



Publication

B.C. ECONOMIC SNAPSHOT

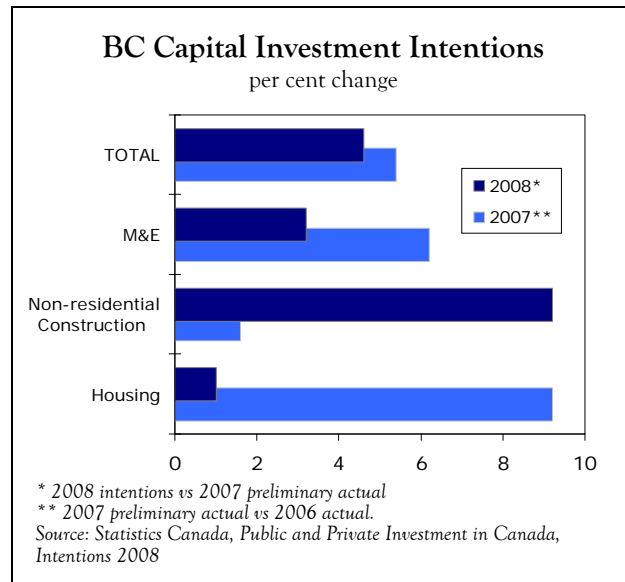
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BC ON TRACK FOR A DECADE OF HIGHER INVESTMENT SPENDING

According to Statistics Canada's annual Public and Private Investment Intentions Survey, total capital spending in British Columbia is poised to grow by 4.6% this year, taking the total value of all capital investment to more than \$44 billion. This follows a 5.4% increase in 2007 and comes in the wake of a number of years of double digit growth in capital outlays. In fact, 2008 will mark the tenth consecutive year that capital spending has grown. In this context, the top line increase for 2008 is reasonable and the overall investment picture in BC is sound. However, within Canada BC's projected 2008 increase is on the weak side and is below the anticipated 5.2% Canada-wide gain. The details of the Survey also reveal a very mixed picture across different segments, with the headline increase being heavily influenced by big jumps in investment in oil and gas and, to a lesser extent, mining.

Total capital spending is grouped into three broad categories: residential construction investment, non-residential construction investment, and investment in machinery and equipment. In the first category, investment in new homes in BC is expected to advance by just 1% this year, following a healthy 9.2% gain in 2007. A levelling off in residential investment is consistent with private sector forecasts for new home construction in 2008. In the first two months of the year, however, the number of housing starts is actually up significantly over 2007 (31%). Although it is still early going, this suggests that residential construction may turn out to be stronger than what BC builders were planning when they were surveyed near the end of last year.



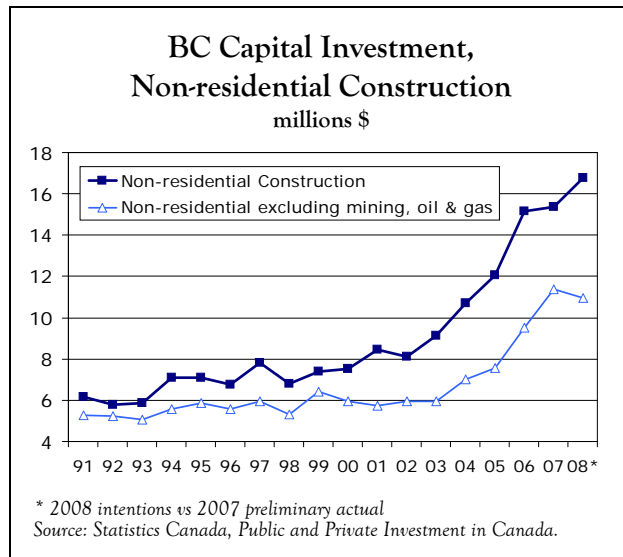
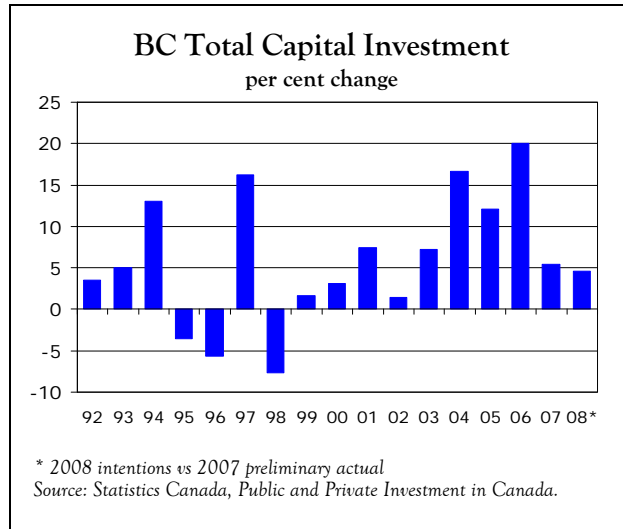
In the second and largest category, the Survey points to a solid 9.2% increase in non-residential construction investment. This will push construction spending on building and engineering projects up to \$16.8 billion in 2008. Capital investment in both the public and private sectors has been an important economic driver over the past four years; a gain of this size is positive for the province's economic outlook. The caveat here, however, is that the



increase is heavily driven by the mining and oil and gas sectors. Planned investment spending in both these sectors is up sharply this year (oil and gas by 35% and mining by 155%). The two industries alone will account for more than one-third of all non-residential construction spending in 2008. Given the size and stepped up investment plans in these areas, they distort the overall picture. If oil and gas and mining are stripped out, it turns out that non-residential construction spending in BC is set to decline by 3.5% this year.

Growth in investment spending is also expected to decelerate in the third category, machinery and equipment. The Survey suggests that companies and public sector agencies together will spend \$12.6 billion on new machinery and equipment this year. This represents a 3.2% increase over 2007, but is down from a 6% gain last year and well off the 12% and 15% increases recorded in the two prior years.

On balance, the latest Investment Intentions Survey is still positive, especially considering that if companies follow through with their plans, BC will post a decade of sustained investment growth. But it does appear that the investment cycle is nearing a peak. This year, capital spending will provide a smaller lift to economic growth than in recent years (especially 2004 through 2006). Forecasts of real GDP growth in BC in 2008 are in the 2.4% to 2.9% range. A more moderate pace of growth in capital investment, coupled with the ongoing deterioration in external conditions, suggests the lower end of this range may be more likely.



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