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TD Economics

Data Release: Private sector investment intentions expected to decline in 2016 as oil slump weighs

- Canadian public and private sector investment intentions on non-residential capital construction & machinery is expected to fall 4.4% y/y in 2016, suggesting a second consecutive annual decrease in spending. The decline was driven by a fall in private-sector which is anticipating to lower investment spending by 9.3% from the previous year, while government spending on investment is expected to rise by 4.4%.

- Much of the private-sector decline is the result of a 23.1% pullback in expected spending on mining, quarrying, and oil & gas extraction projects this year. This decline largely reflects a slump in oil & gas investment, which represents about three-quarters of the sector's spending. Both conventional and non-conventional oil extraction industries anticipate a decline in capital spending.

- Declines in non-residential construction and machinery & equipment capital spending are also foreseen in 11 of the 19 remaining sectors this year. The largest declines are expected in manufacturing, real estate, and accommodation and food services industries.

- Half of the provinces are expecting a pick-up in private-sector investment in 2016, led by PEI (+19.1%) and Quebec (+8.6%), with the latter driven by a 17.3% in manufacturing and 25.7% gain in transportation and warehousing investment. Private-sector investment is also anticipated to grow in Manitoba (+4.1%) while ticking-up in Ontario (+0.7%) where manufacturing declines (-8%) will be offset by an increase in retail trade (+10.3%), and in transportation and warehousing (+7.5%).

Key Implications

- Investment intentions were expected to decline this year as a slump in capital spending on oil & gas extraction projects weights heavy on spending plans, but the reported spending plans are slightly better than we had anticipated in our economic forecasts. However, the timing and forward looking nature of the survey suggests that these numbers need to be taken cautiously, especially in light of the rapidly changing global & domestic environment.

- On a provincial basis, the data release was encouraging. We had anticipated an improvement in manufacturing and transportation & warehousing across the majority of provinces, and was largely corroborated. The decline in Ontario manufacturing investment was largely related to some give-back after substantial gains in previous years due to auto retooling investments.

- Most provincial weakness was the result of mining, quarrying, oil & gas extraction, and excluding this sector suggests broad improvements across every province.

- The wildfires and related destruction in Fort McMurray will likely create some volatility in the investment cycle moving forward. We expect there will be large declines in non-residential activity in Alberta as a significant amount of resources are and will be devoted to fighting the wildfires providing support to those that have lost their home. This should be followed by a ramp-up in construction activity as non-residential structure reconstruction begins in earnest.

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