Forecast Update

NOVA SCOTIA

August 19, 2013

The Honourable Graham Steele, Acting Minister of Finance

Overview

The Province of Nova Scotia is forecasting a surplus of $18.3 million for 2013–2014, an increase of $1.9 million from the budget estimate of $16.4 million. This is the result of a decrease in revenue and an increase in the Pension Valuation Adjustment, offset by a decrease in Departmental Expenses and Debt Servicing Costs.

Total revenues, including net income from Government Business Enterprises, are forecast to be $9.5 billion, a decrease of $9.6 million from budget. Total expenses, including consolidation and accounting adjustments, are forecast to be $9.5 billion, $11.5 million lower than budget.

Fiscal Summary 2013–2014

($ thousands)

GENERAL REVENUE FUND	Budget	Forecast	Increase (Decrease) from Budget
Revenue			
Ordinary Revenue	8,637,984	8,629,882	(8,102)
Ordinary Recoveries	492,876	501,390	8,514
Net Income from Government Business Enterprises	350,313	340,313	(10,000)
Total — Revenue	**9,481,173**	**9,471,585**	**(9,588)**
Expenses			
Departmental Expenses	8,395,151	8,386,081	(9,070)
Refundable Tax Credits	129,356	125,202	(4,154)
Pension Valuation Adjustment	110,793	118,200	7,407
Debt Servicing Costs	888,891	883,079	(5,812)
Total Expenses	**9,524,191**	**9,512,562**	**(11,629)**
	(43,018)	**(40,977)**	**2,041**
Consolidation and Accounting Adjustments for Governmental Units	**59,407**	**59,245**	**(162)**
Provincial Surplus (Deficit)	**16,389**	**18,268**	**1,879**

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Forecast Update

Ordinary Revenue Fiscal 2013–2014

($ thousands)

	Budget	Forecast	Increase (Decrease) from Budget
Provincial Revenue Sources			
Tax Revenue:			
Personal Income Tax	2,278,408	2,292,935	14,527
Corporate Income Tax	473,946	458,443	(15,503)
Harmonized Sales Tax	1,721,788	1,700,120	(21,668)
Motive Fuel Taxes	251,019	248,487	(2,532)
Tobacco Tax	227,883	227,168	(715)
Other Tax Revenue	151,418	152,618	1,200
Other Provincial Revenue:			
Registry of Motor Vehicles	121,239	121,239	---
Royalties—Petroleum	20,090	20,353	263
Other Provincial Sources	140,229	140,199	(30)
TCA Cost Shared Revenue—Provincial Sources	8,260	20,886	12,626
Other Fees and Charges	61,707	62,178	471
Investment Income:			
Interest Revenues	68,841	69,828	987
Sinking Fund Earnings	107,102	108,799	1,697
Total — Provincial Revenue Sources	**5,631,930**	**5,623,253**	**(8,677)**
Federal Revenue Sources			
Equalization Payments	1,703,711	1,703,711	---
Canada Health Transfer	833,125	833,125	---
Canada Social Transfer	329,101	329,101	---
Offshore Oil and Gas Payments	89,461	89,461	---
Crown Share	9,358	9,358	---
Other Federal Sources	18,616	18,616	---
TCA Cost Shared Revenue	22,682	23,257	575
Total — Federal Revenue Sources	**3,006,054**	**3,006,629**	**575**
Total Ordinary Revenue	**8,637,984**	**8,629,882**	**(8,102)**
Net Income from Government Business Enterprises			
Nova Scotia Liquor Corporation	229,385	229,385	---
Nova Scotia Provincial Lotteries and Casinos Corporation	107,500	97,500	(10,000)
Halifax-Dartmouth Bridge Commission	11,755	11,755	---
Highway 104 Western Alignment Corporation	1,673	1,673	---
Total — Net Income from Government Business Enterprises	**350,313**	**340,313**	**(10,000)**

Revenues

Total revenues, including Ordinary Recoveries of $501.4 million, and net income from Government Business Enterprises of $340.3 million, are forecast to be $9.5 billion, $9.6 million less than the 2013–2014 Budget Estimates. This represents a decrease in Ordinary Revenues of $8.1 million and an increase in Ordinary Recoveries of $8.5 million. Net Income from Government Business Enterprises is forecast to be $10.0 million lower than Budget.

Personal Income Taxes (PIT) are up by $14.5 million or 0.6 per cent from the 2013–2014 Budget Estimates, primarily due to an increase in the rate of growth in labour income. Growth in personal taxable income was estimated to be 4.4 per cent in both 2013 and 2014 but is now forecast to be 4.5 per cent and 4.6 per cent, respectively.

Corporate Income Taxes (CIT) are down by $15.5 million or 3.3 per cent from the 2013–2014 Budget Estimates. This is due to a decline in the growth rate of national corporate taxable income in 2013 based upon new federal estimates. The projected growth in taxable income for 2013 has declined from 7.8 per cent to 5.4 per cent, but is partially offset by a slight increase in the rate of growth in 2014 — from 5.7 to 5.9 per cent. As a result, the projection for Nova Scotia's growth in corporate taxable income declined from 10.8 per cent in 2013 to 8.5 per cent.

Harmonized Sales Tax (HST) is forecast to decline by $21.7 million or 1.3 per cent from the 2013–2014 Budget Estimates as a result of a downward revision to the growth rate of consumer expenditures in 2013 — from 3.8 per cent to 2.8 per cent. In addition, the cost of the residential energy rebate (YERP) is forecast to be $5.9 million higher than estimated.

Motive Fuel Taxes are forecast to be down $2.5 million or 1.0 per cent from the 2013–2014 Budget Estimates based upon lower projected consumption of both gasoline and diesel oil. This results from an increase in the market price of oil and some weakening of the Canadian dollar relative to the U.S. dollar.

Tobacco Tax revenues are forecast to decline by $0.7 million or 0.3 per cent from the 2013–2014 Budget Estimates as a result of the consumption of cigarettes being lower than projected.

Other tax revenue is forecast to be up by $1.2 million as a result of higher than estimated taxes generated from insurance premiums.

Offshore Royalties are forecasted to increase by $0.3 million or 1.3 per cent from the 2013–2014 Budget Estimates based upon a slight change to the accrual of abandonment costs for the fiscal year.

Tangible Capital Assets (TCA) revenue for combined provincial and federal sources is expected to be up by $13.2 million. Provincial TCA revenue is up by $12.6 million as a result of cost sharing received for a District Health Authority construction project. Federal TCA revenue is forecast to be up by $0.6 million because funding for the Drug Information System originally projected for 2012–13 is now expected to be realized in 2013–2014.

Other fees and charges are forecast to be $0.5 million higher than budget as a result of higher than estimated ambulance user fees due to increased usage, partially offset by lower than anticipated fees at the Farm Loan Board and at provincial parks.

Investment income is expected to be up by $2.7 million in total. Interest revenue is forecast to be up by $1.0 million primarily as a result of a higher than expected income stream from the Nova Scotia Municipal Finance Corp. as a result of an increase in loans to municipalities. Sinking Fund earnings have increased by $1.7 million due to changes within the portfolio.

There is no change to the Federal Source revenue other than the TCA Cost Shared revenue noted above.

Total Ordinary Recoveries are $8.5 million higher than budget as a result of a $3.8 million recovery flowing from an accounts payable review, a $2.9 million increase in recoveries at the Department of Finance, resulting from a recovery related to SAP IBM contracts with Halifax Regional Municipality, Cape Breton University, Nova Scotia Pension Service Corporation and the Halifax Regional Water Commission, and a $1.4 million increase at Education associated with the Nova Scotia Teachers Union benefit plans. Other increases at Health and Wellness, for healthcare initiatives, and at Transportation and Infrastructure Renewal for road and bridge work are offset by decreases at Justice because of lower than expected recoveries from municipalities for RCMP costs.

Net income from Government Business Enterprises is forecast to be $10.0 million lower as a result of a decline in activity on video lottery terminals at the Nova Scotia Provincial Lotteries and Casinos Corporation.

Forecast Update

Expenses

Total expenses for 2013–2014 are forecast to be $9.5 billion, $11.5 million lower than budget estimate. Overall, Departmental Expenses are $9.1 million under budget, Refundable Tax Credits are under budget by $4.2 million and Debt Servicing Costs are under by $5.8 million, while the Pension Valuation Adjustment is forecast to be over budget by $7.4 million. Changes in consolidation and accounting adjustments result in a $0.2 million impact to the bottom line.

Departmental Expenses Fiscal 2013–2014

($ thousands)

	Budget	Forecast	Increase (Decrease) from Budget
Agriculture	61,973	61,965	(8)
Communities, Culture and Heritage	60,009	59,549	(460)
Community Services	896,573	896,573	---
Economic and Rural Development and Tourism	130,060	129,545	(515)
Education and Early Childhood Development	1,105,659	1,105,659	---
Energy	26,136	26,136	---
Environment	24,954	24,954	---
Finance	41,444	44,132	2,688
Fisheries and Aquaculture	9,044	9,040	(4)
Health and Wellness	3,910,819	3,907,193	(3,626)
Justice	309,801	309,801	---
Labour and Advanced Education	353,412	353,352	(60)
Assistance to Universities	337,152	331,856	(5,296)
Natural Resources	85,072	85,072	---
Public Service	165,931	165,226	(705)
Seniors	1,859	1,992	133
Service Nova Scotia and Municipal Relations	247,315	247,315	---
Transportation and Infrastructure Renewal	425,458	424,241	(1,217)
Restructuring Costs	202,480	202,480	---
Total Departmental Expenses	**8,395,151**	**8,386,081**	**(9,070)**

Departmental Expenses

Total departmental expenses for 2013–2014 are forecast to be $8.4 billion, $9.1 million below budget estimate.

The Department of Communities, Culture and Heritage is forecasting to be under budget by $0.5 million due to amortization savings related to the Bluenose II.

Economic and Rural Development and Tourism is forecasting $0.5 million less than budget due to net savings from temporary staff vacancies.

The Department of Finance is forecasting to be over budget by $2.7 million due to an increase of $2.9 million in costs associated with external clients engaging the Department of Finance for SAP services through the IBM contract. All costs associated with these projects will be fully recovered from the clients. The increased expense is offset by vacancy and amortization savings of $260 thousand.

The Department of Health and Wellness is forecasting to be $3.6 million less than budget. TCA operating costs are projected to be $3.9 million less than budget due to the NShIS upgrade and amortization; as well, reduced spending in capital grants of $2.4 million and Pharmaceutical Services of $1.2 million offset overspending in home support services and VON nursing services of $4.0 million.

Assistance to Universities is forecasting to be under budget by $5.3 million primarily related to a projected underspend of $5.0 million in the Excellence and Innovation Fund. The $5.0 million will be reallocated to the next fiscal year.

The Department of Transportation and Infrastructure Renewal is forecasting to be under budget by $1.2 million primarily due to decreased amortization requirements as a result of a change in project mix and project completion dates, and decreased expenditure requirements for program operations.

Public Service

Chief Information Office

The Office is under budget $0.7 million due to a reduction in amortization costs related to changes in TCA projects.

Consolidation and Accounting Adjustments for Governmental Units

Consolidation and accounting adjustments for government units are forecast to be $59.2 million, which is a net decrease of $0.2 million.

Pension Valuation Adjustment

The Pension Valuation is adjusted to reflect updated actuarial data.

Debt Servicing Costs

Debt Servicing Costs are expected to be $5.8 million lower than estimate. Interest on Long Term Debt is down by $4.9 million as a result of changes to the borrowing mix. Interest on Pension and Other Obligations is $1.4 million lower, while the General Interest expense is $0.5 million higher due to an increase in short term debentures.

Capital Spending Forecast Fiscal 2013–2014

($ thousands)

	Budget	Forecast	Variance
Highways and Structures	248,350	246,743	(1,607)
Buildings	149,495	156,824	7,329
IT	38,379	35,384	(2,995)
Land Purchases	6,750	6,970	220
Vehicles and Equipment	17,076	17,136	60
Contingency	809	222	(587)
Total Departmental	460,859	463,279	2,420
Capital Grants	64,141	61,721	(2,420)
Total Capital Program	**525,000**	**525,000**	**---**

Capital Spending

Tangible Capital Asset (TCA)

The province is forecasting Capital Purchase Requirements to be over budget estimate by $2.4 million primarily due to increased spending on buildings, partially offset by reductions in Highways and Structures related to delays in flood mitigation projects and reduced IT project spending.

Capital Grants:

The province is forecasting to be under budget estimate on capital grant spending by $2.4 million primarily due to project delays in the Aberdeen and South Shore Regional Hospital expansions offset by increased capital requirements for the IWK.

Economic Performance and Outlook: 2013 and 2014

Since the preparation of the 2013–2014 Budget Economic Assumptions, there have been a number of global economic developments. In addition, Statistics Canada has released some early indicators of the province's economic performance so far in 2013. A revised economic forecast was published in the 2012–2013 Public Accounts in July and is reflected in the revenue forecast presented in this update.

External Conditions

The 2013–2014 Budget Economic Assumptions were prepared with data and information up to March 4, 2013. In the subsequent months, there have been new data and insights about global economic prospects. Economic growth in the US, the Euro area, and the UK has picked up steam, but China's economic growth has faltered relative to its historic pace. It is still unclear whether the significant changes in Japanese economic policy recently announced will have their expected impact on currency and inflation.

Notably, US economic prospects have brightened on continued positive reports from both housing and labour markets. US real GDP accelerated to an annualized growth of 1.7 per cent in the second quarter of 2013, following growth of 1.1 per cent in the first quarter. In the first quarter, durable goods consumption as well as residential investments led growth. An upturn in exports led growth in the second quarter. Nevertheless, US employment remains below its pre-recession peak, (particularly in goods sectors) while declining government spending offsets some private sector GDP gains.

As the US economic outlook brightens, Canada's prospects of export-led recovery also improve. Canada's economic recovery is expected to be slowed as domestic housing investments cool. However, the effects of fiscal austerity in Canada are smaller compared with the US. Canada also has greater opportunities for exports to drive recovery, especially as safe-haven investments abate and obviate upward pressure on the Canadian dollar. After slowing to less than 1 per cent annualized growth in the latter half of 2012, Canada's real GDP growth picked up to 2.5 per cent (annualized) in the first quarter of 2013.

Current Economic Outlook for Nova Scotia

For 2013, the economic environment exhibits some indicators of rebound with real GDP projected to rise by 1.3 per cent, but this recovery has not appeared to be uniform across all elements of the economy. Nova Scotia's economy experienced a series of negative shocks in 2012 as closure of newsprint mills in Liverpool and Port Hawkesbury, natural gas production slowdowns and federal expenditure restraint combined to slow real GDP growth. The economy is expected to accelerate to 1.7 per cent real GDP growth in 2014. With limited price growth, nominal GDP is forecast to increase by 2.4 per cent in 2013 and by 3.2 per cent in 2014.

Nova Scotia's international goods exports have partially recovered, posting a 7.1 per cent gain through the first half of 2013 (compared with the same period in 2012) after falling by over 14 per cent in 2012. Gains were concentrated in forest products, plastics/rubber, minerals and food products. Although Nova Scotia leads provincial export recovery, it is still below the level observed prior to forest industry closures. With impending increases in natural gas production, exports are now projected to grow by 9.8 per cent in 2013 before settling to 2.7 per cent growth in 2014.

Nova Scotia's residential construction sector has also grown through the first seven months of the year, deviating from a national trend of declining housing starts. Through July, Nova Scotia housing starts are up 10.6 per cent, compared with the same period in 2012 — the strongest growth among provinces. Residential construction values in the first quarter were up over 25 per cent compared with the same period in 2012. Residential construction activities are forecast to expand by 5.3 per cent in 2013 and by 5.2 per cent in 2014. Non-residential construction slowed by 9.8 per cent in the first half of 2013, but this was particularly concentrated in institutional and government building construction. Among other non-residential construction sectors, commercial sector investments are down 3.1 per cent across the province, but up 19.8 per cent in Halifax. Industrial sector construction investments are up 3.6 per cent across the province and 55.3 per cent in Halifax.

Nova Scotia's employment results have been mostly positive through the first seven months of 2013, with only one month of significant employment loss. Employment has recovered to 1,100 jobs (0.2 per cent) below levels observed over the same period in 2012 while the average labour force participation rate has remained stable at 64.1 per cent. Employment losses were concentrated in education, manufacturing and finance/insurance while employment gains were concentrated in professional/technical services, business/building/support services (including call centres) and construction. Over the first seven months of 2013, the unemployment rate averaged 9.2 per cent. The pace of employment change is expected to continue through the remainder of 2013 before stabilizing in 2014.

In 2012, employee compensation growth was slowed by shocks to the forest sector and to federal public administration. These impacts are not expected to be as severe in 2013 and 2014. This, in combination with global economic recovery, is expected to return employee compensation growth to rates more consistent with pre-recession trends. Through the end of 2013, employee compensation is expected to expand at a pace of 3.6 per cent, followed by 4.1 per cent growth in 2014.

Through the first five months of 2013, Nova Scotia's retail trade has remained unchanged compared with the same period in 2012. Gains in retail spending on health care products and motor vehicles have been offset by declining expenditures on food and gasoline. The broader measure of household consumption expenditures (which corresponds to the largest part of the HST base) is expected to expand 2.8 per cent in 2013, followed by 3.8 per cent in 2014. Food and energy sector expenditures may reflect broader trends towards slower inflation, now expected to be 1.2 per cent in 2013 and 1.6 per cent in 2014.

Forecast Risks

In recent years, economic growth has proven sensitive to uncertainty and geopolitical upheaval. Global economic conditions continue to warrant extraordinary monetary stimulus through low interest rates and central bank asset purchase programs across many major central banks. As advanced economies slowly close existing output gaps, there is considerable uncertainty about how these unconventional monetary policies will be removed when they are no longer needed. This uncertainty has contributed to instability in bond and equity markets. In comparison, fiscal stimulus has followed a conventional stabilization policy and the economic consequences of its withdrawal are better understood.

Canadian forecasters have noted that floods in Alberta, a construction sector strike in Quebec, and labour disruption in the foreign service may all affect Canada's economic growth through the rest of 2013.

Nova Scotia's domestic economic conditions are sensitive to major project investments and other large events and initiatives that can influence provincial economic conditions. With more than half of the calendar year complete, uncertainty about economic events in 2013 (either positive or negative) has diminished. However, many of the Nova Scotia-specific risks noted in the Budget Assumptions remain.

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