Economic News

Desjardins Economic Studies
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CANADA

Industrial capacity utilization rate decreases temporarily

HIGHLIGHTS

- The industrial capacity utilization rate slipped 0.8 percent in the first quarter of 2015, going from 83.5% to 82.7%.
- Much of this deterioration is in the mining (-5.8 percentage points), construction (-1.1 percentage points) and manufacturing (-0.8 percentage points) sectors.
- Despite difficulties in the energy sector, the utilization rate in oil and natural gas extraction did not fall during the period. Instead, it rose 0.1 percentage points.
- The utilization rate also increased 3.7 percentage points in forestry and lumber.

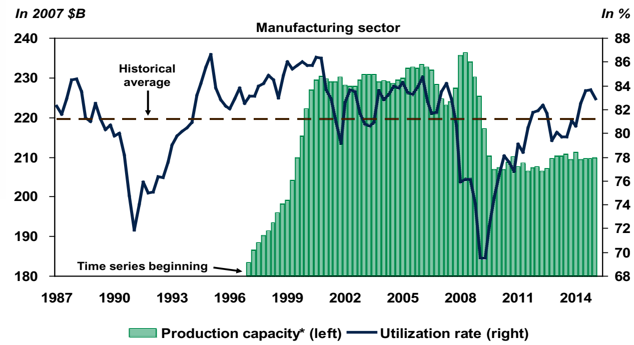
COMMENTS

Given the 4.5% (quarterly annualized) decrease in industrial production in the first quarter of 2015, the fall in the industrial capacity utilization rate is no surprise.

At 82.7%, the rate is still slightly above its historical average. However, this changes from one sector to the next. Manufacturing is still posting a utilization rate close to 2 percentage points above its historical average. A positive gap also persists in oil and natural gas extraction (+1.1 points), in forestry and lumber (+1.9 points) and in utilities (+1.8 points). In contrast, the utilization rate for mining continues to have a significant negative gap from its historical average (-19.9 points). Construction is also slightly below its average (-0.4 point).

Implications: Despite the first quarter's underperformance, several sectors are still posting relatively high utilization rates. This is particularly the case in manufacturing, which saw its production capacity fall in recent years with the disappearance of certain companies. According to our calculations, production capacity in the manufacturing sector contracted 12% between spring 2008 and fall 2009. While some stabilization was observed afterwards, there is still no real upward trend.

The utilization rate remains fairly high in manufacturing



* Production capacity is derived from the utilization rate and volume of production.
Sources: Statistics Canada and Desjardins, Economic Studies

With improving U.S. demand and climbing exports, the outlook has improved for manufacturing. Since the utilization rate is rather high, many manufacturers could decide to invest in the coming quarters to grow their production capacity and position themselves to adequately respond to rising demand. This is in fact one of the main assumptions of our growth scenario for the Canadian economy. More specifically, the manufacturing industries that have a higher-than-average utilization rate and are therefore more likely to increase their investments are wood products, textiles, transportation equipment (especially automobiles and aviation), computers and electronic products, machinery, furniture and paper.

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