



**Presentation to the House of Commons
Standing Committee on Finance
*Progress report on monitoring and oversight
of the 2009 budget***

March 25, 2009



Introduction

- **The Government's first quarterly report did not provide an economic update**
- **This document provides a brief update of recent economic developments and their potential fiscal implications**
- **A brief assessment of budget implementation is also included**



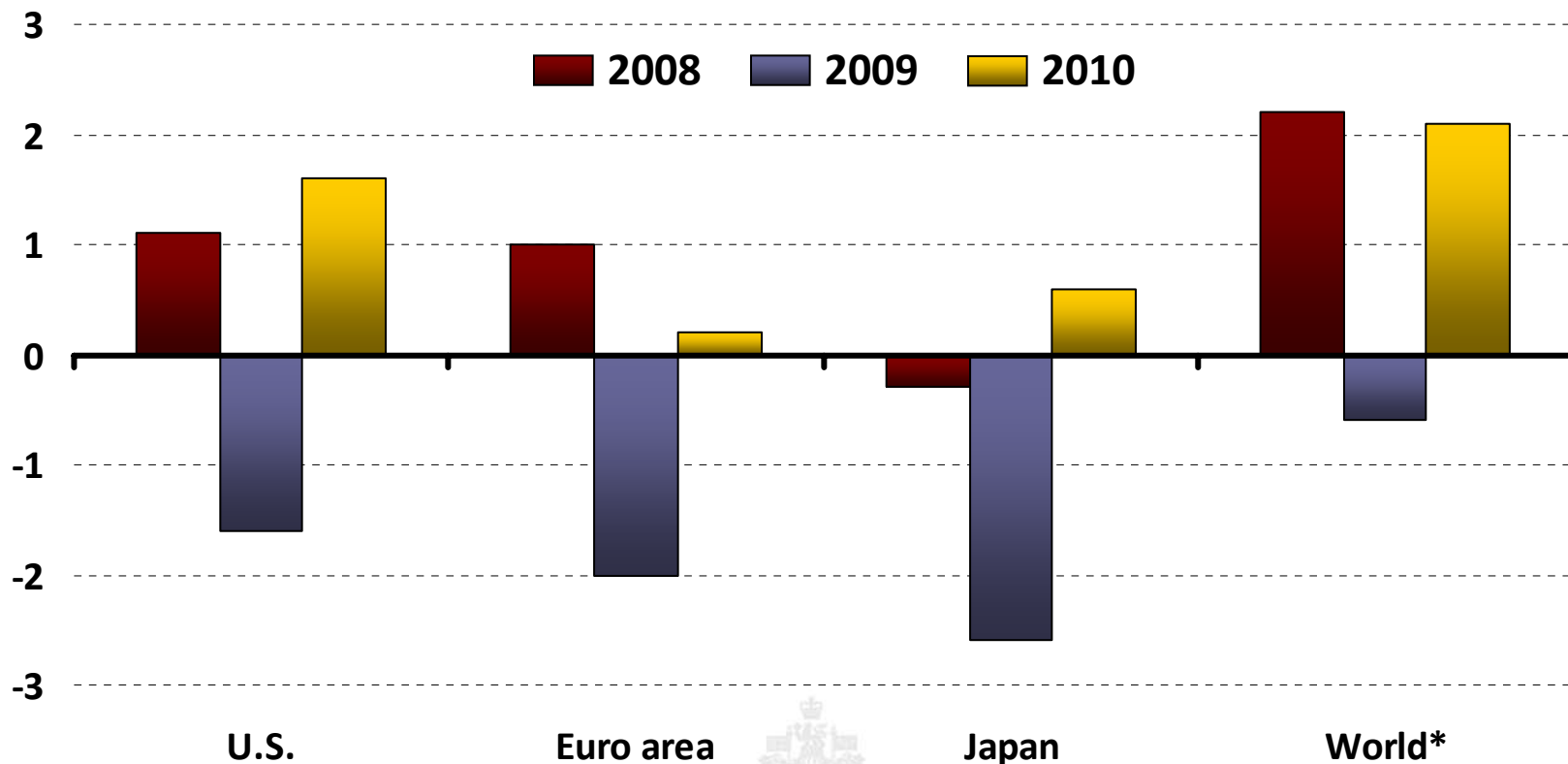
Key Points

- 1. Economic outlook revised below the Government's fiscal planning assumptions**
- 2. The policy challenge to help the economy recover is much bigger**
- 3. The Government's March 10 report on budget implementation, while incomplete, is a positive step**

According to the IMF the world economy is projected to fall into a 'Great Recession' in 2009

IMF World Economic Outlook Update Projections

Output growth, per cent



Source: IMF *World Economic Outlook Update*, January 2009

* based on market exchange rates

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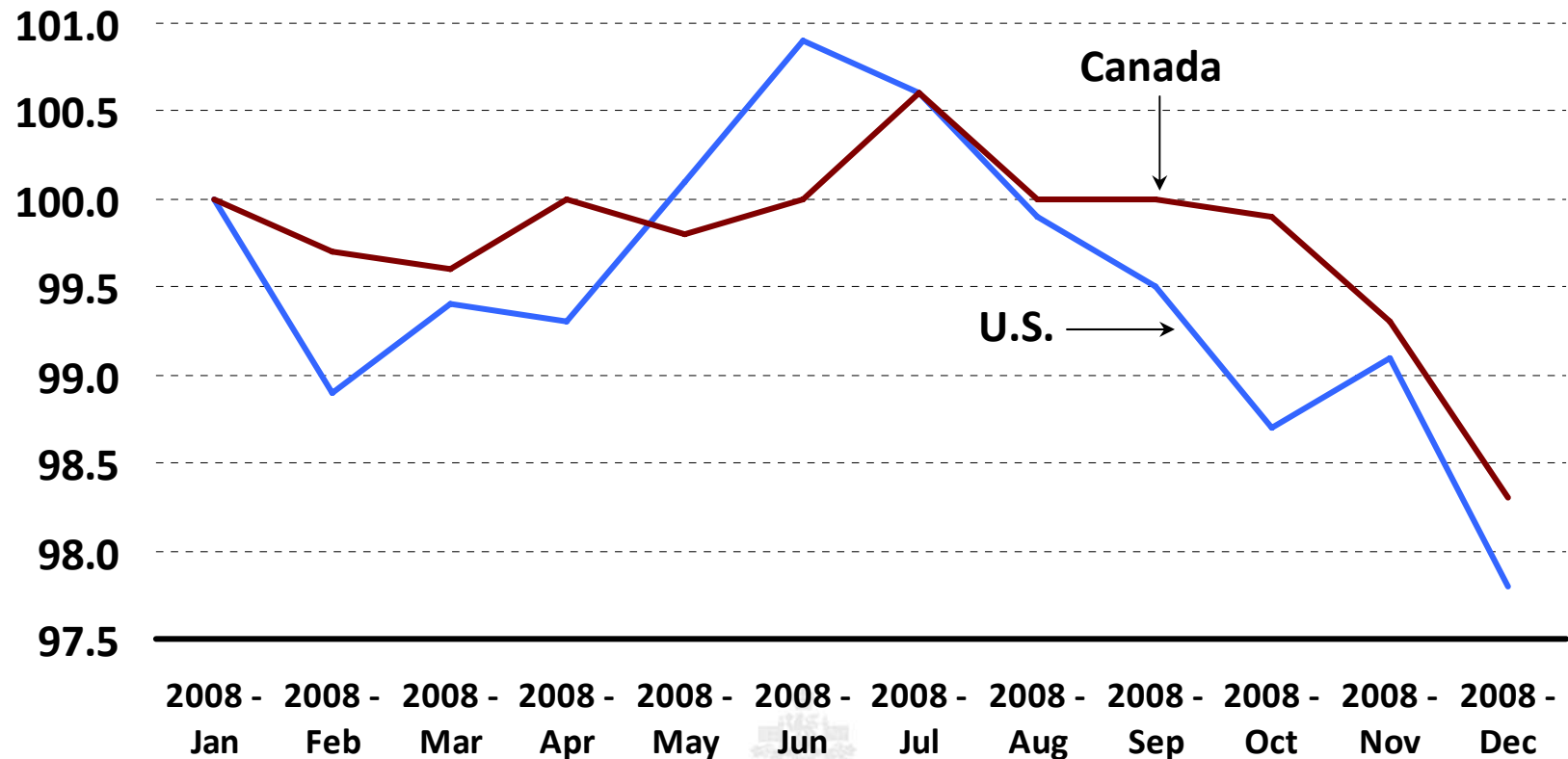
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Both the U.S. and Canadian economies have contracted sharply since summer 2008

Canada and U.S. – Monthly Real GDP

index, January 2008 = 100



Source: Statistics Canada, Macroeconomic Advisers

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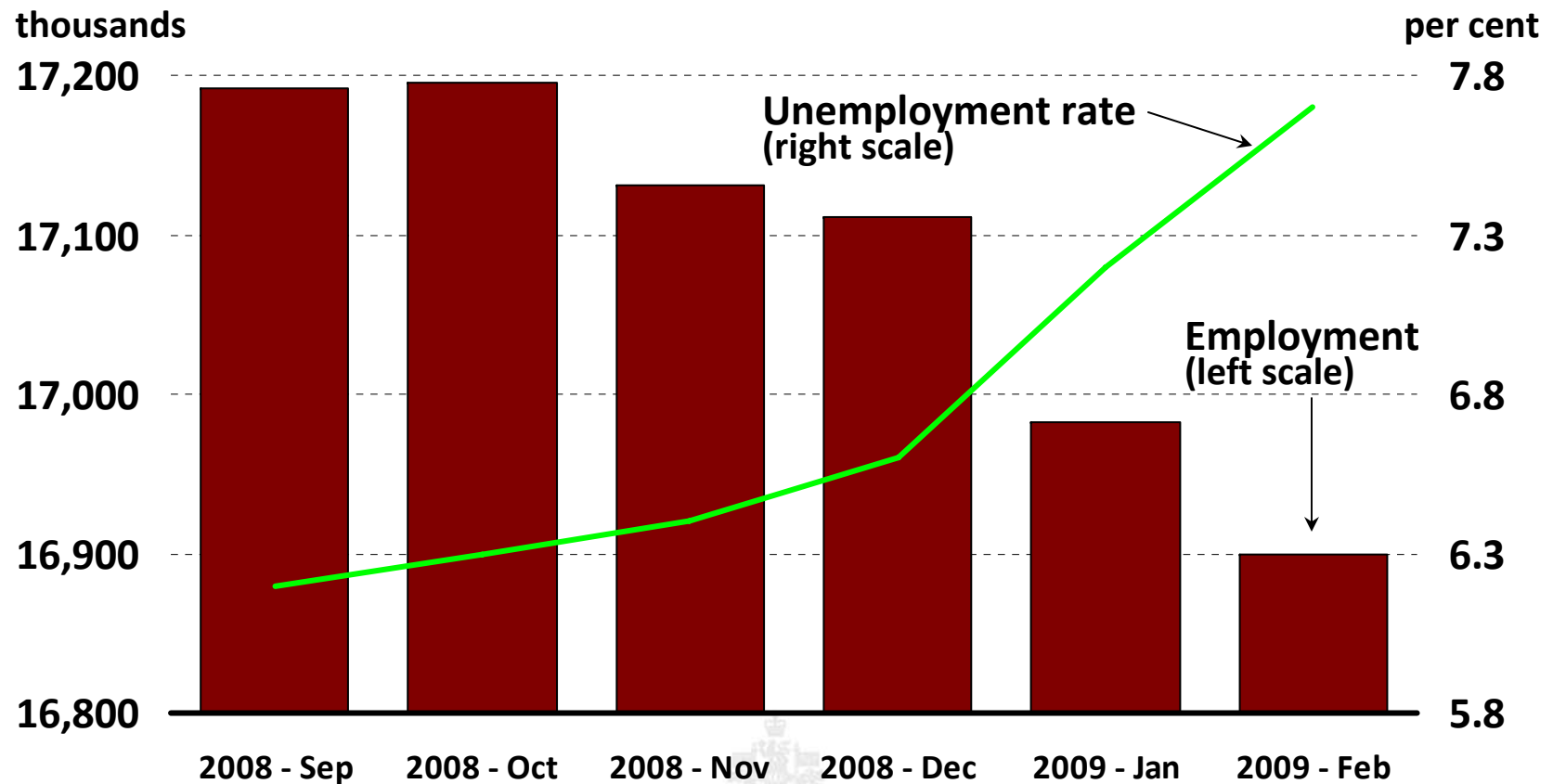


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Recent employment losses have been larger than expected and unemployment has risen sharply

Canada – Employment and Unemployment Rate



Source: Statistics Canada

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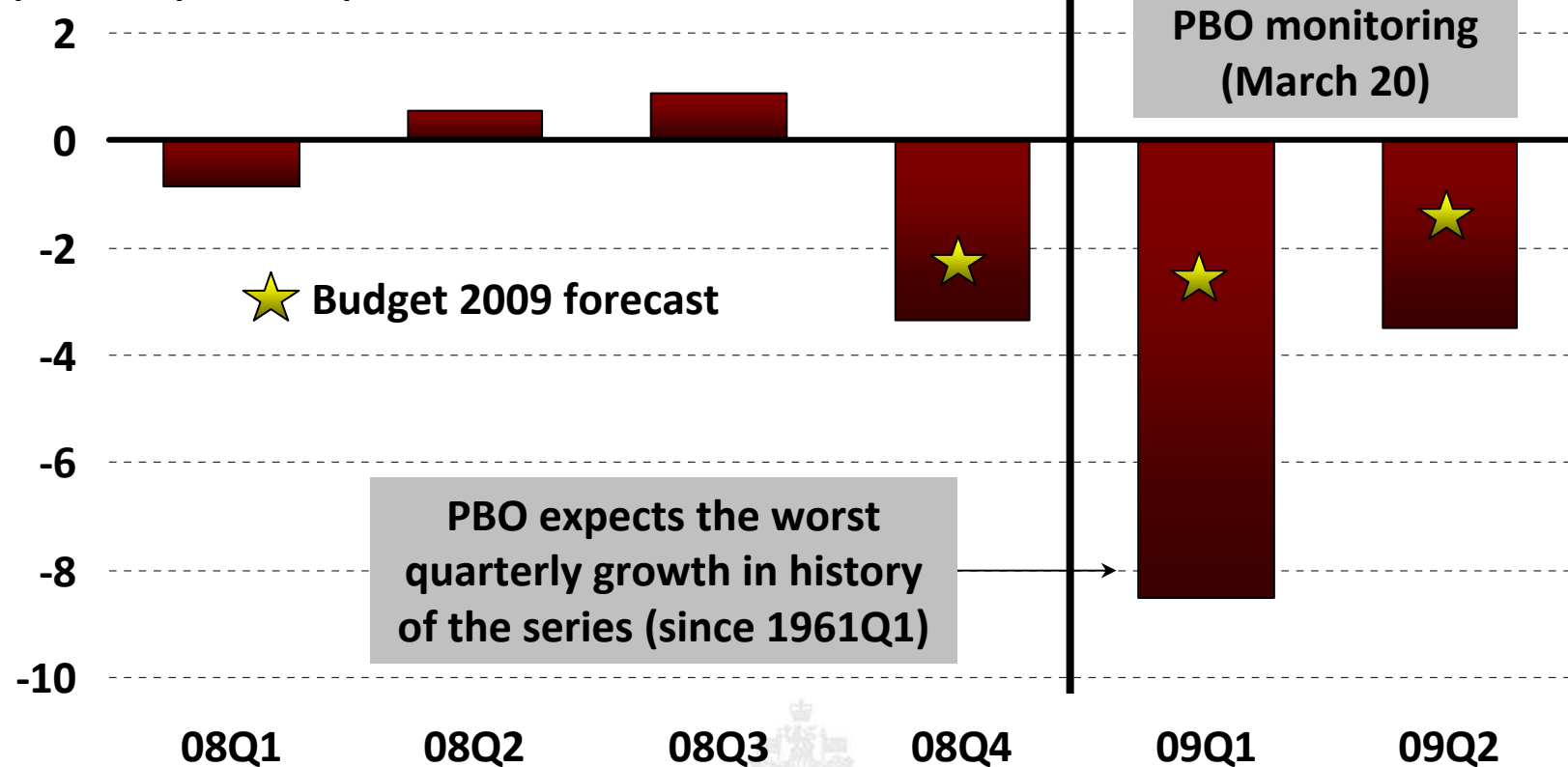
Other Recent Economic Indicators

- Record monthly decline in January real manufacturing shipments (-6.4%) and sharp drop in export volumes (-7.0%)
- Continued monthly declines in January wholesale trade (-4.2%). Retail trade volumes up in January (1.8%) following a 4% contraction in December
- Housing starts fell in January and February to 135K, down more than 20% from December's level. Prices for new houses dropped sharply in January (-0.8% year-over-year)
- January sales of new motor vehicles rose 5.5% but not enough to recover from December's 14.8% drop. Preliminary industry data indicate a 2% decline in February

PBO expects much weaker near-term real GDP growth compared to Budget 2009

Canadian Real GDP Growth

per cent, period to period at annual rates



Source: Budget 2009, Statistics Canada, Office of the PBO

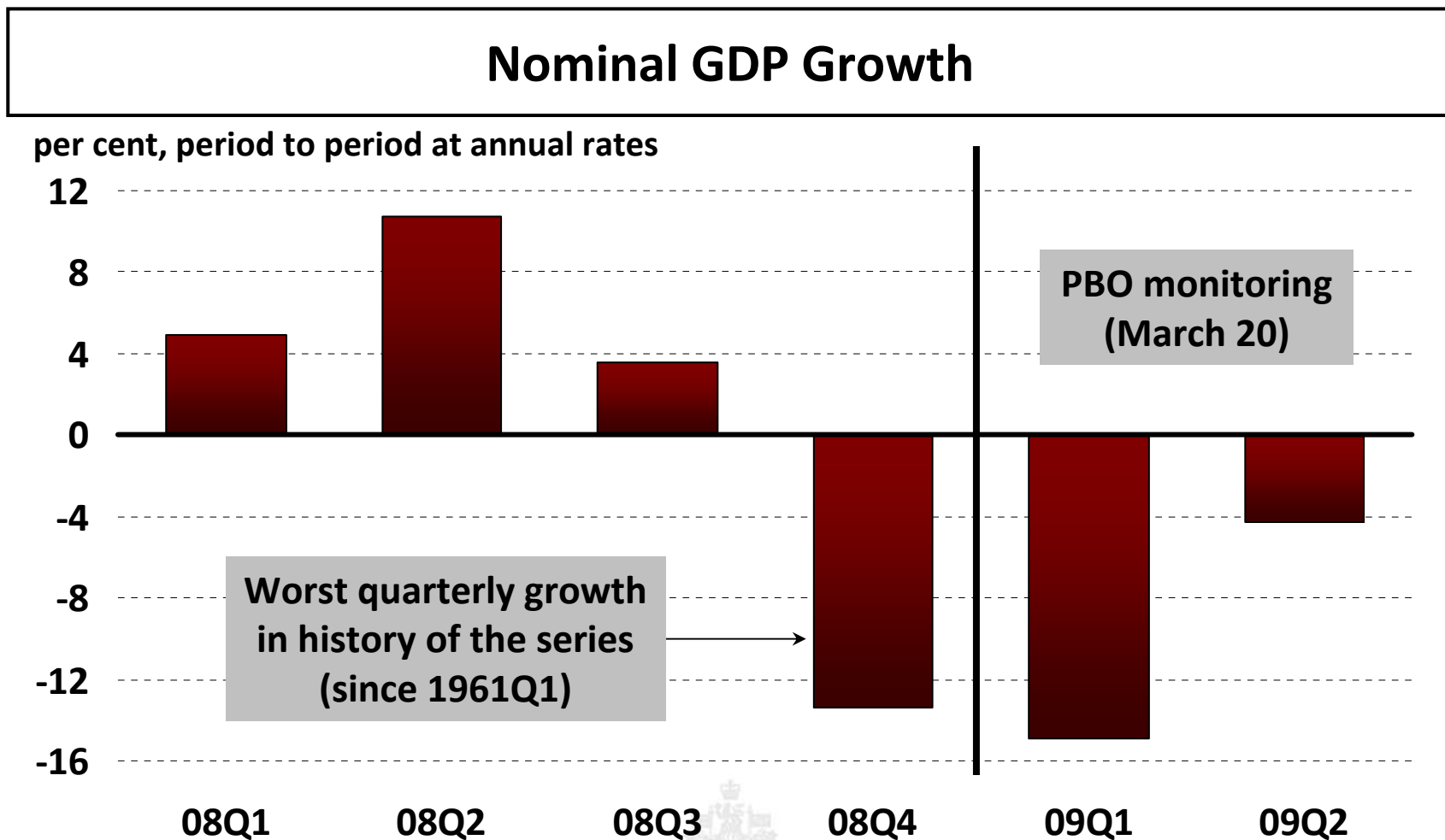
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PBO also expects further declines in nominal GDP through the first half of 2009



Source: Statistics Canada, Office of the PBO

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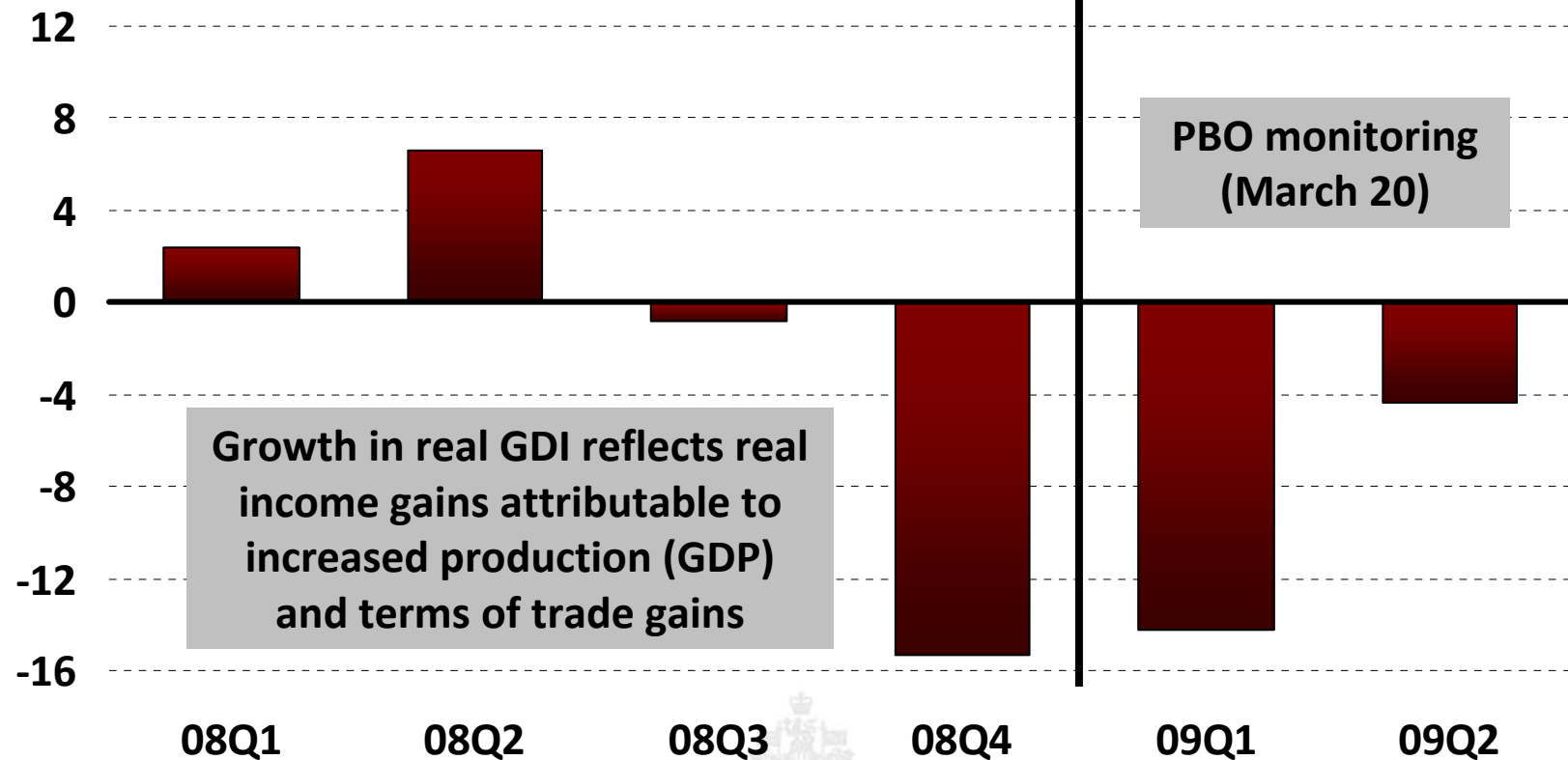


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Declines in real GDP and terms of trade will further reduce households' and businesses' purchasing power

Real Gross Domestic Income (GDI*) Growth

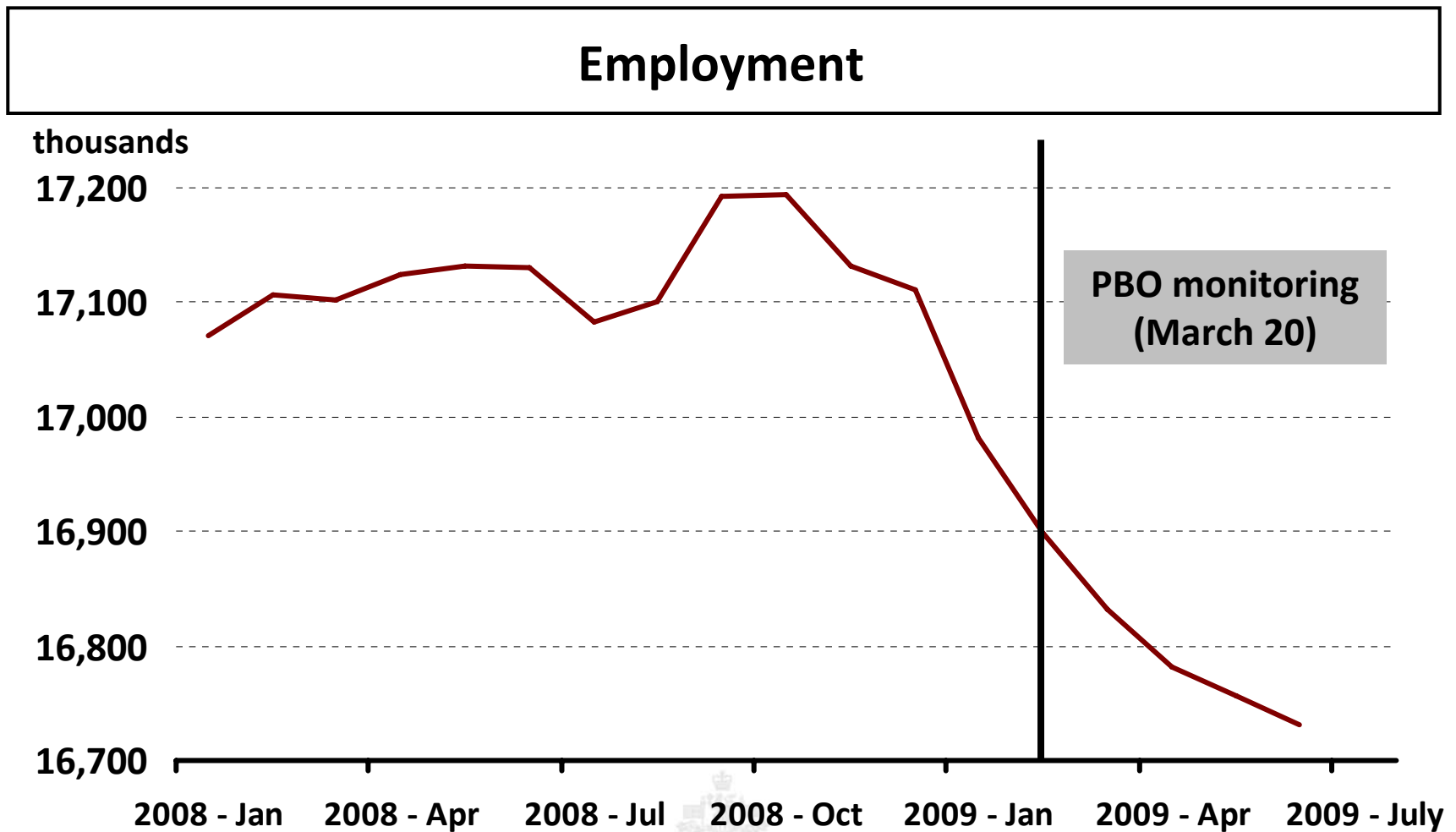
per cent, period to period at annual rates



Source: Statistics Canada, Office of the PBO

* nominal GDP deflated by the final domestic demand price index

PBO expects an additional 168,000 job losses by mid-year



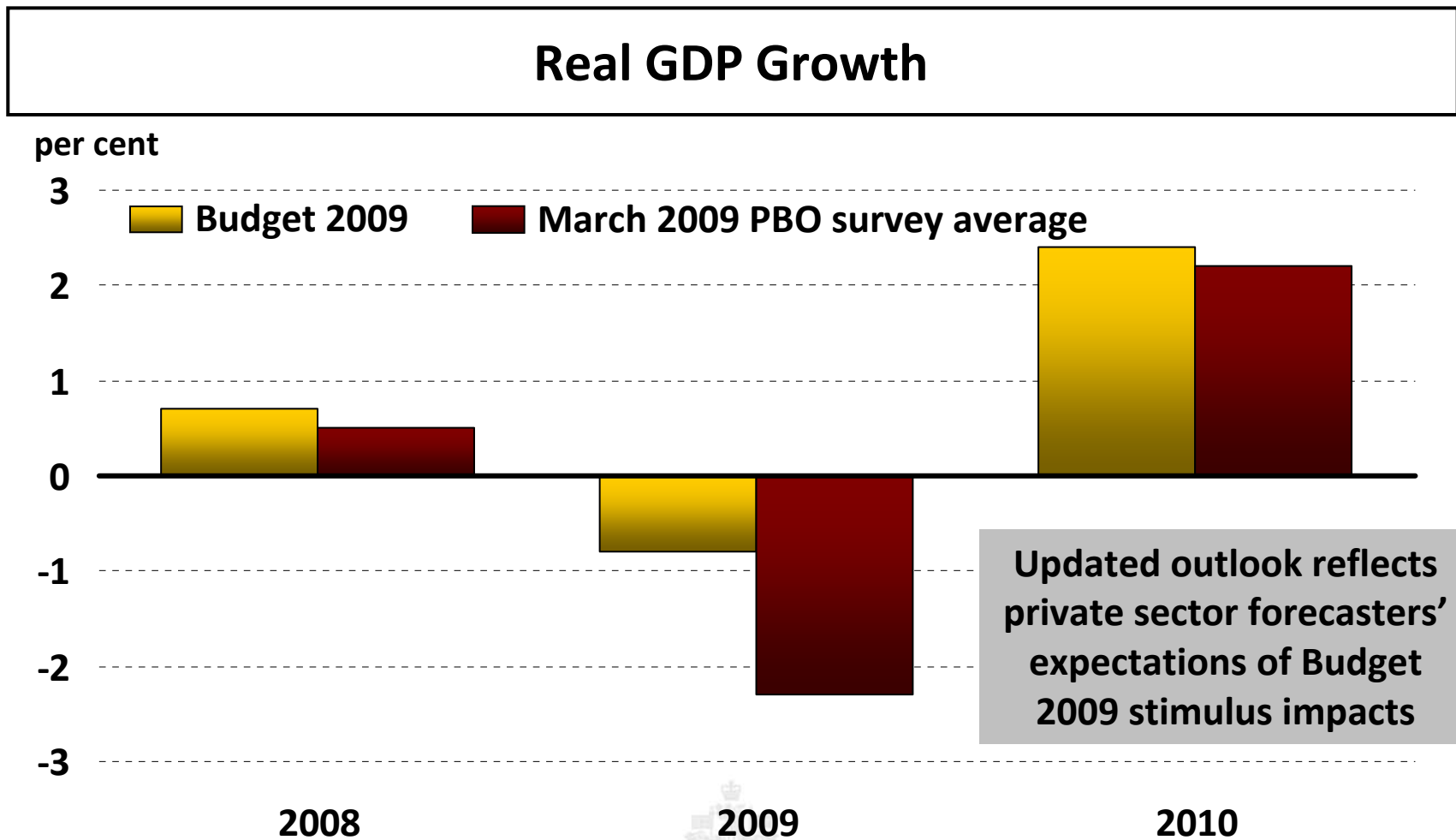
Source: Statistics Canada, Office of the PBO

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Despite Budget 2009 stimulus measures updated survey indicates significant downward revisions to forecasts



Source: Budget 2009, Office of the PBO

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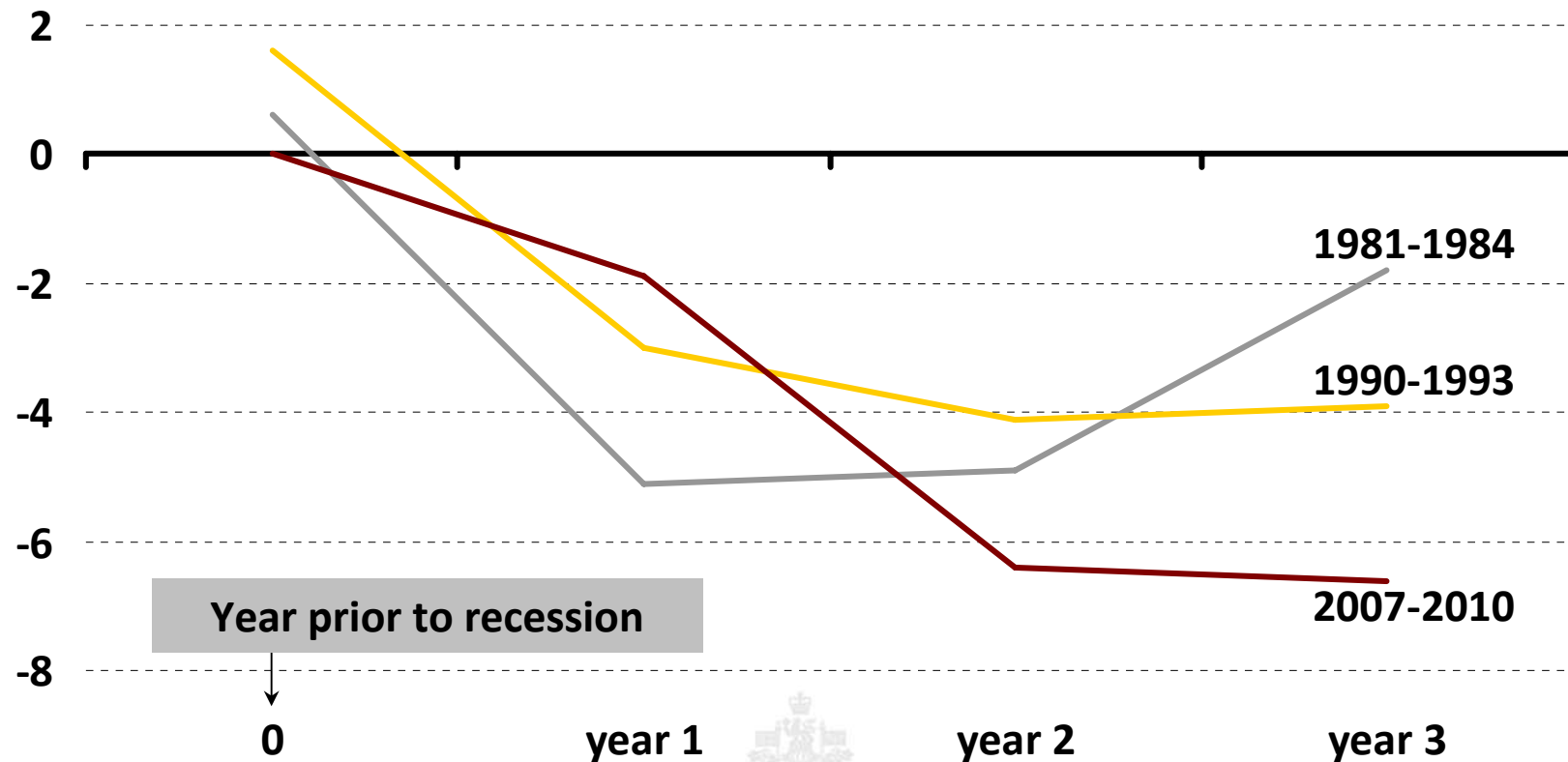


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The projected downturn is expected to be worse than past recessions

Output Gap (real GDP relative to potential GDP)

per cent of potential GDP



Source: Department of Finance Canada, Office of the PBO

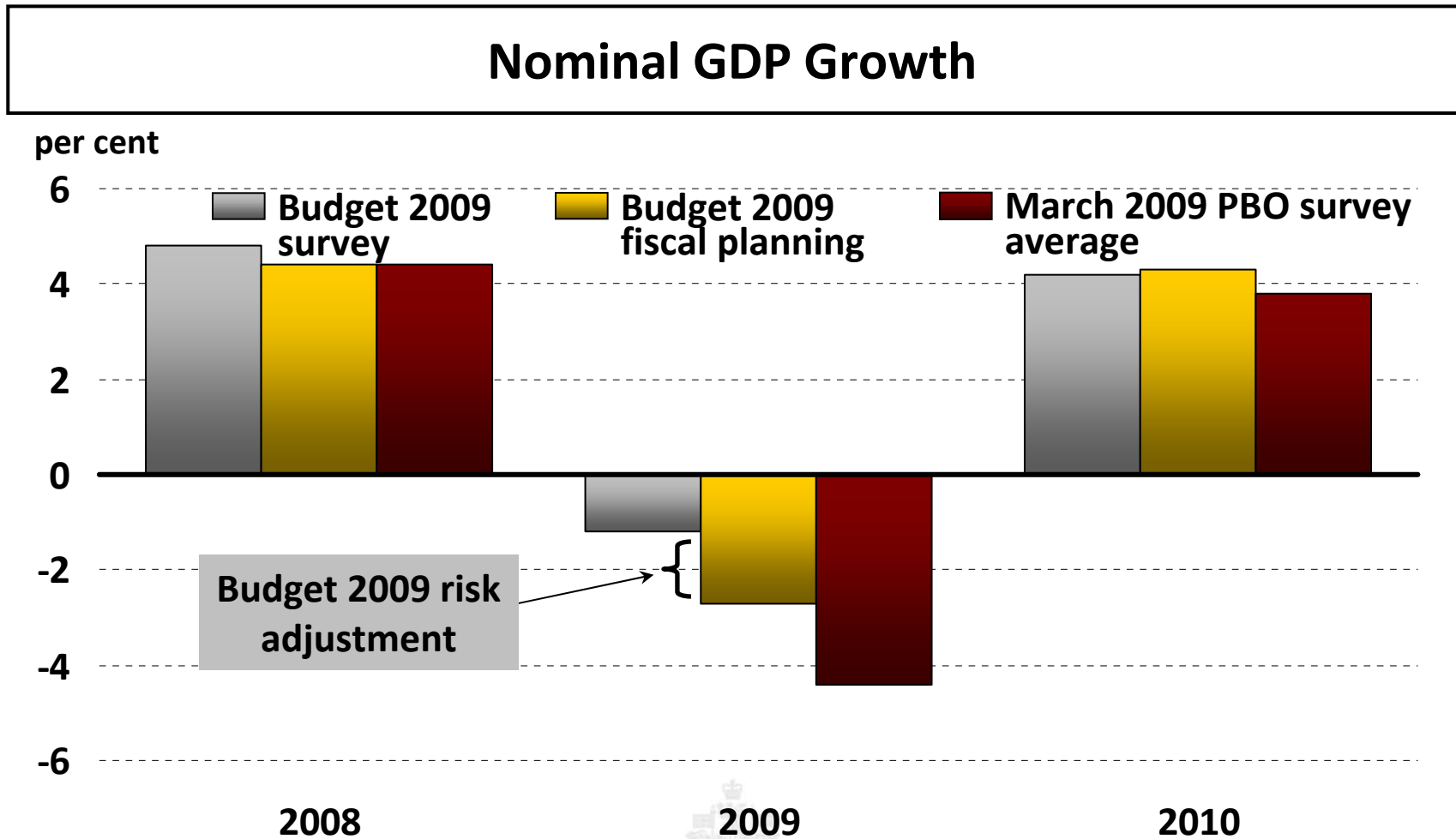
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The outlook for nominal GDP growth in 2009 has been revised below Budget 2009 risk-adjusted assumption

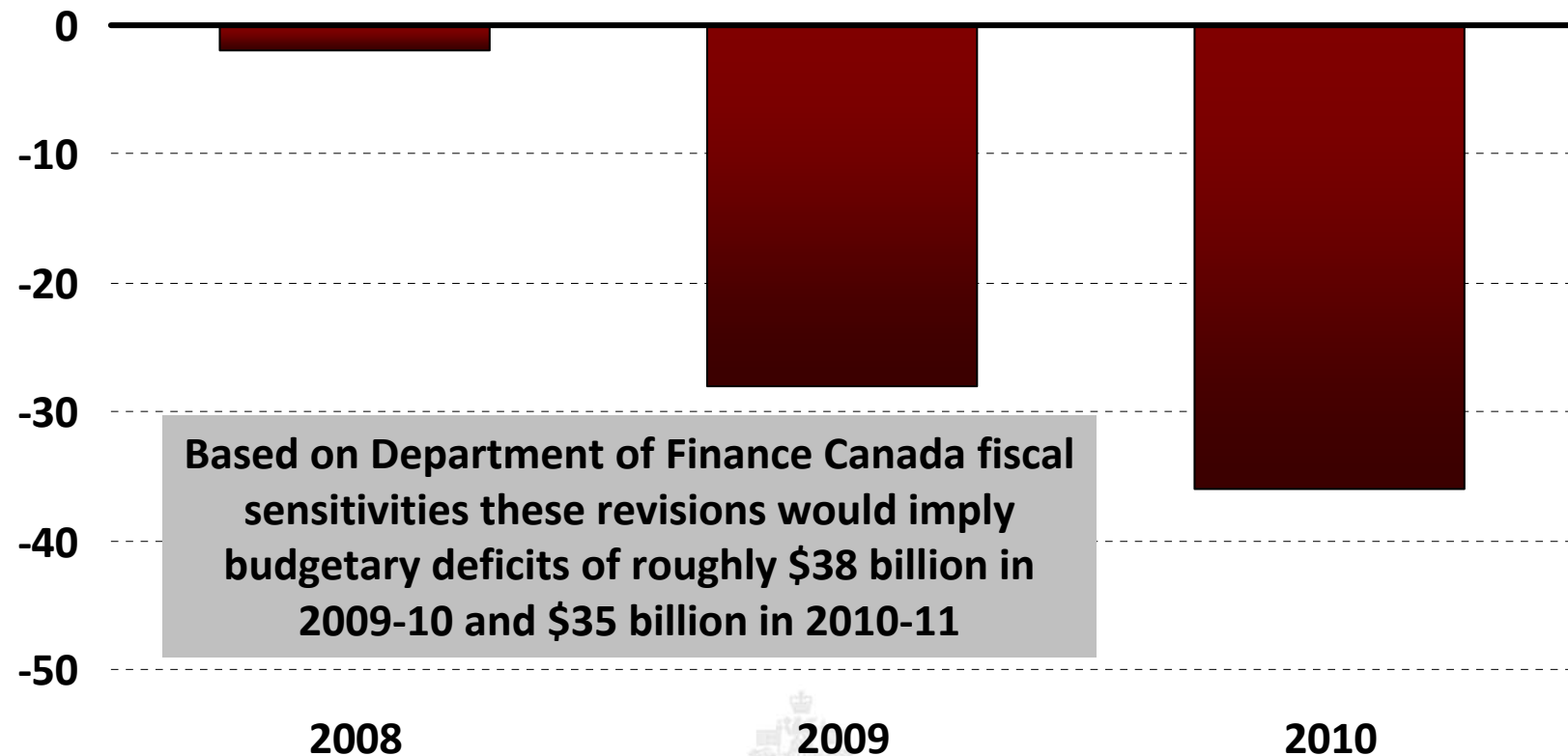


Source: Budget 2009, Office of the PBO

Nominal GDP – the broadest measure of the tax base – is now projected to be well below Budget 2009 planning assumptions

Nominal GDP level relative to Budget 2009 assumptions

\$ billions



Based on Department of Finance Canada fiscal sensitivities these revisions would imply budgetary deficits of roughly \$38 billion in 2009-10 and \$35 billion in 2010-11

Source: Budget 2009, Office of the PBO

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The unemployment rate is expected to rise further through 2009 and 2010

Unemployment Rate

per cent

10

 Budget 2009

 March 2009 PBO survey average

9

Updated outlook reflects private sector forecasters expected impacts of Budget 2009 measures

8

7

6

5

2008

2009

2010

Source: Budget 2009, Office of the PBO

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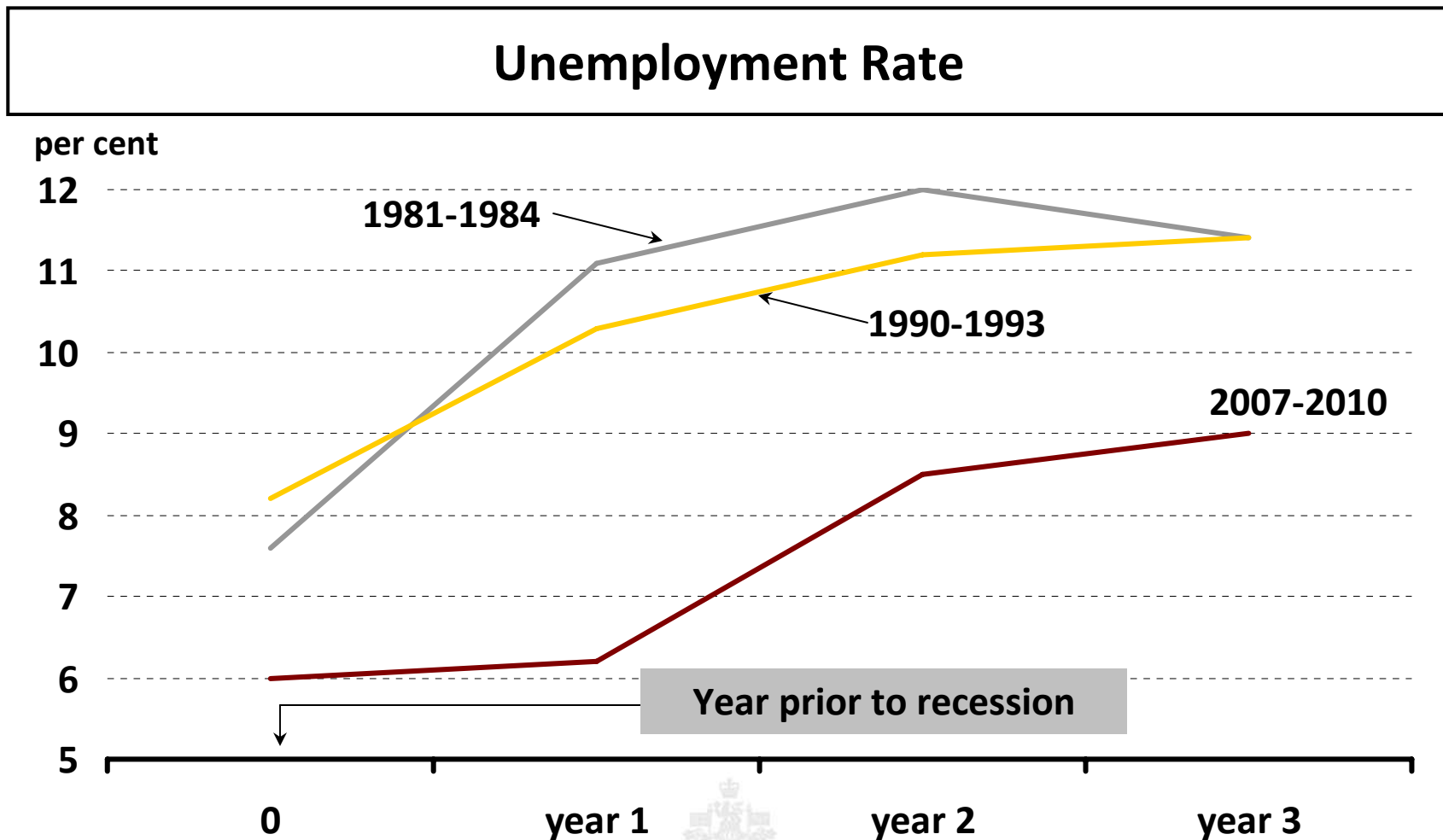
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The unemployment rate is projected to rise sharply but remain below levels observed in previous recessions



Source: Department of Finance Canada, Office of the PBO



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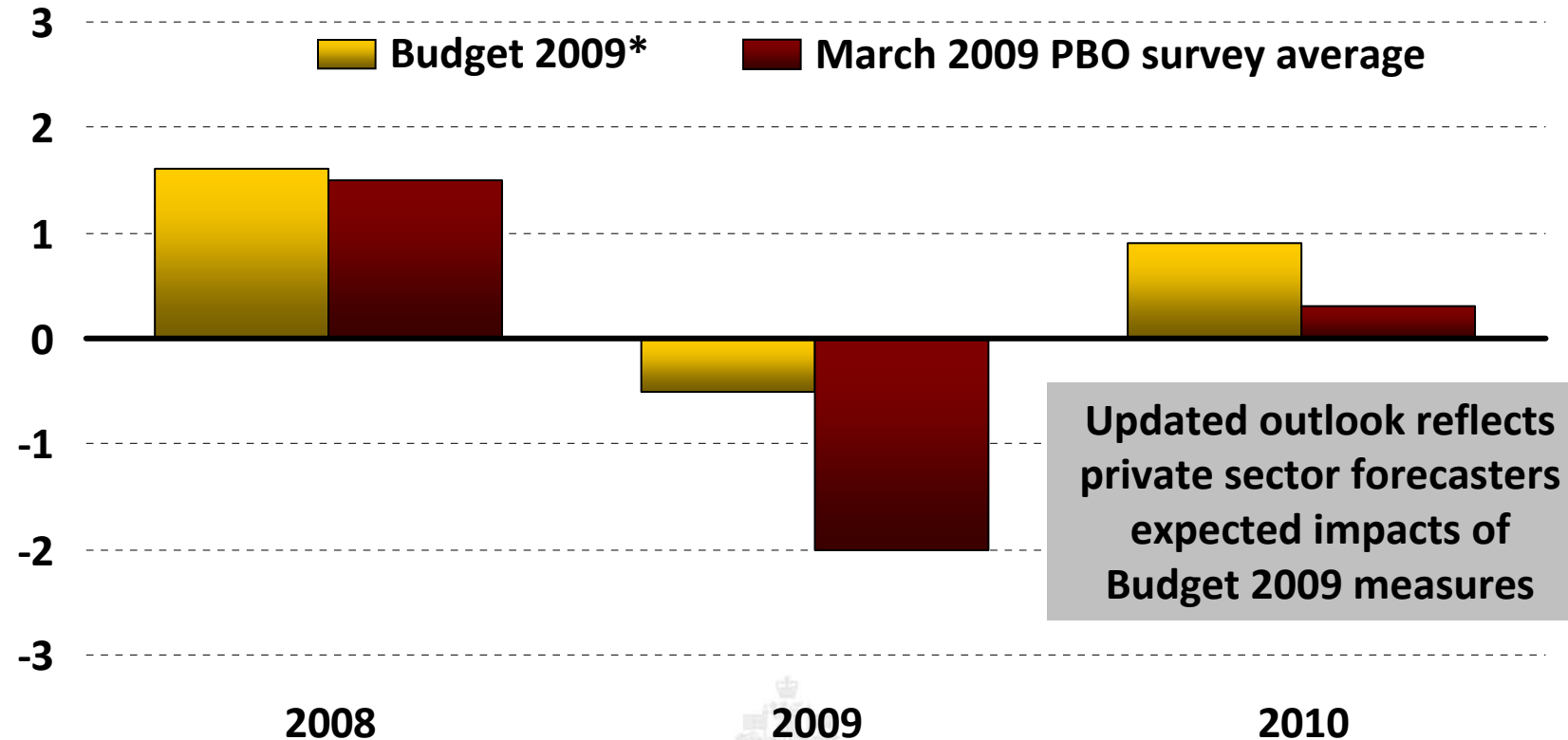
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On an annual basis employment is projected to decline by approximately 350,000 jobs in 2009

Employment Growth

per cent



Source: Budget 2009, Office of the PBO

* PBO estimate of employment growth in Budget 2009

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Stimulus – Budget 2009 Guiding Principles

Timely

- “Measures to support the economy must begin within the next 120 days to be most effective”

Targeted

- “Measures that target Canadian businesses and families most in need will trigger the largest increase in Canadian jobs and output”

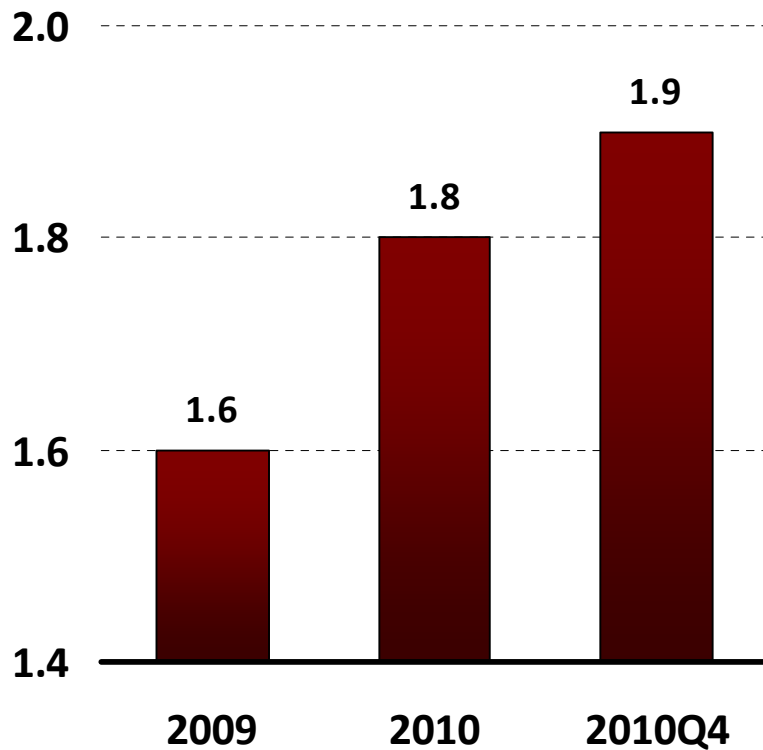
Temporary

- “The stimulus plan should be phased out when the economy recovers to avoid long-term structural deficits”

Budget 2009 estimates significant impacts on real GDP and job creation from fiscal stimulus

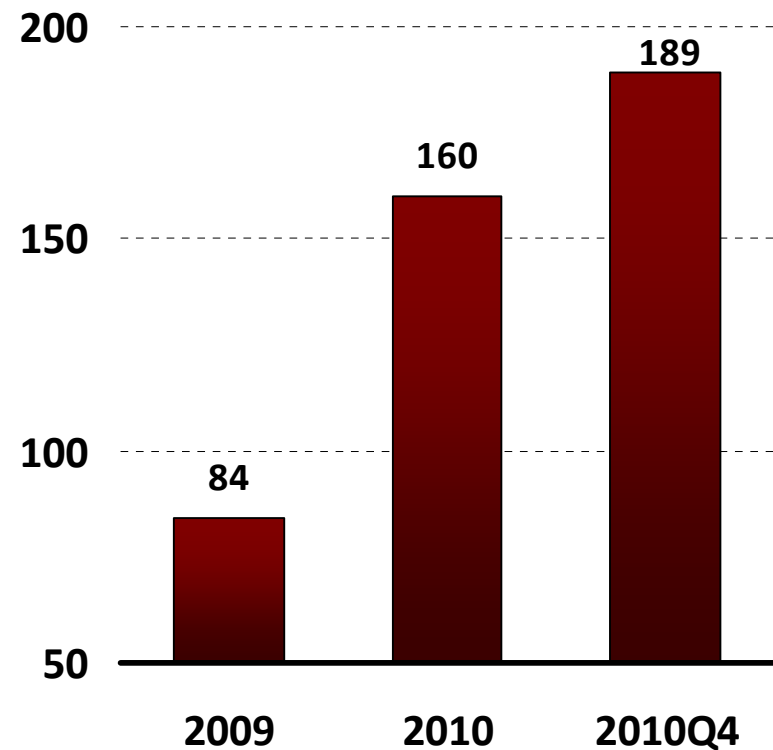
Impact on Real GDP of Budget 2009 Stimulus*

per cent difference



Impact on Employment of Budget 2009 Stimulus*

thousands of jobs



Source: Budget 2009, Office of the PBO
* total stimulus plan (i.e., with leverage)

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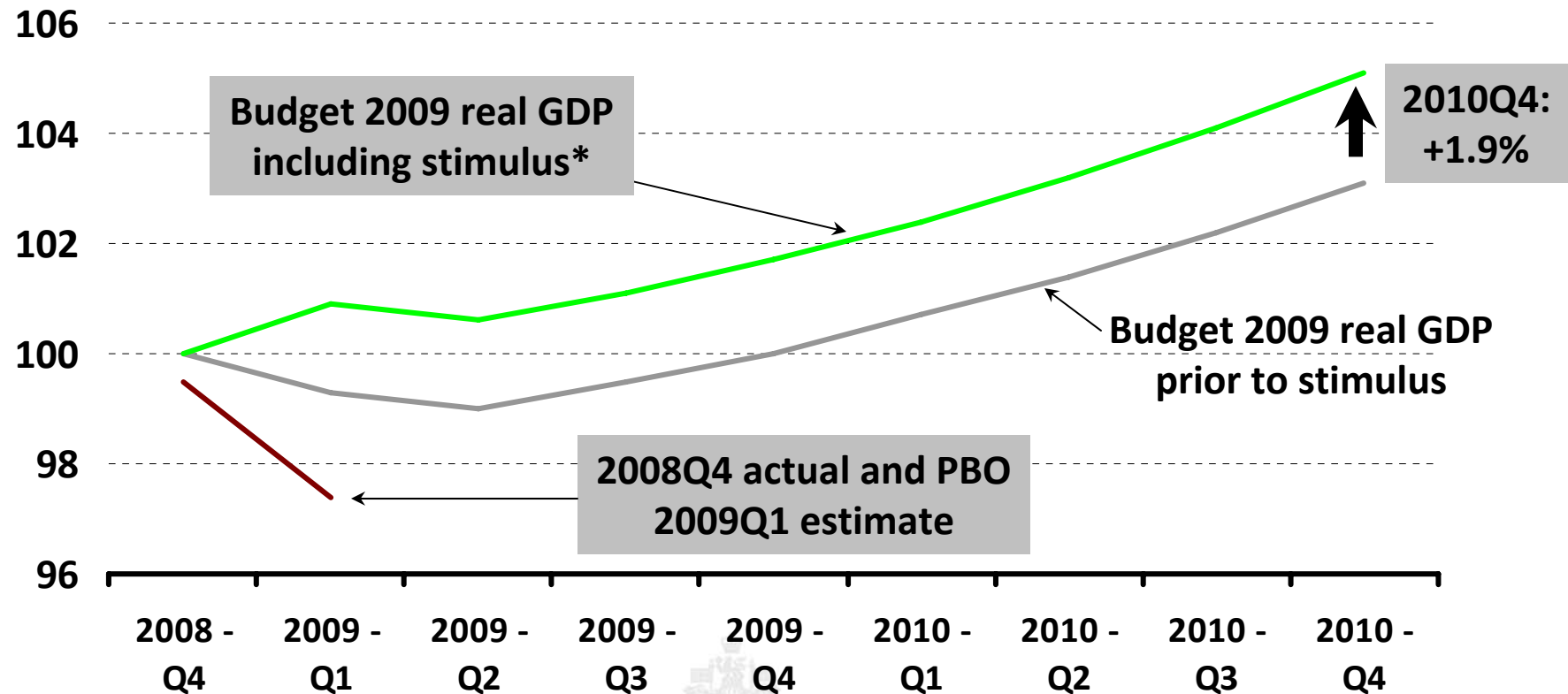


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The near-term weakness in real GDP offsets the expected increase from Budget 2009 stimulus

Budget 2009 Stimulus – Real GDP Impact

index, Budget 2009 2008Q4 = 100



Source: Office of the PBO

* total stimulus plan (i.e., with leverage)

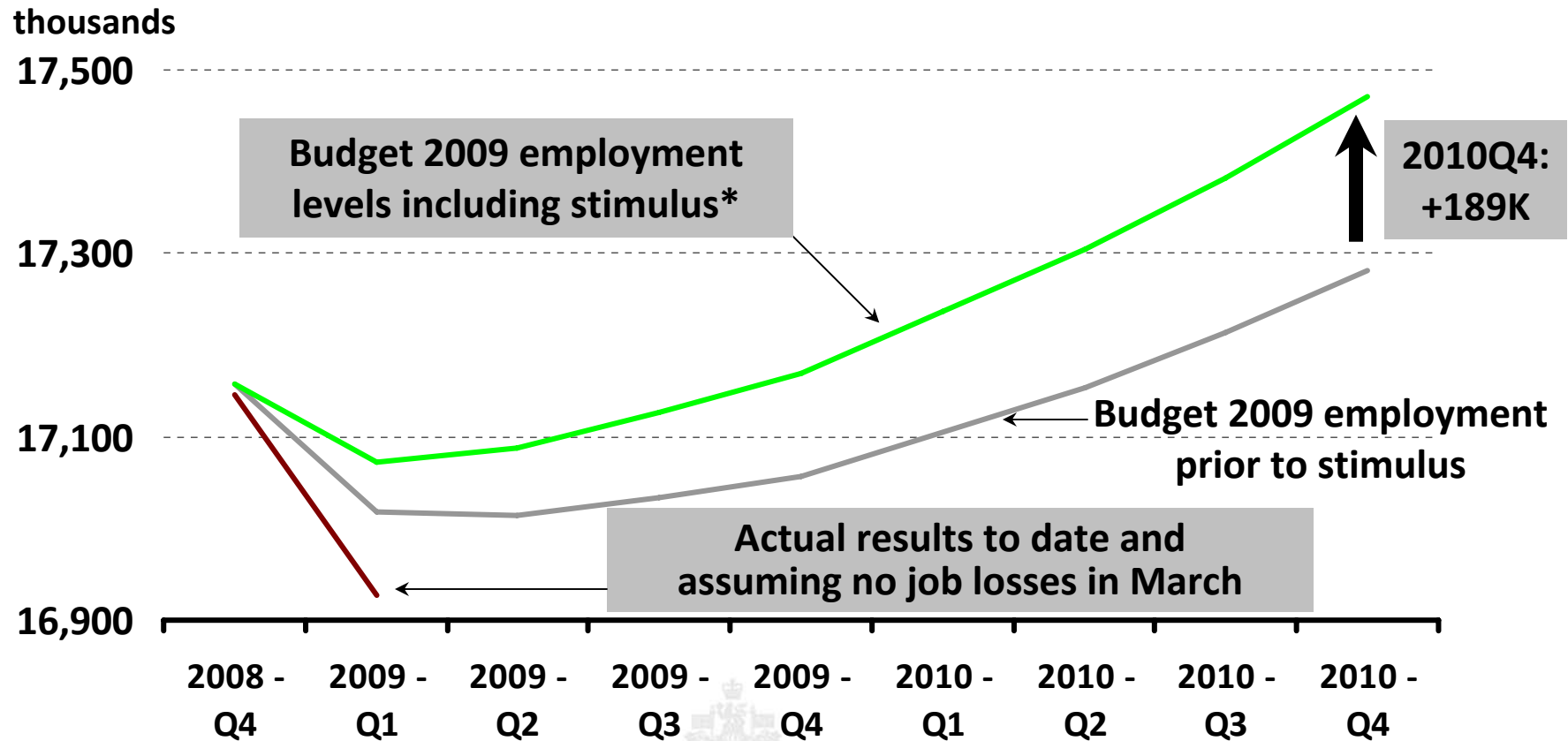
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The job losses so far this year offset the expected increase in employment from Budget 2009 stimulus

Budget 2009 Stimulus – Employment Impact



Source: Office of the PBO

* total stimulus plan (i.e., with leverage)



Recovering from the ‘Great Recession’

- Despite downward revisions to the economic outlook, downside risks remain
- As a small open economy and commodity exporter Canada’s recovery will depend crucially on global economic and financial developments
- Concerted monetary and fiscal policy actions across countries will help foster the recovery
- The Government and Bank of Canada are providing fiscal and monetary stimulus



Budget 2009 Implementation and Oversight

- Increased scrutiny of Budget 2009 stimulus measures paves the way for improved budgetary reporting and oversight practices
- To contribute to this scrutiny, PBO has suggested key elements for the Government's proposed quarterly reports and by proposing a framework to assist parliamentary oversight and to track budget implementation
- It is imperative that Parliament be provided with accurate, timely, and easily understood information on recent economic and fiscal developments and prospects as well as the implementation and effectiveness of budget measures



PBO's Oversight Framework

Inputs



Which programs, how much funding allocated?

Processes



What are the key legislative requirements, delivery mechanisms and risks?

Outputs



What results will be achieved through federal efforts?

Outcomes



How will these help Canadians affected by the recession and stimulate the economy?



The Government's First Report

- The Government is breaking new ground through quarterly implementation reports
- Document clearly identifies inputs (funding) and processes
 - Limited information regarding expected outputs, outcomes and monitoring benchmarks
- Quality of subsequent reports should improve, allowing for the assessment of each program against its objectives as well as progress towards achieving the Government's overall objective

PBO will continue to track the Government's reporting and share the information with Parliamentarians via the website: www.parl.gc.ca/pbo



Summary

- 1. Economic outlook revised below the Government's fiscal planning assumptions**
- 2. The policy challenge to help the economy recover is much bigger**
- 3. The Government's March 10 report on budget implementation, while incomplete, is a positive step**



The *Federal Accountability Act* mandates the Parliamentary Budget Officer (PBO) to provide independent analysis to the Senate and House of Commons on the state of the nation's finances, the government estimates and trends in the national economy.

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