $1.5 million in the New Building Canada Fund (Small Communities).

Public Service Offices are forecast to be $2.3 million or 1.8 per cent higher than Budget Estimates primarily because of $1.4 million in Public Prosecution Service operating costs to address caseload, and $1.1 million in Elections Nova Scotia mainly for by-elections in four electoral districts.

The Department of Service Nova Scotia and Internal Services is forecast to be $16.0 million or 5.7 per cent higher than Budget Estimates primarily due to $6.0 million for the Modernization and Sustainment of SAP in the health sector, $4.0 million for software licensing, $3.2 million increase in recoverable expenses for health related equipment, and $2.2 million for an increase in reserve for impaired fines.

The Department of Transportation and Infrastructure Renewal is forecast to be $4.9 million or 1.0 per cent higher than Budget Estimates primarily resulting from $2.9 million for increased highway maintenance costs due to hurricane Dorian, and $2.0 million due to cost for the removal of the crane that fell during hurricane Dorian in Halifax.

Restructuring is forecast to be $36.7 million over budget due to higher than anticipated budget requirements for corporate initiatives.

Refundable Tax Credits

Refundable Tax Credits are forecast to be $3.4 million or 2.5 per cent lower than Budget Estimates due to the timing of tax credit applications.

Pension Valuation Adjustment

The Pension Valuation Adjustment is forecast to be up $28.3 million or 54.6 per cent from Budget Estimates. The increase is primarily due to updated actuarial assumptions and actuarial reports received to date.

Debt Servicing Costs

Total Debt Servicing Costs are forecast to be down $17.4 million or 2.0 per cent from Budget Estimates, which is driven by lower than anticipated interest rates.

Consolidation and Accounting Adjustments

Consolidation and Accounting Adjustments for government units are forecast to be $172.6 million, an increase of $5.4 million or 3.2 per cent from Budget Estimates. This is primarily due to $10.6 million in lower amortization net of third-party contributions to the NSHA and IWK Health Centre, partially offset by $5.9 million in lower than budgeted capital grants to the Department of Health and Wellness.

Capital

Total Capital Spending is forecast to be $715.9 million, an increase of $24.5 million or 3.5 per cent from Budget Estimates.

Tangible Capital Assets

The province is forecasting Capital Purchase Requirements to be $29.4 million or 6.3 per cent higher than Budget Estimates. This is mostly due to higher projected spending for highways and structures, buildings, and land purchases.

Capital Grants

The province is forecasting Capital Grant requirements to be $4.9 million or 2.2 per cent lower than Budget Estimates primarily due to the timing for health related projects.

Capital Spending 2019–20

($ thousands)

	Budget	**September *Update***	**December *Update***	*Increase (Decrease)* **from Budget**	*Increase (Decrease)* **from Sept**
Highways & Structures	303,830	315,814	313,734	9,904	(2,080)
Buildings	91,195	100,477	132,871	41,676	32,394
Information Technology	10,636	15,172	15,726	5,090	554
Land Purchases	2,500	2,500	12,800	10,300	10,300
Vehicles and Equipment	13,438	15,630	16,452	3,014	822
Contingency	47,958	44,958	7,358	(40,600)	(37,600)
Total - Capital Purchase Requirements	**469,557**	**494,551**	**498,941**	**29,384**	**4,390**
Capital Grants	221,783	226,173	216,909	(4,874)	(9,264)
Total - Capital Spending	**691,340**	**720,724**	**715,850**	**24,510**	**(4,874)**

Economic Performance and Outlook

Before receiving results of actual tax revenues collected, the province relies on economic forecasts and statistical relationships with historical administrative data to estimate tax revenues.

External Outlook

Global economic growth slowed in 2019 to the weakest pace since the global financial crisis. New trade restrictions and related uncertainty are weighing on growth, particularly in business investment and manufacturing. Commodity prices are also falling. The World Trade Organization projects that global merchandise trade volumes will only grow 1.2 per cent in 2019; recovery to 2.7 per cent growth in 2020 depends on easing trade restrictions. Several central banks have moved to ease monetary policy. In October, the International Monetary Fund revised their global growth projections down to 3.0 per cent in 2019 and 3.4 per cent in 2020.

The United States (US) economy slowed in 2019 after the stimulus of tax cuts faded. However, US real Gross Domestic Product (GDP) growth continues at a solid pace consistent with its potential. The labour market remains strong with steady job and wage gains as well as a low unemployment rate. Household spending continues steady growth while residential investment has recently shown signs of rebound after a period of decline. The Federal Reserve cut interest rates three times in 2019 to protect against headwinds from the slowing global economy. US real GDP is projected to grow at 2.3 per cent in 2019 and to slow to 1.8 per cent in 2020.

European economic growth has been subdued in 2019. Household spending, wage gains and tight labour market conditions have supported growth. The manufacturing sector has weakened in the face of global trade uncertainty, particularly in Germany and Italy. Inflationary pressures have weakened and Euro Area monetary policy has been made more accommodative. Growth in the United Kingdom has been uneven, reflecting uncertainty around the timing and nature of Brexit and weak business sentiment.

Growth in China is projected to moderate over the next two years, remaining close to 6 per cent. China continues to transition production toward consumer-focused services while it corrects financial sector imbalances. These internal adjustments along with US-China trade tensions have dampened the outlook for China's growth. The trade dispute has also weakened Chinese consumer and business confidence.

Strong population growth and tight labour markets stabilized Canadian economic growth in 2019. The unemployment rate remains at very low levels and wage growth has been solid. Household consumption continues to support growth, but at a more moderate pace. Residential investment in Canada has recovered as housing markets are now being driven by healthy fundamentals. The energy sector has been a drag on business investment in 2019 due to lower commodity prices and transportation constraints. Going forward, business investment is expected to contribute positively to growth while exports grow in line with external demand. Canada's real GDP is projected to grow by 1.5 per cent in 2019 and by 1.6 per cent in 2020. Nominal GDP growth is expected to be 3.5 per cent in 2019 and 3.6 per cent in 2020.

After raising the policy rate to 1.75 per cent in 2018, the Bank of Canada maintained a neutral stance with no changes to the target for the overnight interest rate in 2019. Measures of inflation remain close to 2 per cent and output is close to potential GDP. Canada's inflation rate is expected to be near the 2 per cent target in 2019 and in 2020. The Canadian dollar is projected to remain around 76 US cents during that time.

Current Economic Outlook for Nova Scotia

The Department of Finance and Treasury Board has revised its economic outlook incorporating information and data released through November 7, 2019. The economic outlook includes monthly and quarterly data from 2019 released on or before this date while subsequently released information will be incorporated into future economic forecasts.

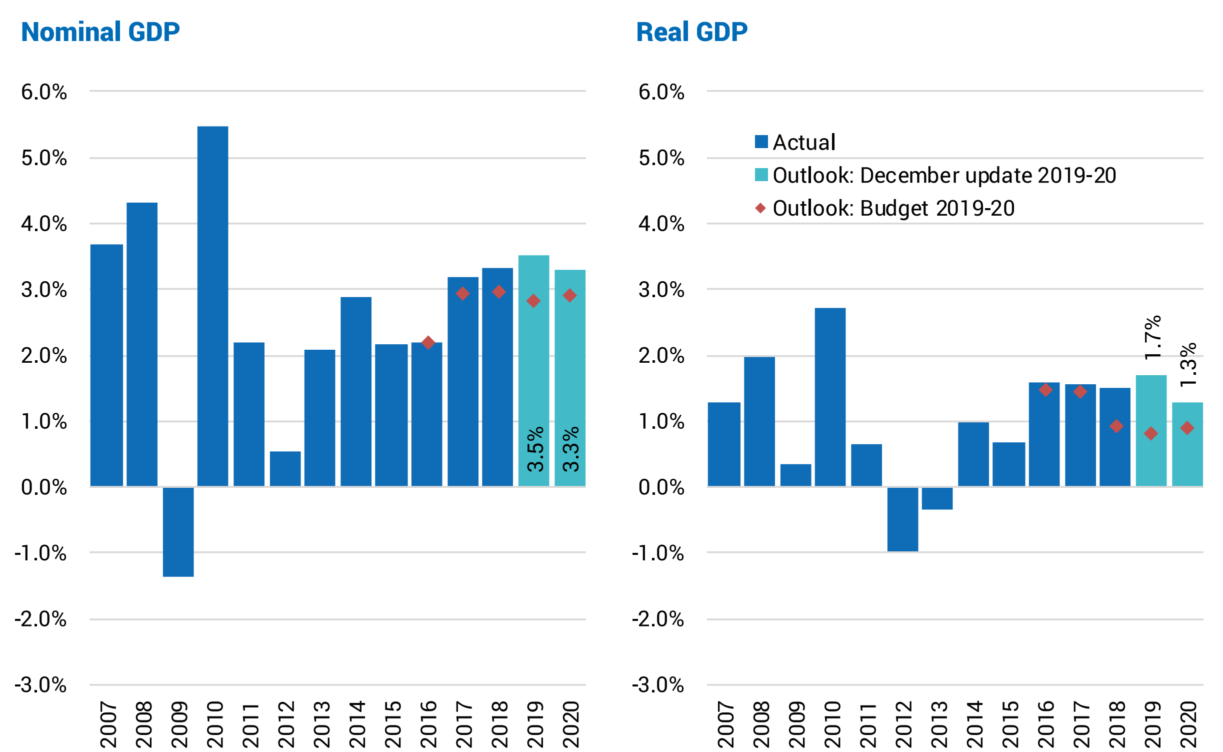
The outlook for Nova Scotia's nominal and real GDP growth has been revised upward for 2019 and 2020, reflecting year-to-date indicators, a stronger population trend as well as new major project announcements and timing. The forecast for nominal GDP growth is 3.5 per cent in 2019 and 3.3 per cent in 2020, with real GDP growing at 1.7 per cent in 2019 and 1.3 per cent in 2020.

Recent Economic Performance

GDP Growth: Nova Scotia's real GDP has grown for five consecutive years. In the past three years real GDP growth has averaged 1.6 per cent per year. In 2018, Nova Scotia's nominal GDP grew 3.3 per cent. Household consumption growth slowed after strong growth in 2017. Nominal exports (+4.8 per cent) and residential investment (+7.4 per cent) grew quickly in 2018. Business investment growth reflected a large increase in intellectual property products from oil, gas and mineral exploration activities that was partially offset by a decline in non-residential structures as major projects were completed.

Nova Scotia GDP Growth

(per cent change)



Current Economic Outlook Assumptions

	Budget 2019-20		December Forecast Update	
Per cent change, except where noted	**2019**	**2020**	**2019**	**2020**
Real GDP ($2012 chained)	0.8%	0.9%	1.7%	1.3%
Nominal GDP	2.8%	2.9%	3.5%	3.3%
Compensation of Employees	2.8%	2.3%	3.9%	3.0%
Household Income	2.9%	2.7%	3.3%	3.0%
Household Final Consumption	3.1%	2.4%	3.3%	3.0%
Retail Sales	2.4%	1.7%	2.6%	2.2%
Consumer Price Index	2.3%	2.0%	1.6%	2.0%
Investment in Residential Structures	-3.3%	-0.7%	12.9%	2.3%
Non-Res, Machinery, Intellectual Property	4.8%	2.2%	2.2%	6.3%
Net Operating Surplus: Corporations	5.9%	5.6%	3.5%	3.8%
Net Mixed Income: Unincorporated	2.3%	2.0%	2.7%	2.5%
Exports of Goods and Services	2.8%	2.8%	5.0%	3.6%
Exports of Goods to Other Countries	4.1%	2.9%	6.0%	2.6%
Imports of Goods and Services	2.3%	2.0%	4.4%	3.2%
Population at July 1 (thousands)	964.5	968.3	971.4a	980.4
Labour Force (thousands)	494.5	495.0	502.0	506.5
Employment (thousands)	454.2	454.0	465.5	469.1
Unemployment Rate, Annual Average	8.1%	8.3%	7.3%	7.4%

Note: *Non-residential, machinery, intellectual property refers to all categories of gross fixed capital formation except residential structures. This includes business as well as non-profit and government investment. a~actual.*

Population: Nova Scotia's population has been growing since 2015, rising by nearly 35,000 persons over the past four years and reaching an all-time high of 971,395 as of July 1, 2019. Natural population change continues to be negative and this is expected to continue. In the year up to July 1, 2019 there were 6,393 immigrants arriving to Nova Scotia, the most immigrants in a year since at least the Second World War. Net interprovincial migration to the province (+3,306) was positive for the fourth consecutive year – the first such period since the early 1970s. Migration has lifted the youth population (aged 15-30) by over 7,000 persons since 2015 and the median age of Nova Scotians declined for the first time since 1964.

Labour Market: Nova Scotia's labour force (+1.7 per cent over the first eleven months of the year) and employment (+2.3 per cent) are each on pace for their fastest growth since 2004. The labour market also tightened in 2019 with falling unemployment rates, rising job vacancies and higher wages. Nova Scotia's average weekly earnings have grown 3.7 per cent through the first nine months of 2019, a pace faster than every other province. Total employee compensation has grown by 5.1 per cent through the first three quarters of 2019.

Inflation: Inflation pressures remain modest in Nova Scotia. Year-over-year growth in the Consumer Price Index (CPI) averaged 1.5 per cent over the first nine months of 2019. Lower energy prices are slowing overall inflation in the province. The CPI excluding energy has averaged 2.0 per cent for the first nine months of 2019.

Retail Sales: Retail spending has averaged 2.5 per cent growth for January-September 2019 compared to January-September 2018. Lower gasoline prices have weighed on expenditures, but sales are up 3.8 per cent for retailers excluding gasoline stations. Growth at motor vehicles and parts dealers, food and beverage stores, general merchandise stores, and miscellaneous stores are lifting Nova Scotia's retail sales in 2019.

Construction: Residential investment has continued to grow in 2019, rising 17.9 per cent in first nine months of the year. New construction of multiple unit buildings in Halifax and renovation activity outside Halifax have been prominent sources of housing investment growth in 2019. Housing starts, a leading indicator of future activity, have declined in 2019 and suggest activity could slow going into 2020. Year-to-date, Nova Scotia's non-residential building construction is down 1.3 per cent compared to the first nine months of 2018, with increased construction activity outside Halifax partially offsetting the decline in Halifax's non-residential building construction.

Exports: Nova Scotia exports are up 6.6 per cent over January-October 2019 compared to January-October 2018. Shipments are growing to most major trading partners including the United States (+5.8 per cent) and China (+25.8 per cent). Shipments are up for seafood products, tires, machinery and equipment, frozen fruit, but have declined for forestry products, coal and scrap metals.

Key Risks

Economic

Previous risks of a recession in advanced economies appear to have partially abated. Although global real GDP growth is projected to accelerate in 2020, there remain significant and unresolved downside risks to external economic conditions.

Trade protectionism has persisted between the US and several countries. The US-China trade conflict has dampened industrial production and global trade volumes. This conflict (as well as Canada's own tensions with China) remain sources of uncertainty in Nova Scotia's economic outlook. Uncertainty about Brexit continues to weigh on economic growth in the United Kingdom.

In the near term, household consumption in Canada is expected to grow more moderately on wage gains, higher employment, and rising immigration. However, households are expected to be increasingly cautious in their expenditure decisions. Elevated levels of household debt could slow consumption and restrain housing markets more than anticipated. Further slowing of the Canadian economy may trigger monetary policy easing by Bank of Canada.

Nova Scotia's economic and demographic indicators have been stronger than anticipated in 2019. Continued population growth is projected for the next few years, supported with sustained immigration levels from the Atlantic Immigration Pilot. Labour force decline could reemerge if population growth slows, or immigrant retention or labour market integration falters. This would reduce the underlying potential growth rate of the economy going forward.

The forecast is based on a stable economic environment and is sensitive to large changes in production capacity. The forecast incorporates major projects only when they are nearly certain to occur and are ready to begin. New or cancelled major projects or changes in project timing can alter expectations in any year.

Revenue

Provincial own-source revenues are strongly influenced by several key factors in the economic outlook. In addition, the revenue models use administrative data, external factors, and historical relationships between factors to arrive at forecasted revenues. All factors are subject to change throughout the fiscal year and can contribute to significant variations in revenues. Final PIT and CIT tax assessments for the 2018 taxation year have not been received, thereby creating the possibility of additional prior year adjustments as well as influencing assumptions for the current fiscal year.

The forecast of CIT revenues is highly dependent upon national corporate taxable income and the province's share. Any downward adjustment to national corporate taxable income estimates or continued decline in the province's share presents a substantial risk to corporate income tax revenues.

HST revenues are sensitive to any further increase in the cost of Your Energy Rebate Program.

Further deterioration in tobacco tax revenues poses a considerable risk.

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