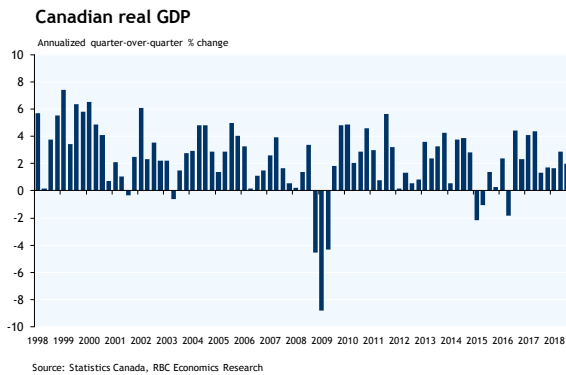


## CANADIAN NATIONAL GDP ACCOUNTS

November 30, 2018

### Canadian Q3 GDP growth slows



- **Canadian Q3/18 GDP growth slowed as expected to 2.0% from 2.9% in Q2 though with a much weaker composition of output indicating flat final domestic demand and most of the growth coming falling imports, which enter the GDP add-up with a negative sign, boosting net exports.**
- **Income details from the quarterly GDP add-up left our tracking of the Bank of Canada's 'wage-common' measure at 2.5%, slightly higher than the 2.4% we were previously tracking.**

#### Our Take:

Canadian Q3 GDP growth moderated as expected to 2.0% from the 2.9% gain recorded in Q2 though with the details suggesting a further slowing in Q4. Over the first three quarters of this year quarterly growth has averaged 2.2% which is down from the 3.0% annual growth recorded in 2017. With that earlier above-average growth pushing the economy to its capacity limit, the moderation to date this year closer to the economy's long-run average, or potential, rate of 1.8% is what the Bank of Canada is striving to achieve. However, the details in today's report are indicative of growth likely slowing further in Q4 closer to a 1% rate. This was in part conveyed by a disappointingly weak composition of Q3 GDP output with business investment unexpectedly declining by a sizeable 7.1%, reportedly weighed down by softer oil & gas investment. Though residential investment was expected to decline, the reported 5.9% drop in Q3 was larger than expected. Similarly the slowing in consumer spending to 1.2% was greater than anticipated. Equally disappointing was the monthly GDP detail which indicated Q3 ended on a weaker-than-expected note dropping 0.1% with broad-based declines among all major goods-producing sectors.

The projected further weakening in Q4 will be abetted by the transitory downward impact from the recent postal strike. As well, the slump in oil prices could weigh on activity as well though with the duration a function of how long the slump persists. These developments imply a clear downside risk to the Bank of Canada's current forecast of Q4 growth bouncing back to 2.3%. Our expectation is that the central bank is still likely to move the current overnight rate of 1.75% to within its estimate of 'neutral' within a range of 2.50% to 3.50%. However, such will be dependent on indications that any slowing in Q4 proves transitory.

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**Q3 national accounts**

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

	Q3-17	Q4-17	Q1-18	Q2-18	Q3-18
Consumer Spending	3.5	2.4	1.5	2.3	1.2
Durables	1.5	4.2	1.4	0.6	-2.7
Semi-Durable	2.5	-0.8	0.4	2.6	5.9
Non-Durables	0.5	3.8	0.5	1.0	1.7
Services	5.5	1.8	2.0	3.3	1.4
Business Fixed Investment	2.2	8.7	4.6	0.3	-6.5
Residential	-1.0	12.5	-7.9	-0.1	-5.9
Non-residential	5.3	7.7	13.0	1.0	-7.1
Machinery & equipment	-0.1	12.3	25.5	2.0	-9.8
Government Spending	1.8	4.0	3.3	2.7	1.8
Government fixed investment	19.4	18.1	-3.0	-6.5	2.5
Final domestic demand	3.5	4.3	2.2	1.8	-0.1
Exports	-10.4	5.7	2.3	13.0	0.9
Imports	1.3	7.7	4.7	5.9	-7.8
Change in inventories (\$b)	24.2	16.0	16.8	13.2	6.9
<b>Real GDP</b>	<b>1.3</b>	<b>1.7</b>	<b>1.7</b>	<b>2.9</b>	<b>2.0</b>

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