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## Quick Hit – Economic/fiscal record of Ontario’s political parties

If you place any stock in public opinion polls and seat projection models, Ontario’s long-standing Liberal government era looks to be drawing to a close, as trusted pollsters have all but written off Kathleen Wynne and her Liberals (Chart 1). Whether or not we’re in the final days of Ontario’s 15-year Liberal regime, it’s worthwhile exploring the economic/fiscal credentials of not just the incumbent government but those that went before it. After all, each of the three main parties contesting the June 7 vote have governed Ontario at one time or another in the past few decades.

Credit where credit is due; Ontario’s economy has churned out impressive gains in the past few years under Liberal rule. Since taking over as Premier in Feb-2013, Kathleen Wynne has seen some 420,000 net new jobs created (up to Apr-2018). The drop in Ontario’s unemployment rate under her watch has been better than any of her predecessors based on data going back more than 40 years (Chart 2/3). Under current/past Liberal governments, real GDP growth has averaged 2.2% and more like 5% in nominal terms. Looking back, Ontario’s PC governments have notched even faster average GDP growth (3.8% real, 6.7% nominal), but that was partly a function of the healthy global economy, higher inflation environment and less restrictive demographics (i.e., faster potential growth) enjoyed while they were in power. Don’t lose sight of the early 1980s recession that hit when the PCs were installed at Queen’s Park. All in all, when you control for key external variables like US growth, the C\$ and interest rates, the Liberal and PC growth record might be closer to a draw. As for the NDP, their nearly five-year rule under Bob Rae (from 1990 to 1995) coincided with a fairly ugly global/national backdrop. But even factoring this in, the underlying growth and jobs record of that prior NDP government still doesn’t stack up that well vs past Liberal or PC governments.

A look at Ontario’s fiscal record (going back to the early 1980s) reveals performance gaps across party lines... less so between the Liberals and PCs, but more so vis-à-vis the NDP. The average deficit run by Liberal governments was 0.9% of GDP, compared to an average shortfall of 1.0% under the Conservatives. Again, there’s the key issue of underlying economic conditions to control for, and detailed econometric findings proved sensitive to the choice of local/external control variables. Factor in Ontario nominal GDP growth and you might give an underlying fiscal edge to the Liberals. Control for labour market slack, however, and the Conservatives might come out on top.

There’s also the issue of inheritance; that is, what kind of shape were the books in when each new government took over. No question, Mike Harris and his PCs inherited a very fragile budgetary position in 1995 (Chart 4). Ontario’s deficit was north of 3% of GDP in the final full year of the NDP (1994-95). The Liberals, conversely, were handed relatively healthier fiscal starting points when they rose to power in both 1985 and 2003... even after accounting for a noted re-statement to the 2003-04 numbers. Notwithstanding the party’s current fiscal pledges, past Ontario Liberal governments revealed an ability to get to balance and in some cases stay there. Fiscal results during earlier NDP rule lagged well behind, a relative standing that remains intact even when one controls for the weaker global backdrop registered during the first half of the 1990s. Little wonder that Andrea Horwath has taken pains to distance herself from this earlier, fiscally challenged incarnation of her party.

What of debt burdens and ratings? There’s been noted debt accumulation under the latest Liberal government era; Ontario’s debt burden has never been higher in fact. Blame the global financial crisis and the resulting counter-cyclical fiscal response for earlier pressure, but Ontario’s balance sheet and its credit rating profile has once more been put on a weakening track. To be clear, Ontario’s recent fiscal deterioration is *not* a function of economic turbulence, but rather reflects deficit-financed spending pledges at what is a mature stage of the economic cycle. We’d be remiss if we failed to mention that both the provincial Auditor General and the non-partisan Financial Accountability Office have warned that current Liberal accounting understates the provincial deficit and debt burden by a significant margin. Even if you set aside accounting arguments, Ontario’s recent fiscal pivot points to a structural deficit and reduced flexibility to respond to the next turn lower in the economy. That’s the situation the next government inherits.

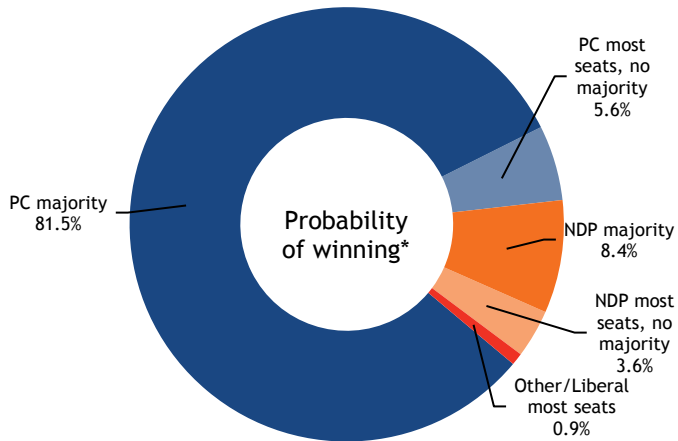
Historically, PC governments have done a good job holding the debt burden in check. That’s partly the reason Ontario didn’t suffer downgrades under the PCs going back to 1980. The Conservatives secured upgrades from each of S&P, Moody’s and DBRS between 2001 and 2002. Meanwhile, the sharp erosion in Ontario’s finances during the 1990-1995 NDP era took a *heavy* toll on the province’s ratings (Chart 5). Those same three rating agencies lopped a combined 8 notches from Ontario’s long-term rating during the NDP mandate, notably transforming what had previously been an impressive set of ratings. Ok, one NDP government doesn’t make for a big sample. But we have more history with NDP governments if you’re willing to look in other corners of the country. At the risk of generalizing, past/current NDP governments in BC, Alberta and Manitoba oversaw non-trivial deteriorations in credit ratings too.

To be clear, we’re not picking sides in the upcoming election. But if the choice is coming down to the NDP vs the PC, as polls suggest, bondholders (only some of whom actually get to cast a vote next week) might take a bit more comfort in the economic/fiscal record of previous PC governments. Of course, past performance is no sure-fire predictor of future success (or failure). Political tigers have been known to change their stripes. Indeed, from one era to another, one leader to another and even one budget to another, an individual party’s priorities and policies can change... sometimes materially so. Here’s a concluding thought: regardless of who forms government after June 7, Ontario must contend with noted economic vulnerabilities (elevated household leverage, unprecedented US trade protectionism measures and eroding competitiveness). By all accounts, Ontario faces years of budget deficits, additional debt and elevated borrowing needs. We could be served up a material restatement of the public finances, and will likely see further credit rating pressure. It’s enough to leave us a bit defensive on Ontario credit rating spreads, on an absolute and relative basis.

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**Chart 1: PCs seen as most likely to win**

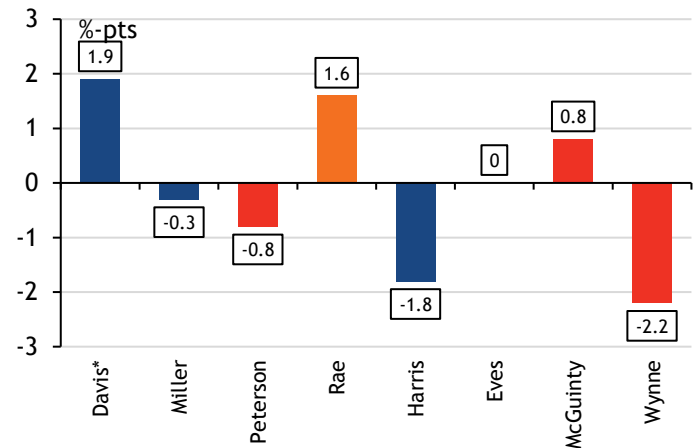
Probability of various Ontario election outcomes (CBC Poll Tracker)



Source: NBF, CBC Poll Tracker | \* As at 31-May-2018 & subject to change

**Chart 2: Labour market record of Ont premiers**

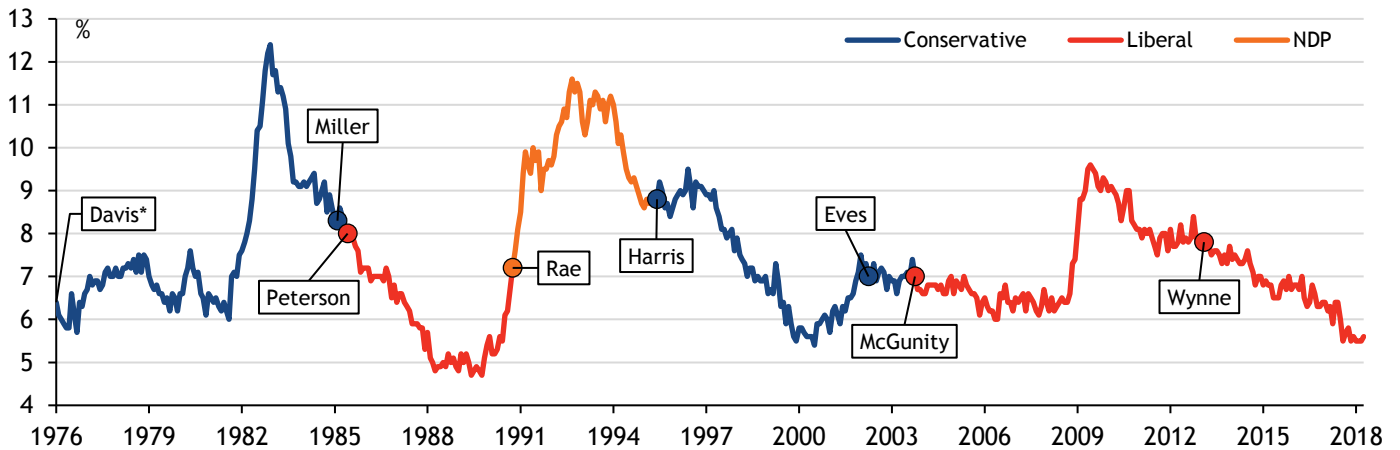
Cumulative change in Ontario unemployment rate by premier tenure



Source: NBF, Statistics Canada, Ontario legislature | Note: Davis in power from 1971, but unemployment rate change reflects 1976-1985 period

**Chart 3: Tracking Ontario's unemployment rate over the years**

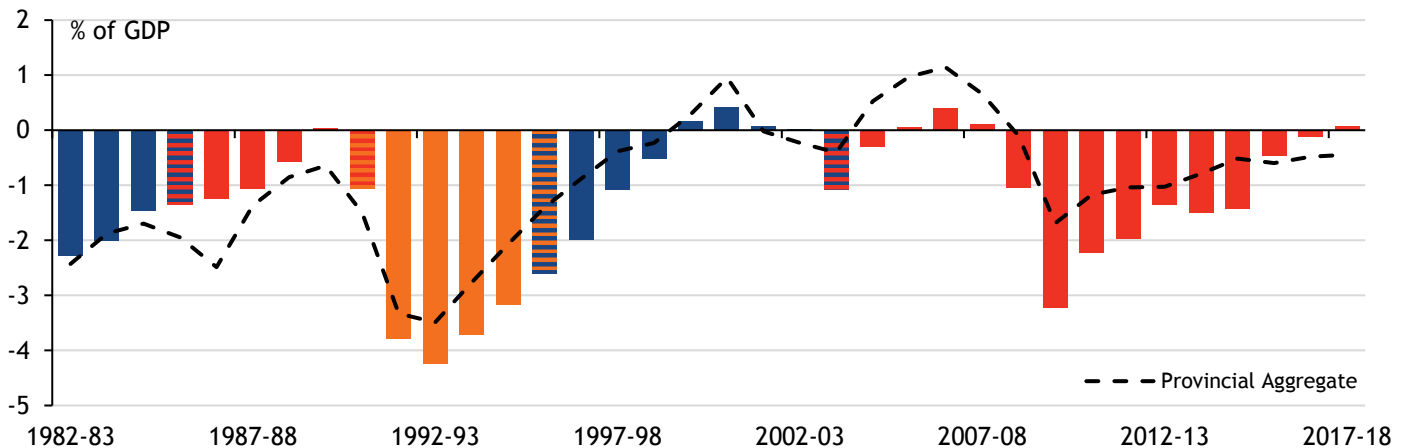
Ontario unemployment rate during various political regimes: 1976 to current



Source: NBF, Statistics Canada | Note: Davis in power from 1971, but unemployment rate data only available from 1976 onwards

**Chart 4: Fiscal record through the cycle & over past PC, Liberal, NDP regimes**

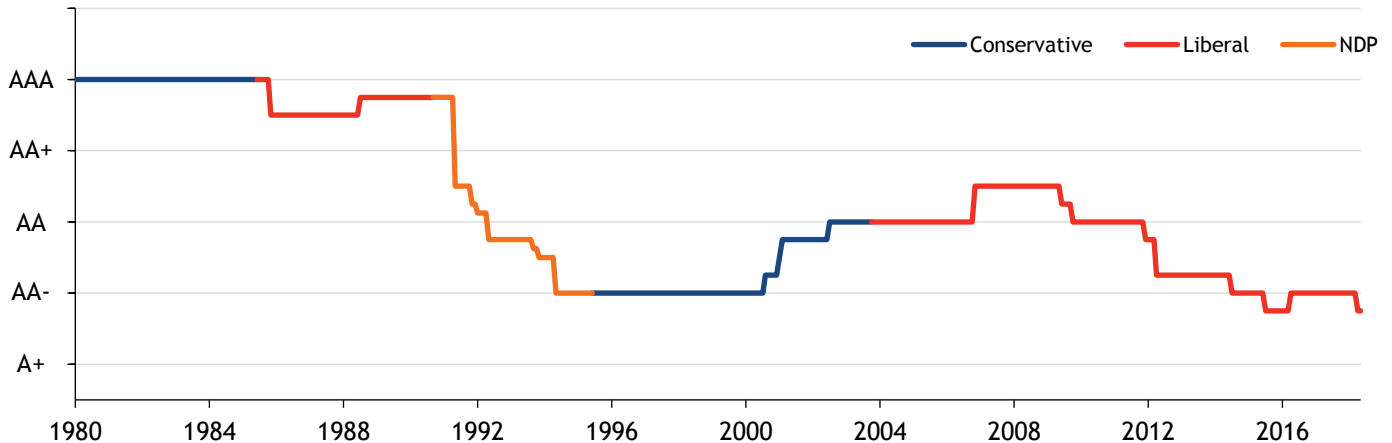
Ontario budget balance by fiscal year & political party



Source: NBF, Ontario | Note: Shading refers to political party in power: blue=PC; red=Liberal; orange=NDP; cross-hatching denotes transition years

**Chart 5: Evolution in Ontario's credit rating**

Ontario long-term credit rating: Average of S&P & Moody's ratings controlling for "positive" and "negative" outlooks



Source: NBF, S&P, Moody's | Note: Simple average of S&P & Moody's long-term ratings; current ratings: S&P A+ "stable", Moody's Aa2 "negative"

**Table 1: Economic/fiscal scorecard by government/political party**

Key economic & fiscal metrics for Ontario (along with select reference measures) for individual governments & party averages

Party	Time in office/ # years	Ontario Performance Measures							Select Reference Measures				
		Real GDP growth (%)	Nom. GDP growth (%)	Employment growth (%)	Jobless rate (%)	Budget bal. (% GDP)	Chg. in bud. bal. (% GDP)	Credit rating upgrades	Credit rating downgrades	US real GDP growth (%)	Canadian dollar (\$US/\$C)	WTI (\$US/bbl)	10Y GoC yield (%)
<b>Individual governments</b>													
Conservative	Up to 1985*	3.7	10.0	1.2	9.6	-1.9	0.0	0	0	3.4	0.79	31	12.6
Liberal	1985-1990	3.5	8.9	2.9	6.1	-0.8	0.2	1	1	3.6	0.79	20	9.9
NDP	1990-1995	1.2	2.9	-0.6	9.8	-3.4	-0.6	0	6	2.5	0.80	20	8.4
Conservative	1995-2003	3.9	5.4	2.4	7.3	-0.7	0.3	2	0	3.4	0.69	23	5.9
Liberal	2003-Present	1.7	3.6	1.0	7.2	-0.9	0.0	1**	3	1.9	0.88	71	3.0
<b>Political party averages</b>													
Liberal	20	2.2	5.0	1.5	6.9	-0.9	0.1	2**	4	2.3	0.86	57	4.8
Conservative	12	3.8	6.7	2.1	7.9	-1.0	0.2	2	0	3.4	0.72	25	7.8
NDP	5	1.2	2.9	-0.6	9.8	-3.4	-0.6	0	6	2.5	0.80	20	8.4

\* Though the Conservatives first came to power in 1943, all data used in the calculations in this table begin in 1982

\*\* Includes a Nov-2006 upgrade that reflected a methodology change that impacted non-US regional and local governments in the Americas

Note: Credit rating upgrades/downgrades relate to S&P & Moody's where ratings are available from 1980 onwards

Source: NBF, Statistics Canada, Ontario, Bloomberg, S&P, Moody's

**Table 2: Detailed look at Ontario's labour market record over past electoral mandates**

Ontario labour market indicators & change in credit ratings by individual electoral mandates

Premier/Party	Election Mandate / Gov't Type		Employment		Unemployment Rate (%)			Employment Rate (%)			S&P/Moody's LT Rating	
	Mandate	Maj./Min.	Jobs added (K)	Annualized Growth (%)	Start	End	Change	Start	End	Change	Upgrades	Downgrades
Davis/Miller	1981-1985	Majority	308	1.6	6.5	8.0	1.5	63.1	63.0	-0.1	0	0
Peterson	1985-1987	Minority	368	3.5	8.0	5.9	-2.1	63.0	65.1	2.1	0	1
Peterson	1987-1990	Majority	215	1.4	5.9	7.2	1.3	65.1	64.4	-0.7	1	0
Liberal	1985-1990	Maj/Min	582	2.3	8.0	7.2	-0.8	63.0	64.4	1.4	1	1
Rae	1990-1995	Majority	-63	-0.3	7.2	8.8	1.6	64.4	59.7	-4.7	0	6
Harris	1995-1999	Majority	531	2.5	8.8	6.3	-2.5	59.7	62.2	2.5	0	0
Harris/Eves	1999-2003	Majority	615	2.4	6.3	7.0	0.7	62.2	63.7	1.5	2	0
Conservative	1995-2003	Majority	1,146	2.5	8.8	7.0	-1.8	59.7	63.7	4.0	2	0
McGuinty	2003-2007	Majority	372	1.5	7.0	6.1	-0.9	63.7	63.8	0.1	1*	0
McGuinty	2007-2011	Majority	41	0.2	6.1	8.0	1.9	63.8	61.0	-2.8	0	1
McGuinty/Wynne	2011-2014	Minority	197	1.1	8.0	7.4	-0.6	61.0	60.8	-0.2	0	1
Wynne	2014-Present	Majority	360	1.3	7.4	5.6	-1.8	60.8	60.8	0.0	0	1
Liberal	2003-Present	Maj/Min	971	1.0	7.0	5.6	-1.4	63.7	60.8	-2.9	1*	3

\* Includes a Nov-2006 upgrade that reflected a methodology change that impacted non-US regional and local governments in the Americas

Source: NBF, Statistics Canada, Ontario, S&P, Moody's

Note: Don't confuse this report with a full-blown election primer. We've set aside discussion of the key ballot box issues, nor have we undertaken here a detailed assessment of likely fiscal trajectories... in part because we've examined this in past notes. We'll continue to explore Ontario's economic, fiscal, political backdrop heading into and coming out of next week's vote. For instance, our colleague (Catherine Maltais) has penned a complementary note exploring Ontario/Québec spread performance during past elections in our two largest provinces.

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