CANADA

Economic growth is projected to increase to 2.3% in 2018. As contraction in the resources sector slows, activity in the rest of the economy is projected to strengthen. Non-energy exports should continue to benefit from stronger export market growth and earlier exchange rate depreciation. Consumer price inflation should pick up to around 2% as the effect of falling energy prices fades and excess capacity is gradually eliminated.

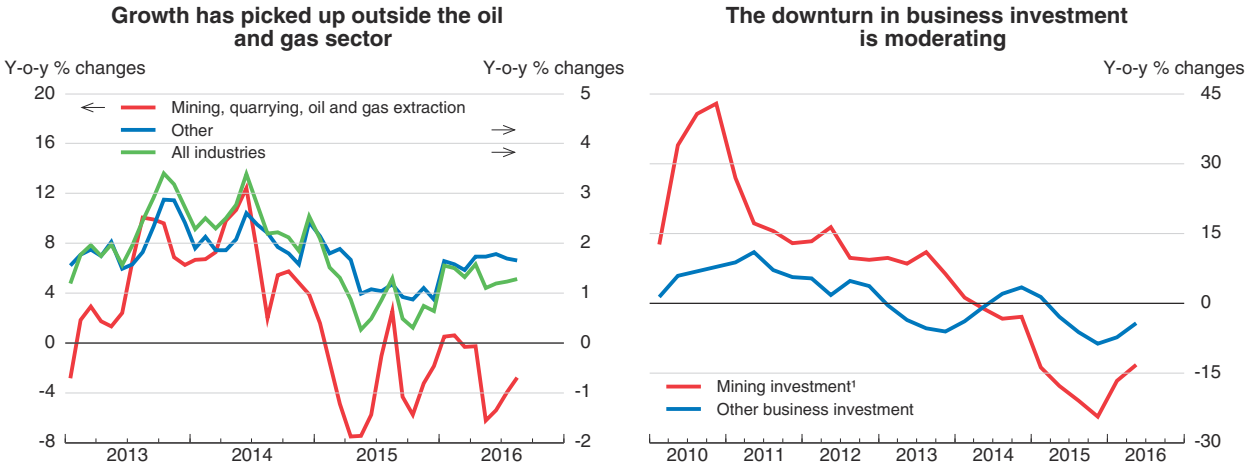
The moderately expansionary policy stance in the 2016 federal budget will help to speed the economy's return to full employment. It also increases scope to raise interest rates, which would mitigate financial stability risks arising from high and rising house prices and household debt. A gradual removal of monetary stimulus is projected from late 2017 to stabilise inflation at around the 2% midpoint of the official target range. Macro-prudential measures have been strengthened recently, but may need to be tightened further and targeted regionally to reduce financial stability risks.

The federal government used the fiscal space created by lower interest rates in its 2016 budget. New measures increase the budget deficit by 0.6-0.7% of GDP in 2016-17 and a further 0.3% of GDP in 2018-19. The deficit increase reflects higher spending on physical infrastructure, social housing, education and innovation. The increase in spending on social housing will make growth more inclusive, as will the new Canada Child Benefit, which is means tested, and measures to foster Indigenous Peoples' economic development and to make post-secondary education more affordable for students from low-income families. Provinces do not have the fiscal space to loosen their fiscal stance.

The economy is expanding

Outside the oil and gas sector, the economy is growing steadily. Private consumption is robust, buoyed by the introduction of the Canada Child Benefit in July, and residential

Canada



1. Includes oil and gas. Also includes some engineering structures investment that may relate to other sectors.
Source: Statistics Canada, Tables 379-0031 and 380-0068; OECD Economic Outlook 100 database.

StatLink http://dx.doi.org/10.1787/888933437487

Canada: **Employment, income and inflation**

Percentage changes

	2014	2015	2016	2017	2018
Employment	0.6	0.9	0.6	0.9	0.9
Unemployment rate[1]	6.9	6.9	7.0	6.8	6.5
Compensation per employee[2]	3.0	1.8	1.3	2.6	3.4
Unit labour cost	1.3	1.5	0.7	1.4	1.9
Household disposable income	3.2	3.5	2.7	3.6	4.1
GDP deflator	1.8	-0.6	0.5	2.0	2.0
Consumer price index	1.9	1.1	1.5	1.8	2.0
Core consumer price index[3]	1.8	2.2	2.0	1.8	2.0
Private consumption deflator	1.9	1.1	1.0	1.6	1.9

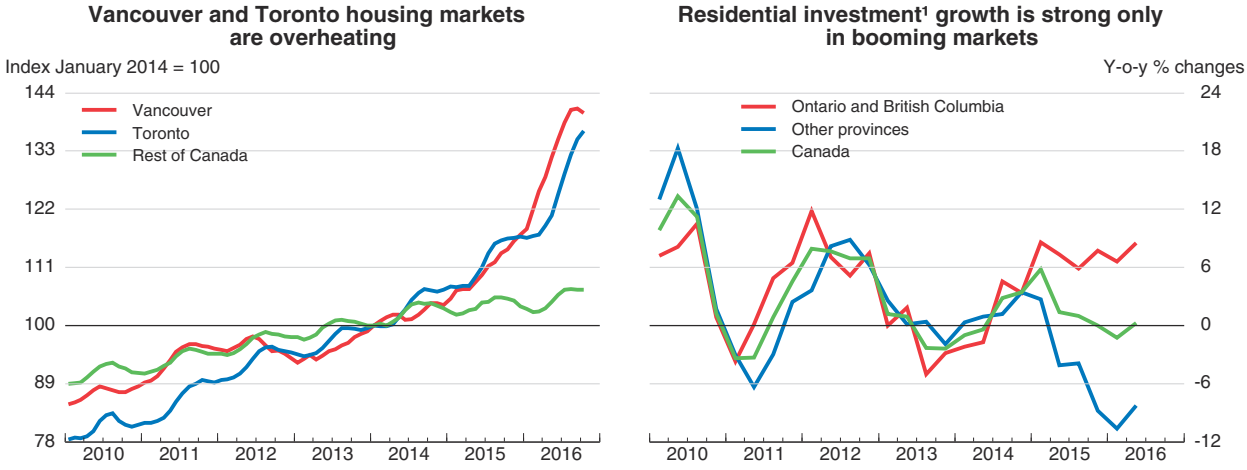
1. As a percentage of labour force.
2. In the total economy.
3. Bank of Canada definition: consumer price index excluding eight of the most volatile components and the effects of changes in indirect taxes on the remaining components.

Source: OECD Economic Outlook 100 database.

StatLink http://dx.doi.org/10.1787/888933438897

investment is strong, reflecting especially developments in British Columbia and Ontario, where house prices have been booming. Abstracting from the temporary mid-year decline in production caused by the wildfires in Fort McMurray, the drag on growth from the oil and gas sector is diminishing. The contraction of energy investment has slowed and should be nearly complete by the end of the year, at which time cumulative losses will have reached about 60% since 2014. Similarly, exports and other business investment are turning up, supported by gains in export competitiveness, a strengthening US economy and growing capacity constraints.

Canada



1. In real terms.

Source: Teranet and National Bank of Canada, House Price Index; Statistics Canada, Table 026-0013.

StatLink http://dx.doi.org/10.1787/888933437497

Canada: **Financial indicators**

	2014	2015	2016	2017	2018
Household saving ratio, net[1]	4.0	4.4	4.0	4.0	4.0
General government financial balance[2]	-0.5	-1.3	-2.2	-2.3	-2.2
General government gross debt[2,3]	93.2	98.5	100.4	101.3	102.0
General government net debt[2,3]	31.7	31.4	33.1	34.0	34.8
Current account balance[2]	-2.3	-3.2	-3.5	-2.9	-2.4
Short-term interest rate[4]	1.2	0.8	0.8	1.0	1.8
Long-term interest rate[5]	2.2	1.5	1.2	1.9	2.9

1. As a percentage of disposable income.
2. As a percentage of GDP.
3. Debt is overstated relative to most other countries as no account is taken of assets in government-employee pension funds.
4. 3-month interbank rate.
5. 10-year government bonds.

Source: OECD Economic Outlook 100 database.

StatLink http://dx.doi.org/10.1787/888933438904

Employment continues to increase steadily, but not by enough to reduce the unemployment rate, which has remained at around 7% since late 2012. These developments reflect the contrasting fortunes in energy-producing provinces, where labour market outcomes have worsened, and the rest of Canada, where the opposite has occurred. Higher unemployment in the energy-producing provinces has reduced wage pressures. Consumer price inflation remains below the mid-point of the Bank of Canada's 1-3% target range despite exchange rate depreciation, owing to a decline in energy prices.

Canada: **Demand and output**

	2015	2016	2017	2018	Fourth quarter 2016	Fourth quarter 2017	Fourth quarter 2018
	Current prices CAD billion	Percentage changes from previous year, volume (2007 prices)					
GDP at market prices	1 983.3	1.2	2.1	2.3	1.7	2.2	2.4
Private consumption	1 139.9	2.2	2.0	2.0	2.3	1.9	2.1
Government consumption	419.8	2.2	1.8	1.5	2.7	1.5	1.5
Gross fixed investment	462.6	-1.9	2.1	1.7	1.3	1.9	1.8
Public[1]	78.8	1.2	6.6	2.5	5.3	4.7	2.0
Residential	149.6	3.7	0.8	-0.4	3.5	0.2	-0.5
Non-residential	234.2	-6.5	1.5	2.9	-1.6	1.9	3.4
Final domestic demand	2 022.3	1.3	2.0	1.8	2.1	1.8	1.9
Stockbuilding[2]	6.8	0.5	-0.1	0.0			
Total domestic demand	2 029.1	1.8	1.9	1.9	3.0	1.8	1.9
Exports of goods and services	625.4	0.5	2.9	4.7	0.0	4.2	4.9
Imports of goods and services	671.2	-1.0	2.2	3.1	1.3	2.9	3.1
Net exports[2]	- 45.8	0.5	0.2	0.4			

Note: Detailed quarterly projections are reported for the major seven countries, the euro area and the total OECD in the Statistical Annex.

1. Excluding nationalised industries and public corporations.
2. Contributions to changes in real GDP, actual amount in the first column.

Source: OECD Economic Outlook 100 database.

StatLink http://dx.doi.org/10.1787/888933438911

Canada: **External indicators**

	2014	2015	2016	2017	2018
			USD billion		
Goods and services exports	565.6	489.7	462.2	476	507
Goods and services imports	582.4	525.6	502.6	508	533
Foreign balance	- 16.8	- 36.0	- 40.4	- 33	- 26
Invisibles, net	- 23.8	- 13.1	- 12.3	- 13	- 13
Current account balance	- 40.5	- 49.1	- 52.7	- 45	- 39
			Percentage changes		
Goods and services export volumes	5.3	3.4	0.5	2.9	4.7
Goods and services import volumes	1.8	0.3	- 1.0	2.2	3.1
Export performance[1]	0.9	- 0.5	- 0.7	- 1.0	0.0
Terms of trade	- 1.3	- 7.0	- 2.7	1.1	0.0

1. Ratio between export volume and export market of total goods and services.
Source: OECD Economic Outlook 100 database.

StatLink http://dx.doi.org/10.1787/888933438924

Macroeconomic policies are expansionary

The federal government adopted a mildly expansionary stance in its 2016 budget. New measures, which are front-loaded, could boost growth by 0.5 percentage point in 2016 and 2017. The general government deficit is projected to rise by 0.9% of GDP over 2015-18, to 2.2% of GDP. This increase essentially reflects the 2016 federal budget measures to boost demand. They should be particularly effective in delivering short-term stimulus, as infrastructure and social housing, which are a focus of the measures, have higher multipliers than most other budget items. However, most of the CAD 60 billion (2¼ per cent of GDP) increase in infrastructure spending over the next 10 years announced in the budget is to occur in a second phase, beyond the projection period. The focus in that phase is on investments to increase productivity and reduce the energy system's carbon footprint.

Monetary policy remains very supportive. With economic slack likely to be taken up by late 2018, it is assumed that monetary policy stimulus will be gradually withdrawn, starting in late 2017. Very low interest rates have encouraged household borrowing to purchase real estate, contributing to large increases in house prices, especially in Vancouver and Toronto, which together represent a third of the national market. Household debt is also high in relation to disposable income. To reduce offshore demand, British Columbia recently introduced a 15% stamp duty on houses purchased by non-residents, the Vancouver council imposed a special tax on vacant homes, and the federal government took steps to prevent non-residents from unduly claiming the capital gains tax exemption for principal residences. Macro-prudential measures have been strengthened recently but may need to be tightened further and targeted regionally. To discourage more risky lending, mortgage insurance, which is backed by the federal government, should cover only part of lenders' losses in case of default, as proposed by the federal government.

Growth in non-energy exports and business investment should lead the recovery

Economic growth is projected to strengthen to 2.3% in 2018. Fiscal stimulus and the waning drag from declining investment and employment in the resource sector should support the initial rise in growth, followed by a pick-up in non-energy exports. They should

continue to benefit from the lower Canadian dollar and strengthening export market growth, which will be boosted by US fiscal stimulus, potentially increasing Canadian GDP growth by just over ¼ percentage point in 2018. Non-resource business investment should then rise with a lag as capacity constraints become binding. Growth in housing investment, on the other hand, should slow as further supply comes onto the market and the Vancouver and Toronto markets cool. Private consumption should continue to grow steadily, given moderate household income gains. The unemployment rate is projected to edge down to the structural rate (6½ per cent) by mid-2018. With excess capacity eliminated, well-anchored inflation expectations around the middle of the official inflation target band and gasoline prices and the exchange rate stable, the inflation rate could rise to around 2% by early 2018.

The main downside risk to these projections is a disorderly housing market correction, notably in the over-valued Vancouver and Toronto markets. This could result from an external shock that results in higher mortgage interest rates and/or unemployment, making it difficult for some financially stretched households to service their mortgage commitments. Such a correction would reduce residential investment and, through wealth effects, private consumption, and in an extreme case could threaten financial stability. There is also a risk that increased trade barriers in the major economies could stymie exports, reducing economic growth. The main upside risk is that the US expansion could be stronger than projected, lifting demand for Canadian exports. If global oil prices diverge from their assumed level, Canadian growth would also be correspondingly affected.