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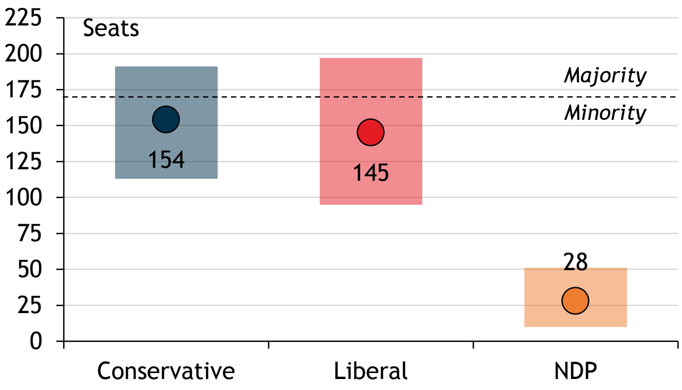
Quick Hit — The 2019 federal budget in a dozen charts [& one political cartoon]

The federal Liberal government's 2019 fiscal blueprint landed Tuesday, all 460 pages of it. One day removed from Budget 2019—grandly titled *"Investing in the Middle Class"*—you'll have little difficulty sourcing opinion/reaction… be it from mainstream media outlets, Bay Street economists, the business community, tax lawyers/consultants, lower level governments, and any number of stakeholders of varying stripes and persuasions. Our detailed write-up can be accessed here. As you might gather, there was a lot going on, with a variety of new measures (primarily spending commitments) rolled out ahead of a scheduled fall election. To complement our detailed write-up and in a nod to the more visual learners out there, we're using this *Quick Hit* to distill the budget down to 12 charts, tacking on some brief commentary (plus a related political cartoon, which we reproduce just for fun).

Chart 1: The political backdrop is important

CBC's latest seat projection estimates (including low-to-high range)

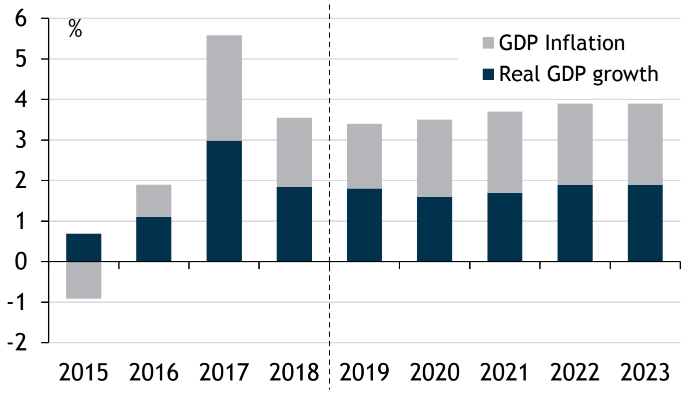


Source: NBF, CBC Poll Tracker (updated March 20)

In the wake of SNC-Lavalin affair, Liberal support has wilted. Seat projections suggest Trudeau's Liberals could have a real fight on their hands come October, which meant this pre-election budget was an important vehicle to get the government back "on message".

Chart 2: Budget based on continued expansion

Actual/projected Canadian GDP growth

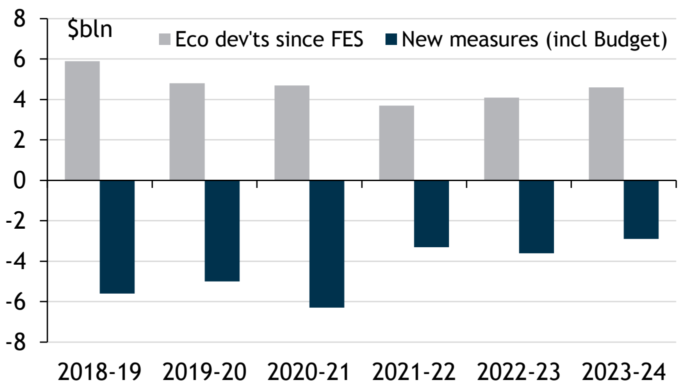


Source: NBF, Finance Canada, StatCan | Note: Actuals to 2018; fcsts thereafter

Core economic assumptions are based on a private sector consensus that was collected back in February. Real GDP growth was seen running at an average annual rate of 1.8% through 2023, with nominal growth expected to average 3.7%. Mind you, the growth outlook has soured a bit of late and risks remain.

Chart 3: Ottawa using "surprise" fiscal room

Economic developments since fall statement & new policy measures

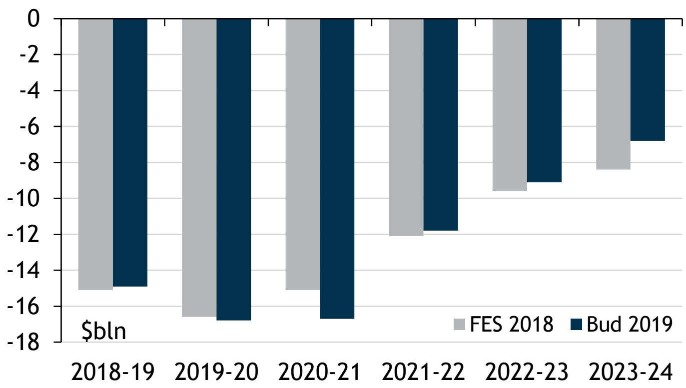


Source: NBF, Finance Canada

Despite economic headwinds, Ottawa's underlying fiscal position (before new commitments) is a fair bit better than that assumed last year or as recently as November. Rather than paying off debt, the budget steered "surprise" fiscal room into a host of new measures (mostly spending commitments).

Chart 4: Resulting deficit little changed vs FES

Federal budget balance (excluding adjustment for risk)

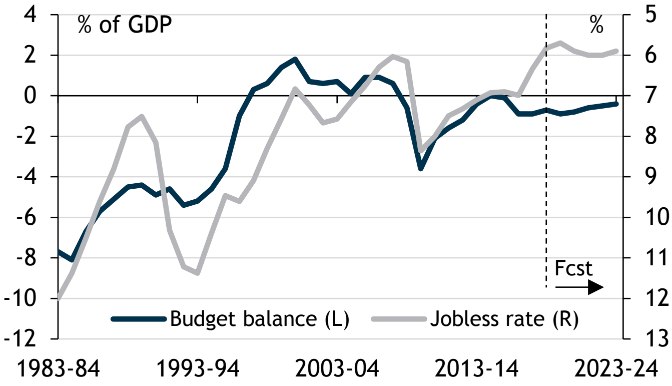


Source: NBF, Finance Canada

With new measures offsetting the positive base effect, the revised deficit profile isn't much different than in November. The 2018-19 deficit could have been much smaller, but a chunk of spending was booked here (despite there being just 8 biz days left). The 2019-20 deficit is $19.8bln, including a $3bln risk adjustment.

Chart 5: Modest deficits but a mature expansion

Longer-term perspective on budget balance & unemployment rate

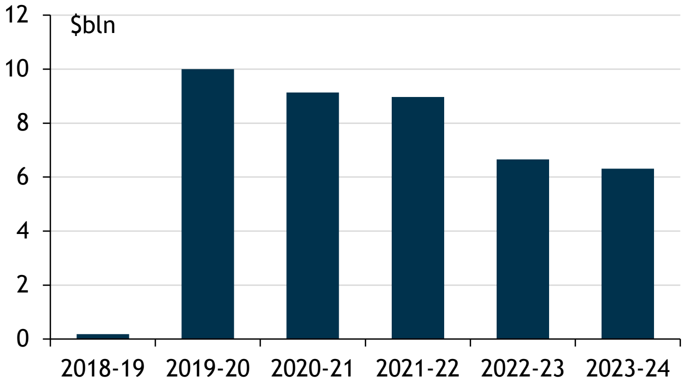


Source: NBF, Finance Canada

The 2019-20 deficit is a bit less than 1% of GDP. There's gradual progress on the deficit starting in 2020-21, but red ink extends out to 2023-24. Compared to many advanced sovereigns, these are relatively modest shortfalls. But the inability to balance the books at a mature stage of the expansion rankles fiscal hawks.

Chart 6: Cash vs accrual a big deal here

Budget 2019 measures on cash basis (estimates basis)

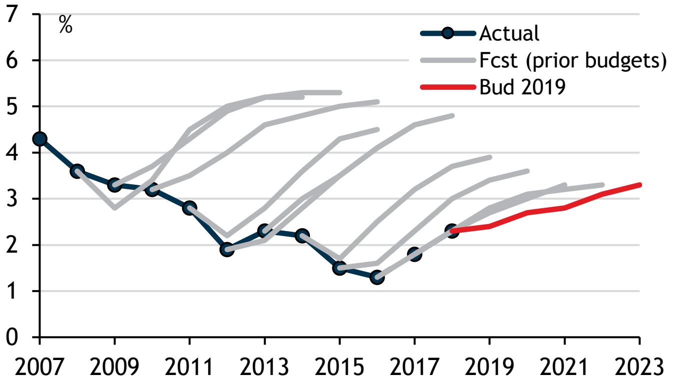


Source: NBF, Finance Canada

When it comes to gauging how stimulative this budget is, be mindful of cash vs accrual discrepancies. Spending booked into the soon-to-be-finished 2018-19 fiscal year simply can't hit the economy until 2019-20 (earliest). Looking at budget estimates on a cash basis tells the tale… there's some non-trivial support coming.

Chart 7: Interest rates expected to normalize

GoC 10Y bond yield: Actual vs forecasted path in federal budget

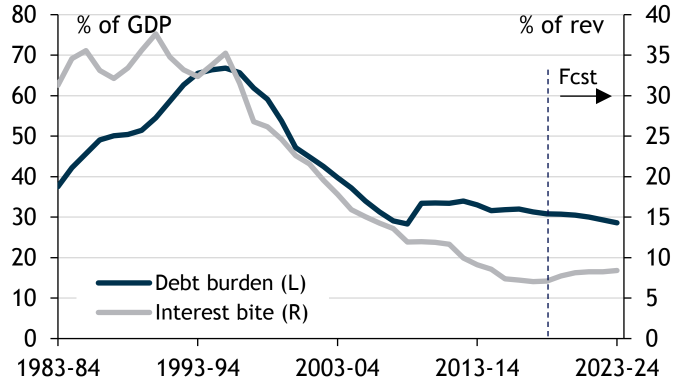


Source: NBF, Finance Canada

Federal stimulus may not be a <u>massive</u> game changer but (all else equal) might lean against the sentiment that the BoC will be cutting. Granted, fiscal consolidation in some provinces leans the other way. On balance, economists still saw rates normalizing in Canada (at a slower pace), but traders are unconvinced.

Chart 8: Debt-to-GDP sole surviving fiscal anchor

Federal debt-to-GDP ratio & corresponding interest bite

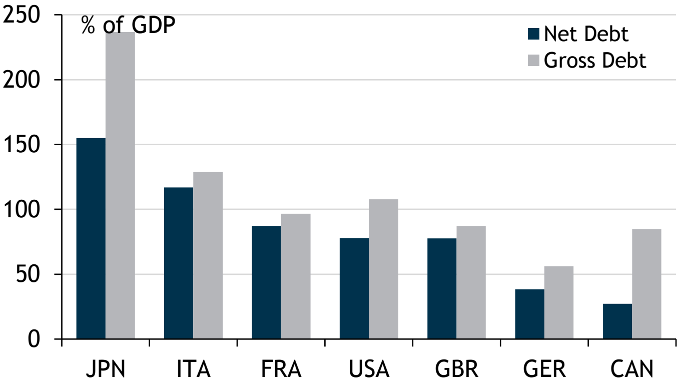


Source: NBF, Finance Canada

In terms of so-called "fiscal anchors", the only one that has slipped (or been abandoned all together) is a declining debt-to-GDP ratio. And it's still a pretty compelling story. The federal debt burden is currently little more than 30% and edges lower each year of the fiscal plan. The interest bite remains manageable.

Chart 9: Canada has debt edge internationally

Gross and net general government debt burden (G-7 countries)

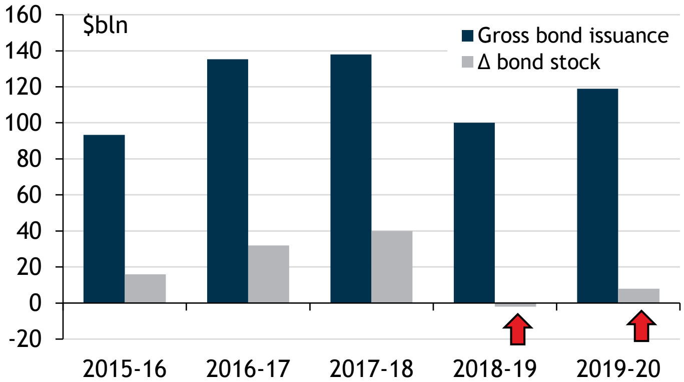


Source: NBF, IMF

As you've no doubt heard before, Canada's public sector has something of a debt edge internationally. The country's <u>general government</u> net debt burden, at 27%, is the lowest in the G-7. Full disclosure: our gross debt edge isn't nearly as striking, and some of our provinces are quite heavily indebted. Just saying.

Chart 10: Limited net new bond supply

Gross and net domestic GoC bond issuance

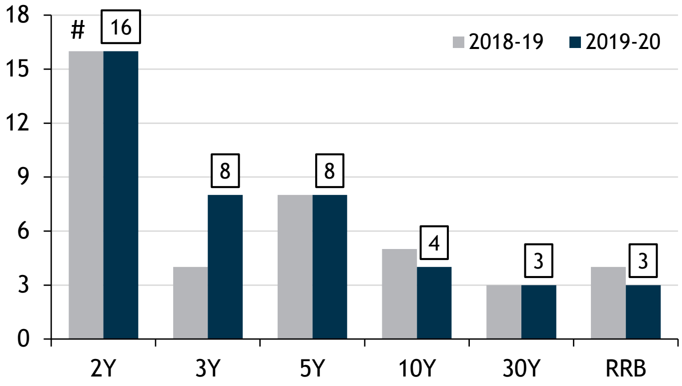


Source: NBF, Finance Canada

Moving on to the borrowing program, Ottawa plans to auction $119bln of gross domestic bonds in 2019-20. That's up from $100bln in the outgoing fiscal year, but after maturities/buybacks implies a scant $8bln of net new supply. So you'd have a hard time arguing the feds are crowding other issuers out of term markets.

Chart 11: Still a 2-5Y focused bond program

GoC bond auctions by tenor: 2018-19 (actual) vs 2019-20 (plan)

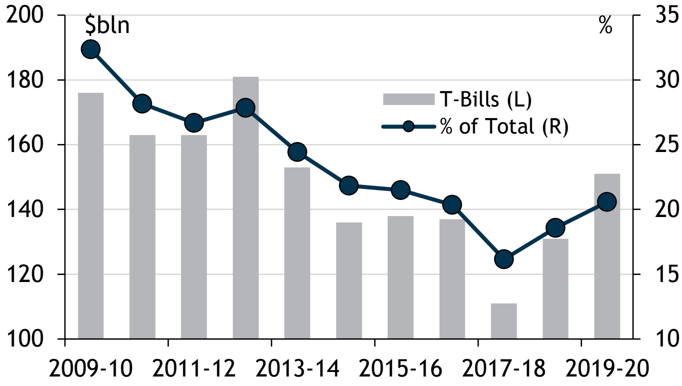


Source: NBF, Finance Canada

There were a few tweaks to the bond program including: restoration of some 3Y supply; one less 10Y auction (but likely larger average auction sizes); a re-allocation from RRBs to nominals in the long end; corresponding changes to average benchmark target sizes. It's still very much a 2-5Y focused bond program.

Chart 12: Adding liquidity to T-bill market

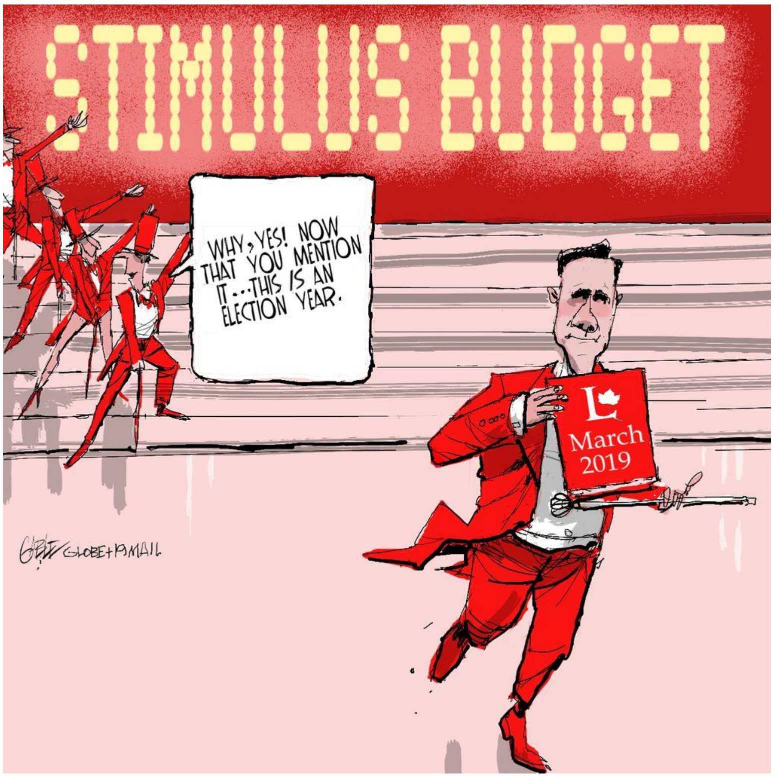
Outstanding Treasury bills: Level & as share of C$ bill-bond total



Source: NBF, Finance Canada

Most of a $29bln net financing requirement is covered via a larger T-bill program. In response to dealer/investor feedback, the bill stock will grow from $131bln to $151bln in 2019-20. That projected increase might mean a bit of pressure on an aggressively priced front end, ceteris paribus, but injects welcome liquidity.

And a bonus cartoon just for fun (no offense intended)



Source: The Globe and Mail (19-March-2019)

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