Investments could rise in certain manufacturing sectors

Non-residential investment fell sharply in recent quarters, leading to a major slowdown in the country’s economic growth. Most of these difficulties stem from falling energy prices, which prompted certain oil and gas producer to postpone, or even cancel, some expansion projects. Non-residential investment is nonetheless expected to stabilize in the coming quarters, as energy prices should gradually rise. That said, it will take a lot more patience before investments start to grow again in the energy sector and contribute once more to economic growth.

In the meantime, other activity sectors could pick up the slack in non-residential investment. Data released today by Statistics Canada on the industrial capacity utilization rate are actually fairly eloquent on this front. Even though the utilization rate for the overall industry fell again in the fourth quarter of 2015, mainly due to major decreases in construction and oil and gas extraction, manufacturing is out of the woods again. Its utilization rate was 83.3% in the fall, a level above its historical average. Certain manufacturing sectors stand out with utilization rates that greatly exceed their historical averages. This is particularly the case with wood products, transportation material, furniture, paper, beverages, computer products and electronics, to name a few. These sectors could therefore be at centre stage for a potential increase in investments in the coming quarters.

Implications: Even though high utilization rates are favourable to an increase in non-residential investment in several manufacturing sectors, it would be surprising to see a real recovery before manufacturers regain enough confidence. However, the weaker value of the Canadian dollar and the upswing in U.S. demand are good signs on this front. If demand remains robust, we could see a recovery in investments in certain manufacturing sectors in the next few quarters. This could coincide with the expected increase in public investment, which should translate into more vigorous economic growth in Canada.