

Canada votes



It feels like déjà vu

September 21, 2021

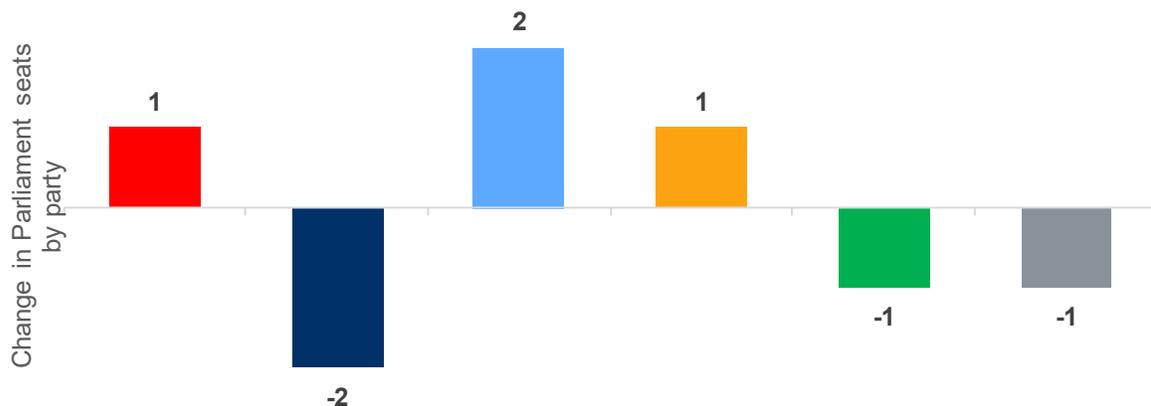
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Canadians went to the polls yesterday to elect the country's 44th Parliament. While at the outset of the campaign, it appeared as though the Liberals might walk away with a majority government, the polls narrowed as the campaign progressed. Temporarily they even pointed to a Conservative victory. The final outcome – re-election of a Liberal minority government – highlights an electorate that ultimately opted for the status quo.

Canada votes: the Parliamentary breakdown

| | Liberal | Conservatives | Bloc Québécois | NDP | Green Party | Independent |
|-------------------------------|---------|---------------|----------------|-----|-------------|-------------|
| Seats in 2021 election | 158 | 119 | 34 | 25 | 2 | 0 |
| Seats in 2019 election | 157 | 121 | 32 | 24 | 3 | 1 |



Source: CBC. RBC GAM. Seats include leading or elected as of 6am, September 21, 2021.

The world has changed considerably since Justin Trudeau and the Liberal government were handed their last minority in October 2019. Yet political preferences seemingly have not. Only a handful of seats changed hands across the country, results that are likely disappointing to for all parties involved.

As of this morning, the Liberals appear to have gained a total of one seat in the House of Commons, 12 seats short of the 170 required for a majority. They captured 32.2% of the vote, down from 33% in 2019 -- although with an unusual number of mail-in ballots still to be counted, those figures may change slightly. Meanwhile, the Conservatives collected 119 seats, down a couple of seats from the last election.

Five out of the last seven elections in Canada have resulted in a minority government. This is partly a function of an increased number of parties vying for power – six received a significant share of the vote in the election. It's also partly a reflection of an unusually divided public. This will have to be resolved in Parliament, where compromise and debate are necessary ingredients for progress.

Typically a minority government would raise questions about how much might be accomplished. However, the Liberals have shown to be adept at working with fellow left-leaning parties to maintain the confidence of Parliament. While some of that has been due to the necessity of passing critical legislation during the pandemic, the NDP are likely to be fairly supportive of much of the Liberal's expansive mandate.

What lies ahead

While the Liberal platform contained an exceptional number of promises, several now come into focus from an economic and investment perspective:

- The Liberals campaigned on a platform of increasing government spending, to the tune of an additional \$78 billion over the next five years. Given that the pandemic isn't yet resolved, some further policy measures are arguably justified. It's also important to note that minority governments tend to be more fiscally expansive as they attempt to meet the spending objectives of multiple parties. When combined with low interest rates, this strategy is unlikely to encounter near-term concerns about debt sustainability.
- The party proposed increasing the tax rate on large banks and insurance companies from 15% to 18%. If passed, this would generate an additional \$5.3 billion in revenue for the government over the next four years.
- All of the parties campaigned on introducing measures to increase affordability in the housing market, and it's likely we will see some measures introduced. Key Liberal pledges include placing limits on foreign ownership and instituting an anti-flipping tax on houses owned for less than one year. There is also a focus on affordability, with plans to build more homes, encourage cheaper mortgage insurance and create a tax-sheltered program for down payments.
- In addition to continuing many of their existing pandemic support programs, the Liberals plan to provide wage and rent support for the tourism sector, subsidizing cultural events facing reduced capacity.

Elsewhere, the new government has also proposed support for working Canadians and families, including:

- Continue rolling out its new \$10 childcare program.
- Expand the number of individuals who are eligible for the Canada Workers Benefit.
- Increase the generosity of the guaranteed income supplement for low-income seniors.
- Lower the threshold for repayment relief on federal student loans.

Finally, the Liberals promise to continue implementing a suite of green initiatives, including a gradually rising carbon tax. They have also committed to reduce emissions in the years and decades ahead.

What it means for markets

Elections rarely lead to a large deviation from the prior economic trajectory, particularly when the incumbent wins. While the formation of a minority government often creates greater potential uncertainty, Canada is no stranger to minority

Parliaments and this outcome is virtually identical to the representation that existed prior to dissolution. Thus financial markets have responded to the results of this election in a muted fashion, focused more on other events. History further suggests there is no definitive path for rates during or after elections, and the Canadian dollar tends to take its primary cue from commodity prices and other market variables rather than political changes.

Our indicators suggest considerable work remains to be done to get Canada back to its full economic potential. However, with the growing adoption of vaccine mandates and passports, further economic restrictions are now less likely to occur. In addition to the continuing pandemic supports, an important factor for robust growth ahead is the Liberal commitment to accelerated immigration over the next few years.

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