

Quick Hit – 3 letters that just might scare Justin Trudeau more than SNC

Canada has had its share of political intrigue in recent days and weeks. Since the *Globe and Mail* broke the story, the SNC-Lavalin “affair” has been largely unavoidable. Line up for a double-double at your local Tim’s and you’re apt to get into a debate over the pros and cons of cabinet solidarity, and/or the relative importance of judicial independence. Rarely has a (former) cabinet minister been as much of a household name as Jody Wilson-Raybould. Such is the saturation that more than a few Canadians actually know what a DPA is, and can likewise name the Clerk of the Privy Council. That’s saying something. We’ll refrain from casting judgement on this, a saga that’s yet unfolding... in the court of public opinion and in actual courtrooms.

But there just might be three letters that scare the Prime Minister more than SNC. And they are G D P. Ah yes, Gross Domestic Product, that most-broad measure of economic activity. Globally, GDP growth has downshifted faster than expected, prompting anxiety in many of the world’s major economies. Here in Canada, real GDP growth all but stalled in the final quarter of 2018, eking out a mere 0.1% unannualized advance. (Even annualized, it sounds and was anemic at 0.4%, with an “average” quarter of annualized growth more like 2%.) Meantime, a surprise setback in the separate but related monthly GDP data made for a terrible hand-off to Q1. Cue the downgrades to 2019 growth assumptions in Canada’s economics community, and a dovish pivot from the Bank of Canada, which will knock back its own forecast in a little more than a month from now. That will happen via April’s *Monetary Policy Report*, which also contains the BoC’s once-a-year recasting of potential growth (i.e., the economy’s non-inflationary speed limit).

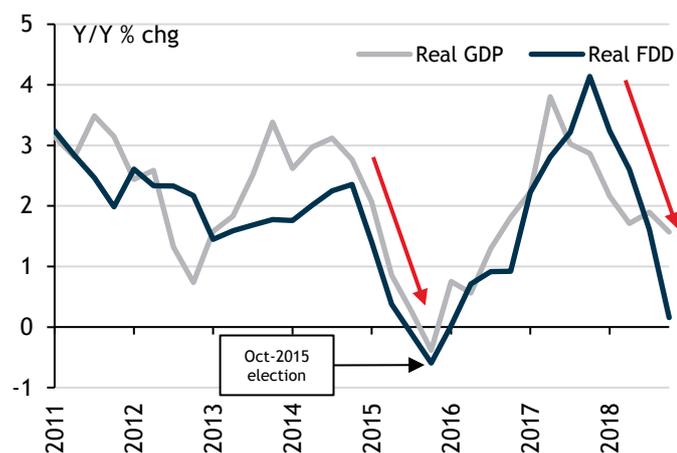
It could be that rainclouds hanging over another 3-letter construct—FDD or Final Domestic Demand—are even more worrisome for Canada’s sunny-ways PM. For you non-economists out there, Final Domestic Demand adds household and government consumption together with gross fixed capital investment. Expressed another way, it’s GDP *less* inventories and net trade. As the name implies, this concept provides a more focused picture of how underlying internal (i.e., domestic) economic activity is fairing. And the picture isn’t exactly pretty in Canada. Real FDD contracted in each of the final two quarters of 2018, leaving year-on-year growth at a limp 0.2% as of Q4. That’s a massive comedown from where we were operating just a year ago (>4%). When was the last time real final domestic demand was this feeble, you ask? Well, that was in and around late-2015 (Chart 1), which just happened to coincide with the last federal general election. You remember; that’s the vote that saw Canadians dispatch Stephen Harper’s Conservatives and install today’s Liberal majority government headed by Mr. Trudeau. [While we’re at it, here’s another three-letter concept that Trudeau should keep his eyes on: TSX... or more fully, the S&P/Toronto Stock Exchange Composite Index. Canada’s benchmark stock market index was slip slidin’ away back in 2015, taking the then-Conservative government’s fortunes down with it.]

We’re not saying that economic (or financial market) conditions are, on their own, a fool-proof means of handicapping elections. Voters can and do take additional considerations into account before marking their ballots. Reflecting on past federal elections, you’ll see Canadians switching political horses *en masse* whilst riding over both rough and smooth economic terrain (Chart 2). Nor is it the case that Trudeau’s economic credentials have been wholly comprised. Just look at today’s jobs report. Over 900,000 jobs have been created since he came to power (over 80% of them full-time) and no ruling Prime Minister headed into an election with as low an unemployment rate as the one Canada now boasts (5.8%) (Chart 3).

Finally, and this bears emphasizing, *a lot* could change in the 7+ months before October’s scheduled election. For politicos, that’s akin to a lifetime. We’ve not heard the last of the SNC-Lavalin controversy, but there’s a chance it fades from view before the fog surrounding Canada’s economic outlook fully lifts. So yes, it could well be more about GDP (or FDD or the TSX) than SNC come voting day. Imagine that.

Chart 1: Growth slump reminiscent of 2015?

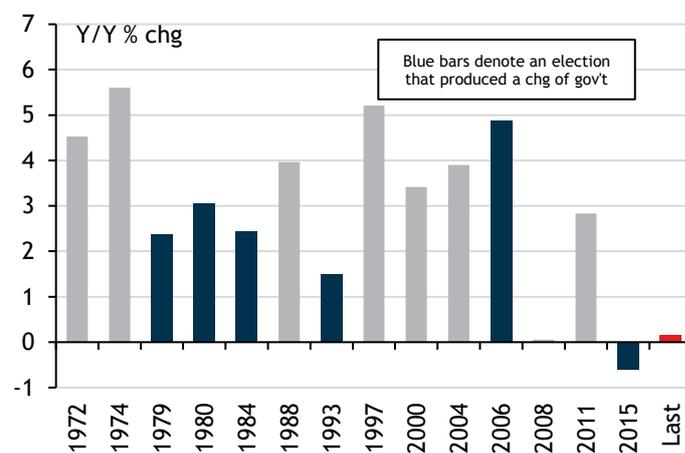
Year-over-year growth in Canadian real GDP and FDD



Source: NBF, StatCan

Chart 2: Growth isn’t perfect election predictor

Real FDD growth backdrop* at time of past federal elections

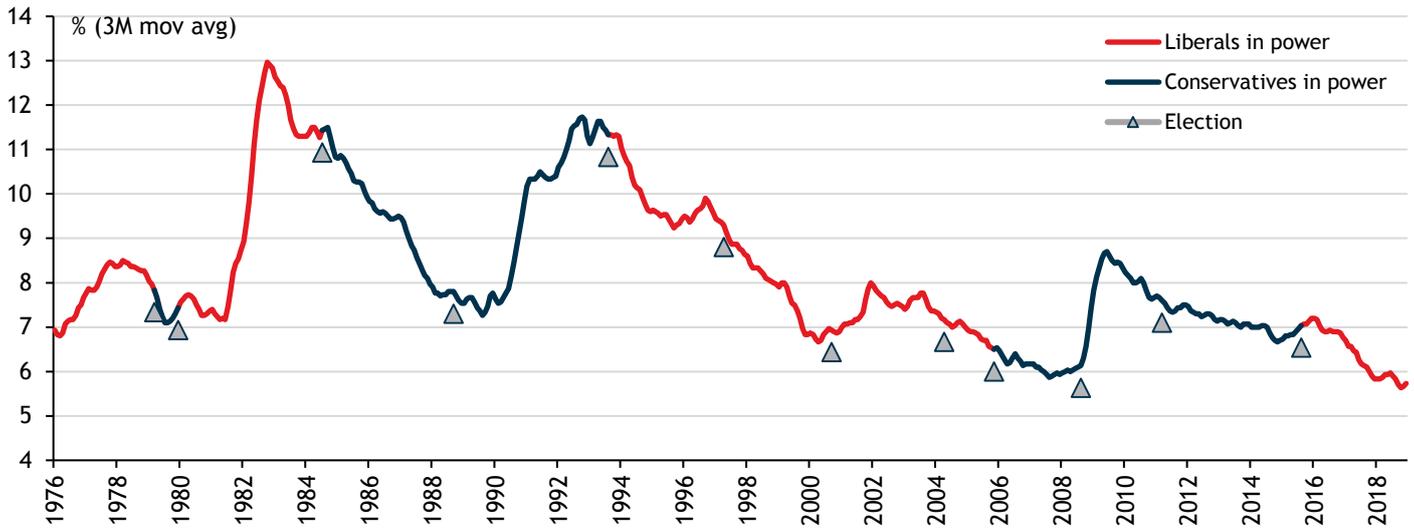


Source: NBF, StatCan | Note: Growth in final domestic demand during quarter in which federal general election was held; “Last” refers to 2018:Q4

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Chart 3: National labour market generally a comfort to Trudeau...

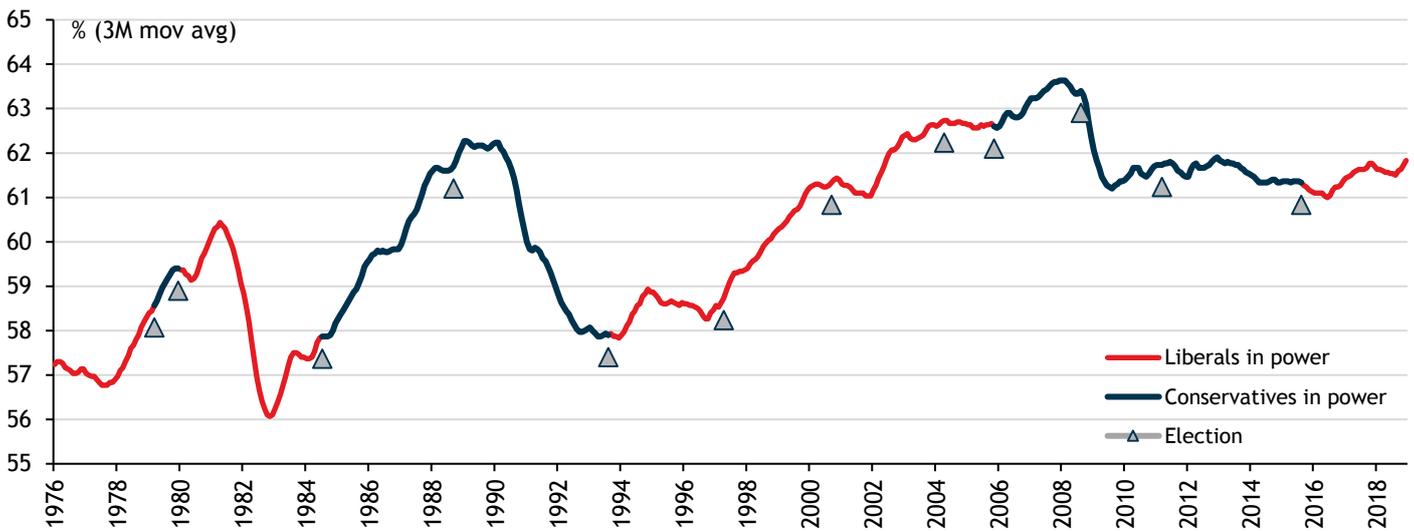
Canada unemployment rate, delineated by federal party in power & election timing



Source: NBF, StatCan

Chart 4: ... even if employment rate (below) isn't quite as fantastic as unemployment rate (above)

Canada employment rate (i.e., share of working age population that is employed), delineated by federal party in power & election timing



Source: NBF, StatCan

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