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PARLIAMENTARY  
BUDGET OFFICER  
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BUDGET

# Economic and Fiscal Monitor

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The Parliamentary Budget Officer (PBO) supports Parliament by providing analysis, including analysis of macro-economic and fiscal policy, for the purposes of raising the quality of parliamentary debate and promoting greater budget transparency and accountability.

This report provides an in-year estimate of Canadian gross domestic product in 2017 and the Government of Canada's budgetary balance in 2017-18, based on data released since our October 2017 Economic and Fiscal Outlook, up to and including 12 January 2018. All rates are reported at annual rates unless otherwise noted.

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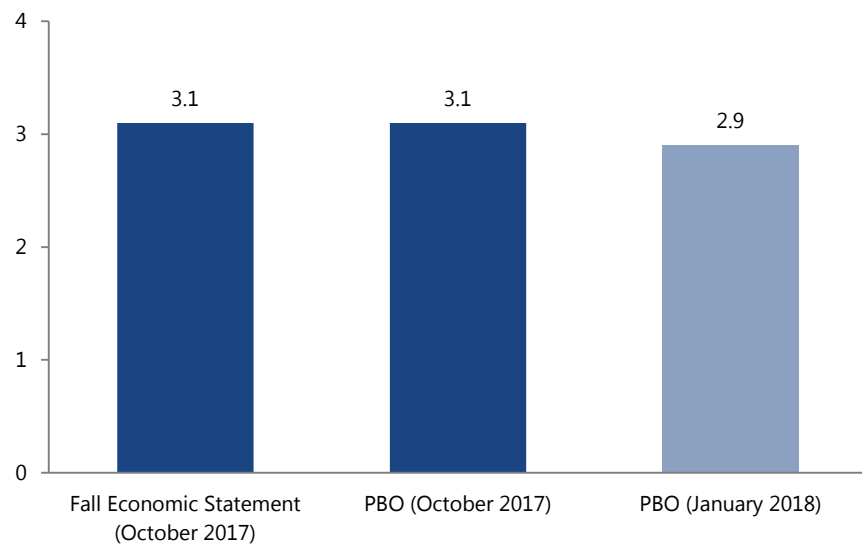
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Jean-Denis Fréchette  
Parliamentary Budget Officer

# 1. Gross Domestic Product: 2017

PBO projects that Canada's real gross domestic product (GDP) will grow by 2.9 per cent in 2017, which is 0.1 percentage points lower than projected in PBO's October Economic and Fiscal Outlook and Finance Canada's Fall Economic Statement in October 2017 (Figure 1-1). This downgrade primarily reflects historical revisions (Table 1-1). Growth in the third quarter of 2017 was also weaker than expected.

**Figure 1-1** Real GDP growth in 2017 (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 of 2017, the same projected growth as our October outlook and similar to the quarterly pace of expansion as the third quarter of 2017 (Table 1-1).

The Canadian economy has slowed markedly in the second half of 2017, averaging 1.8 per cent growth, compared to real GDP growth of 4.0 per cent in the first half. The sharp slowdown in growth in the third quarter was primarily due to a contraction in exports. Although we anticipate a rebound in exports, the recent pace of growth is expected to continue into the fourth quarter, reflecting offsetting contributions from a pullback in household spending and a contraction in residential investment. Following its 25-basis point increase on 17 January, we continue to expect that the Bank of Canada will again raise its policy interest rate by 25 basis points in April.

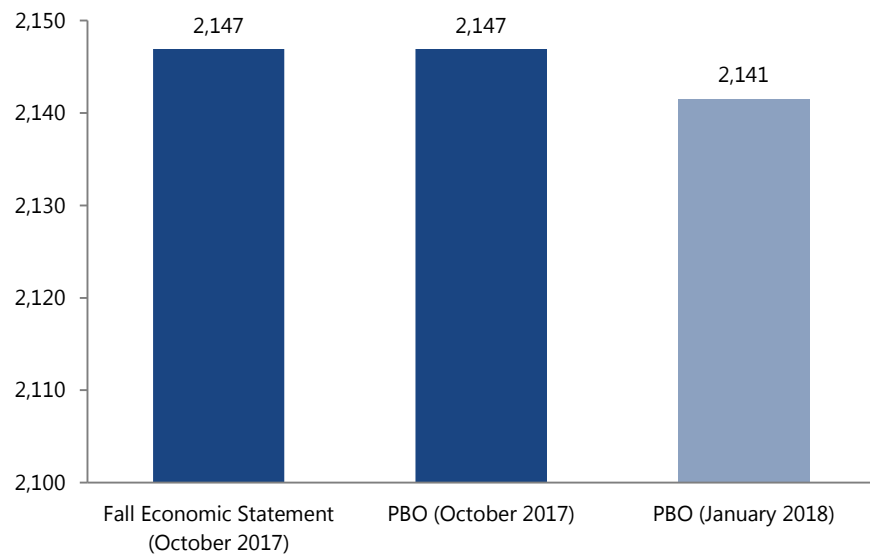
**Table 1-1** Quarterly real GDP growth in 2017

% , quarter-over-quarter at annual rates	2016Q4	2017Q1	2017Q2	2017Q3	2017Q4
PBO October 2017	2.7	3.7	4.5	2.1	1.8
PBO January 2018	2.2	3.7	4.3	1.7	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. After adjusting for historical revisions, this is somewhat lower (\$5 billion or 0.3 per cent) than projected in our October EFO and the Fall Economic Statement (Figure 1-2). This downward revision primarily reflects weaker-than-expected GDP inflation in the third quarter of 2017 due to slower price growth in household consumption expenditures and residential construction.

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

Sources: Finance Canada and Parliamentary Budget Officer.

Note: Fall Economic Statement and PBO (October 2017) nominal GDP levels have been restated for historical revisions.

PBO estimates that nominal GDP increased to \$2.2 trillion (annual rate) in the fourth quarter of 2017 (Table 1-2). Adjusted for historical revisions, the level of nominal GDP is \$8 billion (0.4 per cent) lower than projected in our October 2017 EFO. This primarily reflects weaker-than-expected GDP inflation in the third quarter of 2017.

**Table 1-2 Quarterly nominal GDP in 2017**

\$ billions, annual rates	<b>2016Q4</b>	<b>2017Q1</b>	<b>2017Q2</b>	<b>2017Q3</b>	<b>2017Q4</b>
PBO October 2017	2,071	2,114	2,135	2,159	2,180
PBO January 2018	2,071	2,114	2,135	2,144	2,172

Sources: Statistics Canada and Parliamentary Budget Officer.

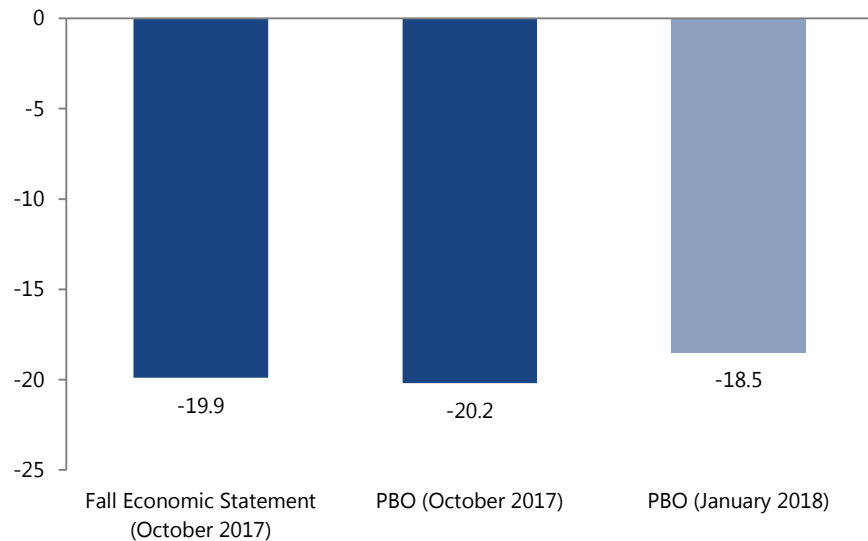
Note: Highlighted values represent PBO estimates/projections. Nominal GDP levels from the October 2017 Economic and Fiscal Outlook have been restated for historical revisions.

## 2. Budgetary Balance: 2017-18

We project that the Government's budgetary balance for 2017-18 will be a deficit of \$18.5 billion (0.9 per cent of GDP). Our current estimate of the budgetary deficit in 2017-18 is:

- \$1.8 billion lower than our estimate in the October 2017 Economic and Fiscal Outlook.
- \$1.4 billion lower than the Government projected in its 2017 Fall Economic Statement (FES).

**Figure 2-1 Budgetary balance in 2017-18 (\$ billions)**



Sources: Finance Canada and Parliamentary Budget Officer.

Note: The 2017-18 budgetary balance for Finance Canada includes a \$1.5 billion adjustment for risk.

The downward revision to PBO's estimate of the budget deficit reflects a \$2.2 billion decrease in our estimate for spending in 2017-18, somewhat offset by a \$0.5 billion decrease in our estimate for revenues.

Program expenses are expected to be lower due to lower Employment Insurance benefits and slower-than-anticipated growth in direct program spending. Part of the lower profile for program spending is due to infrastructure spending. We expect slightly higher federal infrastructure lapses than we estimated in our October 2017 EFO.

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**Table 2-1 Fiscal monitoring for 2017-18**

\$ billions	<b>PBO</b> <i>Jan. 2018</i>	<b>PBO</b> <i>Oct. 2017</i>	<b>Δ</b>	<b>Finance Canada</b> <i>Oct. 2017</i>
<b>Total revenues</b>	<b>307.8</b>	<b>308.2</b>	<b>-0.5</b>	<b>310.7</b>
<b>Expenses</b>				
Program expenses	302.6	304.4	-1.8	304.9
Public debt charges	23.7	24.0	-0.3	24.2
<b>Total expenses</b>	<b>326.3</b>	<b>328.4</b>	<b>-2.2</b>	<b>329.1</b>
<b>Budgetary balance</b>	<b>-18.4</b>	<b>-20.2</b>	<b>1.8</b>	<b>-19.9</b>

Sources: Finance Canada and Parliamentary Budget Officer.

Note: The budgetary balance for Finance Canada includes a \$1.5 billion adjustment for risk.

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