

# Forecast Update

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## 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 \$30.8 million, a decrease of \$2.8 million from the Budget's 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, as well as creating the right conditions so that the private sector can 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 \$30.8 million. This is a decrease of \$2.8 million from the budgeted surplus in the 2019–20 Budget Estimates.

Total Provincial Revenue, including Ordinary Revenue, Recoveries, and Net Income from Government Business Enterprises (GBEs), is forecast to be \$11.13 billion, an increase of \$119.8 million from the Budget Estimates.

Forecast changes in Ordinary Revenue include a \$21.0 million decrease in Provincial Tax Revenue, a \$10.1 million decrease in Other Provincial Revenue Sources, \$0.7 million increase for Investment Income, and a \$0.9 million increase in Federal Revenue Sources.

Ordinary Recoveries Revenue is forecast to increase by \$147.5 million. Net income from GBEs is forecast to increase by \$1.7 million from Budget.

Total expenses are forecast to be \$11.27 billion; \$129.7 million higher than the Budget Estimates. This is due to increases in Departmental Expenses of \$142.8 million and the Pension Valuation Adjustment of \$3.9 million, which are partially offset by decreases in Refundable Tax Credits of \$3.4 million and Debt Servicing Costs of \$13.7 million.

Consolidation and Accounting Adjustments positively impact the bottom line by \$174.3 million, \$7.1 million more than budgeted.

## Fiscal Summary 2019–20

			(\$ thousands)
General Revenue Fund	Budget	Forecast	Increase (Decrease) from Budget
<b>Revenues</b>			
Ordinary Revenue	9,962,736	9,933,233	(29,503)
Ordinary Recoveries	658,509	806,042	147,533
Net Income from Government Business Enterprises	389,224	390,963	1,739
<b>Total - Revenues</b>	<b>11,010,469</b>	<b>11,130,238</b>	<b>119,769</b>
<b>Expenses</b>			
Departmental Expenses	10,101,784	10,244,597	142,813
Refundable Tax Credits	134,324	130,954	(3,370)
Pension Valuation Adjustment	51,837	55,746	3,909
Debt Servicing Costs	856,107	842,450	(13,657)
<b>Total - Expenses</b>	<b>11,144,052</b>	<b>11,273,747</b>	<b>129,695</b>
Consolidation and Accounting Adjustments			
Adjustments for Government Units	167,206	174,289	7,083
<b>Provincial Surplus (Deficit)</b>	<b>33,623</b>	<b>30,781</b>	<b>(2,842)</b>

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

## Revenue

Total Revenue is forecast to be \$11.13 billion, \$119.8 million or 1.1 per cent more than the 2019–20 Budget Estimates.

This represents increases of \$147.5 million or 22.4 per cent in Ordinary Recoveries, \$1.7 million or 0.4 per cent in Net Income from GBEs, \$0.9 million or 0.03 per cent in Federal Revenue Sources, and \$0.7 million or 0.4 per cent in Investment Income. These increases are partially offset by decreases of \$21.0 million or 0.4 per cent in Provincial Tax Revenue and \$10.1 million or 2.9 per cent in Other Provincial Revenue.

### Ordinary Revenue — Provincial Revenue Sources

#### Tax Revenue

Personal Income Tax revenue is forecast to be up by \$3.4 million or 0.1 per cent from Budget, primarily because of improved yield growth. Personal taxable income is projected to be down by \$19.0 million in 2019 and by \$4.0 million in 2020 from Budget Estimates. Yield growth is projected to rise by 0.1 per cent in 2019 and by 0.03 per cent in 2020.

Corporate Income Tax revenue is forecast to be down by \$19.1 million or 3.2 per cent from Budget Estimates, as national corporate taxable income is projected to decline by 3.1 per cent in 2019 and by 3.3 per cent in 2020. The forecasts of the province's share and the small business share of taxable income are unchanged from Budget Estimates.

Harmonized Sales Tax (HST) revenue is forecast to be up by \$2.3 million or 0.1 per cent from Budget Estimates, primarily due to projected growth in the residential housing investment base of 2.3 per cent in 2020. The increase is partially offset by slower growth in the consumer expenditure base in 2019.

Motive Fuel Tax revenue is forecast to be down by \$5.0 million or 1.8 per cent from Budget Estimates due to lower than projected volumes of fuel consumption. Gasoline consumption is projected to be 2.4 per cent lower than Budget Estimates and consumption of diesel oil is projected to be 2.1 per cent lower.

Tobacco Tax revenue is forecast to be \$5.3 million or 2.6 per cent lower than Budget Estimates. The decline is primarily attributable to a 3.3 per cent decrease in the projected volume of cigarette consumption.

Cannabis Tax revenues are projected to be unchanged from Budget Estimates.

#### Other Provincial Revenue

Other Provincial Source revenues are forecast to be \$10.1 million or 2.9 per cent lower than Budget Estimates.

This variance is mainly driven by recategorizing some line items to better 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 Sinking Fund Earnings).

#### Investment Income

Investment Income is \$0.7 million or 0.4 per cent higher than Budget Estimates. This variance is driven by recategorizing Student Assistance Interest revenue from Other Provincial Sources to Investment Income in order to align with Public Accounts classifications, and is partially offset by lower interest rates.

# Total Revenue 2019–20

(\$ thousands)

General Revenue Fund: Revenues	Budget	Forecast	Increase (Decrease) from Budget
<b>Provincial Revenue Sources</b>			
Tax Revenue:			
Personal Income Tax	2,811,289	2,814,657	3,368
Corporate Income Tax	604,741	585,670	(19,071)
Harmonized Sales Tax	1,895,909	1,898,178	2,269
Cannabis Tax	7,814	7,814	---
Motive Fuel Tax	276,942	271,928	(5,014)
Tobacco Tax	205,432	200,140	(5,292)
Other Tax Revenue	169,329	172,070	2,741
	5,971,456	5,950,456	(21,000)
Other Provincial Revenue:			
Registry of Motor Vehicles	136,076	136,076	---
Royalties - Petroleum	---	---	---
Other Provincial Sources	151,981	141,035	(10,945)
TCA Cost Shared Revenue	2,439	3,144	705
Other Fees and Charges	63,170	63,275	105
Prior Years' Adjustments	---	---	---
Gain on Disposal of Crown Assets	---	---	---
	353,666	343,530	(10,135)
Investment Income:			
Interest Revenues	85,574	93,340	7,766
Sinking Fund Earnings	95,920	88,843	(7,077)
	181,494	182,183	689
<b>Total - Provincial Sources</b>	<b>6,506,616</b>	<b>6,476,169</b>	<b>(30,446)</b>
<b>Federal Revenue Sources</b>			
Equalization Payments	1,942,628	1,942,628	---
Canada Health Transfer	1,039,410	1,039,410	---
Canada Social Transfer	375,514	375,514	---
Offshore Accord Offset Payments	8,227	8,227	---
Crown Share	---	4,041	4,041
Other Federal Sources	41,260	39,818	(1,442)
TCA Cost Shared Revenue	49,081	47,426	(1,655)
Prior Years' Adjustments	---	---	---
<b>Total - Federal Sources</b>	<b>3,456,120</b>	<b>3,457,064</b>	<b>944</b>
<b>Total - Ordinary Recoveries</b>	<b>658,509</b>	<b>806,042</b>	<b>147,533</b>
<b>Net Income from Government Business Enterprises (GBE)</b>			
Nova Scotia Liquor Corporation	243,415	243,415	---
Nova Scotia Provincial Lotteries and Casino Corp	128,000	128,000	---
Halifax-Dartmouth Bridge Commission	8,419	8,358	(61)
Highway 104 Western Alignment Corporation	9,390	11,190	1,800
<b>Total - Net Income from GBEs</b>	<b>389,224</b>	<b>390,963</b>	<b>1,739</b>
<b>Total - Revenues</b>	<b>11,010,469</b>	<b>11,130,238</b>	<b>119,770</b>

Note: Totals may not add due to rounding.

## 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 province will receive an updated estimate for the Cumulative Best-of Guarantee in December 2019.

The Offshore Accord payment is based upon a one-estimate, one-payment approach and as a result the forecast is unchanged from Budget Estimates. Forecasts for the Canada Health Transfer and Canada Social Transfer are also unchanged from Budget Estimates.

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.

## Ordinary Recoveries

Ordinary Recoveries revenue is forecast to be \$147.5 million or 22.4 per cent higher than the Budget Estimates.

The Department of Education and Early Childhood Development is forecast to be \$1.4 million or 5.8 per cent higher than Budget Estimates primarily due to a \$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 \$1.2 million or 4.1 per cent higher than Budget Estimates primarily due to a \$0.9 million recovery in the Low Carbon Economy Fund from the prior year.

Labour and Advanced Education is forecast to be \$1.9 million or 1.4 per cent higher than Budget Estimates, primarily due to increased federal

recoveries of \$2.8 million related to the Federal Labour Market and Workforce Development Agreements and to purchase equipment for students with accessibility needs.

The Department of Municipal Affairs and Housing is forecast to be \$56.5 million or 41.1 per cent higher than Budget Estimates primarily due to a one-time payment of \$58.5 million in Federal Gas Tax from the federal government.

The Department of Transportation and Infrastructure Renewal recoveries are forecast to be \$86.0 million or 732.1 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 up \$1.7 million or 0.4 per cent from Budget Estimates. This variance is largely due to the Highway 104 Western Alignment Corporation, as higher than expected traffic volume caused forecasted toll revenues to increase.

## Expenses

Total Expenses for 2019–20 are forecast to be \$11.3 billion, \$129.7 million or 1.2 per cent higher than the Budget Estimates.

Increases in Departmental Expenses of \$142.8 million or 1.4 per cent, and the Pension Valuation Adjustment of \$3.9 million or 7.5 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 \$13.7 million or 1.6 per cent.

### Departmental Expenses

Total Departmental Expenses for 2019–20 are forecast to be \$142.8 million or 1.4 per cent higher than the Budget Estimates.

The Department of Business is forecast to be \$9.5 million or 6.2 per cent higher than Budget Estimates, primarily due to a \$6.0 million increase to Nova Scotia Business Inc. for the Nova Scotia Film and Television Production Incentive Fund to meet projected demand, and \$4.2 million in additional grants to Develop Nova Scotia to support various projects like Queens Marque, the Shelburne Wharf, and Fisherman's Cove.

The Department of Community Services is forecast to be \$20.7 million or 2.2 per cent higher than Budget Estimates primarily due to \$16.3 million in Child, Youth and Family Supports for children with complex needs, \$5.1 million in Service Delivery and Strategic Services due to supports for children in

## Departmental Expenses 2019–20

(\$ thousands)

	Budget	Forecast	from Budget
Agriculture	46,427	46,427	---
Business	152,014	161,467	9,453
Communities, Culture and Heritage	93,641	93,792	151
Community Services	947,904	968,603	20,699
Education and Early Childhood Development	1,429,342	1,430,131	789
Energy and Mines	49,036	49,036	---
Environment	38,524	38,524	---
Finance and Treasury Board	23,683	23,683	---
Fisheries and Aquaculture	21,536	21,536	---
Health and Wellness	4,638,526	4,686,476	47,950
Justice	361,438	362,838	1,400
Labour and Advanced Education	396,209	398,607	2,398
Assistance to Universities	427,782	428,082	300
Municipal Affairs and Housing	283,399	339,900	56,501
Lands and Forestry	76,750	77,148	398
Public Service	131,162	132,994	1,832
Seniors	2,721	2,721	---
Service Nova Scotia and Internal Services	282,947	282,947	---
Transportation and Infrastructure Renewal	497,280	498,222	942
Restructuring Costs	201,463	201,463	---
<b>Total - Departmental Expenses</b>	<b>10,101,784</b>	<b>10,244,597</b>	<b>142,813</b>



care and several office relocations, and \$3.0 million in Disability Support Programming due to growth in programs supporting clients in their homes and additional customized and complex placements.

The Department of Health and Wellness is forecast to be \$48.0 million or 1.0 per cent higher than Budget Estimates due to \$44.2 million additional funding to the Nova Scotia Health Authority for rising demand in a variety of health care services and \$3.8 million in increased capital grants for the Nova Scotia Health Authority for a new inventory supply management system.

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

The Department of Labour and Advanced Education is forecast to be \$2.4 million or 0.6 per cent higher than Budget Estimates, primarily due to \$2.8 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 \$56.5 million or 19.9 per cent higher than Budget Estimates primarily due to a one-time payment of \$57.7 million Federal Gas Tax to municipalities, \$1.2 million for the National Disaster Mitigation Program and \$1.2 million for New Build Canada Fund National and Regional projects and Small Community Fund projects.

Public Service Offices are forecast to be \$1.8 million or 1.4 per cent higher than Budget Estimates primarily due to \$1.3 million in Public Prosecution Service operating costs to address case-load, as well as \$1.1 million in Elections Nova Scotia primarily for by-elections in four electoral districts.

## 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 \$3.9 million or 7.5 per cent from Budget Estimates. The increase is primarily due to updated actuarial assumptions.

## Debt Servicing Costs

Total Debt Servicing Costs are forecast to be \$13.7 million or 1.6 per cent lower than Budget Estimates, primarily because of lower than anticipated interest rates and changes in the timing within the borrowing program.

## Consolidation and Accounting Adjustments

Consolidation and Accounting Adjustments for government units are forecast to be \$174.3 million, an increase of \$7.1 million or 4.2 per cent from Budget Estimates. This is primarily due to a

\$3.8 million increase in Department of Health and Wellness capital grants and a \$3.6 million increase in Develop Nova Scotia capital and operating grants.

## Capital

Total Capital Spending is forecast to be \$720.7 million, which is \$29.4 million or 4.3 per cent higher than Budget Estimates.

### Tangible Capital Assets

The province is forecasting Capital Purchase Requirements to be \$25.0 million or 5.3 per cent higher than Budget Estimates. This is primarily due to higher projected spending for highways and structures, buildings, information technology and vehicles.

### Capital Grants

The province is forecasting Capital Grant requirements to be \$4.4 million or 2.0 per cent higher than Budget Estimates primarily due to \$3.8 million for an information technology inventory supply system.

## Capital Spending 2019–20

(\$ thousands)

	Budget	Forecast	Increase (Decrease) from Budget
Highways & Structures	303,830	315,814	11,984
Buildings	91,195	100,477	9,282
Information Technology	10,636	15,172	4,536
Land Purchases	2,500	2,500	---
Vehicles and Equipment	13,438	15,630	2,192
Contingency	47,958	44,958	(3,000)
<b>Total - Capital Purchase Requirements</b>	<b>469,557</b>	<b>494,551</b>	<b>24,994</b>
Capital Grants	221,783	226,173	4,390
<b>Total - Capital Spending</b>	<b>691,340</b>	<b>720,724</b>	<b>29,384</b>

## 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

Growth in the global economy remains subdued, with global supply chains threatened by heightened trade tensions between the United States (US) and China, and Brexit-related uncertainty. In July 2019, the International Monetary Fund (IMF) revised global growth projections down to 3.2 per cent for 2019 and 3.5 per cent for 2020.

The United States (US) economy continues to grow at a moderate pace. The labour market remains strong with a historically low unemployment rate. Stronger wage growth has spurred household spending, though business investment and construction spending have fallen in recent months. US economic growth slowed to 2.0 per cent (annualized) in Quarter 2 (Q2) 2019 and is expected to be 2.4 per cent in 2019, followed by 1.9 per cent in 2020. The US Federal Reserve recently eased monetary policy and markets expect further actions.

European economies slowed more than anticipated in 2018. Weaker consumer and business confidence, Brexit uncertainty and softening external demand have tempered European economic growth. Euro Area real Gross Domestic Product (GDP) growth slowed to 0.8 per cent in the second quarter of 2019, while the United Kingdom (UK) economy contracted 0.8 per cent. The IMF is projecting that both Euro Area and UK real GDP will grow by 1.3 per cent in 2019. Monetary policy remains accommodative at both the European Central Bank and the Bank of England.

China has been progressing in its transition away from growth led by investments towards greater private consumption. However, the tightening of credit, the trade dispute with the US and lower

population growth have weakened momentum in the Chinese economy. The IMF recently lowered projected growth for China to 6.2 per cent in 2019 and 6.0 per cent in 2020.

The Canadian economy operated close to capacity for most of 2018 before slowing in the final quarter of the year. Although Canada's unemployment rate remains very low and earnings growth has been solid, household consumption is expected to grow more moderately in the near term.

Canada's economic growth is expected to shift towards business investment (outside oil and gas) and exports, and away from household spending and residential investment. Canada's real GDP grew 3.7 per cent Q2 2019, led by service sector output, while oil and gas and construction sectors contracted. Canadian real GDP is projected to increase 1.4 per cent in 2019 and 1.8 per cent in 2020.

Canadian inflation is expected to be around 2 per cent in 2019 and 2020. The Canadian dollar is projected to remain around 75 US cents in the short-term.

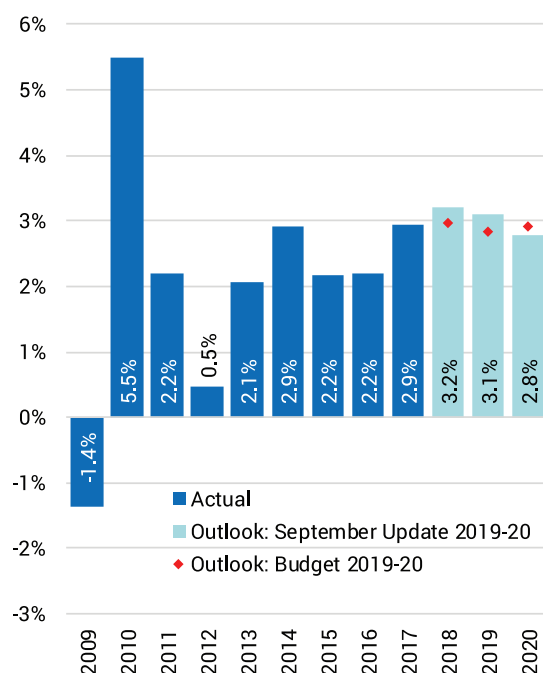
### Current Economic Outlook for Nova Scotia

The 2019–20 Budget provincial economic outlook used data and information up to November 8, 2018. A revised economic forecast was published in the 2018–19 Public Accounts that incorporated data and information up to May 17, 2019 and is reflected in the economic outlook and provincial tax revenue forecast presented in this update. Information released after this date will be incorporated into future economic forecasts.

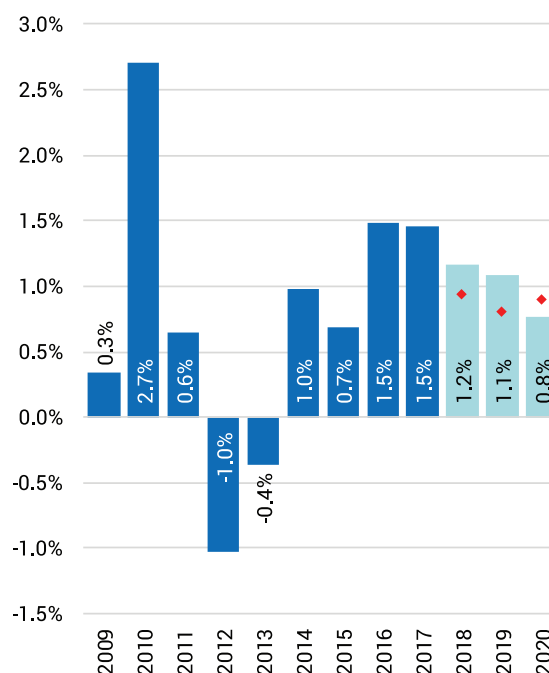
# Nova Scotia GDP Growth

(Per Cent Change)

## Nominal GDP



## Real GDP



The outlook for Nova Scotia's nominal and real GDP has been revised upward reflecting higher employment, consumer expenditures and exports, and changes in timing of government spending and investment. The forecast for nominal GDP growth is 3.1 per cent in 2019 and 2.8 per cent in 2020, with real GDP growing at 1.1 per cent and then 0.8 per cent.

## Recent Economic Performance

**GDP Growth:** The preliminary results for 2018 show that Nova Scotia real GDP increased 1.2 per cent, slower than the 1.5 per cent pace observed in both 2016 and 2017. Nominal GDP is estimated to have grown by 3.2 per cent.

Nova Scotia's economy has grown for five consecutive years after declines in 2012 and 2013. Although GDP growth rates are revised up for 2019, growth is still slower than observed for 2018. Lower major project spending, the end of natural gas production, rising

imports and slower growth in residential spending are expected to keep 2019 GDP growth slower than the 2018 estimate. Economic growth in 2019 is still supported by rising exports, government infrastructure investments and increasing employment, partially offset by rising imports.

Nova Scotia's population has been on an upward track since 2015, rising by over 30,000 persons over the past four years to reach an all-time high of 966,858 as of April 2019. Natural population change has been more than offset by international and interprovincial migration increases.

**Labour Market:** Over the first eight months of the year, the labour force has grown 1.5 per cent and employment has expanded 2.4 per cent. The unemployment rate has averaged below 7 per cent during 2019. Comparing the first half of 2019 with the same period in 2018, average weekly earnings have increased 3.6 per cent in Nova Scotia, the fastest growth among the provinces.

## Current Economic Outlook Assumptions

	Budget 2019-20		September Forecast Update	
<i>Per cent change, except where noted</i>	2019	2020	2019	2020
Real GDP (\$2012 chained)	0.8%	0.9%	1.1%	0.8%
Nominal GDP	2.8%	2.9%	3.1%	2.8%
Compensation of Employees	2.8%	2.3%	3.0%	2.5%
Household Income	2.9%	2.7%	2.8%	2.8%
Household Final Consumption	3.1%	2.4%	3.2%	3.1%
Retail Sales	2.4%	1.7%	2.5%	2.4%
Consumer Price Index	2.3%	2.0%	1.8%	2.0%
Investment in Residential Structures	-3.3%	-0.7%	-1.4%	1.0%
Non-Res, Machinery, Intellectual Property	4.8%	2.2%	5.5%	1.5%
Net Operating Surplus: Corporations	5.9%	5.6%	6.1%	5.6%
Net Mixed Income: Unincorporated	2.3%	2.0%	2.4%	1.8%
Exports of Goods and Services	2.8%	2.8%	4.2%	3.2%
Exports of Goods to Other Countries	4.1%	2.9%	4.0%	2.7%
Imports of Goods and Services	2.3%	2.0%	3.3%	2.4%
Population at July 1 (thousands)	964.5	968.3	965.0	969.0
Labour Force (thousands)	494.5	495.0	498.0	499.0
Employment (thousands)	454.2	454.0	462.7	462.3
Unemployment Rate, Annual Average	8.1%	8.3%	7.1%	7.4%

The total value of compensation for labour, including wages, salaries and employers' social contribution, grew 4.7 per cent during the first half of 2019.

**Inflation:** Consumer Price Index (CPI) inflation averaged 1.4 per cent over the first seven months of 2019. Lower energy prices are slowing overall inflation in the province. The CPI excluding energy has averaged 1.9 per cent year-over-year inflation for the first seven months of 2019.

**Retail Sales:** After slower sales towards the end of 2018, retail sales growth has seen a moderate acceleration over the first half of 2019. Year-to-date, retail trade has increased 2.3 per cent over January-June 2018. Growth in the first half of 2019 has been driven by increases of motor vehicles and parts dealers and food and beverage stores, while purchases of building materials, electronics and sales at gas stations have declined.

**Construction:** Residential investment has increased 15.1 per cent for the first half of 2019 on renovation investment for single units and new construction for multiple units. Year-to-date, Nova Scotia's non-residential building construction is down 4.1 per cent compared to the first six months of 2018 driven by a decline in Halifax commercial buildings. Non-residential building construction is up outside of Halifax on gains in all three categories — institutional and government, industrial, and commercial.

**Exports:** Nova Scotia's exports continue to grow and diversify outside the US market. International shipments of merchandise have increased 6.5 per cent over the first seven months of 2019 compared to the same period last year. Higher shipments of seafood and food products, rubber and plastics, and machinery have offset lower exports from the forestry sector. For the first seven months of 2019, exports have expanded, primarily to the US and Asia.

# Key Risks

## Economic

The global economy is projected to continue growing, but potentially disruptive downside risks are becoming prominent. Trade tensions may influence future business investments as well as the timing and effectiveness of monetary policy. The IMF cautions around growth accelerating in 2020.

Trade protectionism has emerged between the US and other countries, notably China. Furthermore, tensions between China and Canada have resulted in bans on Canadian products. The outlook of the Canadian economy would be substantially altered under different trade scenarios that could emerge.

There are risks that the slowdown could turn into a recession in some advanced economies in 2020, even though many central banks maintain accommodative monetary policy. Indications such as the US yield curve inversion could signify that the current economic expansion is slowing or ending. Although stable in recent years, commodity price shocks (notably for oil) can still be triggered by geopolitical events.

External factors will likely play a greater role in Nova Scotia's economy in coming years. The pace of China's economic growth could be further slowed depending on the success of reforms and financial sector vulnerabilities. Economic growth in the UK continues to be restrained by uncertainty surrounding Brexit.

Given debt levels in Canadian households, tighter mortgage guidelines may slow housing investment and home price growth. However, the Bank of Canada has signaled a more neutral stance for monetary policy, reducing the risks associated with higher interest rates.

Nova Scotia year-to-date indicators for international goods exports, employment, labour income and residential investments are tracking better than anticipated and provide potential upside risk.

However, the provincial economic outlook is based on a stable economic environment and is sensitive to large changes in production capacity.

Demographic issues in Nova Scotia and their influence on the labour market will continue to be key factors in sustaining economic performance. Productivity growth, capital investments and immigration will all be necessary to maintain economic growth as workers in the baby boom cohort retire.

## 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 personal and corporate income tax assessments for the 2018 taxation year will not be received until the spring of 2020, thereby creating the possibility of prior year adjustments as well as influencing assumptions for the current fiscal year.

Lower forecasts of yield growth for the 2018 and subsequent taxation years could pose significant downside risks for personal income tax revenues.

HST revenues are particularly sensitive to changes in the projected levels of consumer expenditures — which account for more than 70 per cent of HST revenues — as well as the level of residential housing investment expenditures.

The forecast of corporate income tax revenues is highly dependent upon national corporate taxable income, the province's share as well as the small business share of provincial corporate taxable income. Current weakness in national corporate taxable income presents a substantial risk to corporate income tax revenues.



