Pull Back in Resource Sectors Tempers Overall Capital Investment in BC

The release of Statistics Canada's annual Public and Private Investment survey indicates that capital investment in BC is poised to edge higher in 2013. In aggregate, businesses and government plan on investing $46.9 billion on new residential and non-residential structures, industrial sites, drilling activity, machinery and equipment and all other new capital outlays this year. This represents an increase of 0.9% over 2012. Looking at only the non-residential segment, planned investment is slated to fall slightly (by 0.4%) this year. Despite the slumping housing market, BC developers who responded to the survey reported that they intend to boost residential investment spending by 3.6% this year. There is probably some downside risk to this projection given the ongoing slowdown in housing market activity.

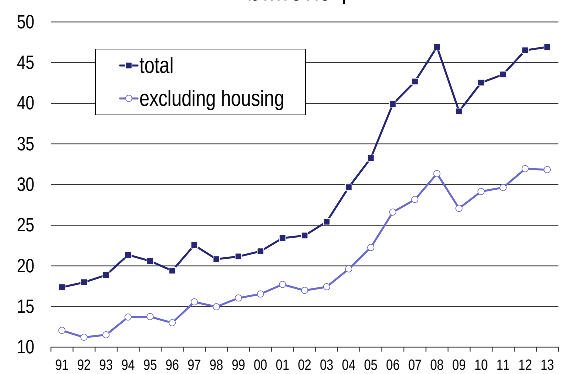
A Brief Recap of 2012

Preliminary estimates indicate that actual capital spending in 2012 fell short of what was originally planned. According to last year's survey, intended capital outlays were expected to reach $50.7 billion. In reality softer economic conditions caused many companies to scale back so that total capital outlays came in about 10% below intentions ($46.9 billion). One reason for the shortfall was a significant curtailment in drilling and other capital spending in the natural gas industry. At the outset of 2012, oil and gas companies indicated they would collectively spend a record $8.1 billion in BC. But because of the surge in gas supplies across North America and very weak pricing conditions, investment in the gas patch was cut by almost one-third. Investment in manufacturing also turned out to be 22% lower than initially planned.

Figure 1

Total Annual Capital Investment in BC

billions $



Source: Statistics Canada, CANSIM table 029-0005.

Investment Trimmed in 2013

Looking to 2013, the Statistics Canada survey foresees total capital investment in BC edging up 0.9% and almost regaining 2008's high point. Stripping out housing, the picture is somewhat softer as non-residential investment is poised to slip by 0.4% this year.

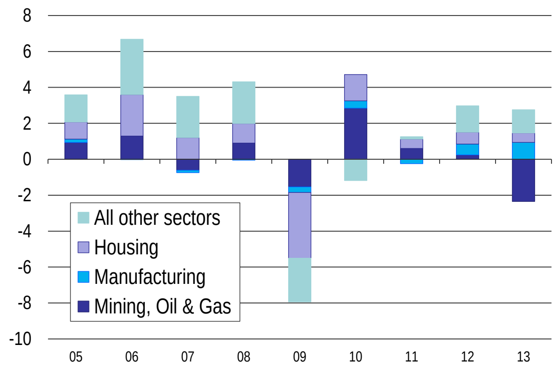
Investment in Resource Industries Down Sharply

The main reason non-residential investment is lower is because key parts of the resource sector are pulling back on cap-ex. According to the intentions survey, this year investment in the natural gas industry will be curtailed by $1.6 billion while capital outlays in the mining industry will be cut by $750 million.

Figure 2

Annual Change in BC Capital Investment

billions $



Source: Statistics Canada, CANSIM table 029-0005.

Apart from these areas, capital expenditures in other sectors are set to advance at a reasonable pace. Investment in manufacturing, for example, will rise by nearly $1 billion in 2013. Rio Tinto Alcan's expansion and upgrade of its Kitimat production facility is a big part of the lift as the company spends $4 billion on this major multi-year construction project.

Another solid increase is expected in the transportation and warehousing industry, where capital spending will jump 27% this year. This reflects sustained investment in Gateway-related infrastructure (port, airport and rail upgrades), the expansion of trucking fleets, and investment in public transportation projects (the Evergreen line as well as upgrades to the Expoline).

Housing Investment to Rise Modestly

This year, BC builders plan on investing just over $15 billion in residential housing, which is up 3.6% over 2012. In light of the marked slowdown in housing sales any increase in investment would be welcome, but we believe actual investment is likely to come in below intentions.

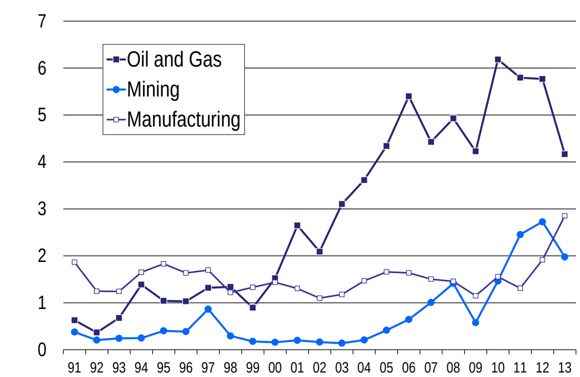
Machinery and Equipment

Spending on new machinery and equipment in BC is slated to rise by a tepid 0.8% this year. This slim advance, however, does follow a healthy 10% increase last year. Investment in M&E is an important element in productivity growth, which in turn drives improvements in real wages and overall prosperity. Over the past decade, BC ranked fourth among the provinces in the growth of M&E investment.

Figure 3

BC Capital Investment: Selected Industries

billions $



Source: Statistics Canada, CANSIM table 029-0005.

Concluding Thoughts

Among the provinces, BC's investment outlook is on the soft end of the scale. BC is one of just three provinces that will see non-residential investment spending fall this year. In BC's case, however, the decline is concentrated in the mining and gas sectors. As Table 1 shows, just four industries are expected to see a decrease in capital investment while all the others should enjoy decent gains.

From a growth perspective, however, this latest Statistics Canada report suggests that investment spending won't do much to boost overall economic activity in the province this year.

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Table 1
BC 2013 Planned Capital Investment by Industry

Industry	Millions $	% chg 2012-13
Mining, oil and gas extraction	6,778.7	-25.8
Utilities	4,351.4	-4.5
Public administration	3,045.0	10.4
Transportation and warehousing	3,013.1	27.6
Manufacturing	2,851.0	48.9
Real estate and rental and leasing	1,559.7	11.4
Retail trade	1,558.7	14.0
Information & cultural industries	1,326.7	8.2
Finance and insurance	1,283.3	5.0
Health care and social assistance	1,273.5	3.8
Educational services	1,117.4	-14.2
Construction	822.2	4.7
Professional, scientific & technical services	652.3	16.4
Wholesale trade	458.6	10.7
Accommodation and food services	445.4	2.7
Agriculture, forestry, fish.	343.8	-10.6
Arts, entertainment & recreation	319.7	11.1
Other services	257.8	11.0
Admin., support, & waste management	244.5	11.6
Management of companies	86.9	1.4

Source: Statistics Canada, Private and Public Investment Intentions, Canada, 2013.