



Publication

BC ECONOMIC SNAPSHOT

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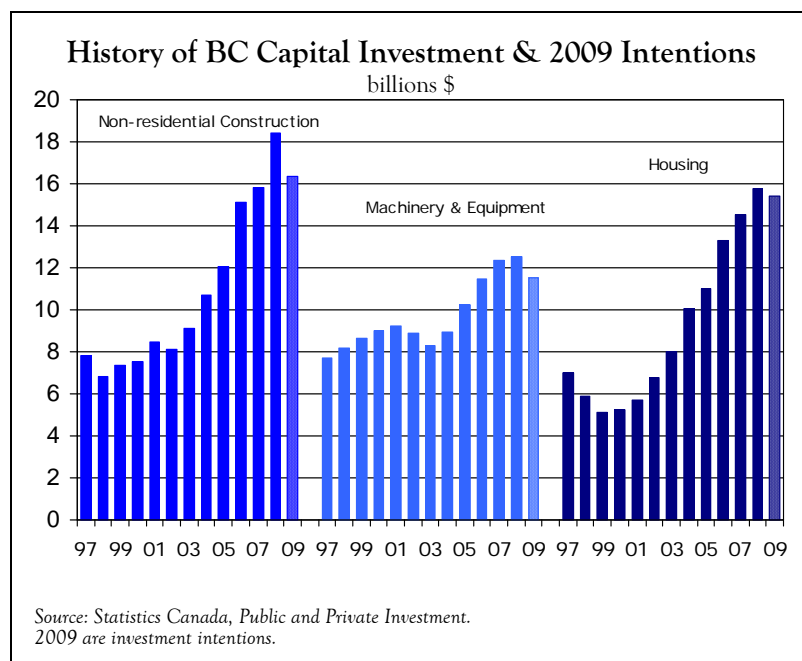
BC CAPITAL INVESTMENT SET TO DROP IN 2009

According to the latest issue of Statistics Canada's Public and Private Investment Intentions Survey, capital investment in BC will retreat to \$43.3 billion in 2009. This represents a 7.2% decrease from estimated 2008 levels – a substantial downturn that signals the end of the multi-year investment boom that began in 2004.

Unfortunately, the Survey may understate the magnitude of the coming investment decline because it was undertaken between October 2008 and January 2009. Given the rapid pace of economic deterioration and the unusual degree of uncertainty about the economic outlook, many companies are postponing projects and deferring the purchase of capital assets.

On the other hand, because of the Survey's timing, the recently announced federal and provincial budgets, with their focus on infrastructure, were not factored into the tabulations. Public sector investment will get a lift this year thanks to higher government outlays on infrastructure, although it should be noted that in most years the public sector only accounts for one-fifth of all investment spending. While infrastructure is now a policy priority, all three levels of government are also trimming expenditures wherever possible and this will inevitably impact some spending on equipment and other capital assets.

As shown in the accompanying chart, following an extended surge in capital investment, planned spending in BC is poised to drop in all three categories of fixed investment. Housing investment was projected to slip by a modest 2.1% this year at the time of the Survey. It's a safe bet that actual investment in housing will fall by more than this given recent evidence of a marked downshifting of housing starts and slumping residential building permit values.





The non-residential construction component (consisting of buildings and engineering projects) is expected to fall 11.2% this year, after a solid 16% advance in 2008. This is the segment where government stimulus measures might provide some upside surprises. The final category – investment in new machinery and equipment – is set to drop 7.8% this year. Here economic circumstances are likely to translate into larger-than-anticipated declines as nervous companies look to preserve capital and put off buying new equipment. In the export sector, many BC companies have already retooled operations in response to the stronger Canadian dollar, which suggests further equipment upgrades may be less pressing. .

Companies operating in the province’s natural gas industry collectively intend to prune capital investment by approximately \$1 billion this year. In spite of this 20% reduction, the natural gas industry will still invest more than any other sector in BC. Other industries anticipating significant reductions in investment in 2009 are transportation and warehousing, retail trade, and finance and insurance.

Unsurprisingly, Statistics Canada’s latest Investment Intentions Survey confirms that more companies plan on scaling back capital outlays in 2009. It also shows that this pattern is broadly based, with investment falling in all three key segments and in 14 of 20 high-level industries.

BC 2009 Investment Intentions by Industry		
Industry	millions \$	2008-09 % growth
Mining and Oil & Gas	5,482.0	-16.7
Public Administration	3,929.3	-5.7
Utilities	3,189.4	8.2
Transportation and Warehousing	3,010.9	-15.9
Real Estate and Leasing	1,652.2	-6.9
Finance and Insurance	1,503.3	-13.9
Manufacturing	1,254.8	7.4
Health Care	1,225.3	7.9
Retail Trade	1,193.9	-16.5
Information and Culture	1,164.2	-2.2
Educational Services	1,086.3	-13.4
Construction	839.2	0.5
Wholesale Trade	519.4	-10.0
Arts, Entertainment and Recreation	425.3	-1.9
Agriculture, Forestry, Fishing and Hunting	360.1	-10.2
Professional, Scientific and Technical Services	342.9	-1.4
Accommodation and Food Services	338.3	-59.2
Other Services (except Public Admin)	194.6	-24.8
Housing	15,427.6	-2.1
Total	43,317.6	-7.2

Source: Statistics Canada, Private and Public Investment in Canada, Intentions 2009.

Finally, we would note that the investment downturn is spread across most of the country. Nationally, planned investment spending (excluding housing) is projected to be down by 6.6%. Alberta and BC will see some of the largest decreases because of sizable reductions in investment levels in the oil and gas industries in both provinces.

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