

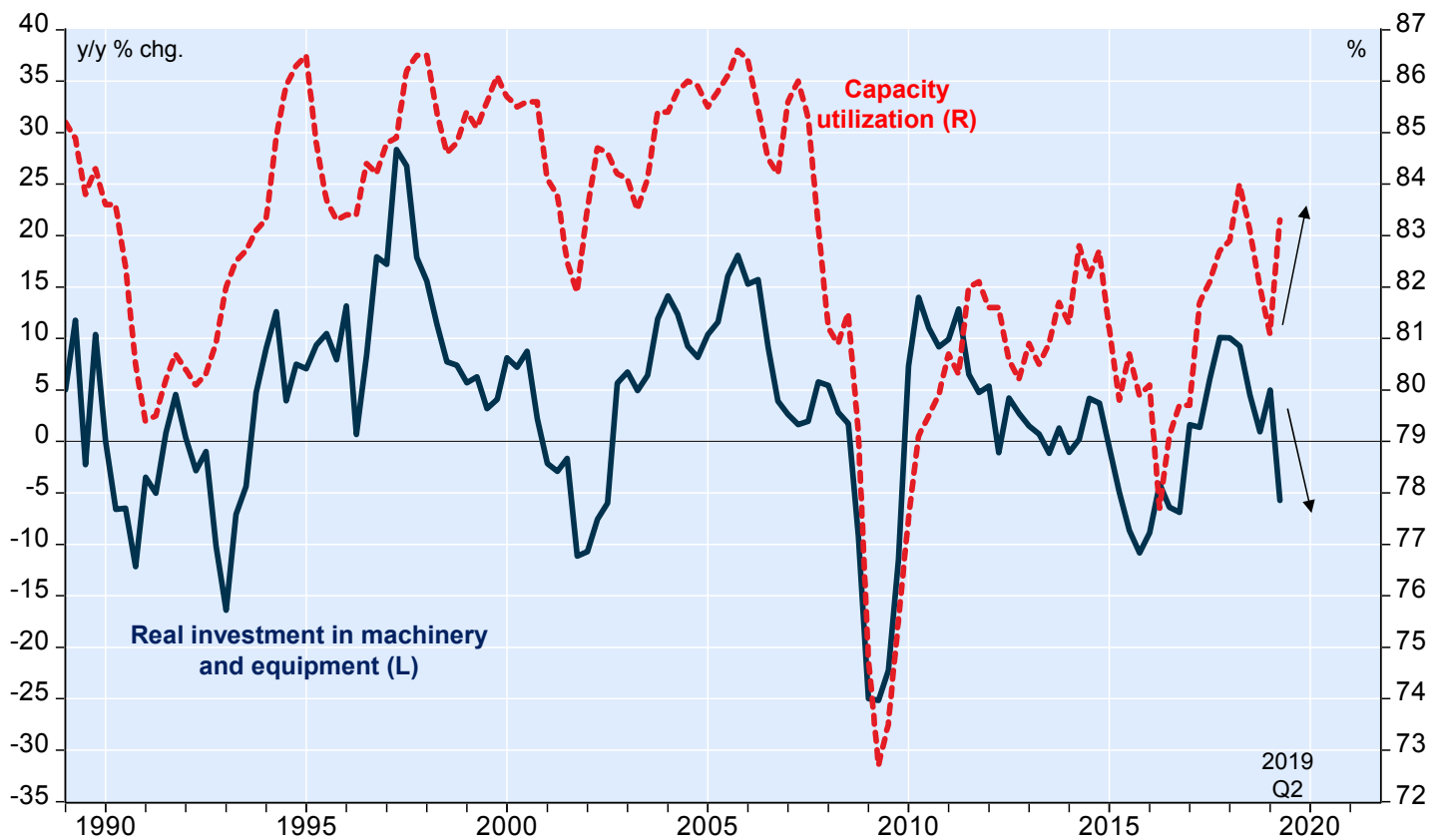
## Canada Watch

By Krishen Rangasamy

Latest data from Statistics Canada show that the industrial capacity utilization rate, i.e. ratio of actual output to estimated potential output, jumped to 83.3% in the second quarter, the highest in a year. Utilization rates rose in most major industries including oil & gas (as mandated production curtailments were eased a bit in Q2), manufacturing (thanks to the surge in exports), and construction (courtesy of stabilization in the housing market). While tight industrial capacity often led to a ramp up in business investment in the past, that hasn't been the case lately. As today's *Hot Chart* shows, investment in machinery and equipment is declining despite a rising capacity utilization rate. The investment slump is all the more disappointing considering the federal government offered significant incentives last November by allowing firms to lower their tax bills via accelerated depreciation of machinery. Trade-related uncertainties may be restraining investment somewhat, in which case one can expect a rebound once those dissipate and the profit outlook improves. But some of the weakness in investment is arguably more lasting because of industry-specific issues. Take manufacturing and oil & gas for instance. While capacity utilization rates in those industries are now higher than just before the 2008-2009 recession, a significant ramp up in investment outlays may not happen even if trade-related uncertainties dissipate. Recall that auto manufacturers are looking to reduce capacity while the resources sector continues to be challenged by low commodity prices and more stringent environmental regulations.

### Canada: What does surge in capacity utilization rate say about investment?

Real investment in machinery and equipment versus Capacity utilization rate



NBF Economics and Strategy (data via Statistics Canada)



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