# Budget 2022 – Nothing to See Here….

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***Our view:*** After combing through the 304 page Federal Budget for 2022, we are maintaining a neutral to slightly positive stance on the new spending commitments announced in the budget, which we see merits for today (e.g., concerning housing affordability, climate, defense, supply chains, etc.). Moreover, we believe the federal government's decision to be more disciplined with Budget 2022 (1-2% of GDP) vs. the 2021 Budget (5% of GDP) will help to minimize the already strong fiscal/demand-driven inflationary impulses present today. We also view the revenue generation initiatives, most notably a planned increase to the corporate tax rate for banks and life insurance companies, as a negative but less severe outcome than the pre-budget rhetoric would have suggested.

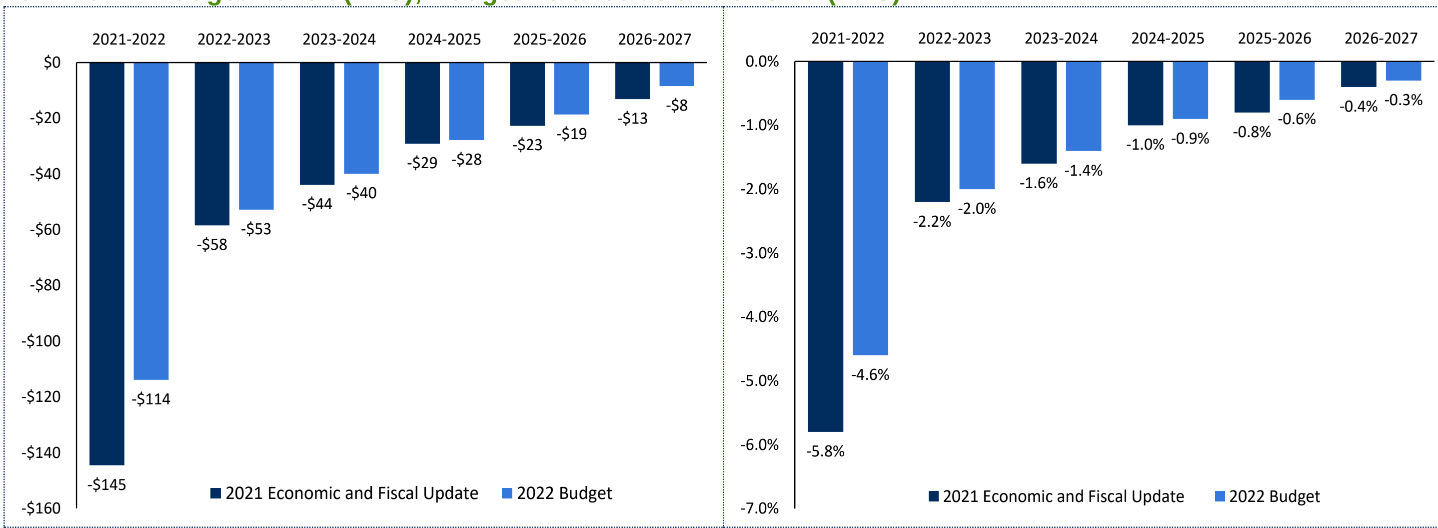
- **Big-ticket measures announced in Budget 2022:** The major areas of focus in Budget 2022 include: **1)** ~$12.4 billion towards fighting climate change; **2)** ~$10.6 billion towards improving housing infrastructure, education and child care for indigenous peoples; **3)** ~$10.1 billion towards making housing more affordable, including incentives to increase the housing supply across the country; **4)** ~$9.4 billion in spending to bolster Canada's national defense; and, **5)** ~$7.1 billion to strengthen public health care. All these spending commitments are expected to occur over the next five years.

- **Signs of tightening the purse strings/fiscal discipline, a move in the right direction:** Budget 2022 included new spending initiatives of ~$31 billion planned over the next five years. The total cost of these spending initiatives came in less than anticipated, and represents approximately 1% - 2% of GDP compared to 5% of GDP for Budget 2021. The strong rebound in the Canadian economy resulted in increased revenues/taxes, which coupled with a reduction in health care spending related to the COVID-19 pandemic, allowed the federal government to tighten the purse strings and also prevent exacerbating the already elevated inflationary backdrop.

- **Final thoughts for Investors:** Not many implications for investors in Budget 2022. We believe that the tax hikes for companies in the financial sector (31% of the S&P/TSX Index) are a negative, but not as bad as feared. While we believe the housing affordability measures were long overdue, more needs to be done to address affordability across the country, including the addition of meaningful housing stock. Moreover, given the recent sell-off in the Canadian multifamily REITs space leading up to this budget release, we believe there is already a fairly large risk premium baked into current Canadian multifamily REIT P/AFFO multiple valuations. That said, we expect investors to still take a 'wait and see' approach in the short-term, which may somewhat constrain a possible recovery in near-term Canadian multifamily REIT valuations, according to our Raymond James Real Estate Analyst, Brad Sturges.

**Please read domestic and foreign disclosure/risk information beginning on page** 4

**2022-2027 - Budget Deficit (LHS); Budget Balance as a % of GDP (RHS)**




Source: Department of Finance; Raymond James Ltd.

Below, we provide a high-level overview of some of the larger spending initiatives for the next several years outlined in Budget 2022.

## Big-Ticket Measures Announced in Budget 2022:

- **Fighting Climate Change (~$12.4 billion over 5 years)**: this includes **1)** reducing pollution by making the switch to zero-emission vehicles more affordable, expanding the Low Carbon Economy Fund (~$6.8 billion); **2)** proposal of a refundable investment tax credit for businesses that incur eligible carbon capture, utilization, and storage (CCUS) expenses, starting in 2022 (~$2.6 billion); and, **3)** protecting the land, lakes, and oceans (~$2.2 billion)

- **Improving Housing Infrastructure, Education and Child Care for Indigenous Peoples (~$10.6 billion over 5 years)**: this includes **1)** addressing past harms and discrimination related to indigenous children and families (~$4.6 billion); and, **2)** support for strong and healthy communities (~$5.5 billion).

- **Making Housing More Affordable (~$10.1 billion over 5 years)**: the federal government will incentivize cities and towns to increase the housing supply through **1)** the Canada Mortgage and Housing Corporation (CMHC), which will launch a new Housing Accelerator Fund that targets the creation of 100,000 net new housing units (~$4 billion); **2)** CMHC will extend the Rapid Housing Initiative, which is estimated to create 6,000 new affordable housing units (~$1.5 billion); **3)** helping first-time home buyers by introducing a Tax-Free First Home Savings Account and doubling the first-time home buyer's tax credit (~$1.3 billion); and, **4)** accelerating the creation of up to 4,300 new housing units and the repair of up to 17,800 existing housing units (~$2.9 billion).

- **Investing in Canada's Defense Capabilities (~$9.4 billion over 5 years)**: this includes **1)** reinforcing and strengthening Canada's national defense and doing its part in NATO (~$7.2 billion); **2)** supporting Ukrainians through the crisis (~$1 billion); and, **3)** providing international assistance to fight against COVID-19 (~$1 billion).

- **Strengthening Public Health Care (~$7.1 billion over 5 years)**: this includes **1)** dental care offered by Health Canada for Canadian families with a lower annual income, starting with children below the age of 12 and gradually expanding to children under the age of 18, seniors, and persons living with a disability (~$5.3 billion); and, **2)** reducing the backlogs of surgeries and procedures (~$2.0 billion).

- **Meeting the Needs of Workers, Businesses and the Economy (~$6.0 billion over 5 years)**: this includes **1)** creating opportunities for all newcomers and maintaining Canada's world-class immigration system (~$4.0 billion); and, **2)** improving labour mobility and foreign credential recognition, and creating opportunities for persons with disabilities (~1.1 billion).
- **Supporting Economic Innovation and Stable Supply Chains (~$5.5 billion over 5 years)**: this includes **1)** launching a Canadian Growth Fund to attract substantial private sector investment to help meet important national economic policy goals (~$1.5 billion); and, **2)** providing significant funding for critical minerals projects to make Canada a more attractive destination for critical minerals investment, and to secure valuable agreements that would increase production of goods like electric vehicles and batteries (~$3.0 billion).
- **Building Safe and Inclusive Communities (~$1.7 billion over 5 years)**: this includes important measures to effect needed and positive change, and to continue to promote the values that have made Canada the diverse and prosperous country it is today.

*For more information on the tax measures announced in Budget 2022, please refer to "__Tax Flash Bulletin – 2022 Federal Budget Highlights__"*

## Revenue: Windfall Tax on Financial Institutions

While many sectors continue to recover/reopen following the COVID-19 pandemic and the subsequent lockdowns, Canada's major financial institutions made significant profits during the pandemic and have recovered faster than other parts of our economy—in part due to the federal pandemic support for people and businesses that helped de-risk the balance sheets of some of Canada's largest financial institutions. The federal government has proposed two measures to ensure these large financial institutions help support Canada's broader recovery through:

**1)** Introducing a temporary **Canada Recovery Dividend** of 15% on taxable income above $1 billion for the 2021 tax year; and

**2)** Permanently increasing the corporate income tax rate from 15% to 16.5% on taxable income.

## Final Thoughts for Investors:

Overall, we expect Budget 2022 to have minimal implications for investors. While the budget deficit is projected to shrink to ~0.3% of GDP in 2026-2027, faster than previously expected, we view this as a very optimistic outlook, as these projections fail to include additional fiscal measures that might be needed to support growth if existing global headwinds materialize and result in a more severe slowdown/recession for the world economy and Canada over the next 5 years.

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