



Provincial Budget Briefs

April 29, 2008

Meny Grauman
(416) 956-6527

Krishen Rangasamy
(416) 956-3219

NEWFOUNDLAND AND LABRADOR BUDGET 2008

Newfoundland and Labrador benefited from strong commodity prices to deliver a record \$1.4 bn budget surplus in 2007/08. A temporary decline in offshore oil production will cause real GDP to decline by 2% in 2009, but the economic fundamentals are firm. Looking ahead to 2008/09, falling own source revenues and growing program spending are still projected to net the province a \$544 mn budget surplus. On the capital markets side, funding requirements were much lighter than expected due to the province's favorable fiscal position. In 2008/09 borrowing requirements will be higher, but are expected to be funded solely by cash.

Table 1 \$Millions	Fiscal Summary				
	2006/07	2007/08			2008/09
	<u>Actual</u>	<u>07 Budget</u>	<u>08 Budget</u>	<u>Change</u>	<u>08 Budget</u>
Revenue	5,340	5,632	6,601	969	6,356
Own Source	3,597	4,026	4,987	961	4,794
<i>% change</i>	<i>2.9</i>	<i>11.9</i>	<i>38.6</i>	<i>26.7</i>	<i>-3.9</i>
Federal Transfers	1,743	1,606	1,614	8	1,561
Net Expenditures	5,367	5,566	5,425	-142	6,024
Program Spending	4,590	4,839	4,695	-145	5,300
<i>% change</i>	<i>4.1</i>	<i>5.4</i>	<i>2.3</i>	<i>-3.2</i>	<i>12.9</i>
Public Debt Charges	777	727	730	3	724
Net Income from Govt. Business Enterprises	181	195	200	5	212
Consolidated Surplus	154	261	1,377	1,115	544

Newfoundland and Labrador's economy grew by 7.9% in 2007 according to the province's own estimates, on the back of strong oil and mineral exports as well as robust public and consumer spending. Looking to 2008, the province sees real GDP falling by 2% due to lower offshore oil production, before bouncing back to 3.7% in 2009. Despite the projected decline in real headline economic growth in 2008, personal income gains should remain firm at 2.8% and capital investment should jump by 15%.

Commodity Prices Provide a Fiscal Boon

An unexpected spike in the price of oil and other commodities boosted own source revenues by almost \$1 bn above plan, and helped the province record an above-plan budget surplus of \$1.4 bn. This marks Newfoundland and Labrador's third consecutive surplus, and the largest on record.

Oil royalties of \$1.7 bn are expected by the province this year, assuming an average exchange rate of US\$0.99 per Canadian dollar and oil prices averaging US\$87. However, this year's budget aims at a more modest \$544 mn surplus, due to a projected decline in mining taxes and royalties, a further \$75 mn cut in personal income taxes, as well as a number of other tax and revenue reductions.

These developments are expected to push down own source revenue by 3.9%. Meanwhile, federal transfers are also expected to fall, led by a drop in equalization payments from \$477 mn in 2007-08 to only \$18 mn in 2008-09. The province expects these payments to fall to zero by the next fiscal year.

On the expenditure side, net program spending will climb by 12.9% after growing by 2.3% in 2007-08. This increase is expected to be led by an increase in health and infrastructure spending, as well as provisions related to public sector wage negotiations. Net debt declined by roughly \$1.3 bn in the last fiscal year from \$11.6 bn to \$10.3 bn, cutting its share of GDP from 50% to 38% in a single year. For 2008/09, the province expects net debt to decline by an additional \$248 mn.

No Debt Issuance projected for 2008/09

Newfoundland and Labrador issued \$650 mn in bonds and MTNs in 2007/08, leaving gross issuance well shy of the \$1.3 bn originally projected. This was largely due to a record fiscal surplus, which provided the province with a \$1 bn net budgetary contribution.

For the current fiscal year, gross funding requirements are projected to increase by over \$700 mn as a result of a smaller budgetary contribution. This is despite the absence of \$500 mn in pension payments made last year putting the public service pension on a sustainable track.

In meeting its 2008/09 funding requirement, the province plans for no gross bond/MTN issuance. Instead, all of its needs are expected to be financed by the province's strong cash balance. Adding in maturities and calls, net borrowing will fall by \$250 mn.

Table 2	Financing Plan	
	2007/08P	2008/09F
\$Millions		
<i>Borrowing Requirements:</i>		
Budgetary Req't/(Contribution)	(1,093)	54
Atlantic Accord Earnings	305	360
Repay Equalization Loan	38	38
Contributions to Sinking Funds	42	51
Pension Payments	582	0
Maturities & Calls ¹	214	292
Total	88	795
<i>Sources:</i>		
Cash Balances	(562)	795
Bonds & MTNs	650	0
CPP	0	0
Total	88	795
Net New Issues		
Bonds & MTNs	480	(250)

¹ Includes maturing debt held by CPP

Newfoundland and Labrador Hydro, which reports on a calendar year basis, will see a \$100 mn infusion of equity from the province, and does not plan any significant debt issues in the coming year. However, it plans to cover its \$200 mn debt maturing this month with short-term borrowing. The Lower Churchill project estimated to cost between \$5-10 bn, if approved, is likely to entail borrowing requirements of \$50 mn in each of 2008 and 2009.

Conflicts of Interest: CIBC World Markets' analysts and economists are compensated from revenues generated by various CIBC World Markets businesses, including CIBC World Markets' Investment Banking Department. CIBC World Markets may have a long or short position or deal as principal in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should not rely solely on this report in evaluating whether or not to buy or sell the securities of the subject company.

Legal Matters: This report is issued and approved for distribution by (i) in Canada by CIBC World Markets Inc., a member of the IDA and CIPF, (ii) in the UK, CIBC World Markets plc, which is regulated by the FSA, and (iii) in Australia, CIBC World Markets Australia Limited, a member of the Australian Stock Exchange and regulated by the ASIC (collectively, "CIBC World Markets"). This report is distributed in the United States by CIBC World Markets Inc. and has not been reviewed or approved by CIBC World Markets Corp., a member of the New York Stock Exchange ("NYSE"), NASD and SIPC. This report is intended for distribution in the United States only to Major Institutional Investors (as such term is defined in SEC 15a-6 and Section 15 of the Securities Exchange Act of 1934, as amended) and is not intended for the use of any person or entity that is not a major institutional investor. Major Institutional Investors receiving this report should effect transactions in securities discussed in the report through CIBC World Markets Corp. This report is provided, for informational purposes only, to institutional investor and retail clients of CIBC World Markets in Canada, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited. This document and any of the products and information contained herein are not intended for the use of private investors in the United Kingdom. Such investors will not be able to enter into agreements or purchase products mentioned herein from CIBC World Markets plc. The comments and views expressed in this document are meant for the general interests of clients of CIBC World Markets Australia Limited.

This report does not take into account the investment objectives, financial situation or specific needs of any particular client of CIBC World Markets Inc. Before making an investment decision on the basis of any information contained in this report, the recipient should consider whether such information is appropriate given the recipient's particular investment needs, objectives and financial circumstances. CIBC World Markets Inc. suggests that, prior to acting on any information contained herein, you contact one of our client advisers in your jurisdiction to discuss your particular circumstances. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice; as with any transaction having potential tax implications, clients should consult with their own tax advisors. Past performance is not a guarantee of future results.

The information and any statistical data contained herein were obtained from sources that we believe to be reliable, but we do not represent that they are accurate or complete, and they should not be relied upon as such. All estimates and opinions expressed herein constitute judgements as of the date of this report and are subject to change without notice.

Although each company issuing this report is a wholly owned subsidiary of Canadian Imperial Bank of Commerce ("CIBC"), each is solely responsible for its contractual obligations and commitments, and any securities products offered or recommended to or purchased or sold in any client accounts (i) will not be insured by the Federal Deposit Insurance Corporation ("FDIC"), the Canada Deposit Insurance Corporation or other similar deposit insurance, (ii) will not be deposits or other obligations of CIBC, (iii) will not be endorsed or guaranteed by CIBC, and (iv) will be subject to investment risks, including possible loss of the principal invested. The CIBC trademark is used under license.

(c) 2008 CIBC World Markets Inc. All rights reserved. Unauthorized use, distribution, duplication or disclosure without the prior written permission of CIBC World Markets Inc. is prohibited by law and may result in prosecution.