

## BC CAPITAL INVESTMENT SLATED TO RISE AGAIN

The annual release of Statistics Canada's Public and Private Investment Intentions survey provides some welcome insight into investment trends and conditions in the province.<sup>1</sup> It is especially helpful in trying to assess the near-term outlook because, unlike any other information source, the survey asks businesses across the province (and country) how much they plan to spend on capital investment in the coming year.

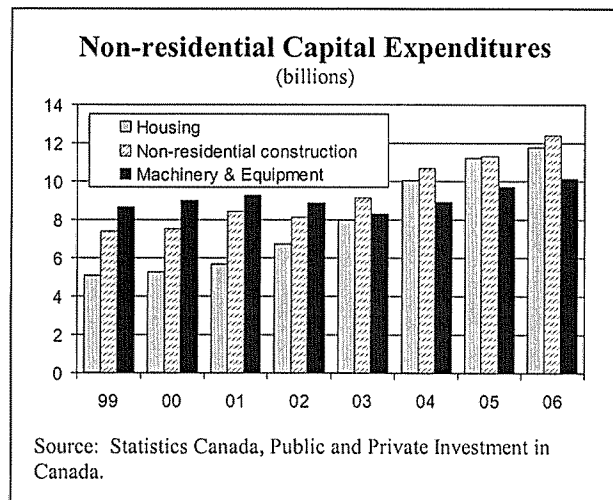
While intentions and what businesses actually invest can (and do) differ, it is interesting to note that last year's survey turned out to be remarkably accurate. Preliminary estimates show that total capital spending (investment in residential buildings, non-residential structures and machinery and equipment) in BC grew by 8.7% in 2005 to reach \$32.3 billion. Last year's survey "predicted" that investment would increase by 8.2%.

Generally, investment in the province has been growing at a solid pace in recent years. Increases in the high 8% range are about twice the average annual gain since 1991. Moreover, last year's advance follows a 16% surge the previous year and is the seventh consecutive year during which total investment spending in the province has risen.

### A Review of Planned Capital Spending

Against the backdrop of a multi-year investment expansion the outlook is for investment spending to increase again this year, but at a slightly slower pace. According to most recent intentions survey, capital spending in BC will climb to \$34.3 billion in 2006, a 6.5% increase over 2005. This puts BC right in the middle of the pack among the provinces (tied with Ontario) in the expected growth in capital outlays.

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



Much of the easing in overall investment spending can be traced to the residential segment. The amount spent on building new homes in BC is still projected to grow (5% this year), but this is a significantly slower pace than the double digit gains (averaging 18%) seen over the previous four years. In the wake of one of the strongest expansions in residential construction on record, builders in BC appear to be adopting a somewhat more cautious outlook. Another factor that may be tempering home building is the shortage of workers in some key construction trades.

In contrast, growth in non-residential investment spending is projected to remain basically unchanged at 7.2% in the coming year. A rise in the number large public sector infrastructure projects is propelling this increase. Indications are that non-residential investment in the private sector will rise by a modest 2% or so this year.

One area of relative softness is investment in machinery and equipment within the private sector. Although companies in BC do plan on investing more, M&E spending is slated to increase by just 1.8% in 2006. This comes on the heels of a much stronger 7.7% gain in 2005,

but it is still somewhat disappointing given the widespread strength in the provincial economy.

### **Strongest Increase in Transportation and Utilities**

The overall investment figures and different aggregate components discussed above indicate that investment remains an important element of the province's current economic upswing. Although 13 of the 20 high level industry groups included in the survey will be investing more this year, a few sectors are clearly elevating the broader investment outlook. Transportation and warehousing and the utilities sector are poised to lead the way. Both are expected to see investment climb by more than 37%. This hefty expansion combined with the fact that they are both large industries means these two sectors alone will account for \$1.3 billion of the total \$2.1 billion increase in non-residential investment predicted for 2006. Stepped up capital spending on transportation and utilities will help to strengthen critical infrastructure and, over time, should improve BC's productivity by providing higher quality services to a wide range of industries. Another industry expected to experience a big jump in investment outlays is construction (+29%), where the high level of building activity is prompting companies to boost spending on equipment.

Another pattern that emerges from the industry breakdown is the growing prominence of the oil and gas sector in the provincial economy. Even though investment in this area is set to decline in 2006, it is still the single largest source of new investment in the province. The oil and gas sector's climb to the top spot has been striking. Investment in the sector soared from \$600 million in 1991 to more than \$3 billion today. This break-neck growth has taken the industry's share of non-residential capital spending in BC from just 5% to about 15%.

<b>BC 2006 Investment Intentions by Industry</b>		
<b>Industry</b>	<b>Investment (millions \$)</b>	<b>2005-06 growth (%)</b>
Mining and Oil & Gas	3,538.9	-12.6
Public Administration	3,147.9	8.0
Transport. & Warehousing	2,500.5	37.2
Utilities	2,248.4	38.7
Real Estate, Rental, Leasing	1,733.3	2.5
Finance and Insurance	1,543.4	12.6
Manufacturing	1,525.7	-6.6
Retail Trade	1,097.6	13.4
Educational Services	922.6	4.9
Information & Cultural Ind.	857.0	-0.8
Health Care & Social	697.2	9.3
Construction	522.5	28.8
Wholesale Trade	456.8	15.3
Agriculture, Forestry, Fishing and Hunting	418.2	-0.4
Accomm. & Food Services	412.5	7.8
Professional, Scientific & Technical Services	349.4	3.8
Arts, Entertainment & Rec.	281.1	7.4
Other Services (except Public Admin)	149.6	-26.6
Admin. & Support, Waste	118.5	-1.7
Management of Companies and Enterprise	27.4	-38.4

Source: Statistics Canada, Private and Public Investment in Canada, Intentions 2006.

### **Summary**

The latest Statistics Canada survey of investment intentions suggests that capital spending will continue to make a significant contribution to economic growth in the province in 2006. Importantly, non-residential investment is slated to grow at a healthy clip, repeating last year's gain, while growth in residential structures will finally moderate. If there is one area of concern it is the slow growth in planned private sector investment in productivity enhancing machinery and equipment.

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