

OFFICE OF  
THE PARLIAMENTARY BUDGET OFFICER



BUREAU DU  
DIRECTEUR PARLEMENTAIRE DU BUDGET

# Economic and Fiscal Outlook

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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 responds to the September 29, 2011 Standing Committee on Finance motion that “[c]onsistent with the Parliamentary Budget Office[r] (PBO) mandate [...] the PBO provide an economic and fiscal outlook to the Committee the fourth week of October and April of every calendar year and be available to appear before the Committee to discuss its findings shortly thereafter.” This report incorporates data available up to and including April 19, 2013.

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\* The authors thank Mostafa Askari, Patricia Brown and Jocelyne Scrim for helpful comments. Any errors or omissions are the responsibility of the authors. Please contact Chris Matier (e-mail: [chris.matier@parl.gc.ca](mailto:chris.matier@parl.gc.ca)) for further information.

## **Contents**

Summary	1
1 External Economic Outlook	6
2 Canadian Economic Outlook	8
3 Fiscal Outlook	16
4 Comparison of PBO and Finance Canada Estimates of the Government's Structural Budget Balance	21
References	25
Annex A – Projecting Energy Commodity Prices	26
Annex B – PBO April 2013 and October 2012 Economic Outlooks	27
Annex C – PBO April 2013 and Economic Action Plan 2013 Economic Outlooks	28
Annex D – Fiscal Impacts of Measures and Revisions to Spending Levels	29
Annex E – Summary of PBO April 2013 Fiscal Outlook	30
Annex F – Comparison of PBO April 2013 and October 2012 Fiscal Outlooks	31
Annex G – Comparison of PBO April 2013 and Economic Action Plan 2013 Fiscal Outlooks	32

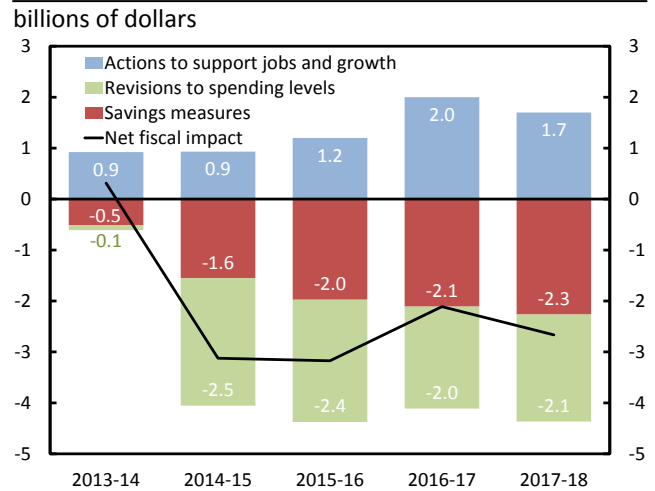
## Summary

The PBO is committed to providing independent analysis for parliamentarians to enhance their understanding of the state of the nation’s finances and trends in the national economy. In response to the September 29, 2011 Standing Committee on Finance motion, this report provides PBO’s current medium-term outlook for the Canadian economy and the Government of Canada’s finances.<sup>1</sup> The report includes updated estimates of the Government’s structural budget balance as well as fan charts that illustrate the uncertainty surrounding PBO’s projections and the risk to the private sector economic outlook. In addition, the report presents estimates of the economic impacts of measures and revisions to spending levels in Economic Action Plan (EAP) 2013, as well as comparisons to Finance Canada’s projections. The report also provides a comparison of PBO and Finance Canada estimates of the Government’s structural balance.

PBO’s current outlook reflects the economic impacts of the Government’s EAP 2013 as well as the impacts from measures from EAP 2012 and the 2012 Update of Economic and Fiscal Projections (UEFP). Measures in the Government’s EAP 2013 were targeted at “supporting jobs and growth” (\$6.8 billion over 2013-14 to 2017-18) and at returning the budget to balance (\$8.4 billion in savings over 2013-14 to 2017-18). Combined with revisions to direct program expense levels in EAP 2013 (contributing to \$9.1 billion in additional savings), the overall net fiscal impact is a projected savings of \$10.8 billion over 2013-14 to 2017-18 (Summary Figure 1).

**Summary Figure 1**

### Fiscal Impact of Economic Action Plan 2013 Measures and Revisions to Spending Levels



Sources: Office of the Parliamentary Budget Officer; Finance Canada.  
 Note: A negative value indicates a reduction in spending and an improvement in the budgetary balance. A positive value indicates an increase in spending and a deterioration in the budgetary balance.

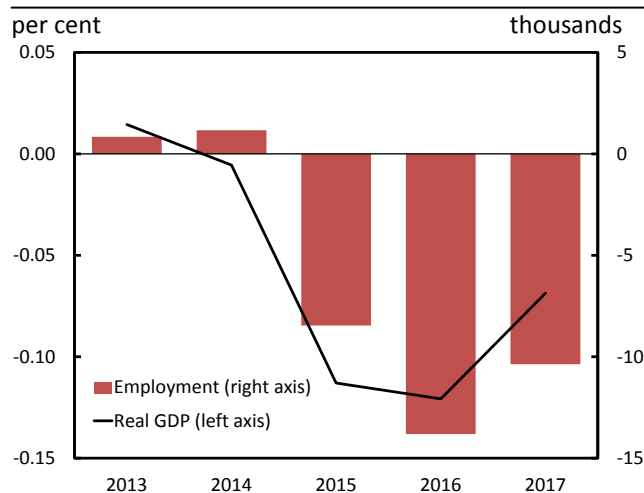
EAP 2013 includes both stimulative measures (i.e., “actions to support jobs and growth”) and savings measures (i.e., spending reductions and revenue increases). In addition, EAP 2013 includes downward revisions to direct program spending levels that would also impact the economy.<sup>2</sup> Using Finance Canada’s “multipliers” (i.e., the dollar impact on real GDP of a permanent one-dollar change in spending/taxes), PBO estimates the net impact of these measures and revisions on real GDP to be -0.12 per cent and a reduction of 14,000 jobs in 2016 (Summary Figure 2).

<sup>1</sup> In this report “the Government” refers to the Government of Canada. All rates are reported at annual rates unless otherwise noted.

<sup>2</sup> EAP 2013 indicates the sources underlying revisions to direct program spending levels, which amount to a reduction of \$9.1 billion over 2013-14 to 2017-18. Given the uncertainty surrounding the potential economic impacts of some of these sources, PBO has assumed that half of the reduction in spending levels (\$4.55 billion) would not flow through to the economy.

## Summary Figure 2

### Estimates of the Economic Impacts of EAP 2013 Measures and Revisions to Spending Levels



Source: Office of the Parliamentary Budget Officer.

Note: The estimated impacts on real GDP and employment do not take into account any offsetting impacts from changes to interest and exchange rates. Impacts are expressed relative to PBO's current projection.

In addition to the measures and revisions in EAP 2013, PBO's economic outlook also reflects measures from the Government's EAP 2012 as well as the 2012 UEFP. While measures in both the 2012 UEFP and EAP 2013 have a net positive impact on the level of real GDP and employment in 2013, this is more than offset by the net negative impact of measures in EAP 2012 (Summary Table 1 and Summary Table 2).

PBO's estimate of the overall employment impact – amounting to a reduction of 67,000 jobs in 2017 – does not mean that PBO expects that, going forward, there will be a decline of 67,000 jobs from the current level of employment (17.6 million jobs as of March 2013). Rather, it means that, in the absence of these measures and revisions to spending levels, projected employment would be higher by 67,000 jobs, all else being equal.

## Summary Table 1

### Impacts of Measures and Revisions to Spending Levels on the Projected Level of Real GDP

	per cent				
	2013	2014	2015	2016	2017
<b>Economic Action Plan 2012</b>	-0.27	-0.36	-0.39	-0.41	-0.49
<b>Update of Projections 2012</b>	0.08	0.03	0.00	-0.01	-0.02
<b>Economic Action Plan 2013</b>					
<i>Actions to support jobs and growth</i>	0.02	0.08	0.06	0.08	0.13
<i>Savings measures</i>	-0.01	-0.04	-0.07	-0.10	-0.10
<i>Revisions to spending levels</i>	0.00	-0.05	-0.11	-0.11	-0.09
	0.01	-0.01	-0.11	-0.12	-0.07
<b>Total</b>	-0.18	-0.34	-0.50	-0.54	-0.57

Source: Office of the Parliamentary Budget Officer.

Note: The estimated impacts on real GDP do not take into account any offsetting impacts from changes to interest and exchange rates. Impacts are expressed relative to PBO's current projection.

## Summary Table 2

### Impacts of Measures and Revisions to Spending Levels on the Projected Level of Employment

	thousands				
	2013	2014	2015	2016	2017
<b>Economic Action Plan 2012</b>	-20	-39	-47	-49	-55
<b>Update of Projections 2012</b>	7	5	2	0	-1
<b>Economic Action Plan 2013</b>					
<i>Actions to support jobs and growth</i>	1	7	8	9	13
<i>Savings measures</i>	0	-3	-7	-10	-11
<i>Revisions to spending levels</i>	0	-3	-10	-12	-12
	1	1	-8	-14	-10
<b>Total</b>	-12	-33	-53	-62	-67

Source: Office of the Parliamentary Budget Officer.

Note: The estimated impacts on employment do not take into account any offsetting impacts from changes to interest and exchange rates. Impacts are expressed relative to PBO's current projection.

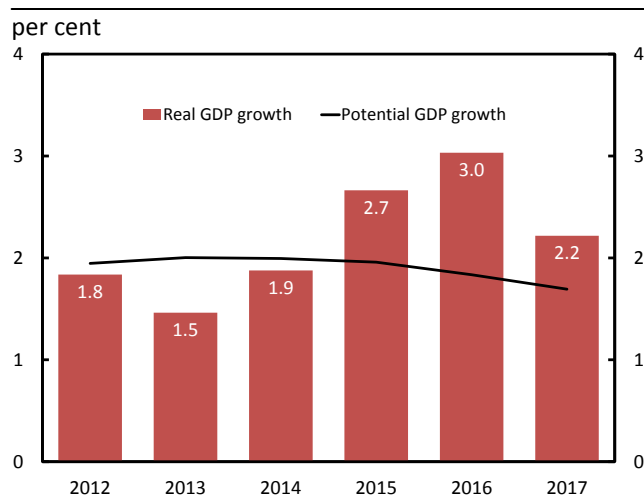
## PBO Economic Outlook

PBO projects real GDP growth in Canada to slow to 1.5 per cent in 2013 and remain below its potential growth rate until 2015 (Summary Figure 3). Combined with the sluggish recovery in the global economy, government spending restraint will act as an additional drag on growth and job creation. The projected weakness in growth keeps the economy well below its potential GDP through 2015 and as a result the unemployment rate remains relatively stable, averaging 7.3 per cent

over 2013 to 2015. Consequently, PBO expects the Bank of Canada to maintain its policy interest rate at 1 per cent until the second quarter of 2015 before gradually, but steadily, raising its policy rate. As the recovery takes hold, real GDP growth is projected to average 2.6 per cent over 2015 to 2017 and the unemployment rate is projected to decline gradually to 6.3 per cent in 2017.

**Summary Figure 3**

**Real GDP and Potential GDP Growth**



Sources: Office of the Parliamentary Budget Officer; Statistics Canada.

Compared to the average private sector forecasts in Finance Canada’s March 2013 survey (which helped form the basis for economic planning assumptions in EAP 2013), PBO projects lower real GDP growth in 2013 and 2014 and lower GDP inflation in 2014 and 2015. Consequently, PBO judges that the balance of risks to the private sector forecast of the level of nominal GDP – the broadest measure of the Government’s tax base – is tilted to the downside. This likely reflects larger negative impacts from measures and revisions to spending levels since EAP 2012, as well as differences in views on commodity prices and their impacts on real GDP growth and GDP inflation.

However, based on its projection of nominal GDP, PBO judges that the downside risk to the private sector outlook for nominal GDP is broadly in line with the Government’s \$20 billion annual adjustment for risk. Over the period 2013 to 2017,

PBO’s nominal GDP projection is \$12 billion lower annually, on average, than the private sector forecast based on Finance Canada’s March 2013 survey (Summary Table 3). After accounting for the Government’s adjustment for risk, PBO’s projected nominal GDP is \$8 billion (0.4 per cent) higher annually, on average, than the EAP 2013 planning assumption for nominal GDP.

**Summary Table 3**

**Nominal GDP Projections**

	billions of dollars				
	2013	2014	2015	2016	2017
PBO April 2013	1,876	1,946	2,037	2,140	2,232
Finance Canada March 2013 survey	1,878	1,966	2,058	2,149	2,241
Economic Action Plan 2013	1,858	1,946	2,038	2,129	2,221

Sources: Office of the Parliamentary Budget Officer; Finance Canada.

**PBO Fiscal Outlook**

Despite the sluggish economic recovery, given projected increases in EI premium rates and assuming that the Government achieves its planned levels of direct program expenses and savings from revenue increases in EAP 2013, PBO projects that the budgetary balance will improve from a deficit of \$25.0 billion (1.4 per cent of GDP) in 2012-13 to a surplus of \$8.5 billion (0.4 per cent of GDP) in 2016-17 (Summary Table 4). PBO’s projected budgetary balance is \$2.5 billion higher, on average, than the balance projected in EAP 2013, reflecting higher projected revenues.

**Summary Table 4**

**Budgetary Balance Projections**

	billions of dollars					
	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018
PBO April 2013	-25.0	-17.4	-3.7	3.7	8.5	7.6
Economic Action Plan 2013	-25.9	-18.7	-6.6	0.8	3.9	5.1

Sources: Office of the Parliamentary Budget Officer; Finance Canada.

Assuming that the Government does not increase its spending above planned levels in EAP 2013 and achieves its savings from revenue increases, PBO

estimates that given the economic uncertainty surrounding the outlook, the likelihood of realizing budgetary balance or better is approximately 60 per cent, 70 per cent and 65 per cent in 2015-16, 2016-17 and 2017-18, respectively.

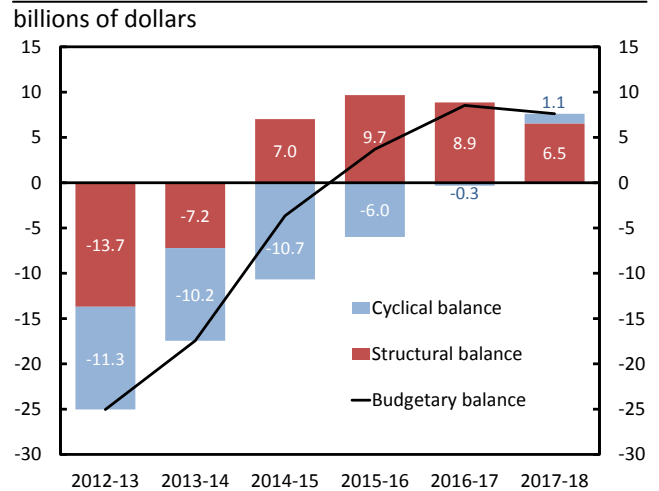
### Estimates of the Government’s Structural Budget Balance

The projected improvement in the budgetary balance over the medium term, from a deficit of \$25.0 billion in 2012-13 to a surplus of \$8.5 billion in 2016-17, is largely the result of a structural improvement in the Government’s financial position (Summary Figure 4). Assuming that the Government achieves its planned spending levels and continues to increase EI premium rates, ultimately to \$2.03 (per \$100 of insurable earnings) in 2016 to balance the EI Operating Account, PBO projects that the Government’s structural deficit will be eliminated by 2014-15, giving rise to a structural surplus of \$9.7 billion in 2015-16. The decrease in the structural balance over 2016-17 and 2017-18 reflects the reduction in the EI premium rate in 2017 (to \$1.62 per \$100 of insurable earnings).

In the absence of the savings generated by EAP 2013 (and the corresponding impacts on public debt charges), PBO projects that the structural balance would remain in surplus over the period 2014-15 to 2017-18, resulting in a structural surplus of \$2.2 billion in 2017-18.

Summary Figure 4

### PBO Estimates of Structural and Cyclical Balances

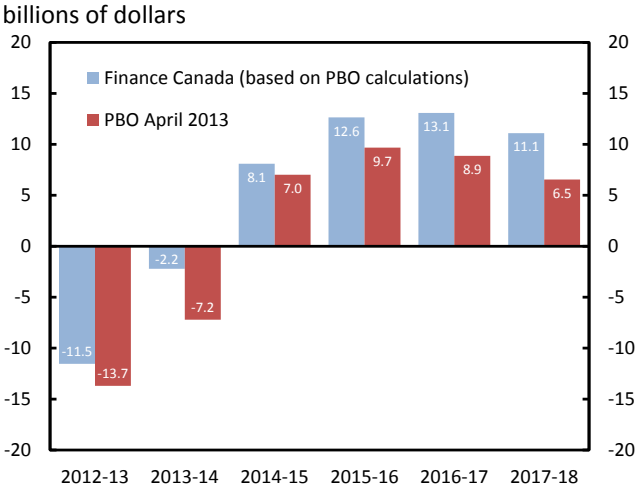


Source: Office of the Parliamentary Budget Officer.

Although the Government does not publish its own estimates of the structural balance over the planning horizon, PBO calculations – based on data from Finance Canada – indicate that PBO and Finance Canada estimates of the Government’s structural balance in 2012-13 are broadly similar. Finance Canada’s estimate (based on PBO calculations) indicates a structural deficit of \$11.5 billion and PBO’s estimate shows a structural deficit of \$13.7 billion in 2012-13 (Summary Figure 5). However, over the period 2013-14 to 2017-18, Finance Canada’s estimates of the structural balance are \$3.6 billion higher, on average, than PBO’s estimates. This difference is consistent with Finance Canada’s more optimistic outlook for potential GDP (based on PBO calculations).

**Summary Figure 5**

**Projections of the Government’s Structural Balance over the Medium Term**



Source: Office of the Parliamentary Budget Officer.

PBO believes that estimates and projections of structural balances provide useful information about a government’s underlying financial position and can be used to help guide policy actions. Parliamentarians would benefit further by receiving information regarding Finance Canada’s projections of the Government’s structural balance over the medium term, as well as Finance Canada’s methodology and assumptions used to construct its estimates and projections.



## 1 External Economic Outlook

Following the modest growth observed in 2012, global growth is expected to improve only marginally in 2013. Further, growth is expected to remain geographically uneven, with emerging and developing economies continuing to lead global growth against the backdrop of broadly weak performance among advanced economies. While some of the short-term risks related to the U.S. fiscal cliff and the euro area have diminished, risks remain elevated over the medium term.

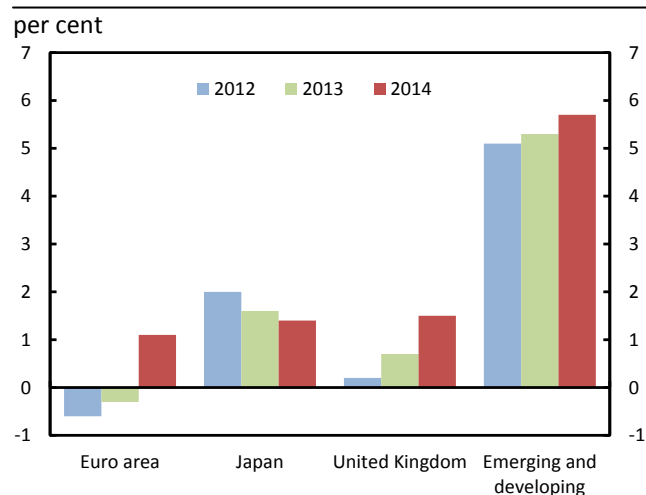
As noted in the April 2013 International Monetary Fund (IMF) World Economic Outlook, global prospects suffered setbacks in 2012 as growth weakened in the euro area and U.K. economies and activity in emerging and developing economies softened. While risks surrounding the sovereign debt crisis in the euro area have become less immediate, as concern over the breakup of the euro area has dissipated, persistent balance sheet repair and tight credit conditions have worked to restrain growth. Meanwhile, the Japanese economy experienced among the strongest growth within advanced economies in 2012, as it continued to rebuild from the devastating tsunami and earthquake of 2011.

Based on the IMF's current economic outlook, growth in the euro area economy "will generally remain subdued as improvements in private sector borrowing conditions are hampered by financial market fragmentation and ongoing balance sheet repair," but will improve gradually as the pace of fiscal consolidation eases (Figure 1-1). Further, continued fiscal retrenchment and the struggling euro area coupled with persistent deleveraging, tight credit conditions and economic uncertainty will work to restrain U.K. growth in the near term but should eventually ease going forward. Meanwhile, according to the IMF, the Japanese economy is expected to rebound from the larger-than-expected slowdown in the second half of 2012, as the positive effects of more expansionary macroeconomic policies, a weaker yen and stronger external demand take hold. Additionally, the IMF projects growth in emerging and

developing economies to edge higher in 2013, but to remain below rates observed prior to the 2009 recession, weighed down by weakness in advanced economies and less favourable macroeconomic conditions in the near term.

**Figure 1-1**

### IMF Real GDP Growth Projections



Source: IMF April 2013 World Economic Outlook.

According to the IMF, risks to the global economy have declined since October 2012, particularly in the short term, yet continue to tilt to the downside. In the short term, the risks remain concentrated in the euro area, with the crisis in Cyprus and political uncertainty in Italy, as well as continued vulnerability in the periphery. However, improvements in advanced economy financial sector conditions have been stronger than expected, and this could contribute to stronger-than-expected near-term real GDP growth if confidence is positively affected. Over the medium term, the IMF judges that "the key risks relate to adjustment fatigue, insufficient institutional reform, and prolonged stagnation in the euro area as well as high fiscal deficits and debt in the United States and Japan."

#### *U.S. Outlook*

The U.S. economy continued to face headwinds over the course of 2012 from the after-effects of the financial crisis and fiscal consolidation.

Temporary shocks also buffeted the economy (e.g., Hurricane Sandy) and, as noted by the IMF, uncertainty related to the fiscal cliff may have also played a role. Consequently, growth in U.S. real GDP during 2012 was tepid, with real GDP in the fourth quarter of 2012 increasing by 0.4 per cent, following an increase of 3.1 per cent in the third quarter of 2012. For 2012 overall, U.S. real GDP advanced by 2.2 per cent – the same rate as projected by PBO in its October 2012 Economic and Fiscal Outlook Update (EFOU) and only 0.1 percentage points higher than PBO projected in its April 2012 Economic and Fiscal Outlook (EFO).

More recent indicators, however, have pointed to an improvement in overall economic activity. In particular, U.S. employment continued to expand through the first quarter of 2013, increasing by over 500,000 net new jobs (an increase of 0.4 per cent), while the unemployment rate declined to 7.6 per cent in March 2013 – its lowest level in over 4 years. Retail trade and housing starts data have also suggested improving activity. However, according to the IMF, the automatic spending cuts that came into effect on March 1 (i.e., the “sequester”) could shave as much as 0.5 percentage points from growth in 2013.

Real GDP growth in the second half of 2012 was broadly in line with PBO’s expectation at the time of the October 2012 projection. Reflecting the recent improvement in activity, PBO has increased its outlook for U.S. growth in 2013 and 2014 to 2.0 per cent and 2.8 per cent, respectively (Table 1-1). The medium-term projection continues to assume that the U.S. Federal Reserve will maintain its policy interest rate at historic lows until the middle of 2015. This assumption is consistent with the March 20, 2013, U.S. Federal Open Market Committee’s statement that it “currently anticipates that this exceptionally low range for the federal funds rate will be appropriate at least as long as the unemployment rate remains above 6-½ percent, inflation between one and two years ahead is projected to be no more than a half percentage point above the Committee’s 2 percent longer-run goal, and longer-term inflation expectations continue to be well anchored.”

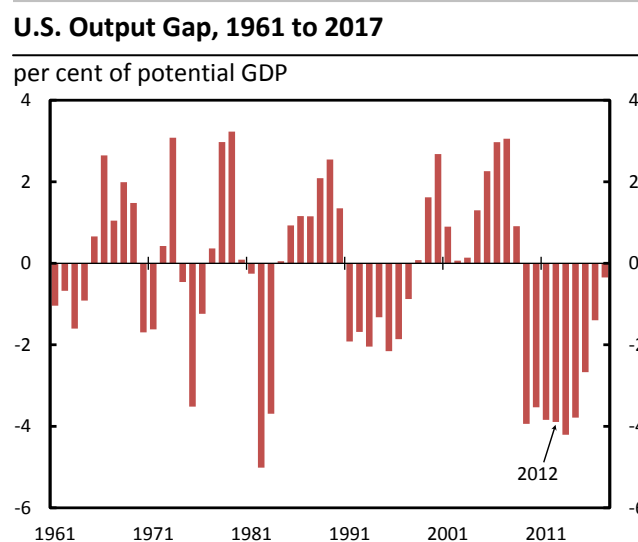
**Table 1-1**

U.S. Real GDP Growth Projection						
per cent	2012	2013	2014	2015	2016	2017
	October 2012 EFOU	2.2	1.8	2.7	3.5	3.6
April 2013 EFO	2.2	2.0	2.8	3.5	3.6	3.4

Sources: Office of the Parliamentary Budget Officer; Bureau of Economic Analysis.  
 Note: The 2012 value in the April 2013 EFO is the actual value.

Based on its updated growth outlook, PBO projects that the U.S. economy will remain below its potential GDP (i.e., maintain a negative output gap) over the medium term (Figure 1-2). The persistent and large output gap reflects the nature of the U.S. recovery, which has been characterized by continued balance sheet repair, persistently high unemployment, and fiscal consolidation.

**Figure 1-2**



Sources: Office of the Parliamentary Budget Officer; Bureau of Economic Analysis.

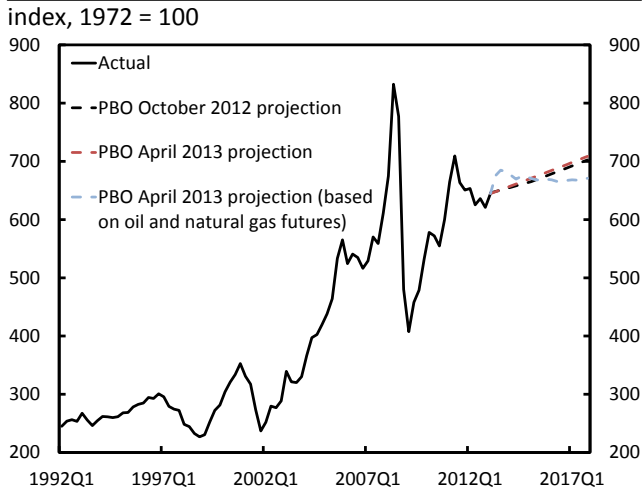
**Commodity Price Outlook**

Based on the Bank of Canada’s commodity price index, prices for both energy and non-energy commodities declined modestly in the second half of 2012, continuing a trend observed since the second half of 2011. The energy price declines at the end of 2012 were, however, only slightly

weaker than PBO projected in its October 2012 EFOU. With the external outlook unfolding broadly as expected and taking into consideration near-term futures prices, the PBO outlook for commodity prices is little changed from the October 2012 EFOU projection, although it remains (on average) above levels implied by oil and natural gas futures prices, which the Bank of Canada uses to prepare its projection (Figure 1-3). Projected average annual growth in the commodity price index is also larger than that presented in EAP 2013. Annex A provides a detailed description of PBO’s approach to projecting the Bank of Canada’s energy commodity price index.

**Figure 1-3**

**Commodity Price Projection, 1992Q1 to 2017Q4**



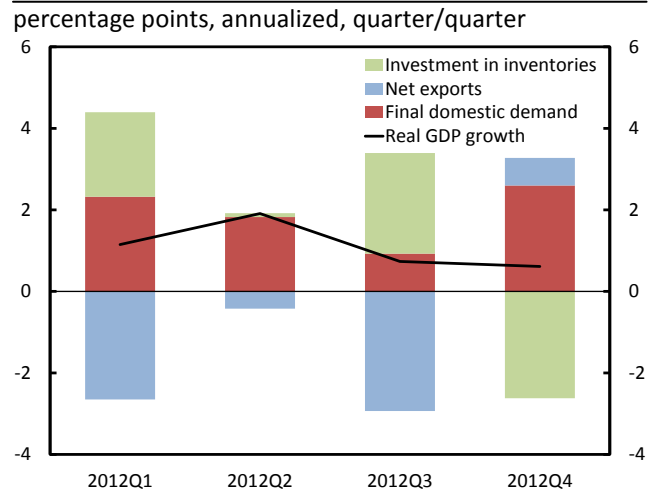
Sources: Office of the Parliamentary Budget Officer; Bank of Canada.

**2 Canadian Economic Outlook**

Real GDP growth in Canada moderated through 2012 from its strong pace in the second half of 2011 as a result of weakening export growth (Figure 2-1). However, growth in final domestic demand remained solid, contributing 1.9 percentage points, on average, to real GDP growth over the course of the year. On an annual basis, real GDP advanced by 1.8 per cent in 2012, significantly lower than the 2.6 per cent increase observed in 2011.

**Figure 2-1**

**Contributions to Real GDP Growth in 2012**



Sources: Statistics Canada; Office of the Parliamentary Budget Officer.

Real GDP growth of 1.8 per cent in 2012 was only marginally lower (0.1 percentage points) than PBO projected at the time of the October 2012 EFOU. This primarily reflected lower-than-expected growth in the second half of 2012, which was offset somewhat by an upward revision to growth in the second half of 2011.<sup>3</sup> In contrast, GDP inflation of 1.3 per cent in 2012 was higher than the 1.1 per cent projected in the October 2012 EFOU. As a result, nominal GDP growth in 2012 (3.1 per cent) was slightly higher than the 3.0 per cent projected in the October 2012 EFOU and the 2012 annual level of nominal GDP was \$1.6 billion higher than projected.<sup>4</sup>

Compared to the actual outcome of real GDP growth in 2012, PBO’s projection one year earlier in the April 2012 EFO (of 1.9 per cent) was only slightly optimistic (0.1 percentage points higher) and was more accurate compared to other projections made at approximately the same time (Figure 2-2).<sup>5</sup> For instance, the average private

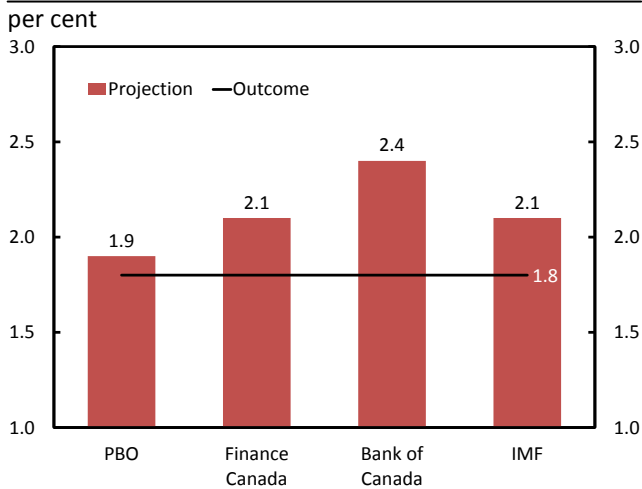
<sup>3</sup> Growth in the second half of 2012 was 1.0 per cent compared to the 1.6 per cent projected by PBO in its October 2012 EFOU.

<sup>4</sup> Growth rates refer to those published in the October 2012 EFOU, while the level of nominal GDP in the October 2012 EFOU has been adjusted to reflect revisions to Canada’s System of National Accounts to put it on a comparable basis.

<sup>5</sup> The 2012 projections reflect the Canadian System of National Accounts 1997 (CSNA97), while the outcome reflects the Canadian

sector forecast in Finance Canada’s survey and the IMF projection were each 0.3 percentage points higher than the actual outcome while the Bank of Canada projection was 0.6 percentage points higher than the actual outcome.

**Figure 2-2**  
**Comparison of 2012 Real GDP Growth Projections**



Sources: Office of the Parliamentary Budget Officer (April 2012 Economic and Fiscal Outlook); Finance Canada (March 2012 Economic Action Plan); Bank of Canada (April 2012 Monetary Policy Report); International Monetary Fund (April 2012 World Economic Outlook).

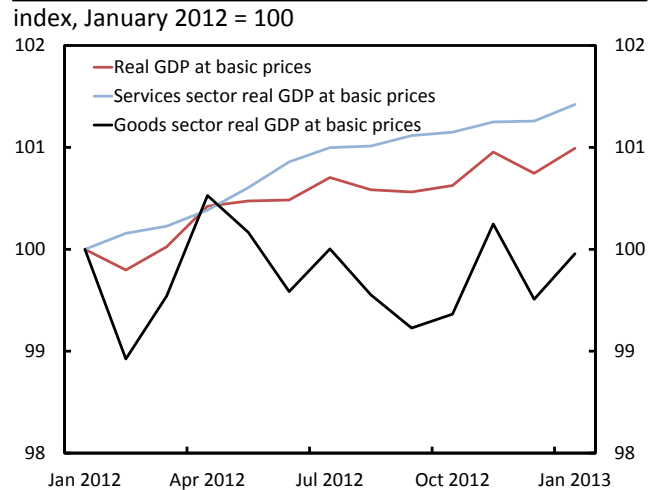
**Recent Economic Indicators**

On balance, recent economic indicators suggest that real GDP growth in the first quarter of 2013 will improve, growing in line with PBO’s estimate of potential growth of 1.8 per cent.

Monthly advances in real GDP at basic prices largely stalled in the second half of 2012, leaving the level of production in January 2013 only 1.0 per cent above its level from one year ago as the result of a 1.4 per cent increase in the output of services-producing sectors offset by unchanged output in goods-producing sectors (Figure 2-3). Further, while 12 of 15 major service-producing sectors have increased real output since January 2012, only construction and utilities have increased real

output among the 5 major goods-producing sectors, although the weakness in mining, quarrying, and oil and gas extraction was in part the result of temporary factors in the second half of 2012.

**Figure 2-3**  
**Monthly Real GDP at Basic Prices by Sector, January 2012 to January 2013**



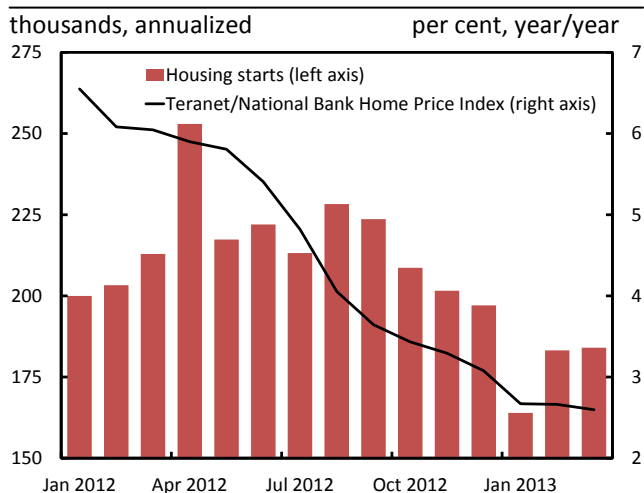
Sources: Statistics Canada; Office of the Parliamentary Budget Officer.

Activity in the housing sector has moderated since the third quarter of 2012. According to Canada Mortgage and Housing Corporation, housing starts in March 2013 were down by 39,600 units (annualized), or 17.7 per cent, from their September 2012 levels (Figure 2-4). This decline was driven by a 38,300 drop in multiple unit starts. Further, the Canadian Real Estate Association reports that sales activity in March 2013 was 15.3 per cent below year-ago levels, with transactions down from year-ago levels in more than 90 per cent of all local markets. On a year-over-year basis, increases in existing home prices have also tapered off significantly over the course of the year, slowing to 2.6 per cent in March 2013.

System of National Accounts 2012 (CSNA12). Over the period 1982 to 2011, the average (absolute) difference in annual real GDP growth rates between CSNA97 and CSNA12 is 0.1 percentage points.

**Figure 2-4**

**Housing Starts and Increases in Existing Home Prices, January 2012 to March 2013**



Sources: Canada Housing and Mortgage Corporation; Teranet/National Bank.

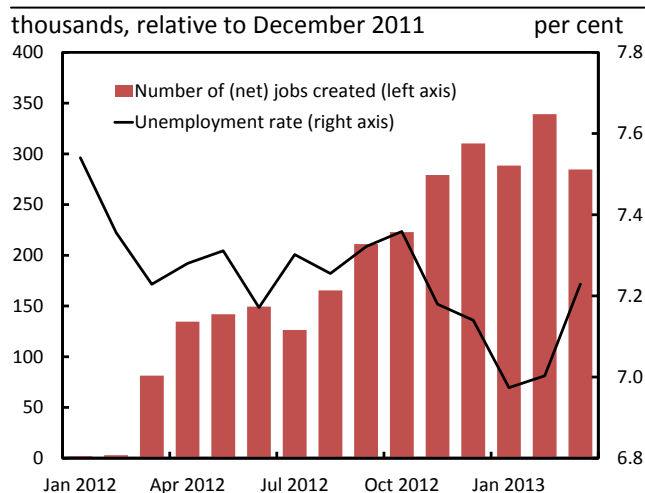
Note: The Teranet/National Bank Home Price Index is the Composite 11 index (not seasonally adjusted).

Despite sluggish real GDP growth through 2012, 161,000 net new jobs were created in the second half of 2012 (Figure 2-5). However, since December 2012, roughly 26,000 net jobs have been lost in the first three months of 2013. These recent losses have largely been in full-time employment and among private employees. As a result of the net job losses, the unemployment rate has ticked up from a low of 7.0 per cent in January to 7.2 per cent in March.

After taking account of the weakness in employment in the first quarter of 2013, PBO estimates that employment in Canada is 0.1 per cent, or approximately 23,000 jobs, below its potential, or trend, level in the first quarter of 2013 (Figure 2-6).

**Figure 2-5**

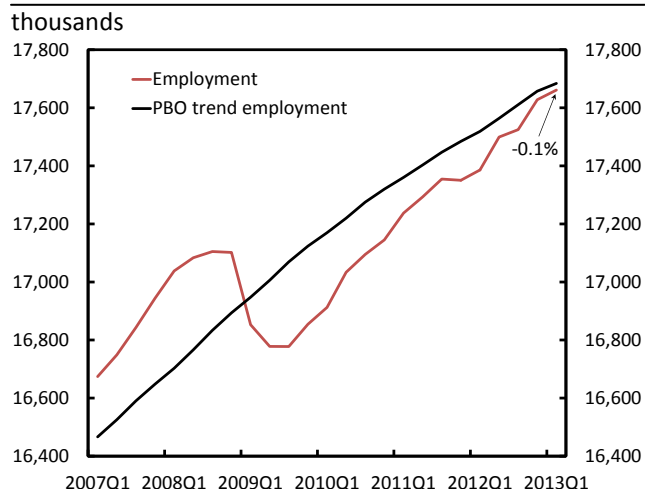
**Employment Gains and the Unemployment Rate, January 2012 to March 2013**



Sources: Statistics Canada; Office of the Parliamentary Budget Officer.

**Figure 2-6**

**Employment, 2007Q1 to 2013Q1**



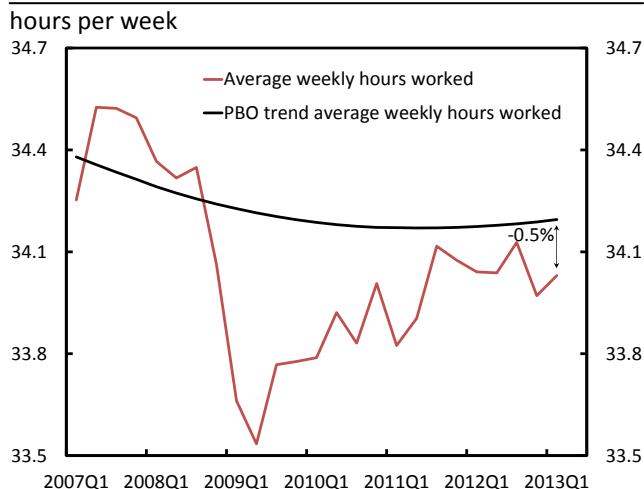
Sources: Office of the Parliamentary Budget Officer; Statistics Canada.

It is also informative to examine average working hours (per employee) since it, combined with employment, determines the total labour input into the production process. PBO estimates that average weekly hours worked continued to be below trend by about 0.5 per cent in the first quarter of 2013 (Figure 2-7). As a consequence of employment and average weekly hours remaining

below trend, total labour input was about 0.6 per cent below its trend level.

**Figure 2-7**

**Average Hours Worked, 2007Q1 to 2013Q1**



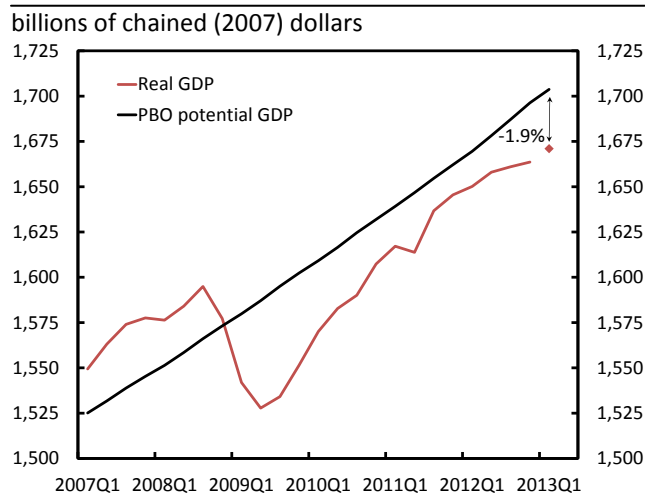
Sources: Office of the Parliamentary Budget Officer; Statistics Canada.

Based on recent monthly indicators, PBO expects real GDP growth to improve from 0.6 per cent (fourth quarter of 2012) to 1.8 per cent in the first quarter of the year. This improvement largely reflects stronger growth in exports and reduced drag from inventory investment. However, due in part to the sluggish economic growth observed in the second half of 2012, PBO estimates that the Canadian economy is currently 1.9 per cent below its level of potential GDP (Figure 2-8). This output gap of 1.9 per cent reflects contributions of 0.6 percentage points from total hours worked and 1.3 percentage points from labour productivity being below their respective trend levels.

Further, since the onset of the recovery in late 2009, economic growth has only modestly outpaced its potential growth rate and, as a result, the output gap has gradually narrowed, with approximately half of the gap being eliminated over the course of three and a half years. Consistent with the level of real GDP being below potential, consumer price index (CPI) inflation has remained below its 2 per cent target since April 2012, although it has generally remained within the target range of 1 to 3 per cent (Figure 2-9).

**Figure 2-8**

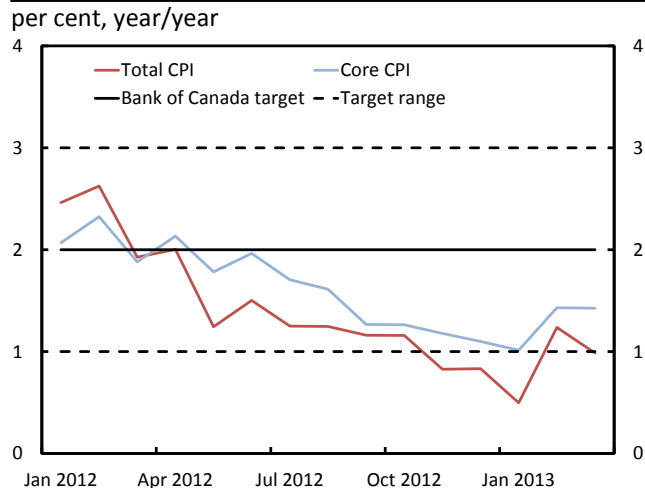
**Real GDP, 2007Q1 to 2013Q1**



Sources: Office of the Parliamentary Budget Officer; Statistics Canada.  
 Note: The estimate for real GDP in the first quarter of 2013 is based on growth of 1.8 per cent.

**Figure 2-9**

**Total and Core Consumer Price Index (CPI) Inflation, January 2012 to March 2013**



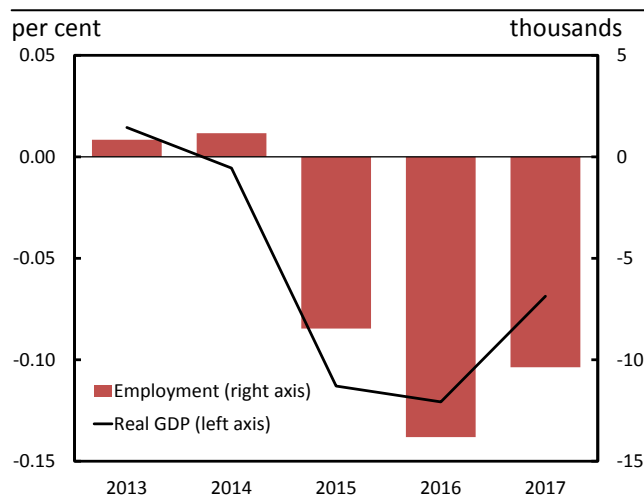
Sources: Statistics Canada; Bank of Canada.  
 Note: The core CPI index excludes eight of the most volatile components (fruit, vegetables, gasoline, fuel oil, natural gas, mortgage interest, inter-city transportation and tobacco products) as well as the effect of changes in indirect taxes on the remaining components.

## Medium-term Outlook for the Canadian Economy

In addition to a broadly unchanged external outlook, the PBO projection for the Canadian economy has been updated to reflect the impact of measures and revisions in EAP 2013. EAP 2013 includes both stimulative measures (i.e., “actions to support jobs and growth”) and savings measures (i.e., spending reductions and revenue increases). Further, EAP 2013 includes downward revisions to direct program spending levels that would also impact the economy.<sup>6</sup> Over the period 2013 to 2017, PBO estimates that the net impact of EAP 2013 measures and revisions to spending levels on real GDP and employment is contractionary (Figure 2-10).<sup>7</sup>

**Figure 2-10**

### Economic Impacts of EAP 2013 Measures and Revisions to Spending Levels



Source: Office of the Parliamentary Budget Officer.

Note: The estimated impacts on real GDP and employment do not take into account offsetting impacts from changes to interest and exchange rates. Impacts are expressed relative to PBO's current projection.

<sup>6</sup> EAP 2013 indicates the sources underlying revisions to direct program spending levels, which amount to a reduction of \$9.1 billion over 2013-14 to 2017-18. Given the uncertainty surrounding the potential economic impacts of some of these sources, PBO has assumed that half of the reduction in spending levels (\$4.55 billion) would not flow through to the economy.

<sup>7</sup> For additional background on the PBO methodology for estimating the economic impacts of fiscal policy measures, see Annex A in the April 2012 EFO available at: [http://www.pbo-dpb.gc.ca/files/files/Publications/EFO\\_April\\_2012.pdf](http://www.pbo-dpb.gc.ca/files/files/Publications/EFO_April_2012.pdf).

More specifically, while measures in both the 2012 Update of Economic and Fiscal Projections (UEFP) and EAP 2013 have a net positive impact on the level of real GDP and employment in 2013, this is more than offset by the net negative impact of measures in EAP 2012 (Table 2-1 and Table 2-2). Over the period 2014 to 2017, measures in both EAP 2012 and EAP 2013 have a net negative impact on real GDP and employment.

**Table 2-1**

### Impact on the Projected Level of Real GDP of Measures and Revisions since EAP 2012

per cent	2013	2014	2015	2016	2017
<b>Economic Action Plan 2012</b>	-0.27	-0.36	-0.39	-0.41	-0.49
<b>Update of Projections 2012</b>	0.08	0.03	0.00	-0.01	-0.02
<b>Economic Action Plan 2013</b>					
<i>Actions to support jobs and growth</i>	0.02	0.08	0.06	0.08	0.13
<i>Savings measures</i>	-0.01	-0.04	-0.07	-0.10	-0.10
<i>Revisions to spending levels</i>	0.00	-0.05	-0.11	-0.11	-0.09
	0.01	-0.01	-0.11	-0.12	-0.07
<b>Total</b>	-0.18	-0.34	-0.50	-0.54	-0.57

Source: Office of the Parliamentary Budget Officer.

Note: The estimated impacts on real GDP do not take into account any offsetting impacts from changes to interest and exchange rates. Impacts are expressed relative to PBO's current projection.

**Table 2-2**

### Impact on the Projected Level of Employment of Measures and Revisions since EAP 2012

thousands	2013	2014	2015	2016	2017
<b>Economic Action Plan 2012</b>	-20	-39	-47	-49	-55
<b>Update of Projections 2012</b>	7	5	2	0	-1
<b>Economic Action Plan 2013</b>					
<i>Actions to support jobs and growth</i>	1	7	8	9	13
<i>Savings measures</i>	0	-3	-7	-10	-11
<i>Revisions to spending levels</i>	0	-3	-10	-12	-12
	1	1	-8	-14	-10
<b>Total</b>	-12	-33	-53	-62	-67

Source: Office of the Parliamentary Budget Officer.

Note: The estimated impacts on employment do not take into account any offsetting impacts from changes to interest and exchange rates. Impacts are expressed relative to PBO's current projection.

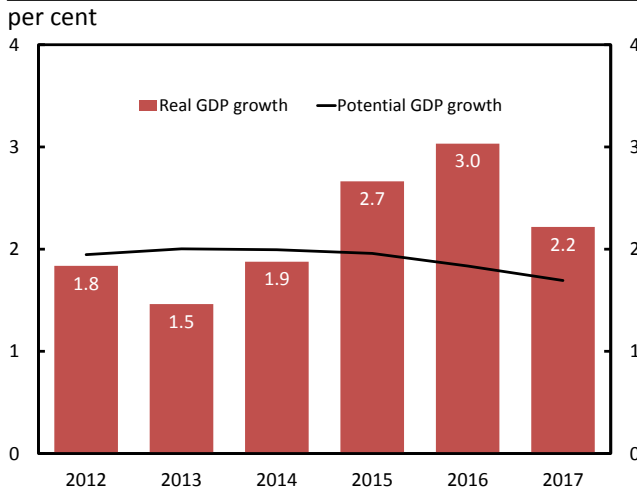
PBO’s estimate of the overall employment impact – amounting to a reduction of 67,000 jobs in 2017 – does not mean that PBO expects that, going forward, there will be a decline of 67,000 jobs from the current level of employment (17.6 million jobs as of March 2013). Rather, it means that, in the absence of these measures and revisions to spending levels, projected employment would be higher by 67,000 jobs, all else being equal.

*Economic Outlook*

PBO projects real GDP growth in Canada to slow to 1.5 per cent in 2013 and remain below its potential growth rate until 2015 (Figure 2-11). Combined with the sluggish recovery in the global economy, government spending reductions and restraint will act as an additional drag on economic growth and job creation going forward.

**Figure 2-11**

**Real GDP and Potential GDP Growth**

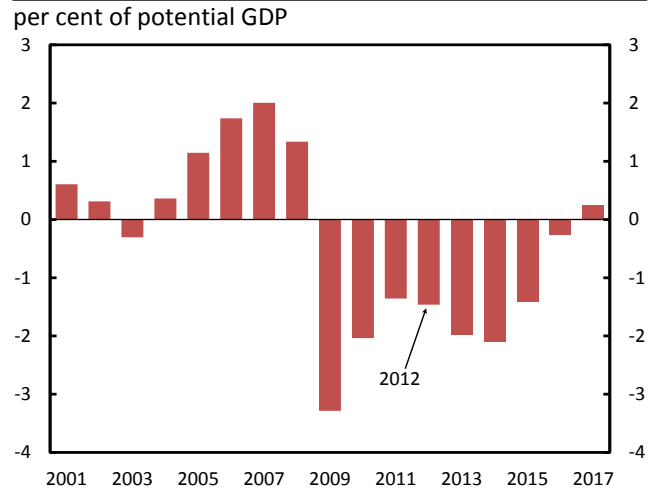


Sources: Office of the Parliamentary Budget Officer; Statistics Canada.

The measures and revisions to spending levels since EAP 2012 push the economy further away from its potential GDP and delay the economic recovery (Figure 2-12). PBO projects the economy to fully recover (i.e., return to its potential GDP) by the end of 2016. Over the period 2013 to 2016, the output gap represents approximately \$100 billion in unrealized production (adjusted for inflation).

**Figure 2-12**

**Output Gap, 2001 to 2017**



Sources: Office of the Parliamentary Budget Officer; Statistics Canada.

PBO’s current projection of real GDP growth in 2013 is similar to its October 2012 projection (Table 2-3). This reflects the weaker-than-expected growth in the second half of 2012 and continued government spending reductions and restraint, which are offset by a slightly more favourable external outlook. Modestly weaker growth projected in 2014 and 2015 reflects the contractionary impacts of EAP 2013 measures and revisions. Over the remainder of the projection horizon, PBO’s real GDP growth projection is essentially unchanged from the October 2012 EFOU. Annex B provides a summary table of PBO’s current economic projections and comparison to the October 2012 EFOU projections.

**Table 2-3**

**Real GDP Growth Projection**

per cent	2012	2013	2014	2015	2016	2017
	October 2012 EFOU	1.9	1.5	2.0	2.9	3.0
April 2013 EFO	1.8	1.5	1.9	2.7	3.0	2.2

Sources: Office of the Parliamentary Budget Officer; Statistics Canada.  
 Note: The 2012 value in the April 2013 EFO is the actual value.



Despite the downward revision to real GDP growth in 2014 and 2015 due to the impact of EAP 2013, the upward revision to GDP inflation in 2013 (due to higher commodity prices) results in projected levels of nominal GDP that are, once adjusted for historical revisions, essentially unchanged from the projected levels in the October 2012 EFOU (Table 2-4).

**Table 2-4****Nominal GDP Projection**

billions of dollars	2012	2013	2014	2015	2016	2017
	October 2012 EFOU	1,816	1,870	1,941	2,035	2,139
April 2013 EFO	1,818	1,876	1,946	2,037	2,140	2,232

Sources: Office of the Parliamentary Budget Officer; Statistics Canada.

Note: The 2012 value in the April 2013 EFO is the actual value. The October 2012 EFOU projection has been adjusted for historical revisions.

As a result of the sluggish recovery, the unemployment rate is projected to decline gradually from 7.3 per cent in 2013 to 6.3 per cent in 2017 (Table 2-5). The PBO projection for the unemployment rate has been revised down from the October 2012 EFOU, reflecting lower-than-expected unemployment rates at the end of 2012 and the first quarter of 2013, as well as downward revisions to its trend estimate.

**Table 2-5****Unemployment Rate Projection**

per cent	2012	2013	2014	2015	2016	2017
	October 2012 EFOU	7.3	7.6	7.6	7.3	6.8
April 2013 EFO	7.3	7.3	7.4	7.1	6.6	6.3

Sources: Office of the Parliamentary Budget Officer; Statistics Canada.

Note: The 2012 value in the April 2013 EFO is the actual value.

Owing to the sluggish pace of the economic recovery, and given the firm anchoring of inflation expectations, PBO expects the Bank of Canada to maintain its policy interest rate at 1 per cent until the second quarter of 2015 before gradually, but steadily, raising its policy rate over the remainder of the projection. This projection is in line with the stated policy of the U.S. Federal Reserve and is nearly identical to the projection provided in the October 2012 EFOU (Table 2-6).

**Table 2-6****3-month Treasury Bill Rate Projection**

per cent	2012	2013	2014	2015	2016	2017
	October 2012 EFOU	1.0	1.0	1.0	1.4	2.8
April 2013 EFO	1.0	1.0	1.0	1.4	2.8	4.0

Sources: Office of the Parliamentary Budget Officer; Statistics Canada.

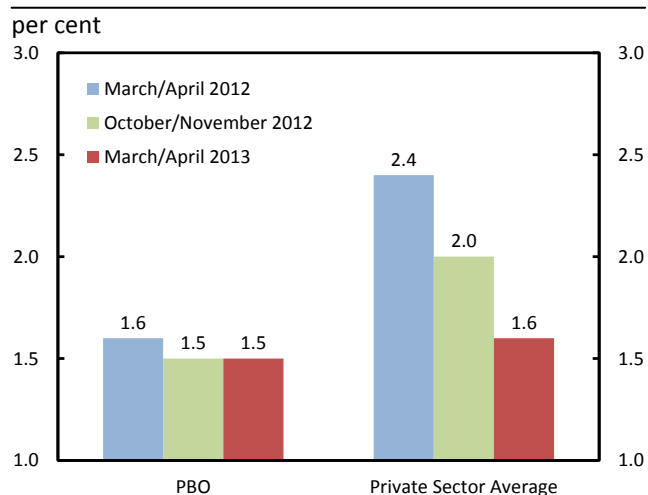
Note: The 2012 value in the April 2013 EFO is the actual value.

**Risks to the Private Sector Economic Outlook**

PBO's economic outlook incorporates its judgment of the balance of risks. As a result, it can be viewed as a "balanced" projection, which means that higher or lower outcomes are equally likely. Further, PBO uses its outlook to highlight what it believes are the key risks to the private sector economic outlook on which the Government's fiscal projections are based.

Since the release of PBO's October 2012 EFOU, private sector forecasters have generally revised down their outlook for real GDP growth in 2013, bringing the average forecast more into line with PBO's projection (Figure 2-13).<sup>8</sup>

<sup>8</sup> The Bank of Canada and IMF also recently revised down their projections of Canadian real GDP growth in 2013 to 1.5 per cent (see respectively, the April 2013 Monetary Policy Report and World Economic Outlook). In their April 2012 reports, the Bank of Canada and IMF projected Canadian real GDP growth in 2013 of 2.4 per cent and 2.2 per cent respectively.

**Figure 2-13****Evolution of 2013 Real GDP Growth Projections**

Sources: Office of the Parliamentary Budget Officer; Finance Canada.

Compared to the average private sector forecast in Finance Canada's March 2013 survey (reported in the 2013 EAP), PBO is projecting lower real GDP growth in 2013 and 2014 (Table 2-7) and lower GDP inflation in 2014 and 2015. Consequently, over the projection horizon, PBO's outlook for nominal GDP – the broadest measure of the Government's tax base – is lower, by \$12 billion annually, on average, than the projection based on private sector forecasts (Table 2-8).<sup>9</sup> Annex C provides a comparison table of PBO's projections and the average private sector economic forecasts from EAP 2013.

<sup>9</sup> The private sector outlook for nominal GDP based on the average of private sector forecasts of real GDP growth and GDP inflation published in March is higher than the EAP 2013 fiscal planning assumption for nominal GDP, which adjusted downward the March private sector outlook by \$20 billion annually over the period 2013 to 2017.

**Table 2-7****Real GDP Growth Projections**

per cent	2013	2014	2015	2016	2017
PBO April 2013	1.5	1.9	2.7	3.0	2.2
Finance Canada March 2013 survey	1.6	2.5	2.6	2.4	2.3

Sources: Office of the Parliamentary Budget Officer; Finance Canada.

**Table 2-8****Nominal GDP Projections**

billions of dollars	2013	2014	2015	2016	2017
PBO April 2013	1,876	1,946	2,037	2,140	2,232
Finance Canada March 2013 survey	1,878	1,966	2,058	2,149	2,241
Economic Action Plan 2013	1,858	1,946	2,038	2,129	2,221

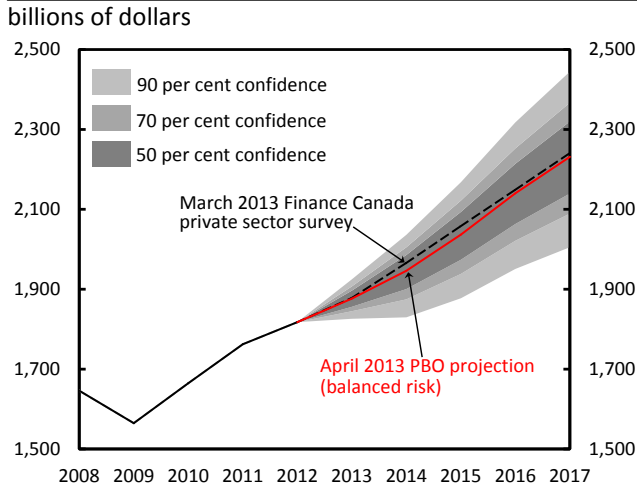
Sources: Office of the Parliamentary Budget Officer; Finance Canada.

PBO judges that the balance of risks to the average private sector forecast for nominal GDP is tilted to the downside, reflecting both weaker real GDP growth and GDP inflation. This likely reflects larger negative impacts from savings measures and revisions to spending levels since EAP 2012, as well as differences in views on commodity prices and their impacts on real GDP growth and GDP inflation. This being said, PBO views the average private sector outlook as being subject to less downside risk than was the case for EAP 2012.

To illustrate the uncertainty and balance of risks to the private sector forecast of nominal GDP in Finance Canada's March 2013 survey, PBO constructed a fan chart based on the historical forecast performance of Finance Canada's survey of private sector forecasters since 1994 (Figure 2-14).

**Figure 2-14**

**Nominal GDP Projections**



Sources: Office of the Parliamentary Budget Officer; Finance Canada; Statistics Canada.

Based on its projection of nominal GDP, PBO judges that the downside risk to the private sector outlook for nominal GDP is broadly in line with the Government’s \$20 billion annual adjustment for risk. Over the period 2013 to 2017, PBO’s nominal GDP projection is \$12 billion lower annually, on average, than the private sector forecast based on Finance Canada’s March 2013 survey. After accounting for the Government’s adjustment for risk, PBO’s projected nominal GDP is \$8 billion (0.4 per cent) higher annually, on average, than the EAP 2013 planning assumption for nominal GDP.

**3 Fiscal Outlook**

PBO’s fiscal projections have been updated for the revised economic outlook and for measures announced in the 2012 Update of Economic and Fiscal Projections and Economic Action Plan 2013.<sup>10</sup> Measures in EAP 2013 were targeted at “supporting jobs and growth” (\$6.9 billion over 2012-13 to 2017-18) and at returning the budget to balance (\$8.4 billion in savings over 2012-13 to

<sup>10</sup> Given that PBO’s 2012 EFOU was published before the release of the 2012 Update of Economic and Fiscal Projections, measures contained in the 2012 UEFP were not incorporated into PBO’s October 2012 fiscal projection.

2017-18). Moreover, relative to the 2012 UEFP, EAP 2013 included additional savings resulting from revisions to direct program expense levels (\$7.8 billion over 2012-13 to 2017-18). All told, since PBO’s October 2012 EFOU, the net fiscal impact of measures and revisions over 2012-13 to 2017-18 amounts to a projected savings of \$10.7 billion (Table 3-1).<sup>11</sup> Further, these savings are in addition to the savings generated from spending reductions and restraint announced in EAP 2012, which amounted to \$20.8 billion (after accounting for measures to increase spending) over 2012-13 to 2016-17. Annex D provides a more detailed breakdown of the fiscal impacts of these measures and revisions.

**Table 3-1**

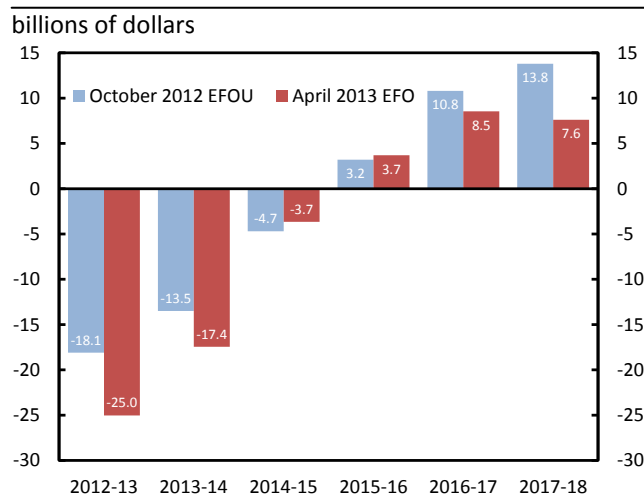
**Fiscal Impact of Measures and Revisions to Spending Levels since EAP 2012**

billions of dollars	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018
	<b>Economic Action Plan 2012 Update of Projections 2012</b>	2.7	3.4	4.0	4.1	6.7
<b>Economic Action Plan 2013</b>	-1.1	0.0	0.0	0.0	0.2	0.2
<i>Actions to support jobs and growth</i>	-0.1	-0.9	-0.9	-1.2	-2.0	-1.7
<i>Savings measures</i>	0.0	0.5	1.6	2.0	2.1	2.3
<i>Revisions to spending levels</i>	-1.3	0.1	2.5	2.4	2.0	2.1
<b>Total fiscal impact</b>	0.3	3.1	7.1	7.2	9.0	11.5

Sources: Office of the Parliamentary Budget Officer; Finance Canada.  
 Note: A positive value indicates a reduction in spending and an improvement in the budgetary balance. A negative value indicates an increase in spending and a deterioration in the budgetary balance. EAP 2012 and UEFP 2012 measures in 2017-18 are based on PBO assumptions.

Based on PBO’s current economic outlook and measures and revisions from the 2012 UEFP and EAP 2013, PBO projects a significant improvement in the Government’s budgetary balance over the medium term (Annex E provides a detailed summary of PBO’s fiscal outlook). PBO projects a budgetary deficit of \$25.0 billion in 2012-13 which improves over the projection horizon, resulting in a budgetary surplus of \$7.6 billion in 2017-18 (Figure 3-1).

<sup>11</sup> PBO estimates that the (net) fiscal impact of measures in the UEFP 2012 amounted to \$0.7 billion over 2012-13 to 2017-18.

**Figure 3-1****Budgetary Balance Projections**

Source: Office of the Parliamentary Budget Officer.

Relative to the October 2012 EFOU, the budget deficit in 2012-13 is expected to be \$6.9 billion larger. This significant revision reflects \$1.1 billion in UEPF 2012 measures (related to Veterans Affairs' disability benefits), \$2.4 billion in expenses related to Atomic Energy of Canada Limited's environmental liability and lower-than-expected "other" revenues (-\$3.4 billion). Over the remainder of the projection horizon (2013-14 to 2017-18) the budgetary balance has been revised down by \$2.2 billion annually, on average, as a result of lower projected Employment Insurance (EI) premium revenues<sup>12</sup> and "other" revenues.<sup>13</sup> The downward revision to projected revenues over 2013-14 to 2017-18 (\$3.7 billion annually, on average) has been partly offset by downward revisions to major transfers to persons (\$2.2 billion annually, on average), reflecting lower projected unemployment and inflation. A more detailed comparison of PBO's October 2012 EFOU fiscal

<sup>12</sup> The downward revision to EI premium revenues primarily reflects a lower EI contribution rate in 2017.

<sup>13</sup> The downward revision to the projection of "other" revenues reflects a change to PBO's assumption regarding its growth over the medium term. Beyond 2012-13, PBO has assumed that other revenues grow in line with nominal GDP. As a result, the share of other revenues in nominal GDP is projected to remain stable and close to its average share observed over the past 10 years. This change primarily affects the projection of other revenues over 2013-14 to 2016-17. The projected level of other revenues in 2017-18 is only \$0.2 billion higher compared to the October 2012 EFOU.

projection and its current fiscal projection is provided in Annex F.

Relative to the size of the economy, PBO projects the budgetary balance to improve from a deficit of 1.4 per cent of GDP in 2012-13 to a surplus of 0.3 per cent of GDP in 2017-18 (Table 3-2). Combined with growth in nominal GDP, this improvement reduces the federal debt-to-GDP ratio from 33.4 per cent in 2012-13 to 27.3 per cent in 2017-18. The projected federal debt ratio of 27.3 per cent of GDP in 2017-18 would be the lowest federal debt ratio since 1979-80.

**Table 3-2****Summary of Fiscal Projections**

billions of dollars

	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018
<b>Budgetary revenues</b>	255.3	266.5	281.9	297.2	312.4	322.5
Program expenses	250.8	253.9	256.6	262.9	270.0	277.8
Public debt charges	29.6	30.1	29.0	30.6	33.9	37.1
<b>Total expenses</b>	280.4	284.0	285.6	293.5	303.9	314.9
<b>Budgetary balance</b>	-25.0	-17.4	-3.7	3.7	8.5	7.6
Federal debt	607.9	625.4	629.0	625.3	616.8	609.2
<b>Per cent of GDP</b>						
Budgetary revenues	14.0	14.2	14.5	14.6	14.6	14.5
Program expenses	13.8	13.5	13.2	12.9	12.6	12.4
Public debt charges	1.6	1.6	1.5	1.5	1.6	1.7
Budgetary balance	-1.4	-0.9	-0.2	0.2	0.4	0.3
Federal debt	33.4	33.3	32.3	30.7	28.8	27.3

Source: Office of the Parliamentary Budget Officer.

**Outlook for Budgetary Revenues**

As the pace of the economic recovery gains momentum, budgetary revenues are projected to outpace growth in nominal GDP. This reflects a cyclical rebound in revenues as well as increases in EI premium rates – from \$1.83 (per \$100 of insurable earnings) in 2012 to \$2.03 in 2016 – that are required to eliminate the cumulative deficit in the EI Operating Account.

Budgetary revenues are projected to increase 26.3 per cent between 2012-13 and 2017-18 (4.8 per cent average annual growth), rising from 14.0 per cent of GDP in 2012-13 to 14.6 per cent of GDP in 2016-17 (Table 3-3). Growth is driven by

personal income tax revenues, averaging 5.8 per cent over the projection, compared to 4.3 per cent growth in the personal income tax base (reflecting the progressivity of personal income tax thresholds).

**Table 3-3****Outlook for Budgetary Revenues**

billions of dollars						
	2012- 2013	2013- 2014	2014- 2015	2015- 2016	2016- 2017	2017- 2018
<b>Income taxes</b>						
Personal income tax	126.6	135.0	143.3	151.6	160.3	167.9
Corporate income tax	33.3	32.4	34.1	35.7	38.4	41.3
Non-resident income tax	5.2	5.5	6.0	6.4	6.8	7.2
Total income tax	165.0	172.8	183.4	193.8	205.5	216.3
<b>Excise taxes/duties</b>						
Goods and Services Tax	29.2	30.5	32.6	34.1	35.7	37.1
Custom import duties	4.0	4.1	4.5	5.0	5.2	5.4
Other excise taxes/duties	11.2	10.9	10.8	10.7	10.7	10.7
Total excise taxes/duties	44.4	45.6	47.9	49.7	51.5	53.1
EI premium revenues	20.0	21.4	23.0	24.7	24.9	21.4
Other revenues	25.8	26.7	27.7	29.0	30.4	31.7
<b>Total budgetary revenues</b>	<b>255.3</b>	<b>266.5</b>	<b>281.9</b>	<b>297.2</b>	<b>312.4</b>	<b>322.5</b>

Source: Office of the Parliamentary Budget Officer.

The moderation in the growth in budgetary revenues in 2016-17 and 2017-18 reflects a reduction in the EI premium rate in 2017 (set on a calendar year basis). Lower-than-expected EI benefits in 2012-13 and lower projected unemployment beyond 2013-14 return the EI Operating Account cumulative balance to surplus one year earlier than projected in EFOU 2012, which in turn brings forward the reduction in EI premium rates that occurs when the Canada Employment Insurance Commission (CEIC) passes the rate setting authority back to a re-established Canadian Employment Insurance Finance Board (CEIFB) which then implements the new rate-setting regime implemented by Bill C-45 in 2012. The reinstated CEIFB will set the rate such that projected seven-year revenues and expenses are equal (i.e., the EI Operating Account is balanced over a seven-year horizon). PBO projects that the EI Operating Account will realize a small surplus (\$0.2 billion) in 2016, which allows a reduction in the premium rate from \$2.03 per \$100 of insurable earnings in 2016 to \$1.62 per \$100 of insurable

earnings in 2017 (Table 3-4). The reduction in the premium rate reduces budgetary revenues by \$6.2 billion in 2017-18 (against a 2016 premium rate benchmark), leading to a declining budgetary surplus in the final year of the projection, whereas the October 2012 EFOU projection showed an increasing surplus.

**Table 3-4****Outlook for Employment Insurance Premium Rates**

	2012	2013	2014	2015	2016	2017
<b>EI premium rates (dollars per \$100 of insurable earnings)</b>						
October 2012 EFOU	1.83	1.88	1.93	1.98	2.03	2.08
April 2013 EFO	1.83	1.88	1.93	1.98	2.03	1.62
<i>difference</i>	0.00	0.00	0.00	0.00	0.00	-0.46
<b>EI Operating Account cumulative balance (billions of dollars)</b>						
October 2012 EFOU	-9.2	-10.2	-10.3	-8.9	-5.4	-0.2
April 2013 EFO	-8.1	-7.6	-6.7	-4.3	0.2	-0.4

Source: Office of the Parliamentary Budget Officer.

**Outlook for Expenses**

Program expenses are projected to grow by 10.8 per cent between 2012-13 and 2017-18, which translates into 2.1 per cent average annual growth (Table 3-5). Elderly benefits show the largest rate of increase, growing by 5.1 per cent annually on average as the effects of population ageing take hold. EI benefits are roughly flat after 2014-15 as the economy returns to potential and a gradually decreasing unemployment rate counteracts the growth in average benefits (which is linked to average wage growth). Major transfers to other levels of government are mostly tied to nominal GDP growth and expand by an average of 3.9 per cent annually.

**Table 3-5****Outlook for Expenses**

billions of dollars	2012- 2013	2013- 2014	2014- 2015	2015- 2016	2016- 2017	2017- 2018
<b>Major transfers to persons</b>						
Elderly benefits	40.3	41.7	44.0	46.5	49.1	51.8
EI benefits	17.1	19.7	20.0	20.1	19.9	20.0
Children's benefits	12.9	13.1	13.3	13.5	13.7	13.9
Total	70.2	74.5	77.4	80.1	82.6	85.7
Major transfers to OLG	58.4	60.2	62.5	65.1	68.1	70.8
Direct program expenses	122.1	119.2	116.7	117.7	119.3	121.3
Public debt charges	29.6	30.1	29.0	30.6	33.9	37.1
<b>Total expenses</b>	<b>280.4</b>	<b>284.0</b>	<b>285.6</b>	<b>293.5</b>	<b>303.9</b>	<b>314.9</b>

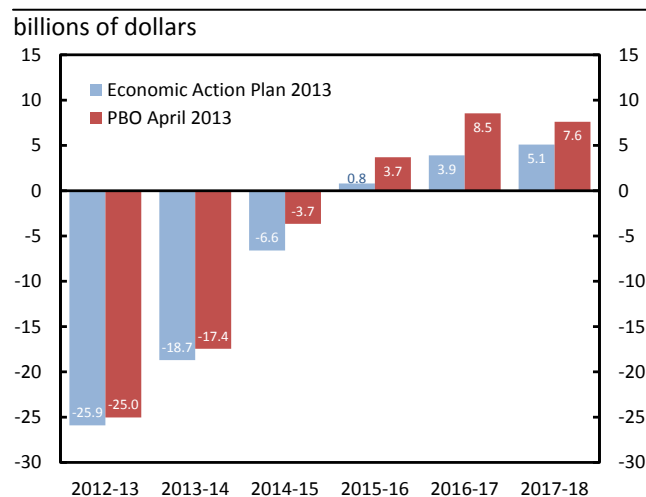
Source: Office of the Parliamentary Budget Officer.

The overall rate of growth of expenses is reduced by direct program spending restraint over the projection. PBO does not provide an independent projection of direct program expenses, but rather incorporates the plans published in EAP 2013 and assumes they will be achieved. Direct program expenses in 2017-18 are slightly lower (\$0.8 billion) than in 2012-13, which results in average annual growth of -0.1 per cent sustained over a period of 5 years.

Despite the emergence of budgetary surpluses in 2015-16 and a decline in federal debt, public debt charges increase over the projection due to increases in market interest rates as the Bank of Canada increases its policy interest rate once the economic recovery firmly takes hold.

#### *Comparison to the Economic Action Plan 2013 Fiscal Outlook*

Over the medium term, PBO's projected budgetary balance is \$2.5 billion higher, on average, than the balance projected in EAP 2013 (Figure 3-2). This stems from higher revenues due in part to PBO's higher projected nominal GDP levels.

**Figure 3-2****Budgetary Balance Projections**

Sources: Office of the Parliamentary Budget Officer; Finance Canada.

Table 3-6 provides a comparison between PBO's fiscal outlook and the Government's outlook presented in EAP 2013 (see Annex F for a more detailed comparison). PBO is projecting budgetary revenues that are \$2.7 billion (1.0 per cent) higher, on average, than the Government's projection over 2012-13 to 2017-18. Based on the Government's estimate used for determining its adjustment for risk (i.e., \$20 billion in nominal GDP translates into \$3 billion in revenues) and given that PBO's nominal GDP projection is \$8 billion higher, on average, than the Government's planning assumption, this suggests that \$1.2 billion of the \$2.7 billion average difference can be attributed to nominal GDP levels and therefore \$1.5 billion can be attributed to differences in underlying assumptions (e.g., effective tax rates and tax bases).

**Table 3-6**

**Comparison of Fiscal Projections  
(PBO April 2013 – Economic Action Plan 2013)**

billions of dollars	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018
<b>Budgetary revenues</b>	1.1	2.6	2.3	2.3	4.3	3.6
Program expenses	-0.3	1.0	0.6	0.3	-0.4	-0.4
Public debt charges	0.6	0.4	-1.2	-0.9	0.1	1.4
<b>Total expenses</b>	0.3	1.4	-0.6	-0.6	-0.3	1.0
<b>Budgetary balance</b>	0.9	1.3	2.9	2.9	4.6	2.5
Federal debt	-0.8	-2.0	-5.0	-7.9	-12.5	-15.0

Sources: Office of the Parliamentary Budget Officer; Finance Canada.  
Note: Table 3-6 is displayed as the PBO projection minus the EAP 2013 projection.

Given that PBO incorporates the Government’s projection of direct program expenses and children’s benefits, PBO’s projected program expenses are only marginally higher (\$0.1 billion on average) over the projection horizon compared to EAP 2013. PBO’s projection of public debt charges is also in line with the EAP 2013 projection (only \$0.1 billion higher on average). Thus overall, PBO’s projection of the Government’s total expenses is \$0.2 billion higher, on average, than projected in EAP 2013.

**Uncertainty Surrounding PBO’s Fiscal Projection**

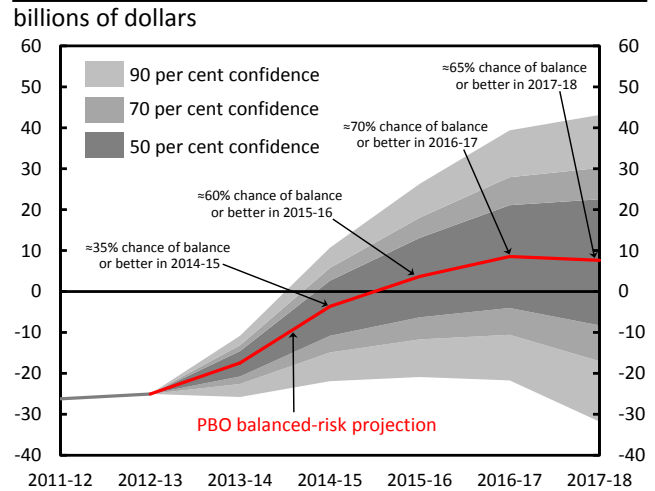
PBO uses a measure of economic uncertainty (based on the historical forecast performance of the average private sector forecast), as well as its assessment of the balance of risks to the average private sector forecast presented in EAP 2013, to construct a fan chart of the Government’s budgetary balance using Finance Canada’s fiscal sensitivities.

Although PBO judges that the balance of risks to the private sector economic outlook for nominal GDP presented in EAP 2013 is tilted to the downside (\$12 billion annually on average), assuming that the Government does not increase its spending above planned levels in EAP 2013, PBO estimates that the likelihood of realizing budgetary balance or better is approximately 60 per cent,

70 per cent and 65 per cent in 2015-16, 2016-17 and 2017-18, respectively (Figure 3-3).

**Figure 3-3**

**Budgetary Balance Outcomes Given Economic Uncertainty and Downside Risk**



Sources: Office of the Parliamentary Budget Officer; Finance Canada.

**PBO’s Estimate of the Government’s Structural Budget Balance**

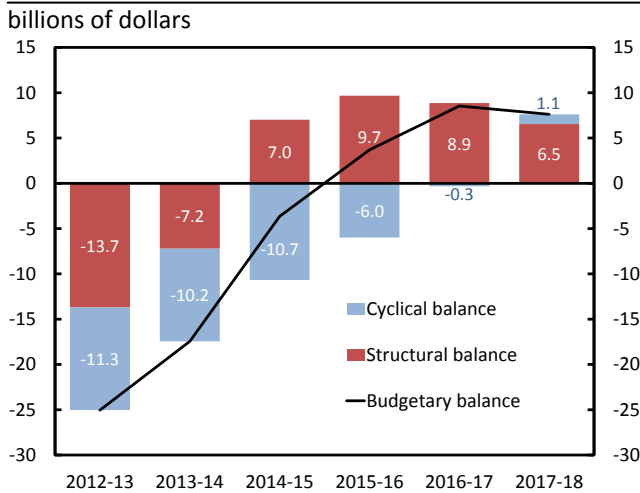
An estimate of the structural budget balance helps to provide a snapshot of a government’s underlying financial situation. Moreover, distinguishing between structural and cyclical components of a government’s budget balance is crucial because, while the cyclical component may be expected to dissipate over a medium-term horizon as the economy returns to its potential GDP, the structural component may necessitate policy actions. PBO routinely revises its estimates of the Government’s structural budget balance to reflect revised estimates of trends in the economy, announced measures and changes to other assumptions.

The projected improvement in the budgetary balance over the medium term, from a deficit of \$25.0 billion in 2012-13 to a surplus of \$8.5 billion in 2016-17, is largely the result of a (projected) structural improvement in the Government’s financial position (Figure 3-4). Assuming that the Government achieves its planned spending

reductions and restraint and continues to increase EI premium rates, ultimately to \$2.03 (per \$100 of insurable earnings) in 2016 to balance the EI Operating Account, PBO projects that the Government’s structural deficit will be eliminated by 2014-15, giving rise to a structural surplus of \$9.7 billion in 2015-16. The decrease in the structural balance over 2016-17 and 2017-18 reflects the reduction in the EI premium rate in 2017 (to \$1.62 per \$100 of insurable earnings).

**Figure 3-4**

**Structural and Cyclical Balance Estimates**



Source: Office of the Parliamentary Budget Officer.

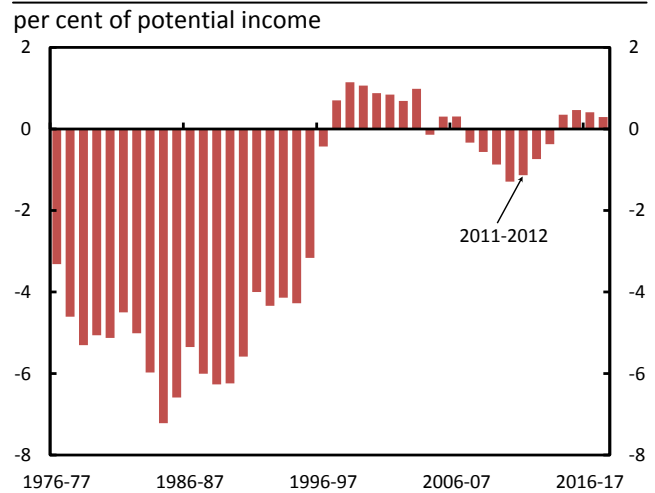
Relative to the October 2012 EFOU, PBO’s estimate of the Government’s structural balance in 2017-18 is \$7.5 billion lower. This downward revision reflects the revised outlook for the EI premium rate in 2017 from \$2.08 to \$1.62 per \$100 of insurable earnings (contributing \$5.8 billion to the revision) and upward revisions to program expenses (excluding EI benefits) and public debt charges (contributing \$1.6 billion), which are both treated as structural expenses under PBO’s approach to estimating structural balances.

In the absence of the savings generated by EAP 2013 (and the corresponding impacts on public debt charges), PBO projects that the structural balance would remain in surplus over the period 2014-15 to 2017-18, resulting in a structural surplus of \$2.2 billion in 2017-18.

Relative to (nominal) potential income, PBO’s structural balance projection represents an improvement of 1.0 percentage point from -0.7 per cent in 2012-13 to 0.3 per cent in 2017-18 (Figure 3-5). The elimination of the structural deficit and rising structural surplus to 2015-16 stem from measures in EAP 2012 and EAP 2013 to reduce/restrain the Government’s spending on programs, as well as to increase EI premium rates to balance the EI Operating Account.

**Figure 3-5**

**Structural Budget Balance, 1976-77 to 2017-18**



Source: Office of the Parliamentary Budget Officer.

**4 Comparison of PBO and Finance Canada Estimates of the Government’s Structural Budget Balance**

The concept of a structural budget balance has figured into the Government of Canada’s fiscal planning. For example, Budget 2009 indicated that one of the principles guiding the Government of Canada’s Economic Action Plan was that the “stimulus plan should be phased out when the economy recovers to avoid long-term structural deficits.”

Since a government’s structural budget balance is not directly observable and therefore must be estimated, it is useful to compare estimates produced by different organizations such as



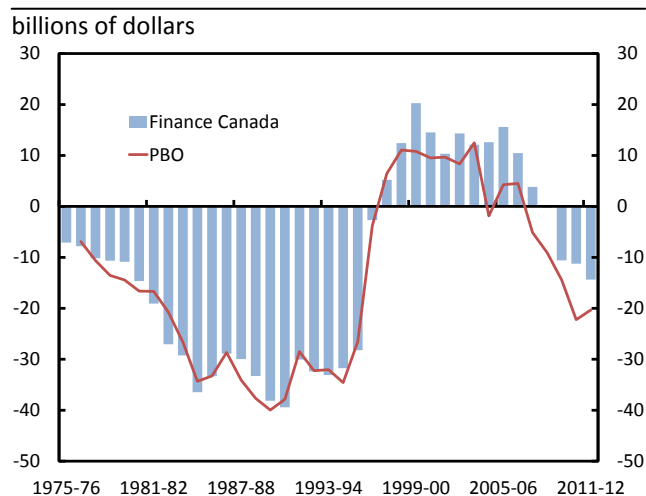
Finance Canada and PBO, particularly given (apparent) similarities in their methodologies.

*Comparing Estimates of the Government's Structural Balance over 1976-77 to 2011-12*

Finance Canada publishes, on an annual basis, the Fiscal Reference Tables (FRT), which provide "annual data on the financial position of the federal, provincial-territorial and local governments" including its estimate of the Government of Canada's structural budget balance. In its 2012 FRT Finance Canada published (for the first time) its own estimates of the Government's structural balance on a Public Accounts basis.<sup>14</sup> Consistent with PBO's estimates, Finance Canada's estimates indicate a relatively small but growing structural deficit over the period 2008-09 to 2011-12 (Figure 4-1).

**Figure 4-1**

**Estimates of the Government's Structural Budget Balance, 1975-76 to 2011-12**



Sources: Office of the Parliamentary Budget Officer; Finance Canada.

Finance Canada and PBO's estimates of the Government's structural budget balance track each other quite closely over the period of 1976-77 to 2003-04. Indeed, over this period, Finance Canada's estimates of the Government's structural

<sup>14</sup> Available at: <http://www.fin.gc.ca/frt-trf/2012/frt-trf-1203-eng.asp#tbl17>.

budget balance are only \$0.8 billion higher annually, on average, than PBO's estimates. However, over the period 2004-05 to 2011-12, Finance Canada's estimates of the Government's structural budget balance are \$8.8 billion higher annually, on average, than PBO's estimates.

Both Finance Canada and PBO estimates of the Government of Canada's structural budget balance appear to be based on a similar methodology that attempts to adjust for transitory fluctuations in commodity prices and temporary policy measures. Finance Canada and PBO structural balance estimates are similar over the period 1976-77 to 2003-04, which suggests that differences in the underlying estimates (or assumptions) of tax and spending sensitivities and/or differences in estimates of potential GDP and trends in terms of trade are likely to be relatively minor over this period.

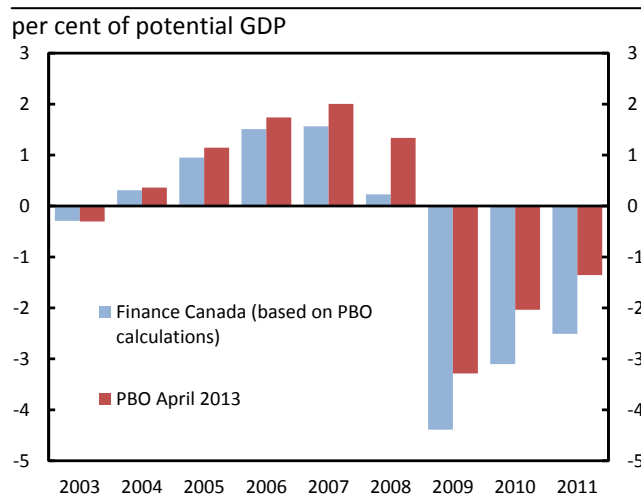
Unfortunately, Finance Canada has not published or provided its estimates of potential GDP<sup>15</sup> and terms of trade or its estimates of the tax and spending sensitivities underlying its structural budget balance estimates. As a result, it is not possible to determine definitively the extent to which the underlying estimates and assumptions used by Finance Canada and PBO differ. However, FRT 2012 does include estimates of budget balances relative to (nominal) potential GDP. This allows PBO to calculate what it believes are approximate estimates of Finance Canada's measures of potential GDP and output gap over the historical period.<sup>16</sup>

<sup>15</sup> Despite requests for this data (November 30, 2011): [http://www.parl.gc.ca/PBO-DPB/documents/InformationRequests/Requests/IR0056\\_IMF\\_submission.pdf](http://www.parl.gc.ca/PBO-DPB/documents/InformationRequests/Requests/IR0056_IMF_submission.pdf); February 3, 2012: [http://www.parl.gc.ca/PBO-DPB/documents/InformationRequests/Requests/IR0056\\_IMF\\_submission\\_followup.pdf](http://www.parl.gc.ca/PBO-DPB/documents/InformationRequests/Requests/IR0056_IMF_submission_followup.pdf); and March 9, 2012: [http://www.parl.gc.ca/PBO-DPB/documents/InformationRequests/Requests/IR0077\\_Finance\\_FRT.pdf](http://www.parl.gc.ca/PBO-DPB/documents/InformationRequests/Requests/IR0077_Finance_FRT.pdf) Finance Canada has not provided its estimates of potential GDP and the output gap to the PBO.

<sup>16</sup> The 2012 *Fiscal Reference Tables* provide estimates of (total) government budget balances expressed relative to (nominal) potential GDP from 1975 to 2011. Using the (actual) GDP deflator, PBO is able to residually determine potential GDP levels. PBO then filters this series to smooth out fluctuations that are caused by a lack of precision. As a check on its approach, PBO uses these estimates of potential GDP to reproduce Finance Canada's series of budget

Over the period of 1976 to 2007, PBO and Finance Canada estimates (based on PBO calculations) of the output gap track each other closely, with the difference between the two sets of estimates averaging only 0.4 percentage points annually (Finance Canada’s estimates are lower than PBO’s on average). However, over the more recent period, estimates of the output gap have diverged somewhat. Over the period 2008 to 2011, Finance Canada’s estimates are 1.1 percentage points larger annually, on average, compared to PBO’s estimates over the same period (Figure 4-2).

**Figure 4-2**  
**Estimates of the Output Gap over Recent History**



Source: Office of the Parliamentary Budget Officer.  
Note: PBO estimates are based on CSNA12 and Finance Canada estimates are based on the CSNA97.

Thus, differences in estimates of the output gap over the recent historical period could account for some of the difference in estimates of the Government’s structural balance over the period 2004-05 to 2011-12. Given that Finance Canada’s estimates of the output gap indicate that the economy has been operating farther below its potential capacity since 2009, this would imply (all else equal) a larger cyclical deficit and smaller structural deficit compared to PBO’s estimates.

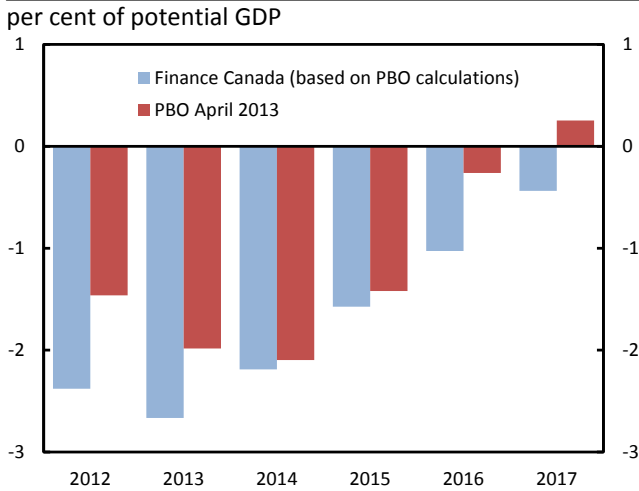
*Comparing Estimates of the Government’s Structural Balance over 2012-13 to 2017-18*

Although Finance Canada does not publish its medium-term projections of potential GDP, it is possible to approximate its estimate of potential GDP over medium term using Finance Canada’s publicly available data. PBO calculates potential GDP estimates from 2012 to 2017 by applying Finance Canada’s projected potential growth rates from 2012 to 2014 (presented in Table A4.1 in Budget 2010). PBO assumed that potential growth would then continue at the same pace as PBO’s projection (1.8 per cent annually, on average, over 2015 to 2017). The projection of “actual” real GDP for Finance Canada is based on the average private sector forecast of real GDP growth over the period 2013 to 2017 Finance Canada’s March 2013 survey (for 2012 the actual growth rate of real GDP is used).

Based on PBO’s calculations, Finance Canada’s estimate suggests that the economy was operating farther below its potential GDP in 2012 (2.4 per cent) compared to PBO’s estimate (1.5 per cent). Both projections indicate that the economy will continue to operate below its potential capacity through 2016 (Figure 4-3). Over the projection horizon 2013 to 2017, Finance Canada’s estimates of the (negative) output gap are 0.5 percentage points larger, on average, than PBO’s estimates over this period.

balances expressed relative to (nominal) potential GDP published in FRT 2012.

**Figure 4-3**  
**Projections of the Output Gap over the Medium Term**



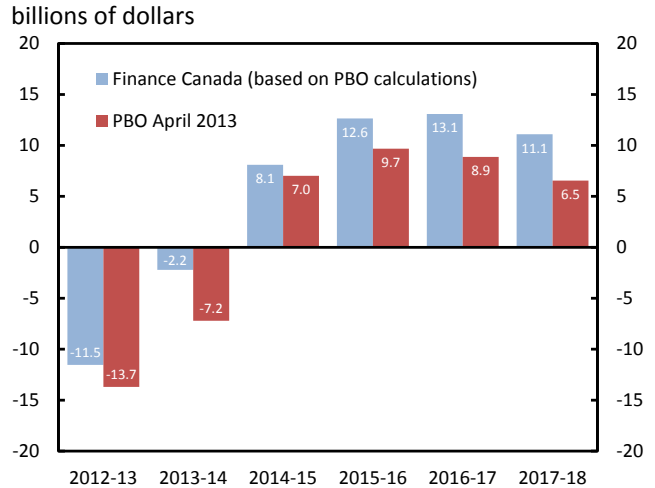
Source: Office of the Parliamentary Budget Officer.  
 Note: PBO estimates are based on CSNA12 and Finance Canada estimates are based on the CSNA97.

Based on Finance Canada’s estimates of the output gap as calculated by PBO, it is also possible to construct corresponding estimates of the Government’s structural balance.<sup>17</sup> Based on PBO calculations, Finance Canada and PBO estimates of the Government’s structural balance in 2012-13 are broadly similar – Finance Canada’s estimate indicates a structural deficit of \$11.5 billion and PBO’s estimate shows a structural deficit of \$13.7 billion (Figure 4-4). However, over the period 2013-14 to 2017-18 Finance Canada’s estimates of the structural balance are \$3.6 billion higher, on average, than PBO’s estimates. This difference is consistent with Finance Canada’s more optimistic outlook for potential GDP. Based

<sup>17</sup> To construct these estimates, PBO uses the sensitivity of its cyclical balance to the income gap (i.e., the combined output gap and trading gain or “terms of trade” gap) and its estimates of Finance Canada’s output gap. PBO results suggest that an income gap (i.e., actual minus potential income) of \$1 billion translates, on average, into a cyclical budget balance of approximately \$0.3 billion. Based on PBO calculations and this assumed sensitivity, Finance Canada’s results are consistent with a terms of trade gap of +0.6 per cent in 2011 (only slightly smaller than PBO’s estimate of +0.7 per cent). PBO simply assumes that this gap closes by the end of the projection horizon and therefore Finance Canada’s estimate of the output gap, combined with PBO’s assumed cyclical sensitivity, determines the structural balance over 2012-13 to 2017-18 given the EAP 2013 projection of the budgetary balance (not adjusted for risk).

on PBO calculations, Finance Canada’s projected level of potential GDP is 0.8 per cent higher annually, on average, than PBO’s projection over 2013 to 2017 when put on a comparable basis (i.e., CSNA12).

**Figure 4-4**  
**Projections of the Government’s Structural Balance over the Medium Term**



Source: Office of the Parliamentary Budget Officer.

PBO believes that estimates and projections of structural budget balances provide useful information about a government’s underlying financial position and can be used to help guide policy actions. While parliamentarians benefit from reviewing Finance Canada’s historical estimates of the Government’s structural balance on a Public Accounts basis, they would benefit further by receiving information regarding Finance Canada’s projections of the Government’s structural balance over the medium term, as well as regarding Finance Canada’s methodology and assumptions used to construct its estimates and projections.

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## Annex A

### Projecting Energy Commodity Prices

The Bank of Canada commodity price index<sup>18</sup> (BCPI) is a chain Fisher price index of 24 commodities produced in Canada. Underlying the BCPI is the Bank of Canada energy commodity price index (BCPIE) and Bank of Canada non-energy commodity price index (BCPIXE).

The BCPIE is comprised of estimates of the price of crude oil (which includes West Texas Intermediate (WTI), Brent, and Western Canada Crude (WCC)<sup>19</sup>), natural gas (Henry Hub) and coal<sup>20</sup>. Several assumptions underlie PBO's BCPIE projection.

The first assumption regards production weights. The Bank of Canada "projects individual commodity weights from the Input-Output reference year (currently 2008) through the last period in which full-year historical price data is available (currently 2011) using changes in Canadian commodity prices and proxies of commodity production volumes." After 2011, PBO assumes that the individual commodity weights remain constant at their 2011 values (Table A-1).

**Table A-1**

#### Energy Production Weights in the Bank of Canada Commodity Price Index

per cent	1988	1998	2008	2011
<b>Energy</b>	26	29	64	58
<b>Crude Oil</b>	15	15	40	46
WTI	N/A	N/A	N/A	24
WCC	N/A	N/A	N/A	17
Brent	N/A	N/A	N/A	5
<b>Natural Gas</b>	9	12	22	8

Source: Bank of Canada.

<sup>18</sup> For more information on the Bank of Canada Commodity Price Index see <http://www.bankofcanada.ca/rates/price-indexes/bcpi/>.

<sup>19</sup> The Bank of Canada estimates the Western Canada Crude index is "based on the Net Energy Heavy Oil index traded daily on the Chicago Mercantile Exchange." Alternatively, PBO uses Western Canada Select (WCS) as the proxy for Western Canada Crude, given that futures values for WCS are readily available.

<sup>20</sup> PBO assumes the price of coal grows at the weighted-average growth rate of the other commodity prices used in the BCPIE.

The second assumption regards the energy commodity prices. Using publicly available futures prices from the CME Group through NYMEX<sup>21</sup>, PBO uses the quarterly average of monthly futures for each commodity to determine the quarterly projection for commodity prices. If a commodity price is not provided over the projection, the price is assumed to remain constant at the last monthly value available.

Finally, PBO assumes that growth in BCPIE is informed by the average quarterly growth rate indicated by futures prices over the eight quarters following the last quarterly estimate of BCPIE, after which the index is assumed to grow at 2.0 per cent (annual rate), consistent with the assumption that energy commodity prices are constant in inflation-adjusted terms. This approach produces a level of BCPIE in 2017 which is 10.8 per cent higher than is suggested by futures prices (Table A-2).<sup>22</sup>

**Table A-2**

#### PBO and Futures-based BCPIE Projections

index, 1972 = 100; U.S. dollars	2013	2014	2015	2016	2017
	<b>PBO</b>	<b>1653</b>	<b>1699</b>	<b>1742</b>	<b>1776</b>
<b>Futures</b>	<b>1749</b>	<b>1730</b>	<b>1685</b>	<b>1651</b>	<b>1635</b>
WTI	94.74	91.92	88.69	86.43	85.01
WCS	71.41	70.17	67.92	65.88	64.46
Brent	108.51	102.94	98.45	95.13	93.38
Natural Gas	3.93	4.22	4.31	4.40	4.57

Sources: Office of the Parliamentary Budget Officer; Bank of Canada.

<sup>21</sup> PBO uses futures prices over the near term to inform its projection because they provide an independent and (presumably) informed view of the projected path of energy prices. However, according to Alquist, Kilian, and Vigfusson (2011), "[t]here is no reliable evidence that oil futures prices significantly lower the MSPE [mean-squared prediction error] relative to the no-change forecast at short horizons, and long-term futures prices often cited by policymakers are distinctly less accurate than the no-change forecast. [...] Likewise professional and government forecasts of the nominal price of oil do not significantly improve on the no-change forecast, except in some cases in the very short run, and can be much less accurate."

<sup>22</sup> The BCPIXE projection is also informed by, but is not directly tied to, futures prices.

## Annex B

Table B-1 – PBO April 2013 and October 2012 Economic Outlooks

	2013	2014	2015	2016	2017
<b>Real GDP growth (%)</b>					
October 2012 EFOU	1.5	2.0	2.9	3.0	2.3
April 2013 EFO	1.5	1.9	2.7	3.0	2.2
<i>difference</i>	0.0	-0.1	-0.2	0.0	-0.1
<b>GDP inflation (%)</b>					
October 2012 EFOU	1.5	1.8	1.9	2.0	2.0
April 2013 EFO	1.7	1.8	1.9	2.0	2.0
<i>difference</i>	0.3	0.0	0.0	0.0	0.0
<b>Nominal GDP growth (%)</b>					
October 2012 EFOU	2.9	3.8	4.9	5.1	4.3
April 2013 EFO	3.2	3.7	4.7	5.1	4.3
<i>difference</i>	0.3	-0.1	-0.2	0.0	-0.1
<b>Nominal GDP level (billions of dollars)</b>					
October 2012 EFOU	1,870	1,941	2,035	2,139	2,232
April 2013 EFO	1,876	1,946	2,037	2,140	2,232
<i>difference</i>	7	5	1	1	-1
<b>3-month treasury bill rate (%)</b>					
October 2012 EFOU	1.0	1.0	1.4	2.8	4.0
April 2013 EFO	1.0	1.0	1.4	2.8	4.0
<i>difference</i>	0.0	0.0	0.0	0.0	0.0
<b>10-year government bond rate (%)</b>					
October 2012 EFOU	2.2	2.8	3.6	4.4	5.2
April 2013 EFO	2.1	2.8	3.6	4.4	5.2
<i>difference</i>	0.0	0.0	0.0	0.0	0.0
<b>Exchange rate (US cents/C\$)</b>					
October 2012 EFOU	102.0	102.5	102.8	102.9	103.0
April 2013 EFO	100.0	101.0	101.5	101.7	101.7
<i>difference</i>	-2.0	-1.5	-1.2	-1.2	-1.3
<b>Unemployment rate (%)</b>					
October 2012 EFOU	7.6	7.6	7.3	6.8	6.5
April 2013 EFO	7.3	7.4	7.1	6.6	6.3
<i>difference</i>	-0.3	-0.2	-0.2	-0.2	-0.3
<b>Total CPI inflation (%)</b>					
October 2012 EFOU	1.6	1.8	1.9	2.0	2.0
April 2013 EFO	1.4	1.8	1.9	2.0	2.0
<i>difference</i>	-0.2	-0.1	0.0	0.0	0.0
<b>US GDP growth (%)</b>					
October 2012 EFOU	1.8	2.7	3.5	3.6	3.4
April 2013 EFO	2.0	2.8	3.5	3.6	3.4
<i>difference</i>	0.1	0.0	0.0	0.0	0.0

Source: Office of the Parliamentary Budget Officer.

Note: October 2012 EFOU nominal GDP levels have been adjusted for historical revisions.

## Annex C

Table C-1 – PBO April 2013 and EAP 2013 Economic Outlooks

	2013	2014	2015	2016	2017
<b>Real GDP growth (%)</b>					
EAP 2013	1.6	2.5	2.6	2.4	2.3
April 2013 EFO	1.5	1.9	2.7	3.0	2.2
<i>difference</i>	-0.1	-0.6	0.1	0.6	-0.1
<b>GDP inflation (%)</b>					
EAP 2013	1.7	2.1	2.0	2.0	2.0
April 2013 EFO	1.7	1.8	1.9	2.0	2.0
<i>difference</i>	0.0	-0.3	-0.1	0.0	0.0
<b>Nominal GDP growth (%)</b>					
EAP 2013	3.3	4.7	4.7	4.4	4.3
April 2013 EFO	3.2	3.7	4.7	5.1	4.3
<i>difference</i>	-0.1	-1.0	0.0	0.7	0.0
<b>Nominal GDP level (billions of dollars)</b>					
EAP 2013	1,878	1,966	2,058	2,149	2,241
April 2013 EFO	1,876	1,946	2,037	2,140	2,232
<i>difference</i>	-2	-20	-21	-9	-9
<b>3-month treasury bill rate (%)</b>					
EAP 2013	1.0	1.3	2.2	3.3	3.8
April 2013 EFO	1.0	1.0	1.4	2.8	4.0
<i>difference</i>	0.0	-0.3	-0.8	-0.6	0.2
<b>10-year government bond rate (%)</b>					
EAP 2013	2.1	2.8	3.5	4.1	4.6
April 2013 EFO	2.1	2.8	3.6	4.4	5.2
<i>difference</i>	0.0	0.0	0.1	0.3	0.6
<b>Exchange rate (US cents/C\$)</b>					
EAP 2013	98.9	100.7	100.9	99.3	98.8
April 2013 EFO	100.0	101.0	101.5	101.7	101.7
<i>difference</i>	1.1	0.3	0.6	2.4	2.9
<b>Unemployment rate (%)</b>					
EAP 2013	7.1	6.9	6.7	6.5	6.4
April 2013 EFO	7.3	7.4	7.1	6.6	6.3
<i>difference</i>	0.2	0.5	0.4	0.1	-0.1
<b>Total CPI inflation (%)</b>					
EAP 2013	1.3	2.0	2.0	2.0	2.0
April 2013 EFO	1.4	1.8	1.9	2.0	2.0
<i>difference</i>	0.1	-0.2	-0.1	0.0	0.0
<b>US GDP growth (%)</b>					
EAP 2013	1.9	2.9	3.1	3.0	2.8
April 2013 EFO	2.0	2.8	3.5	3.6	3.4
<i>difference</i>	0.1	-0.1	0.4	0.6	0.6

Sources: Office of the Parliamentary Budget Officer; Finance Canada.

## Annex D

Table D-1 – Fiscal Impacts of Measures and Revisions to Spending Levels

millions of dollars	2012- 2013	2013- 2014	2014- 2015	2015- 2016	2016- 2017	2017- 2018
<b>Economic Action Plan 2012</b>						
Reduction in direct program expenses	3,300	4,100	4,600	4,500	4,600	4,700
Maximum EI premium rate reduction	-157	-796	-1,482	-1,532	859	2,618
Other revenue measures	-195	434	845	1,089	1,248	1,295
Other expense measures	-227	-343	0	0	0	0
<b>Net impact</b>	<b>2,721</b>	<b>3,395</b>	<b>3,963</b>	<b>4,057</b>	<b>6,707</b>	<b>8,613</b>
<b>Update of Economic and Fiscal Projections 2012</b>						
Service Income Security Insurance Plan and Veterans Affairs' disability benefits	-1,100	-100	-100	-100	0	0
Other policy decisions	0	100	100	100	200	200
<b>Net impact</b>	<b>-1,100</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>200</b>	<b>200</b>
<b>Economic Action Plan 2013</b>						
Actions to support jobs and growth	-56	-922	-931	-1,200	-2,000	-1,700
Revisions to direct program expense levels	-1,300	100	2,500	2,400	2,000	2,100
Reducing travel costs	0	43	43	43	43	43
Expanding the use of telepresence	0	-20	0	0	0	0
Standardizing and consolidating procurement of end-user devices	0	2	9	9	9	9
Targeted review: Canada Revenue Agency operations	0	19	58	61	61	61
Targeted review: Fisheries and Oceans Canada operations	0	4	5	33	33	33
Canada Revenue Agency: compliance programs	30	125	550	550	550	550
Closing tax loopholes and improving the fairness of the tax system	2	316	806	946	1,082	1,237
General Preferential Tariff	0	0	83	333	333	333
Internal reallocations	0	20	0	0	0	0
<b>Net impact</b>	<b>-1,324</b>	<b>-313</b>	<b>3,123</b>	<b>3,175</b>	<b>2,111</b>	<b>2,666</b>

Sources: Finance Canada; Office of the Parliamentary Budget Officer.

Note: A positive value indicates a reduction in spending and an improvement in the budgetary balance. A negative value indicates an increase in spending and a deterioration in the budgetary balance. The EAP 2012 and 2012 UEFP measures in 2017-18 are based on PBO assumptions.



## Annex E

Table E-1 – Summary of PBO April 2013 Fiscal Outlook

billions of dollars	2012- 2013	2013- 2014	2014- 2015	2015- 2016	2016- 2017	2017- 2018
<b>Income taxes</b>						
Personal income tax	126.6	135.0	143.3	151.6	160.3	167.9
Corporate income tax	33.3	32.4	34.1	35.7	38.4	41.3
Non-resident income tax	5.2	5.5	6.0	6.4	6.8	7.2
<b>Total income tax</b>	<b>165.0</b>	<b>172.8</b>	<b>183.4</b>	<b>193.8</b>	<b>205.5</b>	<b>216.3</b>
<b>Excise taxes/duties</b>						
Goods and Services Tax	29.2	30.5	32.6	34.1	35.7	37.1
Custom import duties	4.0	4.1	4.5	5.0	5.2	5.4
Other excise taxes/duties	11.2	10.9	10.8	10.7	10.7	10.7
<b>Total excise taxes/duties</b>	<b>44.4</b>	<b>45.6</b>	<b>47.9</b>	<b>49.7</b>	<b>51.5</b>	<b>53.1</b>
<b>EI premium revenues</b>	<b>20.0</b>	<b>21.4</b>	<b>23.0</b>	<b>24.7</b>	<b>24.9</b>	<b>21.4</b>
<b>Other revenues</b>	<b>25.8</b>	<b>26.7</b>	<b>27.7</b>	<b>29.0</b>	<b>30.4</b>	<b>31.7</b>
<b>Total budgetary revenues</b>	<b>255.3</b>	<b>266.5</b>	<b>281.9</b>	<b>297.2</b>	<b>312.4</b>	<b>322.5</b>
<b>Major transfers to persons</b>						
Elderly benefits	40.3	41.7	44.0	46.5	49.1	51.8
EI benefits	17.1	19.7	20.0	20.1	19.9	20.0
Children's benefits	12.9	13.1	13.3	13.5	13.7	13.9
<b>Total</b>	<b>70.2</b>	<b>74.5</b>	<b>77.4</b>	<b>80.1</b>	<b>82.6</b>	<b>85.7</b>
<b>Major transfers to OLG</b>	<b>58.4</b>	<b>60.2</b>	<b>62.5</b>	<b>65.1</b>	<b>68.1</b>	<b>70.8</b>
<b>Direct program expenses</b>	<b>122.1</b>	<b>119.2</b>	<b>116.7</b>	<b>117.7</b>	<b>119.3</b>	<b>121.3</b>
<b>Public debt charges</b>	<b>29.6</b>	<b>30.1</b>	<b>29.0</b>	<b>30.6</b>	<b>33.9</b>	<b>37.1</b>
<b>Total expenses</b>	<b>280.4</b>	<b>284.0</b>	<b>285.6</b>	<b>293.5</b>	<b>303.9</b>	<b>314.9</b>
<b>Budgetary balance</b>	<b>-25.0</b>	<b>-17.4</b>	<b>-3.7</b>	<b>3.7</b>	<b>8.5</b>	<b>7.6</b>
<b>Other income/adjustments</b>	<b>-0.7</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Federal debt</b>	<b>607.9</b>	<b>625.4</b>	<b>629.0</b>	<b>625.3</b>	<b>616.8</b>	<b>609.2</b>
<b>Per cent of GDP</b>						
Total budgetary revenues	14.0	14.2	14.5	14.6	14.6	14.5
Program expenses	13.8	13.5	13.2	12.9	12.6	12.4
Public debt charges	1.6	1.6	1.5	1.5	1.6	1.7
Budgetary balance	-1.4	-0.9	-0.2	0.2	0.4	0.3
Federal debt	33.4	33.3	32.3	30.7	28.8	27.3

Source: Office of the Parliamentary Budget Officer.

## Annex F

Table F-1 – Comparison of PBO April 2013 and October 2012 Fiscal Outlooks

billions of dollars	2012- 2013	2013- 2014	2014- 2015	2015- 2016	2016- 2017	2017- 2018
<b>Income taxes</b>						
Personal income tax	-2.6	-1.1	0.3	0.2	0.3	0.0
Corporate income tax	2.1	0.9	0.6	-0.4	-0.4	0.4
Non-resident income tax	-0.6	-0.6	-0.4	-0.6	-0.7	-0.8
Total income tax	-1.1	-0.8	0.5	-0.8	-0.8	-0.4
<b>Excise taxes/duties</b>						
Goods and Services Tax	-1.0	-0.8	0.0	0.0	0.0	-0.1
Custom import duties	0.0	-0.1	0.1	0.4	0.4	0.4
Other excise taxes/duties	0.3	0.0	-0.2	-0.2	0.0	0.0
Total excise taxes/duties	-0.7	-0.9	-0.1	0.1	0.3	0.2
<b>EI Premium revenues</b>	-0.1	-0.2	0.0	0.0	-1.7	-5.7
<b>Other revenues</b>	-3.4	-3.0	-1.8	-1.8	-1.8	0.2
<b>Total budgetary revenues</b>	-5.4	-4.9	-1.3	-2.4	-4.0	-5.7
<b>Major transfers to persons</b>						
Elderly benefits	0.1	-0.7	-0.7	-0.7	-0.7	-0.7
EI benefits	-1.5	-1.1	-1.0	-1.0	-1.0	-1.1
Children's benefits	-0.3	-0.4	-0.5	-0.5	-0.4	-0.4
Total	-1.7	-2.2	-2.2	-2.1	-2.1	-2.2
<b>Major transfers to OLG</b>	1.2	1.0	0.9	0.9	0.9	0.9
<b>Direct program expenses</b>	3.5	1.4	-0.4	-1.3	-0.6	0.9
<b>Public debt charges</b>	-1.5	-1.1	-0.7	-0.4	0.0	0.8
<b>Total expenses</b>	1.5	-0.9	-2.4	-2.9	-1.7	0.5
<b>Budgetary balance</b>	-6.9	-4.0	1.1	0.5	-2.3	-6.2
<b>Federal debt</b>	7.6	11.5	10.5	10.0	12.3	18.4

Source: Office of the Parliamentary Budget Officer.

Note: Table F-1 is displayed as the PBO April 2013 projection minus the October 2012 projection.

## Annex G

Table G-1 – Comparison of PBO April 2013 and EAP 2013 Fiscal Outlooks

billions of dollars	2012- 2013	2013- 2014	2014- 2015	2015- 2016	2016- 2017	2017- 2018
<b>Income taxes</b>						
Personal income tax	0.4	3.5	3.0	3.0	4.1	3.8
Corporate income tax	0.3	-2.2	-3.2	-3.2	-2.7	-1.8
Non-resident income tax	0.0	0.1	0.3	0.1	0.1	0.2
Total income tax	0.5	1.3	0.1	0.0	1.5	2.0
<b>Excise taxes/duties</b>						
Goods and Services Tax	0.3	0.6	0.9	0.8	0.7	0.4
Custom import duties	0.0	0.1	0.2	0.3	0.3	0.3
Other excise taxes/duties	0.0	0.0	-0.1	-0.1	0.0	0.0
Total excise taxes/duties	0.3	0.7	1.0	0.8	0.9	0.6
<b>EI Premium revenues</b>	-0.1	-0.5	-0.8	-0.4	0.7	0.7
<b>Other revenues</b>	0.3	1.1	2.1	1.9	1.1	0.3
<b>Total budgetary revenues</b>	1.1	2.6	2.3	2.3	4.3	3.6
<b>Major transfers to persons</b>						
Elderly benefits	0.2	-0.3	-0.2	-0.1	-0.1	0.0
EI benefits	-0.4	1.4	0.8	0.5	-0.1	-0.3
Children's benefits	0.0	0.0	0.0	0.0	0.0	0.0
Total	-0.2	1.1	0.7	0.4	-0.3	-0.3
<b>Major transfers to OLG</b>	-0.1	-0.1	0.0	0.0	-0.1	0.0
<b>Direct program expenses</b>	0.0	0.0	0.0	0.0	0.0	0.0
<b>Public debt charges</b>	0.6	0.4	-1.2	-0.9	0.1	1.4
<b>Total expenses</b>	0.3	1.4	-0.6	-0.6	-0.3	1.0
<b>Budgetary balance</b>	0.9	1.3	2.9	2.9	4.6	2.5
<b>Federal debt</b>	-0.8	-2.0	-5.0	-7.9	-12.5	-15.0

Sources: Office of the Parliamentary Budget Officer; Finance Canada.

Note: Table G-1 is displayed as the PBO projection minus the EAP 2013 projection.