

## QUEBEC

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### A timid upturn in industrial construction

#### HIGHLIGHTS

- In Quebec, investments in non-residential buildings fell by 2.2% in the first quarter of 2016, compared with the previous quarter.
- The industrial component posted a quarterly gain of 2.2%, while downturns occurred in the commercial sector (-1.7%) and in the institutional sector (-4.8%).
- In Canada, investments in non-residential construction dwindled by 1.6% in the first quarter. All the components were down: industrial (-2.5%), commercial (-1.8%) and institutional (-0.9%).

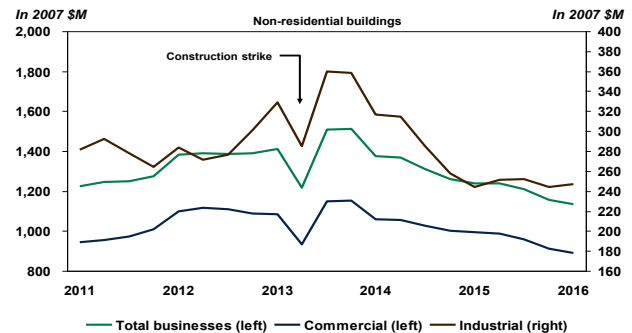
#### COMMENTS

Even though the downward trend in non-residential construction is continuing in Quebec, the upturn that is getting started in the industrial sector is encouraging. While exports had a rough time at the start of the year, they currently stand near an historical peak thanks to the momentum that has boosted them in the past three years. The confidence among small business leaders, which has improved significantly since the beginning of this year, has probably acted as a spark plug for industrial investment. The decline in industrial investment definitely appears to be over in Quebec, and the statistics to be released in the upcoming quarters will enable us to better evaluate the scope of the recovery.

Some provinces gave a good performance in industrial investment in the first quarter of 2016. The gains of 10.1% in British Columbia, 5.2% in Manitoba and 0.7% in Ontario are in stark contrast with the slump that is continuing in the oil-producing provinces. The plunges of 14.7% in Alberta, 15.3% in Saskatchewan and 31.4% in Newfoundland and Labrador confirm that the situation there is still problematic, despite the recent uptick in oil prices.

In the commercial sector, no recovery in construction is foreseeable in Quebec in the near term. The closures of several retail chains or banners has left empty spaces that will

#### Business investment: the industrial sector picks up, but the slump continues in the commercial sector



Sources: Statistics Canada and Desjardins, Economic Studies

have to be filled before new capacity is added. However, many property owners are injecting large sums of money to revitalize their spaces or to better position their shopping centres in the market.

As for office buildings, recent construction projects have driven the vacancy rate up in Quebec City and Montreal, so the construction pause will continue for as long as it takes for the market to fill up the spaces that have been freed up.

In the institutional sector, many major hospital projects are now completed or nearly so, with the result that construction investments are reduced. The peak is behind us, but other projects of lesser scope will step up to the plate.

**Implications:** Even though construction of non-residential buildings by businesses and governments faltered again in Quebec in the first quarter, the slight uptick in the industrial sector provides a glimmer of hope. The improvement should continue if the global economic uncertainties dissipate and if business confidence keeps rising in Quebec.

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