February 28, 2018

Private-Sector Investment Intentions Disappoint

Capital and repair expenditures[1] data released today project a 1.1% decline in Canadian private-sector business investment[2] this year. This mirrors a 3.6% fall in non-residential construction investment more than offsetting the 2.4% turnaround forecast for machinery & equipment (M&E) spending. Though this is half the 2017 decrease and a fraction of the double-digit drops in both 2015 and 2016, it marks the fourth consecutive annual contraction. Total capital spending is expected to be just shy of $15 billion in 2018—more than a quarter below 2014 levels (chart 1). We had anticipated positive, albeit moderate gains given the strength observed in late 2017 across a range of economic indicators and more buoyant results from the Bank of Canada's 2017Q4 *Business Outlook Survey*.

Non-residential building investment intentions are expected to continue to contract across the three net oil-producing provinces this year. Prior to the commodity price correction, Newfoundland and Labrador, Saskatchewan and Alberta drove construction outlays to nearly $8.5 billion, contributing to Canada's topline gains. Non-residential investment across these regions, following the 7.4% decline expected this year, is now forecast to drop to just half of its 2014 high.

A modest 0.5% uptick is projected to bring the net oil-consuming provinces' non-residential construction expenditures roughly even with those of the oil-rich jurisdictions this year (chart 2). Manitoba's strong rise approaching 20% reflects work on several mixed-use developments, telecommunications infrastructure investment and new manufacturing capacity. Solid advances of 3.3% in Quebec and 5.1% in Ontario are projected to offset declines in BC and across the Maritimes.

In addition, the net oil-consuming provinces have had a stronger M&E investment profile since the oil price correction (chart 3). M&E outlays paused in 2017, but intentions for this year indicate a solid 4.2% advance. Expected gains for British Columbia (+8.9% over 2017), Quebec (+6.9%) and Ontario (+1.9%), mirror the *Outlook Survey*'s reports of capacity pressures in BC and across Central Canada. A healthy increase of 3.8% is also forecast for Nova Scotia, while New Brunswick's flat M&E intentions are a positive development following two consecutive annual contractions totaling 11.6%. In Prince Edward Island, the 2.4% projected slide follows a 15.6% cumulative increase over the prior two years as work on a major electricity transmission project concludes.

In the net oil-producing provinces, M&E expenditures are forecast to fall for the fourth consecutive year in 2018. Though the pace of decline eases, M&E spending across the three provinces is now projected to fall to just 57% of its 2014 peak. For now, the conclusion of major oil sands projects and the Sturgeon Refinery in Alberta, the completion of potash and uranium capacity in Saskatchewan, and the start-up of Newfoundland and Labrador's fourth offshore oil field are contributing to the 2.7% drop in investment intentions.

[1] Statistics Canada's Capital and Repair Expenditures Survey for non-residential construction and machinery and equipment, revised estimates for 2016, preliminary estimates for 2017 and intentions for 2018 is based upon a sample survey of 25,000 private and public organizations. The survey was conducted from September 19, 2017 to January 5, 2018.

[2] We limit our coverage in this note to capital expenditures and intentions by private sector organizations. For more information on this classification, please see CANSIM tables 029-0047 and 029-0048.

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Chart 1

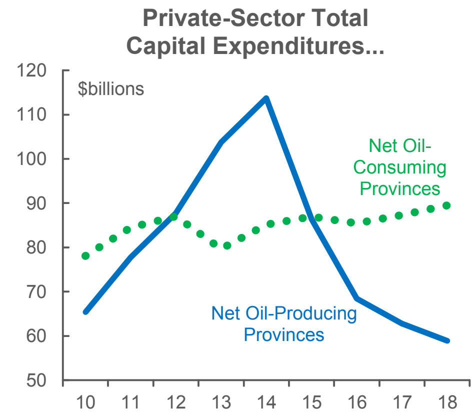


Chart 2

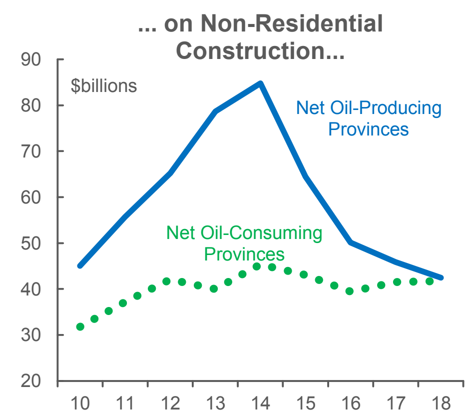
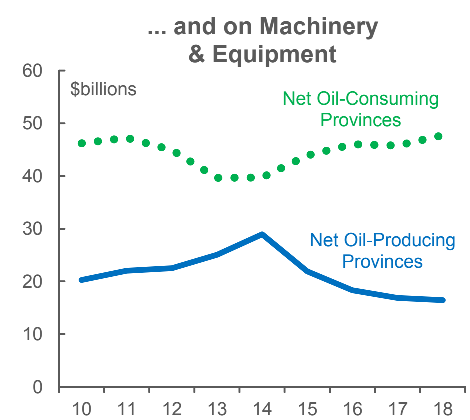


Chart 3



Sources for charts: Scotiabank Economics, Statistics Canada.