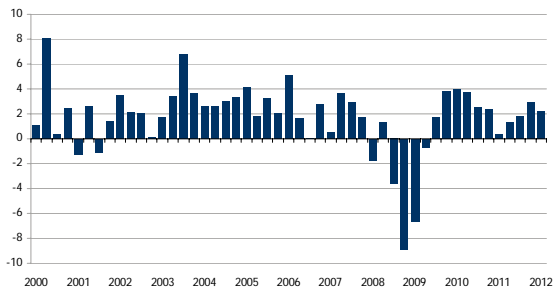


U.S. NATIONAL GDP ACCOUNTS APRIL 27, 2012

Real GDP: U.S.

Annualized quarter-over-quarter % change



Source: Bureau of Economic Analysis, RBC Economics

The advance or first estimate of U.S. Q1 GDP indicated continued growth of 2.2% though this was down from 3.0% in Q4

Implications

The advance, or first, estimate of annualized U.S. Q1 GDP growth was 2.2%, which was weaker than the 2.5% expected going into the report and down from the 3.0% recorded in Q4. The slowing in growth relative to Q4 mainly reflected less of a build in inventories which only added 0.6 percentage points to growth following a sizeable 1.8 pp add in Q4. As well, business investment dropped 2.1% in the quarter following a 5.2% increase in Q4 with non-residential structures sinking 12.0% in Q1. Government spending continued to decline dropping 3.0% in Q1 though this represented a moderation from the 4.1% drop in Q4.

Tempering this slowing was growth in consumer spending which grew by a solid 2.9% and compared to a 2.1% increase in Q4. As well, growth in residential investment rose 19.0% from Q4's already strong double digit gain of 11.7% though some of this strength may have reflected warmer than usual winter temperatures.

While marking a moderation from the pace of growth in Q4, the gain in Q1 GDP suggests that improved momentum in private spending built up over the second half of last year remained largely intact early in 2012. Encouragingly, the respectable pace of growth in Q1 was despite a sharp moderation in the support to growth from inventories with offset provided by notably stronger domestic demand. The increase in Q1 GDP was likely at least in part the result of a warmer-than-normal winter, suggesting some downside risk to residential investment in Q2 as this effect will unwind as temperatures return closer to normal in the spring. With that said, we expect that underlying improvement in labour markets and signs that, even accounting for favourable weather, housing markets have begun to show modest underlying improvement will remain sufficient to allow further growth in consumer spending. In addition, improving domestic demand, still highly stimulative monetary policy and healthy business balance sheets will result in stronger growth in business investment spending going forward. Finally, we are assuming less weakness in government spending that on balance point to GDP growth at a 2.6% rate in the second quarter of 2012.

Data details

- The advance, or first, estimate of US Q1 annualized GDP growth was 2.2%, which represented a slowing from a 3.0% gain in Q4 and slightly lower than the 2.5% expected within financial markets going into the report.
- The moderation in the pace of activity was the result of a smaller add to growth from inventories and a decline in business investment. Government spending continued to decline in Q1 though at a more moderate rate relative to Q4. Additional offset was provided by a strengthening in

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consumer spending and residential investment.

- While indicating a moderation from the pace of growth in Q4, the gain in GDP in Q1 suggests that improved momentum in private spending built up over the second half of last year remained largely intact early in 2012. Looking ahead to Q2 we are assuming this strength will continue which along with less drag from both business inventories and government spending will result in Q2 growth rebounding slightly to 2.6%.

Q1 national accounts – first estimate

Annualized % change from previous quarter

	Q1-11	Q2-11	Q3-11	Q4-11	Q1-12
Consumer Spending	2.1	0.7	1.7	2.1	2.9
Durables	11.8	-5.3	5.7	16.1	15.3
Non-Durables	1.6	0.2	-0.6	0.8	2.1
Services	0.8	1.9	1.9	0.4	1.2
Business Fixed Investment	1.2	9.2	13.0	6.3	1.4
Residential	-2.5	4.2	1.2	11.7	19.0
Non-residential Structures	-14.4	22.6	14.4	-1.0	-12.0
Equipment and Software	8.7	6.3	16.2	7.5	1.7
Government Spending	-5.9	-0.9	-0.1	-4.1	-3.0
Inventory Change (\$ bn)	49.1	39.1	-2.0	52.2	69.5
Final domestic demand	0.4	1.3	2.7	1.3	1.6
Exports of Goods and Services	7.9	3.6	4.7	2.7	5.4
Imports of Goods and Services	8.3	1.4	1.2	3.7	4.3
Real GDP	0.4	1.3	1.8	3.0	2.2

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