

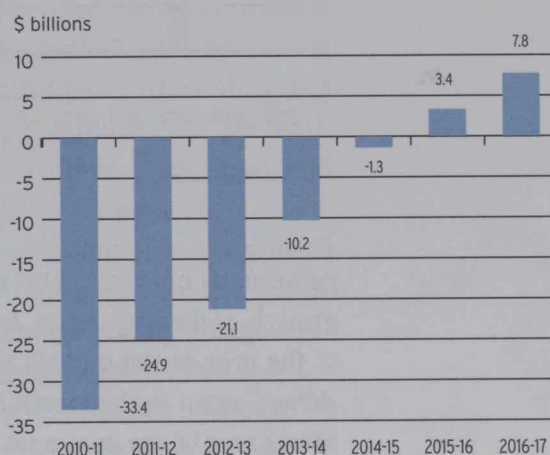
Canada's Economic Performance

During 2011, Canada's economic recovery continued, despite a more challenging global environment which saw output in the United States and the EU grow by only 1.7 percent and 1.6 percent, respectively. Economic activity contracted in the second quarter and was sluggish in the fourth quarter, reflecting external shocks from the natural disasters in Japan, the sputtering U.S. recovery and the escalation of the eurozone crisis. Canada's growth in 2011 was largely driven by domestic strengths. Business investment and confidence rose and many new jobs were added during the year, carrying the employment level over the the pre-recession peak. With the manufacturing sector still operating at roughly four fifths of its capacity, the Bank of Canada conducted an easy monetary policy that was not limited by concerns about inflationary pressures. One downside to the current prolonged period of low interest rates is Canada's record-high household debt, with the consumer debt-to-personal disposable income ratio now above 150 percent.

Canada's solid trade and economic performance has translated into a healthier fiscal position. According to the recently released Budget 2012, the fiscal deficit for 2011-12 fiscal year is now expected to come in at \$24.9 billion—\$7.4 billion less than projected in the Budget 2011—due to better than expected revenue growth. Despite expected deficits over the next few years, Canada remains on track to reach a balanced budget

FIGURE 3-1

Canada's Projected Budgetary Balance, 2010/11-2016/17



Data: Department of Finance
Source: Office of the Chief Economist, DFAIT

over the medium-term. Canada still boasts the strongest fiscal position in the G-7, and the IMF projects Canada's total net debt-to-GDP ratio will remain the lowest among the G-7 countries and be at about one third of the G-7 average in 2016.

Gross Domestic Product

Canada's real GDP contracted 2.8 percent in 2009 on the heels of the global recession, but economic activity rebounded in 2010 with 3.2-percent growth (see Figure 3-2). In 2011, real GDP continued to recover, but at a slower pace, increasing 2.5 percent for the year as a whole. There was a contraction in the second quarter amidst troubling economic conditions in Europe, Japan and the United States, which