



Economics

# ECONOMIC FLASH!

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## Canadian election: out with the old, in with the old

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It's out with the old parliament, in with the old parliament, as Canada's federal election left the seat counts almost unchanged from where they were prior to the vote. While ballots are still being counted, the Liberals will remain in charge of a minority government, with the Conservatives, the official opposition. As before, on a bill opposed by the latter, the Liberals need either the support of the Bloc Québécois or the NDP to assure its passage. As we write, according to the CBC, the Liberals are leading or elected in 158 ridings, short of the 170 needed for a majority, with the Conservatives at 119, the BQ at 34, NDP at 25 and the Greens at 2. Each party gained or lost no more than two seats from their pre-election position.

- Score one for the pollsters, as the result was right in line with what their seat projections were saying over the last couple of weeks of the campaign. So to the extent that markets tend to react to surprises, this wasn't one.
- Much of the Liberal platform had already been laid out in their last budget, including a major childcare initiative.
- While the Liberals added spending and some tax hikes to what they had laid out in the budget, better than expected growth had created room on the spending side by lowering the baseline estimates for deficits this year and over the medium term. The Parliamentary Budget Office's pre-election baseline put this year's deficit at \$138 bn (down from the April budget estimate of \$155 bn) and reduced the forecast 2025 deficit by some \$6 bn to just under \$25 bn. That lops off some \$66 bn from the total accumulated deficit over that period.
- The Liberal platform is estimated to add roughly \$20 bn to the deficit this year and next, essentially using up the extra cushion and putting the deficit on a similar track to what the April budget pledged. The debt/GDP ratio would see a very gradual decline of the forecast horizon. Overall then, there's not a lot of news in the election result for the bond market.
- The platform did have a number of new initiatives that would increase spending with some offsetting tax hikes. The spending increases, totalling \$78 bn over five years, were focussed on hot button issues like housing and health care. As an offset, tougher tax enforcement is projected to raise billions in additional revenue, a minimum 15% tax was imposed on those whose income would have otherwise put them in the top bracket, and tax increases were proposed for banks and insurers,
- On climate change, most of the Liberal's agenda was in place ahead of the election, but the Liberals announced a new target for a 50% electric vehicle share of sales by 2030, and a net zero power grid by 2035.

## Implications & actions

**Re: Economic forecast** — Remember that we're in another minority government, so none of these proposals has assured passage, and they could be refined by the Liberals before showing up in a budget or legislation. With this election leaving the parliament intact, there's no immediate need to alter our economic projections at this point.

**Re: Markets** — We'll leave it to our partners in CIBC equity research to assess potential implications for some TSX sectors or individual stocks. We don't expect any notable reaction in the bond or FX markets.

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