



FORECAST UPDATE

December 20, 2024

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Minister of Finance and Treasury Board*

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Introduction

The Forecast Update provides the fiscal outlook for Nova Scotia for 2024–25. This is based on updated information about the major components of revenue and expenses as set out in the 2024–25 Budget Estimates, tabled in February 2024.

Relative to the 2024–25 Budget Estimates, the deficit is expected to improve. The Province of Nova Scotia is forecasting a deficit position of \$247.5 million, a decrease of \$219.9 million from the Budget’s deficit position of \$467.4 million. The change in budgetary position is mainly attributed to anticipated increases in revenue of \$642.0 million relative to increases in expenses of \$440.6 million.

This Forecast Update shows the continued focus on building Nova Scotia faster with significant investments in healthcare, and affordability measures that help support families, seniors and a healthy economy.

Overview

The Province of Nova Scotia is forecasting a deficit of \$247.5 million. This is an improvement of \$219.9 million from the budgeted deficit in the 2024–25 Budget Estimates.

Total Revenue, including Ordinary Revenue, Ordinary Recoveries, and Net Income from Government Business Enterprises (GBEs), is forecast to be \$16.5 billion or \$642.0 million higher than Budget Estimates.

Forecast changes in Ordinary Revenue include increases of \$549.1 million in Tax Revenue, \$7.1 million in Other Provincial Revenue, and \$51.0 in Investment Income, which are partially offset by a decrease of \$36.6 million in Federal Revenue Sources.

Ordinary Recoveries revenue is forecast to increase by \$61.6 million from Budget. Net Income from GBEs is expected to be \$9.8 million higher.

Total Expenses are forecast to be \$17.0 billion, an increase of \$440.6 million from the Budget Estimates. Expenses are predicted to be higher due to projected increases in Departmental Expenses of \$351.4 million, \$52.5 million in higher Refundable Tax Credits, higher Debt Servicing Costs of \$37.1 million, partially offset by a reduction in Pension Valuation Adjustment of \$0.4 million.

Consolidation and Accounting Adjustments positively impact the bottom line by \$226.0 million, which is \$18.4 million higher than budgeted.

Fiscal Summary 2024–25

(\$ thousands)

General Revenue Fund	Budget	September Update	December Update	Increase (Decrease) from Budget	Increase (Decrease) from Sept
Revenues					
Ordinary Revenue	14,225,841	14,188,396	14,796,443	570,602	608,047
Ordinary Recoveries	1,144,023	1,195,416	1,205,648	61,625	10,232
Net Income from Government Business Enterprises	473,933	470,202	483,722	9,789	13,520
Total - Revenue	15,843,797	15,854,014	16,485,813	642,016	631,799
Expenses					
Departmental Expenses	15,536,441	15,747,813	15,887,791	351,350	139,978
Refundable Tax Credits	126,316	126,319	178,852	52,536	52,533
Pension Valuation Adjustment	33,102	32,689	32,689	(413)	---
Debt Servicing Costs	822,863	854,600	859,950	37,087	5,350
Total - Expenses	16,518,722	16,761,421	16,959,282	440,560	197,861
Consolidation and Accounting Adjustments for Governmental Units	207,540	253,438	225,984	18,444	(27,454)
Provincial Surplus (Deficit)	(467,385)	(653,969)	(247,485)	219,900	406,484

Economic Performance and Outlook

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

External Outlook

Global Economy: Growth has been flat and uneven for the global economy following the COVID-19 pandemic rebound. Major central banks in advanced economies have cut their policy rates as inflation rates are returning near target. Trade tensions remain a near-term risk to the economic forecast. The International Monetary Fund (IMF) estimates that global real Gross Domestic Product (GDP) growth will be stable at 3.2 per cent in each of 2024 and 2025.

Europe: Labour markets remain stable in the Euro Area, although employment growth is slowing compared to recent years. Unemployment remains low at 6.3 per cent while inflation has continued to decline – decelerating to 2.0 per cent in October 2024. Strong exports as well as strong domestic demand and loosening monetary conditions are expected to support Euro Area economic growth. The IMF projects the Euro Area's real GDP will grow 0.8 per cent in 2024 and 1.2 per cent in 2025.

China: China's economic activity has been subdued due to weak domestic demand. The property market in China is facing significant challenges and both consumer and business confidence have been impacted by falling house prices. Weak domestic demand in China has weighed on global oil prices. Rising production capacity and falling goods prices have buoyed Chinese exports. Government support and easing monetary policy are expected to boost China's domestic demand, but trade tensions could lower exports. According to the IMF, China's real GDP is forecast to grow 4.8 per cent in 2024 and 4.5 per cent in 2025.

United States: The United States (US) economy has continued to grow at a solid pace, largely due to consumer spending and nonresidential investment. Consumer spending has been supported by strong real wage growth, rising wealth and easing financing conditions. The US Federal Reserve has cut its interest rate range by 100 basis points since September 2024 as inflation has slowed to 2.7 per cent in November. US real GDP growth is expected to moderate in 2025 as gradual fiscal policy tightening is expected. Household consumption is forecast to slow as wealth impacts fade and the US labour market cools. The Department of Finance and Treasury Board outlook assumes that the US economy will grow by 2.7 per cent in 2024 and 1.8 per cent in 2025.

Canada: Canada's real GDP growth moderated through 2024 because of weaker business investment and exports. Canada's consumer spending has also slowed. Consumption per capita continued to fall in 2024 on elevated interest rates and soft labour markets. Immigration targets have been reduced to address housing pressures. Canada's unemployment rate was 6.8 per cent in November 2024. The rise in unemployment rate was concentrated among youth and newcomers. Canada's labour productivity continues to be weaker compared to wage growth.

Canada's inflation slowed to 1.9 per cent in November 2024 as energy prices were down while shelter and food inflation remained elevated. The Bank of Canada forecasts inflation to average 2.5 per cent in 2024 and 2.2 per cent in 2025. Given the easing of inflation and overall softness of economic growth, the Bank of Canada has reduced its target for the overnight rate by 175 basis points since June 2024.

Lower interest rates are expected to support Canada’s household consumption and business activity through 2025. Energy output and robust foreign demand are projected to support Canada’s exports. The Department of Finance and Treasury Board economic outlook assumes that Canada’s real GDP will grow by 1.1 per cent in 2024 and 1.5 per cent in 2025.

Current Economic Outlook for Nova Scotia

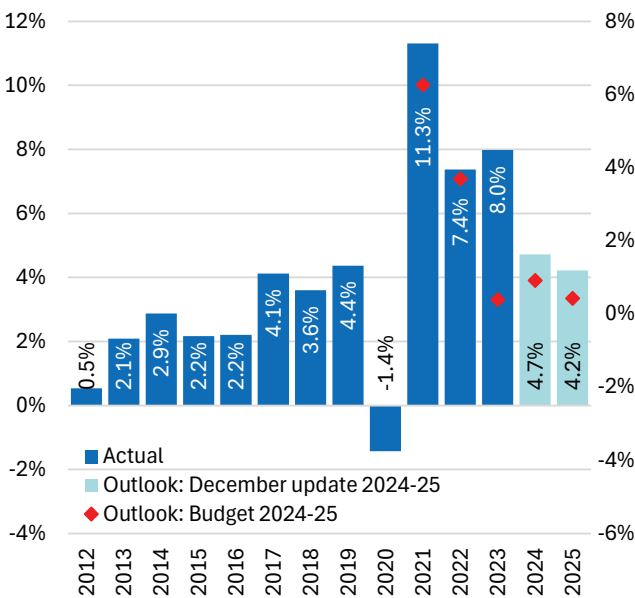
The Department of Finance and Treasury Board has revised its economic and demographic outlooks, incorporating information and data released through November 7, 2024. The economic outlook incorporates data and events from 2024 released on or before this date, however some of the discussion below refers to more recently released data.

With new Statistics Canada data released, real GDP growth in 2021 was revised up to 6.4 per cent (nominal GDP: 11.3 per cent). In 2022, real GDP was revised up to 3.5 per cent (nominal GDP: 7.4 per cent). Real GDP grew 2.0 per cent in 2023, while nominal GDP was up 8.0 per cent. In the revised economic outlook, real GDP is now expected to grow 1.9 per cent in 2024 and 2.0 per cent in 2025. Nominal GDP is projected to grow 4.7 per cent in 2024 and 4.2 per cent in 2025. Inflation is expected to return to long run trends in 2025.

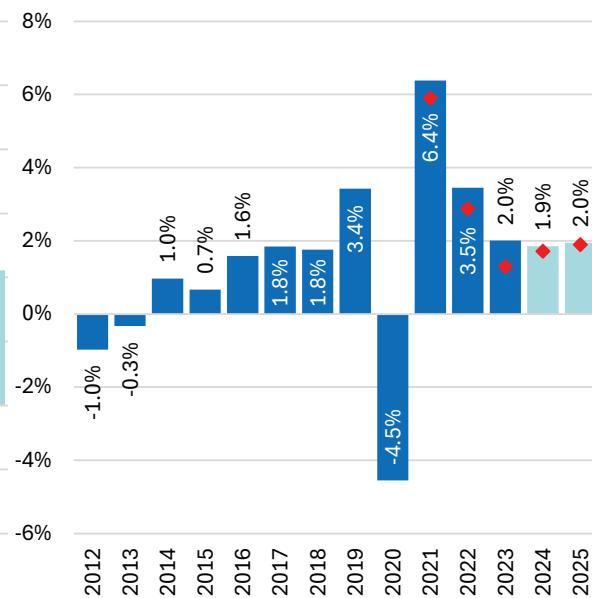
Nova Scotia GDP Growth

(per cent change)

Nominal GDP



Real GDP



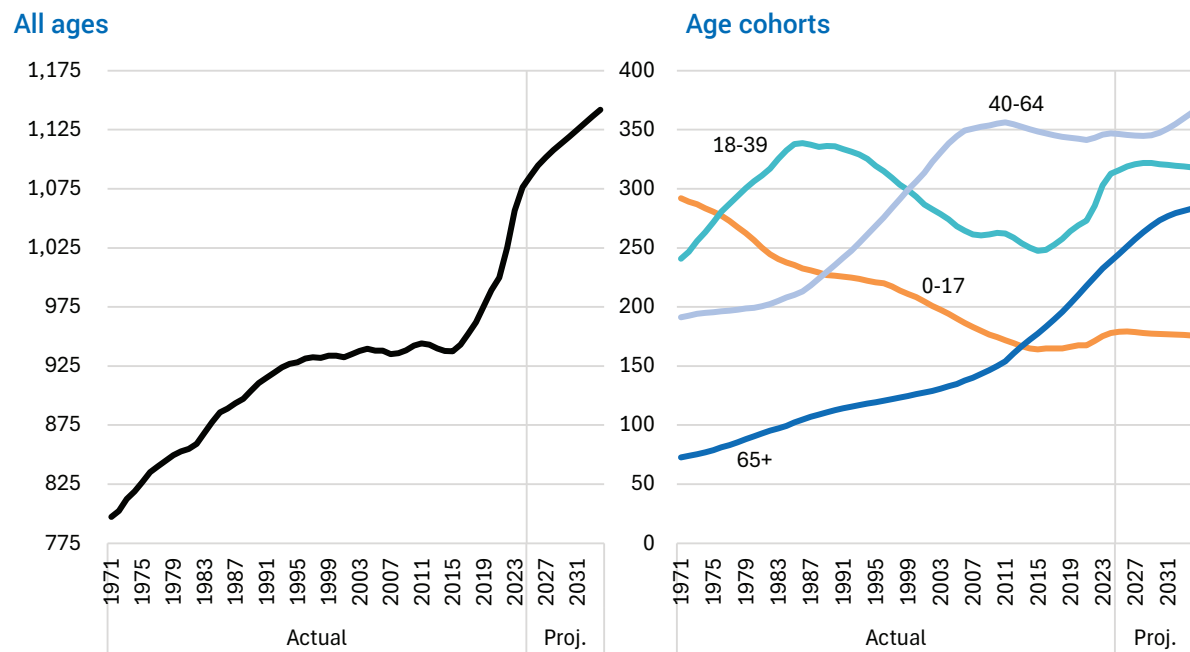
Source: Statistics Canada. Table 36-10-0222-01. Gross domestic product, expenditure-based, provincial and territorial, annual (x 1,000,000); Nova Scotia Department of Finance and Treasury Board projections

Population growth and rebounding residential investment have supported the economy in 2024. Household consumption growth is expected to slow to 4.7 per cent in 2024 and 4.3 per cent in 2025. Residential investment is expected to rebound in 2024 with 18.5 per cent growth while non-residential investments are projected to grow by 8.1 per cent. Exports are expected to slow to 3.5 per cent in 2024 (particularly for services), picking up to 5.5 per cent in 2025. Imports are forecast to grow 6.8 per cent in 2024, slowing to 4.4 per cent in 2025. Employment growth is expected to slow in 2024 and 2025, causing the unemployment rate to rise. Strong growth in employee compensation is expected to continue in 2024 before slowing somewhat in 2025. Tourism recovery stalled in 2024 amid high prices but is expected to continue in 2025 as inflation subsides.

Population: Finance and Treasury Board has updated its population projections to incorporate the latest results, post census updates on age and sex composition, as well as revised federal policies for immigrants and non-permanent residents. Population growth is forecast to decelerate to 0.9 per cent in 2025 and 0.8 per cent in 2026, gradually slowing to around 0.5 per cent per year over the next 10 years. Population growth continues to support the growing labour force and employment, with the unemployment rate expected to average 6.5 per cent in 2024. Employment growth is expected to slow from 2.4 per cent in 2024 to 1.1 per cent in 2025. The unemployment rate is expected to rise to 6.9 per cent in 2025.

Nova Scotia Population Growth

(thousands as of July 1)



Source: Statistics Canada. Table 17-10-0009-01 Population estimates on July 1st, by age and sex; Nova Scotia Department of Finance and Treasury Board projections

Recent Economic Performance

Labour Markets: Nova Scotia's labour market remains strong in 2024. Over the first eleven months of the year, Nova Scotia's labour force grew by 3.4 per cent, while employment also grew by 3.4 per cent. This resulted in the unemployment rate holding steady at an average of 6.4 per cent. Nova Scotia's job vacancy rate has been declining overall since the end of 2022. In September 2024 the job vacancy rate was 3.1 per cent.

Prices: Inflation continues to cool from its peak in the summer of 2022, with year-over-year growth in Nova Scotia's Consumer Price Index (CPI) at 1.7 per cent in November 2024. Declines in energy costs were a significant factor in Nova Scotia's inflation rate, with gasoline declining 3.3 per cent while fuel oil and other fuels reported a 14.9 per cent price decline. Overall energy prices fell 3.0 per cent in November. Excluding volatile food and energy prices, inflation was 2.0 per cent year-over-year.

Income and Consumption: Average weekly earnings grew 5.1 per cent in the first nine months of 2024 compared to the same period in 2023. Wage growth in almost all industries in Nova Scotia outpaced national wage growth. Employee compensation was up 8.7 per cent in the first three quarters of 2024, compared with the same period in 2023, including the effects of employment, hours and wages.

Nova Scotia's retail trade increased 1.7 per cent in the first nine months of 2024, outpacing the national growth of 0.8 per cent. Growth was fastest in the general merchandise, gas stations, and motor vehicles and parts sectors. There have been notable declines in health and personal care stores, as well as electronics and appliances. New motor vehicle unit sales were up 19.0 per cent, driven by growing sales in the truck/SUV category. Food service receipts grew 4.7 per cent in the first nine months of 2024.

Investment: Residential building construction has maintained strong growth in the first ten months of 2024, with Nova Scotia residential building construction investment increasing 21.6 per cent year-to-date compared with the same period in the previous year. While growth has been strongest in the Halifax multiple unit category, multiple and single dwelling units have grown in both Halifax and the rest of the province. Nova Scotia's housing starts for January-November 2024 were up 7.1 per cent over the same period in 2023, with strong growth in Halifax and a decline in the rest of Nova Scotia. Resale home prices in Halifax were up 6.0 per cent in the first eleven months of 2024.

Non-residential building construction investment was up 33.3 per cent in the first ten months of 2024, with strong growth in both Halifax and the rest of Nova Scotia. Growth was strongest in the Institutional and government sectors. Non-residential investment across all sectors and assets increased 15.0 per cent in the first three quarters of 2024 compared with the same period in 2023, outpacing the national average of 3.1 per cent. Business sector investment grew 1.7 per cent for the same period, while government investment grew 29.3 per cent across all assets.

Exports: Nova Scotia's international goods exports grew by 0.9 per cent from January-October 2024 compared to January-October 2023. The US and China continue to be Nova Scotia's largest trade partners. In the first ten months of 2024 exports to the US grew by 4.7 per cent and accounted for 69.7 per cent of Nova Scotia's international goods exports, while exports to China declined 12.6 per cent and made up 10.7 per cent of Nova Scotia's international goods exports. Nova Scotia's seafood exports were down 4.6 per cent while there were rising exports for tires, paper, fruit, plastics and bakery products.

Current Economic Outlook Assumptions

<i>Per cent change, except where noted</i>	Budget 2024-25		December Forecast Update	
	2024	2025	2024	2025
Real GDP (\$2017 chained)	1.7%	1.9%	1.9%	2.0%
Nominal GDP	3.9%	3.3%	4.7%	4.2%
Compensation of Employees	3.7%	3.7%	8.2%	4.3%
Household Income	4.6%	3.7%	9.2%	4.4%
Household Final Consumption	4.7%	3.1%	4.7%	4.3%
Retail Sales	2.3%	3.1%	2.2%	4.3%
Consumer Price Index	2.7%	1.9%	2.4%	1.9%
Investment in Residential Structures	5.1%	3.4%	18.5%	6.7%
Non-Res., Machinery, Intellectual Property	7.3%	3.4%	8.1%	5.5%
Net Operating Surplus: Corporations	17.3%	15.4%	-32.9%	-9.7%
Net Mixed Income: Unincorporated	3.2%	2.7%	9.2%	4.7%
Exports of Goods and Services	3.5%	3.4%	3.5%	5.5%
Exports of Goods to Other Countries	2.4%	1.7%	2.2%	2.7%
Imports of Goods and Services	5.4%	2.9%	6.8%	4.4%
Population at July 1 (all ages, thousands)	1,083.1	1,104.8	a 1,076.4	1,085.9
Population at July 1 (ages 18-64, thousands)	661.9	672.7	a 659.7	662.1
Labour Force (thousands)	545.6	559.3	545.1	553.8
Employment (thousands)	505.5	515.2	509.7	515.4
Unemployment Rate, Annual Average	7.4%	7.9%	6.5%	6.9%

a ~ actual

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 \$16.5 billion, \$642.0 million or 4.1 per cent higher than Budget Estimates. Revenue estimates are based on federal estimates up to December 2, 2024, and provincial administrative data up to November 13, 2024. Information received after these dates will be incorporated in future updates.

The growth in expected Total Revenue includes increases of \$549.1 million or 6.6 per cent in Tax Revenue, \$7.1 million or 1.8 per cent in Other Provincial Revenue, \$51.0 million or 31.3 per cent in Investment Income, and \$9.8 million or 2.1 per cent in Net Income from Government Business Enterprises. These increases are partially offset by a decrease of \$36.6 million or 0.7 per cent in Federal Revenue Sources.

Ordinary Revenue – Provincial Revenue Sources

Total Ordinary Revenue from Provincial Sources is forecast to be \$9.5 billion, which is \$607.2 million or 6.8 per cent higher than Budget Estimates.

Tax Revenue

Personal Income Tax (PIT) revenue is forecast to be up \$290.4 million or 7.0 per cent from Budget, due to higher projections for taxable income and yield. Personal taxable income is projected to be up \$2.2 billion in 2024 and \$2.5 billion in 2025 due to higher-than-expected taxable income in 2023 and stronger growth. The yield rate on taxable income is projected to be up 2.0 per cent in 2024 and 0.1 per cent in 2025 compared to Budget. Indexation of the taxable income brackets and several non-refundable tax credits will start January 1, 2025, based on a 3.1 per cent adjustment. The Basic Personal Amount Enhancement is anticipated to be adjusted so all tax filers will be eligible to claim the \$3,000 enhancement for the 2025 taxation year.

Corporate Income Tax (CIT) revenue is forecast to be up \$64.4 million or 8.6 per cent from Budget as a result of higher national corporate taxable income. The projection for national corporate taxable income was revised up for 2023, resulting in the estimate being revised up 8.7 per cent in 2024 and 8.5 per cent in 2025. Estimates for the Province's share of national taxable income and the small business share of taxable income are unchanged from Budget.

Harmonized Sales Tax (HST) revenue is forecast to be down by \$132.4 million or 4.8 per cent from Budget, mainly attributable to a reduction in new taxable housing and the temporary HST reduction. Taxable housing is projected to be 13.1 per cent lower in 2024. This was partially offset by an increase in taxable consumer expenditures, projected to be up \$303.5 million or 1.5 per cent in 2024 and \$475.9 million or 2.2 per cent in 2025 compared to Budget. The other bases, public sector body, exempt supply businesses and financial institutions are projected to be up compared to Budget. The two-month temporary HST reduction is estimated to cost \$82.0 million in provincial revenue.

Cannabis Tax revenue is forecast to be \$0.8 million or 4.5 per cent higher than Budget on the basis of increased remittances of the province's additional duty from licensed producers.

Non-resident Deed Transfer Tax is forecast to be up \$0.9 million or 8.0 per cent from Budget.

Vaping Products Tax revenue is forecast to be down \$0.2 million or 5.8 per cent from Budget.

Motive Fuel Tax revenue is forecast to be up \$1.1 million or 0.4 per cent from Budget, with a minor change in overall consumption of motive fuels.

Total Revenue 2024–25

(\$ 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	4,174,435	4,144,088	4,464,884	290,449	320,796
Corporate Income Tax	748,944	756,399	813,362	64,418	56,963
Harmonized Sales Tax	2,755,642	2,711,671	2,623,240	(132,402)	(88,431)
Cannabis Tax	18,334	17,895	19,166	832	1,271
Vaping Tax	3,353	3,495	3,159	(194)	(336)
Non-resident Deed Transfer Tax	11,473	11,204	12,386	913	1,182
Motive Fuel Tax	278,243	279,727	279,355	1,112	(372)
Tobacco Tax	114,084	109,402	107,218	(6,866)	(2,184)
Other Tax Revenue	241,718	242,048	246,821	5,103	4,773
Prior Years' Adjustments - Taxes	---	(94)	325,762	325,762	325,856
	8,346,226	8,275,835	8,895,353	549,127	619,518
Other Provincial Revenue:					
Registry of Motor Vehicles	147,916	153,125	152,325	4,409	(800)
Other Provincial Sources	174,087	174,283	174,771	684	488
TCA Cost Shared Revenue	13,751	10,166	10,272	(3,479)	106
Other Fees and Charges	67,103	63,272	66,580	(523)	3,308
Gain on Disposal of Crown Assets	975	7,003	7,003	6,028	---
	403,832	407,849	410,951	7,119	3,102
Investment Income:					
Interest Revenues	140,410	176,716	191,547	51,137	14,831
Sinking Fund Earnings	22,414	21,803	22,244	(170)	441
	162,824	198,519	213,791	50,967	15,272
Total - Provincial Sources	8,912,882	8,882,203	9,520,095	607,213	637,892
Federal Revenue Sources					
Equalization Payments	3,284,338	3,284,338	3,284,338	---	---
Canada Health Transfer	1,378,600	1,378,600	1,357,718	(20,882)	(20,882)
Canada Social Transfer	447,583	447,583	440,804	(6,779)	(6,779)
Other Federal Sources	161,033	163,966	164,558	3,525	592
TCA Cost Shared Revenue	41,405	31,706	31,460	(9,945)	(246)
Prior Years' Adjustments	---	---	(2,530)	(2,530)	(2,530)
Total - Federal Sources	5,312,959	5,306,193	5,276,348	(36,611)	(29,845)
Total Ordinary Revenue	14,225,841	14,188,396	14,796,443	570,602	608,047
Total - Ordinary Recoveries	1,144,023	1,195,416	1,205,648	61,625	10,232
Net Income from Government Business Enterprises (GBEs)					
Nova Scotia Liquor Corporation	269,588	269,588	279,791	10,203	10,203
Nova Scotia Gaming Corporation	197,300	193,600	194,800	(2,500)	1,200
Halifax-Dartmouth Bridge Commission	5,314	5,283	6,115	801	832
Highway 104 Western Alignment Corporation	1,731	1,731	3,016	1,285	1,285
Total - Net Income from GBEs	473,933	470,202	483,722	9,789	13,520
Total - Revenue	15,843,797	15,854,014	16,485,813	642,016	631,799

Tobacco Tax revenue is forecast to be down \$6.9 million or 6.0 per cent from Budget as consumption declines. Consumption of cigarettes is projected to be 8.6 per cent lower. Consumption of fine cut tobacco is down 30.3 per cent.

Other Tax Revenue is forecast to be up \$5.1 million or 2.1 per cent from Budget primarily due to higher forecasted Financial Institutional Capital Tax (FICT).

Prior Year Adjustments (PYAs) from Provincial Sources are \$325.8 million, comprised of the following: +\$218.1 million for Personal Income Tax due to higher personal taxable income and yield for the 2023 and 2024 taxation years; +\$86.6 million for Corporate Income Tax resulting from higher national corporate taxable income for the 2023 taxation year; +\$8.4 million for Harmonized Sales Tax due to higher consumer expenditures more than offsetting a lower taxable housing base for 2023; and +\$12.8 million for the Financial Institution Capital Tax.

Other Provincial Revenue

Other Provincial Revenue is forecast to be \$7.1 million or 1.8 per cent higher than Budget Estimates. This is primarily due to a \$4.4 million increase in Registry of Motor Vehicles, a \$6.0 million increase resulting from the non-monetary transfers of properties to the Preston Area Housing Fund, and a \$0.7 million increase in Other Provincial Sources. Partially offsetting these increases is a forecasted decrease in Other Fees and Charges of \$0.5 million and a forecasted \$3.5 million decrease in Provincial Tangible Capital Asset Cost Shared Revenue, driven by changes in the expected timing of cash flows related to highway projects.

Investment Income

Investment Income is predicted to be \$51.0 million or 31.3 per cent higher than Budget Estimates. Interest revenues are \$51.1 million or 36.4 per cent higher than Budget Estimates, primarily due to higher short-term investments balance and higher than budgeted actual short-term interest rates. Sinking fund earnings are forecast to be \$0.2 million or 0.8 per cent lower than Budget Estimates due to lower than forecasted medium-term interest rates.

Ordinary Revenue – Federal Revenue Sources

Total Ordinary Revenue from Federal Sources is forecast to be \$5.3 billion, which is \$36.6 million or 0.7 per cent lower than Budget Estimates.

Equalization is forecast to be \$3.3 billion for 2024–25, unchanged from Budget Estimates as the program uses a one-estimate, one-payment approach.

The **Canada Health Transfer** (CHT) is forecast to be down \$20.9 million or 1.5 per cent from Budget Estimates. The revised estimate is based on a decline in the province's share of national population from 2.65 per cent to 2.61 per cent based on official estimates released by Statistics Canada in September 2024.

The **Canada Social Transfer** (CST) is forecast to be down \$6.8 million or 1.5 per cent from Budget Estimates. The revised estimate is based on a decline in the province's share of national population from 2.65 per cent to 2.61 per cent based on official estimates released by Statistics Canada in September 2024.

Prior Year Adjustments (PYAs) from Federal Sources are negative \$2.5 million due to revised population estimates for the 2023–24 CHT and CST entitlement year.

Other Federal Sources is forecast to be up \$3.5 million or 2.2 per cent from Budget Estimates, primarily due to the carry-over of federal funding from 2023–24 related to initiatives at the Department of Seniors and Long-term Care.

Federal TCA Cost Shared Revenue is forecast to be down by \$9.9 million or 24.0 per cent from Budget Estimates, mainly because of changes in the expected timing of cash flows related to highway projects.

Ordinary Recoveries

Ordinary Recoveries Revenue is forecast to be \$61.6 million or 5.4 percent higher than Budget Estimates.

The **Department of Cyber Security and Digital Solutions** is forecast to be \$8.2 million or 82.6 per cent higher than Budget primarily due to \$6.2 million One Person One Record purchases on behalf of Nova Scotia Health, and \$2.0 million SAP integration projects on behalf of related entities.

The **Department of Education and Early Childhood Development** is forecast to be \$15.1 million or 6.7 per cent lower than Budget primarily due to \$14.7 million related to the current action plan for the Canada Wide Early Learning Child Care Agreement, carried forward into the next fiscal year.

The **Department of Emergency Management** is forecast to be \$23.2 million or 47.5 per cent higher than Budget primarily due to \$24.2 million in increased recoveries under Disaster Assistance for the July 2024 floods.

The **Department of Environment and Climate Change** is forecast to be \$7.7 million or 637.8 per cent higher than Budget primarily due to \$7.3 million in federal funding related to Canada Nova Scotia Nature Agreement.

The **Department of Health and Wellness** is forecast to be \$16.6 million or 12.6 per cent higher than Budget primarily due to a \$9.0 million increase in third party claim auto levies, \$5.0 million increase in out-of-province recoveries for non-resident inpatients, and a \$1.4 million increase in Physician reciprocal billings.

The **Department of Justice** is forecast to be \$4.5 million or 3.0 per cent lower than Budget primarily due to \$6.9 million changes in the Municipal Service Exchange Agreement to exempt municipalities from contributing towards correction payments annually, partially offset by \$2.2 million increased Nova Scotia Legal Aid federal funding.

The **Department of Labour, Skills and Immigration** is forecast to be \$4.8 million or 4.1 per cent higher than Budget primarily due to higher than anticipated recoveries of \$1.9 million in Workforce Development Agreement client overpayments, \$1.2 million in Federal Labour Market Transfer Agreement funding, and \$1.1 million in various other agreements including the Nova Scotia Design Initiative, Advancing Women in Apprenticeship among others.

The **Department of Municipal Affairs and Housing** is forecast to be \$70.6 million or 21.2 per cent lower than Budget primarily due to reductions of \$65.5 million in Investing in Canada Infrastructure Program recoveries, related to changes in cashflows, and \$5.4 million in lower recoveries from HRM under the new Municipal Service Exchange Agreement.

The **Department of Natural Resources and Renewables** is forecast to be \$5.3 million or 18.5 per cent higher than Budget primarily due to \$2.4 million related to the Codes Acceleration Fund, and \$2.0 million related to the 2 billion Trees Program.

Public Service Offices are forecast to be \$2.2 million or 29.6 per cent higher than Budget primarily due to budgeted revenue related to the Mass Casualty Commission that was recategorized as federal recoveries.

The **Department of Public Works** is forecast to be \$2.6 million or 8.0 per cent lower than Budget primarily due to a \$6.1 million reduction in the Municipal Service Exchange Agreement for roads. These decreases are partially offset by \$3.1 million for Highway 107 Sackville-Bedford-Burnside, and \$1.5 million for the Highway 103 Bridgewater Interchange project costs.

Net Income from Government Business Enterprises (GBEs)

Total Net Income from GBEs is up \$9.8 million or 2.1 per cent from Budget Estimates.

Net income from the **Nova Scotia Liquor Corporation** (NSLC) is \$10.2 million or 3.8 per cent higher primarily due to higher sales of alcoholic beverages and cannabis, combined with lower-than-anticipated expenses.

Net income the **Nova Scotia Gaming Corporation** (NSGC) is forecast to be \$2.5 million or 1.3 per cent lower than budget due to a decrease in Video Lottery and Casino revenues, offset by an increase in iCasino revenue.

Net income from the **Halifax-Dartmouth Bridge Commission** is forecast to be \$0.8 million or 15.1 per cent higher than Budget, primarily due to adjustments in interest expense.

Net income from the **Highway 104 Western Alignment Corporation** is forecast to be \$1.3 million or 74.2 per cent higher than Budget, primarily due to increases in tolling revenue and interest income.

Expenses

Total Expenses for 2024–25 are forecast to be \$17.0 billion, \$440.6 million or 2.7 per cent higher than the Budget Estimates.

Increases are expected in Departmental Expenses of \$351.4 million or 2.3 per cent, Refundable Tax Credits of \$52.5 million or 41.6 per cent, and Debt Servicing Costs of \$37.1 million or 4.5 per cent, and are partially offset by a decrease in the Pension Valuation Adjustment of \$0.4 million or 1.2 per cent.

Departmental Expenses

Total Departmental Expenses for 2024–25 are forecast to be \$351.4 million or 2.3 per cent higher than the Budget Estimates. Reporting for departments reflect government structure as of December 11, 2024. Departmental structure and name changes that came into effect December 12, 2024, will be reported in the next update.

Departmental Expenses 2024–25

(\$ thousands)

	Budget	September Update	December Update	Increase (Decrease) from Budget	Increase (Decrease) from Sept
Advanced Education	725,539	726,827	726,827	1,288	---
Agriculture	46,682	46,682	46,682	---	---
Communities, Culture, Tourism and Heritage	171,845	173,238	237,317	65,472	64,079
Community Services	1,579,169	1,579,169	1,575,319	(3,850)	(3,850)
Cyber Security and Digital Solutions	276,224	260,215	266,415	(9,809)	6,200
Economic Development	96,782	101,615	97,144	362	(4,471)
Education and Early Childhood Development	1,999,180	2,006,460	2,017,080	17,900	10,620
Emergency Management	30,391	35,557	42,381	11,990	6,824
Environment and Climate Change	73,876	81,536	81,536	7,660	---
Finance and Treasury Board	48,790	48,790	48,790	---	---
Fisheries and Aquaculture	15,951	15,951	16,397	446	446
Health and Wellness	5,536,898	5,715,278	5,768,541	231,643	53,263
Justice	464,719	471,620	476,906	12,187	5,286
Labour, Skills and Immigration	241,644	244,085	245,880	4,236	1,795
Municipal Affairs and Housing	669,983	631,577	612,528	(57,455)	(19,049)
Natural Resources and Renewables	141,588	144,919	149,434	7,846	4,515
Public Service	517,397	517,904	532,242	14,845	14,338
Public Works	716,170	739,501	739,095	22,925	(406)
Seniors and Long-term Care	1,362,710	1,411,557	1,431,054	68,344	19,497
Service Nova Scotia	161,138	211,492	224,243	63,105	12,751
Restructuring Costs	659,765	583,840	551,980	(107,785)	(31,860)
Total - Departmental Expenses	15,536,441	15,747,813	15,887,791	351,350	139,978

The **Department of Advanced Education** is forecast to be \$1.3 million or 0.2 per cent higher than Budget due to a new five-year funding agreement with the Atlantic Veterinary College.

The **Department of Communities, Culture, Tourism and Heritage** is forecast to be \$65.5 million or 38.1 per cent higher than Budget primarily due to increases of \$38.0 million for the Nova Scotia Film Fund investments, \$25.3 million for various community grants, and \$2.2 million in fully recoverable expenses such as \$0.5 million for Support4Culture and \$0.3 million for Mass Casualty Commission Response - Mental Health and Grief Support Initiatives.

The **Department of Community Services** is forecast to be \$3.9 million or 0.2 per cent lower than Budget primarily due to decreases of \$30.6 million attributable to the timing of the rollout of several initiatives related to the implementation of the Human Rights Remedy for the Findings of Systemic Discrimination against Nova Scotians with Disabilities, \$19.2 million due to timing of initiatives supporting homelessness, \$4.8 million in emergency supports required for children in care. These are partially offset by increases of \$18.0 million for one-time pallet units and site implementation costs, \$14.0 million in additional support for Income Assistance clients, \$9.9 million related to various staffing and operating cost pressures, \$4.7 million due to increasing pharmacare costs, \$2.8 million for child protection social workers, and \$2.0 million in grants to support food insecurity and community food access.

The **Department of Cyber Security and Digital Solutions** is forecast to be \$9.8 million or 3.6 per cent lower than Budget primarily due to an accounting adjustment to capitalize \$18.0 million enterprise resource planning system (SAP) modernization costs, partially offset by \$6.2 million in purchases on behalf of Nova Scotia Health to support One Person One Record and \$2.0 million recoverable SAP integration projects on behalf of related entities.

The **Department of Education and Early Childhood Development** is forecast to be \$17.9 million or 0.9 per cent higher than Budget primarily due to \$18.5 million in enrolment growth and operational pressures at Regional Centres for Education/Conseil Scolaire Acadien Provincial, \$11.9 million for the implementation of the school lunch program, \$6.1 million in Nova Scotia Teacher's Union medical and dental premiums largely due to increased rates and membership, and \$5.8 million related to the Teachers' Pension Plan. These increases are partially offset by decreases of \$14.9 million related to initiatives based on the current action plan under the Canada Wide Early Learning Child Care Agreement, carried forward, and \$8.4 million in amortization due to shifts in cash flow for various projects as well as opening delays for some new schools.

The **Department of Emergency Management** is forecast to be \$12.0 million or 39.5 per cent higher than Budget primarily due to \$7.2 million in Disaster Assistance related to the February 2024 snowstorm and the July 2024 flooding, partially recoverable, and \$3.5 million for Trunked Mobile Radio service for new towers.

The **Department of Environment and Climate Change** is forecast to be \$7.7 million or 10.4 per cent higher than Budget primarily due to \$7.3 million fully recoverable expenses for Canada Nova Scotia Nature Agreement.

The **Department of Health and Wellness** is forecast to be \$231.6 million or 4.2 per cent higher than Budget primarily due to \$133.7 million for anticipated operational pressures for the Nova Scotia Health mainly attributable to staffing costs, facility operations, inflationary increases for medical, surgical supplies and drug costs, \$57.4 million increase for Physician Services mainly due to increased utilization in the new physician funding model and establishing the Physician Retirement Fund, \$49.5 million increase for

Healthcare Bargaining Unit agreement, \$13.5 million in increased utilization pressures for plasma protein/fresh blood products collected through Canadian Blood Services, \$12.3 million for Emergency Health Services mainly due to capital expenditure reallocations to operating and uncollectible ambulance user fees, \$7.1 million for implementation of Your Health NS which supports patient record accessibility. These increases are partially offset by a decrease of \$41.6 million in Pharmaceutical Services and Extended Benefits mainly due to increased drug rebates for seniors pharmacare, cancer and exception drugs.

The **Department of Justice** is forecast to be \$12.2 million or 2.6 per cent higher than Budget primarily due to \$4.0 million increased funding to Nova Scotia Legal Aid, \$3.8 million for Correctional Services operating pressures including \$1.0 million for food costs, \$2.2 million in fully recoverable additional federal funding for legal aid announced in the federal budget, \$0.7 million for Criminal Injuries Counseling Services and \$0.6 million for Victim Services casual and relief staff.

The **Department of Labour Skills and Immigration** is forecast to be \$4.2 million or 1.8 per cent higher than Budget primarily due to fully recoverable expenses of \$1.9 million in Workforce Development Agreement client overpayments, \$1.2 million for the Federal Labour Market Transfer Agreement funding and \$1.1 million related to other various agreements including the Nova Scotia Design Initiative, Advancing Women in Apprenticeship among others.

The **Department of Municipal Affairs and Housing** is forecast to be \$57.5 million or 8.6 per cent lower than Budget primarily due to \$103.7 million related to timing of cashflows under the Investing in Canada Infrastructure Program, partially recoverable. This decrease is partially offset by increases of \$10.4 million for additional Home Repair & Accessibility Program funding, \$10.0 million for municipal infrastructure grants to fund Growth and Renewal Infrastructure Development applications, \$7.9 million in grants to the Nova Scotia Provincial Housing Agency for moving all tenants to Rent-Geared-to-Income model, and other maintenance and staffing costs, \$6.0 million for the Preston Area Housing Fund for a transfer of housing properties, and \$4.1 million in grants in lieu of provincial property taxes.

The **Department of Natural Resources and Renewables** is forecast to be \$7.8 million or 5.5 per cent higher than Budget primarily due to \$3.1 million partially recoverable expenses for the 2 Billion Trees Program, \$2.4 million in fully recoverable expenses for the Codes Acceleration Fund, \$0.9 million for energy initiative projects, \$0.9 million operating expenses including campground registration services, office leases, fuel, and fleet repair, \$0.3 million fully recoverable expenses under the Critical Minerals Geoscience and Data Initiative, and \$0.2 million in fully recoverable aerial photography costs.

Public Service Offices are forecast to be \$14.8 million or 2.9 per cent higher than Budget primarily due to \$15.7 million in Elections Nova Scotia for the 42nd Provincial General Election.

The **Department of Public Works** is forecast to be \$22.9 million or 3.2 per cent higher than Budget primarily due to \$19.5 million for storm damage, partially recoverable, \$6.9 million increase for the Middle River Pumping Station due to cost escalations, \$2.6 million in Build NS capital grants for the Cunard project, \$2.5 million operating grant for the More Faster Halifax Infirmary Expansion Project (HIEP) parking solution, \$2.4 million for the Highway 107 Sackville Bedford Burnside Interchange, fully recoverable, \$1.6 million Build NS capital grants for the Boat School Wharf project, \$1.4 million for ferry maintenance costs, \$1.3 million for the Highway 103 Bridgewater Interchange, partially recoverable, and \$1.1 million for wetland monitoring costs. These increases are partially offset by a \$9.2 million decrease in the Municipal Service Exchange Agreement for roads, and \$7.6 million decrease in the Build NS grant for Cellular Nova Scotia Program due to timing.

The **Department of Seniors and Long-term Care** is forecast to be \$68.3 million or 5.0 percent higher than Budget primarily due to \$43.4 million in Home Care for increased participation in Home Support Direct Funding Programs, \$15.1 million for the renewal of long-term care service agreements as committed in Action for Health, \$4.9 million for increased utilization in the Red Cross Health Equipment Loan Program (HELP) and \$4.0 million for increased utilization of attendant care services for Long-term Care residents with complex needs.

The **Department of Service Nova Scotia** is forecast to be \$63.1 million or 39.2 per cent higher than Budget primarily due to \$45.0 million for the Heating Assistance Rebate Program, \$12.8 million for partially recoverable trails repair due to flood damage, \$1.5 million for self-insured claims, and \$1.4 million for increased Property Tax Rebate for Seniors grants.

Refundable Tax Credits

Refundable tax credit expenditures are forecast to be \$52.5 million or 41.6 per cent higher than Budget Estimates. This is due to forecast increases for the Scientific Research and Experimental Development Tax Credit, the Digital Animation and Digital Media Tax Credits, and the Capital Investment Tax Credit.

Pension Valuation Adjustment

The Pension Valuation Adjustment is forecast to be \$0.4 million or 1.2 per cent lower than Budget Estimates primarily due to new actuarial reports.

Debt Servicing Costs

Total Debt Servicing Costs are forecast to be up \$37.1 million or 4.5 per cent from Budget Estimates primarily due to higher than budgeted interest rates.

Consolidation and Accounting Adjustments

Consolidation and Accounting Adjustments for government units are forecast to be \$18.4 million or 8.9 per cent higher than the Budget primarily due to an increase of \$11.8 million in changing cash flow requirements on healthcare infrastructure and other projects, \$7.0 million due to lower than anticipated amortization on healthcare capital equipment, and a decrease of \$0.4 million in various other organizations.

Capital

Total Capital Spending is forecast to be \$1.7 billion, which is \$86.9 million or 5.3 per cent higher than Budget.

Tangible Capital Assets

The province is forecasting Capital Purchase Requirements to be \$75.4 million or 5.6 per cent higher than Budget. This is largely driven by an increase in highway construction costs due to timing of projects and price escalations as well as advancing the Halifax Infirmity Expansion Project (HIEP) enabling works projects. Additionally, this increase includes an accounting adjustment to capitalize a portion of the enterprise resource planning system (SAP) modernization costs. This increase is partially offset by a reduction in contingency.

Capital Grants

The province is forecasting Capital Grant Requirements to be \$11.6 million or 3.9 per cent higher than Budget primarily due to net increases in healthcare projects including advancing the HIEP enabling works projects.

Capital Spending 2024–25

(\$ thousands)

	Budget	September Update	December Update	Increase (Decrease) from Budget	Increase (Decrease) from Update
Highways & Structures	491,569	551,061	549,104	57,535	(1,957)
Buildings	648,891	689,738	690,255	41,364	517
Information Technology	45,545	88,728	85,207	39,662	(3,521)
Land Purchases	53,801	56,130	56,103	2,302	(27)
Vehicles and Equipment	24,188	24,410	28,675	4,487	4,265
Contingency	70,000	---	---	(70,000)	---
Total - Capital Purchase Requirements	1,333,994	1,410,067	1,409,344	75,350	(723)
Capital Grants	295,275	332,933	306,865	11,590	(26,068)
Total - Capital Spending	1,629,269	1,743,000	1,716,209	86,940	(26,791)

Key Risks

Economic

The threat of large tariff escalation is a significant negative risk to the global economy and to Canada in particular. The US is Nova Scotia's largest trade partner, accounting for over two-thirds international exports of goods from Nova Scotia. A 25 per cent tariff (and potential retaliatory measures) could substantially reduce trade volumes with the US, slowing both the US and Canadian economies while destabilizing foreign exchange markets, commodity prices and monetary policy.

Most advanced economies have recovered from high inflation in the past year. Economic growth rates in both the US and China economies are expected to slow. China's economy faces risks surrounding residential investment, weak consumer confidence and slowing export demand. Ongoing geopolitical conflicts introduce uncertainty to the outlook. Commodity prices have stabilized following the invasion of Ukraine, but oil prices are sensitive to an escalation of conflict in the Middle East and possible US tariffs. Unexpected shifts in battlefield outcomes, government sanctions, and transportation arrangements could result in market impacts.

Population growth has lifted Nova Scotia's GDP in recent years. With expected deceleration of population growth, the province's economic expansion may be different than expected in the short term. The province's housing market faces changing influences from: population, interest rates, labour supply, and government initiatives. Major projects and investments in Nova Scotia continue to face uncertain effects from labour supply constraints, which could alter their timing and economic impacts. These risks could be magnified by tariff escalation. Although comparatively mild to date in 2024, extreme weather events could become more common and may be an increasing risk to the economy. Nova Scotia's statistical indicators are subject to historical revision after they have been released, which affects the estimated relationships among variables and changes 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 forecast 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 2023 taxation year have not yet been received, thus creating the possibility of additional prior year adjustments as well as influencing assumptions for the current fiscal year. The pace of inflation and economic uncertainty in 2025 are risks to most provincial own-source revenues.

The forecast of PIT revenue is dependent on the labour market and income benefits. Slower growth is expected for several key PIT factors in 2025 including average wage, population and employment. The start of indexation of taxable income brackets and certain credits on January 1, 2025 will slow yield rate growth going forward.

The forecast of CIT revenue is highly dependent upon the level of national corporate taxable income and the province's share. National taxable income is projected to grow in 2024 and 2025 but faces headwinds of slowing economic growth. The share of corporate income taxed at the general rate has grown compared to pre-pandemic years, supporting growth in CIT revenue during this period.

Harmonized Sales Tax (HST) revenues are heavily reliant on consumer expenditures and investment in residential construction.

Expenditures

While the risks associated with inflation have abated, climate change events continue to impact the province. Given the extreme occurrences to date including flooding and wildfires, other potential events may impact the province and result in additional expense for support and/or repairs and maintenance.

Additionally, labour shortages continue to impact Nova Scotia's health care sector and the construction industry. Escalation continues to grow on construction projects due to labour supply constraints in the skilled trades.

