The industrial capacity utilization rate surpasses its historical average

**HIGHLIGHTS**

- The industrial capacity utilization rate reached 82.7% in the second quarter, versus 82.1% in the previous quarter.
- With the exception of forestry and the electric power generation, transmission and distribution sector, all the other major industries posted an increase in their utilization rates.

**COMMENTS**

As expected, the industrial capacity utilization rate continued its ascent in the second quarter. It must be said that the 3.5% increase (at an annualized quarterly rate) in industrial production in the spring left no doubt about greater use of production capacity, particularly since growth in non-residential investment has been anaemic in recent quarters.

This second-quarter increase pushes the utilization rate above its historical average, thanks in particular to a significant gain in manufacturing. In this regard, the transportation equipment sector stands out with a utilization rate that reached 93.7% in the second quarter, its highest reading since 1987 (when that indicator began). The upswing observed in the automobile industry in recent months obviously has something to do with that reading, as does the gradual improvement in the aviation sector. This is good news for the manufacturing industry in Ontario and Quebec.

On the other hand, the mining sector is still recording a very low utilization rate (67.5%) compared with its historical average (81.2%). This is mainly the result of major investments that have been made in recent years, increasing the production capacity, since production volume growth has been quite good in recent quarters.

**Implications:** The higher industrial capacity utilization rate corroborates the measurement of the output gap, which is heading towards complete closure. These two signals tell us that the excess capacity is on the verge of disappearing. We will therefore have to be on our guard against upwards pressure on inflation. For the time being, the situation is still under control, which gives the Bank of Canada some leeway.

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Note to readers: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.

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