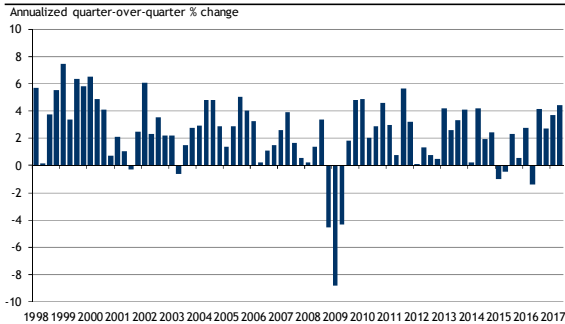


CANADIAN NATIONAL GDP ACCOUNTS

August 31, 2017

Growth in Canada Jumps Higher in Q2

Canadian real GDP



Source: Statistics Canada, RBC Economics Research

- **Canadian Q2 annualized GDP growth rose a very robust, and much stronger-than-expected, 4.5% benefitting from broad-based gains led by consumer spending, business investment and exports.**
- **The reported 0.3% rise in June GDP points to growth likely remaining above-potential at 2.5% in Q3.**

Our Take:

The Canadian economy had been expected to rise strongly in Q2 though today's report exceeded those expectations with annualized growth jumping to 4.5% building further onto Q1's already solid 3.7%. With today's report, average growth has been more than double the economy's potential rate for four consecutive quarters. Activity is being supported by low interest rates and solid job gains that have been sustaining consumer spending growth of almost 4% over the past year. However, an additional supportive factor has been the cessation of sizeable declines in energy investment as oil prices moved modestly higher. This has contributed to business investment rising on average 10% over the first two quarters of this year. Though growth in business investment is expected to moderate, it will remain sufficiently strong to offset declining residential investment that has started to emerge in Q2.

With the pace of business investment expected to slow and with residential investment expected to continue to decline our expectation is that the pace of growth will moderate in Q3. That said, the monthly GDP data released this morning indicated a stronger-than-expected 0.3% gain in June following the 0.6% surge in May that is pointing to Q3 growth remaining above potential likely rising 2.5%. The prospect of a fifth consecutive quarter of above potential growth would represent a benchmark not achieved by the Canadian economy since 2011Q1. Sustained above potential growth provides a strong argument for the Bank of Canada to continue to withdraw the current monetary policy stimulus and will be a key discussion point at the central bank's policy meeting next week. However we lean towards the expected moderation in Q3 growth along with inflation generally remaining below target to keep the central bank on the sidelines at this meeting before resuming tightening at the October meeting.

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Q2 national accounts

Annualized % change (millions of chained 2007 dollars) from previous quarter

	Q2-16	Q3-16	Q4-16	Q1-17	Q2-17
Consumer Spending	2.3	3.0	3.0	4.8	4.6
Durables	-3.1	0.2	10.2	13.6	9.4
Semi-Durable	-2.3	2.9	5.0	7.1	16.5
Non-Durables	5.2	2.1	0.9	2.9	4.5
Services	2.9	4.1	2.0	3.4	2.1
Business Fixed Investment	-1.7	1.0	-10.6	13.2	2.2
Residential	1.1	-5.1	6.3	12.3	-4.7
Non-residential	-4.4	9.5	-22.0	13.7	7.1
Machinery & equipment	1.4	-15.8	-3.2	28.9	3.6
Government Spending	4.7	-1.7	1.3	1.1	2.5
Government fixed investment	-2.9	4.7	6.5	-1.3	0.5
Final domestic demand	1.8	1.7	0.1	5.1	3.5
Exports	-13.6	9.2	0.8	1.5	9.6
Imports	1.4	4.3	-11.3	15.6	7.4
Change in inventories (\$b)	0.9	5.5	-2.8	10.5	11.5
Real GDP	-1.4	4.2	2.7	3.7	4.5

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