



# 2007-08 fall update

## ECONOMIC OUTLOOK

Real GDP growth is currently forecast to be 8.9% stemming mainly from gains in mineral and oil production. The GDP forecast has been revised upward from 8.5% at budget time because of stronger domestic demand, as evidenced by solid gains in retail sales and housing starts.

The province's labour market continues to perform well. Employment growth of 0.7% is expected for the year with gains in employment due to higher service sector activity, which is concentrated in full-time jobs. Employment growth is expected to ex-

ceed labour force growth, resulting in a decline in the unemployment rate to 13.5%. This is an improvement of almost a full percentage point from the Budget forecast, and the lowest rate since 1981.

Personal income and disposable income are expected to post gains of 4.0% and 5.3% respectively due to increased employment, wage gains and reductions in personal income tax. This is an improvement from the Budget forecast of 3.4% for both total and disposable income.

At Budget time, it was estimated that housing starts would decline by 8.2% in 2007. However housing starts are now expected to increase by 9.0% for the year.

Similarly, as a result of strong gains in disposable income and rising consumer confidence, retail sales for 2007 are expected to increase by 8.9%, up from the budget forecast of 2.5%.

<b>ECONOMIC INDICATORS</b>			
2006 And Outlook 2007			
(percentage change except where indicated)			
	<b>2006</b>	<b>2007</b>	
		<b>Budget</b>	<b>Revised</b>
<b>Real Gross Domestic Product</b>	3.3	8.5	8.9
<b>Other Economic Indicators</b>			
Retail Sales	3.7	2.5	8.9
Personal Income	4.0	3.4	4.0
Labour Income	4.3	3.4	5.3
Capital Investment	(1.0)	(7.6)	(5.4)
Consumer Price Index	1.8	1.1	1.3
Housing Starts (units)	2,234	2,051	2,435
<b>Labour Market</b>			
Employment (000s)	215.7	218.3	217.3
Employment	0.7	1.2	0.7
Unemployment Rate (percent)	14.8	14.3	13.5
<b>Population</b>	(0.8)	(0.6)	(0.7)

## FISCAL UPDATE

### OVERVIEW

Budget 2007 forecasted a surplus of \$261.2 million for the fiscal year ending March 31, 2008. A surplus of \$881.8 million is now expected, an increase of \$620.6 million. Revenues are expected to improve by \$515.8 million, while program expenses are expected to be \$112.1 million less than anticipated. Net income from Government Business Enterprises is expected to decline slightly.

### REVENUES

At Budget, the province had forecast revenues of \$5,632.1 million compared to current expectations of \$6,147.9, an improvement of \$515.8 million.

Royalties from the province's offshore oil sector are now expected to be \$1.6 billion, an increase of \$562 million.

There are three factors underlying the improved oil revenues.

First, oil prices are higher than originally forecast. At the time of Budget 2007, it was expected that the price received for offshore crude for the fiscal year would average US\$58.60, at an exchange rate of \$0.86. It is now expected that the price will average US\$75.63 for this fiscal year, with an average exchange rate of \$0.99.

Second, it is now estimated that production from the offshore projects will be 5.9 million barrels more than estimated at budget time. Third, the Whiterose project will achieve higher

<b>CONSOLIDATED STATEMENT OF OPERATIONS</b>			
Budget vs. Mid-year revised			
2007-08			
(\$ millions)			
	<b>Budget</b>	<b>Revised</b>	<b>Change</b>
<b>Revenue</b>	5,632.1	6,147.9	515.8
<b>Net Expenses</b>			
Program Expenses	4,839.4	4,727.3	112.1
Debt Servicing Expenses	727.0	732.8	(5.8)
<b>Total Net Expenses</b>	5,566.4	5,460.1	106.3
Net Income of Government Business Enterprises	195.5	194.0	(1.5)
<b>Surplus</b>	261.2	881.8	620.6

royalties as the project has attracted the higher royalty rate earlier than originally anticipated.

Mineral prices were stronger in the first half of the fiscal year, and are expected to remain robust for the remainder of the year. Mining taxes and royalties will increase by almost \$120 million to about \$347 million.

Compared to Budget, revenue gains of \$58.2 million are anticipated for Corporate and Personal Income Tax and Sales Tax, while other provincial revenue sources are expected to be up by \$25.4 million.

There are some upward and downward revisions to federal transfers. Based upon current projections, the province can optimize cash revenues in 2007-08 by electing to move from

the fixed framework Equalization formula to the new formula this year. The province expects that Equalization will increase by \$255.1 million in 2007-08, offset by a reduction of 1985 Atlantic Accord payment of \$188.6, a net cash gain of \$66.5 million. This also means that the expected \$305.7 million draw down from the balance of the \$2 billion 2005 Atlantic Accord advance payment, originally forecast to be recognized as revenue in 2007-08, will not occur this year.

The Atlantic Accord 2005 has made a remarkable contribution to the overall improvement to the province's fiscal position. Long-term future prosperity for the province truly hinges on how effectively we capitalize on this opportunity today.

## EXPENSES

At budget, the province had forecast consolidated program expenses of \$4,839.4 million. Budget 2007 contained a broad range of new social and economic spending initiatives in support of the government's strategic directions. It is now expected that program expenses will not exceed \$4,727.3 million at March 31, 2008, a reduction of \$112.1 million from the forecast.

Special Warrants will provide additional funding for unforeseen events such as a revised special balloting process for the recent general election, a Judicial Commission of Inquiry on Estrogen and Progesterone Hormone Receptor Testing for Breast Cancer Patients, and costs relating to the landslides in Daniel's Harbour and Tropical Storm Chantal. The province expects to benefit from cash flow savings in other areas which will more than offset these additional expenses.

Debt Servicing Expenses are also expected to be \$5.8 million higher than originally forecast. This is a result of by higher interest costs related to the unfunded pension liabilities, offset somewhat by lower interest rates on the provincial debt. Overall debt servicing costs are expected to be about \$45 million less this year than last year.

## DEBT

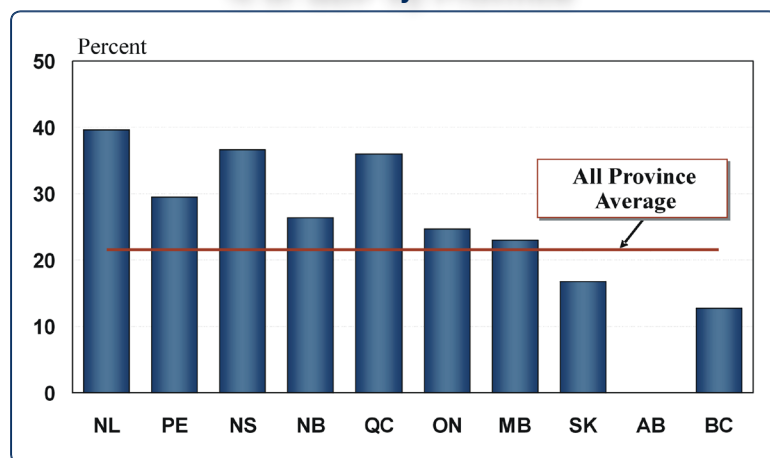
At Budget, net debt was forecast to decline from \$11.6 billion to \$11.5 billion, a reduction of \$66 million. It is now anticipated that at March 31, 2008 it will be \$10.8 billion, a reduction of more than \$700 million.

The province has funded its 2007-08 infrastructure program from the additional revenues generated this year. Any residual funds can be used to satisfy the province's expected financial requirements related to the Whiterose and Hebron projects.

By March 31, 2008, it is expected that the province's net debt to GDP ratio will be reduced to 39.6%, down from a high of 70.2% in 1998-99 and interest as a percent of revenue will be 10.9%, down from 23.7%.

Notwithstanding these further decreases in the provinces net debt and related debt indicators, Newfoundland and Labrador continues to have the highest relative debt burden of all the provinces in Canada with a per capita net debt of \$21,420, twice the national average of \$10,000. Net debt to GDP is still almost double the national average of 21.5 percent.

**Consolidated Net Debt as a % of GDP by Province**



**Consolidated Net Debt Per Capita**

