

Market View – Liberal Speech from the Throne: Third time’s the harm?

By Warren Lovely

Tomorrow, Governor General Julie Payette will recite Canada’s Speech from the Throne (SFT). It will be the third such speech penned by Justin Trudeau’s Liberal government, and perhaps the most dangerous one of all... if not for the Liberal party, then just maybe for Canadian bondholders.

Wednesday’s SFT will look and feel nothing like past incarnations, and not just because it’s being delivered to a thinner, socially distanced audience in the former train station that is the Senate’s temporary home (owing to renovation work on the Hill). In the most significant ways possible, September 2020 is a world away from December 2019—when the last Throne Speech kicked off Trudeau’s second, albeit diminished parliamentary mandate. In the intervening 293 days, a pandemic has delivered an economic and fiscal shock of unprecedented magnitude.

Around the time of the last Speech, Canada had all-but-achieved full employment, the national jobless rate averaging less than 6%. But as of August, the unemployment rate was north of 10%. Despite important progress getting Canadians back to work, the ranks of the unemployed have swelled by more than 900,000 since Trudeau was re-elected less than a year ago. There remains a gaping hole in real and nominal GDP, and it’s far from clear when (or even if) we’ll get the economy back on its pre-COVID glide path. The scariest numbers of all, however, are once again the actual virus counts: 145,000 total cases across the country, including nearly 11,000 active cases. And yes, the dreaded second wave is here, judging from the upward sloping and accelerating curve of new cases. (The virus is gaining momentum in seven of ten provinces.)

Meantime, the fiscal fallout from (and response to) the virus has been tremendously costly. It’s already robbed the sovereign of one of its coveted triple-A credit ratings, accelerating downward ratings adjustments in the provincial universe too. Risks remains skewed to the downside at both levels of government. Of course, credit rating agencies and bondholders are still awaiting: (a) the definitive fiscal price tag attached to the virus; and (b) some semblance of a medium-term fiscal recovery plan. Enter the SFT, where unlike the prior two Liberal versions, the country’s fiscal future should garner greater attention. While something of a juvenile instrument, check out the word cloud derived from the December 2019 Throne Speech (page 3). How many references were there to ‘deficit’, ‘debt’, ‘budget’, ‘balance’ or ‘rating’? Precisely zero! In fact, the only thing remotely approaching a fiscal pledge was the sufficiently vague comment: “the Government will pursue a responsible fiscal plan to keep the economy strong and growing”. Ok, we get it, the SFT is not to be confused with a detailed fiscal update, but let’s just say prudent fiscal management didn’t exactly feature prominently in the last Throne Speech.

Tomorrow’s version provides the Liberal government an opportunity to flag a fresh commitment to fiscal sustainability. Their chief opposition, the Conservative Party, just elected a new leader (Erin O’Toole) brandishing a platform that includes fiscal prudence as a key pillar. Canadians too, seem increasingly attuned to Ottawa’s fiscal situation... although, not surprisingly, the deficit and spending control to take a back seat to jobs and the economy in terms of the issues du jour. Actions, as they say, speak louder than words. It will be for Finance Minister Chrystia Freeland to show us what responsible fiscal management really looks like to the Liberals in a subsequent Fall Update. That is, if the government survives that long, since the Liberals will face a vote of confidence via the official “reply” to the Throne Speech. Which brings us to the state of play in federal politics. As it stands, the Liberals control a minority of seats in the House of Commons, 154 of 338 to be exact, lacking representation in either Alberta or Saskatchewan. That means the Liberals need the support, or least the abstention, of another major party (or parties) to survive. Last time, after the December 5, 2019 SFT, we had to wait over a month and a half for the corresponding vote on the “Address in Reply to the Speech from the Throne”, which the Liberals carried (on January 27, 2020) with the support of the Bloc. (FYI: The vote on the reply to the December 2015 Throne Speech was a moot point, since the Liberals enjoyed a majority back then.)

Opposition bluster might lead you to believe they’re spoiling for a fight. So just how vulnerable are the Liberals? Here, we tend to defer to reputable political analysts, a top choice being the CBC’s Éric Grenier. As per Grenier’s latest federal Poll Tracker, the Liberals enjoy ~36% support, leading the Conservatives by a weighted average of more than 5 points. Translating the popular vote into seats is tricky business, but Grenier’s model currently gives the Liberals 170 seats (subject to a non-trivial margin of error). That puts Trudeau right on the bubble in terms of regaining the majority he lost in 2019’s vote. Moreover, if polling data and seat projection models are to be believed, few opposition parties stand to gain ground, least of all the Conservatives. So it’s not exactly clear that the opposition will be rushing to bring the Liberals down. Trudeau’s third Throne Speech arrives during a lamentable period for the Canadian economy and public finances, but at the end of the day, it might not be the most politically harmful version we’ve heard. As always though, it will be vital to ‘check against delivery’.

Table: This time is different! Comparing today’s economic-fiscal situation to past Throne Speeches

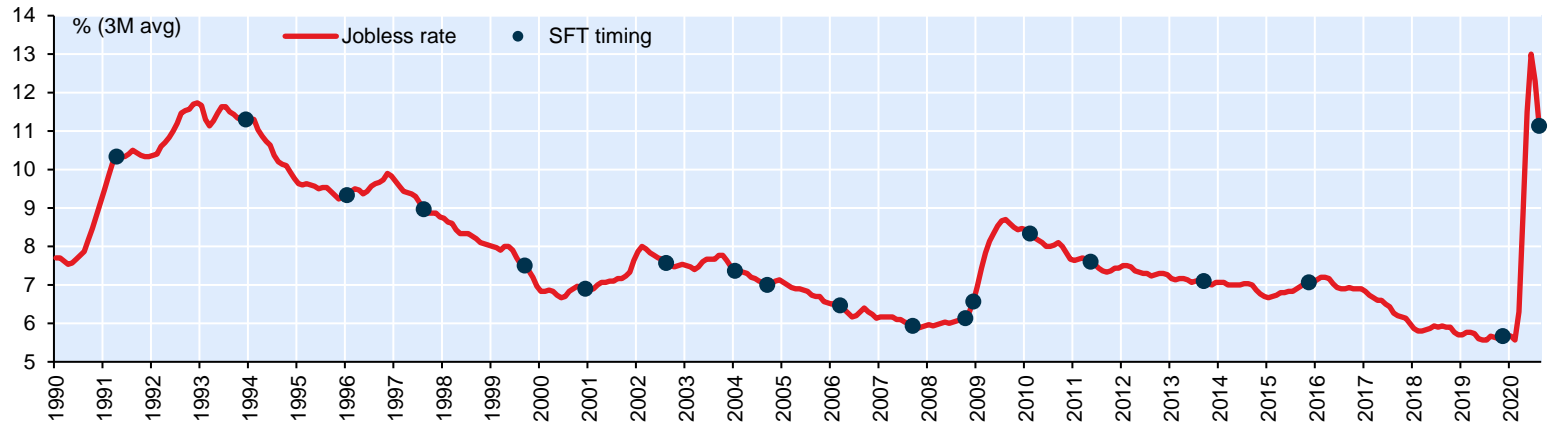
Select economic, fiscal, financial market & monetary policy indicators: Current situation vs. prevailing levels at time of prior Throne Speeches

Party PM	Throne speech Date	Cdn economy		Federal finances			Prov’l finances		Financial markets monetary policy						
		GDP growth YY % (3M)	Jobless rate % (3M)	GoC bud bal C\$bln	GoC debt % of GDP	GoC ratings S&P Mdy Fitch	Provi bud bal C\$bln	Provis balanced # of 10	S&P TSX Index	Volatility VIX Index	Crude oil (WTI) US\$/bbl	Cdn dollar C\$/US\$	BoC O/N target %	GoC 10Y %	BoC assets C\$bln
Lib Trudeau	23-Sep-20	-12.7	11.1	-343.2	49.1	AAA Aaa AA+	-95.9	0	16,029	27.4	39.6	1.332	0.25	0.56	539
	5-Dec-19	1.6	5.7	-34.4	31.1	AAA Aaa AAA	-18.2	4	16,897	14.8	58.4	1.320	1.75	1.54	116
	4-Dec-15	0.1	7.1	-2.9	31.9	AAA Aaa AAA	-5.3	2	13,325	18.1	41.1	1.336	0.50	1.62	98
Cons Harper	16-Oct-13	2.7	7.1	-8.1	32.9	AAA Aaa AAA	-11.5	2	12,931	18.7	101.2	1.038	1.00	2.65	88
	3-Jun-11	3.0	7.6	-28.0	33.4	AAA Aaa AAA	-15.4	1	13,520	18.1	100.4	0.976	1.00	3.02	59

Source: NBF, StatCan, federal-provincial governments, S&P, Moody’s, Fitch, BoC, Bloomberg | Note: Cdn economy indicators based on 3-month moving average for month prior to SFT; federal & provincial finances refer to fiscal year during SFT, with figures for 2020 based on federal government’s “Fiscal Snapshot” & latest official guidance from all provinces; financial market levels (e.g., equities, vol, oil, FX, interest rates) reflect closing level day prior to SFT or latest; BoC assets based on weekly balance sheet & reflect week prior to SFT

Chart 1: Speech from the Throne comes at pivotal time for Canadian economy

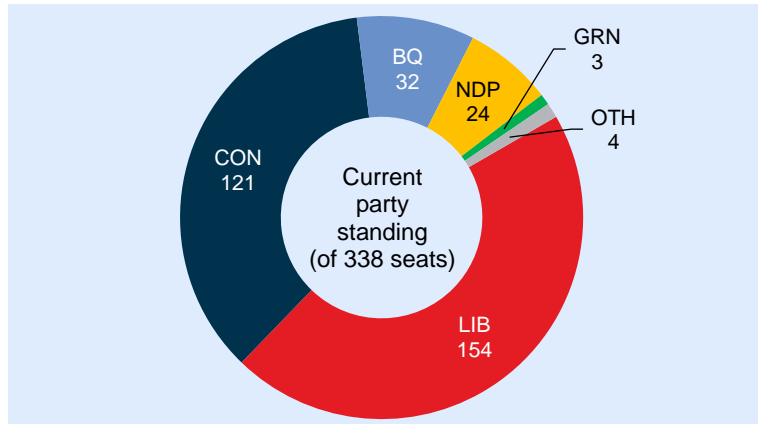
Canadian unemployment rate prior to Speech from the Throne



Source: NBF, StatCan

Chart 2: Where things currently stand in HoC

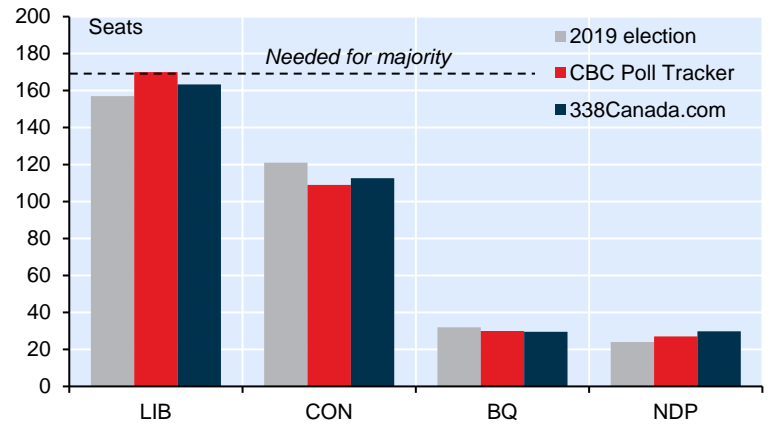
Current party standing in Canada's House of Commons



Source: NBF, Parliament of Canada | Note: Other includes independents & vacancies

Chart 3: Polls suggest Liberals could gain in a vote

Current seat projections by major party vs. 2019 election outcome



Source: NBF, Elections Canada, CBC Poll Tracker (22-Sep), 338Canada.com (20-Sep) | Note: Excludes Green party, other smaller parties & independents

Visualization of 2019 SFT

5 core themes: Fighting climate change;
Strengthening the middle class;
Reconciliation; Keeping Cans safe & healthy;
Positioning for success in uncertain world
Deficit & debt didn't feature



Time to see what the new Liberal vision looks like!



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