# Forecast Update

December 19, 2018

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NOVA SCOTIA

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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 2018-19 Budget Estimates.

Relative to the 2018-19 Budget Estimates, the forecasted surplus is projected to decrease slightly. The Province of Nova Scotia is forecasting a surplus position of $27.3 million, a decrease of $2.1 million from the Budget's surplus position of $29.4 million.

This Forecast Update shows that Nova Scotia is continuing to project a balanced budget for 2018-19, continuing along the path to achieving fiscal sustainability. This remains the case despite some volatility in revenue streams and increased demand for public services.

Strengthening fiscal health is crucial to maintain the capacity to provide public services to all Nova Scotians, as well as attract new businesses that will help create more jobs and continue to drive the Nova Scotian economy.

Recognition of the province's strong fiscal management has led Nova Scotia to receive its highest-ever credit rating from Standard & Poor's bond rating agency in September 2018. The agency notes that Nova Scotia is expected to fiscally outperform most Canadian provinces in the next two years.

This Forecast Update shows that the province is following the plan laid out in Budget 2018-19, which focused on strengthening important services and supports so that all Nova Scotians have opportunities to grow and succeed.

# Overview

The Province of Nova Scotia is forecasting a surplus of $27.3 million. This is a decrease of $2.1 million from the budgeted surplus in the 2018-19 Budget Estimates.

Total Provincial Revenue, which includes Ordinary Revenue, Ordinary Recoveries, and Net Income from Government Business Enterprises (GBEs), is forecast to be $10.9 billion. This is an increase of $51.6 million from the 2018-19 Budget Estimates.

Forecast changes in Ordinary Revenue include a $28.0 million decrease in Provincial Tax Revenue, $46.9 million increase in Other Provincial Revenue, $11.1 million increase for Investment Income, and $18.1 million increase in Federal Revenue Sources.

Ordinary Recoveries Revenue is forecast to decrease by $1.0 million from the Budget Estimates largely due to the change in timing of recoveries for cost-shared programs. Net income from GBEs is forecast to increase by $4.5 million from Budget.

Total Provincial Expenses are forecast to be $10.9 billion, $57.9 million higher than the Budget Estimates. This is mainly due to an increase in Departmental Expenses, partially offset by decreases in Debt Servicing Costs and Pension Valuation Adjustment.

Consolidation and Accounting Adjustments positively impact the bottom line by $86.1 million, which is $4.2 million more than budgeted.

# **Fiscal Summary** 2018–19

*($ thousands)*

| **General Revenue Fund** | **Budget** | **September *Update*** | **December *Update*** | ***Increase (Decrease)* from Budget** |
|---|---|---|---|---|
| **Revenues** | | | | |
| Ordinary Revenue | 9,773,351 | 9,861,368 | 9,821,404 | 48,053 |
| Ordinary Recoveries | 655,546 | 660,343 | 654,572 | (974) |
| Net Income from Government Business Enterprises | 381,255 | 381,788 | 385,746 | 4,491 |
| **Total - Revenues** | **10,810,152** | **10,903,499** | **10,861,722** | **51,570** |
| **Expenses** | | | | |
| Departmental Expenses | 9,693,362 | 9,806,571 | 9,793,229 | 99,867 |
| Refundable Tax Credits | 146,883 | 147,321 | 132,937 | (13,946) |
| Pension Valuation Adjustment | 128,803 | 118,207 | 118,207 | (10,596) |
| Debt Servicing Costs | 893,573 | 878,927 | 876,131 | (17,442) |
| **Total - Expenses** | **10,862,621** | **10,951,026** | **10,920,504** | **57,883** |
| Consolidation and Accounting Adjustments for Government Units | 81,899 | 82,062 | 86,078 | 4,179 |
| **Provincial Surplus (Deficit)** | **29,430** | **34,535** | **27,296** | **(2,134)** |

# Revenue

Total Revenue is forecast to be $10.9 billion, which is $51.6 million or 0.5 per cent more than the 2018-19 Budget Estimates. This represents increases of $46.9 million or 10.9 per cent in Other Provincial Revenue, $11.1 million or 5.7 per cent in Investment Income, $18.1 million or 0.6 per cent in Federal Revenue Sources, and $4.5 million or 1.2 per cent in Net Income from GBEs. These increases are partially offset by decreases of $28.0 million or 0.5 per cent in Provincial Tax Revenue and $1.0 million or 0.1 per cent in Ordinary Recoveries.

## Ordinary Revenue — Provincial Revenue Sources

### Tax Revenue

Personal Income Tax (PIT) revenue is forecast to be down by $110.5 million or 3.9 per cent from Budget due to lower than projected personal taxable income and yield growth. Taxable income is projected to be down $415.4 million in 2018 and $256.7 million in 2019. Yield growth is projected to decline by 2.9 per cent in 2018 and by 2.7 per cent in 2019.

Corporate Income Tax (CIT) revenue is forecast to be up by $90.8 million or 17.1 per cent from the 2018-19 Budget Estimates as national corporate taxable income is projected to increase 9.9 per cent in 2018 and 1.4 per cent in 2019. The province's share is projected to increase 4.2 per cent and the small business share of taxable income is projected to decline 9.0 per cent compared to Budget Estimates. The forecast includes a $19.0 million reduction in revenues attributable to the province's share of the cost of federal measures announced in November 2018 to provide for accelerated capital cost allowances for corporations.

Harmonized Sales Tax (HST) revenue is forecast to be up by $2.0 million or 0.1 per cent from Budget primarily due to projected growth in the residential housing investment base of 11.8 per cent in 2018 and 4.4 per cent in 2019. The increase is partially offset by slower growth in the consumer expenditure base and a reduction in projected HST from recreational cannabis due to the delay in the legalization date from July 1 to October 17.

Cannabis revenues are projected to decline by $6.3 million or 60.5 per cent from the 2018-19 Budget Estimates. The delay in commencement for legalized cannabis as well as supply issues will result in lower quantities being purchased from licensed producers for the fiscal year.

Motive fuel tax revenue is forecast to be down by $3.2 million or 1.2 per cent from the 2018-19 Budget Estimates due to lower than projected volumes of gasoline consumption. Gasoline consumption is projected to be 2.6 per cent lower than Budget Estimates while consumption of diesel oil is projected to be 2.3 per cent higher.

Tobacco tax revenue is forecast to be $5.7 million or 2.7 per cent lower than 2018-19 Budget Estimates. The decline is primarily attributable to a 2.9 per cent decrease in the projected volume of cigarette consumption.

Other taxes are up $4.9 million or 2.9 per cent from Budget, mainly due to higher than projected revenue from tax on insurance premiums and the levy on private sales of used vehicles.

### Other Provincial Revenue

Other Provincial Source Revenues are forecast to be $46.9 million or 10.9 per cent higher than Budget, primarily because of the Offshore Licenses forfeiture payment, which accounts for $61.4 million of the change.

Offshore Royalty Revenue is projected to be down by $0.1 million or 1.5 per cent from the 2018-19 Budget Estimates. Production from Deep Panuke has ceased while production volumes for the Sable Offshore Energy Project (SOEP) have been in line with projections.

# Total Revenue 2018–19

*($ thousands)*

| General Revenue Fund: Revenues | Budget | September *Update* | December *Update* | *Increase (Decrease)* from Budget |
|---|---|---|---|---|
| **Provincial Revenue Sources** | | | | |
| Tax Revenue: | | | | |
| Personal Income Tax | 2,816,066 | 2,846,548 | 2,705,553 | (110,513) |
| Corporate Income Tax | 531,267 | 532,232 | 622,072 | 90,805 |
| Harmonized Sales Tax | 1,858,125 | 1,859,031 | 1,860,126 | 2,001 |
| Cannabis Tax | 10,400 | 4,452 | 4,109 | (6,291) |
| Motive Fuel Tax | 272,440 | 268,758 | 269,251 | (3,189) |
| Tobacco Tax | 214,118 | 209,233 | 208,415 | (5,703) |
| Other Tax Revenue | 165,961 | 172,173 | 170,844 | 4,883 |
| | 5,868,377 | 5,892,427 | 5,840,370 | (28,007) |
| Other Provincial Revenue: | | | | |
| Registry of Motor Vehicles | 131,966 | 133,866 | 134,016 | 2,050 |
| Royalties - Petroleum | 5,954 | 2,941 | 5,863 | (91) |
| Other Provincial Sources | 229,303 | 290,204 | 292,737 | 63,434 |
| TCA Cost Shared Revenue | 2,249 | 2,915 | 3,085 | 836 |
| Other Fees and Charges | 61,793 | 61,786 | 61,813 | 20 |
| Prior Years' Adjustments | --- | --- | (19,360) | (19,360) |
| | 431,265 | 491,712 | 478,154 | 46,889 |
| Investment Income: | | | | |
| Interest Revenues | 85,384 | 86,824 | 95,067 | 9,683 |
| Sinking Fund Earnings | 107,670 | 108,385 | 109,069 | 1,399 |
| | 193,054 | 195,209 | 204,136 | 11,082 |
| **Total - Provincial Sources** | **6,492,696** | **6,579,348** | **6,522,660** | **29,964** |
| **Federal Revenue Sources** | | | | |
| Equalization Payments | 1,820,257 | 1,820,257 | 1,843,636 | 23,379 |
| Canada Health Transfer | 996,467 | 996,467 | 998,752 | 2,285 |
| Canada Social Transfer | 365,720 | 365,720 | 366,558 | 838 |
| Offshore Accord Offset Payments | 18,092 | 18,092 | 18,092 | --- |
| Crown Share | 1,423 | --- | --- | (1,423) |
| Other Federal Sources | 28,340 | 29,141 | 29,209 | 869 |
| TCA Cost Shared Revenue | 50,356 | 52,343 | 41,164 | (9,192) |
| Prior Years' Adjustments | | --- | 1,333 | 1,333 |
| **Total - Federal Sources** | **3,280,655** | **3,282,020** | **3,298,744** | **18,089** |
| **Total - Ordinary Recoveries** | **655,546** | **660,343** | **654,572** | (974) |
| **Net Income from Government Business Enterprises (GBE)** | | | | |
| Nova Scotia Liquor Corporation | 233,632 | 233,632 | 236,846 | 3,214 |
| Nova Scotia Provincial Lotteries and Casino Corp | 130,400 | 130,400 | 130,400 | --- |
| Halifax-Dartmouth Bridge Commission | 7,883 | 8,416 | 9,160 | 1,277 |
| Highway 104 Western Alignment Corporation | 9,340 | 9,340 | 9,340 | --- |
| **Total - Net Income from GBEs** | **381,255** | **381,788** | **385,746** | **4,491** |
| **Total - Revenues** | **10,810,152** | **10,903,499** | **10,861,722** | **51,570** |

Tangible Capital Assets (TCA) Revenue is forecast to be up by $0.8 million or 37.2 per cent from Budget due to additional funding for municipal capital projects.

Prior Year Adjustments (PYAs) for provincial revenues are forecast to be -$19.4 million. Decreases from PIT are partially offset by increases for CIT, HST, and Offshore Royalties. PIT is -$150.8 million because of slower growth in the yield rate for the 2017 taxation year; CIT accounts for +$60.2 million due to increased corporate taxable income and growth in the province's share; HST accounts for +$2.5 million; and Offshore Royalties is +$68.8 million largely due to an improvement in the decommissioning costs estimate for SOEP.

## Investment Income

Investment Income is $11.1 million or 5.7 per cent higher than the 2018-19 Budget Estimate, primarily because of higher interest rates.

## Ordinary Revenue — 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 2018-19 Budget Estimate. The cumulative best-of guarantee payment is forecast to improve by $23.4 million or 20.7 per cent as the province's entitlement under the Interim Approach was larger than projected.

The Canada Health Transfer (CHT) and the Canada Social Transfer (CST) are both forecast to be up by 0.2 per cent from the 2018-19 Budget Estimates as a result of new national population estimates released by Statistics Canada in September 2018. The CHT is projected to rise by $2.3 million and the CST is projected to rise by $0.8 million.

The Offshore Accord payment is based upon a one-estimate, one-payment approach and as a result the forecast is equal to the 2018-19 Budget Estimate.

The province is not forecasting any revenue in 2018-19 for the Crown Share Adjustment Payments as a result of the declining profitability in offshore resource projects. The forecast is down $1.4 million or 100.0 per cent.

TCA cost shared revenue is forecast to be down by $9.2 or 18.3 per cent largely due to delays in project timing for federal cost-shared infrastructure projects.

PYAs for federal revenues are forecast to be $1.3 million. The CHT accounts for $1.0 million while the CST accounts for $0.3 million. The PYAs are due to population revisions for the 2017-18 fiscal year.

## Ordinary Recoveries

Ordinary Recoveries Revenue is forecast to be $1.0 million or 0.1 per cent lower than the 2018-19 Budget Estimates.

Department of Business recoveries are forecast to be $3.0 million lower than Budget as the Halifax Regional Municipality will submit its portion of the Halifax Convention Centre's anticipated operating losses directly to Events East Group.

Department of Health and Wellness recoveries are forecast to be $3.6 million higher than Budget primarily due to out of province recoveries for non-residents treated in Nova Scotia.

Department of Justice recoveries are forecast to be $1.2 million lower than Budget mainly due to underspends in various federally funded initiatives.

Department of Labour and Advanced Education recoveries are forecast to be $1.1 million lower than Budget, primarily due to project timing under the Federal Post-Secondary Institutions Strategic Investment Fund (SIF).

Assistance to Universities recoveries are forecast to be $5.1 million lower than Budget, primarily due to project timing under the Federal Post-Secondary Institutions SIF.

Department of Municipal Affairs recoveries are forecast to be $6.3 million higher than Budget, primarily due to $2.8 million for project timing under the Clean Water Wastewater Fund, $2.8 million for project timing under the Public Transit Infrastructure Fund, and $1.8 million for new projects under the National Disaster Mitigation Program.

These increases are partially offset by a reduction of $0.7 million for project delays related to the New Building Canada Fund and $0.4 million under the Federal Gas Tax Agreement.

### Net Income from Government Business Enterprises (GBEs)

The total Net Income from GBEs is forecast to be $4.5 million or 1.2 per cent higher than the 2018-19 Budget Estimate. This is mainly due to the Nova Scotia Liquor Corporation expecting net income to increase $3.2 million or 1.4 per cent because of lower than projected operating expenses. In addition, the Halifax-Dartmouth Bridge Commission forecasts net income to be up $1.3 million or 16.2 per cent, compared to Budget Estimates, primarily as a result of an increase in toll revenue.

# Expenses

## Departmental Expenses 2018–19

*($ thousands)*

| | Budget | September *Update* | December *Update* | *Increase (Decrease)* from Budget |
|---|---|---|---|---|
| Agriculture | 49,615 | 49,615 | 49,615 | --- |
| Business | 156,111 | 154,056 | 152,902 | (3,209) |
| Communities, Culture and Heritage | 88,046 | 87,434 | 88,681 | 635 |
| Community Services | 989,698 | 989,698 | 994,121 | 4,423 |
| Education and Early Childhood Development | 1,397,782 | 1,397,753 | 1,397,305 | (477) |
| Energy and Mines | 31,462 | 31,462 | 31,462 | --- |
| Environment | 37,516 | 37,516 | 37,916 | 400 |
| Finance and Treasury Board | 23,446 | 23,446 | 23,446 | --- |
| Fisheries and Aquaculture | 20,889 | 20,889 | 20,889 | --- |
| Health and Wellness | 4,367,099 | 4,437,937 | 4,472,537 | 105,438 |
| Internal Services | 189,497 | 189,968 | 203,465 | 13,968 |
| Justice | 354,581 | 354,581 | 354,581 | --- |
| Labour and Advanced Education | 389,373 | 388,210 | 389,561 | 188 |
| Assistance to Universities | 425,272 | 425,272 | 427,262 | 1,990 |
| Municipal Affairs | 212,581 | 221,454 | 220,013 | 7,432 |
| Lands and Forestry | 79,601 | 80,291 | 80,591 | 990 |
| Public Service | 210,298 | 209,863 | 210,188 | (110) |
| Seniors | 2,709 | 2,709 | 2,709 | --- |
| Transportation and Infrastructure Renewal | 477,545 | 477,977 | 487,435 | 9,890 |
| Restructuring Costs | 190,241 | 226,441 | 148,550 | (41,691) |
| **Total - Departmental Expenses** | **9,693,362** | **9,806,571** | **9,793,229** | **99,867** |

# Expenses

Total Expenses for 2018-19 are forecast to be $10.9 billion, $57.9 million or 0.5 per cent higher than the Budget Estimates.

An increase in Departmental Expenses of $99.9 million is partially offset by reductions in Debt Servicing Costs of $17.4 million, Refundable Tax Credits of $13.9 million, and $10.6 million in Pension Valuation Adjustment.

## Departmental Expenses

Total Departmental Expenses for 2018-19 are forecast to be $9.8 billion, $99.9 million or 1.0 per cent higher than the Budget Estimates.

The Department of Business is forecast to be $3.2 million lower than Budget primarily due to a $10.0 million reduction to the Loan Valuation Allowance for existing Nova Scotia Jobs Fund commitments, a $4.2 million loss reversal as a result of auction proceeds from the sale of equipment at the former Daewoo Shipbuilding and Marine Engineering (DSME) Trenton site, a $2.0 million decrease in Halifax Convention Centre expenses as these will now flow to Events East Group directly from the Halifax Regional Municipality, and a $1.7 million decrease in Nova Scotia Business Inc. (NSBI) payroll rebates. These reductions are offset by increases in other areas, including $6.0 million due to deferred spending for the Centre for Ocean Ventures and Entrepreneurship (COVE) project, $5.3 million in increased funding to the NSBI Film Fund, and $3.0 million to Develop Nova Scotia to support the transition to its new mandate.

The Department of Community Services is forecast to be $4.4 million higher than Budget primarily due to $6.2 million in increased costs for children in care, $1.4 million in grants due primarily to additional investments related to homelessness, and $1.0 million in Pharmacare for higher than expected drug needs. These increases are partially offset by a $4.2 million decrease in Employment Support and Income Assistance program spending, primarily due to caseload decline.

The Department of Health and Wellness is forecast to be $105.4 million higher than Budget due to $58.8 million in additional funding to the Nova Scotia Health Authority (NSHA) for rising demand in a variety of health care services, $30.5 million for Continuing Care Sector service award payouts, $7.7 million in increased capital grants due to the QEII redevelopment project, $5.0 million in increased pharmaceutical costs due to rising Family Pharmacare expenses and higher than expected need for special drugs, and $3.4 million for higher EHS ambulance call volumes and other contract costs.

The Department of Internal Services is forecast to be $14.0 million higher than Budget primarily due to $11.2 million for the Modernization and Sustainment of SAP and $3.4 million for expansion of the secondary data center project to include health IT services. These pressures are partially offset by a $1.1 million decrease in amortization expense.

Assistance to Universities is forecast to be $2.0 million higher than Budget due to $7.1 million in increased operating grants to universities offset by $5.1 million in reduced expenses related to the Federal SIF for University Infrastructure.

The Department of Municipal Affairs is forecast to be $7.4 million higher than Budget primarily due to $4.4 million for project timing under the Clean Water Wastewater Fund, $2.8 million for project timing under the Public Transit Infrastructure Fund, and $2.1 million for new projects under the National Disaster Mitigation Program. These increases are partially offset by $1.8 million for project delays related to the New Building Canada Fund and $0.1 million in other program and operational savings.

The Department of Transportation and Infrastructure Renewal is forecast to be $9.9 million higher than Budget primarily due to $4.2 million for Nova Scotia to Maine ferry costs, $3.0 million for Nova Scotia Lands Inc health project resources for the QEII redevelopment, $2.5 million for cargo terminal upgrades at Halifax Airport, and $1.4 million for DSME Trenton site management costs. These increases are partially offset by a $1.8 million decrease in amortization expense.

Restructuring Costs are forecast to be $41.7 million lower than Budget primarily due to lower than anticipated budget requirements for non-wage corporate initiatives.

### Refundable Tax Credits

Refundable tax credits are forecast to be $13.9 million or 9.5 per cent lower than 2018-19 Budget Estimates primarily due to a positive $4.5 million PYA for the Scientific Research and Experimental Development Tax Credit and a negative $17.7 million PYA for the Capital Investment Tax Credit.

### Pension Valuation Adjustment

The Pension Valuation Adjustment is forecast to be $118.2 million, down $10.6 million from 2018-19 Budget Estimates, resulting primarily from updated actuarial valuations.

### Debt Servicing Costs

Total Debt Servicing Costs are forecast to be $876.1 million, $17.4 million lower than 2018-19 Budget Estimates, mainly because of the actual interest rate increase being less than anticipated.

## Consolidation and Accounting Adjustments

Consolidation and accounting adjustments for government units are forecast to be $4.2 million or 5.1 per cent higher than Budget primarily due to $8.3 million in Develop Nova Scotia (DNS) capital grants for COVE and other projects and $7.7 million in NSHA capital grants for the QEII redevelopment project.

These increases are partially offset by a forecasted net reduction in government unit operating income of $11.8 million primarily due to a $3.7 million decrease in Housing Nova Scotia Strategic Infrastructure Fund payments and a $3.7 million increase in NSBI’s loan provision.

# Capital

Total capital spending is forecast to be $602.0 million, $3.0 million or 0.5 per cent lower than Budget.

## Tangible Capital Assets (TCA)

The province is forecasting capital purchase requirements to be $18.0 million lower than Budget. This is primarily due to lower projected spending on buildings and information technology and a reduced need for contingency funding. This is partially offset by increased spending on highways and structures and vehicles and equipment.

## Capital Grants

The province is forecasting capital grant requirements to be $15.0 million higher than Budget primarily due to $7.7 million for the QEII redevelopment project and $6.0 million in deferred spending for COVE.

# Capital Spending 2018–19

*($ thousands)*

| | Budget | September *Update* | December *Update* | *Increase (Decrease)* from Budget |
|---|---|---|---|---|
| Highways & Structures | 287,368 | 287,413 | 287,908 | 540 |
| Buildings | 129,974 | 128,412 | 118,300 | (11,674) |
| Information Technology | 24,503 | 25,002 | 20,863 | (3,640) |
| Land Purchases | 10,000 | 10,000 | 10,000 | --- |
| Vehicles and Equipment | 13,795 | 13,892 | 13,803 | 8 |
| Contingency | 22,270 | 22,270 | 19,000 | (3,270) |
| **Total - Capital Purchase Requirements** | **487,910** | **486,989** | **469,874** | **(18,036)** |
| Capital Grants | 117,090 | 123,407 | 132,099 | 15,009 |
| **Total - Capital Spending** | **605,000** | **610,396** | **601,973** | **(3,027)** |

# 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 revenue. 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

The International Monetary Fund projects that global real GDP growth will be stable at 3.7 per cent in both 2018 and 2019. Economic growth among advanced economies is expected to slow in 2018 and 2019, though stronger growth in the United States (US) has persisted in 2018.

The US economy has continued to expand in 2018. Fiscal stimulus and tax measures are keeping economic growth above potential. Household consumption has grown in 2018, but higher interest rates, among other factors, have dampened housing investment and vehicle sales. Tighter labour markets should support wage gains in the near term.

US real GDP is projected to grow by 2.9 per cent in 2018 and by 2.5 per cent in 2019. The Federal Reserve has indicated further normalization in monetary policy. The US has raised tariffs on steel, aluminum, and goods from China. Growth in the US is expected to slow in 2019 and beyond as stimulus measures come to an end.

Economic growth in the Euro Area is slowing as monetary policy becomes less accommodative and the economy moves back to growing in line with potential. The European labour market continues to improve but rising inflation is due to energy prices.

The United Kingdom (UK) economic outlook depends on Brexit negotiations. Despite this uncertainty, UK labour markets remain tight in 2018.

Japan's economic growth is expected to be around 1.0 per cent per year over the short-term with fiscal and monetary stimulus continuing to support economic growth. A tightening of the labour market occurred over 2018 but inflation pressures are expected to remain modest.

China's economic growth is expected to slow to around 6.0 per cent as the result of uncertainty surrounding US trade policy. China continues to implement reforms around its economic structure and address financial imbalances.

Canada's economic growth slowed to 2.1 per cent over the first three quarters of 2018. Canada's real GDP is projected to grow by 2.1 per cent in 2018 and by 1.9 per cent in 2019. Nominal growth is forecast to be 4.3 per cent in 2018 and 3.9 per cent in 2019. Consumption and residential investments are slowing as greater capital investment and exports are driving Canada's growth. The Canadian economy continues to operate close to capacity with the unemployment rate at historical lows.

The Bank of Canada raised the policy interest rate from 1.00 per cent to 1.75 per cent in 2018, continuing the return to a neutral rate. Core inflation measures in Canada have remained close to 2.0 per cent in 2018. The Canadian dollar is expected to average around 77-79 US cents.

## Nova Scotia Economic Outlook

The Department of Finance and Treasury Board has revised its economic outlook incorporating information and data released through November 8, 2018. The economic outlook includes monthly and quarterly data from 2018 released on or before this date while subsequently released information will be incorporated into future economic outlooks.

For 2018, Nova Scotia's nominal GDP is forecast to rise 3.0 per cent with real GDP growth of 1.0 per cent. Stronger exports and employment through the year have offset slower growth for household consumption. In 2019, Nova Scotia economic growth will slow to 2.6 per cent in nominal terms and 0.6 per cent in real terms.

# Current Economic Outlook Assumptions

| | Budget 2018-19 | | December Forecast Update | |
|---|---|---|---|---|
| *Per cent change, except where noted* | **2018** | **2019** | **2018** | **2019** |
| Real GDP ($chained) | 1.0% | 0.8% | 1.0% | 0.6% |
| Nominal GDP | 2.9% | 2.9% | 3.0% | 2.6% |
| Compensation of Employees | 2.6% | 1.6% | 2.8% | 2.6% |
| Household Income | 2.7% | 2.2% | 2.7% | 2.7% |
| Household Final Consumption | 3.3% | 2.4% | 2.8% | 3.1% |
| Retail Sales | 2.5% | 1.7% | 2.1% | 2.3% |
| Consumer Price Index | 1.7% | 2.0% | 2.3% | 2.3% |
| Investment in Residential Structures | -2.9% | 3.5% | 5.5% | -3.3% |
| Non-Res, Machinery, Intellectual Property | 0.8% | 2.4% | 3.4% | 2.1% |
| Net Operating Surplus: Corporations | 3.4% | 3.7% | 6.6% | 5.7% |
| Net Mixed Income: Unincorporated | 1.8% | 1.9% | 2.2% | 2.2% |
| Exports of Goods and Services | 4.3% | 3.3% | 4.4% | 2.8% |
| Exports of Goods to Other Countries | 4.9% | 3.4% | 7.9% | 4.1% |
| Imports of Goods and Services | 2.6% | 2.2% | 2.6% | 2.3% |
| Population at July 1 (thousands) | 957.1 | 959.5 | 959.9a | 964.5 |
| Labour Force (thousands) | 491.0 | 490.1 | 493.0 | 494.5 |
| Employment (thousands) | 449.3 | 449.6 | 453.2 | 454.3 |
| Unemployment Rate, Annual Average | 8.5% | 8.3% | 8.1% | 8.1% |

*Notes: 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. Real GDP for Budget 2018-19 is $2007 chained, real GDP in December Forecast Update is $2012 chained. a~actual.*

## Nova Scotia Economic Performance

**Gross Domestic Product (GDP):** Nova Scotia's economy grew in each of the past four years. In 2017, nominal GDP grew 2.9 per cent while real GDP expanded by 1.5 per cent. Household expenditures grew at their fastest pace in real terms since 2008. Residential investment marked a third year of real growth. Activity for non-residential structures was down with the completion of some major projects. Increases in government expenditures and capital also contributed to growth in 2017.

**Population:** Nova Scotia's population grew by over 23,000 in the past 3 years, more than in the previous 24 years. The population reached a record high of 959,942 on July 1, 2018. Rising international and interprovincial migration have increased the population though deaths continue to outnumber births.

**Labour Market:** Nova Scotia's labour force and employment continued to grow in 2018. Employment growth, notably in full-time jobs, has accelerated, reducing the unemployment rate below 8.0 per cent. Total compensation of employees has increased 2.7 per cent over the first three quarters of 2018 compared to the first three quarters of 2017.

**Inflation:** The consumer price index (CPI) increased 2.3 per cent over the first ten months of 2018 compared to the same period in 2017. Higher energy prices lifted the province's overall inflation while CPI excluding energy has risen 1.5 per cent for the first ten months of 2018.

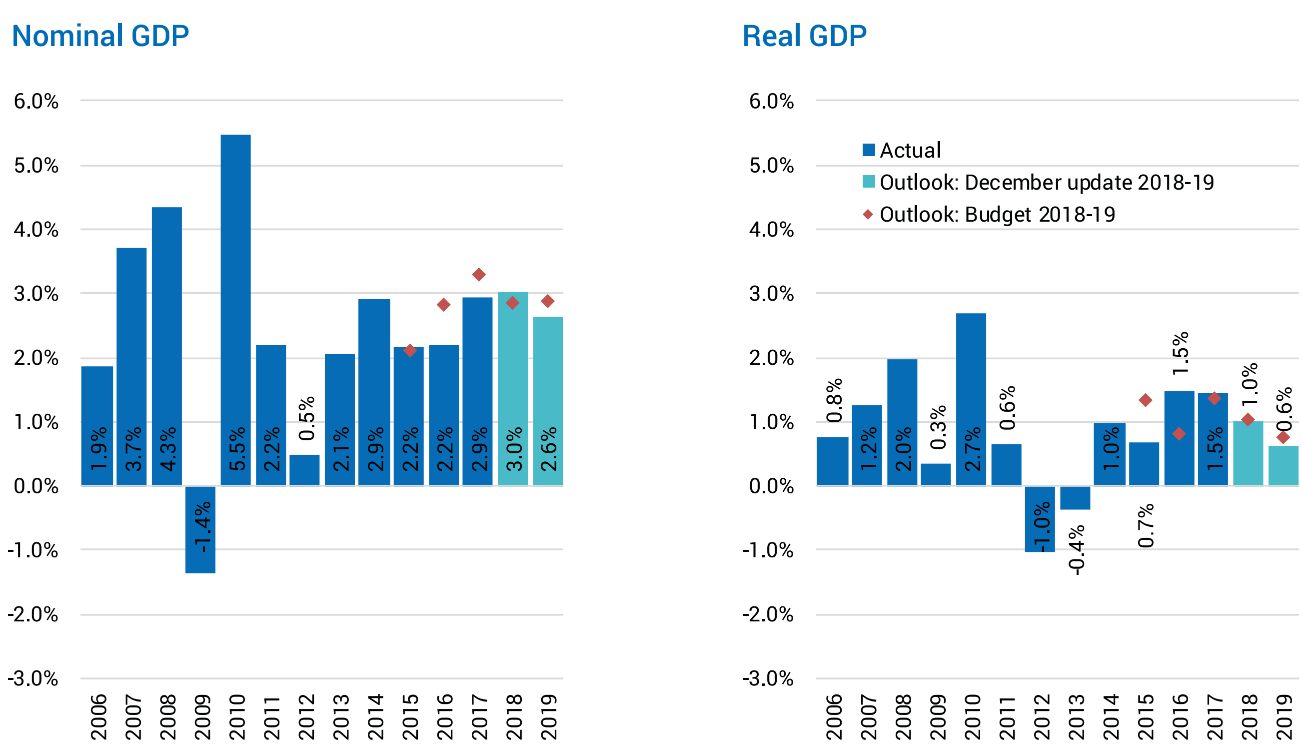
**Retail Sales:** Retail sales have seen slower growth in 2018 after significant growth in 2017. Retail sales over the first three quarters of 2018 increased 2.8 per cent compared with the same months of 2017. Most subsectors reported higher sales in 2018 with the largest dollar increases at gas stations, food and beverage stores, and miscellaneous stores. Motor vehicles sales – a source of strong growth in 2017 – have fallen back to trend in 2018.

**Construction:** Housing starts in Nova Scotia are up 17.2 per cent in 2018, rising for multiples and single dwelling units. Completion of these starts should support residential construction activity in the short-term. Non-residential building construction increased 12.5 per cent over the first three quarters of 2018 compared to the same period in 2017 on rising commercial building construction in Halifax. Some major engineering construction projects finished work in late 2017 or early 2018 and will slow the forecast for construction growth.

**International Exports:** Nova Scotia's exports continue to grow and diversify outside the US market. International shipments of merchandise have increased 7.9 per cent over the first ten months of 2018. While shipments to the US are up 4.2 per cent, shipments to China have risen by 28.8 per cent and shipments to Europe are up by 24.8 per cent. Rising shipments have occurred in most of the major commodity groups with particular strength seen in forestry products, rubber products, and metals. Energy exports have been lifted from coal production in the province while natural gas production continued to decline in 2018.

## Nova Scotia GDP Growth

*(Per Cent Change)*



# Key Risks

## Economic

While the global economy is projected to continue growing, downside risks have become more prominent and the momentum from cyclical recovery will no longer drive growth above potential. Financial market disruptions are expected to be limited to specific countries, but wider issues may arise.

Although US economic growth remains strong, there are risks to the outlook for Nova Scotia's largest international trading partner. After the stimulus effects of fiscal spending and tax measures end, there is uncertainty about the deceleration of the US economy. Trade protectionism between the US and China could alter global trading patterns. If escalated, US-China trade actions could become disruptive to the entire global economy.

The Canadian economy is expected to grow in line with potential GDP, but recent events (auto plant closure, oil production cuts) create headwinds for certain regions, which may impact Canadian economic growth.

Uncertainty remains around the economic relationship between the European Union and the UK.

The pace of China's growth could decelerate more sharply than expected if structural reforms, external trade policy, and financial sector vulnerabilities destabilize the economy.

Recent population and productivity growth in Nova Scotia have facilitated economic growth. Sustaining these trends will be necessary as demographic pressure from rising retirements from the labour force are expected to intensify.

With a series of new trade agreements (CUSMA, CETA and CPTPP), Nova Scotia's trade environment is more certain. However, after years of export growth, Nova Scotia's economy may require new investments to sustain and expand production capacity for further export growth.

Estimates for year-to-date indicators about the Nova Scotia economy in 2018 are subject to revision as new data are released and preliminary results are revised.

## 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 the spring 2019 thereby creating the possibility of additional PYAs for open taxation years and influencing assumptions for the current fiscal year.

Lower forecasts of yield growth for the 2017 and subsequent taxation years continue to pose significant downside risks for PIT revenues.

HST revenues are particularly sensitive to changes in 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 for CIT 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. Growth in national corporate taxable income has been quite strong in the 2017 taxation year, but corporate taxable income is volatile and follows business cycles.

The province has accrued for the portion of decommissioning costs that will become payable to the SOEP interest holders. Changes in these projected costs have an impact on provincial revenues.