



Economic and Fiscal Monitor 2016-17



OFFICE OF THE
PARLIAMENTARY
BUDGET OFFICER
BUREAU DU DIRECTEUR
PARLEMENTAIRE DU
BUDGET

Ottawa, Canada
3 February 2017
www.pbo-dpb.gc.ca

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 2016 and the Government of Canada's budgetary balance in 2016-17 based on data released since our October 2016 Economic and Fiscal Outlook, up to and including 31 January 2017. Going forward, PBO will publish an Economic and Fiscal Monitor on a regular basis.

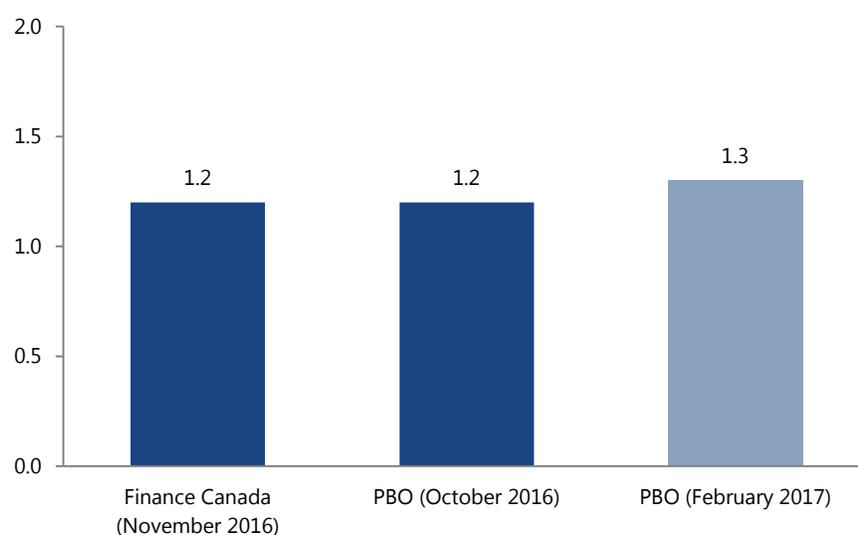
This report was prepared by the staff of the Parliamentary Budget Officer. Mostafa Askari provided comments. Nancy Beauchamp and Jocelyne Scrim assisted with the preparation of the report for publication. Please contact pbo-dpb@parl.gc.ca for further information.

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Parliamentary Budget Officer

1. Gross Domestic Product: 2016

PBO estimates that Canada's real gross domestic product (GDP) grew by 1.3 per cent in 2016, which is marginally higher than projected in PBO's October Economic and Fiscal Outlook (EFO) and the Government's November Fall Economic Statement (Figure 1-1). This slight improvement reflects Statistics Canada's upward revisions to contributions from exports and government spending in the first half of 2016.

Figure 1-1 Real GDP growth in 2016 (per cent)



Sources: Finance Canada and Parliamentary Budget Officer.

PBO estimates that real GDP advanced by 1.8 per cent (at an annual rate) in the fourth quarter (Table 1-1). Compared to PBO's October EFO, real GDP growth in the second half of 2016 is, on average, unchanged.

Table 1-1 Quarterly real GDP growth in 2016

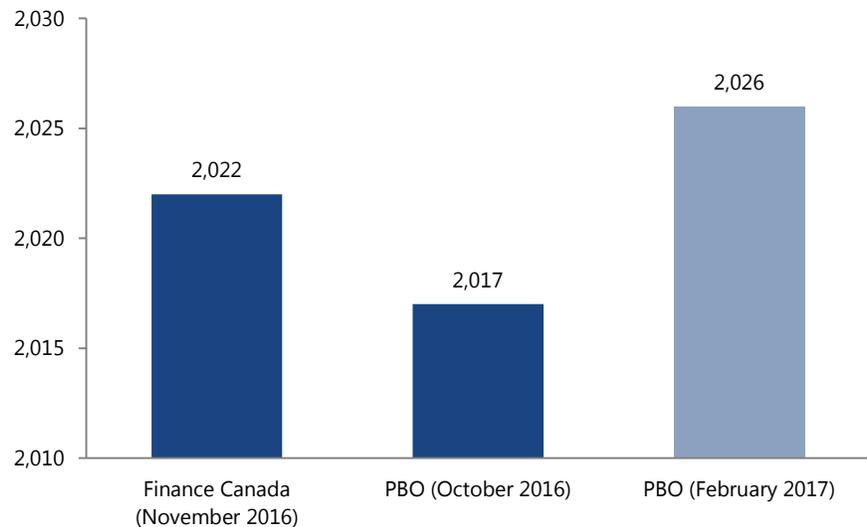
% , quarter-over-quarter at annual rates	2016Q1	2016Q2	2016Q3	2016Q4	2016
PBO October 2016	2.5	-1.6	3.3	2.0	1.2
February 2017	2.7	-1.3	3.5	1.8	1.3

Sources: Statistics Canada and Parliamentary Budget Officer.

Note: Highlighted values represent PBO estimates/projections.

PBO estimates that nominal GDP—the broadest single measure of the tax base—in 2016 surpassed \$2.0 trillion, which is modestly higher (\$8.2 billion or 0.4 per cent) than projected in our October EFO and broadly in line (\$4 billion or 0.2 per cent higher) with the Government’s November Fall Economic Statement (Figure 1-2). This improvement reflects upward revisions to Statistics Canada’s estimates of domestic demand in the first half of 2016.

Figure 1-2 Nominal GDP level in 2016 (\$ billions)



Sources: Finance Canada and Parliamentary Budget Officer.

Note: Finance Canada (November 2016) and PBO (October 2016) nominal GDP levels have been restated for historical revisions.

PBO estimates that nominal GDP increased to \$2.1 trillion (annual rate) in the fourth quarter of 2016 (Table 1-2). Compared to PBO’s October EFO, nominal GDP growth in the second half of 2016 is, on average, unchanged. However, this results in higher nominal GDP levels over the second half of the year given Statistics Canada’s upward revisions in the first half of 2016.

Table 1-2 Quarterly nominal GDP in 2016

\$ billions, annual rates	2016Q1	2016Q2	2016Q3	2016Q4	2016
PBO October 2016	1,998	1,997	2,023	2,052	2,017
February 2017	2,006	2,004	2,034	2,059	2,026

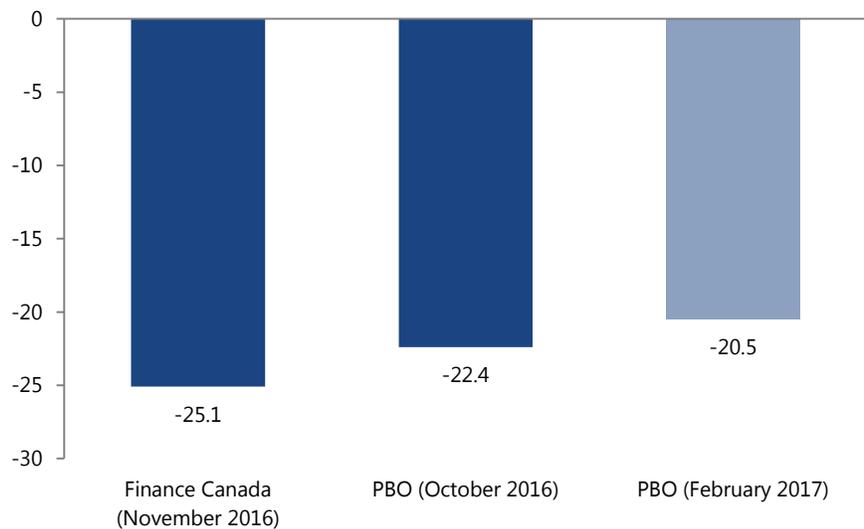
Sources: Statistics Canada and Parliamentary Budget Officer.

Note: Highlighted values represent PBO estimates/projections. Nominal GDP levels from the October 2016 Economic and Fiscal Outlook have been restated for historical revisions.

2. Budgetary Balance: 2016-17

Compared to our October 2016 Economic and Fiscal Outlook (Figure 2-1), the Government's budgetary balance for 2016-17 is expected to be slightly higher (\$1.9 billion). Relative to the size of the Canadian economy, we estimate that the budgetary deficit for 2016-17 is 1.0 per cent of GDP. PBO's estimate of the budgetary balance is \$4.6 billion higher than the Government projected in its November 2016 Fall Economic Statement.

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



Sources: Finance Canada and Parliamentary Budget Officer.

Note: PBO's October 2016 projection did not include measures announced in the Government's Fall Economic Statement.

Based on fiscal data released up to the end of January and our estimates of nominal GDP, we expect revenues to be slightly higher (\$0.9 billion) than projected in October (Table 2-1). While personal income taxes (PIT), the largest single source of federal revenue, have lagged PBO projections, this has been offset by better-than-expected results from corporate income taxes and other revenues.

As noted in earlier PBO reports, PIT receipts were potentially buoyed last year due to individuals deciding to recognize income before the new 33 per cent tax bracket came into effect on 1 January 2016. If true, this would result in PIT receipts being damped in the current year.

Expenses are slightly lower from our October projection (-\$1.0 billion). Program expenses have been revised downward (-\$0.5 billion), as have public debt charges (-\$0.5 billion).

Table 2-1 Fiscal monitoring for 2016-17

\$ billions	PBO (Feb. 2017)	PBO (Oct. 2016)	Δ	Finance Canada (Nov. 2016)
Total revenues	293.7	292.8	0.9	291.1
Expenses				
Program expenses	290.7	291.3	-0.5	291.3
Public debt charges	23.5	24.0	-0.5	24.9
Total expenses	314.2	315.2	-1.0	316.1
Budgetary balance	-20.5	-22.4	-1.9	-25.1

Sources: Finance Canada and Parliamentary Budget Officer.

Program expenses for the first eight months of the fiscal year have been weaker than expected. As noted in PBO's Expenditure Monitor, government expenditures for the first half of 2016-17 lagged the overall increase in planned budgeted spending, owing to delays in implementing the Government's economic priorities, in particular new infrastructure investments.

PBO's current monitoring reflects our expectation that the federal government will not spend all the money for housing and infrastructure investment as it originally anticipated. At the same time, a substantial amount of this spending is expected to be reported during the final four months of the fiscal year, with the balance in the subsequent year. This is consistent with provincial capital budgets and historical experience.