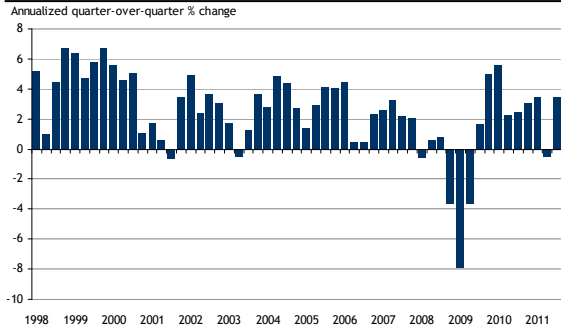


CANADIAN NATIONAL GDP ACCOUNTS NOVEMBER 30, 2011

Canadian real GDP



Source: Statistics Canada, RBC Economics Research

Canadian Q3 GDP annualized growth bounced up a higher-than-expected 3.5% following Q2's disappointing decline of 0.5%

The Canadian economy recovered from the disappointing 0.5% annualized decline in Q2, revised slightly from a previously estimated -0.4%, with growth bouncing up to 3.5%. Expectations going into the report were for some improvement though to a more moderate 3.0% gain.

Implications

Expectations for a rebound in Q3 growth were largely based on the earlier released merchandise trade numbers that indicated an almost full reversal of the weakness in Q2 trade. This weakness in trade was the main contributor to the overall decline in Q2 GDP. Today's report confirmed this offset with net exports contributing 5.2 percentage points to growth following the sizeable 6.1 pp reduction in Q2. The improvement largely reflected exports rising an annualized 14.4% in the quarter after dropping 6.2% the previous quarter. Imports also made a contribution to the improvement in net exports falling 3.2% after the 13.6% surge in Q2.

Final domestic demand rose only 0.9% in Q3 down from the 3.1% gain in Q2. This mainly reflected business investment dropping 3.6% after a 14.6% surge in Q2. We expect business spending to return to positive growth in the fourth quarter with strengthening capital expenditure particularly in the natural resource sector. The slowdown in FDD was also the result of some unexpected slowing in consumer spending growth to 1.2% from a 2.1% gain in Q2. Most of the downward surprise was in the durables component which dropped 1.5%. However, given the continued strength in residential investment, which jumped 10.9% in Q3, we expect some recovery in this area of consumer spending in Q4. The main drag on overall Q3 GDP growth came from business inventories which subtracted 2.7 pp in Q3.

Also released this morning was the September GDP report which rose 0.2% in the month. This was slightly below an expected 0.3% though the August gain was revised up to 0.4% from the 0.3% initially estimated. Strength in the economy continues to be skewed to goods-producing industries which were up 0.5% in the month in comparison to only a 0.1% gain in service-producing industries. The increase in the former reflected a 0.6% rise in manufacturing and a 0.5% gain in the mining and oil and gas extraction component.

The strong gain in Q3 GDP provides support to the view that the disappointing Q2 decline of 0.5% reflected the confluence of a number of transitory negative factors. These factors include the supply-chain problems in the motor vehicle sector that emanated from the natural disasters in Japan in March. As well, wildfires in Northern Alberta that contributed to numerous shutdowns of oil sand production facilities. These factors contributed to the weakness in Q2 exports. However, the boost to Q3 growth provided by the reversal of these factors is not expected to continue to the same extent into the fourth quarter. Though the 0.2% rise in September GDP and the recovery

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in business investment bode well for growth to continue in the final quarter of 2011, we are currently projecting a moderation in the annualized rate to 2.0%. This would result in 2011 annual growth of 2.4%.

Despite an expected moderation in Q4 growth, the average quarterly rate over the second half of this year is about a percentage point higher than was forecast by the Bank of Canada in its latest forecast released in October. Stronger-than-expected growth on its own would argue for less monetary policy accommodation. However, the central bank has made clear it sees the main downside risks as external to the Canadian economy. A festering of the European debt situation could weaken the global recovery further with attendant downward pressures on commodity prices. Until there are indications that Eurozone policymakers are able and prepared to contain these pressures, the Bank of Canada is likely to keep policy highly accommodative.

Data details

- Q3 GDP annualized growth rose a stronger-than-expected 3.5% following a 0.5% decline in Q2
- The rebound in growth largely reflected a rebound in net exports with exports jumping higher in the quarter
- In a separate report, September GDP rose 0.2% following a 0.4% rise in August

Q3 national accounts

Annualized % change (millions of chained 2002 dollars) from previous quarter

	Q3-10	Q4-10	Q1-11	Q2-11	Q3-11
Consumer Spending	2.8	4.4	-0.1	2.1	1.2
Durables	1.6	11.0	-6.5	2.1	-1.5
Semi-Durable	5.6	2.9	0.2	-1.0	4.1
Non-Durables	2.6	0.9	-0.8	0.2	1.8
Services	2.9	4.8	1.6	3.3	1.1
Business Fixed Investment	11.5	7.8	10.2	9.6	1.6
Residential	-5.1	-0.9	6.7	1.6	10.9
Non-residential	23.5	13.5	12.3	14.6	-3.6
Machinery & equipment	30.5	5.0	14.5	32.7	-11.0
Government Spending	0.5	2.7	-1.2	1.1	0.9
Government fixed investment	15.8	7.1	1.2	-0.2	-4.8
Final domestic demand	4.3	4.8	1.5	3.1	0.9
Exports	-1.2	8.8	6.2	-6.4	14.4
Imports	8.4	-0.5	8.4	13.6	-3.2
Change in inventories (\$b)	15.6	0.2	9.9	20.8	10.3
Real GDP	2.5	3.1	3.5	-0.5	3.5

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