Canada: Surveys Point to Moderating, but Still Solid, Investment Growth

- StatsCan's annual survey of capex intentions implies that investment growth will moderate in 2019 to 2.5% y/y (nominal), in line with other surveys, and down from 4.3% last year. But actual spending has substantially exceeded the survey's intentions in both of the last two years.
- If the survey's intentions are realized, it would imply, all other things being equal, an over-performance on investment and growth compared with Scotiabank Economics' current forecast and the Bank of Canada's January *MPR*.

Statistics Canada's annual *Non-Residential Capital and Repair Expenditure Survey* implies that Canadian investment growth is expected to moderate to 2.5% y/y (nominal) in 2019—with possible surprises to the upside. This puts the survey's results broadly in line with similar, but much smaller, polls of near-term investment intentions for the next 12 months in the Bank of Canada's December 21 release of its quarterly *Business Outlook Survey* or *BOS* (chart 1) and the next three to four months in the Canadian Federation of Independent Business' (CFIB) February edition of its monthly *Small-Business Barometer* (chart 2). Notably:

- In chart 1, the BOS indicator shows, at 25%, the net percentage of business respondents who expect to increase spending on machinery and equipment in 2019 less the percentage that expects to decrease spending; and
- The CFIB indicator in chart 2 shows, at 53.4%, the proportion of small- and medium-sized enterprises (SMEs) that intend to make any kind of capital outlay over the next quarter.

A THIRD CONSECUTIVE YEAR OF INVESTMENT GROWTH EXPECTED IN 2019

StatsCan's survey anticipates a third consecutive year of capital spending growth in 2019 in Canada. In StatsCan's survey of 25,000 private and public organizations, conducted from September 2018 to January 2019, respondents project an overall 2.5% nominal increase investment compared with 2018. Despite the fact that the sampling period fell in the midst of the recent equity-market swoon and a softening of growth in Q4-2018, stated investment intentions for 2019 are stronger than those recorded in the survey for both of the last two years.

Investment has exceeded survey expectations by wide margins in each of 2017 and 2018. Non-residential capital expenditures rose by an estimated 2.5% in 2018, well above the 0.8% anticipated by firms in last year's edition of the StatsCan survey (table 1). This repeats 2017's over-performance, where actual investment spending grew by 4.3% (revised upward from an earlier 3.0% estimate) compared with a survey expectation of only 0.8% for that year.

Private investment is expected to pick up the baton from public capital spending in 2019. Private capex is projected to accelerate to 2.8% growth in 2019, after increases of only 1.4% in 2017 and 0.7% in 2018. Public investment is expected to grow by 2.0% in 2018, down from a strong 5.9% growth rate in 2018 (table 1).

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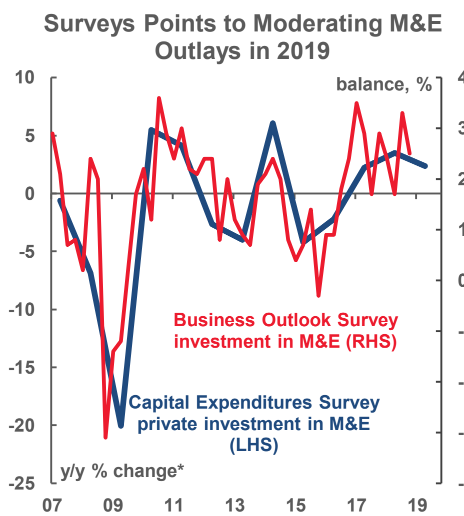
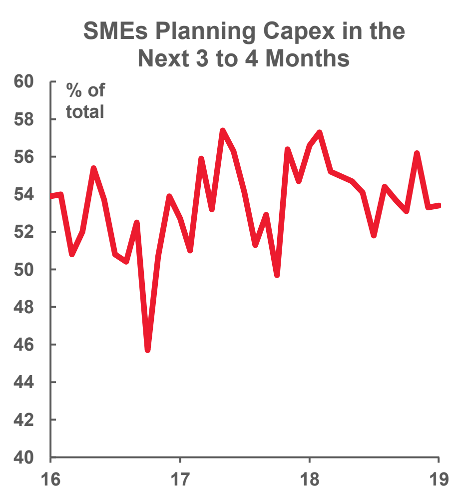
Chart 1



Sources: Scotiabank Economics, Bank of Canada, Statistics Canada. *2019: intentions

Chart 2



Sources: Scotiabank Economics, CFIB.

A POSSIBLE UPSIDE SURPRISE FROM INVESTMENT

At 2.5% y/y growth, investment intentions for 2019 in the StatsCan survey imply that capex expansion this year would exceed the current forecasts from both Scotiabank Economics and the Bank of Canada in its January 2019 *Monetary Policy Report (MPR)*. Specifically:

- **Scotiabank Economics** currently projects investment growth of only 0.9% (real) in 2019 amidst real GDP growth of 1.8%; all other things being equal, investment growth on the order of the survey's 2.5% (nominal) would nudge overall GDP growth up to around 1.9% this year; and

- **The Bank of Canada** forecasts that capex will contribute 0.2 percentage points (ppts) to economy-wide GDP growth in 2019. In contrast, the StatsCan survey intentions imply a contribution of around 0.3 ppts from investment this year.

SURGES AND LAGS FOCUSED IN A HANDFUL OF SECTORS

Last year's 2.5% rise in investment was led by a 12% increase in the public sector's capital spending, a 19% surge in outlays in private manufacturing, and 9% in transportation (table 1 and chart 3). While capex growth in manufacturing is expected to slow, investment growth in the transportation sector should continue to pick up.

- **Manufacturing** investment was lifted by a 40% spike in chemical manufacturing capex and a 31% jump in transportation equipment manufacturing investment in 2018. On the whole, capex in the manufacturing industry is poised for a smaller 4.9% increase in 2019. While responses to the survey point to a repeat 40% increase in the chemicals sector—with large petrochemical facilities in the works in Alberta—outlays in the transportation equipment manufacturing sector are projected to decline by 25% in 2019 owing to the end of large-scale projects in the automotive industry. Spending in the petroleum and coal products manufacturing sector is projected to fall by 11% in 2019 after a 70% spike in 2018. If one excludes the aforementioned industries, outlays in the manufacturing sector would be set for a 9.8% climb in 2019.

- **Transportation-sector** investment growth is expected to accelerate from 9% in 2018 to 13% in 2019, owing mainly to an expected 20% increase in outlays in transit and ground passenger transportation.

- **Mining, gas, and oil exploration, as well as utilities and construction,** are projected to flip from falling capex spending in 2018 back to growth in 2019.

Across the provinces, BC is expected to lead in 2019 with a 12.9% increase in capital expenditure, driven by transportation and warehousing, utilities, and public administration. Investment spending in Quebec is expected to rise by 5.7% in 2019, followed by a 3.8% increase in Ontario. In Alberta, total outlays are expected to remain flat in nominal terms at CAD 60 bn.

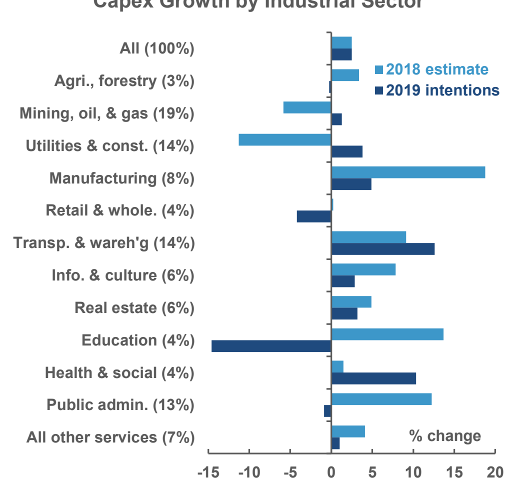
Table 1

Capital expenditure growth by industry (%)

Industry (% of 2019 capex)	2018 Feb. '18 Intentions	2018 Feb. '19 Estimates	2019 Feb. '19 Intentions
All (100%)	**0.8**	**2.5**	**2.5**
Agriculture, forestry, fishing, & hunting (3%)	-1.7	3.4	-0.3
Mining, oil, & gas extraction (19%)	-7.4	-5.8	1.3
Utilities & construction (14%)	0.2	-11.3	3.8
Manufacturing (8%)	6.2	18.8	4.9
Retail & w holesale trade (4%)	2.6	0.2	-4.2
Transportation & w arehousing (14%)	1.4	9.1	12.6
Information & culture (6%)	1.6	7.9	2.9
Real estate (6%)	9.9	4.9	3.2
Education (4%)	3.3	13.7	-14.6
Healthcare & social assistance (4%)	-1.8	1.5	10.4
Public administration (13%)	6.5	12.3	-0.9
All other services * (7%)	1.0	4.1	1.0

Sources: Scotiabank Economics, Statistics Canada.
* All other services: finance & insurance; professional, science, & technical services; management; administration & support; arts, entertainment, & recreation; and other services.

Chart 3



Sources: Scotiabank Economics, Statistics Canada. Percentages in parentheses (%) represent shares of total capex in 2019.