Prince Edward Island: 2019–20 Q2 Update

A NARROWER SURPLUS, BUT ISLAND FINANCES STILL IN GOOD SHAPE

SUMMARY

- **The Province of Prince Edward Island's *Second Quarter Forecast Update* for fiscal year 2019–20 projected a slimmer-than-previously outlined surplus of $706k (0.01% of nominal GDP).**
- **PEI's *Capital Budget*, published last week, boosted planned infrastructure outlays through FY25.**
- **Conditions appear supportive of positive credit ratings action: the Island should continue to benefit from a healthy economy and looks poised for further surpluses and reductions in its debt burden.**

REVENUE AND EXPENDITURE DETAILS

Federal infrastructure program delays resulted in a $20.6 mn decrease relative to the prior plan for both revenues and expenditures. There is no net impact on the Provincial budget balance for FY20, but presumably some re-profiling of revenue and spending will occur in outer years. Projected FY20 transfers from the federal government were also lowered by $10 mn relative to the June 2019 budget (*Budget*).

Pushed-out federal funding and a significantly wider-than-expected surplus in FY19 look to be behind a further boost to the Provincial infrastructure plan through FY25. Recall that last year's *Capital Budget* had lifted spending by more than $100 mn higher than 2017 plans (chart). Public-sector capital outlays are now expected to peak at $167 mn this fiscal year—$11 mn more than outlined last November—with an additional $85 mn in FY21–23 set to result in a more gradual easing of spending throughout the forecast horizon.

Apart from transfers, the Province's revenue profile was stronger than projected in *Budget*. Department of Finance revenues are expected to come in $9.8 mn higher than in *Budget*, bolstered by higher sales and corporate income tax receipts. A workers' compensation refund helped push Health PEI's revenues nearly $6 mn above the July fiscal blueprint. These gains are forecast to be partly eroded by a $3.8 mn reduction in government business enterprises' net surpluses, which stem fundamentally from fewer forfeited deposits from PEI's immigrant investor program that was closed last year.

Provincial expenditures net of federal infrastructure impacts were similarly on a stronger trajectory than forecast in July. Supported by *Capital Plan* funds for affordable housing, the department of Social Development and Housing is expected to spend $15.2 mn more than anticipated as of *Budget*. Additional increases relative to plan came via the Province's Aerospace Tax incentive program and collective agreement negotiations at Health PEI. The Island's improved debt path lowered expected interest costs by $2 mn versus *Budget*.

CONTACTS

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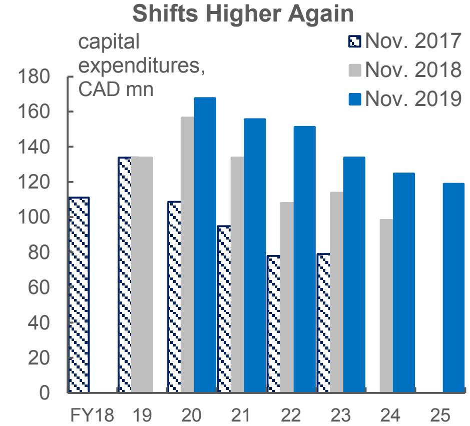
Updated Fiscal Figures
$ millions except where noted

	FY19	FY20	
	Final	Bud.	Update
Own-Source Revenue	1,305.4	1,341.1	1,347.3
Federal Transfers	773.3	859.9	849.4
Total Revenue	**2,078.7**	**2,201.0**	**2,196.7**
Program Spending	1,895.7	2,071.2	2,070.0
Debt Service*	126.0	128.0	126.0
Total Expenditure	**2,021.7**	**2,199.2**	**2,196.0**
Budget Balance	**57.0**	**1.8**	**0.7**
Net Debt	**2,123.8**	**2,244.2**	--*
Memo Items, % of GDP			
Own-Source Revenue	18.8	18.5	18.6
Program Spending	27.2	28.6	28.6
Budget Balance	0.8	0.02	0.01
Debt Service*/ Revenue	6.1	5.8	5.7
Net Debt	30.5	30.7	--*
Annual Change, %			
Own-Source Revenue	*2.9*	*4.8*	*5.3*
Federal Transfers	*7.6*	*12.3*	*10.9*
Total Revenue	***4.6***	***7.6***	***7.4***
Program Spending	*6.1*	*8.8*	*8.7*
Total Expenditure	***5.7***	***8.3***	***8.1***

* Data not available. Figures may not add due to rounding.
Sources: PEI Finance; Statistics Canada.

PEI Capital Budget Shifts Higher Again



Sources: Scotiabank Economics, PEI Finance.

OUR VIEWS

Stepped-up infrastructure spending is clearly growth-supportive, and presents upside potential for Provincial revenues. That is particularly true beyond this fiscal year, when the top-up is set to diminish a previously outlined drag on PEI's expansion. New spending will likely put some upward pressure on the Province's debt and borrowing requirements, but a handoff from the hefty FY19 surplus should ensure that the Province's debt continues to decline as a share of GDP. Generally speaking, it is difficult to find fault with additional investments to meet the needs of a rapidly-growing population; the new home construction initiatives in particular look constructive given well-documented housing affordability challenges on the Island.

Current fiscal and economic conditions are conducive to positive credit ratings action beyond the upgrade awarded to the Province this summer. Rating agencies have generally complimented the Island's healthy economic growth, stable surpluses, and efforts to reduce its debt burden. The government should continue to emphasize prudent fiscal management that keeps these trends intact.