



FORECAST UPDATE

September 27, 2024

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Minister of Finance and Treasury Board*

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ISBN 978-1-77448-676-4

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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 increase. The Province of Nova Scotia is forecasting a deficit position of \$654.0 million, an increase of \$186.6 million from the Budget's deficit position of \$467.4 million. The change in budgetary position is mainly attributed to expenses anticipated to increase by \$242.7 million relative to a revenue increase of \$10.2 million.

This Forecast Update shows a slight softening in the growth rate of provincial tax revenues. Higher expenses are driven by utilization pressures, primarily at the Department of Health and Wellness.

Government remains focused on the priority areas laid out in Budget 2024–25, including Supporting Nova Scotians and Building Communities, Action for Healthcare, and Building a Skilled Workforce for More Housing and a Healthy Economy.

Overview

The Province of Nova Scotia is forecasting a deficit of \$654.0 million. This is an increase of \$186.6 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 \$15.9 billion or \$10.2 million higher than Budget Estimates.

Forecast changes in Ordinary Revenue include decreases of \$70.4 million in Tax Revenue, and \$6.8 million in Federal Revenue Sources, which are partially offset by increases of \$4.0 million in Other Provincial Revenue, and \$35.7 million in Investment Income.

Ordinary Recoveries revenue is forecast to increase by \$51.4 million from Budget. Net Income from GBEs is expected to be \$3.7 million lower.

Total Expenses are forecast to be \$16.8 billion, an increase of \$242.7 million from the Budget Estimates. Expenses are predicted to be higher due to projected increases in Departmental Expenses of \$211.4 million, Debt Servicing Costs of \$31.7 million, partially offset by a reduction in Pension Valuation Adjustment of \$0.4 million.

Consolidation and Accounting Adjustments positively impact the bottom line by \$253.4 million, which is \$45.9 million higher than budgeted.

Fiscal Summary 2024–25

(\$ thousands)

General Revenue Fund	Budget	Forecast Update	Increase (Decrease) from Budget
Revenues			
Ordinary Revenue	14,225,841	14,188,396	(37,445)
Ordinary Recoveries	1,144,023	1,195,416	51,393
Net Income from Government Business Enterprises	473,933	470,202	(3,731)
Total - Revenue	15,843,797	15,854,014	10,217
Expenses			
Departmental Expenses	15,536,441	15,747,813	211,372
Refundable Tax Credits	126,316	126,319	3
Pension Valuation Adjustment	33,102	32,689	(413)
Debt Servicing Costs	822,863	854,600	31,737
Total - Expenses	16,518,722	16,761,421	242,699
Consolidation and Accounting Adjustments for Governmental Units	207,540	253,438	45,898
Provincial Surplus (Deficit)	(467,385)	(653,969)	(186,584)

Economic Performance and Outlook

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

External Outlook

Global Economy: Economic activity remained resilient despite an inflationary spike. Growth is expected to stabilize at a slower pace due to tight monetary policy, Russia's invasion of Ukraine, weak productivity growth, and increasing geoeconomic fragmentation.

The International Monetary Fund (IMF) predicts that global headline inflation is expected to fall from an annual average of 6.7 per cent in 2023 to 5.9 per cent in 2024 and 4.4 per cent in 2025, with advanced economies returning to their inflation targets sooner than emerging market and developing economies. According to the IMF, global real gross domestic product (GDP) is expected to grow 3.2 per cent in 2024 then pick up to 3.3 per cent in 2025. In the advanced economies, output is estimated to gradually grow 1.7 per cent in 2024 and 1.8 per cent in 2025 in real terms. In emerging markets and developing economies, real economic growth is expected to stabilize at 4.3 per cent growth in both 2024 and 2025.

United States: US real GDP growth was estimated at 3.0 per cent (seasonally adjusted annualized rate) in Quarter 2 (Q2) 2024. The increase in real GDP was supported by increases in consumer spending, exports, state and local government spending, non-residential investment and federal government (non-defense) spending. These gains were partially offset by lower residential fixed investment and greater imports.

Inflation in the US was 2.5 per cent year-over-year in August. Job growth remained strong with a low unemployment rate through early 2024, though labour markets have softened in recent results. The US Federal Reserve has cut the federal funds rate to a 4.75-5.00 per cent range in September 2024. With moderate growth in household consumption and private investment, US real GDP growth is forecast to be 2.3 per cent in 2024. Slower household consumption, government spending, and a cooler labour market are expected to limit US real GDP growth to 1.6 per cent in 2025.

Europe: Economic growth in the Euro Area was estimated at 0.8 per cent in Q2 of 2024 – the second quarter of substantial growth following five quarters of little change. Improved global conditions supported Euro Area exports in the first quarter with smaller contributions to growth from household and government spending. The IMF projects that real growth in the Euro Area is expected to recover to 0.9 per cent in 2024 and 1.5 per cent in 2025.

Euro Area inflation has continued to slow and was 2.2 per cent in August 2024 while the European Union inflation was 2.4 per cent. Inflation is expected to fluctuate around the current level in the short term and then decline towards the target in the next year. Eurostat has reported that the unemployment rate in the Euro Area was at 6.4 per cent in July 2024, and 6.0 per cent in the European Union. The European Central Bank has cut their interest rates on the main refinancing operations to 4.25 per cent.

China: China's economy continues to be impacted by weakness in the country's residential sector. Chinese economic conditions improved early in 2024 as domestic consumption resumed and exports were supported by global growth. Consumer prices have fallen in China, reflecting corrections in the property sector. Inflation is expected to rise in China but remain at low levels. At the July monetary policy meeting the People's Bank of China reduced the key lending rate to 3.35 per cent. Following an estimated 5.2 per

cent growth in 2023, the IMF projects China’s economic growth to slow to 5.0 per cent in 2024 and 4.5 per cent in 2025.

Canada: Strong population growth has supported Canadian economic activity despite tight monetary conditions. Real GDP grew 2.1 per cent in Q2 of 2024. However, GDP per capita contracted for the fifth consecutive quarter as weak household spending failed to keep pace with rising population. Residential investment has slowed with elevated borrowing costs. Growth in Canada’s mining, oil and gas production along with services industries have more than compensated for declines in manufacturing, construction, utilities and agriculture production.

Canada’s labour market has cooled significantly on lower job vacancies. Recent growth in the labour force has outpaced the growth in employment, pushing the national unemployment rate to 6.6 per cent in August.

Inflation in Canada slowed to 2.0 per cent as of August 2024. This deceleration in inflation is due to monetary tightening along with lower energy prices. National inflation is expected to average 2.7 per cent in 2024 and 2.1 per cent in 2025. Given recent signs of slowing demand in the economy, the Bank of Canada has cut its target for the overnight interest rate three times in 2024 to 4.25 per cent.

Canada’s exports are expected to rise as new capacity from the Trans Mountain Pipeline expansion comes online alongside rising motor vehicle exports. Easing financial conditions and the expected economic recovery are projected to stimulate higher residential and non-residential investment. Businesses’ investment plans point to higher spending on electric vehicles and petrochemicals projects. Canada’s real GDP is expected to grow by 1.2 per cent in 2024 and 1.8 per cent in 2025.

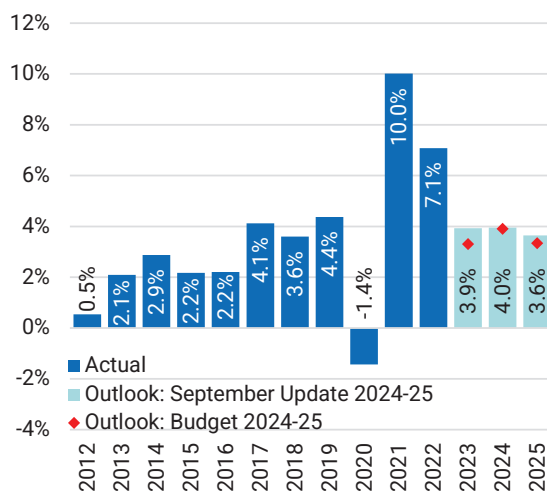
Current Economic Outlook for Nova Scotia

The Department of Finance and Treasury Board has revised its economic outlook, incorporating information and data released through May 13, 2024. The economic outlook incorporates data and events released on or before this date, however some of the discussion below refers to more recently released data.

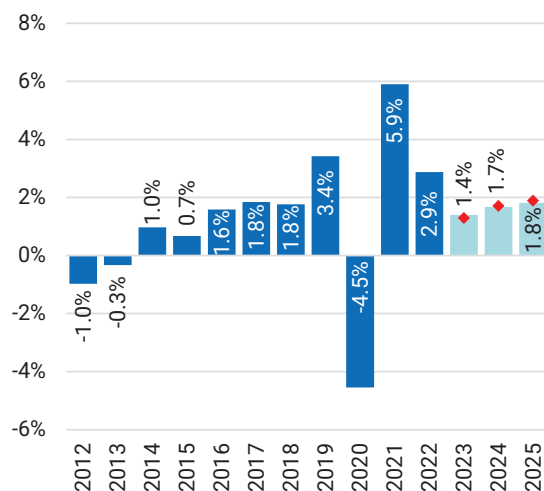
Nova Scotia GDP Growth

(per cent change)

Nominal GDP



Real GDP



Nova Scotia's real GDP is forecast to grow 1.7 per cent in 2024 and 1.8 per cent in 2025, little changed from Budget 2024-25 projections. Nominal GDP is projected to grow 4.0 per cent in 2024 and 3.6 per cent in 2025, returning to historical trends.

Nova Scotia's real GDP growth is estimated to have slowed to 1.4 per cent in 2023 as residential investment cooled and exports fell, while consumption and household income returned to trend. Inflation slowed from 2023 through early 2024 and is expected to return to 2 per cent by 2025.

Continued population growth, rebounding exports, renewed residential investment and slowing inflation have supported the economy in 2024. Household consumption growth is expected to slow to 3.5 per cent as households face higher prices and greater interest costs. Residential investment is expected to pick up to 8.2 per cent growth while non-residential investment is projected to have sustained growth at 8.6 per cent. Exports are projected to rebound by 3.0 per cent as global conditions improve. Imports of goods and services are forecasted to grow 4.2 per cent in 2024 and at 3.0 per cent in 2025, in-line with the slowdown in household spending.

Population growth is forecast to be 1.9 per cent in 2025, faster than pre-pandemic growth rates, but not as rapid as observed in 2023. Rising population is expected to contribute to labour force gains that outpace employment growth. The unemployment rate is projected to increase to 6.9 per cent in 2024. Employment growth is expected to slow to 1.2 per cent in 2025 while the unemployment rate is expected to rise to 7.7 per cent.

Recent Economic Performance

Population: Nova Scotia's population growth slowed in the first half of 2024 though year-over-year growth rates remain elevated. From July 1, 2023, to July 1, 2024, Nova Scotia's population increased by 19,888 or 1.88 per cent, rising to an all-time high of 1,076,374 people. A growing immigrant and non-permanent resident population are lifting the size of the working-age population even as the baby-boomer cohort ages and retires.

Labour Markets: After a strong start to the year, Nova Scotia's labour market has eased in 2024. Over the first eight months of the year, labour force growth of 3.9 per cent outpaced employment growth of 3.6 per cent, pushing the unemployment rate up to an average of 6.5 per cent. Nova Scotia's job vacancy rate has been falling since the end of 2022. The job vacancy rate was 3.4 per cent in June 2024.

Average weekly earnings rose 5.2 per cent in the first six months of 2024 compared to the same period in 2023, with growth in most sectors and outpacing average national wage growth. Total compensation of employees, combining growth in average wages and higher employment, was up 8.7 per cent in the first half of 2024, compared with the first quarter of 2023.

Consumption and Prices: Nova Scotia's retail sales increased 1.8 per cent in the first seven months of 2024, compared to the same period in 2023. Growth in retail trade was fastest in general merchandise, gas stations, miscellaneous retail and clothing and accessories. There have been notable declines in health and personal care stores, as well as electronics and appliances. New motor vehicle unit sales were up 20.9 per cent. Food service and drinking place receipts grew 5.0 per cent in the first half of 2024.

As with other advanced economies, growth in Nova Scotia's Consumer Price Index (CPI) has been slowing from its peak in the summer of 2022. Inflation averaged 2.9 per cent year-over-year in the first seven months of 2024 and slowed to a year-over-year pace of 1.2 per cent in August with a 5.4 per cent decline in energy prices, a 3.3 per cent rise in food prices and a 4.4 per cent rise in shelter costs. Inflation excluding volatile food and energy prices was 1.7 per cent year-over-year in August.

Investment: Residential building construction maintained strong activity in the first seven months of 2024 with notable growth in Halifax. Growth has primarily been for multiple unit buildings, but single unit buildings have also grown over this period. After picking up in the last half of 2023, Nova Scotia's housing starts grew 46.8 per cent in the January-August 2024 period compared to January-August 2023, with starts concentrated in Halifax. Halifax resale home price growth dipped in the first half of 2023 but has since returned to positive year-over-year growth. For the first eight months of 2024, Halifax resale home prices were up 6.9 per cent compared to January-August 2023.

Non-residential building construction rose 36.5 per cent over the first seven months of 2024 compared to the first seven months of 2023, with gains outside the city outpacing those in Halifax. Growth has been concentrated in institutional and government buildings, with smaller growth for commercial and industrial buildings. Overall business sector capital investment rose 0.3 per cent in the first half of 2024 with declines in building construction and engineering infrastructure offset by gains in machinery/equipment and intellectual property investment.

Exports: Nova Scotia's international goods exports grew by 2.0 per cent from January-July 2024 compared to January-July 2023. The US and China continue to be Nova Scotia's largest trade partners. In the first seven months, exports to the US grew by 7.9 per cent while exports to China declined 16.2 per cent. Exports to the European Union were down by 13.7 per cent. Seafood exports were down 5.1 per cent with lower shipment values for crab, halibut and shrimp offsetting increased exports of lobster and scallops.

Current Economic Outlook Assumptions

<i>Per cent change, except where noted</i>	Budget 2024-25		September Forecast Update	
	2024	2025	2024	2025
Real GDP (\$2017 chained)	1.7%	1.9%	1.7%	1.8%
Nominal GDP	3.9%	3.3%	4.0%	3.6%
Compensation of Employees	3.7%	3.7%	3.9%	3.9%
Household Income	4.6%	3.7%	4.5%	3.8%
Household Final Consumption	4.7%	3.1%	3.5%	3.2%
Retail Sales	2.3%	3.1%	1.3%	2.4%
Consumer Price Index	2.7%	1.9%	2.6%	2.0%
Investment in Residential Structures	5.1%	3.4%	8.2%	3.3%
Non-Res., Machinery, Intellectual Property	7.3%	3.4%	8.6%	3.2%
Net Operating Surplus: Corporations	17.3%	15.4%	7.8%	1.0%
Net Mixed Income: Unincorporated	3.2%	2.7%	3.0%	2.6%
Exports of Goods and Services	3.5%	3.4%	3.0%	4.4%
Exports of Goods to Other Countries	2.4%	1.7%	1.5%	2.7%
Imports of Goods and Services	5.4%	2.9%	4.2%	3.0%
Population at July 1 (all ages, thousands)	1,083.1	1,104.8	1,085.6	1,106.6
Population at July 1 (ages 18-64, thousands)	661.9	672.7	663.8	674.4
Labour Force (thousands)	545.6	559.3	547.2	558.4
Employment (thousands)	505.5	515.2	509.7	515.7
Unemployment Rate, Annual Average	7.4%	7.9%	6.9%	7.7%

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 \$15.9 billion, \$10.2 million or 0.1 per cent higher than the 2024–25 Budget Estimates. Revenue estimates are based on federal estimates and provincial administrative data up to August 21, 2024. Information received after these dates will be incorporated in future updates.

The growth in expected Total Revenue includes increases of \$4.0 million or 1.0 per cent in Other Provincial Revenue, \$35.7 million or 21.9 per cent in Investment Income, and \$51.4 million or 4.5 per cent in Ordinary Recoveries. These increases are partially offset by decreases of \$70.4 million or 0.8 per cent in Tax Revenue, \$6.8 million or 0.1 per cent in Federal Revenue Sources, and \$3.7 million or 0.8 per cent in Net Income from Government Business Enterprises.

Ordinary Revenue – Provincial Revenue Sources

Tax Revenue

Personal Income Tax (PIT) revenue is forecast to be down \$30.3 million or 0.7 per cent from Budget due to lower projections for taxable income and yield. Personal taxable income is projected to decrease by \$199.3 million in 2024 and \$118.8 million in 2025. The yield rate on taxable income is now projected to be lower by 0.5 per cent in 2024 and 0.3 per cent in 2025, relative to the Budget Estimates.

Corporate Income Tax (CIT) revenue is forecast to be up \$7.5 million or 1.0 per cent from Budget due to upward revisions to the federal national taxable income forecast.

Harmonized Sales Tax (HST) revenue is forecast to be down \$44.0 million or 1.6 per cent from Budget, mainly attributable to lower projections for consumer spending. Taxable consumer expenditures are projected to be down \$418.9 million or 2.0 per cent in 2024 and \$403.1 million or 1.9 per cent in 2025. The tax base for residential housing investment is projected to be up 4.4 per cent in 2024 and up 4.3 per cent in 2025.

Cannabis Tax revenue is forecast to be \$0.4 million or 2.4 per cent lower than Budget based on lower-than-expected remittances of the province's additional duty from licensed producers.

Non-resident Deed Transfer Tax revenue is forecast to be down \$0.3 million or 2.3 per cent from Budget.

Vaping Products Tax revenue is forecast to be up \$0.1 million or 4.2 per cent from Budget.

Motive Fuel Tax revenue is forecast to be up \$1.5 million or 0.5 per cent from Budget due to higher levels of gasoline consumption. Consumption of gasoline is projected to be 0.5 per cent higher than expected, while diesel fuel consumption is projected to be 1.5 per cent lower than expected.

Tobacco Tax revenue is forecast to be down \$4.7 million or 4.1 per cent from Budget due to declines in consumption. Cigarette consumption is down 3.5 per cent while fine cut tobacco consumption is 22.1 per cent lower than Budget.

Other Tax Revenue is forecast to be up \$0.3 million or 0.1 per cent from Budget.

Total Revenue 2024–25

(\$ thousands)

General Revenue Fund: Revenue	Budget	Forecast Update	Increase (Decrease) from Budget
Provincial Revenue Sources			
Tax Revenue:			
Personal Income Tax	4,174,435	4,144,088	(30,347)
Corporate Income Tax	748,944	756,399	7,455
Harmonized Sales Tax	2,755,642	2,711,671	(43,971)
Cannabis Tax	18,334	17,895	(439)
Vaping Tax	3,353	3,495	142
Non-resident Deed Transfer Tax	11,473	11,204	(269)
Motive Fuel Tax	278,243	279,727	1,484
Tobacco Tax	114,084	109,402	(4,682)
Other Tax Revenue	241,718	242,048	330
Prior Years' Adjustments - Taxes	---	(94)	(94)
	8,346,226	8,275,835	(70,391)
Other Provincial Revenue:			
Registry of Motor Vehicles	147,916	153,125	5,209
Other Provincial Sources	174,087	174,283	196
TCA Cost Shared Revenue	13,751	10,166	(3,585)
Other Fees and Charges	67,103	63,272	(3,831)
Prior Years' Adjustments - Other Revenue	---	---	---
Gain on Disposal of Crown Assets	975	7,003	6,028
	403,832	407,849	4,017
Investment Income:			
Interest Revenues	140,410	176,716	36,306
Sinking Fund Earnings	22,414	21,803	(611)
	162,824	198,519	35,695
Total - Provincial Sources	8,912,882	8,882,203	(30,679)
Federal Revenue Sources			
Equalization Payments	3,284,338	3,284,338	---
Canada Health Transfer	1,378,600	1,378,600	---
Canada Social Transfer	447,583	447,583	---
Other Federal Sources	161,033	163,966	2,933
TCA Cost Shared Revenue	41,405	31,706	(9,699)
Prior Years' Adjustments	---	---	---
Total - Federal Sources	5,312,959	5,306,193	(6,766)
Total Ordinary Revenue	14,225,841	14,188,396	(37,445)
Total - Ordinary Recoveries	1,144,023	1,195,416	51,393
Net Income from Government Business Enterprises (GBEs)			
Nova Scotia Liquor Corporation	269,588	269,588	---
Nova Scotia Gaming Corporation	197,300	193,600	(3,700)
Halifax-Dartmouth Bridge Commission	5,314	5,283	(31)
Highway 104 Western Alignment Corporation	1,731	1,731	---
Total - Net Income from GBEs	473,933	470,202	(3,731)
Total - Revenue	15,843,797	15,854,014	10,217

Other Provincial Revenue

Other Provincial Revenue is forecast to be \$4.0 million or 1.0 per cent higher than Budget. This is primarily due to a \$6.0 million increase resulting from the non-monetary transfers of properties to the Preston Area Housing Fund, and a \$5.2 million increase in Registry of Motor Vehicles revenue driven by an increase in vehicle registrations. Partially offsetting these increases is a forecasted decrease in Other Fees and Charges of \$3.8 million, primarily due to lower short term rental registration revenue, and a forecasted \$3.6 million decrease in Provincial Tangible Capital Asset (TCA) 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 \$35.7 million or 21.9 per cent higher than Budget. Interest revenues are \$36.3 million or 25.9 per cent higher than Budget, primarily due to higher short-term investments balance and higher than budgeted actual short-term interest rates. Sinking fund earnings are forecast to be \$0.6 million or 2.7 per cent lower than Budget due to lower than forecasted medium-term interest rates.

Ordinary Revenue – Federal Revenue Sources

Equalization entitlements are determined by the federal government prior to the fiscal year based on a one-estimate, one-payment approach and as a result the forecast is equal to Budget.

The **Canada Health Transfer** (CHT) is forecast to be unchanged from Budget.

The **Canada Social Transfer** (CST) is forecast to be unchanged from Budget.

Other Federal Sources is forecast to be up \$2.9 million or 1.8 per cent from Budget, 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 \$9.7 million or 23.4 per cent from Budget, mainly because of changes in the expected timing of cash flows related to highway projects.

Ordinary Recoveries

Ordinary Recoveries Revenue is forecast to be \$51.4 million or 4.5 percent higher than Budget.

The **Department of Cyber Security and Digital Solutions** is forecast to be \$2.0 million or 20.1 per cent higher than Budget primarily due to SAP integration projects on behalf of related entities.

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 the Canada Nova Scotia Nature Agreement.

The **Department of Justice** is forecast to be \$4.9 million or 3.2 per cent lower than Budget primarily due to \$6.9 million due to changes in the Municipal Service Exchange Agreement to exempt municipalities from contributing towards Correctional Services annually. This decrease is partially offset by \$2.2 million increased Nova Scotia Legal Aid federal funding.

The **Department of Labour, Skills and Immigration** is forecast to be \$2.4 million or 2.1 per cent higher than Budget primarily due to higher than anticipated recoveries of \$1.2 million for the Labour Market Transfer Agreements and other various agreements including the Nova Scotia Service Design Initiative and Advancing Women in Apprenticeship.

The **Department of Municipal Affairs and Housing** is forecast to be \$10.5 million or 2.8 per cent lower than Budget primarily due to reductions of \$26.2 million in the Investing in Canada Infrastructure Program (ICIP) recoveries related to changes in cash flows and \$5.4 million in lower recoveries from Halifax Regional Municipality under the new Municipal Service Exchange Agreement. This is partially offset by \$21.0 million in increased recoveries under Disaster Assistance for the July 2024 floods.

The **Department of Natural Resources and Renewables** is forecast to be \$2.3 million or 8.2 per cent higher than Budget primarily due to \$2.0 million in recoverable expenses related to the 2 Billion Trees program.

Public Service Offices are forecast to be \$2.1 million or 28.3 per cent higher than forecast primarily due to federal recoveries related to the Mass Casualty Commission.

The **Department of Public Works** is forecast to be \$2.3 million or 7.3 per cent lower than Budget primarily due to a \$6.1 million reduction in the Municipal Service Exchange Agreement for roads, and \$1.2 million for delays in Highway 104 Western Alignment Corporation recoverable work. These decreases are partially offset by a \$3.1 million increase for Highway 107 Sackville-Bedford-Burnside, and \$1.5 million increase for the Highway 103 Bridgewater Interchange project costs.

Net Income from Government Business Enterprises (GBEs)

Total Net Income from GBEs is down \$3.7 million or 0.8 per cent from Budget Estimates.

Net income from the **Nova Scotia Liquor Corporation** (NSLC) is forecast to be unchanged from Budget.

Net income from GBEs related to the **Nova Scotia Gaming Corporation** (NSGC) is forecast to be \$3.7 million or 1.9 per cent lower than Budget due to a decrease in Video Lottery revenues offset by increased sales in iCasino and table games at Casino Nova Scotia.

Net income from the **Halifax-Dartmouth Bridge Commission** is forecast to be essentially unchanged from Budget.

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

Expenses

Total Expenses for 2024–25 are forecast to be \$16.8 billion, \$242.7 million or 1.5 per cent higher than the Budget Estimates.

Increases are expected in Departmental Expenses of \$211.4 million or 1.4 per cent and Debt Servicing Costs of \$31.7 million or 3.9 per cent.

Departmental Expenses

Total Departmental Expenses for 2024–25 are forecast to be \$211.4 million or 1.4 per cent higher than the Budget Estimates.

Departmental Expenses 2024–25

(\$ thousands)

	Budget	Forecast Update	Increase (Decrease) from Budget
Advanced Education	725,539	726,827	1,288
Agriculture	46,682	46,682	---
Communities, Culture, Tourism and Heritage	171,845	173,238	1,393
Community Services	1,579,169	1,579,169	---
Cyber Security and Digital Solutions	276,224	260,215	(16,009)
Economic Development	96,782	101,615	4,833
Education and Early Childhood Development	1,999,180	2,006,460	7,280
Environment and Climate Change	73,876	81,536	7,660
Finance and Treasury Board	48,790	48,790	---
Fisheries and Aquaculture	15,951	15,951	---
Health and Wellness	5,536,898	5,715,278	178,380
Justice	464,719	471,620	6,901
Labour, Skills and Immigration	241,644	244,085	2,441
Municipal Affairs and Housing	680,055	643,325	(36,730)
Natural Resources and Renewables	141,588	144,919	3,331
Public Service	517,397	517,904	507
Public Works	716,170	739,501	23,331
Seniors and Long-term Care	1,362,710	1,411,557	48,847
Service Nova Scotia	181,457	235,301	53,844
Restructuring Costs	659,765	583,840	(75,925)
Total - Departmental Expenses	15,536,441	15,747,813	211,372

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 \$1.4 million or 0.8 per cent higher than Budget primarily due to \$500 thousand for Support4Culture, \$300 thousand in Mental Health and Grief support initiatives regarding the Mass Casualty Commission response, \$200 thousand in Nova Scotia Museum Website Upgrade and \$200 thousand for Pjila'si Exhibit, all of which are fully recoverable.

The **Department of Cyber Security and Digital Solutions** is forecast to be \$16.0 million or 5.8 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 \$2.0 million recoverable SAP integration projects on behalf of related entities.

The **Department of Economic Development** is forecast to be \$4.8 million or 5.0 per cent higher than Budget primarily due to increases of \$5.3 million for Nova Scotia Jobs Fund updated reserve requirements for loan forgiveness and a \$4.5 million increase for Nova Scotia Loyal. The increases are offset by a decrease of \$5.0 million for Invest Nova Scotia payroll rebates.

The **Department of Education and Early Childhood Development** is forecast to be \$7.3 million or 0.4 per cent higher than Budget primarily due to \$7.0 million in Nova Scotia Teachers Union medical and dental premiums primarily due to increased rates and membership, and \$7.0 million related to the provincial matching contribution for the Teachers' Pension Plan. These increases are partially offset by decreases of \$7.0 million in amortization due to opening delays for new schools.

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 the Canada-Nova Scotia Nature Agreement.

The **Department of Health and Wellness** is forecast to be \$178.4 million or 3.2 per cent higher than Budget primarily due to \$111.1 million for anticipated operational pressures for the Nova Scotia Health Authority (NSHA) mainly attributable to staffing costs, facility operations, inflationary increases for medical surgical supplies and drugs costs, and travel nurse expenses. There is a \$33.8 million increase for NSHA and IWK capital grants related to healthcare infrastructure projects, \$28.1 million for the Paramedics agreement, and \$10.3 million in utilization pressures for plasma protein/fresh blood products collected via Canadian Blood Services. These increases are partially offset by a decrease of \$10.7 million due to shifts in cashflows for IT Projects.

The **Department of Justice** is forecast to be \$6.9 million or 1.5 per cent higher than Budget primarily due to \$4.0 million increased funding to Nova Scotia Legal Aid for tariffs and \$2.2 million in fully recoverable additional federal funding for legal aid which was announced in the federal budget.

The **Department of Labour, Skills and Immigration** is forecast to be \$2.4 million or 1.0 per cent higher than Budget primarily due to fully recoverable expenses of \$1.2 million for the Labour Market Transfer Agreements, \$457 thousand for the Nova Scotia Service Design Initiative, \$349 thousand for the Advancing Women in Apprenticeship, \$310 thousand for the Atlantic Workforce Partnership Secretariat and \$117 thousand related to Occupational Health & Safety, Workers' Advisers Program and Appeal Panel expenses.

The **Department of Municipal Affairs and Housing** is forecast to be \$36.7 million or 5.4 per cent lower than Budget primarily due to \$42.1 million related to timing of cash flows under the Investing in Canada

Infrastructure Program, partially recoverable, and \$5.6 million related to reallocation of Canada Mortgage and Housing Corporation interest expenses to be recorded centrally. These decreases are partially offset by increases of \$6.0 million for the Preston Area Housing Fund for a transfer of housing properties, \$1.8 million for the Nova Scotia Public Housing Agency to support transitioning of all tenants to the Rent-Geared-to-Income model, \$1.6 million for partially recoverable Disaster Assistance, and \$1.0 million for a Town of Bridgewater Sanitary Stormwater Master Plan disaster mitigation project.

The **Department of Natural Resources and Renewables** is forecast to be \$3.3 million or 2.4 per cent higher than Budget primarily due to \$3.1 million partially recoverable expenses for the 2 Billion Trees Program.

The **Department of Public Works** is forecast to be \$23.3 million or 3.3 per cent higher than Budget primarily due to \$17.8 million for storm damage, partially recoverable, a \$10.2 million increase for the Middle River Pumping Station due to cost escalations, \$3.1 million for the Highway 107 Sackville Bedford Burnside Interchange, fully recoverable, \$2.6 million in Build NS capital grants for the Cunard project, \$2.5 million operating grant for the Halifax Infirmary Expansion Project (HIEP) parking solution, \$1.6 million Build NS capital grants for the Boat School Wharf project, \$1.3 million for the Highway 103 Bridgewater Interchange, partially recoverable. These increases are partially offset by an \$8.1 million decrease in the Municipal Service Exchange Agreement for roads, a \$7.6 million decrease in Build NS grant for Cellular Nova Scotia Program due to timing, and \$1.2 million for delays in Highway 104 Western Alignment Corporation recoverable work.

The **Department of Seniors and Long-term Care** is forecast to be \$48.8 million or 3.6 per cent higher than Budget primarily due to \$54.2 million in Home Care for increased participation in the Home Support Direct Funding Program, \$4.3 million for increased utilization in the Red Cross Health Equipment Loan Program (HELP) and \$2.5 million for increased enrolment in the Care Giver benefit program. These increases are partially offset by a \$13.6 million decrease in Home Care for clients transitioning from Self-Managed Care and Supportive Care programs to the Home Support Direct Funding Program.

The **Department of Service Nova Scotia** is forecast to be \$53.8 million or 29.7 per cent higher than Budget primarily due to \$45 million for the Heating Assistance Rebate Program, \$4.7 million for partially recoverable trails repair due to July 2024 flood damage, \$3.5 million for Trunked Mobile Radio service for new towers and \$500 thousand for insurance claims.

Refundable Tax Credits

Refundable tax credit expenditures are forecast to be essentially unchanged compared to Budget Estimates.

Pension Valuation Adjustment

The Pension Valuation Adjustment is forecast to be \$0.4 million or 1.2 per cent lower than Budget Estimates primarily attributed to updated actuarial estimates.

Debt Servicing Costs

Total Debt Servicing Costs are forecast to be up \$31.7 million or 3.9 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 \$45.9 million or 22.1 per cent higher than Budget primarily due to increases of \$38.0 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 \$0.9 million in various other organizations.

Capital

Total Capital Spending is forecast to be \$1.7 billion, which is \$113.7 million or 7.0 per cent higher than Budget.

Tangible Capital Assets

The province is forecasting Capital Purchase Requirements to be \$76.1 million or 5.7 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 Halifax Infirmity Expansion Project (HIEP) Enabling Works projects. Additionally, this increase includes an accounting adjustment to capitalize a portion of 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 \$37.7 million or 12.8 per cent higher than Budget primarily due to net increases in healthcare projects including the advancement of HIEP Enabling Works projects.

Capital Spending 2024–25

(\$ thousands)

	Budget	Forecast Update	Increase (Decrease) from Budget
Highways & Structures	491,569	551,061	59,492
Buildings	648,891	689,738	40,847
Information Technology	45,545	88,728	43,183
Land Purchases	53,801	56,130	2,329
Vehicles and Equipment	24,188	24,410	222
Contingency	70,000	---	(70,000)
Total - Capital Purchase Requirements	1,333,994	1,410,067	76,073
Capital Grants	295,275	332,933	37,658
Total - Capital Spending	1,629,269	1,743,000	113,731

Key Risks

Economic

Monetary policy easing is underway. While central banks monitor for a resurgence in inflation, the risk of persistent and unanchored inflation has moderated. As monetary policy loosens, fiscal policy may begin to tighten earlier to address debt pressures.

The risk for further economic volatility and instability resulting from geopolitical conflict remains. Commodity prices have returned to levels seen prior to Russia's invasion of Ukraine, but these are a continued source of economic risk. Should the current conflict in the Middle East escalate, a wider regional conflict could disrupt key international shipping corridors as well as energy production.

Geopolitical and trade tensions, particularly between the US and China are a further source of uncertainty in the global outlook. New political leadership in advanced economies could also impact trading relationships and activity among key partners. Carbon pricing impacts are still being understood while trade partners examine carbon-based import taxes.

Nova Scotia's economy accelerated with faster population growth from both international and interprovincial migration. Interprovincial migration is expected to return to historic trends over the medium to long term, but the pace of this reversion is uncertain. Federal policy changes on international flows (immigrants, non-permanent residents) may also impact Nova Scotia's population growth. Nova Scotia's housing market depends on the evolution of population, interest rates, labour supply, and government initiatives. Elevated housing prices may also slow population growth if the province becomes a less attractive destination for internal and international migrants.

Major projects in Nova Scotia continue to face challenges from labour and supply chain constraints which may alter their timing and economic impact. Nova Scotia has recently been experiencing extreme weather events, which may be an increasing risk going forward. Statistical indicators continue to be subject to historical revision after they have been released, with data revisions becoming larger due to the recent extraordinary shocks. This affects the reliability of the estimated relationship between variables, impacting forecasts and 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 key variables to 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) tax assessments for the 2023 taxation year have not been received, thereby creating the possibility of prior year adjustments as well as influencing assumptions for the current fiscal year.

Shifts in population growth, economic conditions and the pace of inflation pose risks to both provincial own-source revenue and federal transfer outlooks. Unexpected deviation from key economic projections generally results in similar revenue variations.

The forecast for PIT revenue is dependent on employment levels and income. Slowing inflation is expected to contribute to lower income benefits and average wage growth while continued population and employment growth is supportive. The indexation of Nova Scotia brackets and credits starting in 2025 directly connects the PIT revenue outlook with inflation in the province.

The forecast of CIT revenue is highly dependent upon national corporate taxable income and the province's share. A reversal of the growing share of corporate income taxed at the general rate since pre-pandemic years is a downside risk to the outlook.

Harmonized Sales Tax (HST) revenues are heavily reliant on consumer expenditures and residential construction, which are sensitive to economic growth, consumer confidence, and interest rates.

Expenditures

While the risks associated with higher inflation have abated, climate change events continue to impact the province. Given the extreme occurrences to date including flooding, and now with hurricane season well-underway, 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. Cost escalation continues to grow on construction projects due to labour supply constraints in the skilled trades.

