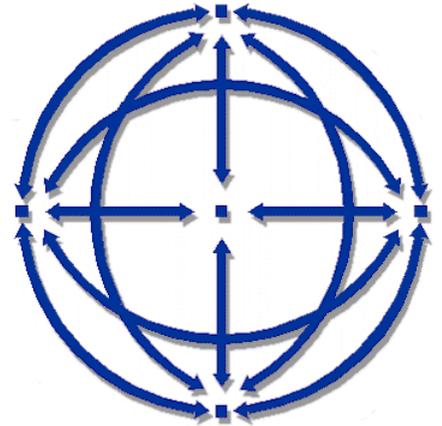


Latest Developments in the Canadian Economic Accounts

Reconciliation of capital expenditure and gross fixed capital formation



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- . not available for any reference period
- .. not available for a specific reference period
- ... not applicable
- 0 true zero or a value rounded to zero
- 0^s value rounded to 0 (zero) where there is a meaningful distinction between true zero and the value that was rounded
- ^P preliminary
- ^r revised
- X suppressed to meet the confidentiality requirements of the *Statistics Act*
- ^E use with caution
- F too unreliable to be published
- * significantly different from reference category ($p < 0.05$)

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Reconciliation of capital expenditure and gross fixed capital formation

On May 26, 2015, Statistics Canada released the results of the redesigned Capital and Repair Expenditures Survey (CAPEX). This survey program has been redesigned as part of a new model for producing economic estimates from business surveys and administrative information, by bringing together more coherent methods and processes. One outcome of this redesign is the removal of macroeconomic accounting adjustments that were previously applied to the CAPEX (Capital and Repair Expenditures Survey) results. In the past, these adjustments were applied in order to achieve an estimate more closely reflecting the concept of gross fixed capital formation (GFCF) that is used within the Canadian System of National Accounts (CSNA).

The CAPEX (Capital and Repair Expenditures Survey) program will now release estimates of capital and repair expenditures and the CSNA (Canadian System of National Accounts) will release, separate and distinct, estimates of gross fixed capital formation. Although the two concepts are very similar and each is an important indicator that provides different perspectives, the concept of GFCF (gross fixed capital formation) is broader in scope with a larger asset boundary. This note provides an overview of the concepts of capital expenditure and of gross fixed capital formation, and the reconciliation between the two estimates.

Capital expenditure

The capital expenditure estimates from the Capital and Repair Expenditure Survey represent expenditures by businesses and governments on buildings, engineering, machinery and equipment, software, and exploration and evaluation. All assets which normally have a life of more than one year and which are linked to future use in production are included, as well as expenditures on major renovations.

Gross fixed capital formation

Gross fixed capital formation is a key component in the calculation of expenditure-based Gross Domestic Product (GDP). It comprises investment in residential construction and investment in non-residential building and engineering construction, machinery and equipment and intellectual property products. Investment in building and engineering construction, machinery and equipment and intellectual property products accounted for 17% of the value of GDP (Gross Domestic Product) in 2012. The CSNA (Canadian System of National Accounts) follows the international macroeconomic accounting standard of GFCF (gross fixed capital formation), set out in SNA (System of National Accounts) 2008¹, and covers the business, government and non-profit institutions serving households sectors.

The concept of GFCF (gross fixed capital formation) goes beyond that of simply the purchase of fixed assets. As SNA (System of National Accounts) 2008 notes, it includes the acquisition of new and existing fixed assets, through purchases, barter transactions or own-account capital formation, less the disposal of existing assets. It also has an expanded asset boundary; including estimates of investment in research and development, weapons systems and the costs associated with ownership transfer.

Reconciliation between capital expenditure and gross fixed capital formation

In order to calculate an estimate of GFCF (gross fixed capital formation), the CAPEX (Capital and Repair Expenditures Survey) results for capital expenditure on building, engineering, machinery and equipment, software, and exploration and evaluation are the starting point. The following outlines the adjustments applied to CAPEX (Capital and Repair Expenditures Survey) results to arrive at the GFCF (gross fixed capital formation) concept.

Adjustments applied to capital expenditure to produce the CSNA (Canadian System of National Accounts) concept of GFCF (gross fixed capital formation)

- transfer costs: an addition to include costs associated with the purchase of existing fixed assets;
- software: an addition for the non-reported portion (own-account software);
- aircraft leasing: upward adjustment to account for aircraft leased from outside of Canada;
- vehicles to personal expenditure lease: a deduction to remove the value of vehicles leased for personal use;
- capital items charged to operating expense: a positive adjustment related to items that businesses treat as current expenditure, yet, according to SNA (System of National Accounts) 2008, must be capitalized;
- business use of personal purchase and personal use of business purchase: adjustment to correctly capture which sector utilizes the purchase, business use is an addition, personal use is a subtraction;
- used motor vehicles, aircraft, and scrap and salvage: an adjustment to account for dis-investment and for the fact that used machinery and equipment were already included in GDP (Gross Domestic Product) when first produced;
- net additions: additions for capital investment projects not captured by CAPEX (Capital and Repair Expenditures Survey) (government sector investment projects); and
- sectoring and balancing: sectoring is related to survey data that are reclassified to business, government or non-profit institutions serving households sectors based on CSNA (Canadian System of National Accounts) definitions. Balancing relates to secondary data sources that are used to ensure coherence between inputs and outputs, and with other accounts within the CSNA (Canadian System of National Accounts).

As the previously applied adjustments will no longer be part of the CAPEX (Capital and Repair Expenditures Survey) release, a reconciliation table between capital expenditure and GFCF (gross fixed capital formation) will be available at the time of the CSNA (Canadian System of National Accounts) annual revision.

Note

1 System of National Accounts 2008, United Nations, the European Commission, the Organisation for Economic Co-operation and Development, the International Monetary Fund and the World Bank, New York, 2009.
