



# Publication

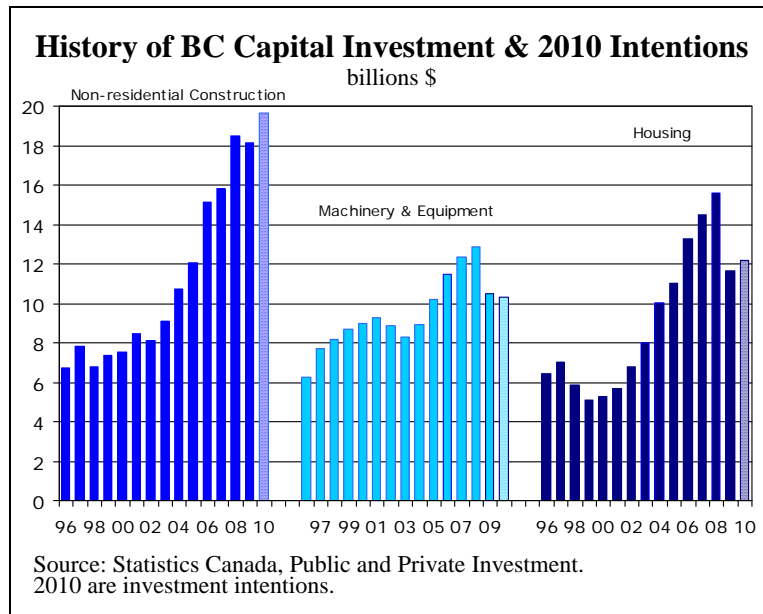
## BC ECONOMIC SNAPSHOT

March 8, 2010

### CAPITAL INVESTMENT TO RISE IN 2010

The latest issue of Statistics Canada's Public and Private Investment Intentions Survey presents a mixed picture on the outlook for capital investment in BC. For the most part it is good news, with total capital spending in the province slated to rise to \$42.2 billion in 2010, a 5% increase over 2009. Gains are expected in about half of all the high level industries, although much of the overall rise is concentrated in the natural gas and mining sectors. The impact of the recent recession is evident, as a larger than anticipated decline in investment last year (down 14%) means the absolute level of capital spending in 2010 will remain well below the \$47 billion recorded in 2008. In light of BC's longstanding productivity woes, it is also worrisome to see that business investment in machinery and equipment is projected to slip again this year.

We would note, however, that there is room for upside surprises. Note that the Statistics Canada survey was undertaken between October of 2009 and January of this year. The economic outlook has brightened over the past few months so many companies may end up investing more than they thought likely in the latter months of 2009. It is difficult for the survey to capture investment plans around turning points in the economic cycle. Heading into the 2008-09 recession, the survey correctly anticipated a decline in investment, but it significantly underestimated the magnitude of the decrease. Capital spending is now estimated to have dropped by 14% in 2009, twice as much as predicted in last year's survey.



As reflected in the accompanying chart, capital outlays for non-residential construction (consisting of buildings and engineering projects) are poised to climb by more than 8% this year. With only a slight setback last year, non-residential construction remains strong. Public sector construction expenditures (which are expected to jump \$900 million or 12%



this year) are an important reason for the overall gain, but private sector non-residential construction is also on course to increase by \$620 million (up 6%).

Companies operating in the natural gas industry collectively intend to invest \$6.2 billion in BC this year. This is a 13% increase and follows a surprise 10% gain in 2009 (last year’s survey projected a 20% reduction in planned outlays). The natural gas industry invests more in BC than any other sector and accounts for 20% of all non-residential capital spending. Mining is also on track to make a large contribution to the overall increase in investment (up from \$647 million last year to over \$1 billion this year). Without the gains in mining and natural gas, the level of planned non-residential construction spending is up just 1.1% from last year’s depressed level and would be well below the 2008 level.

<b>BC 2009 Investment Intentions by Industry</b>		
<b>Industry</b>	<b>millions \$</b>	<b>2009-10 % growth</b>
Mining, Oil & Gas Extraction	7,627.3	21.2
Public Administration	4,687.5	7.2
Utilities	3,135.1	-2.6
Transport. & Warehousing	2,151.1	-18.3
Real Estate & and Leasing	1,866.7	20.7
Information & Cultural Ind.	1,313.6	-0.5
Retail Trade	1,235.9	8.8
Educational Services	1,200.0	-2.0
Manufacturing	1,195.2	3.6
Health Care	1,108.0	2.3
Finance and Insurance	1,093.9	5.9
Construction	941.2	1.8
Accomm. & Food Services.	653.9	0.0
Wholesale Trade	342.3	-15.9
Agriculture, Forestry, Fishing	336.3	-6.6
Arts, Entertainment & Rec.	327.4	-31.4
Professional, Scientific and Technical Services	321.5	-2.8
Other Services	248.3	-4.6
Housing	12,194.8	4.9
<b>Total</b>	<b>42,206.3</b>	<b>4.8</b>

Source: Statistics Canada, Private and Public Investment in Canada, Intentions 2010.

Unfortunately, the intentions survey reports that investment in new machinery and equipment is set to ease slightly (1.8%) following a sizable 19% contraction in 2009. This suggests that many companies are still looking to conserve capital and delay purchases of new equipment. Given the timing of the survey, there’s a good chance that spending on M&E may end up being stronger than expected. We certainly hope so, as academic research confirms a strong positive linkage between M&E investment and productivity growth.

Overall, the Investment Intentions Survey suggests that investment spending will boost economic growth this year, with the largest lifts in dollar terms coming from natural gas, housing construction and mining, in that order. All other provinces except Manitoba are also projected to post higher capital spending in 2010.

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