

## Cause and effect: Canadian political edition

By Warren Lovely

What's that old political adage? Ah yes: 'It's the economy, stupid!' That quip was meant to reinforce the idea that political fortunes hinge on the health of the economy. While that phrase was coined some time back, it's hardly controversial today. Indeed, an economic lens will be applied to the upcoming U.S. Presidential contest, Biden's record on jobs and growth (among other things) to be scrutinized.

Here in Canada, we don't have a general federal election scheduled for 2024. Socio-economic data nonetheless go some way towards understanding shifting political fortunes north of the border too. As with most things in Canada, there's something of a unique spin.

More than most other traditional economic and financial market guideposts, population growth (directly and indirectly) seems to be moving the Canadian political dial. Since Canadians stepped out of the voting booths in September 2021—denying Justin Trudeau's incumbent Liberals a sought-after majority—support for the Liberal government has been almost perfectly correlated with population growth. Just to be clear, we mean *negatively* correlated. Liberal support has been weighed down as fallout from Canada's rapidly expanding headcount has become harder to ignore.

Some cautions... We're not public opinion pollsters. Rather, we're reflecting on voting intentions reported by reputable organizations. We never place blind faith in polls, as elections (here and elsewhere) have been known to deliver the odd surprise. You can't really look at population in isolation, since Canada's intense demographic impulse indirectly impacts many other variables. Finally, our inner statistician would warn that 'correlation is not causation'.

Notwithstanding these caveats, it seems the federal government's demographic strategy—one that has resulted in hard-to-absorb

population growth—is a growing focal point for many. It seems to us that there's a not-so-subtle population dimension to many of the major issues Canadians are flagging, not least of which is housing affordability.

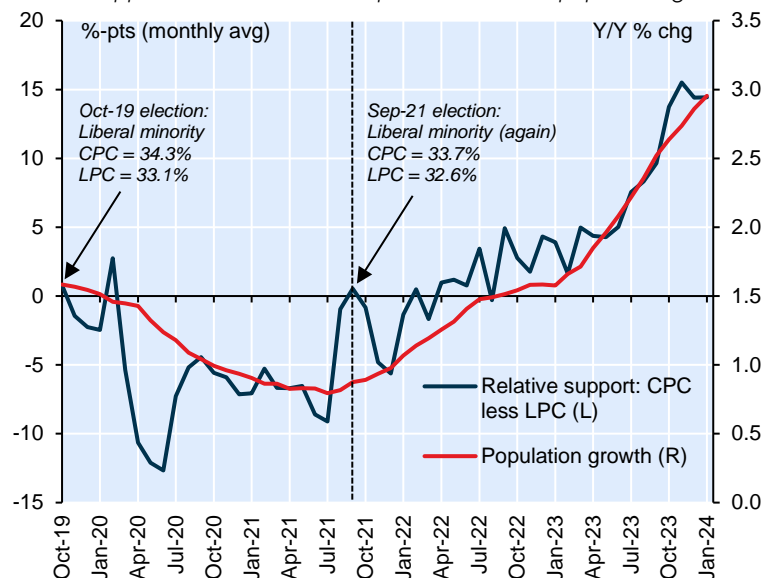
Despite the government's initial steps to temper certain newcomers, population-related pressures might not be remedied anytime soon. The Bank of Canada's fresh [Monetary Policy Report](#) projects population growth of just under 2% this year and next, the central bank noting that "strong underlying demand from population growth will likely continue to put pressure on house and rental prices." With population still likely to significantly outpace housing starts, Canadians desperate for meaningful progress on housing affordability may have to wait.

Regardless of where you reside on the Canadian political spectrum, you have to have a view on population growth these days. Implications are legion; political implications seemingly quite real. If not 'the' ballot box issue for Canada's next election, it's a policy issue of grave importance, the full suite of consequences perhaps still not fully appreciated. For instance, we recently postulated that Canada risks getting stuck in a 'population trap', with insufficient national savings to drive the country's standard of living forward (barring a significant increase in investment). It's an idea that, not surprisingly, sparked much discussion... which was kind of the point. You can refer to that [Special Report](#) [here](#).

All that to say, perhaps we need to tweak that well-known political adage to reflect Canada's current demographic reality. It may just be that 'it's the population, stupid!'

**Chart 1: Population-related pressures register for voters**

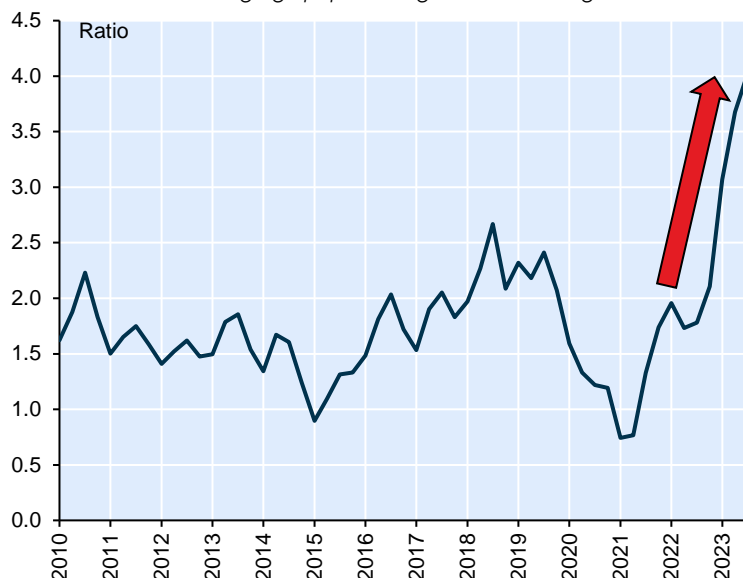
Relative support for two main federal parties & Canada population growth



Source: NBF, StatCan, BGG, public opinion polls (via Wikipedia) | Note: Relative support expressed as Conservative (CPC) less Liberal (LPC) voting intentions, based on monthly average of reported polls (up to 25-Jan-24); working age population growth from StatCan LFS, lagged 1 month (up to Dec-23)

**Chart 2: Housing starts can't keep up with population growth**

Ratio of Canada working age population growth to housing starts



Source: NBF, StatCan, CMHC | Note: Quarterly data to 2023:Q3



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