

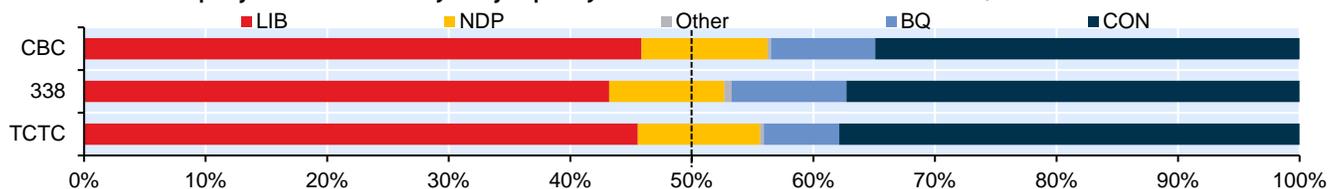
September 13, 2021 - (Vol. V, No. 96)

What's desired balance for Canada's potential balance of power?

By Warren Lovely

We're getting down to the short strokes in Canada's federal election campaign, as the vote goes in one week's time. It remains a tight race. The latest seat projections give Justin Trudeau's Liberals the most seats, albeit short of majority territory. We caution that projections are subject to change, but as it stands, Jagmeet Singh's NDP could well hold the balance of power in a freshly divided parliament.

Chart 1: Seat projection shares by major party (latest forecasts from CBC Poll Tracker, 338Canada & Too Close To Call)



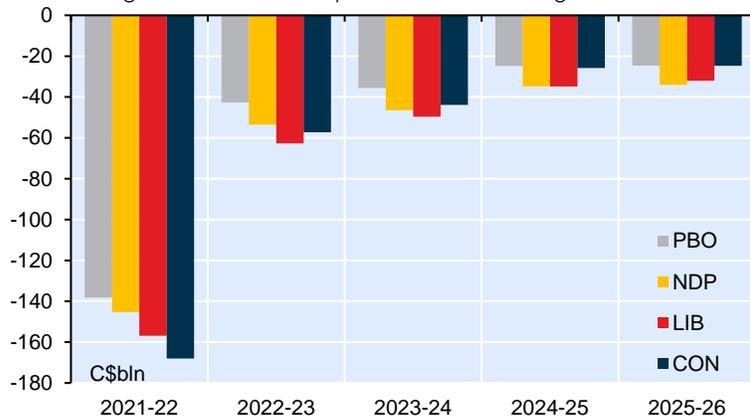
We're not calling the election, nor picking favourites. Rather, we're contemplating how a prospective minority parliament might function. With the NDP potentially wielding influence at the margin, it's pays to understand the party's key priorities and desired fiscal trajectory. The NDP recently presented a [costed platform](#), allowing for a comparison against the fiscal plans earlier offered by the Liberals and Conservatives:

- On the face of it, the NDP fiscal plan involves marginally less red ink than either the Liberals or Conservatives (Charts 2-3). Relative to the PBO's pre-election baseline, the NDP plan adds less than C\$10 billion/year to the annual federal deficit. When it comes to the budget balance, there's a noted contrast with the other two major parties (Liberal and Conservative) in the current fiscal year (2021-22). Indeed, of the three main parties, O'Toole's Conservatives appear most willing to run marginal red ink in the very near-term (Chart 4)... provided that this extra fiscal relief is wound down in a timely fashion. Whereas the Conservative plan entails relatively quicker deficit reduction starting in 2022-23, the marginal investments favoured by both the Liberals and the NDP carry a whiff of permanency;
- Of the three, the NDP clearly identify more areas in need of marginal investment. Witness the C\$215 billion of total new federal investments promised over five years in the NDP plan. That's more than double the combined level of new investments in the costed Liberal platform (inclusive of risk adjustments) and more like 4X the marginal spend favoured by the Conservatives. Based on our calculations, the NDP's implied level of federal spending would stand 6% above the Liberals and nearly 10% north of the Conservatives by 2025-26 (Chart 5);
- How can the NDP outline so many new investments but at the same time show a relatively smaller increase in federal debt? More revenue, and lots of it. The NDP plan would boost revenue C\$166 billion over five years, or nearly C\$35 billion/year (Charts 6-7). That's hardly a rounding error relative to the C\$355 billion baseline revenue figure the PBO has projected for 2021-22. As a reminder, new taxes in the Liberal plan total C\$25 billion over five years (Chart 8), or less than a sixth of what Singh has eyed. O'Toole's plan, meanwhile, doesn't involve much in the way of new taxes, save for a reinstated tariff on imported PPE, some modest marginal revenue via a tobacco recovery fee and greater tax recoveries via more funding for the CRA. Rather, the Conservatives would prefer to spend much less than the two other parties (Chart 9), in some cases reallocating money set aside in Budget 2021;
- What specific taxes are the NDP in favour of? Well, there are a number of major initiatives, including: a one-time excess profits tax (C\$14.6bln in 2021-22); an increase in the capital gain inclusion rate to 75% (worth no less than C\$9bln/year once fully implemented); a wealth tax (averaging C\$12bln/year); a 3%-pt increase to the corporate income tax rate (worth >C\$5bln/year once fully implemented)... plus an increase in the top marginal rate for individuals, a foreign homebuyers tax, an end to fossil fuel subsidies/oil & gas incentives, removal of various business tax deductions, a tobacco recovery fee/vaping tax, a crack down on tax haven use, greater CRA enforcement.

There you have it, the tax-and-spend orientation of today's NDP—a party which could hold a pivotal number of seats after the vote. Canadian businesses, high income earners and the wealthy may wish to take note.

Chart 2: Deficit projections for the three main parties

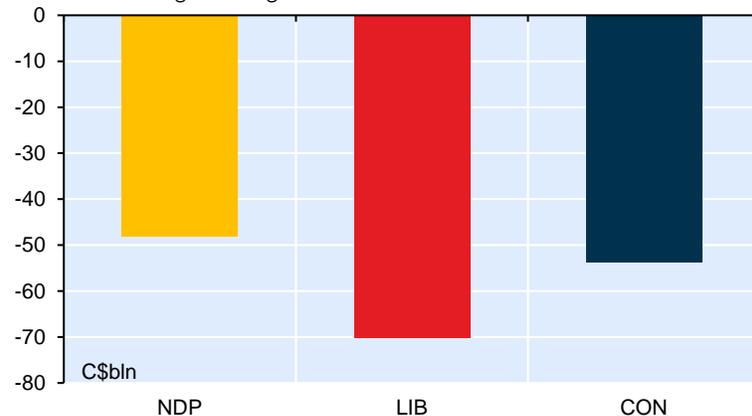
Federal budget balance: Election platforms vs. PBO's August baseline



Source: NBF, PBO, official party platforms/costing

Chart 3: On paper, NDP plan implies less budgetary red ink

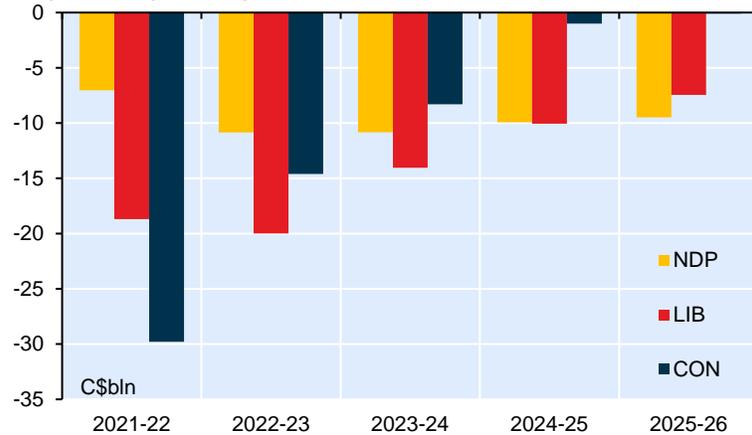
Cumulative change in budget balance vs. PBO baseline: 5Y total to 2025-26



Source: NBF, PBO, official party platforms/costing

Chart 4: Budgetary profiles differ on closer inspection

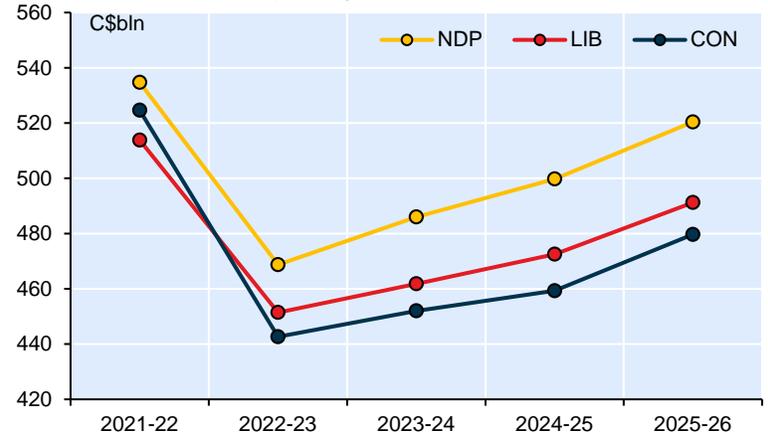
Marginal change in budget balance vs. PBO baseline by fiscal year



Source: NBF, PBO, official party platforms/costing

Chart 5: NDP plan outlines considerably larger investments

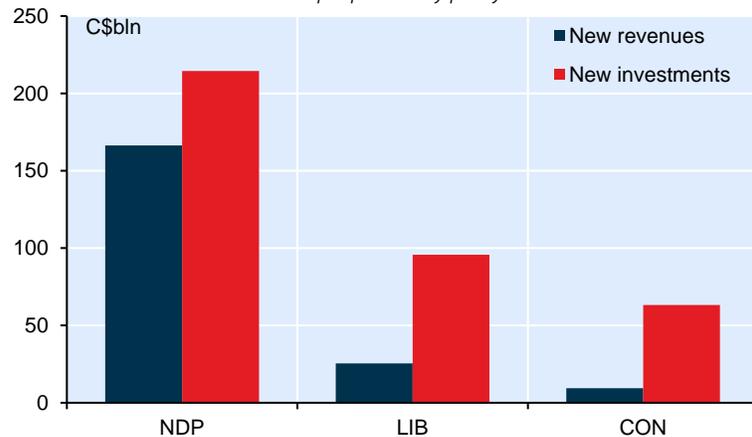
Illustrative level of federal spending: New investments added to PBO baseline



Source: NBF, PBO, official party platforms/costing | Note: Adds total cost of net new investments to PBO pre-election baseline level of federal spending

Chart 6: NDP plan is more tax-and-spend vs. others

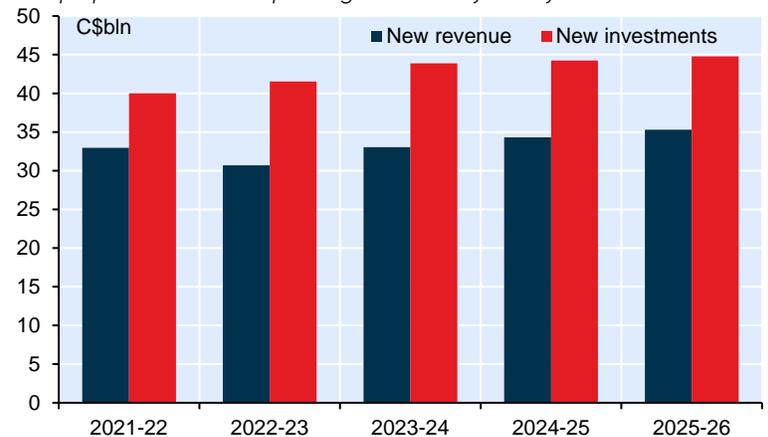
New revenue & new investment proposals by party: 5Y total to 2025-26



Source: NBF, official party platforms/costing | Note: Refer to Charts 7-9 for fiscal year profiles from 2021-22 to 2025-26

Chart 7: Larger tax bite to finance NDP's heavier spend

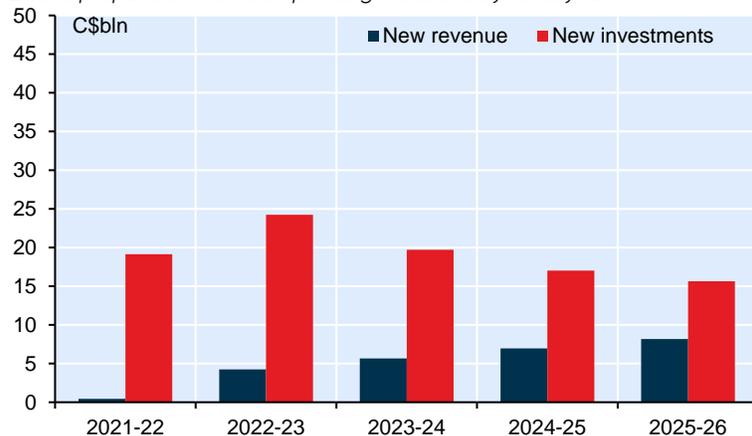
NDP proposed revenue & spending measures by fiscal year



Source: NBF, official NDP platform/costing | Note: New revenues include forecast allowance; new investments include incremental debt charges + contingency fund

Chart 8: The Liberal plan... targeted taxes, moderate spend

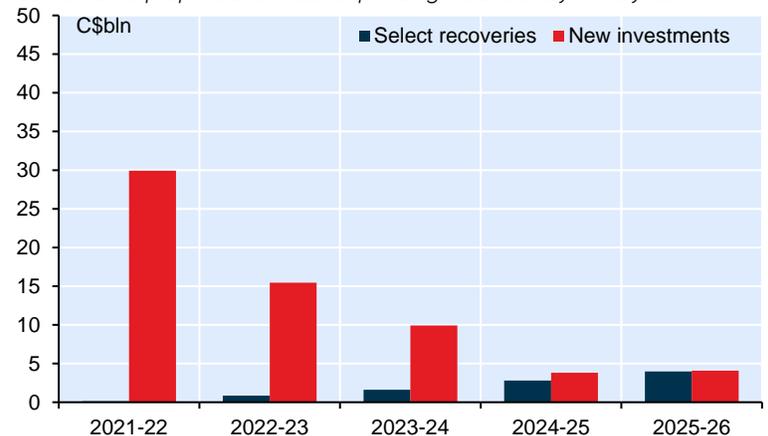
Liberal proposed revenue & spending measures by fiscal year



Source: NBF, official Liberal platform/costing | Note: New investments include incremental debt charges + risk adjustment for COVID prudence

Chart 9: Conservatives prefer more time-limited investments

Conservative proposed revenue & spending measures by fiscal year



Source: NBF, official Conservative platform/costing | Note: New investments include incremental debt charges + contingency amounts; as per CON platform, total net new spending incorporates select recoveries & various reallocations from Budget 2021 (most notably for child care); to aid comparability with LIB & NDP, we have separated select recoveries via tariff on PPE, tobacco fee & CRA recoveries from other investments

Economics and Strategy

Montreal Office

514-879-2529

Stéfane Marion

Chief Economist and Strategist
stefane.marion@nbc.ca

Kyle Dahms

Economist
kyle.dahms@nbc.ca

Alexandra Ducharme

Economist
alexandra.ducharme@nbc.ca

Matthieu Arseneau

Deputy Chief Economist
matthieu.arseneau@nbc.ca

Daren King

Economist
daren.king@nbc.ca

Angelo Katsoras

Geopolitical Analyst
angelo.katsoras@nbc.ca

Paul-André Pinsonnault

Senior Economist
paulandre.pinsonnault@nbc.ca

Jocelyn Paquet

Economist
jocelyn.paquet@nbc.ca

Toronto Office

416-869-8598

Warren Lovely

Chief Rates and Public Sector Strategist
warren.lovely@nbc.ca

Taylor Schleich

Rates Strategist
taylor.schleich@nbc.ca

Alpa Atha

Fixed Income Economist
alpa.atha@nbc.ca

General

This Report was prepared by National Bank Financial, Inc. (NBF), (a Canadian investment dealer, member of IIROC), an indirect wholly owned subsidiary of National Bank of Canada. National Bank of Canada is a public company listed on the Toronto Stock Exchange.

The particulars contained herein were obtained from sources which we believe to be reliable but are not guaranteed by us and may be incomplete and may be subject to change without notice. The information is current as of the date of this document. Neither the author nor NBF assumes any obligation to update the information or advise on further developments relating to the topics or securities discussed. The opinions expressed are based upon the author(s) analysis and interpretation of these particulars and are not to be construed as a solicitation or offer to buy or sell the securities mentioned herein, and nothing in this Report constitutes a representation that any investment strategy or recommendation contained herein is suitable or appropriate to a recipient's individual circumstances. In all cases, investors should conduct their own investigation and analysis of such information before taking or omitting to take any action in relation to securities or markets that are analyzed in this Report. The Report alone is not intended to form the basis for an investment decision, or to replace any due diligence or analytical work required by you in making an investment decision.

This Report is for distribution only under such circumstances as may be permitted by applicable law. This Report is not directed at you if NBF or any affiliate distributing this Report is prohibited or restricted by any legislation or regulation in any jurisdiction from making it available to you. You should satisfy yourself before reading it that NBF is permitted to provide this Report to you under relevant legislation and regulations.

National Bank of Canada Financial Markets is a trade name used by National Bank Financial and National Bank of Canada Financial Inc.

Canadian Residents

NBF or its affiliates may engage in any trading strategies described herein for their own account or on a discretionary basis on behalf of certain clients and as market conditions change, may amend or change investment strategy including full and complete divestment. The trading interests of NBF and its affiliates may also be contrary to any opinions expressed in this Report.

NBF or its affiliates often act as financial advisor, agent or underwriter for certain issuers mentioned herein and may receive remuneration for its services. As well NBF and its affiliates and/or their officers, directors, representatives, associates, may have a position in the securities mentioned herein and may make purchases and/or sales of these securities from time to time in the open market or otherwise. NBF and its affiliates may make a market in securities mentioned in this Report. This Report may not be independent of the proprietary interests of NBF and its affiliates.

This Report is not considered a research product under Canadian law and regulation, and consequently is not governed by Canadian rules applicable to the publication and distribution of research Reports, including relevant restrictions or disclosures required to be included in research Reports.

UK Residents

This Report is a marketing document. This Report has not been prepared in accordance with EU legal requirements designed to promote the independence of investment research and it is not subject to any prohibition on dealing ahead of the dissemination of investment research. In respect of the distribution of this Report to UK residents, NBF has approved the contents (including, where necessary, for the purposes of Section 21(1) of the Financial Services and Markets Act 2000). This Report is for information purposes only and does not constitute a personal recommendation, or investment, legal or tax advice. NBF and/or its parent and/or any companies within or affiliates of the National Bank of Canada group and/or any of their directors, officers and employees may have or may have had interests or long or short positions in, and may at any time make purchases and/or sales as principal or agent, or may act or may have acted as market maker in the relevant investments or related investments discussed in this Report, or may act or have acted as investment and/or commercial banker with respect hereto. The value of investments, and the income derived from them, can go down as well as up and you may not get back the amount invested. Past performance is not a guide to future performance. If an investment is denominated in a foreign currency, rates of exchange may have an adverse effect on the value of the investment. Investments which are illiquid may be difficult to sell or realise; it may also be difficult to obtain reliable information about their value or the extent of the risks to which they are exposed. Certain transactions, including those involving futures, swaps, and other derivatives, give rise to substantial risk and are not suitable for all investors. The investments contained in this Report are not available to retail customers and this Report is not for distribution to retail clients (within the meaning of the rules of the Financial Conduct Authority). Persons who are retail clients should not act or rely upon the information in this Report. This Report does not constitute or form part of any offer for sale or subscription of or solicitation of any offer to buy or subscribe for the securities described herein nor shall it or any part of it form the basis of or be relied on in connection with any contract or commitment whatsoever.

This information is only for distribution to Eligible Counterparties and Professional Clients in the United Kingdom within the meaning of the rules of the Financial Conduct Authority. NBF is authorised and regulated by the Financial Conduct Authority and has its registered office at 70 St. Mary Axe, London, EC3A 8BE.

NBF is not authorised by the Prudential Regulation Authority and the Financial Conduct Authority to accept deposits in the United Kingdom.

U.S. Residents

With respect to the distribution of this report in the United States of America, National Bank of Canada Financial Inc. ("NBCFI") which is regulated by the Financial Industry Regulatory Authority (FINRA) and a member of the Securities Investor Protection Corporation (SIPC), an affiliate of NBF, accepts responsibility for its contents, subject to any terms set out above. To make further inquiry related to this report, or to effect any transaction, United States residents should contact their NBCFI registered representative.

This report is not a research report and is intended for Major U.S. Institutional Investors only.

This report is not subject to U.S. independence and disclosure standards applicable to research reports.

HK Residents

With respect to the distribution of this report in Hong Kong by NBC Financial Markets Asia Limited ("NBCFMA") which is licensed by the Securities and Futures Commission ("SFC") to conduct Type 1 (dealing in securities) and Type 3 (leveraged foreign exchange trading) regulated activities, the contents of this report are solely for informational purposes. It has not been approved by, reviewed by, verified by or filed with any regulator in Hong Kong. Nothing herein is a recommendation, advice, offer or solicitation to buy or sell a product or service, nor an official confirmation of any transaction. None of the products issuers, NBCFMA or its affiliates or other persons or entities named herein are obliged to notify you of changes to any information and none of the foregoing assume any loss suffered by you in reliance of such information.

The content of this report may contain information about investment products which are not authorized by SFC for offering to the public in Hong Kong and such information will only be available to, those persons who are Professional Investors (as defined in the Securities and Futures Ordinance of Hong Kong ("SFO")). If you are in any doubt as to your status you should consult a financial adviser or contact us. This material is not meant to be marketing materials and is not intended for public distribution. Please note that neither this material nor the product referred to is authorized for sale by SFC. Please refer to product prospectus for full details.

There may be conflicts of interest relating to NBCFMA or its affiliates' businesses. These activities and interests include potential multiple advisory, transactional and financial and other interests in securities and instruments that may be purchased or sold by NBCFMA or its affiliates, or in other investment vehicles which are managed by NBCFMA or its affiliates that may purchase or sell such securities and instruments.

No other entity within the National Bank of Canada group, including National Bank of Canada and National Bank Financial Inc, is licensed or registered with the SFC. Accordingly, such entities and their employees are not permitted and do not intend to: (i) carry on a business in any regulated activity in Hong Kong; (ii) hold themselves out as carrying on a business in any regulated activity in Hong Kong; or (iii) actively market their services to the Hong Kong public.

Copyright

This Report may not be reproduced in whole or in part, or further distributed or published or referred to in any manner whatsoever, nor may the information, opinions or conclusions contained in it be referred to without in each case the prior express written consent of NBF.