

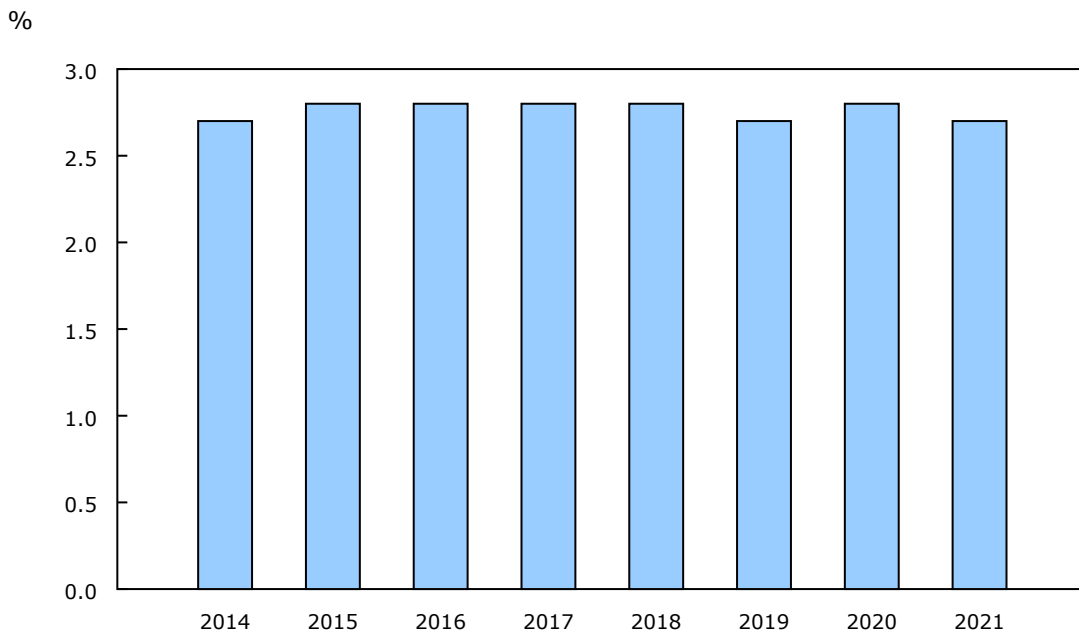
The underground economy in Canada, 2021

Released at 8:30 a.m. Eastern time in *The Daily*, Monday, February 20, 2023

The gross domestic product (GDP) at market prices for underground economic activity in Canada was estimated to be \$68.5 billion, or 2.7% of total GDP, in 2021.

The underground economy grew 4.8% in real terms in 2021, following a 4.5% decline in 2020. Most of the growth in 2021 was the result of an 18.0% increase in underground economic activity related to investment in residential structures, while the decline in 2020 was due to lower underground economic activity in household final consumption expenditure (-8.4%).

Chart 1
Underground economy as a proportion of gross domestic product, Canada 2014 to 2021



Source(s): Table 36-10-0682-01.

The underground economy is defined as consisting of market-based economic activities, whether legal or illegal, that escape measurement because of their hidden, illegal, or informal nature. In this study, some illegal activities, such as those related to drugs (except cannabis) and prostitution, have been excluded.

Residential construction largest contributor to underground activity

In 2021, the residential construction industry accounted for 35.0% (\$23.9 billion) of all underground economic activity, by far the largest contributor, followed by lessors of real estate (12.7%). Along with retail trade (10.5%) and accommodation and food services (7.3%), these four industries accounted for two-thirds of all underground economic activity in Canada. These industries have been the main contributors to underground economic activity in Canada since 1992, the first year data became available.

While the residential construction industry has historically been the largest contributor to underground economic activity, it was particularly high in 2021, as underground economic activity in this industry increased 32.8%. This was in line with a 31.3% increase in economy-wide business investment in residential structures.



Wages and undeclared tips account for largest share of unreported income

About 44.6% (\$30.6 billion) of unreported income in 2021 went to employees in the form of labour compensation. This represented 2.4% of economy-wide compensation of employees. Meanwhile, 29.9% of the remaining portion of underground income went to incorporated business owners, and 24.1% of the portion of underground income went to unincorporated business owners.

Food, beverages, tobacco and cannabis is the largest category for underground household expenditures

Underground economic activity associated with household final consumption expenditure was \$38.3 billion in 2021. Over one-quarter (26.3%) of this was tied to household purchases of alcoholic beverages, tobacco and cannabis products. Economy-wide, these products represented 4.0% of household spending.

Spending on paid rental fees for housing (19.5%) and food and beverage services (18.8%) were the next largest contributors to underground economic activity associated with household spending.

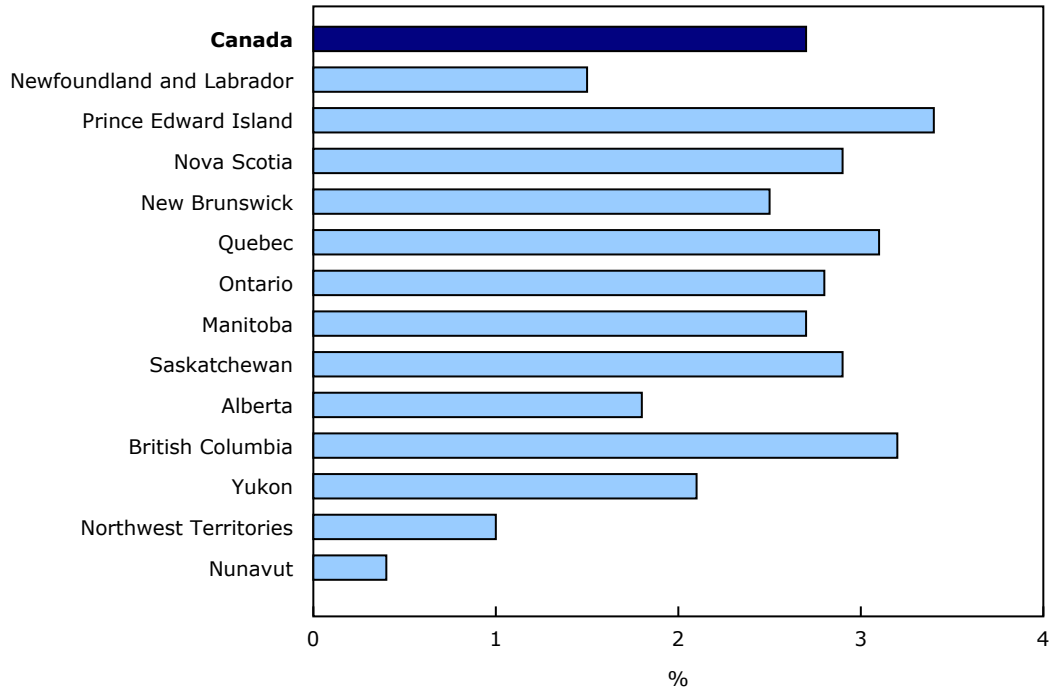
Household spending's share of underground economic activity decreased from 64.5% in 2019 to 56.0% in 2021. Household spending on services fell 8.7% in 2020 as several service-related businesses shut down at the height of the COVID-19 pandemic and haven't fully recovered. Also, household spending on unlicensed cannabis products fell 43.4% since 2018, when recreational use of cannabis was legalized. Furthermore, growth in underground activity related to business investment in residential construction strongly outpaced growth in underground activity related to household spending.

Underground economy by province and territory

The total value of underground economic activity in 2021 was highest in the four largest economies: Ontario (\$26.9 billion), Quebec (\$15.5 billion), British Columbia (\$11.1 billion) and Alberta (\$6.8 billion). These four economies accounted for 87.9% of total underground economic activity, while accounting for 87.1% of the total economy.

As a proportion of total economy-wide GDP in 2021, underground economic activity was the largest in Prince Edward Island (3.4%) and in British Columbia (3.2%), while Nunavut had the smallest share (0.4%). The relative size of the underground economy in a province or territory often reflects differences in the economic structure of that province or territory. Industries that are more prone to underground activity, such as crop production, residential construction, and accommodation and food and beverage services, have a larger economic presence in provinces and territories that have a higher share of underground economic activity.

Chart 2
Underground economy as a proportion of gross domestic product by province and territory, 2021



Source(s): Table 36-10-0682-01.

This study assumes that there is no underground economic activity in the government sector, which makes up a large share of the economies of Nunavut and the Northwest Territories.

Note to readers

New estimates of the underground economy by province and territory from 2019 to 2021 are now available, as well as revised estimates for the 2014 to 2018 reference years. Revisions are the result of methodological changes, as well as revisions to source data, including those from the provincial and territorial economic accounts released in November 2022. National estimates going back to 1992 and provincial and territorial estimates going back to 2007 will be available at a later date.

All estimates in this release are expressed in current dollars at market prices unless otherwise stated.

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. GDP by expenditure estimates are also available adjusted for inflation, at the national level only.

Readers should be careful in interpreting the results of this study. First, the estimates presented provide an upper bound, as recommended by the Organization 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, such that the estimates necessarily rely on assumptions, indicative information and various indirect methods. No specific assumptions were made to take into account the effects of the COVID-19 pandemic on underground economic activity.

Third, official GDP already includes some implicit and explicit adjustments for underground economic 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.

Available tables: [36-10-0682-01](#) to [36-10-0686-01](#) .

Definitions, data sources and methods: survey number [1901](#).

The reference papers "[Methodology for measuring the underground economy by province and territory](#)," as part of the *Latest Developments in the Canadian Economic Accounts* ([13-605-X](#)), and "[The Underground Economy in Canada, 1992 to 2011](#)," as part of the *Income and Expenditure Accounts Technical Series* ([13-604-M](#)), are available.

The *Latest Developments in the Canadian Economic Accounts* ([13-605-X](#)) is available.

The *User Guide: Canadian System of Macroeconomic Accounts* ([13-606-G](#)) is available.

The *Methodological Guide: Canadian System of Macroeconomic Accounts* ([13-607-X](#)) is available.

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) or Media Relations (statcan.mediahotline-ligneinfomedias.statcan@statcan.gc.ca).