Economic News
Desjardins Economic Studies
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May 10, 2016

CANADA

Disappointing investment outlook for 2016

HIGHLIGHTS

- According to Statistics Canada's survey of investment intentions, capital spending will decline 4.4% in 2016, on the heels of 2015's 7.2% drop.
- Private sector investment is forecast to decrease by 9.3% in 2016. Among other areas, major declines are anticipated in mining and oil and gas extraction (-23.1%), manufacturing (-10.9%), administrative services (-16.8%), and accommodation and food services (-9.7%).
- However, public sector investment is expected to increase (+6.5%).
- Especially hard hit by the 2016 decline in investment are the oil-producing provinces: Alberta (-11.9%), Saskatchewan (-17.7%) and Newfoundland and Labrador (-10.0%).
- The outlook is also negative in British Columbia (-3.7%), Ontario (-0.1%) and New Brunswick (-7.3%).

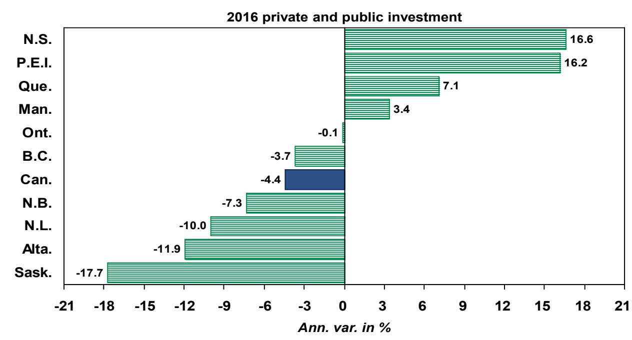
COMMENTS

Overall, the investment outlook for 2016 is disappointing. The forecast decline in the energy sector comes as no surprise given how low oil prices are, but the decrease projected in several other sectors is surprising. Among other things, given the lower loonie, improved U.S. demand and the high industrial capacity utilization rate in many industries, we were hoping to see investment increase in manufacturing. Clearly, that will not happen in 2016.

Hopes are now focused on 2017. Not only could the slide by energy sector investment stabilize, but the outlook should improve in several sectors, including manufacturing.

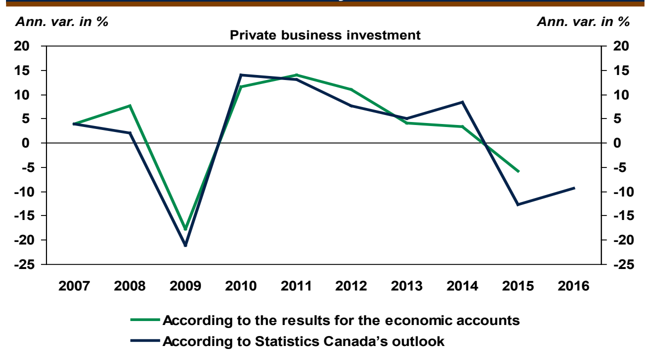
Implications: As in 2015, the anticipated decline by business capital spending will make a negative contribution to economic growth in 2016. Under these conditions, 2016's real GDP growth should be fairly low, under the 2% mark. To beat 2015's 1.2% growth, other components of domestic demand will have to take up the slack, like household consumption and government expenditure (thanks to an increase by federal government spending, among other things).

Capital spending should retreat in several provinces in 2016



Sources: Statistics Canada and Desjardins, Economic Studies

Non-residential investment by business will once again drop substantially in 2016



Sources: Statistics Canada and Desjardins, Economic Studies

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