FORECAST UPDATE

December 20, 2022

The Honourable Allan MacMaster
Minister of Finance and Treasury Board

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 2022–23 Budget Estimates.

Relative to the 2022–23 Budget Estimates, the forecasted deficit is expected to improve significantly. The Province of Nova Scotia is forecasting a deficit position of $142.6 million, an improvement of $363.6 million from the Budget's deficit position of $506.2 million. The change in the budgetary position is attributed to anticipated increases in revenue of $1.3 billion relative to increases in expenses of $1.0 billion.

This second forecast update on Budget 2022-23 shows strong economic activity has improved revenues. This allows the Province to continue to invest in priority areas and support Nova Scotians with the cost of living, providing more targeted support to people in need, and investments in healthcare, long-term care, housing, and infrastructure and local roads.

Overview

The Province of Nova Scotia is forecasting a deficit of $142.6 million. This is an improvement of $363.6 million from the budgeted deficit in the 2022–23 Budget Estimates.

Total Provincial Revenue, including Ordinary Revenue, Recoveries, and Net Income from Government Business Enterprises (GBEs), is forecast to be $14.0 billion, an increase of $1.3 billion from the Budget Estimates.

Forecast changes in Ordinary Revenue include increases of $1.1 billion in Provincial Tax Revenue, $29.3 million for Investment Income, and $70.2 million in Federal Revenue Sources. These increases are partially offset by a $4.5 million decrease in Other Provincial Revenue.

Ordinary Recoveries revenue is forecast to increase by $102.0 million from Budget. Net Income from Government Business Enterprises is expected to increase by $20.4 million.

Total Expenses are forecast to be $14.3 billion, which is $966.4 million higher than the Budget Estimates. Expenses are predicted to be higher due to projected increases in Departmental Expenses of $949.5 million, Refundable Tax Credits of $9.5 million, and Debt Servicing Costs of $7.9 million.

Consolidation and Accounting Adjustments positively improve the budget position by $106.5 million, which is $17.8 million less than budgeted.

Fiscal Summary 2022–23

($ thousands)

General Revenue Fund	**Budget**	**September Update**	**December Update**	*Increase (Decrease)* **from Budget**	*Increase (Decrease)* **from Sept**
Revenues					
Ordinary Revenue	11,440,457	11,467,932	12,665,877	1,225,420	1,197,945
Ordinary Recoveries	801,635	833,609	903,594	101,959	69,985
Net Income from Government Business Enterprises	419,818	432,181	440,260	20,442	8,079
Total - Revenue	**12,661,910**	**12,733,722**	**14,009,731**	**1,347,821**	**1,276,009**
Expenses					
Departmental Expenses	12,422,746	12,519,866	13,372,292	949,546	852,426
Refundable Tax Credits	121,828	127,079	131,280	9,452	4,201
Pension Valuation Adjustment	71,480	68,419	71,018	(462)	2,599
Debt Servicing Costs	676,402	687,935	684,281	7,879	(3,654)
Total - Expenses	**13,292,456**	**13,403,299**	**14,258,871**	**966,415**	**855,572**
Consolidation and Accounting Adjustments for Governmental Units	124,362	115,361	106,540	(17,822)	(8,821)
Provincial Surplus (Deficit)	**(506,184)**	**(554,216)**	**(142,600)**	**363,584**	**411,616**

Note: Totals may not add due to rounding.

Economic Performance and Outlook

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

External Outlook

Global Economy: At the start of 2022, the world economy was on track for continued recovery. However, Russia's invasion of Ukraine, rising inflation and supply-chain issues have created serious headwinds. Beyond the humanitarian crisis, the war in Ukraine has driven commodity prices up, putting upward pressure on inflation and creating tighter financial conditions. The situation is eroding consumer purchasing power leading households to cut back on spending to pay for basic energy and food needs.

The International Monetary Fund (IMF) expects inflation to peak in late 2022 and persist for longer. In response to inflation, central banks around the world are tightening monetary policies. Despite the challenges of higher interest rates, fiscal policy has only limited capacity to support demand. The IMF estimates that global real Gross Domestic Product (GDP) growth will soften to 3.2 per cent in 2022 and 2.7 per cent in 2023 due to monetary tightening, a downturn in China and the war in Ukraine.

Europe: The war in Ukraine has impacted major European economies more negatively than expected. Higher energy prices, weaker consumer confidence, slower momentum in manufacturing and escalation of sanctions on fossil fuels are expected to have adverse effects on those countries who are most dependent on Russian energy. A strong tourism season and robust labour markets have supported European economic activity in the second half of the year. The IMF estimates Euro Area real GDP to grow 3.1 per cent in 2022 and 0.5 per cent in 2023.

China: COVID-19 outbreaks, and mobility restrictions as part of China's zero-COVID strategy, have disrupted economic activity. While imported energy and raw material prices have increased, the pass-through to Chinese consumer price inflation has been more limited due to the structure of consumption. Reflecting the impacts of pandemic-related shutdowns and a deep property market crisis, real economic growth is expected to moderate to 3.2 per cent in 2022. China's GDP is expected to increase 4.4 per cent in 2023.

United States: Following strong expansion of 5.7 per cent in 2021, the pace of US real GDP growth slowed in the third quarter (Q3) of 2022 to 2.9 per cent due to weaker private inventory accumulation, higher inflation, and a decline in residential investment. US inflation peaked at 9.1 per cent in June and slowed to 7.1 per cent in November, well above the US Federal Reserve's 2 per cent target. The Federal Reserve increased its target range for the federal funds rate to 4.25-4.50 per cent as of December 2022. Further increases are expected to contain inflationary pressures. The Department of Finance and Treasury Board (FTB) outlook assumes that the US economy will grow by 1.9 per cent in 2022 and 0.7 per cent in 2023.

Canada: Canada's economy saw strong growth in the first half of 2022 as remaining pandemic restrictions were removed. Canada's robust labour markets, foreign demand and higher commodity prices have further supported growth. Real GDP growth had a 2.9 per cent gain in Q3 of 2022, owing to increases in non-residential investment, exports, and accumulation of inventories. Consumer spending, residential construction and government investment declined. Housing market activity moderated from exceptionally high levels as mortgage rates increased.

Canada's inflation slowed to 6.9 per cent in October 2022 after peaking at 8.1 per cent in June 2022. The Bank of Canada forecasts inflation to average 6.9 per cent in 2022 and 4.1 per cent in 2023. The Bank increased its policy rate seven times in 2022, reaching 4.25 per cent in December. The Bank is considering raising the policy rate to further curtail inflation towards the 2 per cent level. With tighter monetary policy, elevated inflation and expected weakness in global demand, Canada's real economic growth is projected to slow in the Q4 of 2022 with weakness carrying forward into the first half of 2023. Canada's real GDP is expected to increase 3.3 per cent in 2022 before slowing to 0.6 per cent in 2023.

Current Economic Outlook for Nova Scotia

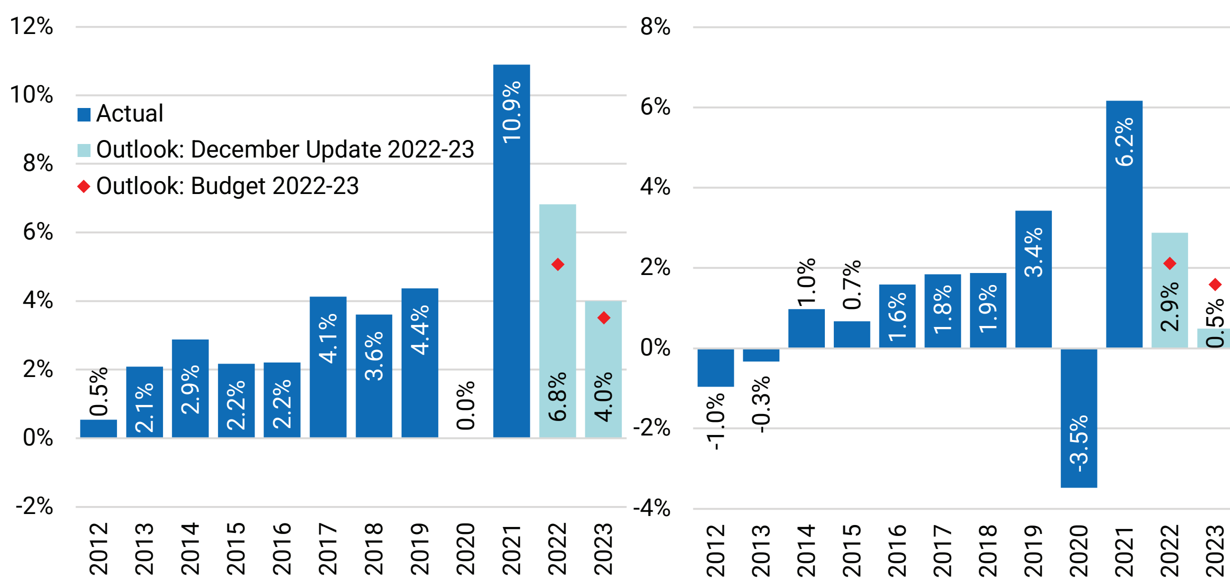
FTB has revised its economic outlook, incorporating information and data released through November 8, 2022. The economic outlook incorporates data and events from 2022 released on or before this date, however some of the discussion below refers to more recently released data.

Nova Scotia GDP Growth

(per cent change)

Nominal GDP

Real GDP



Source: Statistics Canada. Table 36-10-0222-01. Gross domestic product, expenditure-based, provincial and territorial, annual (x 1,000,000); Nova Scotia Department of Finance and Treasury Board projections

Nova Scotia's real GDP grew 6.2 per cent in 2021 as the economy rebounded from the contraction of 3.5 per cent in 2020. Nova Scotia's real GDP growth was the second fastest among provinces in 2021. Nova Scotia's nominal GDP growth in 2021 was 10.9 per cent, partly driven by rising prices. Most sectors reported higher levels of activity, with the largest increases in arts, entertainment and recreation, accommodation and food services, as well as professional, scientific, and technical services. Economic activity in 2021 was supported by a rapid acceleration in population growth, strong business investment, consumer spending, government expenditures, exports, and robust labour market conditions.

This economic forecast assumes that growing population, inflationary pressures, and further recovery in service industries will contribute to rising household consumption. Residential and non-residential construction grew rapidly over the first nine months of 2022, though both are expected to slow as interest rates rise. Export growth is expected to continue at a moderate pace but faces headwinds from slowing global demand. Tourism activity improved in 2022 and recovery is expected to continue in 2023.

Nova Scotia's real GDP is projected to grow 2.9 per cent in 2022 and 0.5 per cent in 2023 as the effects of wide-spread monetary tightening slow both domestic spending and exports. With inflation projected to slow from 7.0 per cent in 2022 to 3.7 per cent in 2023, Nova Scotia's nominal GDP growth is also projected to slow from 6.8 per cent in 2022 to 4.0 per cent in 2023.

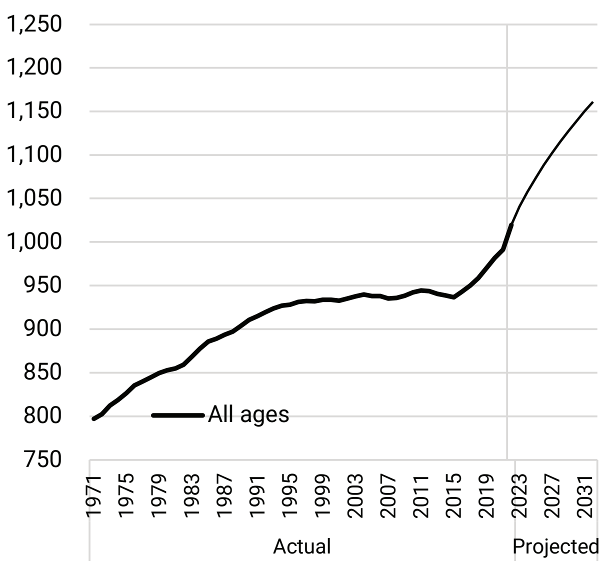
Recent Economic Performance

Population: Nova Scotia's population reached 1,019,725 as of July 1, 2022, up 28,608 from July 2021. This growth of 2.89 per cent was faster than in any other period on modern record. Immigration and interprovincial migration drove accelerating population growth. The number of immigrants coming to the province was 13,816, the highest level of immigration in records that started after the Second World War. Interprovincial in-migration added a further 27,640 people to Nova Scotia's population with a large increase in those arriving from Ontario, offset by out-migration of 13,561. Both international and interprovincial migration has been concentrated in younger age cohorts, lowering Nova Scotia's median age from 44.9 years in 2021 to 44.2 years in 2022. FTB has updated its population projections to incorporate the latest results, as well as revised federal immigration targets.

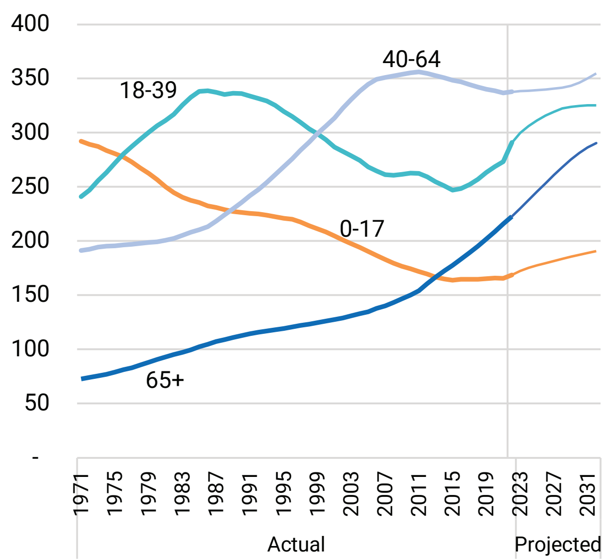
Nova Scotia Population

(thousands as of July 1)

All ages



Age cohorts



Source: Statistics Canada. Table 17-10-0005-01 Population estimates on July 1st, by age and sex; Nova Scotia Department of Finance and Treasury Board projections

Labour Markets: Nova Scotia's employment levels continued to increase in 2022, while slower growth in the labour force has reduced the unemployment rate to levels not seen since the early 1970s. Labour force and employment growth has been concentrated among those in core working ages (25-54). Declining unemployment rates, rising job vacancies, and reports of labour shortages all signal significantly tighter labour market conditions. Nova Scotians' average weekly earnings rose 4.2 per cent in the first nine months of 2022 compared to the same period in 2021, outpacing national wage increases.

Prices: As in other advanced economies, Nova Scotia's Consumer Price Index (CPI) accelerated during the first half of 2022 after Russia's invasion of Ukraine generated a sharp rise in global crude oil prices. Over the first ten months of 2022, Nova Scotia's all items CPI averaged 7.4 per cent higher than the same period in 2021. Higher energy prices (+30.1 per cent) were the largest contributor to accelerating inflation. Food and shelter price indices have increased 8.8 per cent and 8.2 per cent respectively, while the CPI index excluding food and energy prices increased 4.1 per cent over the same period. Inflation is expected to slow from the current elevated pace as energy prices moderate and domestic demand slows because of tighter monetary policy.

Income and Consumption: Nova Scotia's employee compensation increased 8.6 per cent over the first nine months of 2022 compared to the same period in 2021. Nova Scotia's retail sales increased 5.8 per cent in the first nine months of 2022, compared to the same period in 2021. All major store types reported growth except motor vehicles and parts dealers as new motor vehicle sales declined 4.8 per cent. The fastest growth in retail sales was in clothing stores and furniture stores, which recovered from diminished sales during the pandemic. Gasoline station sales were lifted by higher fuel prices.

Investment: Residential building construction increased 37.1 per cent in the January – October 2022 period compared to the same period in 2021, continuing its upward trend of recent years. New construction (both single-unit and multiple-unit buildings) and renovation activity have increased. Growth has been stronger in Halifax than outside the city. Non-residential building construction rose 28.5 per cent over the first ten months of 2022 compared to the same period in 2021 with rising investment in commercial and industrial buildings in Halifax. Business sector investment in machinery and equipment has also been recovering in 2022. Government investment, including in transportation projects, is expected to be supportive of economic activity throughout the forecast period.

Exports: International merchandise exports grew 7.5 per cent from January – October 2022 compared to January – October 2021. Shipments have increased in most categories including seafood, frozen fruit, plastics, paper, and machinery and equipment. Through the first ten months of 2022, shipments have increased substantially to the United States, France, Germany and the United Kingdom. Relative to pre-pandemic benchmarks, tourism activity has improved every month during the first half of 2022. As of September 2022, domestic tourism activity was 10.8 per cent below and international tourism activity was 48.3 per cent below pre-pandemic levels.

Current Economic Outlook Assumptions

	Budget 2022-23		December Forecast Update	
Per cent change, except where noted	**2022**	**2023**	**2022**	**2023**
Real GDP ($2012 chained)	2.1%	1.6%	2.9%	0.5%
Nominal GDP	5.1%	3.5%	6.8%	4.0%
Compensation of Employees	4.6%	3.3%	8.3%	4.2%
Household Income	1.5%	3.2%	3.7%	4.4%
Household Final Consumption	6.2%	3.7%	6.3%	4.0%
Retail Sales	-1.1%	2.4%	4.5%	2.0%
Consumer Price Index	4.2%	2.3%	7.0%	3.7%
Investment in Residential Structures	-3.8%	2.0%	19.6%	1.2%
Non-Res., Machinery, Intellectual Property	9.3%	3.9%	10.8%	9.8%
Net Operating Surplus: Corporations	-8.5%	3.2%	3.9%	2.1%
Net Mixed Income: Unincorporated	4.3%	3.1%	5.7%	4.5%
Exports of Goods and Services	5.8%	4.8%	7.3%	5.3%
Exports of Goods to Other Countries	5.3%	3.8%	6.8%	5.7%
Imports of Goods and Services	3.7%	3.4%	6.1%	3.9%
Population at July 1 (all ages, thousands)	1,004.3	1,014.9	1,019.7	1,040.5
Population at July 1 (ages 18-64, thousands)	613.6	615.5	628.4	638.1
Labour Force (thousands)	510.4	515.1	513.1	523.8
Employment (thousands)	473.1	479.2	479.8	486.5
Unemployment Rate, Annual Average	7.3%	7.0%	6.5%	7.1%

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

Revenue

Total Revenue is forecast to be $14.0 billion, $1.3 billion or 10.6 per cent higher than the 2022–23 Budget Estimates. Revenue estimates are based on administrative data up to November 22, 2022. Information received after this date will be incorporated in future forecasts.

The growth in expected Total Revenue includes increases of $1.1 billion or 16.8 per cent in Provincial Tax Revenue, $29.3 million or 26.1 per cent in Investment Income, $70.2 million or 1.7 per cent in Federal Revenue Sources, $102.0 million or 12.7 per cent in Ordinary Recoveries, and $20.4 million or 4.9 per cent in Net Income from Government Business Enterprises. These increases are partially offset by a decrease in Other Provincial Revenue of $4.5 million or 1.3 per cent

Ordinary Revenue — Provincial Revenue Sources

Total Ordinary Revenue from Provincial Sources is forecast to be $8.3 billion, which is $1.2 billion or 16.1 per cent higher than Budget Estimates.

Tax Revenue

Personal Income Tax (PIT) revenue is forecast to be up $209.7 million or 6.4 per cent from Budget Estimates, due to higher projections for taxable income and yield. Personal taxable income is projected to be up $1.7 billion in 2022 and $2.0 billion in 2023. The yield rate on taxable income is now projected to be up by 4.7 per cent in 2022 and 5.4 per cent in 2023.

Corporate Income Tax (CIT) revenue is forecast to be up $253.4 million or 47.3 per cent from Budget Estimates primarily as the result of higher national corporate taxable income. National corporate taxable income is projected to be up by 52.6 per cent in 2022 and by 28.1 per cent in 2023. The Province's share is projected to be down by 1.3 per cent and the small business share of taxable income is down by 4.3 per cent.

Harmonized Sales Tax (HST) revenue is forecast to be up $73.7 million or 3.4 per cent from Budget Estimates, mainly attributable to higher projections for consumer spending. Taxable consumer expenditures are projected to be up $590.3 million or 3.7 per cent in 2022 and $651.6 million or 3.9 per cent in 2023. New residential housing investment is projected to be up by 7.6 per cent in 2022 and by 6.7 per cent in 2023. The tax bases for public sector body spending, business, and financial institutions are also projected to be stronger.

Cannabis Tax revenue is forecast to be $0.5 million or 4.0 per cent higher than Budget Estimates on the basis of increased remittances of the province's additional duty from licensed producers.

Non-resident Deed Transfer Tax is forecast to be in line with Budget Estimates.

Non-resident Property Tax is forecast to be down $65.5 million, or 100 per cent from Budget Estimates due to government's decision to not move forward with implementing the tax, as announced on May 5, 2022.

Total Revenue 2022–23

($ thousands)

General Revenue Fund: Revenue	Budget	September Update	December Update	*Increase (Decrease)* from Budget	*Increase (Decrease)* from Sept
Provincial Revenue Sources					
Tax Revenue:					
Personal Income Tax	3,282,916	3,223,655	3,492,660	209,744	269,005
Corporate Income Tax	535,713	538,467	789,107	253,394	250,640
Harmonized Sales Tax	2,176,660	2,222,009	2,250,395	73,735	28,386
Cannabis Tax	13,442	14,118	13,975	533	(143)
Vaping Tax	3,416	3,416	3,460	44	44
Non-resident Deed Transfer Tax	15,497	15,497	15,497	---	---
Non-resident Property Tax	65,544	---	---	(65,544)	---
Motive Fuel Tax	255,100	259,746	262,799	7,699	3,053
Tobacco Tax	170,631	159,267	156,631	(14,000)	(2,636)
Other Tax Revenue	200,633	210,079	245,085	44,452	35,006
Prior Years' Adjustments - Taxes	---	---	620,433	620,433	620,433
	6,719,552	6,646,254	7,850,042	1,130,490	1,203,788
Other Provincial Revenue:					
Registry of Motor Vehicles	135,816	135,816	140,811	4,995	4,995
Petroleum Royalties	---	---	---	---	---
Other Provincial Sources	150,129	150,614	151,147	1,018	533
TCA Cost Shared Revenue	12,871	6,487	935	(11,936)	(5,552)
Other Fees and Charges	58,692	57,583	60,070	1,378	2,487
Gain on Disposal of Crown Assets	---	---	---	---	---
Prior Years' Adjustments - Other Revenue	---	---	---	---	---
	357,508	350,500	352,963	(4,545)	2,463
Investment Income:					
Interest Revenues	93,610	112,350	118,219	24,609	5,869
Sinking Fund Earnings	18,454	20,919	23,138	4,684	2,219
	112,064	133,269	141,357	29,293	8,088
Total - Provincial Sources	**7,189,124**	**7,130,023**	**8,344,362**	**1,155,238**	**1,214,339**
Federal Revenue Sources					
Equalization Payments	2,458,356	2,458,356	2,458,356	---	---
Canada Health Transfer	1,175,357	1,227,157	1,234,122	58,765	6,965
Canada Social Transfer	414,378	414,378	416,833	2,455	2,455
Offshore Accord Offset Payments	47,772	47,772	47,772	---	---
Crown Share	---	---	---	---	---
Other Federal Sources	45,314	63,032	66,934	21,620	3,902
TCA Cost Shared Revenue	110,156	127,214	97,919	(12,237)	(29,295)
Prior Years' Adjustments	---	---	(421)	(421)	(421)
Total - Federal Sources	**4,251,333**	**4,337,909**	**4,321,515**	**70,182**	**(16,394)**
Total Ordinary Revenue	**11,440,457**	**11,467,932**	**12,665,877**	**1,225,420**	**1,197,945**
Total - Ordinary Recoveries	**801,635**	**833,609**	**903,594**	**101,959**	**69,985**
Net Income from Government Business Enterprises (GBEs)					
Nova Scotia Liquor Corporation	270,446	274,826	275,826	5,380	1,000
Nova Scotia Gaming Corporation	138,300	146,200	151,000	12,700	4,800
Halifax-Dartmouth Bridge Commission	8,476	8,559	10,848	2,372	2,289
Highway 104 Western Alignment Corporation	2,596	2,596	2,586	(10)	(10)
Total - Net Income from GBEs	**419,818**	**432,181**	**440,260**	**20,442**	**8,079**
Total - Revenue	**12,661,910**	**12,733,722**	**14,009,731**	**1,347,821**	**1,276,009**

Note: Totals may not add due to rounding.

Vaping Products Tax revenue is forecast to be in line with Budget Estimates.

Motive Fuel Tax revenue is forecast to be up $7.7 million or 3.0 per cent from Budget Estimates due to higher levels of fuel consumption. Consumption of gasoline is projected to be 47.3 million litres or 3.9 per cent higher than expected while diesel fuel consumption is projected to be up 9.4 million litres or 2.1 per cent.

Tobacco Tax revenue is forecast to be down $14.0 million or 8.2 per cent from Budget Estimates as consumption declines. Cigarette consumption is projected to be 8.2 per cent lower than projected and fine cut tobacco consumption is 39.1 per cent lower than projected.

Other Tax Revenue is forecast to be $44.5 million or 22.2 per cent higher than the Budget Estimates, primarily due to higher-than-expected revenues from Financial Institutions Capital Tax and insurance premium tax.

Prior Year Adjustments (PYAs) from Provincial Sources are $620.4 million, comprised of the following: +$289.5 million for Personal Income Tax due to higher personal taxable income and yield for the 2021 taxation year; +$286.0 million for Corporate Income Tax resulting from higher national corporate taxable income for the 2021 taxation year; and +$45.6 million for Harmonized Sales Tax due to higher consumer expenditure and residential housing investment growth for 2021.

Other Provincial Revenue is forecast to be $4.5 million or 1.3 per cent lower than Budget Estimates. The variance is largely driven by anticipated reductions in Provincial Tangible Capital Assets (TCA) Cost Shared Revenue and is partially offset by increases in Registry of Motor Vehicles revenue and Other Fees and Charges. The decrease in Provincial TCA Cost Shared Revenue is mainly due to lower-than-expected TCA revenue at the Department of Public Works, primarily related to the new art gallery project being put on hold. Registry of Motor Vehicles revenue is higher due primarily to increased registrations revenue. Other Fees and Charges revenue is forecast to increase primarily due to higher-than-expected probate fee revenue.

Investment Income is predicted to be $29.3 million or 26.1 per cent higher than Budget Estimates. This variance is driven by increases in Interest Revenues and Sinking Fund Earnings due to higher than forecasted interest rates.

Ordinary Revenue — Federal Revenue Sources

Total Ordinary Revenue from Federal Sources is forecast to be $70.2 million or 1.7 per cent higher than Budget Estimates.

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

The **Canada Health Transfer** (CHT) is forecast to be up by $58.8 million or 5.0 per cent from Budget Estimates due to the province's share of an additional one-time top up of $2 billion to the Canada Health Transfer by the federal government as well as revised population estimates from Statistics Canada in September 2022.

The **Canada Social Transfer** (CST) is forecast to be up by $2.5 million or 0.6 per cent from the Budget Estimates as a result of revised population estimates from Statistics Canada in September 2022.

Other Federal Sources is forecast to be up $21.6 million or 47.7 per cent from Budget Estimates. The variance is largely due to additional federal funding for public transit, for Investing in Canada Infrastructure Program (ICIP) operating costs, and for the Safe Return to Class Fund.

Federal TCA Cost Shared Revenue is forecast to be down by $12.2 million or 11.1 per cent from Budget Estimates mainly because of delays in highway projects at the Department of Public Works. This is partially offset by additional revenue for school construction projects at the Department of Education and Early Childhood Development.

Prior Year Adjustments (PYAs) from Federal sources are -$0.4 million due to new population estimates for open CHT and CST taxation years.

Ordinary Recoveries

Ordinary Recoveries Revenue is forecast to be $102.0 million or 12.7 percent higher than Budget Estimates.

The **Department of Advanced Education** is forecast to be $2.2 million or 23.8 per cent higher than Budget primarily due to $1.7 million from a regional transfer agreement with Prince Edward Island, and $1.2 million in federal funding for additional post-secondary accessibility services and equipment. These increases are partially offset by $0.7 million in lower than anticipated collection in the Nova Scotia Student Assistance program.

The **Department of Community Services** is forecast to be $1.6 million or 9.8 per cent lower than Budget primarily due to both reduced CPP/EI and Income Assistance overpayment recoveries from clients.

The **Department of Education and Early Childhood Development** is forecast to be $17.5 million or 12.7 per cent higher than Budget primarily due to $10.6 million in federal funding related to the Canada Wide Early Learning Child Care Agreement initiatives carried over from the prior year, $5.1 million in federal funding related to the Official Languages Education Protocol (OLEP) and $1.8 million in federal funding for Early Learning Child Care Agreement (ELCCA) initiatives carried over from the prior year

The **Department of Health and Wellness** is forecast to be $52.4 million or 50.0 per cent higher than Budget primarily due to federal supply of rapid tests.

The **Department of Justice** is forecast to be $1.6 million or 1.2 per cent higher than Budget primarily due to $0.6 million for the Mass Casualty Commission and new agreements with the Federal Government related to $0.5 million for Justice Partnership and Innovation Program and $0.4 million for Impact of Race and Cultural Assessments (IRCAs).

The **Department of Labour, Skills and Immigration** is forecast to be $17.9 million or 13.5 per cent higher than Budget primarily due to a $15.1 million new federal funding agreement between the Nova Scotia Apprenticeship Agency (NSAA) and Employment and Social Development Canada (ESDC), and $2.5 million in increased funding from the Federal Labour Market Transfer Agreements.

The **Department of Municipal Affairs and Housing** is forecast to be $14.3 million or 8.4 per cent higher than Budget primarily due to $50.0 million in recoveries for Disaster Assistance related to Hurricane Fiona. This increase is partially offset by $35.0 million in lower change to ICIP recoveries due to construction delays.

The **Department of Natural Resources and Renewables** is forecast to be $5.0 million or 29.6 per cent lower than Budget due to a transfer of some ICIP projects to the Department of Municipal Affairs and Housing.

Public Service is forecast to be $1.8 million or 26.3 per cent higher than Budget primarily due to $1.4 million in increased recoveries for the Office of Addictions and Mental Health.

Net Income from Government Business Enterprises (GBEs)

Total Net Income from GBEs is forecast to be $20.4 million or 4.9 per cent higher than Budget Estimates.

Net income from the **Nova Scotia Liquor Corporation** (NSLC) is forecast to be $5.4 million or 2.0 per cent higher than Budget Estimates. The higher forecast is mainly due to increased sales of beverage alcohol at Agency and Private Wine and Specialty Stores.

Net income from the **Nova Scotia Gaming Corporation** (NSGC) is forecast to be up $12.7 million or 9.2 per cent from Budget. This increase is due to the launch of iCasino in July 2022, casinos returning to pre-pandemic trends, negative impacts from the Cogswell Interchange Development not materializing, as well as lower than expected expenses, including the transfer of NSGC staff to the Department of Finance and Treasury Board, effective December 1, 2022.

Net income from the **Halifax-Dartmouth Bridge Commission** is forecast to be $2.4 million or 28.0 per cent higher than Budget Estimates primarily due to the deferral of capital project expenditures, resulting in lower-than-expected interest and amortization expenses.

Net income from **Highway 104 Western Alignment Corporation** is forecast to be basically unchanged from Budget.

Expenses

Total Expenses for 2022–23 are forecast to be $14.3 billion, $966.4 million or 7.3 per cent higher than the Budget Estimates.

Forecast increases in Expenses include increases in Departmental Expenses of $949.5 million or 7.6 per cent, Debt Servicing Costs of $7.9 million or 1.2 per cent and Refundable Tax Credits of $9.5 million or 7.8 per cent.

Departmental Expenses

Total Departmental Expenses for 2022–23 are forecast to be $949.5 million or 7.6 per cent higher than the Budget Estimates.

Departmental Expenses 2022–23

($ thousands)

	Budget	September Update	December Update	*Increase (Decrease)* from Budget	*Increase (Decrease)* from Sept
Advanced Education	676,617	676,617	718,088	41,471	41,471
Agriculture	40,499	40,499	67,399	26,900	26,900
Communities, Culture, Tourism and Heritage	141,951	166,875	184,083	42,132	17,208
Community Services	1,217,652	1,217,652	1,226,652	9,000	9,000
Economic Development	96,529	91,020	102,602	6,073	11,582
Education and Early Childhood Development	1,751,280	1,764,930	1,807,335	56,055	42,405
Environment and Climate Change	37,901	37,901	197,901	160,000	160,000
Finance and Treasury Board	28,877	28,877	30,089	1,212	1,212
Fisheries and Aquaculture	17,698	17,698	17,698	---	---
Health and Wellness	4,266,326	4,359,851	4,401,649	135,323	41,798
Justice	415,750	432,523	439,887	24,137	7,364
Labour, Skills and Immigration	207,493	224,472	231,376	23,883	6,904
Municipal Affairs and Housing	400,479	353,205	491,465	90,986	138,260
Natural Resources and Renewables	134,886	130,885	182,249	47,363	51,364
Public Service	415,909	414,220	410,640	(5,269)	(3,580)
Public Works	606,960	620,054	682,679	75,719	62,625
Seniors and Long-term Care	1,204,270	1,235,307	1,297,726	93,456	62,419
Service Nova Scotia and Internal Services	359,570	360,162	494,793	135,223	134,631
Restructuring Costs	402,099	347,118	387,981	(14,118)	40,863
Total - Departmental Expenses	**12,422,746**	**12,519,866**	**13,372,292**	**949,546**	**852,426**

The **Department of Advanced Education** is forecast to be $41.5 million or 6.1 per cent higher than Budget primarily due to $25.0 million for Research Nova Scotia, $5.0 million to Cape Breton University to support the Tartan Downs Affordable Housing project, $3.9 million for post-secondary training and internship initiatives, $3.0 million in additional student bursaries, $3.0 million to Atlantic School of Theology to support residence renovations, and $1.5 million to Dalhousie for additional health science equipment.

The **Department of Agriculture** is forecast to be $26.9 million or 66.4 per cent higher than Budget due to $19.0 million for Farm Emergency Response Grants and Fiona Agriculture Recovery Program, $5.0 million for season extension enhancement technologies, $2.0 million for local food advancement programs, and $900 thousand for institutional procurement pilots for local food.

The **Department of Communities, Culture, Tourism and Heritage** is forecast to be $42.1 million or 29.7 per cent higher than Budget primarily due to $16.4 million for film productions through the NS Film and Television Production Incentive Fund, $13.9 million for the Green and Inclusive Community Buildings (GICB) program, $6.5 million for the Community Generator Program and rink repair grants, and $4.1 million for community organization grants.

The **Department of Community Services** is forecast to be $9.0 million or 0.7 per cent higher than budget. This is primarily due to pressures of $18.3 million in Child, Youth and Family Support primarily for children with complex needs and one-time affordability measures, and $4.1 million in service delivery due to salary pressures, primarily related to children in care. These pressures are partially offset by a $9.9 million net decrease in Employment Support and Income Assistance, primarily due to lower than budgeted Income Assistance caseloads, lower than anticipated Nova Scotia Child Benefit utilization, and savings in Pharmacare costs. These reductions are partially offset by addressing homelessness, hurricane Fiona relief and affordability measures. There is also a net decrease of $6.6 million in the Disability Support Program, primarily due to reductions in the pace of new home completion due to supply chain and construction issues, partially offset by temporary shelter arrangements, new community investment, and special needs.

The **Department of Economic Development** is forecast to be $6.1 million or 6.3 per cent higher than Budget primarily due to increases of $8.5 million for innovation sector funding, $5.0 million for the Small Business Hurricane Relief Program, $1.8 million for Invest NS Retirement Health Benefit Liability, and $1.1 million in Invest NS for the acquisition of land at Port of Sheet Harbour. These increases are offset by $6.8 million in the Nova Scotia Jobs Fund for unscheduled repayments and $3.7 million transferred to Build NS.

The **Department of Education and Early Childhood Development** is forecast to be $56.1 million or 3.2 per cent higher than Budget primarily due to $27.5 million in inflationary pressures at the Regional Centres for Education and Conseil scolaire acadien provincial, $10.6 million for the fully recoverable Canada Wide Early Learning Child Care Agreement spending carried forward from the previous year, $8.8 million for Official Languages Education Protocol spending (partially recoverable), $4.2 million for ICIP for Outdoor Learning Spaces spending carried forward from the prior year, $3.8 million for Teachers Pension Plan premium increases, $2.7 million for additional Federal Safe Return to School funding and $1.8 million in fully recoverable Early Learning Child Care Agreement initiatives carried forward from the prior year. These increases are partially offset by $2.4 million in lower amortization expenses and $1.5 million in lower than anticipated subsidy expenses.

The **Department of Environment and Climate Change** is forecast to be $160.0 million or 422.2 per cent higher than Budget due to $140.0 million in additional funding to Efficiency One for off-oil home efficiency and heat pump programs, led by the Department of Natural Resources and Renewables as part of the Climate Plan, and $20.0 million related to the Nova Scotia Crown Share Land Legacy Trust.

The **Department of Finance and Treasury Board** is forecast to be $1.2 million or 4.2 per cent higher than Budget primarily due to $1.1 million related to the transition of the Nova Scotia Gaming Corporation staff to FTB and $0.1 million related to the transition of the Municipal Finance Corporation to the Finance and Treasury Board, both effective December 1, 2022.

The **Department of Health and Wellness** is forecast to be $135.3 million or 3.2 per cent higher than Budget primarily due to $68.2 million in net COVID-19 related expenses mainly $47.2 million for rapid test usage supplied by the federal government, $21.0 million Nova Scotia Health Authority (NSHA) operational costs mostly related to extension of province's testing strategy, $9.9 million for expired Personal Protective Equipment (PPE) offset by $11.9 million for less than anticipated usage of PPE and $6.1 million in lower than anticipated COVID-19 vaccinations. In addition, other expense increases include $68.7 million for anticipated NSHA inflationary costs and incremental costs related to service delivery, and $7.4 million in Seniors and Family Pharmacare costs. These increases are partially offset by $19.5 million net cash flow changes for capital projects.

The **Department of Justice** is forecast to be $24.1 million or 5.8 per cent higher than Budget primarily due to $10.4 million in operating expenses related to the Mass Casualty Commission public inquiry, $4.1 million in operating expenses for Courts Services, $4.1 million in operational funding for African Nova Scotia Justice Institute, $2.6 million for supportive housing, $2.1 million for wages related to the 2017 and 2020 Judicial Compensation Tribunal Recommendations, $1.3 million in RCMP contract operating costs and $1.0 million due to increased caseload for the Nova Scotia Medical Examiner. These increases are partially offset by $1.5 million in one-time savings for salary and operating costs.

The **Department of Labour, Skills and Immigration** is forecast to be $23.9 million or 11.5 per cent higher than Budget primarily due to $15.1 million for a new federal funding agreement between the Nova Scotia Apprenticeship Agency and Employment and Social Development Canada, $2.5 million for fully recoverable Labour Market Transfer Agreement expenses, $1.3 million to the Nova Scotia College of Physicians and Surgeons for an orientation program to support the success of physicians trained outside of Canada, $1.2 million for a skilled trades initiative with the Nova Scotia Native Women's Association, $1.2 million to support people arriving from Ukraine, $1.0 million for the Apprenticeship Pathways Project, and $1.0 million to EduNova for the MyCred project.

The **Department of Municipal Affairs and Housing** is forecast to be $91.0 million or 22.7 per cent higher than Budget primarily due to $55.5 million in Housing investments such as modular housing, preservation of affordable units, home repair programs and rent supplements, and $50.0 million for fully recoverable disaster assistance related to Hurricane Fiona. These increases are partially offset by $12.0 million in lower ICIP expenses and $2.8 million in lower New Building Canada Fund expenses, both due to project construction delays.

The **Department of Natural Resources and Renewables** is forecast to be $47.4 million or 35.1 per cent higher than Budget primarily due to increases of $53.0 million in abandoned mine sites remediation costs, $4.6 million for the Small Private Woodlot Owner Relief Program, $1.8 million related to Hurricane Fiona cleanup costs and $700 thousand in Forestry and Wildlife division related to casual employees and Nursery operating costs. These increases are partially offset by $12.1 million decrease in ICIP spending related to a transfer of some projects to the Department of Municipal Affairs and Housing ($10.9 million) and cash flow shifts ($1.2 million).

Public Service is forecast to be $5.3 million or 1.3 per cent lower than Budget primarily due to $3.3 million in the Office of Healthcare Professionals Recruitment mainly due to positions remaining with the NSHA rather than being transferred.

The **Department of Public Works** is forecast to be $75.7 million or 12.5 per cent higher than Budget due to $38.5 million for Boat Harbour remediation, $11.0 million of one-time Federal Transit funding, $10.4 million for Hurricane Fiona storm damage (partially recoverable), $7.0 million for intellectual property associated with healthcare infrastructure, $4.0 million for additional Rural Impact Mitigation highway maintenance, $3.8 million for the Build Nova Scotia amalgamation, $3.2 million for a fully recoverable project for Highway 107 Burnside Drive Extension water main, a $3.0 million grant for transportation infrastructure, $2.1 million for timing of a fully recoverable project from the Highway 104 Western Alignment Corporation for safety improvements, $2.1 million for repairs for the November 2021 storm damage, and $1.3 million for the Colchester Hospital demolition project. These increases are partially offset by $6.7 million in lower amortization expenses due to project delays and $3.6 million for delay in a partially recoverable project for Highway 103 Bridgewater Interchange.

The **Department of Seniors and Long-term Care** is forecast to be $93.5 million or 7.8 per cent over budget primarily due to $59.5 million in travel nurse expenses supporting long-term care, $17.2 million for a number of workforce initiatives and actions, $12.8 million for Home First program utilization, $8.1 million for Long-term care Assistants, $4.6 million for infection control designate programming, $4.2 million in capital funding support to nursing homes, $2.6 million for the continuation of the Wound Care Pilot, and $2.4 million for additional supplies, drugs and standard accommodation charge pressures. These increases are partially offset by a $17.5 million decrease in Home Support utilization.

The **Department of Service Nova Scotia and Internal Services** is forecast to be $135.2 million or 37.6 per cent higher than Budget primarily due to an additional $100.0 million to expand the Heating Assistance Rebate Program, $19.8 million in support grants to help with the cost of damages and food loss from Hurricane Fiona and $16.8 million for the replacement of trunk mobile radios, as well as a net underspend of $1.4 million in various program areas.

Refundable Tax Credits

Refundable tax credit expenditures are forecast to be $9.5 million or 7.8 per cent higher than Budget Estimates, primarily due to increases for the Scientific Research & Experimental Development tax credit.

Pension Valuation Adjustment

The Pension Valuation Adjustment is forecast to be down $0.5 million or 0.6 per cent from Budget Estimates. The decrease is primarily attributed to updated actuarial estimates.

Debt Servicing Costs

Total Debt Servicing Costs are forecast to be up $7.9 million or 1.2 per cent from Budget Estimates, driven by higher than anticipated increases in interest rates and partially offset by a decrease in costs associated with pensions and other obligations.

Consolidation and Accounting Adjustments

Consolidation and accounting adjustments for government units are forecast to be $17.8 million or 14.3 per cent lower than Budget primarily due to a decrease of $18.7 million due to changing cash flow requirements on healthcare infrastructure projects, partially offset by an increase of $0.9 million in various special purpose funds and other organizations.

Capital

Total Capital Spending is forecast to be $1.3 billion, which is $259.0 million or 16.3 per cent lower than Budget.

Tangible Capital Assets

Total capital purchases is forecast to be $241.4 million or 17.4 per cent lower than Budget largely driven by changes in building construction cash flows and increase in contingency, offset by an increase to highway construction costs due to timing of projects and price escalations.

Capital Grants

The province is forecasting Capital Grant spending to be $17.5 million or 8.8 per cent lower than Budget primarily due to changes in building construction on cash flows.

Capital Spending 2022–23

($ thousands)

	Budget	September Update	December Update	*Increase (Decrease)* from Budget	*Increase (Decrease)* from Sept
Highways & Structures	520,492	593,570	556,637	36,145	(36,933)
Buildings	754,997	624,578	494,820	(260,177)	(129,758)
Information Technology	18,768	20,891	19,475	707	(1,416)
Land Purchases	4,990	5,021	7,594	2,604	2,573
Vehicles and Equipment	15,084	15,850	18,380	3,296	2,530
Contingency	70,000	25,000	46,000	(24,000)	21,000
Total - Capital Purchase Requirements	**1,384,331**	**1,284,910**	1,142,906	**(241,425)**	**(142,004)**
Capital Grants	200,386	190,392	182,838	(17,548)	(7,554)
Total - Capital Spending	**1,584,717**	**1,475,302**	**1,325,744**	**(258,973)**	**(149,558)**

Key Risks

Economic

Economic risks are concentrated in commodity price shocks and broader inflationary pressures, as well as the response of monetary authorities around the world to contain inflation.

Although prices for oil and other raw materials have fallen through the summer and autumn, the situation in Ukraine remains unstable. Continued instability in Ukrainian and European energy supplies could still reverberate through commodity markets in the coming months.

Higher inflation across the world remains a risk to the forecast. Monetary authorities around the world have undertaken rapid monetary tightening to contain a sharp acceleration in inflation. Higher interest rates have started to cool domestic spending, but there remains uncertainty about the pace of disinflation. As the source of inflation moves from commodity prices to wage expectations, inflationary pressures could persist and require a longer period of higher interest rates. If persistent inflationary pressures require sustained high interest rates, the risk rises that major global economies could fall into significant recession.

Within Nova Scotia, higher interest rates may slow investment and cool domestic price pressures, but also impairs construction of additional residential stock needed to house the rapidly growing population. Higher housing prices may limit the funds available for discretionary spending in the province.

Many Nova Scotian industries are reporting difficulty finding the labour needed to operate or undertake building projects. Lack of available labour and higher input costs from global markets may restrict production in the province and slow major projects.

The forecast for Nova Scotia's trade is sensitive to the pace of economic growth in the province's major trading partners. The US economy is expected to have a mild recession which has the potential to impact Nova Scotian exports. As always, Nova Scotia's statistical indicators are subject to historical revision after they have been released, which would alter the estimated relationships among variables and change the economic outlook.

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 Income Tax (PIT) and Corporate Income Tax (CIT) assessments for the 2021 taxation year have not been received, thereby creating the possibility of additional prior year adjustments as well as influencing assumptions for the current fiscal year.

Tax revenues have recovered from downturns associated with the pandemic but government continues to monitor developments related to the epidemiology of COVID-19 and the pace of economic recovery.

The forecast of PIT tax revenue is dependent on performance of the labour market. The forecast of CIT revenue is highly dependent upon national corporate taxable income and the province's share. The province's share has declined marginally over the past couple of years offset by growth in national corporate taxable income. Further declines in the province's share is the most relevant risk factor affecting the CIT forecast.

Harmonized Sales Tax (HST) revenues are heavily reliant on consumer expenditures and residential construction. These are dependent on the pace of the economic recovery and consumer confidence.

Harmonized Sales Tax (HST) revenues are heavily reliant on consumer expenditures and residential construction. These are dependent on the pace of the economic recovery and consumer confidence.

Expenditures

Government departments may see further expense variances if inflationary impacts remain heightened, are sustained and cannot be absorbed. The risk of inflation-related variance continues to be monitored, and any future variance will be reported in subsequent forecast updates.

Additionally, further variance may occur in construction related activity – impacting both projected capital spending and operational spending, in instances where government provides financial support to a community partner. While this forecast update continues to note cash flow impacts, there remains the risk that market volatility and construction industry capacity may cause future variance as the fiscal year concludes.

NOVA SCOTIA