Forecast Update

December 21, 2017

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Minister of Finance and Treasury Board

NOVA SCOTIA

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novascotia.ca/finance

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 2017-18 Budget.

Relative to the 2017-18 Budget, the forecasted surplus is projected to improve slightly. The Province of Nova Scotia is forecasting a net position of $28.9 million, an increase of $7.6 million from the Budget's net position of $21.3 million.

This Forecast Update shows that the province is following the plan laid out in Budget 2017-18. The province's move towards fiscal sustainability has been achieved through careful planning and diligence over the past four years, during a period of challenging global and national economic conditions.

Nova Scotia is one of only three Canadian provinces to achieve fiscal balance in 2016-17 and is on track to achieve fiscal balance in 2017-18.

Overview

The Province of Nova Scotia is forecasting a surplus of $139.2 million and a net position of $28.9 million. This is an increase of $7.6 million from the 2017-18 budgeted surplus.

Total Revenue, including Ordinary Revenue and Recoveries, and Net Income from Government Business Enterprises, is forecast to be $10.6 billion, an increase of $42.0 million from the 2017–18 Budget.

Forecast changes in Ordinary Revenue include a $43.9 million increase in provincial tax revenue, a $30.8 million decrease in Other Provincial Revenue Sources, and a $41.5 million increase in Federal Revenue Sources.

Ordinary Recoveries Revenue is forecasted to decrease by $14.6 million. Net Income from Government Business Enterprises is forecasted to increase by $4.9 million from Budget.

Total Expenses are forecast to be $10.5 billion; $16.5 million higher than the Budget Estimates. This is mainly due to an increase in the pension valuation adjustment, as well as departmental expenses.

Fiscal Summary 2017–18

($ thousands)

General Revenue Fund	**2017-2018 Budget**	**2017-2018 December** *Update*	*Increase (Decrease) from* **Budget**
Revenues			
Ordinary Revenue	9,485,518	9,537,219	51,701
Ordinary Recoveries	709,389	694,781	(14,608)
Net Income from Government Business Enterprises	378,754	383,665	4,911
Total Revenues	10,573,661	10,615,665	42,004
Expenses			
Departmental Expenses	9,505,542	9,514,889	9,347
Refundable Tax Credits	125,472	109,813	(15,659)
Pension Valuation Adjustment	31,214	64,831	33,617
Debt Servicing Costs	850,214	839,439	(10,775)
Total Expenses	10,512,442	10,528,972	16,530
Consolidation and Accounting Adjustments for Governmental Units	70,391	52,513	(17,878)
Provincial Surplus (Deficit)	131,610	139,206	7,596
Contribution to Fiscal Capacity	(110,300)	(110,300)	---
Net Position	21,310	28,906	7,596

Debt Servicing costs are down $10.8 million, and refundable tax credit expenses are down by $15.7 million. Changes in Consolidation and Accounting Adjustments result in a $17.9 million negative impact to the provincial surplus position.

Revenue

Total Revenue, including Ordinary Recoveries of $694.8 million and Net Income from Government Business Enterprises of $383.7 million, is forecast to be $10.6 billion, $42.0 million (0.4 per cent) more than the 2017–18 Budget Estimates.

This represents a $43.9 million increase in Provincial Tax Revenue (0.8 per cent), a decrease in Other Provincial Revenue Sources of $30.8 million (7.4 per cent) and an increase in Net Income from Government Business Enterprises of $4.9 million (1.3 per cent). Ordinary Recoveries are down $14.6 million (2.1 per cent) and Federal Revenue Sources are up by $41.5 million (1.3 per cent).

Provincial Tax Revenue

Personal Income Tax (PIT) revenue is forecast to be up by $21.3 million or 0.8 per cent from the 2017-18 Budget Estimates primarily as a result of higher personal taxable income. Taxable income is projected to be up by $172.4 million in 2017 and by $206.5 million in 2018. This is offset by yield growth being down by 0.11 per cent in 2017 but yield is projected to rise by 0.05 per cent in 2018.

Corporate Income Tax (CIT) revenue is forecast to be up by $41.8 million or 8.3 per cent from the 2017-18 Budget Estimates as national corporate taxable income and the province's share are both projected to increase. National corporate taxable income is forecast to increase by $33.2 billion in 2017 and by $31.4 billion in 2018, while the province's share is projected to rise by 0.1 per cent in both 2017 and 2018. This is partially offset by an increase in the small business share of taxable income – from 37.3 per cent to 39.6 per cent.

Harmonized Sales Tax (HST) revenue is forecast to be down by $18.5 million or 1.0 per cent from the 2017-18 Budget Estimates primarily due to a decline in the consumer expenditure base – down 1.1 per cent in 2017 and 1.4 per cent in 2018. The decline is partially offset by stronger residential housing investment and positive increases to other tax bases.

Motive fuel tax revenue is forecast to be down by $2.2 million or 0.8 per cent from the 2017-18 Budget Estimates. Consumption of gasoline is projected to decline by 1.0 per cent while diesel oil consumption is also projected to fall by 0.4 per cent.

Tobacco tax revenue is forecast to be down by $4.4 million or 2.0 per cent from the 2017-18 Budget Estimates, primarily as the result of cigarette consumption declining by 1.0 per cent.

Prior Year Adjustments (PYAs) are forecast to be negative $32.6 million, and consist of:

- A negative PYA of $162.3 million is attributable to Personal Income Tax primarily due to tax planning undertaken by high income individuals in 2015 in advance of the federal government's new 33 per cent top tax bracket that became effective for the 2016 taxation year.
- Harmonized Sales Tax accounts for negative $46.1 million, due to lower tax base estimates, the Corporate Income Tax provides a positive $26.3 million as a result of stronger corporate taxable income and share for the 2016 taxation year.
- A positive PYA of $150.0 million is attributable to Offshore Royalties, primarily as a result of an arbitration process concerning how transportation costs are treated in the Sable Offshore Energy Project (SOEP) royalty calculations. A portion of the PYA is also the result of a revised decommissioning cost estimate from the SOEP interest holders.

Other taxes are up by $5.9 million (3.7 per cent) primarily as a result of higher than expected revenue from the Casino Win Tax and Tax on Insurance Premiums.

Total Revenue 2017–18

($ thousands)

General Revenue Fund: Revenues	2017-2018 Budget	2017-2018 December *Update*	*Increase (Decrease) from* Budget
Ordinary Revenue - Provincial Sources			
Tax Revenue:			
Personal Income Tax	2,710,594	2,731,864	21,270
Corporate Income Tax	506,627	548,448	41,821
Harmonized Sales Tax	1,829,442	1,810,962	(18,480)
Motive Fuel Taxes	266,655	264,447	(2,208)
Tobacco Tax	220,119	215,733	(4,386)
Other Tax Revenue	160,416	166,347	5,931
	5,693,853	5,737,801	43,948
Other Provincial Revenue:			
Registry of Motor Vehicles	131,464	133,084	1,620
Royalties - Petroleum	11,973	11,973	---
Other Provincial Sources	149,831	149,611	(220)
TCA Cost Shared Revenue	60,316	61,146	830
Other Fees and Charges	61,710	61,414	(296)
Prior Years' Adjustments	---	(32,645)	(32,645)
Gain on Disposal of Crown Assets	444	339	(105)
	415,738	384,922	(30,816)
Investment Income:			
Interest Revenues	79,551	77,271	(2,280)
Sinking Fund Earnings	100,519	99,853	(666)
	180,070	177,124	(2,946)
Total - Provincial Revenue Sources	6,289,661	6,299,847	10,186
Ordinary Revenue - Federal Sources			
Equalization Payments	1,750,644	1,794,968	44,324
Canada Health Transfer	967,248	965,873	(1,375)
Canada Social Transfer	357,960	357,451	(509)
Offshore Accord Offset Payments	19,957	19,957	---
Crown Share	3,046	(276)	(3,322)
Other Federal Sources	24,014	22,518	(1,496)
TCA Cost Shared Revenue	72,988	77,424	4,436
Prior Years' Adjustments	---	(543)	(543)
Total - Federal Sources	3,195,857	3,237,372	41,515
Total - Ordinary Revenue	9,485,518	9,537,219	51,701
Total - Ordinary Recoveries	709,389	694,781	(14,608)
Net Income from Government Business Enterprises (GBE)			
Nova Scotia Liquor Corporation	236,185	235,751	(434)
Nova Scotia Provincial Lotteries and Casino Corporation	126,700	129,800	3,100
Halifax-Dartmouth Bridge Commission	7,349	8,170	821
Highway 104 Western Alignment Corporation	8,520	9,944	1,424
Total - Net Income from GBEs	378,754	383,665	4,911
Total - Revenues	10,573,661	10,615,665	42,004

Other Provincial Revenue

Other Provincial Revenues are forecast to be down by $30.8 million (7.4 per cent) primarily as a result of negative prior year adjustments of $32.6 million.

Offshore Royalty revenue is forecasted to be $12.0 million, unchanged from the 2017-18 Budget Estimate.

Investment Income

Investment income is $2.9 million (1.6 per cent) lower than Budget primarily as a result of interest rates being lower than projected at Budget time.

Federal Revenue Sources

Equalization is based upon the Province's election 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 the 2017-18 Budget Estimate. The Province also expects to receive a cumulative best-of guarantee payment of $16.4 million pursuant to the clarification reached with the federal government in October 2007. This represents an increase of $44.3 million from the 2017-18 Budget Estimates based upon information provided by the federal government in December 2017.

Offshore Accord Payments are also based upon a one-estimate, one-payment approach and as a result the forecast is equal to the 2017-18 Budget Estimates.

Canada Health Transfer (CHT) revenue is forecast to be down by $1.4 million or 0.1 per cent from the 2017-18 Budget Estimates, as a result of a slight decrease in the province's share of national population based upon estimates released by the federal government in September 2017.

Canada Social Transfer (CST) revenue is forecast to be down by $0.5 million or 0.1 per cent from the 2017-18 Budget Estimates, as a result of a slight decrease in the province's share of national population based upon estimates released by the federal government in September 2017.

Crown Share Adjustment Payments are down by $3.3 million or 109.1 per cent, from the 2017-18 Budget Estimates as a result of reduced production levels and increased capital expenditures for offshore petroleum projects.

Prior Year Adjustments (PYAs) from federal sources are currently being forecast due to revised population estimates for open years as follows:

- Canada Health Transfer (-$0.4 million)
- Canada Social Transfer (-$0.1 million)

Ordinary Recoveries

Ordinary Recoveries Revenue is forecast to be $14.6 million (2.1 per cent) lower than budget, primarily due to project delays in cost-shared federal programs.

Department of Business recoveries are forecast to be $0.7 million under budget primarily due to project delays related to the Halifax Convention Centre.

Department of Education and Early Childhood Development recoveries are forecast to be $7.3 million over budget primarily due to $6.3 million for Early Years initiatives and $0.9 million for French Programs due to federal complementary project approval.

Department of Health and Wellness recoveries are forecast to be $1.7 million over budget primarily due to $4.0 million in increased auto levies charged to insurance companies. This is partially offset by reduced physician reciprocal billings of $2.5 million.

Department of Internal Services recoveries are forecast to be $2.4 million over budget primarily due to third-party recoverable IT work and insurance claims.

Department of Justice recoveries are forecast to be $0.8 million over budget primarily due to additional federal program funding and higher court fines collection.

Assistance to Universities recoveries are forecast to be $5.2 million under budget primarily due to project delays under the Post-Secondary Institutions Strategic Investment Fund.

Department of Municipal Affairs recoveries are forecast to be $21.9 million under budget primarily due to $17.3 million for project delays related to the Clean Water Wastewater Fund, $3.8 million for project delays related to the Public Transit Infrastructure Fund, and $2.0 million for project delays related to the New Building Canada Fund (Small Communities Fund). This is partially offset by $1.0 million in increased recoveries mainly due to National Disaster Mitigation Program projects.

Public Service Offices recoveries are forecast to be $0.8 million under budget primarily due to delays in Service Nova Scotia's Petroleum Product Volume Tracking project.

Department of Transportation and Infrastructure Renewal recoveries are forecast to be $1.4 million over budget due to increased third-party recoverable work.

Net Income from Government Business Enterprises (GBE)

The total Net Income from Government Business Enterprises is forecast to be $4.9 million (1.3 per cent) higher than the Budget Estimate.

The Nova Scotia Liquor Corporation is forecasting a $0.4 million (0.2 per cent) decrease in net operating income as a result of lower than expected retail sales mark-up allocation revenue and higher than expected operating expenses.

The Nova Scotia Provincial Lotteries and Casinos Corporation is forecasting an increase in net income of $3.1 million (2.4 per cent) primarily as a result of a delay in the Cogswell Interchange construction and operational improvements at the casinos.

The Halifax-Dartmouth Bridge Commission is forecasting net income to be $0.8 million (11.2 per cent) above Budget primarily because of higher than expected investment revenue and lower than expected engineering, maintenance, and amortization charges.

The Highway 104 Western Alignment Corporation is forecasting net income to be $1.4 million (16.7 per cent) higher than Budget, primarily because of higher than budgeted tolling revenue.

Expenses

Total Expenses for 2017-18 are forecast to be $10.5 billion, $16.5 million higher than the original Budget Estimates.

An increase in Departmental Expenses of $9.3 million and Pension Valuation Adjustment of $33.6 million are partially offset by a reduction in Debt Servicing Costs of $10.8 million and a reduction of $15.7 million in Refundable Tax Credits.

Departmental Expenses 2017–18

($ thousands)

	2017-2018 Budget	2017-2018 December *Update*	*Increase (Decrease)* **from Budget**
Agriculture	41,992	49,492	7,500
Business	196,137	193,047	(3,090)
Communities, Culture and Heritage	84,295	84,295	–
Community Services	949,621	955,621	6,000
Education and Early Childhood Development	1,317,657	1,324,804	7,147
Energy	29,004	29,004	–
Environment	37,239	37,239	–
Finance and Treasury Board	23,100	23,100	–
Fisheries and Aquaculture	15,062	15,062	–
Health and Wellness	4,214,153	4,244,128	29,975
Internal Services	189,091	189,273	182
Justice	340,711	340,711	–
Labour and Advanced Education	376,151	376,093	(58)
Assistance to Universities	433,079	427,836	(5,243)
Municipal Affairs	332,423	298,691	(33,732)
Natural Resources	77,178	77,945	767
Public Service	217,153	214,928	(2,225)
Seniors	2,301	2,301	–
Transportation and Infrastructure Renewal	465,774	467,898	2,124
Restructuring Costs	163,421	163,421	–
Total - Departmental Expenses	9,505,542	9,514,889	9,347

Departmental Expenses

Total Departmental Expenses for 2017-18 are forecast to be $9.5 billion or $9.3 million higher than budget.

The Department of Agriculture is forecast to be $7.5 million over budget primarily due to $5.5 million for AgriStability program costs related to the mink and blueberry industries and a $2.0 million increase in allowance for impaired debts related to loans issued by the Farm Loan Board.

The Department of Business is forecast to be $3.1 million under budget primarily due to $2.0 million in amortization and operating savings resulting from delays in completion of the Halifax Convention Centre and $1.3 million in savings under the Capital Investment Incentive program due to timing of claims.

The Department of Community Services is forecast to be $6.0 million over budget primarily due to $2.8 million in Disability Support Community Based programs for higher client care costs and utilization growth in the Flex program, $2.6 million in the Child, Youth and Family Supports Maintenance of Children program for increased costs for children in care, and net increases of $0.6 million in several smaller program areas.

The Department of Education and Early Childhood Development is forecast to be $7.1 million over budget primarily due to a $6.3 million increase for Early Years initiatives and a $0.9 million increase in French Programs due to federal complementary project approval. There is a corresponding increase in recoveries related to these two initiatives.

The Department of Health and Wellness is forecast to be $30.0 million over budget primarily due to $27.5 million in additional funding to the Health Authorities for rising demand in a variety of health care services, $3.1 million in increased costs for Seniors Pharmacare, $2.5 million for higher EHS ambulance call volumes, and $1.1 million for growing utilization in Canadian Blood Services. These increases are partially offset by $3.3 million in salaries and administrative savings and a $1.0 million decrease caused by delays in information technology projects.

Assistance to Universities is forecast to be $5.2 million under budget primarily due to project delays under the Post-Secondary Institutions Strategic Investment Fund. There is a corresponding decrease in recoveries.

The Department of Municipal Affairs is forecast to be $33.7 million under budget primarily due to $26.0 million for project delays related to the Clean Water Wastewater Fund, $3.9 million for project delays related to the New Building Canada Fund (Small Communities Fund), $3.8 million for project delays related to the Public Transit Infrastructure Fund, and $1.0 million for project delays related to New Building Canada National and Regional Projects. These decreases are partially offset by $1.0 million for National Disaster Mitigation Program projects. There is a net decrease in recoveries of $22.1 million related to these projects.

The Department of Natural Resources is forecast to be $0.8 million over budget primarily due to $0.4 million to assess two abandoned mine sites, $0.2 million for recoverable expenses relating to fire suppression in other provinces, and $0.2 million for recoverable expenses relating to online campsite reservation fees and sales of firewood and ice.

Public Service Offices are forecast to be $2.2 million under budget primarily due to $1.3 million for the Nova Scotia Home for Colored Children Restorative Inquiry and $0.8 million for delays in Service Nova Scotia's Petroleum Product Volume Tracking project. There is a corresponding decrease in recoveries related to the Service Nova Scotia project.

The Department of Transportation and Infrastructure Renewal is forecast to be $2.1 million over budget primarily due to $1.4 million for third-party recoverable road work and $0.7 million for storm damage repairs.

Other Expenses

Refundable Tax Credits

Refundable tax credits are forecast to be $15.7 million, or 12.5 per cent lower, compared to the 2017-18 Budget Estimates. The forecast for Digital Media and Digital Animation tax credits is up compared to Budget, while the Film Industry, Capital Investment and Scientific Research and Experimental Development tax credits are projected to be lower than Budget Estimates.

Pension Valuation Adjustment

The Pension Valuation Adjustment is forecast to be $64.8 million, up $33.6 million from the 2017-18 Budget Estimate. The increase results from the projected cost for paying out the long service award of $25.6 million, and $8.0 million as a result of changes in actuarial assumptions.

Debt Servicing Costs

Total Debt Servicing Costs are forecast to be $839.4 million, which is $10.8 million (1.3 percent) lower than budget, primarily as a result of interest rates being lower than projected and delays in the completion of the Halifax Convention Centre.

Consolidation and Accounting Adjustments

Consolidation and accounting adjustments for government units are forecast to be $17.9 million under budget primarily due to a $9.1 million decrease in NSHA/IWK third-party capital revenues, a $6.6 million write-off in NSBI equity investments, and a $2.7 million change in federal recoveries due to timing delays for Housing Nova Scotia's projects. This is partially offset by an increase of $0.5 million in various special purpose funds and other organizations.

Capital

The Province is forecasting total capital spending to be under budget. Projected spending increases on highways and structures, land purchases, vehicles and equipment, and capital grant requirements are offset by projected spending reductions in buildings, IT projects and a reduction in the contingency.

Capital Spending 2017–18

($ thousands)

	2017-2018 Budget	**2017-2018 December** *Update*	*Increase (Decrease) from* **Budget**
Highways & Structures	227,470	228,821	1,351
Buildings	304,151	285,782	(18,369)
Information Technology	19,927	15,251	(4,676)
Land Purchases	2,500	5,600	3,100
Vehicles and Equipment	19,699	25,976	6,277
Capital Grants	90,616	90,913	297
Contingency	19,837	11,000	(8,837)
Total - Capital Spending	684,200	663,343	(20,857)

Economic Performance and Outlook: 2017 and 2018

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. Nominal Gross Domestic Product (GDP) is the broadest measure of the economy's tax base and components of nominal GDP, such as employee compensation, consumer expenditures and residential construction, provide an indication of the size of specific tax bases.

External Outlook

Global economic growth has accelerated; the International Monetary Fund now expects global economic growth of 3.6 per cent in 2017 and 3.7 per cent in 2018. Prospects for real output growth are now stronger in Europe, Japan, the United States (US), Canada, Russia, and Brazil. Economic growth continues in China and India, but at a slower pace than in previous years.

Rising confidence may release pent-up demand and fuel a more robust expansion than has been observed since the global financial crisis. However, weak inflation pressures signal that there remains slack in the global economy. Financial instability and policy missteps could derail this expansion.

Economic growth in the Euro Area and Japan extended and accelerated long runs of growth in 2017. Both regions continue with accommodative monetary policy and have seen rising consumption. Growth in the United Kingdom has slowed as uncertainty around Brexit weighs on investment, along with the first tightening of monetary policy since 2007.

US real GDP growth has accelerated through 2017, reaching a pace of 3.3 per cent in the latest estimates for the third quarter. Household spending, non-residential investment, and exports are contributing to faster economic growth in the US. US monetary policy rates have been tightening while the pace of asset purchases continues to slow.

After accelerating in the first and second quarters of 2017, Canada's real GDP growth slowed to a pace of 1.7 per cent in Q3. While household and government spending continue to rise, Canada's economic growth was slowed by declining exports (partly due to temporary factors in auto production) and residential investment. Canada's monetary policy has tightened over 2017 with two rate hikes, but inflation remains modest and there are uncertainties about the North American Free Trade Agreement. These factors may slow further rate increases.

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 8, 2017. The economic outlook includes monthly and quarterly data about 2017 released on or before this date. Data released after November 8, 2017 is discussed in the Economic Performance and Key Risks and will be incorporated into future outlooks.

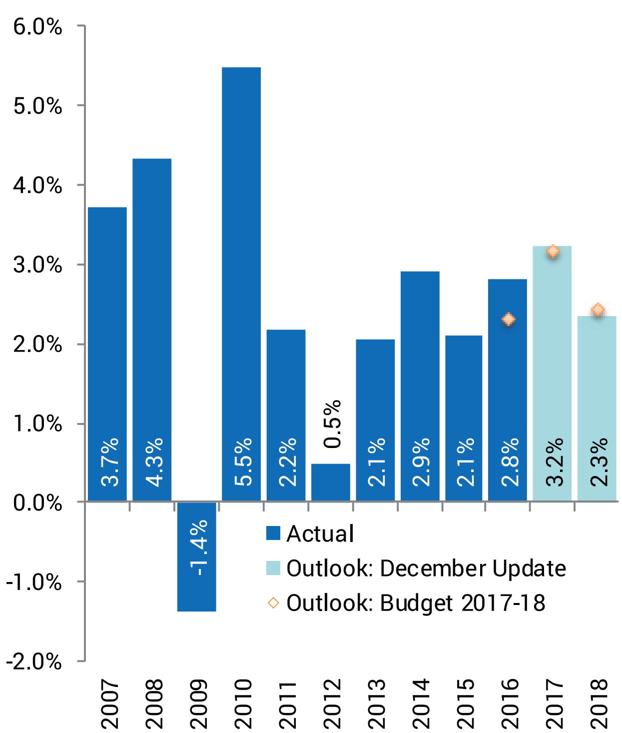
Nova Scotia's nominal GDP is expected to grow by 3.2 per cent and real GDP to grow by 1.3 per cent in 2017 – faster than the growth reported for 2014-16 – as household consumer spending and residential investment improve while employment and wages grow more quickly than in recent years.

The economic outlook for 2018 still anticipates a deceleration to 2.3 percent nominal GDP growth and a 0.5 per cent real GDP growth, as some major project investments conclude, residential investments decline, and consumer expenditure growth abates after strong results for 2017.

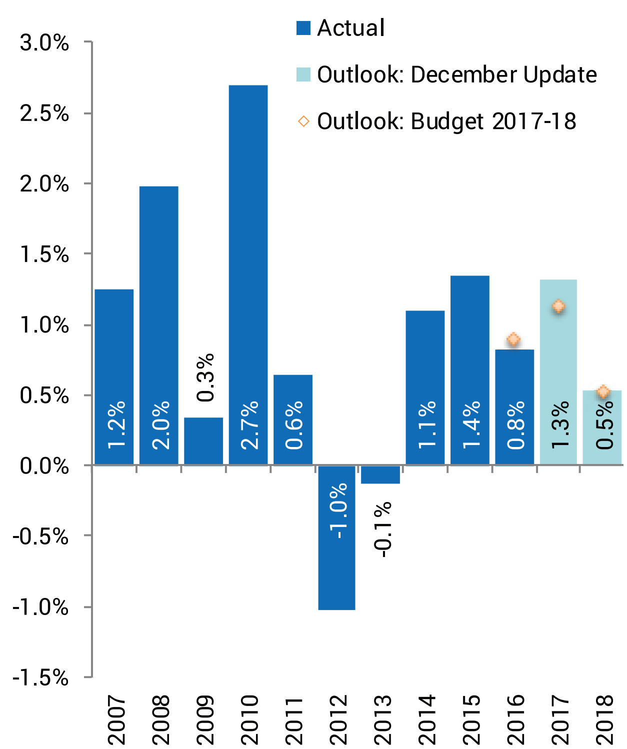
The outlook for real GDP growth in 2017 is faster than projected in the 2017-18 Budget, but slower price growth keeps the anticipated rate of nominal growth almost the same.

Nova Scotia GDP Growth

Nominal GDP



Real GDP



Current Economic Outlook Assumptions

	Budget Estimate		December Fiscal Update	
Per cent change, except where noted	**2017**	**2018**	**2017**	**2018**
Real GDP ($2007 chained)	1.1%	0.5%	1.3%	0.5%
Nominal GDP	3.2%	2.4%	3.2%	2.3%
Compensation of Employees	1.7%	1.9%	1.9%	2.0%
Household Income	2.3%	2.4%	2.3%	2.3%
Household Final Consumption	2.6%	3.0%	3.3%	2.7%
Retail Sales	1.9%	2.2%	5.8%	2.0%
Consumer Price Index	1.5%	2.0%	1.1%	1.7%
Investment in Residential Structures	4.1%	-5.2%	4.4%	-2.4%
Non-Res., Machinery, Intellectual Property	4.1%	1.1%	2.5%	-0.6%
Net Operating Surplus: Corporations	5.5%	3.0%	5.4%	3.2%
Net Mixed Income: Unincorporated	2.2%	1.8%	2.0%	1.8%
Exports of Goods and Services	2.0%	2.4%	4.0%	4.2%
Exports of Goods to Other Countries	0.6%	1.6%	3.6%	5.3%
Imports of Goods and Services	1.7%	1.5%	3.5%	2.2%
Population at July 1 (thousands)	952.2	954.2	a 953.9	957.1
Employment (thousands)	448.6	447.2	449.2	449.8
Unemployment Rate, Annual Average	8.0%	8.4%	8.3%	8.4%

Note: *The Budget economic forecast was made with data and information as of June 26, 2017. The revised December Fiscal Update forecast was made with data and information as of November 8, 2017. The population forecast has been revised with data as of September 27, 2017. Non-residential structures, machinery, intellectual property includes government and non-profit sector investments as well as business investments*

Nova Scotia Economic Performance

GDP: Nova Scotia's nominal GDP grew by 2.8 percent and real GDP grew by 0.8 per cent in 2016, the third year of consecutive growth. Business sector productivity improvements have kept the economy growing over the last three years, despite a declining labour force and employment.

Population: Statistics Canada's estimates of provincial population reached 953,869 as of July 1, 2017. The last two years of population growth have been the strongest since 1990, owing to more immigration and two years of positive net interprovincial migration. The Department of Finance and Treasury Board has updated its demographic projections to reflect this new data.

Labour Market: Through the first 11 months of 2017, Nova Scotia's labour markets reported the first gains in labour force and employment after four years of decline from 2012-16. Nova Scotia's unemployment rate has stabilized at 8.4 per cent on average in 2017 - lower than the long run level typically observed in the province. Wage growth has been slower than in previous years, with gains of 1.4 per cent through September. Gains in goods producing sectors (construction, notably) outpaced service sector earnings, where there were some sectors with falling wages.

The impact of stronger employment and slower wage growth has resulted in a net increase of 2.5 per cent in employee compensation through the first three quarters of the year. In addition to employment and wage growth, there have been signs of increasing labour market slack, with job vacancy rates declining during winter months (unadjusted data) and a rise in usage of employment insurance.

Inflation: Inflation pressures have been modest in Nova Scotia (and most advanced economies) since the decline in commodity prices that started in 2014. Despite recent gains in oil prices, Nova Scotia's inflation remains modest, averaging just 1.0 per cent above the first ten months of 2016. Although energy prices are rising and food prices are falling, underlying inflation largely accounts for why price growth has been slower than the national average in Nova Scotia during 2017.

Retail Sales: Although consumer price growth has been modest, there have been large increases in retail spending – up 6.4 per cent through the first three quarters of the year. A large rise in new motor vehicle sales (+15.6 per cent) explains a substantial part of rising retail sales, but there are also gains in: furniture, electronics, building materials, food/beverage, gas stations (higher oil prices), and general merchandise stores.

Construction: Nova Scotia's construction sector has reported stronger than expected performance, mainly on rising residential construction activity. The value of building permits was up over 23 per cent through the first 10 months of 2017 compared with the same period in 2016. Most of the gains are concentrated in Halifax, where residential and non-residential permit values have rebounded after a decline in 2016. The number of housing starts is up 13.1 per cent over the first 11 months of 2016 and the value of residential construction investment is up 10.6 per cent through the first three quarters of the year. Non-residential building construction has declined by 13.4 per cent on falling commercial investments in Halifax (coming off a peak in 2015-16).

International Exports: After rapid growth over 2014-16, the pace of Nova Scotia's export growth has slowed in 2017. The value of the foreign exchange rate has stabilized and the growth in manufacturing shipments has eased. Merchandise shipments of goods to other countries were up 4.7 per cent through the first 10 months of the year, with a gain of 6.0 per cent in non-energy goods. There has been a notable shift in the destination of Nova Scotia's international goods trade, with the fastest gaining markets in Asia (China, Hong Kong, South Korea, Japan) while there has been a decline in shipments to the US.

Key Risks

Economic

Since the global financial crisis of 2007-2009, there has been consistent over-estimation of global economic growth and in particular growth among advanced economies. However, this downside risk has diminished in the latest outlook. Recent improvements in the global economic outlook have led to better prospects for Nova Scotia's trading partners, whether other provinces or other countries.

The economic forecast does not make explicit provision for the impacts of the free trade agreement with the European Union (whose economy has been recovering quickly since 2013) and this remains an upside risk to Nova Scotia's economic outlook.

The rapid expansion of exports to China may be undermined if financial sector reforms and policy initiatives to foster a consumer-led economy slow that country's growth.

Growth in both Canadian and US economies has also been more robust so far in 2017. However, the benefits of rising incomes in these key trading partners are clouded by uncertainty about their trade arrangements. This uncertainty could even slow or reverse expected monetary tightening over the next 18 to 24 months.

In the Nova Scotia domestic economy, the sources of uncertainty about the outlook are the same as those reported over recent years. Population results have been stronger in recent years than expected in the demographic forecasts. Rising labour force may ease some of the pressure caused by retirement of older workers. Nevertheless, population aging will eventually lead to a shrinking labour force and employment, with subsequent impacts on replacement hiring, training, capital investment, pension earnings and housing. The trends are understood but the economy's adaptation to them remains uncertain.

Nova Scotia's economic projections are also subject to greater uncertainty because of the relatively large size that major projects and investments play in the economy. The economic outlook presented in this update makes assumptions about major projects such as construction of vessels at the Halifax shipyard, Federal infrastructure stimulus, and decommissioning of the Sable Offshore Energy Project. The economic outlook also anticipates completion of a number of projects in 2017, resulting in slower growth in 2018. Differences in timing and magnitude of major projects (including prospective projects not included in these assumptions) can result in significant deviations from this economic forecast.

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 2017 taxation year will not be received until spring 2018, thereby creating the possibility of additional Prior Year Adjustments (PYAs) for open taxation years.

Slower growth in the level of compensation of employees could pose a downside risk to Personal Income Tax revenues – the Province's largest source of revenue. The forecast of yield growth estimates for the 2017 and subsequent taxation years could be lower than expected if tax planning strategies

associated with the federal top tax bracket are not fully unwound in the 2016 taxation year.

Lower household income growth can have an impact on consumer expenditures, which account for more than 70 per cent of Harmonized Sales Tax (HST) revenues. In addition, HST revenues are sensitive to changes in the projected level of residential housing expenditures.

The forecast of corporate income tax revenues is highly dependent upon national corporate taxable income and the province's share. Growth in national taxable income has been quite strong in the 2016 taxation year but any decline in the rate of growth can present substantial risks to corporate income tax revenues. In addition, the small business share of taxable income is on the rise and this places downward pressure on provincial revenues.

Decommissioning costs for the Sable Offshore Energy Project (SOEP) could influence additional Prior Year Adjustments for offshore royalties. Continuing work on the recalculations of transportation charges stemming from the arbitration process pose an upside risk for revenue estimates.

Tobacco tax revenues continue to be influenced by cessation, reduced consumption, and substitution by e-cigarettes.