Economic News

Desjardins Economic Studies
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CANADA

The utilization rate reaches its historic average

HIGHLIGHTS

- The industrial capacity utilization rate rose to 82.5% in Q1 2014, up from 82.2% the quarter before.
- The rise is especially evident in the mining, oil and natural gas sectors.
- The utilization rate remained practically flat in the other main sectors, except for forestry, which posted a 2.3 percentage point drop.

COMMENTS

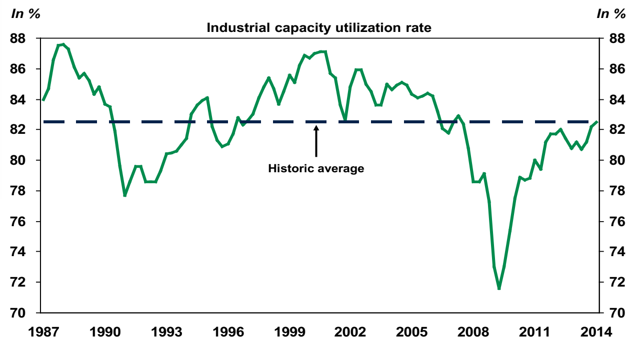
With the first quarter's slight uptick, the industrial capacity utilization rate has now returned to its historic average. Note that it had dropped significantly during the last recession.

That being said, the different activity sectors have not recovered equally. The mining sector, for example, still has a utilization rate (65.5%) well below its historic average (81.3%). The utilization rate for manufacturing has oscillated around its average for several quarters, but large discrepancies can still be seen in its subsectors. Transportation and machinery have utilization rates above their average, while most of the other manufacturing industries are still behind.

Implications: The utilization rate is one of the statistics that shows how excess production capacity is evolving in Canada's economy. The utilization rate's return to its historic average therefore signals that the output gap has all but disappeared from the industrial sectors. On the other hand, everything suggests that excess capacity lingers in other areas of Canada's economy. The broadest estimate, from the Bank of Canada (BoC), puts the output gap at -0.6% for Q4 2013.

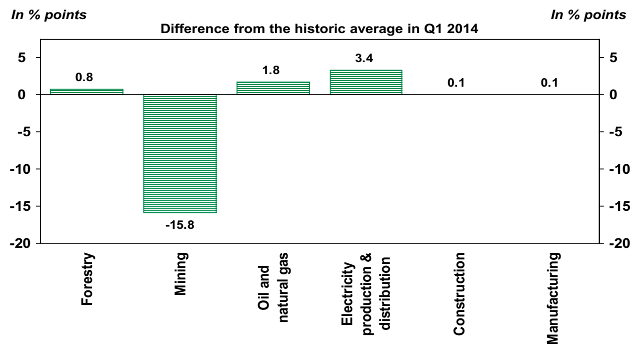
Given our relatively modest economic forecasts for the coming quarters, this gap may not be completely closed until the second half of 2015. Until then, pressures on price growth will remain fairly weak, prompting the BoC to maintain its status quo for key rates until fall 2015.

The utilization rate is still climbing



Sources: Statistics Canada and Desjardins, Economic Studies

The utilization rate is well below average for mining



Sources: Statistics Canada and Desjardins, Economic Studies

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