

Will Canadians make Trudeau pay for red-hot inflation?

By Taylor Schleich/Warren Lovely

When was the last time inflation was a ballot box issue? It's been a while. But prices have been radiating a lot more heat in 2021, consumer price inflation (headline and underlying) running hot in Canada and elsewhere. Central bankers may call it transitory and inflation doves aren't wholly extinct, but to us, above-trend inflation has taken root. The average voter may not be debating the merits and perils of today's monetary policy stance, but Canadians increasingly sense pricing pressure. If you were to ask our incumbent prime minister where he'd like to see inflation, he'd likely answer 'nowhere close to 4.1%', particularly in the days leading up to a federal general election. This begs the question: have Canadians tended to vent their frustration over inflation at the ballot box?

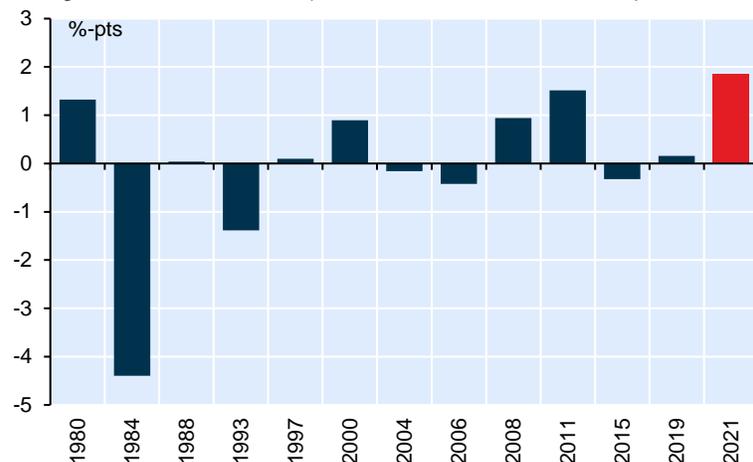
First off, we'd note that this current inflation shock, if not unprecedented, certainly stands out relative to recent memory. Whether you look at current inflation readings versus a longer-term trend, versus one year ago or versus the last federal election, this ongoing surge is the largest we've seen in over 40 years during election cycles. To illustrate, August 2021's 4.1% reading is four full percentage points north of August last year and close to 2%-pts above the 4-year trend. The next most recent inflation shock that occurred in and around an election took place in 2011 when inflation was 1.5% above trend at 3.3%. Importantly, this relatively more modest increase didn't hurt the incumbent Conservatives as they were able to turn their minority standing into a majority. Overall though, the predominant theme is that outsized inflation shocks often do not coincide with the electoral calendar. It follows that the correlation between inflation/relative inflation and success in re-election attempts is essentially non-existent. However, extend your horizon a little further and you'll find a couple of episodes that we can draw comparisons to:

- Back in the run-up to the 1974 election, inflation was running at 11.5% year-on-year. That was double the reading from when the incumbent Liberals were previously re-elected and roughly 5%-pts above the longer-term trend. This was a key election issue, with inflation-cooling measures being proposed by parties on the campaign trail. In the lead-up to that election, it looked like price pressures would contribute to Pierre Trudeau and the Liberals losing control of parliament, as polls had the Conservatives securing *at least* a minority win. But a campaign stumble/fumble—Robert Stanfield's butterfingers are now forever entrenched in Canadian election lore—saw the Conservatives surrender a polling lead. The incumbent Liberals actually ended up with improved standing in parliament relative to dissolution, dodging the inflation bullet.
- Way back in 1957, inflation was running at 4.3%. A year prior, however, CPI had printed at exactly 0%—a trajectory that's eerily similar to the current environment. The Liberals, in tune with these accelerating price pressures, showed restraint in terms of spending pledges for fear of continued inflation. John Diefenbaker and the Conservatives, meanwhile, pushed for higher old age pensions and welfare payments, more funds for poorer provinces and aid to farmers, downplaying inflationary concerns. The latter strategy paid off. Unlike in 1974, parliament did flip this time. The Liberals, who'd earned a decisive majority in the 1953, had governed for over 20 years and were widely predicted to secure a majority again, saw their standing in parliament decimated, shedding 66 seats. Ironically, inflation hawkism may have contributed to the Liberal's demise.

Two decades-old empirical episodes isn't much, but it's what we have to work with. Fast forward to 2021, and unlike more recent votes, inflation is increasingly top of mind for Canadians. But as we often caution, every election is a different beast. Trying to find a consistent relationship between election results and any economic or financial market variable (inflation or otherwise) is a bit of a fool's errand. In 2021, the question for Canadians may be "how much is JT is to blame for this inflation run-up?". Undoubtedly, supply chain bottlenecks, oil prices and ultra-loose monetary policy are largely out of his control, but Trudeau may have to own some of it, to the extent that generous support to households kept workers out of the job market and contributed to a wage-price spiral. Indeed, it's for voters to decide how much they want to punish the PM for his fiscal stimulus that has led to mounting pocketbook pressures. But as we look towards next week's vote, latest polling indicates Trudeau and the Liberals might be able to survive our ongoing inflation scare, just as his father was able to nearly 50 years ago.

Chart 1: Inflation unprecedented in last 40 years of elections

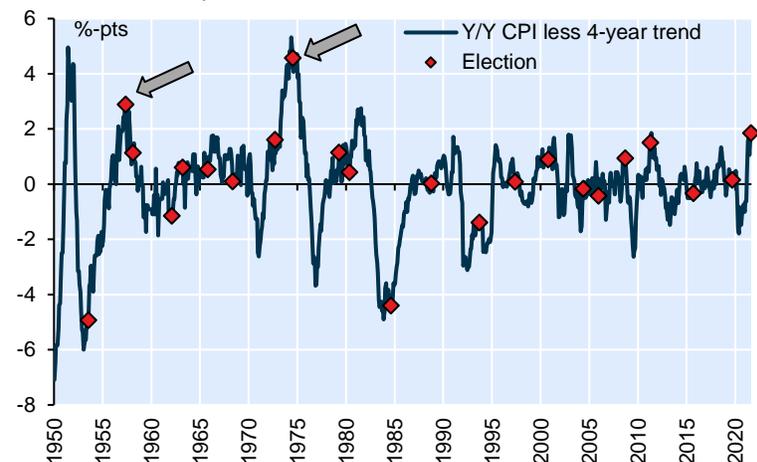
Change in Y/Y inflation: Month prior to federal election versus 4-year trend



Source: NBF, StatCan

Chart 2: But there are a couple older historical precedents

Y/Y inflation less 4-year annualized trend inflation since 1950 vs. elections



Source: NBF, StatCan

Table 1: Tracking inflation and election results

CPI inflation around election days, relative to earlier periods/trends and election results

Election date	CPI Inflation				Relative CPI inflation			Election results			
	At election date	At prior election	1 year pre-election	4-year annualized trend	vs. term start	vs 1 year prior	vs. 4-year trend	Winning Party	Liberal seats	Conservative seats	Change in incumbent seats
10-Aug-53	-1.4	4.3	1.4	3.5	-5.7	-2.8	-4.9	Liberal	171	51	-19
10-Jun-57	4.3	-1.4	0.0	1.4	5.7	4.3	2.9	Conservative	105	112	-66
31-Mar-58	3.4	4.3	3.5	1.9	-0.9	-0.1	1.5	Conservative	49	208	96
18-Jun-62	0.6	3.4	1.3	1.1	-2.8	-0.7	-0.5	Conservative	99	116	-92
8-Apr-63	1.9	0.6	0.0	1.3	1.3	1.9	0.6	Liberal	129	95	-21
8-Nov-65	2.4	1.9	1.9	1.9	0.5	0.5	0.5	Liberal	131	97	2
25-Jun-68	3.3	2.4	3.4	3.2	0.9	-0.1	0.1	Liberal	155	72	24
30-Oct-72	5.7	3.3	3.4	4.1	2.4	2.3	1.6	Liberal	109	107	-46
8-Jul-74	11.5	5.7	7.8	6.5	5.8	3.7	5.0	Liberal	141	95	32
22-May-79	9.8	11.5	8.5	8.7	-1.7	1.3	1.1	Conservative	114	136	-27
18-Feb-80	9.7	9.8	8.5	8.4	-0.1	1.2	1.3	Liberal	147	103	-33
4-Sep-84	3.6	9.7	5.6	8.0	-6.1	-2.0	-4.4	Conservative	40	211	-107
21-Nov-88	4.3	3.6	4.2	4.3	0.7	0.1	0.0	Conservative	83	169	-42
25-Oct-93	1.8	4.3	1.3	3.2	-2.5	0.5	-1.4	Liberal	177	54*	-115
2-Jun-97	1.5	1.8	1.5	1.4	-0.3	0.0	0.1	Liberal	155	80*	-22
27-Nov-00	2.8	1.5	2.3	1.9	1.3	0.5	0.9	Liberal	172	78*	17
28-Jun-04	2.4	2.8	2.8	2.6	-0.4	-0.4	-0.2	Liberal	135	99	-37
23-Jan-06	2.1	2.4	2.1	2.5	-0.3	0.0	-0.4	Conservative	103	124	-32
14-Oct-08	3.4	2.1	2.5	2.5	1.3	0.9	0.9	Conservative	77	143	19
2-May-11	3.3	3.4	1.8	1.8	-0.1	1.5	1.5	Conservative	34	166	23
19-Oct-15	1.0	3.3	2.0	1.3	-2.3	-1.0	-0.3	Liberal	184	99	-67
21-Oct-19	1.9	1.0	2.2	1.7	0.9	-0.3	0.2	Liberal	157	121	-27
20-Sep-21	4.1	1.9	0.1	2.2	2.2	4.0	1.9	?	?	?	?

Source: NBF, StatCan, Simon Fraser University | Note: *Conservative tally includes Reform party. Inflation reading is for month prior to election month.

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

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