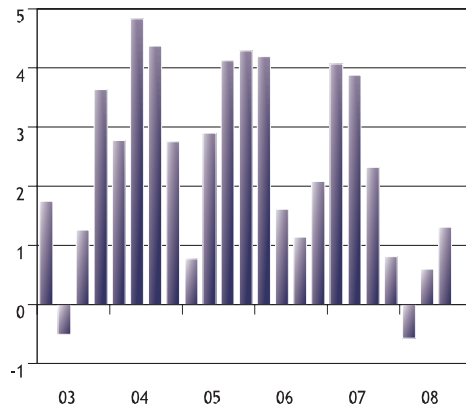


CANADIAN NATIONAL GDP ACCOUNTS

December 1, 2008

Canada's quarterly growth profile

Annualized % change in real GDP from previous quarter



Source: Statistics Canada

Canada's GDP strengthens in the third quarter

GDP rose an annualized 1.3% in the third quarter, modestly stronger than the upwardly revised 0.6% gain in the second quarter (previously reported at 0.3%). The third-quarter rise was also stronger than market expectations of a 0.9% gain. On a month-over-month basis, GDP rose a smaller-than-expected 0.1% in September following a downwardly revised 0.5% drop in August (originally reported as -0.3%).

Net exports delivered the biggest surprise by adding 0.1 percentage points to overall GDP growth compared to expectations of a subtraction of 0.5 to 1 percentage points. Although exports fell 5.4% in the quarter, imports unexpectedly fell an even greater 6.1%. Services imports were down markedly in the quarter reflecting a sharp drop in securities trading that weighed on the financial services component. There was also a slightly larger-than-expected add to growth from inventories.

Strength in these areas was partly offset by weaker-than-expected final domestic demand led by consumer spending, which rose only an annualized 0.7% in the quarter. Consumer spending has been steadily weakening during the last three quarters, generally mirroring a similar trend in labour income growth. That said, labour income still managed to rise an annualized 3.4% in the third quarter.

Monthly GDP numbers showed a gain of 0.1% in September relative to August's level, up significantly from a 0.5% decline in August although slightly below market expectations of a 0.2% rise. Although services-producing industries rose 0.3% in the month, these gains were almost fully offset by a 0.3% decline in goods-producing sectors. The weakness was led by a 1.2% drop in mining and oil and gas

Q3 national accounts

Annualized % change (millions of chained 1997 dollars) from previous quarter

	Q3/07	Q4/07	Q1/08	Q2/08	Q3/08
Consumer spending	4.2	7.5	2.5	2.0	0.7
Durables	-1.4	11.5	17.1	1.0	0.3
Semi-durables	8.4	3.0	4.6	5.9	4.3
Non-durables	2.2	3.9	-0.6	-0.2	-0.7
Services	5.8	8.8	0.4	2.7	0.9
Business fixed investment	4.5	4.2	-0.5	0.3	0.5
Residential	4.1	1.8	-6.9	-3.8	-0.1
Non-residential	4.8	5.6	3.4	2.6	0.8
Machinery and equipment	13.2	14.0	2.1	-0.3	-0.8
Government spending	7.2	5.8	2.2	3.9	0.5
Government fixed investment	12.5	1.0	8.4	3.6	-0.1
Final domestic demand	5.1	6.3	2.0	2.1	0.6
Exports	-1.1	-7.4	-4.2	-5.2	-5.4
Imports	20.6	8.6	-9.0	2.8	-6.1
Business inventories (chg. in \$b)	20.5	20.6	4.2	10.2	12.0
Real GDP	2.3	0.8	-0.6	0.6	1.3

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extraction as a result of supply disruptions hampering oil production, which bodes well for some rebound in activity in subsequent months.

The growth in third-quarter GDP came in stronger than the 0.8% projected by the Bank of Canada in the most recent *Monetary Policy Report* released in October. However, much of the upward surprise came from a larger-than-expected decline in imports and a rise in inventories that likely largely reflects softer domestic spending in the quarter. As well, the downturn in U.S. growth and continuing tight credit conditions are expected to have a more dominant impact, sending growth into negative territory in the next two quarters. To limit the extent of declining activity, we expect that the Bank of Canada will ease the policy rate further next week, cutting the overnight rate by 50 basis points to 1.75%.

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