TD Economics

July 6, 2015

Data Release: Oil price correction weighing on capital spending plans

- The Canadian Public and Private Intentions survey is typically released in February; however Statistics Canada has redesigned the survey with some slight differences, causing some delay. The new survey has more detailed data, but no longer includes the housing component.
- Capital spending by both the private and public sector is expected to sink by 4.9% this year, marking the first contraction since 2009. The private sector (-7%) will account for the bulk of the drop, while public sector spending is expected to be relatively flat (-0.2%). Investment in both the non-residential construction sector (-4.7%) and machinery and equipment (-5.4%) are expected to move lower in 2015.
- The main culprit behind the lower CAPEX plans is a 19% drop in outlays in the mining, quarrying, and oil and gas extraction sector, although it remains the largest capital spending sector. This is roughly half the decline recorded in 2009. Investment in exploration and evaluation (including oil and gas) is expected to fall 25% this year. Alberta, Saskatchewan and B.C. will each record declines in spending of just over 20% in this sector, while Newfoundland and Labrador will record a slight 1.6% increase.
- Some other sectors are expected to spend less this year as well. Expenditures in the healthcare and social assistance sector are likely to be down 14% in 2015, driven by an 80% decline in spending on hospitals, while investment in the professional, scientific and technical services sector is anticipated to fall 23%.
- On the flipside, after recording a small decline last year, transportation and warehousing is the bright spot for 2015, with capital spending in the sector projected to rise 13% due to investment in pipeline transportation, and transit and ground passenger transportation. Education is another sector that will outperform, with spending expected to increase 10% this year.
- Regionally, Saskatchewan (-12.9%) and Alberta (-11%) are expected to record the largest declines in capital expenditures this year, while the Atlantic Provinces (excluding Newfoundland and Labrador) are forecast to grow at the fastest pace. Ontario, which is second to Alberta in terms of spending amounts, is expected to see investment slide 1.5%.

Key Implications

- While the survey data released today show what businesses are *planning* to spend, it is typically a very good indication of what actual investment in Canada will be. The survey was conducted from October 2014 to January 2015, which was right in the heart of the oil price correction. Given that oil prices have remained at a relatively low level through the first half of the year, actual investment tied to the sector could be even weaker.
- Still, it is clear that the sharp drop in oil prices over the last year has had a profound impact on investment the oil sector, and oil producing provinces. With oil prices expected to hover around current levels for the remainder of this year and average only US$70 per barrel next year, prices will not likely be high enough to trigger a rebound in investment as was the case following the last oil price correction in 2009. As such, investment in engineering construction should remain subdued over the next 12-18 months.
- That said, there are some pockets of strength. Several provinces have large scale transportation infrastructure projects on the go, which should help offset some weakness in the oil patch. Moreover, we expect spending in the industrial and institutional building sectors to rise as well. For details on our outlook for non-residential construction, see our recent report.

Dina Ignjatovic, Economist
416-982-2555