

Quick Hit – A provincial perspective on investment intentions

Somewhat lost in the shuffle in last week’s data dump—which included everything from housing resales, inflation, payroll employment, the current account and, most significantly, quarterly/monthly GDP—was the annual guesstimate on capital spending intentions. We say ‘guesstimate’ because, as we’ve seen in the past, realized capital spending can deviate from the level and pace signaled in StatCan’s *Capital and Repair Expenditures Survey* (the latest version of which involved asking ~25,000 public and private organizations, over the course of Sep-2018 to Jan-2019, just how much they intended to spend on capital outlays this calendar year).

For an economy like Canada’s, exhibiting clear signs of moderation in consumption and housing, finding alternate sources of growth is somewhat critical. We’re getting a little desperate in fact. Enter capital spending, which along with exports, has long been pointed to as a prospective and desirable driver of lasting growth. So what have we learned in terms of planned capital spending? Our Economics colleague, Krishen Rangasamy, pointed to some encouraging trends in national intentions in a related [Hot Chart](#) and also in a fresh [Monthly Economic Monitor](#). But there’s an interesting regional perspective to this dataset, one that might have some bearing on how you think about provincial credit here.

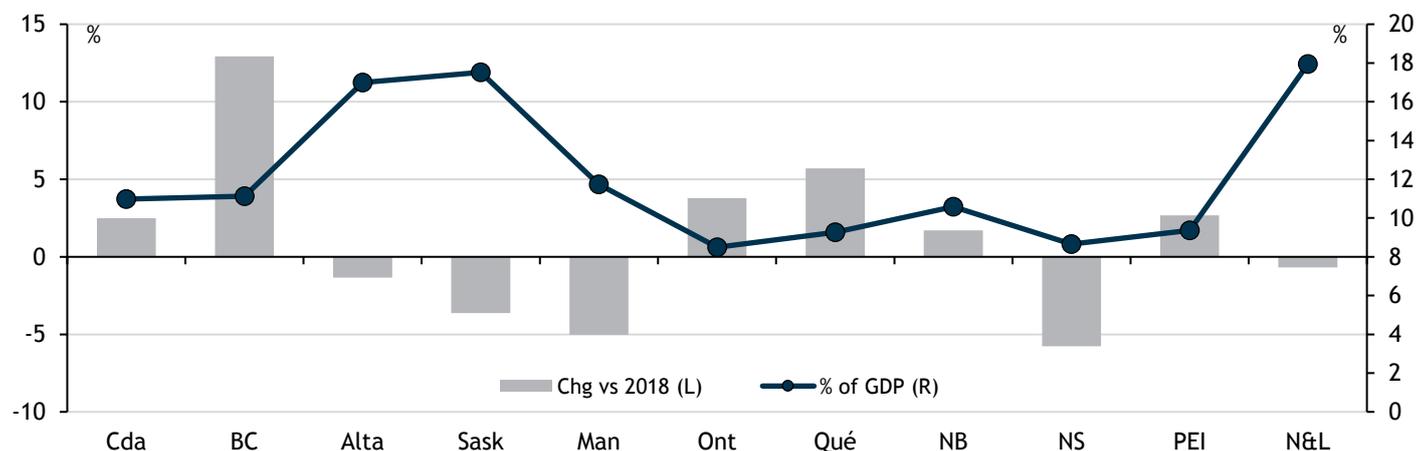
At the national level, there’s an intention to increase non-residential capital spending by 2.5% in 2019 (Chart 1). You’ll find an even five-five split between the number of provinces poised for an increase in capital spending and the number of jurisdictions where capital outlays are expected to contract in 2019. BC has far and away the brightest investment picture this year. True, government is directly and indirectly supporting investment on Canada’s West Coast. But all the individual industries with significant capital spending weights in BC (i.e., >5% of the provincial total) are on the positive side of the ledger when it comes to 2019 growth (Chart 2). So for those anxious about the outlook for the Vancouver housing market, consider this positive capital spending outlook (alongside buoyant jobs/personal income data and heady population growth) something of a salve.

Shifting our focus to the manufacturing sector, the capital spending outlook appears cautiously optimistic at the national level... benefiting, no doubt, from Ottawa’s more favourable tax treatment for machinery and equipment investment that was announced last fall. About 60% of manufacturing capital spending can be traced to Ontario and Québec, and interestingly, you’ll find a noted disconnect when it comes to 2019 investment intentions. Planned outlays in Québec’s factory sector are surging, up 26% vs 2018; meanwhile, capital spending in Ontario’s manufacturing sector looks to be down 10% (albeit from a solid prior-year level) (Chart 3). Again, one might wish to treat these survey results with a degree of caution. Nonetheless, the more positive investment outlook in Québec jives with superior readings on business confidence that have been picked by other surveys. Again, it’s the type of thing that a provincial bond holder might take comfort in, with Québec’s housing market likewise appearing better insulated against correction (vis-à-vis Canada’s two most populous provinces). As for Ontario, there remains a bit more of a public sector tilt to capital spending (at least vs some of its peers) (Chart 4). Don’t look for Ontario to abandon public sector capital spending in this month’s budget... after all, some of these government outlays can lay the foundation for long-term growth. Nonetheless, as we [recently explored](#), wrestling a structural budget deficit to the ground over time is going to require a fair bit of restraint, particularly if the government follows through on some big-time tax cuts that were promised on the campaign trail.

Let’s close this out with Alberta where, to be kind, the investment backdrop could be better. Notwithstanding efforts to diversify the provincial economy, oil and gas extraction (an overtly capital intensive undertaking if there ever was one) still accounts for over 40% of planned capital spending. Investment may not be falling in this sector. Nor, however, is it really coming back (Chart 5). In light of weaker industry profitability and absent sufficient pipeline infrastructure to move marginal product to market, this subdued investment profile is understandable, if unfortunate from both an economic and fiscal point of view.

Chart 1: Regional winners and losers when it comes to the capital spending outlook for 2019

2019 non-residential capital spending intentions by province: Change vs prior year & projected level relative to GDP

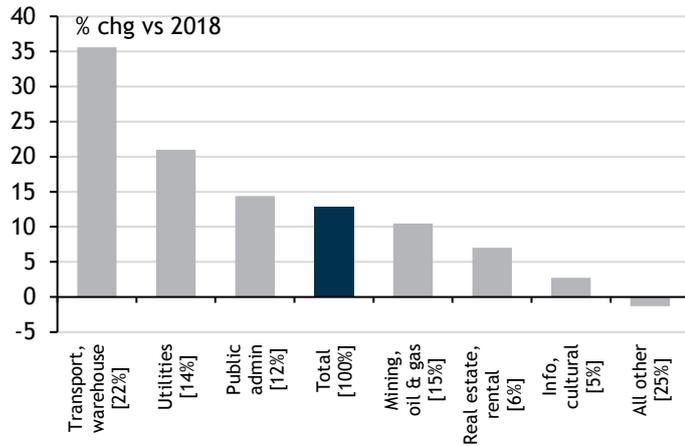


Source: NBF, Statistics Canada

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Chart 2: British Columbia leads the way higher

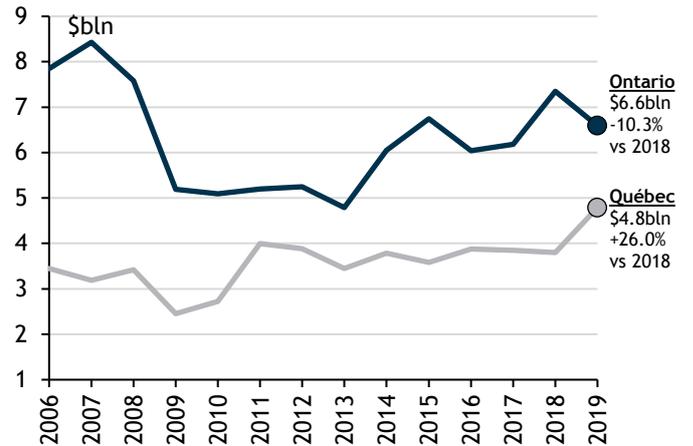
British Columbia capital spending intentions by major sector: 2019



Source: NBF, StatCan | Note: Figures in [:] denote sector's capital spending weight in BC

Chart 3: Central Canada's factory sector picture

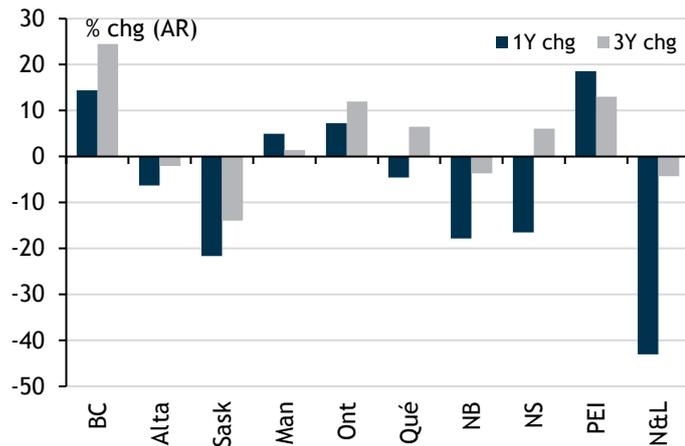
Capital spending in manufacturing sector: Ontario & Québec



Source: NBF, StatCan | Note: Figures for 2018 are preliminary estimates; figures for 2019 are intentions based on latest survey

Chart 4: Public admin helping or hurting?

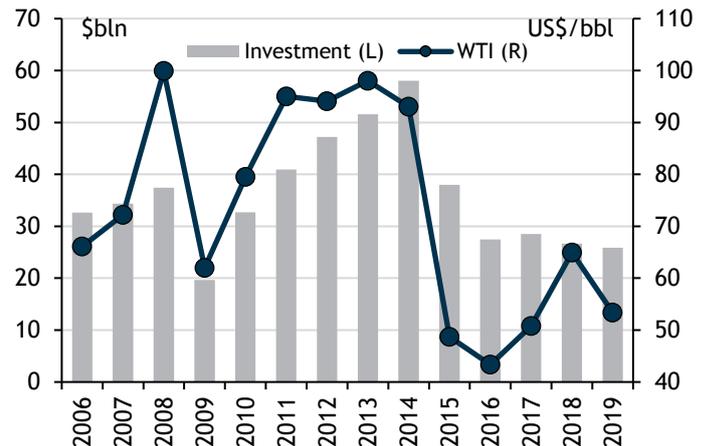
Capital spending intentions in public administration sector: 2019



Source: NBF, StatCan

Chart 5: Alberta's energy sector languishes

Capital spending in Alberta's oil & gas sector vs oil prices



Source: NBF, StatCan, Bloomberg | Note: Capital spending figures for 2018 are preliminary estimates, while figures for 2019 are intentions based on latest survey; 2019 level for WTI based on calendar year-to-date average to 5-Mar

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