Economic News
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CANADA

The industrial capacity utilization rate remains too low in a number of sectors

HIGHLIGHTS

- The industrial capacity utilization rate went up 0.5 percentage points in the first quarter of 2016, rising to 81.4%.
- Utilization rates increased in all industrial segments during the quarter aside from forestry and mining.
- In manufacturing, it went from 83.0% to 83.2%, which is above its historical average (81.1%).
- Conversely, at 71.5% compared with 79.1%, mining's utilization rate is the furthest below its average of all sectors.

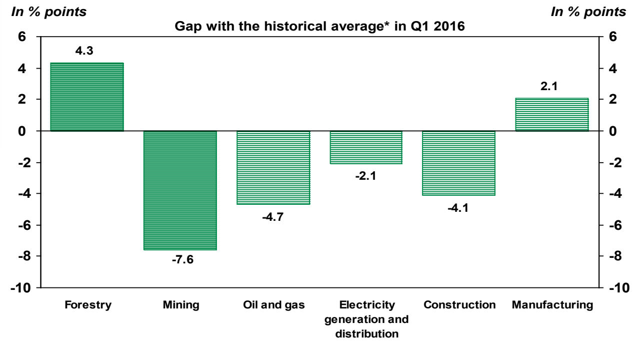
COMMENTS

The first quarter increase in the industrial capacity utilization rate is good news. It signals that some businesses could be prompted to invest more to increase production capacity, especially in sectors where the utilization rate is above its historical average.

However, investment by Canadian business continues to face serious difficulties. The drop in energy prices did trigger a substantial drop in oil sector investment, but the problems are also affecting several other sectors. Note that, in most industrial sectors, utilization rates remain below their historical averages. Under these conditions, the global industrial capacity utilization rate is struggling to climb out of the range it has been fluctuating in since 2011. It has a long way to go to hit the level seen prior to the Great Recession of 2008–2009.

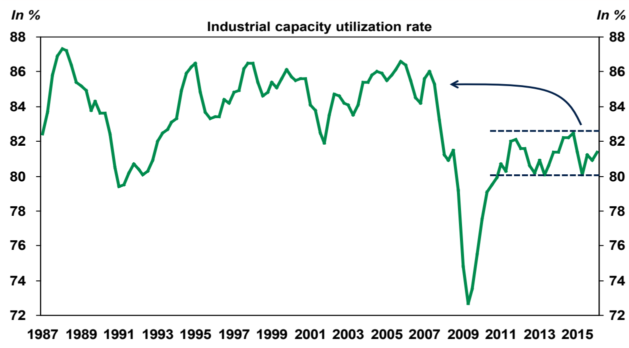
Implications: Although investment may increase in some sectors due to higher utilization rates, the overall situation for Canadian business means we cannot look for a quick turnaround by total non-residential investment. This projection is corroborated by the 2016 results of the Statistics Canada survey on private investment in Canada, as well as by the topping out of new business creation, a factor that often drives the development of production capacity.

The utilization rate remains below the historical average in most sectors



* Since 1987.
Sources: Statistics Canada and Desjardins, Economic Studies

The utilization rate is struggling to reach pre-Great Recession levels



Sources: Statistics Canada and Desjardins, Economic Studies

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