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Incorporating the cannabis market in the national economic accounts, fourth quarter 2018

Introduction

The fourth quarter 2018 release of the national economic accounts includes estimates of the legal and illegal economic activities related to cannabis production, distribution and consumption for non-medical and medical use. Prior to this release, only the production, distribution and consumption activities related to legal use for medical purposes were recorded in the official estimates of Canada's gross domestic product.¹

On April 13, 2017 the Government of Canada tabled legislation in the House of Commons to legalize, regulate and restrict access to cannabis for non-medical purposes. Bill C-45, *the Cannabis Act*, was approved by Parliament and given royal assent on June 21, 2018. The drug's new status came into effect on October 17, 2018.

The *Act* permits the purchase and consumption of select cannabis products for non-medical purposes by adults. Some cannabis products have been legal for medical purposes for many years. All production of cannabis is strictly regulated by Health Canada. As of January 2018 there were 146 federally-licensed cultivators, processors and sellers² who are permitted to sell cannabis to provincially-authorized wholesalers and retailers who, in turn, sell to the general public. The producers are also permitted to sell cannabis products for medical purposes directly to individuals who are authorized by a health care professional.

Each province and territory is putting in place its own regulated retail regime, some restricting sales to government operated establishments and others allowing the private sector to enter this new retail market. The *Act* enables purchases from authorized retailers (both online and bricks-and-mortar stores) and personal cultivation of up to four plants, depending on the province or territory.

An excise duty is payable by federally-licensed cannabis producers to the Canada Revenue Agency when their products are delivered to provincially-authorized distributors and retailers.³

Impact of cannabis products in 2018

There are many economic activities related to cannabis. Households purchase the products for consumption. Cannabis businesses hire and pay employees, purchase intermediate inputs such as electricity and accommodation services, grow, process and distribute products, invest in plant, equipment and the accumulation of inventories and earn gross operating surpluses or mixed incomes. They also collect and remit excise duties and goods and services tax/harmonized sales tax collected on behalf of governments. Governments regulate the products and in some provinces sell them. They also provide related health, law enforcement and information services.

The national economic accounts allow users to view this economic activity from three perspectives, those of income, expenditure and production. Table 1 displays gross domestic product (GDP) and its rate of growth in the four quarters of 2018, from the expenditure perspective, broken down into an estimate of cannabis-related economic activity in GDP and the portion excluding cannabis. Cannabis-related economic activity is defined here as household spending on cannabis, both legal and illegal, plus the change in inventories of cannabis producers plus legal and illegal exports minus imports of cannabis.

1. The approach adopted for measuring illegal cannabis production and sales is explained in *A cannabis economic account – The framework*, Statistics Canada catalogue no. 13-605-X, November 21, 2017.

2. For more details see the [Health Canada](#) website.

3. For more details see the [Canada Revenue Agency](#) website.

Table 1
Cannabis output and gross domestic product at annual rates, 2018

	First quarter	Second quarter	Third quarter	Fourth quarter
	millions of dollars			
Gross domestic product at market prices	2,194,432	2,214,392	2,238,188	2,223,144
Of which: cannabis-related ¹	6,620	7,139	7,692	8,636
Of which: other	2,187,812	2,207,253	2,230,496	2,214,314
	percentage change (constant prices)			
Gross domestic product at market prices	0.5	0.6	0.8	0.1
Of which: cannabis-related ¹	5.2	7.6	6.2	10.7
Of which: other	0.5	0.6	0.7	0.1

1. Cannabis-related GDP is defined as household final expenditure on cannabis products, plus the change in inventories of cannabis producers, plus exports of cannabis products, minus imports of cannabis products.

Source: Statistics Canada.

Cannabis-related expenditures including inventory changes accounted for \$2.2 billion or 0.4% of GDP in the fourth quarter, of which illegal cannabis was an estimated \$1.4 billion (65%) and legal was \$770 million (35%).

Prices

As mentioned, an excise duty applies to all cannabis products. It is collected and remitted to the Canada Revenue Agency by the federally-licensed cultivators, processors and sellers when they sell products. Provincially-and-territorially-authorized wholesalers and retailers purchase cannabis products from the federally-licensed producers with the duty included, and mark up the prices at their discretion. The market prices paid by consumers also include the goods and services tax/harmonized sales tax, which is 5%, 13% or 15% depending on the province or territory. Some retailers also charge a service or delivery fee, notably in the case of online sales.

As shown in Table 2, data collected on the Statistics Canada crowdsourcing website *StatsCannabis*⁴ indicate that the average all-in market price paid for legal cannabis flowers was \$9.70 in the fourth quarter of 2018. The corresponding average price of illegal cannabis was \$6.51, lower than the price of legal cannabis by 32.9%. These statistics must be interpreted with caution because they are anonymously self-reported and do not constitute a random sample.

The national economic accounts implicit price index for household final consumption expenditures on cannabis, both legal and illegal, indicates that the aggregate price of cannabis increased 1.5% in the fourth quarter. This increase reflects, in part, the appearance of legal cannabis products including the associated tax and other margins.

Table 2
Cannabis and gross domestic product prices, 2018

	First quarter	Second quarter	Third quarter	Fourth quarter
	StatsCannabis average price (price per gram)			
All cannabis	6.82	6.93	7.09	7.39
Of which: legal cannabis	9.70
Of which: illegal cannabis	6.51
	implicit price indexes (2012=100)			
Gross domestic product at market prices	107.7	108.0	108.6	107.7
Of which: cannabis-related ¹	81.2	81.4	82.6	83.5
Of which: other	108.0	108.3	108.9	108.0
	implicit price indexes, percentage change			
Gross domestic product at market prices	0.5	0.3	0.6	-0.8
Of which: cannabis-related ¹	1.2	0.2	1.5	1.1
Of which: other	0.5	0.3	0.6	-0.8

.. not available for a specific reference period.

1. Cannabis-related GDP is defined as household final expenditure on cannabis products, plus the change in inventories of cannabis producers, plus exports of cannabis products, minus imports of cannabis products.

Source: Statistics Canada.

4.. The *StatsCannabis* crowdsourcing website invites Canadians to submit, voluntarily and anonymously, price, quantity and other information related to their purchases of cannabis. It has been collecting data continuously since January 25, 2018.

Economic activities involving cannabis

Table 3 shows more detailed cannabis-related supply and use statistics.

Legal cannabis supply has been growing for several quarters as producers built inventory in preparation for legalization in October.

Household final expenditure on legal cannabis products was \$307 million at current prices in the fourth quarter, while spending on illegal products was \$1.2 billion. Thus illegal cannabis represented an estimated 79% of the market, down from 90% in the third quarter.

The cannabis inventories of producers and retailers increased an estimated \$461 million at current prices in the fourth quarter.

Business investment spending by cannabis producers and distributors is included in the national economic accounts estimates but cannot be broken out separately at this time. Similarly, government expenditure related to cannabis—for regulatory functions, law enforcement, health care and educational activities—is included but cannot be separately identified at this time.

Table 3
Cannabis supply and use, quarterly, 2018

	First quarter	Second quarter	Third quarter	Fourth quarter
	millions of dollars at purchaser prices			
Supply				
Total supply	1,727	1,857	1,998	2,227
Legal	225	332	419	768
Illegal	1,502	1,525	1,579	1,459
Production	1,255	1,380	1,506	1,706
Legal	205	313	401	684
Illegal	1,050	1,067	1,105	1,022
Imports	72	72	75	68
Legal	0	0	0	0
Illegal	72	72	75	68
Margins	400	405	417	453
Legal	20	19	18	84
Illegal	380	386	399	369
Use				
Total use	1,727	1,857	1,998	2,227
Legal	225	332	419	768
Illegal	1,502	1,525	1,579	1,459
Household final consumption expenditure	1,373	1,392	1,426	1,478
Legal	150	149	137	307
Illegal	1,223	1,243	1,289	1,171
Inventory change	75	183	282	461
Legal	75	183	282	461
Illegal	0	0	0	0
Exports	279	282	290	288
Legal	0	0	0	0
Illegal	279	282	290	288

Source: Statistics Canada.