



OFFICE OF THE
PARLIAMENTARY
BUDGET OFFICER
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Economic and Fiscal Monitor

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The mandate of the Parliamentary Budget Officer (PBO) is to provide independent analysis to Parliament on the state of the nation's finances, the Government's estimates and trends in the Canadian economy; and, upon request from a committee or parliamentarian, to estimate the financial cost of any proposal for matters over which Parliament has jurisdiction.

This report provides an in-year estimate of Canadian gross domestic product in 2017 and the Government of Canada's budgetary balance in 2016-17 and 2017-18, based on data released since our April 2017 Economic and Fiscal Outlook, up to and including 4 August 2017.

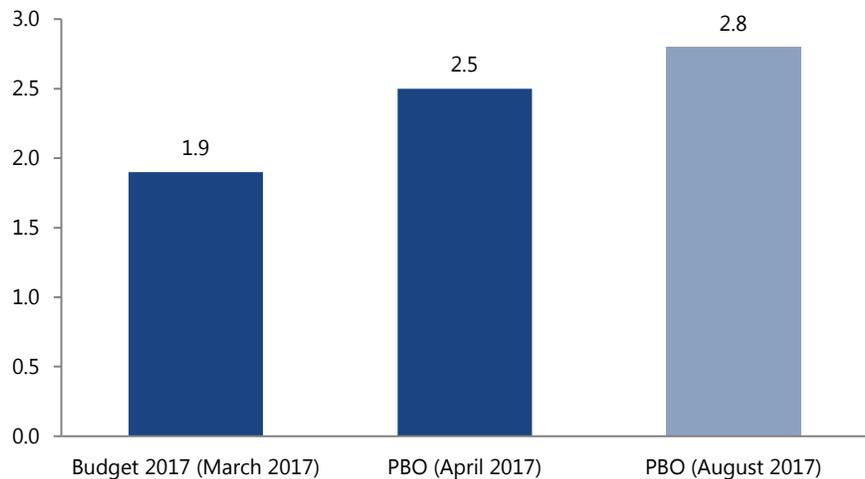
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Parliamentary Budget Officer

1. Gross Domestic Product: 2017

PBO projects that Canada's real gross domestic product (GDP) will grow by 2.8 per cent in 2017, which is 0.3 percentage points higher than projected in PBO's April Economic and Fiscal Outlook and almost a full percentage point higher than forecast in Budget 2017 (Figure 1-1). This improvement reflects stronger household spending, residential investment and machinery and equipment investment in the first half of 2017.

Figure 1-1 Real GDP growth in 2017 (per cent)



Sources: Finance Canada and Parliamentary Budget Officer.

PBO estimates that real GDP advanced by 3.2 per cent (at an annual rate) in the second quarter of 2017 compared to projected growth of 1.4 per cent in our April outlook (Table 1-1). This revision largely reflects a delay in our anticipated pullback in household spending and contraction in residential investment, and we expect these adjustments to take hold in the second half of the year. Following its 25-basis point increase in July, we now assume that the Bank of Canada will again raise its policy interest rate by 25 basis points in October.

Table 1-1 Quarterly real GDP growth in 2017

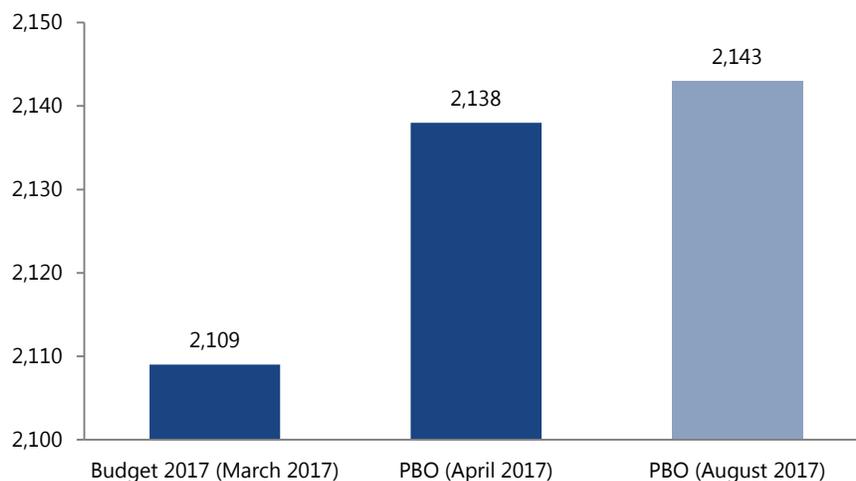
<i>% , quarter-over-quarter at annual rates</i>	2016Q4	2017Q1	2017Q2	2017Q3	2017Q4
PBO April 2017	2.6	3.9	1.4	2.2	2.3
PBO August 2017	2.7	3.7	3.2	1.8	1.8

Sources: Statistics Canada and Parliamentary Budget Officer.

Note: Highlighted values represent PBO estimates/projections.

PBO projects that nominal GDP—the broadest single measure of the tax base—will amount to \$2.1 trillion in 2017 for the year as a whole, which is slightly higher (\$5 billion or 0.2 per cent) than projected in our April EFO but \$34 billion (1.6 per cent) higher than forecast in Budget 2017 (Figure 1-2).¹ This reflects stronger-than-expected real GDP growth in the second quarter of 2017.

Figure 1-2 Nominal GDP level in 2017 (\$ billions)



Sources: Finance Canada and Parliamentary Budget Officer.

Note: Budget 2017 and PBO (April 2017) nominal GDP levels have been restated for historical revisions.

PBO estimates that nominal GDP increased to \$2.1 trillion (annual rate) in the second quarter of 2017 (Table 1-2). Although nominal GDP is higher for the year as a whole, by the fourth quarter of 2017, the projected level is unchanged from our April outlook. This reflects a weaker outlook for GDP inflation in the second half of 2017 due to lower consumer price inflation and commodity prices² as well as lower real GDP growth.

Table 1-2 Quarterly nominal GDP in 2017

<i>\$ billions, annual rates</i>	2016Q4	2017Q1	2017Q2	2017Q3	2017Q4
PBO April 2017	2,071	2,107	2,127	2,149	2,171
PBO August 2017	2,071	2,113	2,135	2,155	2,171

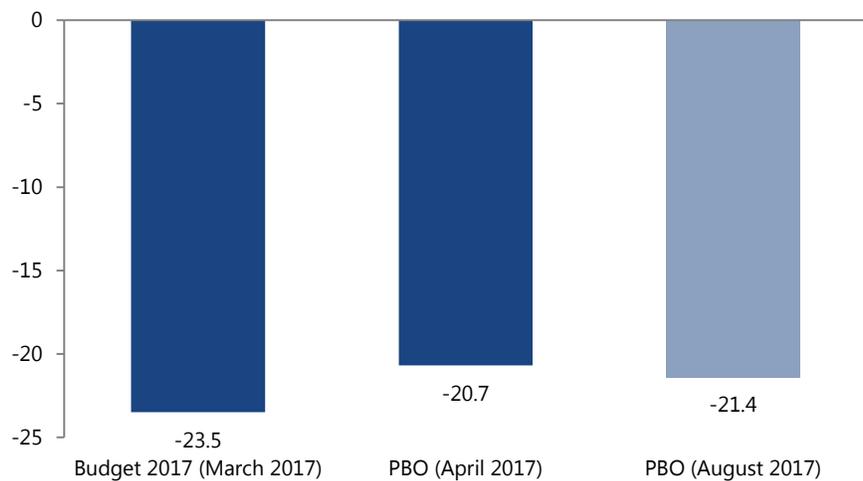
Sources: Statistics Canada and Parliamentary Budget Officer.

Note: Highlighted values represent PBO estimates/projections. Nominal GDP levels from the April 2017 Economic and Fiscal Outlook have been restated for historical revisions.

2. Budgetary Balance: 2016-17 and 2017-18

PBO estimates that the Government's deficit for 2016-17 will be \$21.4 billion, or 1.1 per cent of GDP. Our updated deficit estimate is \$0.7 billion larger than we forecast in our April outlook and \$2.1 billion smaller than the Government forecasted in Budget 2017 (Figure 2-1).

Figure 2-1 Budgetary balance in 2016-17 (\$ billions)



Sources: Finance Canada and Parliamentary Budget Officer.

The upward revision to PBO's deficit estimate reflects a \$2.6 billion lower estimate for 2016-17 revenues. Based on the Government's fiscal data released up to the end of May, federal personal and corporate income tax yields at the end of 2016-17 are marginally lower than we predicted in April, as are GST receipts. Lower yields are not expected to carry through to 2017-18.

Our spending estimate for 2016-17 is \$1.9 billion lower than our April projection. We have revised down our forecast for program expenses by \$2.4 billion, while we expect public debt charges will be \$0.5 billion higher. Program expenses are expected to be lower, in large part, due to our higher expectations for lapsed federal infrastructure spending.

Unpublished Government data for the full fiscal year indicate that Infrastructure Canada's grants and contributions to provinces for infrastructure projects were essentially flat compared to last year (that is, the year before federal infrastructure stimulus was announced). This is lower than we expected in April.

Consistent with our earlier monitoring, we estimate that about half of the overall budgeted federal infrastructure stimulus was actually spent in 2016-17. Apart from our monitoring of the Government's detailed financial data for infrastructure, slow growth in the roll out of infrastructure spending is evident in Statistics Canada's National Accounts measure of government investment and in provincial budgets, which indicate that provinces' and municipalities' spending of federal infrastructure money will be pushed out to 2017-18.

Table 2-1 Fiscal monitoring for 2016-17 and 2017-18

<i>\$ billions</i>	Estimate	Forecast	Difference from April 2017 Forecast	
	2016-17	2017-18	2016-17	2017-18
Total revenues	294.5	304.8	-2.6	0.2
Expenses				
Program expenses	291.6	304.6	-2.4	0.1
Public debt charges	24.4	25.0	0.5	0.3
Total expenses	315.9	329.6	-1.9	0.4
Budgetary balance	-21.4	-24.8	-0.7	-0.3

Sources: Parliamentary Budget Officer.

For 2017-18, we are projecting a budgetary deficit of \$24.8 billion (1.2 per cent of GDP). This is \$0.3 billion larger than our April forecast of \$24.6 billion (Table 2-1).

The outlook for revenues is essentially unchanged (up \$0.2 billion) from our April projection, consistent with the minimal revisions to our outlook for nominal GDP in 2017-18.

On the spending side, our children's benefits forecast is \$0.4 billion higher, as the Canada Child Benefit is proving to be more costly than anticipated. However, we project elderly benefits to be \$0.3 billion lower in 2017-18, resulting in negligible net change to the outlook for program expenses.

Public debt charges are projected to be \$0.3 billion higher, largely due to higher-than-expected interest rates.

Notes

¹ On a fiscal-year basis, we have revised up our nominal GDP projection for 2017-18 by \$2 billion (0.1 per cent). Nominal GDP for 2016-17 is also \$2 billion (0.1 per cent) higher compared to our April 2017 outlook.

² The Consumer Price Index (CPI) increased by 0.1 per cent (at a seasonally-adjusted annual rate) in the second quarter of 2017, compared to an increase of 2.0 per cent projected in PBO's April EFO. Moreover, current oil futures suggest that West Texas Intermediate will be US\$49 per barrel in 2017, US\$4 lower than in PBO's April outlook.