



Publication

B.C. ECONOMIC SNAPSHOT

Vol. 6 No. 1 – March 2007

Editor: Jock A. Finlayson

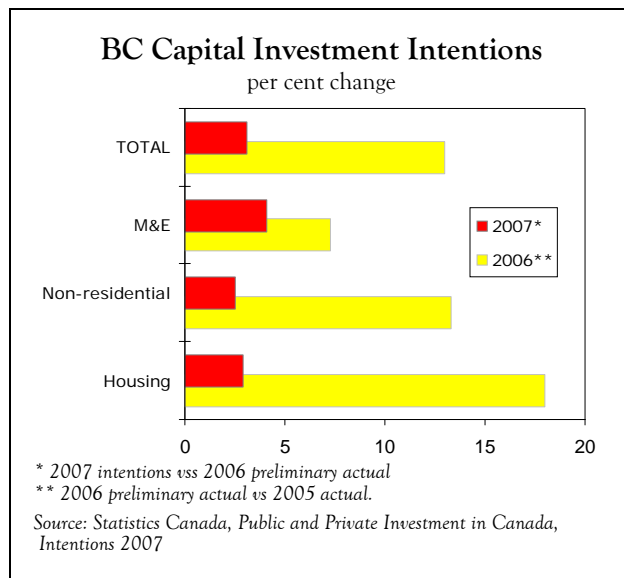
GROWTH IN BC CAPITAL SPENDING TO MODERATE, BUT INVESTMENT UPSWING CONTINUES

According to the latest issue of Statistics Canada’s Public and Private Investment Intentions Survey, capital spending in BC will top \$38.7 billion in 2007. This translates into a 3.1% increase over 2006. While this may seem to be a very modest gain given the current non-residential construction boom and BC’s still strong economy, it comes on the heels of three consecutive years of double-digit growth and will mark the ninth straight year of higher capital spending. A projected \$570 million decline in oil and gas investment and weaker housing investment are key reasons for slower growth in overall capital outlays.

Based on the Survey, growth in the three fixed investment categories – housing, non-residential construction, and machinery and equipment – is set to decelerate from 2006. The easing will be led by housing, where investment is forecast to rise by just 2.9% (to \$13.3 billion) following an 18% surge in 2006. This is consistent with the observed downtrend in housing starts. Most forecasters are calling for an outright drop in housing starts this year. The fact that the Survey sees residential investment edging higher suggests that builders are more optimistic than current economic forecasts assume.

Investment in non-residential construction (made up of buildings and engineering projects) is slated to grow by 2.5% this year to reach nearly \$14 billion. As noted above, one factor dampening investment in this area is a sizable decline in capital spending in the natural gas sector. Collectively, upstream oil and gas companies plan on cutting their capital outlays by 13.6% in 2007. That said, the industry still plans to invest \$3.6 billion in BC in the coming year.

Growth in investment spending on machinery and equipment is also expected to decelerate this year. But the projected 4.1% increase is stronger than in the other investment categories and represents only a small decline from last year’s 7.3% advance. Altogether, companies





and public sector institutions in BC expect to invest \$11.4 billion in new machinery and equipment this year.

A few industries are anticipating significant increases in investment spending. Capital outlays in the transportation and warehousing industry, for example, are poised to jump 16% this year, in the wake of a 43% surge in 2006. This reflects continued high levels of transportation infrastructure investment. Investment in the utilities sector is projected to climb by 27%, in part because of new power generation projects and spending to upgrade transmission infrastructure. Another positive sign is a predicted 23% increase in capital outlays in the manufacturing sector. Most of the investment in manufacturing is for machinery and equipment, which suggests that many BC manufacturers are retooling and upgrading their production processes.

Apart from oil and gas, other sectors on track for lower capital spending in 2007 include wholesale trade, educational services, and arts, entertainment and recreation.

Although the Investment Intentions Survey points to a slowdown in the growth of capital spending, on balance the Survey is still quite positive. If companies follow through with their capital plans, BC will be close to realizing almost a decade of sustained investment growth. The 2007 headline investment figure is influenced by the oil and gas industry. If it is excluded, then planned capital spending increases by 5.2%. There is scope for actual investment to come in higher than the Survey's forecast. Strong growth in non-residential building permits and the rising number of large projects in the province (either underway or proposed) suggest the Survey may be underestimating the level of investment activity. This is what happened last year, when intentions turned out to be \$3.2 billion below actual investment outlays.

BC 2007 Investment Intentions by Industry

<u>Industry</u>	<u>Millions \$</u>	<u>2006-07 % growth</u>
Mining, Oil and Gas Extraction	4,364.9	-14.2
Public Administration	3,197.3	2.5
Transportation & Warehousing	3,114.0	15.6
Real Estate, Rental and Leasing	2,154.4	2.6
Utilities	2,125.9	27.0
Manufacturing	1,804.2	22.6
Finance and Insurance	1,568.4	4.8
Retail Trade	1070.0	-4.2
Educational Services	962.8	-10.8
Information & Cultural Industries	950.7	-3.4
Health Care / Social Assistance	883.3	-5.5
Accommodation and Food	660.6	21.7
Construction	507.4	9.2
Wholesale Trade	479.7	-12.6
Agriculture, Forestry, Fishing and Hunting	402.2	2.2
Professional, Scientific and Technical Services	288.2	2.3
Arts, Entertainment and Recreation	167.8	-12.3
Administrative, Support, and Waste Management Services	134.7	6.3
Other Services (excl. Public Admin)	132.7	-22.7
Management of Companies and Enterprise	29.2	-9.3
Housing	13,347.3	2.9
Total	38,747.9	3.1

Source: Statistics Canada, Private and Public Investment in Canada, Intentions 2007.

* * * * *

Jock Finlayson
Executive Vice President - Policy
jockf@bccbc.com

Ken Peacock
Director Economic Research
kpeacock@bccbc.com