Overview of the National Income and Expenditure Accounts

The Income and Expenditure Accounts are the centre of macroeconomic analysis and policy-making in Canada. They are used in a broad assortment of applications by a wide range of persons and groups in society. They are a means by which Canadians can view and assess the performance of the national economics. The accounts provide both a planning framework for governments and a report card on the results of the plans that governments carry out.

At the core of the Income and Expenditure Accounts (IEA) is the concept of Gross domestic product (GDP) and its components. It is a measure of aggregate economic activity that represents the unduplicated value of production in two ways: (i) Incomes arising from production and (ii) final expenditures on production. The first is the sum of factor incomes generated by productive activity – that is, incomes representing the returns to the labour and capital employed. The second is the sum of all sales to final users (consumers, governments, business on capital account, exports less imports). The two measures of GDP may not be equal to each other, giving rise to a statistical discrepancy.

GDP income-based - The income-based estimates show factor incomes accruing to labour and capital generated as part of the production process. The largest source of factor income is wages, salaries and supplementary labour income, which accounts for over half of GDP. The other income components are corporation profits before taxes, interest and miscellaneous investment income, accrued net income of farm operators, net income of non-farm unincorporated business (including rent), and inventory valuation adjustment. Together these six aggregates, plus taxes less subsidies on factors of production, yield Net Domestic Product at basic prices. GDP at market prices is calculated by adding taxes less subsidies on products as well as capital consumption allowances and one half of the statistical discrepancy.

GDP Expenditure-based - On the expenditure-based side, GDP is broken down into the categories of final purchases of goods and services. The major aggregate is personal expenditure on consumer goods and services, accounting for close to 60% of GDP. Government current expenditure on goods and services is a second component and government and business investment spending is a third. The sum of these components of the summary expenditure account is referred to as final domestic demand. To move from final domestic demand to GDP, the value of physical change in inventories, net exports of goods and services (that is, exports minus imports) and one-half of the statistical discrepancy are added.

Real GDP - Real GDP is related directly to other key macroeconomic variables such as employment, business cycles, productivity and long-term economic growth.

Real GDP is a measure of the volume of production. To measure this concept, GDP expenditure-based components are adjusted to eliminate the effect of price change. This process is known as deflation, and makes use of expenditure-side associated price indexes. Until 2001, real GDP was calculated by using a 'Laspeyres' formula. As of May 31st, 2001, the quarterly IEA adopted the Fisher index formula, chained quarterly, as the official measure of real expenditure-based GDP. The reason for the adoption of this particular formula is that it produces the most accurate measure of quarter to quarter growth in GDP.

Coverage - GDP includes all activities within the SNA production boundary. Illegal transactions are, for the most part, excluded.

Sector Accounts - The IEA also provide considerable information on the four major sectors of the economy: persons and unincorporated business, corporations, governments and non-residents. The sector accounts record (i) incomes and outlays, (ii) saving and investment and (iii) transactions in financial assets and liabilities for each of the four broad sectors of the economy. Additional information is also provided for sub-sectors of the government and corporate sectors. The sum of the final (non-transfer) income, or the final (non-intermediate) expenditure, of the sectors equals gross national product.

A sector has current incomes and current outlays. The difference between the two is saving. Saving, combined with capital consumption allowances and net capital transfers, is a source of funds for investment, or non-financial capital acquisition. To the extent that saving exceeds (falls short of) investment the sector is said to be in a net lending (net borrowing) position. A second measure of net lending/borrowing is provided by the difference between the transactions in financial assets less the transactions in liabilities and equity. The two measures differ somewhat due to statistical errors.

The IEA make up part of an integrated sequence of accounts. The source of information for the financial transactions of the sector accounts is the associated quarterly Financial Flow Accounts release. The end result of economic and financial activity is presented in the National Balance Sheet Accounts.