ECONOMIC NEWS

Canada: Investments in the Energy Sector Picking Up

The drop in oil prices in 2014 and 2015 greatly reduced the profitability of several expansion projects in the Canadian energy sector, and that slowed down a lot of capital expenditure. Investments in oil and gas extraction went down 53% from 2015 to 2016. With real GDP growth of only 0.9% in 2015 and 1.4% in 2016, the Canadian economy has taken an undeniable hit from the energy sector difficulties.

But there are signs of improvement. As example, the number of active drills has risen significantly in recent months (graph 1), which may mean investment in oil and gas extraction could start increasing at the beginning of 2017. The recovery is obviously a direct result of the upturn in energy prices and the more positive sentiment on the international commodities markets, coupled with significant adjustments in 2015 and 2016. It would nevertheless be surprising if the rise in energy sector investments did not taper off in coming months.

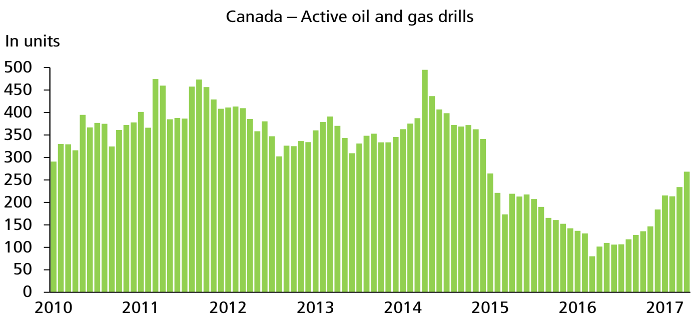
The industrial capacity utilization rate in the oil and gas extraction sector was 82.4% during the fourth quarter of 2016, lower than its historic average, so there is still no pressing need to create new production capacities. Forecasts also indicate that oil prices will not rise much in the coming months (graph 2). Oil prices should therefore stay below the profitability threshold of several expansion projects.

IMPLICATIONS

Despite the expected slowdown in coming months, investments in the energy sector could contribute to a slight economic growth in 2017. That would be a significant change of direction from previous years.

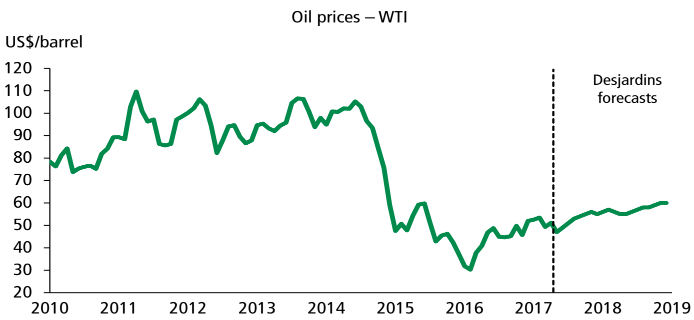
Benoit P. Durocher, Senior Economist

GRAPH 1
Drilling activities are picking up



Sources: Baker Hughes and Desjardins, Economic Studies

GRAPH 2
The upturn in oil prices will likely be slight



WTI: West Texas Intermediate
Sources: Datastream and Desjardins, Economic Studies

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