

QUEBEC

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Non-residential construction: investments are down

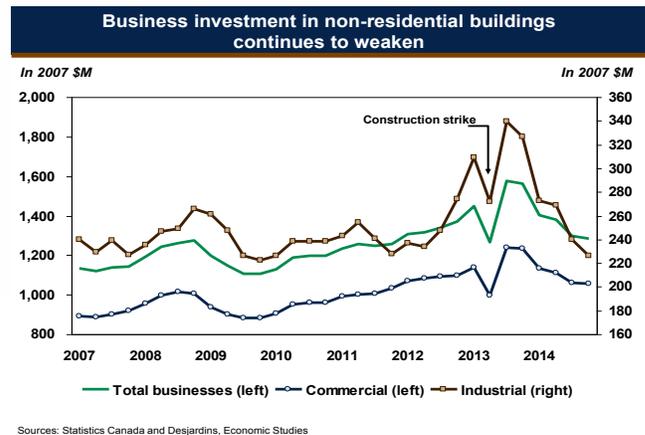
HIGHLIGHTS

- Investment in non-residential buildings fell 1.7% in the last quarter of 2014 compared with the previous quarter.
- The decline stems from quarterly pullbacks of 8.0% in the industrial sector and 2.3% in the commercial sector. Only investment in institutional and government buildings rose 1% in the last quarter of 2014.
- Quebec's six CMAs recorded a dip in non-residential investment. Each CMA saw a decrease in both the quarterly and annual change.

COMMENTS

The ongoing decline in investments is disappointing. The fact that the pullback affects both the commercial and industrial sectors, and that it is generalized across the six main urban centres in the province, darkens the picture. Unsurprisingly, Quebec has fared worse than Canada as a whole, which recorded a small quarterly advance of 0.3%.

In addition, the province posted the sharpest drop in the industrial and commercial sectors. Exports have accelerated recently, but it will be some time before investments see an impact. Companies face a major decision whether to build new facilities or expand existing ones. However, the winds should change in 2015. The industrial sector will benefit from the strength of the U.S. and Ontario economies, the weak loonie and low oil prices. Investment is therefore expected to pick up during 2015.



The commercial sector will still face difficulties. Commercial floor space has multiplied in recent years, and market saturation in a highly competitive environment means points of sales are now closing. Not much activity is expected for office buildings. Recent construction pushed up the vacancy rate and a pause is necessary to allow the market to absorb the free space.

Implications: The dip in business investment in the fourth quarter indicates that we need to quickly forget 2014. We should be able to turn the page in 2015, at least in terms of the industrial sector, which will benefit from a very favorable outlook. The provincial dynamic will be influenced by oil prices, which should allow Quebec and Ontario to come out on top. In short, the next few quarters will be more positive for exporting companies and investment should soon firm up.

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