



2006-07 mid-year update

OVERVIEW

Budget 2006 forecasted a surplus of \$6.2 million for the fiscal year ending March 31, 2007. It is now expected that the province will record a deficit of \$39.8 million.

The deficit occurs, predominately, because of reduced production at the Terra Nova oilfield which resulted in significantly less

revenue than originally forecast. At budget time, it was anticipated that the Terra Nova Floating Production Storage and Offloading (FPSO) Vessel would incur a three month maintenance shutdown. The actual length of the shutdown exceeded six months, resulting in reduced royalties during the first part of the year.

Modest declines in the annual production of the Hibernia and Whiterose Projects are now expected, as well. However, revenue losses attributable to lower production for these projects will be offset by revenue gains resulting from oil prices in excess of those originally forecast in the first part of the fiscal year.

Statement 1

Consolidated Statement of Operations Budget vs. Mid-year Revised 2006-07 (\$ millions)

	Budget	Mid-year Revised	Change
Revenue	5,188.8	4,987.1	(201.7)
Net Expenses			
Program Expenses	4,581.6	4,432.3	149.3
Debt Servicing Expenses	778.0	767.5	10.5
Total Net Expenses	5,359.6	5,199.8	159.8
Net Income of Government Business Enterprises	177.0	172.9	(4.1)
Surplus / (Deficit)	6.2	(39.8)	(46.0)

REVENUES

Royalties from the province's offshore oil sector are now expected to be \$496.4 million compared to the \$703.1 million predicted at budget time.

Offshore royalties had been forecast using a price of \$US57 per barrel. For the period ending

October 31, 2006, the actual price has been about \$US69 per barrel. The forecast for the remainder of the year assumes an average price of approximately \$US60 per barrel.

Federal and provincial revenues, other than oil royalties, are expected to be \$64 million

higher than forecast at budget time. Increases in income tax and HST revenue will be offset, somewhat, by a reduction in Health and Social Transfers from the federal government resulting from downward population adjustments.

Statement 2

2006-07 Fiscal Year Assumptions

Average Oil Price (\$US/bbl)

Budget forecast price for 2006-07	57.00
Price April to October 31	68.93
Revised forecast price November 1 to March 31	60.42

Exchange Rate (US cents/Cdn \$)

88.00

Oil Production (MMbbls)

Budget Forecast for 2006-07	137.10
Revised Forecast for 2006-07	116.80

EXPENSES

At budget, the province had forecast consolidated program expenses of \$4,581.6 million. It is now expected that program expenses will be \$4,432.3 million at March 31, 2007, a reduction of \$149.3 million from the forecast.

While additional funding has been provided for initiatives and unforeseen events such as employment support for fish plant workers, disaster assistance and a \$10 million contribution to the industrial rate stabilization plan for Newfoundland and Labrador Hydro, the province still expects to benefit from savings in other areas which will more than offset these additional expenses.

Debt servicing expenses are also expected to be \$10.5 million lower than originally forecast. This is a result of a delay in the commencement of the province's borrowing program.

Pension plan investment returns to date have been higher than the forecast actuarial rate. This has offset, to a certain degree, the impact from the delayed borrowing program which is intended to be used to provide funding for the pension plans.

Overall, debt servicing costs are expected to be \$166.7 million less this year than last year.

ECONOMIC OUTLOOK

Real GDP, which had been forecast at 6.2% for 2006 is now expected to be 3.0%. This decline is related to reduced production from Terra Nova and the two-month strike at Voisey's Bay.

Although the number of housing starts is expected to be lower than forecast, the revised estimate of starts at 2,179 is still high compared to historical levels.

Residential investment remains strong due to high levels of renovation expenditures and the construction of higher valued homes.

The province's labour market continues to perform well. While employment growth is expected to be lower than forecast, the number of persons employed is at an all time high in the province at 214,900 person years.

Personal income is forecast to grow by 4.0% due to significant wage increases resulting in increased consumer spending. Retail sales are expected to increase by 2.1% this year.

Statement 3

Economic Indicators 2005 and Outlook 2006 (percentage change except where indicated)			
	2005	2006	
		Budget	Mid-year Revised
Real Gross Domestic Product	0.4	6.2	3.0
Other Economic Indicators			
Retail Sales	2.2	2.3	2.1
Personal Income	3.7	4.4	4.0
Labour Income	4.5	3.4	4.1
Capital Investment	1.8	(6.9)	(6.9)
Consumer Price Index	2.6	2.2	2.1
Housing Starts (units)	2,498	2,287	2,179
Labour Market			
Employment (000's)	214.1	215.4	214.9
Employment	(0.1)	0.6	0.4
Unemployment Rate (percent)	15.2	15.0	15.1
Population	(0.6)	(0.5)	(0.8)