Data Release: Capital spending growth plans lacklustre, as construction slows

- Together, public and private organizations and the housing sector intend to increase investment by a modest 1.4% in 2014, slightly below a 1.5% gain in 2013. Both the public and private sectors plan to grow investment, but with the public sector at a slightly faster 1.9% clip, versus 1.3% in the private sector.
- Capital spending falls into two overall categories, construction and machinery and equipment. Underlying the very modest capital spending growth in 2014 is a slowdown in construction investment growth to only 0.5%, its slowest pace since the recession. This slight increase is driven by a 1.8% expansion in housing sector investment, while non-residential construction is expected to fall 0.2%.
- The most encouraging statistic in this report is that spending on machinery and equipment (M&E) is expected to jump 3.9% in 2014, the strongest growth since 2007. In dollar terms, an expected $4.2 billion increase in M&E investment outstrips that of construction for the first time since 1999.
- On an industry basis, the strongest investment growth is expected in transportation and warehousing (+14.7%), driven by investment in pipelines as well as transit and ground passenger transportation. These healthy gains are expected to be partially offset by falling investment in utilities (-4.1%), retail trade (-10.7%) and health care and social assistance (-7.9%).
- Another bright spot in today’s report is manufacturing, which should see capex advance 4.7% in 2014, led by petroleum and coal, chemical and transportation equipment industries.
- Investment growth in oil and gas continues to be large in absolute dollar terms, however the pace of growth is slowing. Total oil and gas investment is expected to expand 3.1% in 2014, but that is down from 6.3% last year, and well shy of the pace seen pre-recession. Within the sector, investment growth is being driven by conventional oil and gas extraction (+3.8%). Non-conventional extraction (such as the oil sands) is only expected to grow by 2.3%, a decent pace relative to other industries, but nonconventional oil and gas investment has grown by an average of 34% per year post recession.
- Another key resource sector, mining is expected to see capital expenditures fall for the second year in a row. Prices for Canada’s metals and minerals commodity basket have been steadily declining since mid-2011, dulling activity in the sector, and investment is expected to tumble nearly 15%, led by weakness in metal ore mining.
- Regionally, capital spending plans are mixed, with Alberta expected to lead with a 2.4% increase, followed by Ontario up 2.3% and Quebec up 2.0%. New Brunswick should also see investment rebound 2.1%, after two years of contraction. While Newfoundland and Labrador, Saskatchewan, Manitoba and B.C. all expect to see investment fall.

Key Implications

- Even though today’s data are only investment plans they have historically been a pretty good guide to capital spending. Therefore, today’s numbers can only be viewed as disappointing for an economy that needs investment to pick up to drive stronger growth. After rebounding smartly post-recession, capital spending growth in Canada had cooled recently due to a very weak corporate profit backdrop. And, if 2014 investment growth turns out as soft as today’s numbers suggest, 2013-14 will have the weakest two-year capital spending growth since the mid-1990s.
- But the outlook is not all doom and gloom. The rise in M&E investment is positive for Canada’s abysmal productivity record, and yesterday’s profit numbers suggest Canadian corporations finances are on the mend. This bodes well for investment spending to gain momentum later in 2014, as business confidence improves in line with better U.S. growth.

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