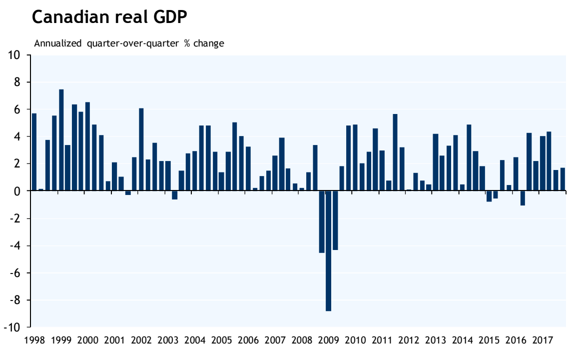
CANADIAN NATIONAL GDP ACCOUNTS

March 2, 2018



Source: Statistics Canada, RBC Economics Research

Q4 GDP Growth in Canada Remains Moderate

- **Canadian Q4 GDP growth rose an annualized 1.7% which was slightly below expectations of a 2.0% gain.**
- **Monthly December GDP growth rose 0.1% following a 0.4% gain in November. Our expectation is that rising interest rates will keep both monthly and quarterly GDP growth little changed going in 2018 though U.S. trade policy is presenting a growing downside risk.**

Our Take:

The 1.7% (annualized) gain in Q4 GDP and the revised 1.5% gain in Q3 are down significantly from the unexpectedly strong average increase of 3.7% from mid-2016 to mid-2017. This earlier strength resulted from a cessation of sizeable declines in energy investment along with consumers continuing to respond to historically low interest rates. The resulting strong pace of activity had the impact of moving the economy to capacity by mid-2017. Thus the slowdown in growth over the second half of last year is not unwanted and will help insure the economy does not move too far into excess demand and stoke inflation pressures. In fact the intent of policy going forward will be to sustain growth close to the economy's potential rate, which is assumed to be around 1.6%. Our forecast assumes that such will be achieved by the Bank of Canada continuing to move the overnight rate gradually higher by 25 basis points per quarter through early next year. Given the hike in January and the Q4 growth coming in slightly below the Bank's projected increase of 2.5%, though, our expectation is that the central bank will remain on the sidelines at the next Wednesday's policy meeting.

The details of the Q4 GDP report were generally as expected showing consumer spending growth slowed to 2.1% from the 3.7% gain recorded in Q3. Residential investment strengthened to 13.4% thus reversing declines over the previous two quarters. Business investment was up a solid 8.2% in the quarter. The annual increase was a more moderate 2.6% reflecting earlier weakness though the gain was much stronger than this week's Capex survey that indicated nominal spending declined 2.5% in 2017. Exports rose 3.0% though with imports rising a slightly greater-than-expected 6.3%, net exports subtracted 1.1 percentage points from the annualized GDP growth rate. Inventories were drawn down subtracting a further 0.7 ppts.

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Q4 national accounts

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

	Q4-16	Q1-17	Q2-17	Q3-17	Q4-17
Consumer Spending	3.5	3.5	4.6	3.7	2.1
Durables	11.2	10.9	7.6	1.1	1.6
Semi-Durable	7.8	1.4	7.3	3.2	1.2
Non-Durables	1.9	1.7	6.1	0.6	1.8
Services	1.9	2.8	3.0	5.7	2.5
Business Fixed Investment	-8.5	11.4	3.7	3.2	9.5
Residential	4.4	9.4	-2.9	-0.2	13.4
Non-residential	-17.6	12.1	9.5	5.4	8.2
Machinery & equipment	-1.5	29.3	7.7	2.8	12.6
Government Spending	1.2	3.9	1.4	3.6	2.8
Government fixed investment	10.1	-4.9	-0.9	11.6	10.3
Final domestic demand	0.9	4.5	3.6	3.9	3.9
Exports	1.1	2.7	6.3	-10.4	3.0
Imports	-9.0	13.9	6.2	0.3	6.3
Change in inventories ($b)	-2.5	10.8	13.6	17.0	14.2
Real GDP	**2.2**	**4.0**	**4.4**	**1.5**	**1.7**