

Non-residential construction: investment keeps dropping

HIGHLIGHTS

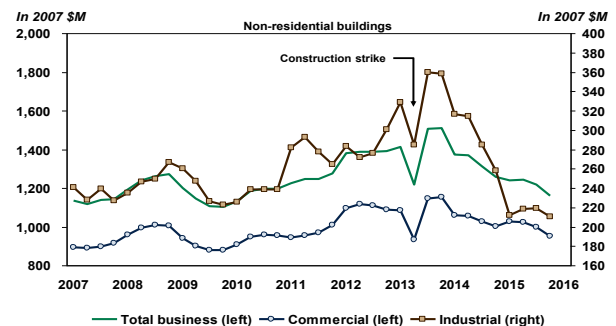
- In the last quarter of 2015, the amounts invested in non-residential building fell 9.6% from the same period in 2014. They are down 4.5% from the previous quarter.
- A quarterly pullback occurred in all of the components: -3.6% in the industrial sector, -4.0% in the commercial sector, and -5.6% in the institutional sector.
- Five of Quebec's six CMAs posted declines in the last quarter of 2015. The drops stood at -3.3% in Montreal, -14.3% in Quebec, -5.5% in Saguenay, -6.6% in Sherbrooke, and -4.2% in Trois-Rivières. On the other hand, Gatineau posted a slight 1.3% quarterly gain.

COMMENTS

Quebec's ongoing downtrend in the construction of non-residential buildings is disappointing. Several factors hang negatively over the performance. Firstly, the commercial, industrial and institutional sectors are all down. Secondly, the retreat is nearly widespread across the province's six primary agglomerations. Lastly, Quebec's quarterly 4.5% pullback is bigger than the pullbacks recorded by Canada as a whole (-1.7%) and by Ontario (-2.1%).

A lot of hope was resting on the industrial sector. Despite growth in international exports over the last three years, businesses are still reticent to invest. According to the Business Barometer™, Quebec SME confidence remains fairly weak. Although the low oil prices are not having a direct impact on the province's economic activity, the uncertain context worldwide and problems in Canada's economy are encouraging businesses to be cautious. For now, lively U.S. demand for our products is not enough to stimulate investment in the industrial sector. At this point, the abrupt tumble that started in 2014 is at least turning into some stabilization. However, the winds should change in 2016, insofar as the uncertainties dissipate and exports keep climbing.

Business investment is down, but seems to have stopped sliding in the industrial sector



Sources: Statistics Canada and Desjardins, Economic Studies

No upswing is expected in the commercial sector. Retail space has proliferated in recent years; in a context of heavy competition, market saturation is now resulting in the closure of points of sale. No turnaround is anticipated for office buildings. The recent construction has driven vacancy rates in buildings up and a pause is needed to allow the market to absorb the unfilled spaces.

In the institutional sector, a number of major hospital projects are now almost completed, reducing investment in construction. The peak is behind us, but other, smaller projects will take over.

Implications: Although the Quebec decline in non-residential construction is widespread in terms of both sectors and regions, the worst seems to be over for the industrial sector. The period of difficulty for investment could give way to some improvement once the global economic uncertainties have dissipated and the climate for business confidence is more positive.

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