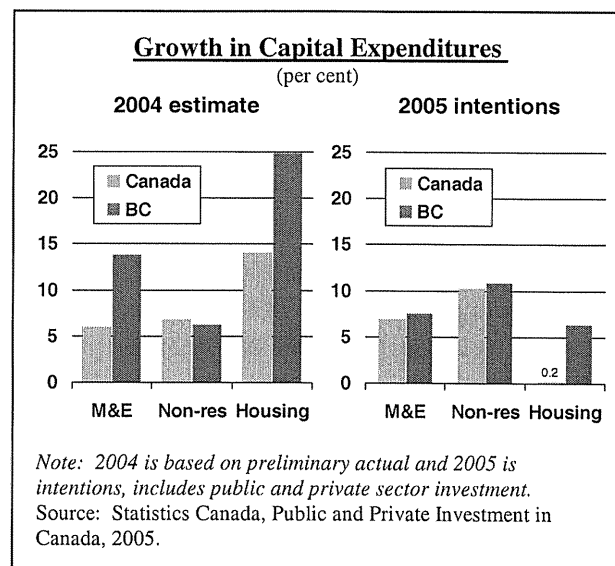


BC ENJOYING STRONG INVESTMENT REBOUND

The release of Statistics Canada's annual Public and Private Investment survey provides some useful insight into investment trends and conditions in the province.¹ As the most comprehensive measure of capital spending, it allows us to look back at 2004 to see if recent investment expenditures are consistent with the marked improvement in the economy suggested by other data sources. Unlike other sources, the intentions survey also provides a glimpse into how much BC businesses are planning on investing this year. This can be helpful in trying to chart the near-term outlook because capital investment represents a sizable portion of overall economic activity and intentions are a key barometer of business optimism.

Turning briefly to the past year, the preliminary estimates show that in 2004 capital investment in BC surged by 14.6%, a gain that supports other indications suggesting the investment climate has improved. BC's result for 2004 is noteworthy for at least four reasons. First, it represents the biggest increase in capital spending among all ten provinces.² Second, it was the biggest increase for BC since 1997's 16% gain (which was inflated by the fact that investment fell in both 1995 and 1996, whereas last year was the sixth straight year of higher investment in BC). Third, the capital spending rebound in 2004 was spread evenly between investment in machinery and

equipment (13.8%) and construction (14.9%). Finally, the amount that companies actually invested in BC in 2004 turned out to be much higher than the planned 5.3% increase reported in the February 2004 Statistics Canada survey.



While it is not unusual for intentions and actual investment to differ, the fact that capital spending was fully \$3.4 billion more than originally intended speaks to the ongoing improvement in BC economy. When economic activity is accelerating (or declining) it takes time for companies to respond and adjust to the changing business climate. The higher-than-planned investment last year suggests that growth has exceeded expectations, and that companies boosted their investment plans accordingly.

Another Strong Gain This Year

Looking to 2005, total investment in BC is projected to climb 8.2%, reaching \$31.5 billion. Investment spending is evenly divided between the three broad categories – residential construction, non-residential construction and machinery and equipment –

¹ "Private and Public Investment in Canada" used to be produced bi-annually, but is now only being published once a year.

² The strong 25% rise in housing investment contributed to the overall increase in investment, but even when residential construction is excluded capital spending in BC jumped 10% and was second only to Newfoundland's 13% gain.

with each accounting for about \$10.5 billion in new capital outlays in 2005.

Each of the segments will see a healthy gain. Builders are apparently confident that the multi-year up cycle in the housing market will continue, as spending on residential construction is set to rise another 6% this year. Investment in machinery and equipment will advance 7.5%, following a 14% advance last year. This is welcome news as it will contribute to higher productivity and wealth creation in the coming years. And planned investment in non-residential structures is up 11%, reflecting continued growth in the construction of office buildings, business parks, malls and retail shops, hotels, warehouses, and plants.

Most Industries to Invest More

While the overall investment figures and various aggregate components discussed above point to a balanced and sizable pick-up in capital spending, the industry detail confirms that more investment dollars are flowing into most sectors of the economy. Of the 20 high level industry groups included in the survey, 15 are expected to see higher capital spending in 2005 (last year 15 also recoded more investment).

Among the industries where investment is expected to rise in the coming year, the manufacturing sector is on tap for the biggest gain (40%), which a majority of this increase going to the purchase of machinery and equipment. Within manufacturing, companies in the wood products industry expect to raise capital spending by a whopping 121%. Although this accounts for a significant portion of manufacturing’s overall increase, many other component industries (such as paper, primary metals, food, chemical, machinery, transportation equipment) are also anticipating gains in excess of 20%.

A surge in spending on new machinery and equipment in forestry and logging is behind the hefty 20% gain in the broader agriculture, forestry and fishing sector. The almost 20% rise in investment in transportation and warehousing is more good news that underscores BC’s growing gateway/transportation logistics role.

In terms of dollar figures, mining and oil and gas as a broad sector will again invest more in the province than any other industry. The vast majority of this is in the oil and gas industry, but metal and coal mining have also seen a solid revival in capital spending over the past couple of years.

BC 2005 Investment Intentions by Industry		
Industry	Investment (millions \$)	2004-05 growth (%)
Mining and Oil & Gas	3,448	5.4
Public Administration	2,648	4.4
Manufacturing	2,042	40.7
Real Estate and Leasing	1,906	6.7
Trans. & Warehousing	1,868	18.5
Utilities	1,723	13.8
Finance and Insurance	1,505	12.2
Info. & Cultural Industries	882	-1.7
Retail Trade	865	1.6
Educational Services	647	-9.0
Health Care	614	9.1
Wholesale Trade	477	-4.6
Ag., Forestry, & Fishing	464	19.9
Professional, Scientific and Technical Services	409	-0.9
Construction	390	10.8
Arts, Entertain. and Rec.	358	34.4
Accomm. & Food Serv.	299	-29.0
Other Services	227	22.8
Admin., Waste Management & Remediation	107	3.3
Management of Companies	18	21.3

Source: Statistics Canada, Private and Public Investment in Canada, Intentions 2005.

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