Economy could determine election result

Jay Bryan
Canwest News Service

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With Canadians beginning to feel a squeeze from the global economic slowdown and prices for food and gas becoming a big burden on some budgets, the impending federal election could be one of those that turns largely on pocketbook issues.

CREDIT: Chris Wood/Calgary Herald

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If so, it will be something of a novelty in recent political history. The economy is always significant to voters, but unlike in U.S. presidential elections, it's not always a top issue when Canadians choose federal governments.

The 2006 vote that brought Stephen Harper's government to power could be summarized as "throw the rascals out," said Toronto pollster Greg Lyle of the Innovative Research Group, while the 2004 election that produced a Liberal minority government was largely driven by alleged Tory plans to privatize health care.

In the U.S., Yale economist Ray Fair has won considerable fame for an equation that seems to predict the outcome of presidential elections quite accurately simply by plugging in a few economic indicators.

Former president Bill Clinton is still remembered for a bit of political wisdom that was his mantra while winning the 1992 election: "It's the economy, stupid."

And this could well be the year of the economy for Canadian voters, said Lyle. Unemployment remains low, but it's been edging up this year. And polling shows that the issue of rising prices has become a big issue for Canadian families.

As well, Lyle has found a significant group of Canadians who have a deeper sense of discontent.

Lower income and preponderantly female, they're not simply concerned about this week's gas or food bill, but about a nagging feeling that the system just doesn't work for people like them.

Uncomfortable trends like this could help explain why Harper rushed into this election despite his own fixed election date law, which scheduled the next vote for October 2009.

Strangely enough, most Canadians were feeling pretty good about the economy until the summer, even with a severe downturn in the U.S. battering some key Canadian industries.

While big manufacturing industries like automakers and lumber mills have felt a brutal squeeze as U.S. consumers slashed purchases of homes and cars, other parts of the economy picked up the slack because Canadians kept on spending.

They could do this largely because prices remained sky-high for Canada's resource exports - petroleum above all, but also things like metals, coal and potash, a key component in fertilizers. There was also a boom in the value of grain and other agricultural commodities.

As a result, the cash flowing in from trade kept Canada's domestic economy much stronger than the GDP numbers suggested. True, manufacturing slashed 67,300 jobs in the 12 months ending in August, but even so, total employment grew by 224,000 jobs in this period, thanks to gains in areas like construction, professions and services.

However, the looming problem for the Harper government was that the gusher of money from exports of high-priced resources tapered off as oil, grains and other products dropped in value by late in the summer. Yet many Canadians continued to feel the lingering impact of food and fuel inflation.

By July, job creation had stalled and gone into reverse, leaving unemployment a little higher than it was last winter. At the same time, July's inflation rate, at 3.4 per cent, was the highest in five years.

When you add together the inflation and unemployment rates, you get the so-called misery index, used by economists for decades as an indicator of how much economic discomfort people feel.

By this measure, Harper's term in office hasn't been bad at all. The misery index has remained in comfortable territory well below the peak of 12.1 it hit early in 2003.

But even if this index has hovered between seven and nine during most of the time since Harper took office early in 2006, its recent direction could signal trouble. It has moved up smartly in recent months, from 7.4 per cent in March to 9.5 per cent in July, mostly because of higher gas and food prices.

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