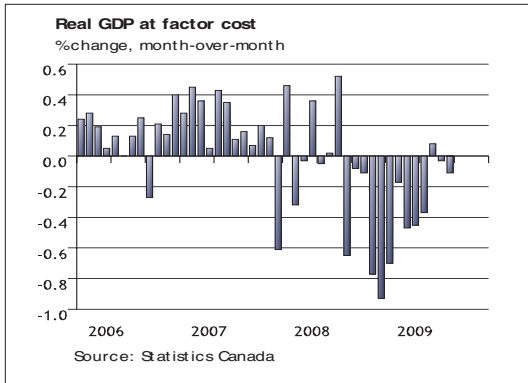


## Overview and highlights



▲ GDP output slid by 0.1% in August, defying expectations for a move into the plus column for the second month in a row. This charts a course for the economy to have stopped contracting in the third quarter but falls short of forecasts for a 2% annualized gain.

▲ The economy pared back the number of employed by 43,200 in October — the first decline in jobs in three months. But, because of job gains in August and September, there was a net gain of 14,500 positions created during the three-month period.

▲ While much of the 0.8% improvement in nominal sales in August is attributable to rising gasoline prices, the 0.4% increase in sales volumes suggests that consumer spending likely returned to a positive, but subdued, rate of increase of 1.6% in the third quarter following the 1.8% rise in the second.

▲ Housing starts rose 5.4% in October to an annualized level of 157,300 that more than offset the 3.9% drop to 149,000 units in September. The rise re-established the upward trend that had prevailed through August, with starts steadily rising from a cyclical trough in April of 118,500.

▲ The merchandise trade deficit was cut in half in September to C\$0.9 billion from C\$2 billion in August. The improvement was almost solely the result of a 3.5% jump in exports; imports were relatively steady, dropping a marginal 0.1%.

▲ Overall prices were flat in September; the year-over-year rate stayed in negative territory and the pace of decline increased marginally to 0.9% following August's 0.8% drop. Core prices increased 0.3%, with the year-over-year rate edging down to 1.5%.

## CURRENT TRENDS UPDATE — CANADA

Update - November 16, 2009

### Economy stumbles for second month in a row

Latest available: July

Release date: October 30, 2009

GDP output slid by 0.1% in August, defying expectations for the second month in a row for a move into the plus column. Slumping manufacturing, wholesale trade and oil and gas activity weighed down output. The weakness was concentrated in the goods-producing sectors where output contracted by 0.7% and was widespread with agriculture, mining/oil and gas extraction, and manufacturing all reducing output. Construction and utilities production rose in the month. Manufacturing output fell 0.7% despite a rise in auto manufacturing as labour disputes reduced output in the primary metals output sub sector. Mining output fell by 1.4% on the back of temporary closures. Oil and gas extraction activity also fell as maintenance work on facilities cut production. Wholesalers also saw output fall by 0.5%. Limiting the impact of this decline was a pick-up in retail trade, which rose 0.3%. Overall, service-producing industries' output rose by 0.1% helped along by a 0.6% rise in public administration. August marked the second month of limited economic activity. This charts a course for the economy to have stopped contracting in the third quarter but falls short of forecasts for a 2% annualized gain. Our reckoning is that, on an expenditure basis, real GDP growth will be between one half and one percentage point at an annualized rate.

### First decline in employment in three months

Latest available: October

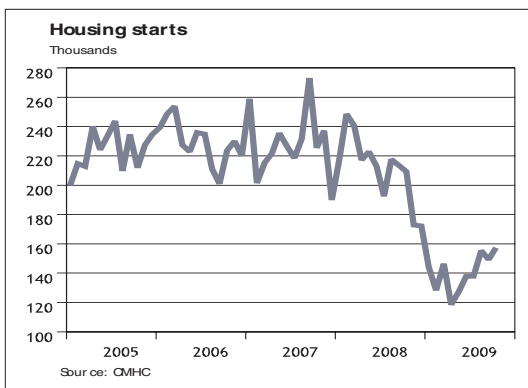
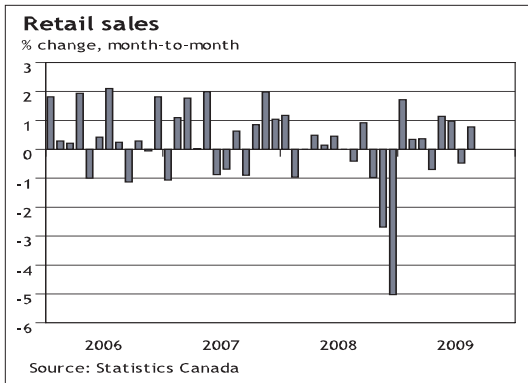
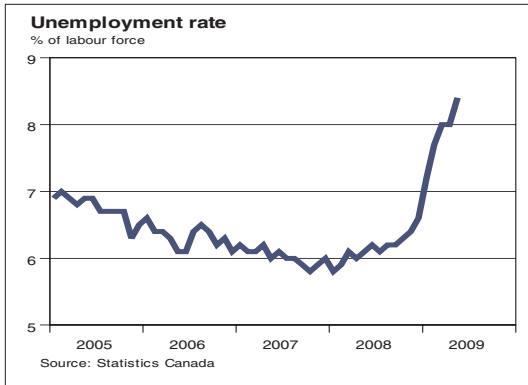
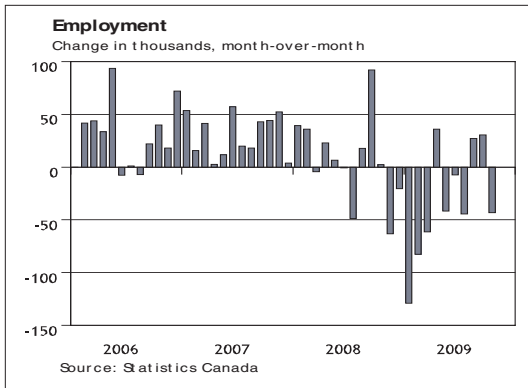
Release date: November 6, 2009

Canada's economy pared back the number of employed by 43,200 in October — the first decline in employment in three months. However, because of job gains

### Economy at a glance

		% change from		
	Latest month	Previous month	Year ago	3-month trend
Real GDP	Aug.	-0.10	-4.04	Up
Industrial production	Aug.	-0.80	-13.90	Down
Employment	Oct.	-0.26	-2.33	Down
Unemployment rate	Oct.	8.60	8.60	Flat
Manufacturing				
Production	Sept.	-0.70	-14.60	Up
Employment	Oct.	-0.46	-11.03	Down
Shipments	Sept.	1.43	-18.56	Down
New orders	Sept.	8.30	18.39	Down
Inventories	Sept.	-1.90	-11.21	Down
Retail sales	Aug.	0.80	-3.71	Up
Car sales	Sept.	1.20	-7.49	Up
Housing starts (000s)*	Oct.	157.30	213.50	Down
Exports	Sept.	3.51	-28.10	Down
Imports	Sept.	-0.13	-18.10	Down
Trade balance (\$billions)*	Sept.	-0.93	3.20	Down
Consumer prices	Sept.	0.00	-0.86	Down

\*Levels are shown for the latest period and the same period a year earlier.



in August and September, there was a net gain of 14,500 positions created during the three-month period. The unemployment rate rose to 8.6% in October following the unexpected dip to 8.4% in September. October's fall in employment reflected a 59,700 drop in part-time jobs; full-time jobs increased by 16,500. Losses were concentrated in the services-producing industries, which lost 37,000 jobs, specifically in retail and wholesale trade, where 30,800 positions were cut. The goods-producing industries trimmed a more modest 6,300 positions. The cuts were made by both private companies (-45,200) and in the public sector (-25,600). Manufacturing and natural resource companies cut back in October, while construction jobs rose. Other services and public administration also posted declines. Transportation and warehousing and jobs in health and education increased in the month. Recent data have not definitively shown that Canada's economy has emerged from recession, with July and August GDP reports showing little, or even negative, growth rates. On balance our monitoring of the economy shows real GDP growth on a national accounts (expenditure) basis of about 1% an annualized rate in the third quarter. The net rise in employment between August and October, albeit modest, is laying the groundwork for more robust growth in the final quarter of the year especially now that the U.S. economy has started to recover. Even with this improvement, however, considerable slack exists and the unemployment rate will likely remain elevated in the early days of the recovery.

### Strong rise in retail sales retraces earlier decline

Latest available: August  
Release date: October 22, 2009

Retail sales rose by 0.8% in August, more than retracing the surprising 0.5% decline in July. Sales at gas stations posted a strong 3.9% rise; excluding the impact of price changes, the volume of retail sales rose by 0.4%, more than reversing the 0.1% decline recorded in July. Unit auto sales were down a marginal 0.3% in August; however, sales at new car dealerships posted a much bigger-than-expected 2.2% rise after a more moderate 0.3% gain in July. Excluding the auto component, sales rose 0.5% after falling 0.6% in July; however excluding both auto sales and gasoline station sales, "core" sales were flat after the 0.3% decline recorded in July. While much of the 0.8% improvement in nominal sales in August is attributable to rising gasoline prices, the 0.4% increase in sales volumes suggests that consumer spending likely returned to a positive, but subdued, rate of increase of 1.6% in the third quarter following the 1.8% rise in the second.

### Housing starts resume uptrend

Latest available: October  
Release date: November 9, 2009

Housing starts rose 5.4% in October to an annualized level of 157,300 that more than offset the 3.9% drop to 149,000 units recorded in September. The rise re-established the upward trend that had prevailed through August, with starts steadily rising from a cyclical trough in April of 118,500. October's rise mainly reflected strength in the urban multiples component, which rose 8,800 (13.8%). The more stable urban singles component fell by 1,900 (2.7%), although this represented only a partial retracement from the 10,200 (17.3%) surge in September. Rural starts also rose, but by a more modest 1,100 (6.8%). The strength was relatively broadly based across the country, led by a 15% increase in British Columbia closely followed by a 14.8% rise in Ontario. More modest increases were recorded in the Prairies (6.5%) and in the Atlantic provinces (1.2%). Quebec was the only region to see activity fall, dropping 11.6%

in the month. The increase in new construction is consistent with indications of rising housing sales activity. The recovery in residential investment is being fuelled by low interest rates and rising confidence that the worst of the economic downturn is over. Although the pace of improvement in starts has been halting in recent months, our forecast assumes a more sustained improvement going forward. Housing start activity is expected to average 176,000 in 2010, which will be up from an expected 143,000 this year but down from the 211,000 recorded in 2008.

## Trade deficit cut in half

Latest available: September

Release date: November 13, 2009

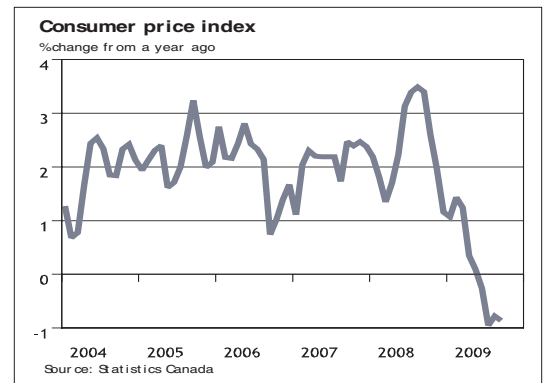
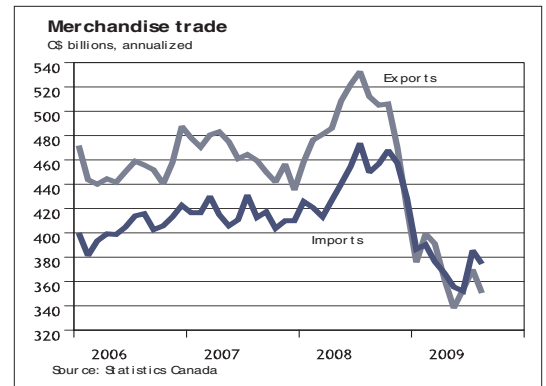
Canada's merchandise trade deficit was cut in half in September to C\$0.9 billion from C\$2 billion in August. The improvement was almost solely the result of a 3.5% jump in exports; imports were relatively steady, dropping a marginal 0.1%. Almost one-half of the increase in exports was attributable to a 15.8% surge in automotive exports. As well, there was a jump in exports of motor vehicle parts to the United States and gains in industrial goods (6.3% and machinery and equipment (4.5%). Overall imports were flat in the month; import declines in automotive products (4.7%), machinery and equipment (1.7%) and energy products (4.5%) offset a jump in the industrial goods component (8.5%). On a constant-dollar basis, exports were up a strong 3.4%, while imports fell a modest 0.6% resulting in an improvement in the real trade balance to -C\$5.4 billion from -C\$6.7 billion in August. The improvement is encouraging. Although net exports will still provide a major drag on economic growth in the third quarter (about four percentage points), the downside risks have lessened with the release of the September numbers.

## Headline and core inflation ease

Latest available: September

Release date: October 16, 2009

Overall prices were flat in September; the year-over-year rate stayed in negative territory and the pace of decline increased marginally to 0.9% following August's 0.8% drop. Core prices increased 0.3%, with the year-over-year rate edging down to 1.5%. Gasoline slid by 1.5%, auto prices were off 2.2% accompanied by a seasonal decline in vegetable prices (-10.8%) and low traveller accommodation costs (-4.2%). Offsetting these price increases were higher costs for education, women's clothing and health care. In the third quarter, Canada's headline inflation rate averaged -0.9% and the Bank of Canada's core rate eased further below the 2% target. The deflationary pressures coming from movements in the energy component of the CPI will dissipate throughout the fourth quarter as the extraordinarily large drops that occurred in the fourth quarter of 2008 are unlikely to be repeated. However, underlying inflation, as seen in movements in core prices, is expected to continue to ease as excess capacity in the economy weighs on prices. Wage gains have eased aggressively since May and September's annual increase was the slowest since March 2007.



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