

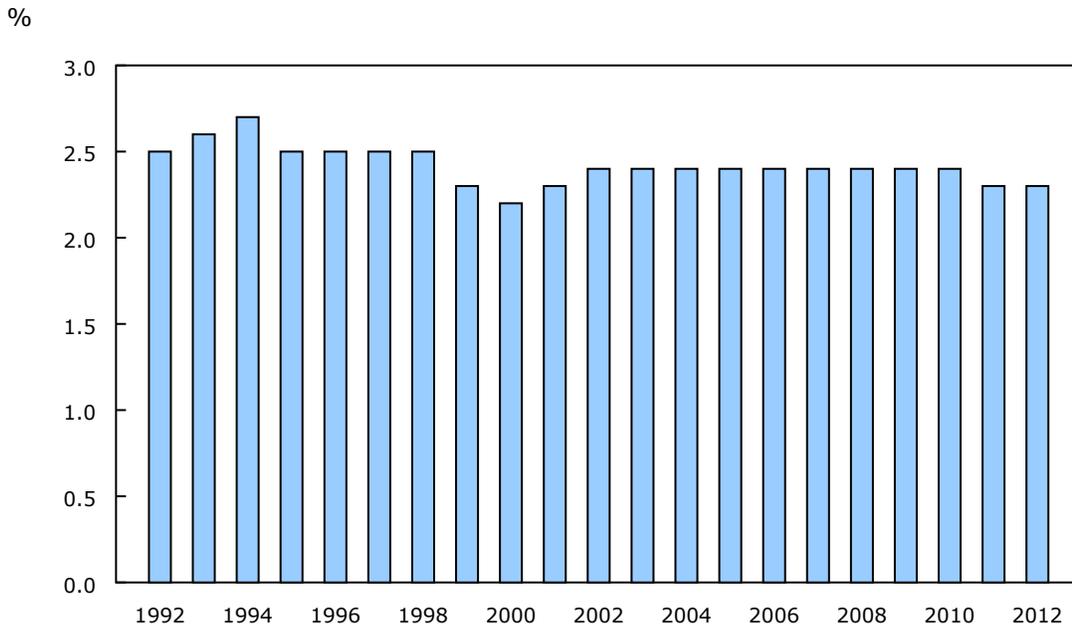
# The underground economy in Canada, 2012

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In 2012, total underground activity was \$42.4 billion in Canada or about 2.3% of gross domestic product (GDP). This proportion trended down during the mid- to late 1990s from a high of 2.7% in 1994 to a low of 2.2% in 2000. However, after a brief uptick in the early 2000s the proportion remained relatively stable between 2.3% and 2.4%.

## Chart 1

### Underground economy as a proportion of gross domestic product, Canada, 1992 to 2012



Source(s): Statistics Canada.

In 2012, the residential construction industry (28.3%), finance, insurance, real estate, rental and leasing and holding companies industries (13.8%), retail trade industry (12.2%) and accommodation and food services industry (11.6%) accounted for the greatest share of underground economic activity. These four industries together accounted for two-thirds of the total underground economy value added.

Underground economic activity can also be examined from an expenditure perspective. In 2012, household final consumption expenditure accounted for 65.2% of underground economy activity. Business gross fixed capital formation accounted for another 28.4%, exports 9.2% and imports negative 2.9%.

Underground activities related to household final consumption expenditure could have amounted to \$2,025 per household in 2012. The top five categories of underground activity per household were related to expenditures on food and beverage services (\$408 per household), paid rental fees for housing (\$388 per household), tobacco (\$164 per household), alcoholic beverages (\$151 per household) and the operation of transportation vehicles (\$117 per household).

Examined from the income-based approach, the largest share of the underground economy income went to employees (47.7%), followed by corporations (28.8%) and unincorporated businesses (23.4%). Wages paid under the table and undeclared tips accounted for an estimated \$20.3 billion in 2012 or equivalent to 2.2% of the official GDP estimates of compensation of employees. This amount represented \$1,466 for every job in the business sector in 2012.



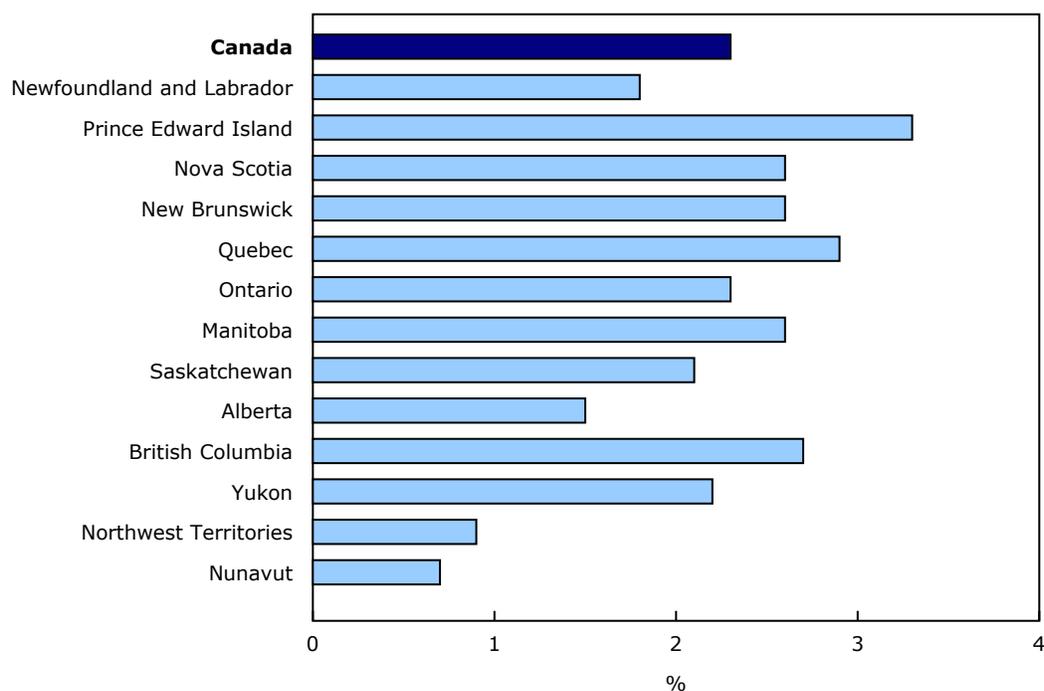
## Underground economy by province and territory

The total value of underground economic activity in 2012 was the highest in the four largest economies: Ontario (\$15.3 billion), Quebec (\$10.4 billion), British Columbia (\$5.9 billion) and Alberta (\$4.8 billion).

Between 2007 and 2012, underground activity increased in every province. Saskatchewan (+39.6%) and Newfoundland and Labrador (+31.1%) recorded the largest gains, while the Northwest Territories (+5.4%) and Nunavut (+7.1%) posted the smallest.

Despite changes in the value of underground activity, the underground economy as a proportion of GDP remained relatively stable in every province and territory. The underground economy as a proportion of GDP was the largest in Prince Edward Island, while Nunavut and the Northwest Territories had the smallest share.

**Chart 2**  
**Underground economy as a proportion of official gross domestic product by province and territory, 2012**



Source(s): Statistics Canada.

The underground economy accounted for 3.3% of GDP in Prince Edward Island in 2012. Retail trade as well as accommodation and food services, which the study assumes are most likely to have underground activity, make up larger shares of Prince Edward Island's GDP relative to other provinces. These industries, along with residential construction and manufacturing, account for the majority of underground activity in Prince Edward Island.

As a proportion of GDP, Nunavut and the Northwest Territories had the smallest underground economy, accounting for 0.7% and 0.9% respectively. This study assumes that there is no underground activity in the government sector, and that underreporting of revenues (or over reporting of expenses) is less likely to occur in highly regulated industries or in large businesses. Public administration and mining, quarrying and oil and gas extraction make up large shares of the economies in Nunavut and the Northwest Territories.

### Note to readers

Available today, for the first time, are estimates of the underground economy by province and territory for the reference years 2007 to 2012. National data are also available for the reference year 2012 while estimates for 2007 to 2011 have been revised.

The **underground economy** can be defined as consisting of market-based economic activities, whether legal or illegal, that escape measurement because of their hidden, illegal or informal nature. For the purpose of this study, some illegal activities, such as those related to drugs and prostitution, have been excluded.

The study presents underground economy estimates based on the three methods of measuring gross domestic product (GDP): the expenditure-based approach, the income-based approach and the industry-based approach. The data presented in this release are in current dollars. However, the study provides estimates adjusted for inflation at the national level but not by province or territory.

The underground economy estimates are fully integrated with the current framework of the Canadian System of National Accounts.

Readers should be careful in interpreting the results of this study. First, estimates presented give an upper bound, as recommended by the Organisation for Economic Co-operation and Development handbook on measuring the non-observed economy. To derive these bounds, assumptions were made to estimate the maximum potential underground activity beyond what is already included in GDP using standard methods. Second, by its very nature, it is difficult to obtain information on the underground economy so that the estimates necessarily rely on assumptions, indicative information and various indirect methods. Third, official GDP already includes some implicit and explicit adjustments for underground activity. For these reasons, the estimates calculated in this study cannot simply be added to the official GDP to arrive at a measure of GDP including the underground economy. Estimates are also less likely to be as accurate or reliable as other Canadian Economic Accounts estimates.

The [System of macroeconomic accounts](#) module, accessible from the *Browse by key resource* module of our website, features an up-to-date portrait of national and provincial economies and their structure.

Data tables for the provinces and territories 2007 to 2012, and for Canada 1992 to 2012, are available upon request.

The paper "Methodology for measuring the underground economy by province and territory" is now available as part of the *Latest Developments in the Canadian Economic Accounts (13-605-X)*. From the *Browse by key resource* module of our website choose *Publications*.

For more information, or to enquire about the concepts, methods or data quality of this release, contact us (toll-free 1-800-263-1136; 514-283-8300; [infostats@statcan.gc.ca](mailto:infostats@statcan.gc.ca)) or Media Relations (613-951-4636; [mediahotline@statcan.gc.ca](mailto:mediahotline@statcan.gc.ca)).