

# What is GDP, Really?

*The acronym GDP, short for Gross Domestic Product, is everywhere in Canada's economic debate, but rarely well understood. This article offers a "GDP 101" primer to explain the components of GDP and their impact on the economy. It breaks down what drives GDP and why investment, trade, and productivity matter more than headline growth.*

## Summary

- GDP measures the flow of economic activity through an economy, not wealth or income distribution.
- Long-term GDP growth depends on investment, productivity, and export capacity — not just population growth or government spending.
- In a world of economic coercion, a strong and resilient GDP underpins a country's fiscal capacity, competitiveness, and strategic leverage.

## A Brief Recap

GDP is one of the most cited numbers in public life, yet one of the least understood. The measure is used as shorthand for prosperity or national success, often without much attention to context or what drives the numbers.

In Part I, we argued that this is no longer sufficient. In a world of economic warfare, GDP shapes a country's fiscal capacity, investment appeal, strategic relevance and even defense of sovereignty. This article turns to the mechanics. We examine what GDP measures, how it is constructed, and why its components matter.

## GDP in Plain English

At its simplest, Gross Domestic Product is a measure of economic activity, not wealth. One of the easiest ways to understand it is through an analogy most people grasp immediately: your household finances.

Think about your household over the course of a year. Money comes in through paycheques, investment

income, and perhaps other sources. That income is then spent on day-to-day living, longer-term outlays — say a renovation or new appliances — or set aside as savings. By year-end, those flows don't tell you everything about your family's financial health, but they do tell you something important: how much economic activity moved through your household during that period.

## The Country as a Household

GDP works much the same way at the scale of an entire country. The calculation measures the total value of economic activity generated over a given period, usually a quarter or a year. Reported numbers capture how much is being spent, invested, and traded. But note: GDP does not reflect how wealthy a country is, nor how income is distributed among its citizens.

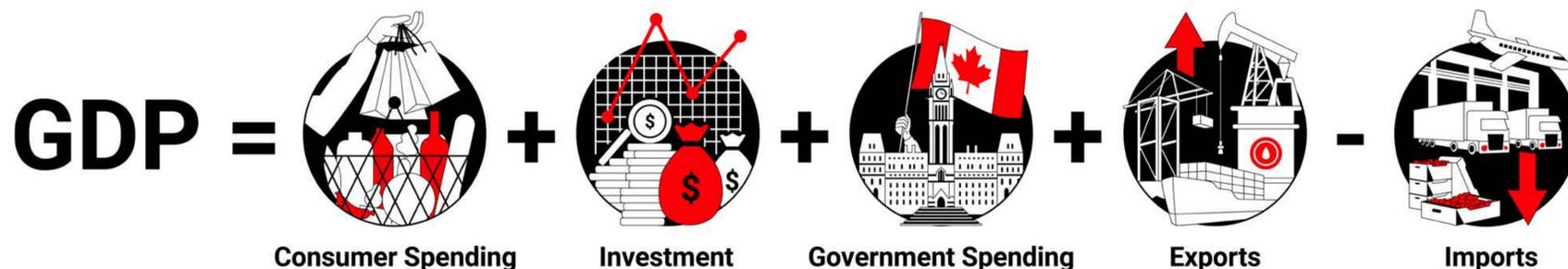
That distinction between money flow and wealth matters. A household can have a strong income one year and still be financially fragile if it spends poorly or underinvests in the future. Countries are no different. Strong GDP growth can coexist with long-term vulnerabilities. What cannot be hidden for long is the strain that comes from weak income growth or insufficient investment.

GDP has its shortcomings. Detractors say GDP per person doesn't measure national happiness or other gauges of wellbeing. Fair comments, but there are other ways to assess those considerations. For overall financial health, GDP remains one of the best, broadest and well accepted measures of a country's economic capacity.



## The Formula

There are several ways to calculate GDP, each offering a different lens on the economy. From a macroeconomic lens, one of the most commonly used is the *expenditure identity*:  $GDP = C + I + G + (X - M)$



At first glance, formulas like this can feel abstract — or even mildly intimidating. The good news is that this one is far more intuitive than it looks.

The equation simply itemizes the basic sources of economic activity: household consumption, investment, government spending, and trade with the outside world. Taken together, the terms show where GDP comes from and provide a practical framework for thinking about how an economy grows — or why it stalls.

Let's break it down, letter by letter.

### C — Consumption

Consumption reflects household spending on goods and services such as food, housing, transportation, healthcare, and discretionary purchases. In most advanced economies, this is the largest component of GDP. In Canada, consumption accounted for about 55% of total GDP in 2024. At an economy-wide level, consumption tends to be relatively stable, particularly when population growth is steady.

That stability, however, should not be confused with rigidity. Anyone who manages a household budget knows that spending responds to conditions. Confidence matters. Income growth matters. Prices matter. When costs rise faster than wages, or uncertainty sets in, spending tightens — and the economy feels it.

Consumption keeps an economy moving, but on its own it rarely makes an economy stronger.

### I — Investment

Investment captures spending on assets that expand future productive capacity. This includes business investment in machinery, equipment, factories, infrastructure, technology, and intellectual property,

#### LNG Canada and the Ladder of Ambition



Source: LNG Canada

LNG Canada shows how large private investment drives GDP through construction spending and exports, while also shifting Canada's gas sector toward more diversified global markets. GDP captures the activity, but only partly reflects the strategic step up from dependence to export optionality.

[GDP Qualitative Example: LNG Canada](#)

as well as residential construction. Despite the name, this is not about financial assets like stocks or bonds. Investment is about building productive assets.

Private spending on pipelines, ports, railroads, telecommunications networks, roads, airstrips, and power generation and transmission lines are all examples of investment that enable future economic activity. In practical terms, 'I' lays the groundwork for future growth in both consumption and exports by increasing the economy's capacity to produce, move goods, and earn income.

Consider liquefied natural gas (LNG). Investment in LNG facilities — gas processing plants, liquefaction terminals, pipelines, and port infrastructure — creates immediate construction activity. More importantly, once built, that infrastructure enables decades of upstream investment, export revenue, employment, and tax income. The economic value does not end when construction crews leave; it continues when gas starts flowing.

Investment is where ambition shows up in GDP — and where energy infrastructure plays its most visible and consequential role. Without sustained investment, growth may continue for a time, but it becomes thinner, more vulnerable, and harder to sustain. In Canada, investment accounts for roughly 20% of GDP, but not all investment contributes equally to future growth. Whether that share is being allocated for maximum torque to the Canadian economy is a distinction we will explore in the next part of this series.

### G — Government Spending

Government spending reflects public-sector purchases of goods and services, including healthcare, education, defence, and infrastructure such as bridges and roads. It does not include transfer payments like pensions or income supports, which redistribute income but do not directly add to economic output. In Canada, government consumption accounts for roughly 20% of GDP, making it a significant

component of overall economic activity.

What matters, however, is how that spending is deployed. Over the past decade, much of the growth in government spending has taken the form of expanded administration and program delivery. While this supports employment and short-term activity, it does not necessarily expand the economy's productive capacity or export potential.

#### Trans Mountain and Escaping the Market Hostage Trap



Source: Trans Mountain

The Trans Mountain Pipeline expansion illustrates how government capital spending can progress major infrastructure projects that may not proceed with private investment alone. This contributes to GDP during construction and, more importantly, once the project is operational.

#### **GDP Qualitative Example: Trans Mountain**

By contrast, a more strategic use of public spending treats parts of 'G' as a catalyst for investment. Subsidies, incentives, loan guarantees, and co-investment programs can be structured as a form of

strategic “I”, designed to attract private capital into infrastructure and industries that support future growth.

This distinction lies at the heart of modern industrial policy. In state-capitalist models such as China’s — and increasingly in the United States — governments invest alongside corporate partners in strategic sectors including energy, telecommunications, AI, and critical resources. The objective is not simply near-term GDP growth, but longer-term geoeconomic strength and resilience. Whether Canada’s approach has achieved similar results is a question we will return to later in this series.

### **X — Exports**

Exports represent goods and services produced domestically and sold to foreign buyers. From a GDP perspective, exports add to national income because they bring demand — and dollars — into the country from abroad.

For resource-rich economies like Canada, exports are not only a major source of GDP but also a potential accelerator of growth. They connect domestic production to global markets and, in doing so, provide a form of strategic leverage. Countries that can reliably supply energy, commodities, or critical goods gain economic influence that extends beyond simple trade flows.

Exports, however, do not materialize on their own. They must be enabled. In the case of oil and natural gas, that means pipelines, LNG facilities, and port infrastructure. In short, “X” cannot be realized without “I.” Export growth is inseparable from investment in the infrastructure that allows products to reach global markets — an important consideration when evaluating policy initiatives such as Bill C-5, Canada’s federal legislation aimed at accelerating approvals for major infrastructure and resource projects while reducing interprovincial trade barriers.

### **M — Imports**

Imports are goods and services produced abroad and consumed domestically. They are subtracted from GDP not because they are undesirable, but because their value is already embedded in consumption, investment, or government spending while the underlying economic activity occurred outside the country.

From a strategic perspective, imports matter because they reveal where economic activity is leaking abroad. Reducing imports by producing more at home, or by removing barriers to interprovincial trade, can raise GDP without increasing overall spending. In that sense, lowering unnecessary imports is often less about protectionism and more about unlocking domestic capacity that already exists but remains underutilized.

### **Formula Recap**

Seen this way, the GDP formula is more than a static accounting identity. Each term captures a different source of economic strength, and the balance between them determines whether an economy merely stays busy or becomes more resilient over time. Once the mechanics are understood, the more important question follows: how should those components be shaped deliberately in a country like Canada where economic capacity itself has become a strategic asset?

### **Applying a Strategic Lens to GDP**

The components of GDP are co-dependent. They move together, reinforce one another, and weaken together. When GDP is viewed strategically rather than as a backward-looking statistic, several core principles become clear.

### **Attracting Investment Is Vital**

Without sustained investment, both consumption and exports eventually falter. Investment maintains and expands the productive backbone of the economy.

Neglect it long enough, and the system weakens — much like a household that stops maintaining its home and appliances.

Private-sector investment depends on policy certainty and regulatory credibility. Capital is mobile. If the investment climate is slow, uncertain, or hostile, capital will flow elsewhere. Countries do not compete for investment with slogans. They compete with stable rules, credible timelines, and returns that justify risk.

Attracting foreign investment to build infrastructure has an additional advantage: it's shrewd and allows a country like Canada to use other people's capital to expand productive capacity. Once built, that infrastructure supports domestic consumption and exports for decades, generating long-term GDP well beyond the initial investment.

### The Different Flavours of "I"

Not all investment contributes equally to long-term growth. Residential construction and government consumption can keep GDP growing in the short term, but they do little to expand export capacity or productivity. Durable growth depends on investment in assets that raise output, enable trade, and improve competitiveness — especially infrastructure that connects resources to markets.

### The Role of the Government Purse

Not all government spending is created equal. Expanding bureaucracy may lift GDP on paper, but it does little to expand productive capacity. Government spending directed toward investment — particularly infrastructure — can position the economy for sustained growth, provided it is designed to attract private capital rather than crowd it out.

This approach is not without controversy. Free-market skeptics argue that government intervention distorts price signals, misallocates capital, and risks politicizing investment decisions. From this perspective, states are poor capital allocators and tend to pick winners badly.

### Oilsands Development and Catalytic Public Investment



Source: Cenovus

Development of the oilsands demonstrates how early public investment can catalyze private capital, producing successive waves of GDP growth as projects scale.

### GDP Qualitative Example: Oilsands Development

State-capitalist models counter that in strategic sectors — energy, infrastructure, and critical resources — markets often underinvest due to scale, risk, and long time horizons. A more pragmatic view has emerged in practice: governments need not replace markets, but they can shape them, aligning public objectives with private capital to accelerate investment that would otherwise stall.

### Avoiding Recency Bias

A short-term GDP lift from building assets should not be confused with the long-term economic value created after a project is built. Construction boosts GDP once. Productive infrastructure generates income, trade, and growth for decades. Confusing the two leads to narrow thinking about subsidies, public

investment, and the role of foreign capital.

### GDP as a Tool, Not a Target

GDP is often treated as a scoreboard — a number debated after the fact. In a world of economic warfare, however, GDP shapes how much a country can invest, how resilient it is under pressure, and how much leverage it can exert or withstand.

The GDP identity is not an accounting curiosity. It is a map showing where economic strength is built — and where it quietly erodes when the wrong choices are made. GDP does not answer every policy question, but as a framework for understanding how today's decisions shape tomorrow's capacity, it remains indispensable.

### Closing Thoughts

GDP is often treated as a headline number, something to debate after the fact. But viewed through its components — consumption, investment, government spending, and trade — it becomes a strategic diagnostic. The formula reveals how economic strength is built, where it is sustained, and where it quietly erodes.

The lesson is not subtle. Economies that lean too heavily on consumption and government activity can remain busy for a time, but resilience comes from investment and exports. Long-term growth depends not just on how much an economy spends, but on what it builds and how effectively it connects production to markets.

This matters now more than at any point in recent decades. Canada is entering an era of economic warfare from a position of weakness, with sluggish productivity, underwhelming investment, and constrained export capacity to global markets. In a geoeconomic world, GDP determines fiscal room, investment appeal, and the ability to absorb external pressure. Attracting capital, building long-lived infrastructure, and expanding access to global markets

are no longer optional policy choices — they are core elements of economic security.

The next parts of this series move from framework to evidence. We will examine Canada's GDP composition in detail, assess where growth has come from and where it has not, and explore how strategic investment, particularly in energy infrastructure, could materially strengthen the country's economic resilience and strategic position. 📌



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