

## ECONOMIC VIEWPOINT

# Canada: Business investment in 2017 poised to disappoint once again

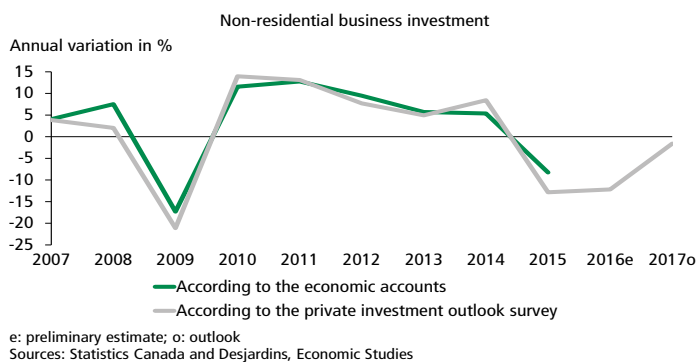
According to Statistics Canada's survey, the investment outlook for 2017 is fairly weak. Even if the federal government's recovery plan should translate into a significant increase in public administrations' investments, most other sectors are still hesitant about their investment projects.

Since the end of 2014, weak investments have sharply curtailed Canada's economic growth. What's more, the steep drop in oil prices cut the profitability of several expansion projects in the energy industry, thereby triggering a considerable drop in investments in this sector.

The difficulties are unfortunately not limited to the energy sector; other industries have also reported a drop in their investments in 2016, based on the preliminary results of the Statistics Canada survey on investment outlook released today. As a result, if we exclude the oil and gas extraction and public administrations sectors, the estimates point to a drop of 0.7% for 2016, following an increase of 3.7% in 2014 and 2.9% in 2015. The substantial uncertainties surrounding the economic conditions and changes in exports are clearly at play here, and many companies are no doubt holding back on their investment projects.

That said, even if the uncertainties remain high, 2017 is shaping up to be a better year in several areas. Oil prices have started to rise gradually, economic conditions around the globe are improving and U.S. demand continues to gain strength. In Canada, major public investments as part of the federal government's recovery program—which had some delays in 2016—should have more of an impact in 2017. Despite these more positive factors, the results of the Statistics Canada survey show that the investment outlook for 2017 remains anemic. Moreover, after declining 12.8% in 2015 and 12.2% in 2016, capital spending in the private sector could fall by 1.6% in 2017 (graph 1), meaning that non-residential investments could continue to hinder economic growth in 2017.

**GRAPH 1**  
Private investment should remain anemic in 2017



The oil and natural gas extraction and related support activities sectors are certainly expected to grow their investments in 2017, but weak profitability in there continues to rein in the potential for growth (graph 2 on page 2). These sectors recorded an operating deficit of about \$2.2B in the fourth quarter of 2016. For mining and quarrying, the forecast 15.7% drop in investments for 2017 is disappointing, considering that the price of metals has recovered in recent months. That said, the profit margin is still lower than the historical average for this industry, which partly explains the weakness in investments.

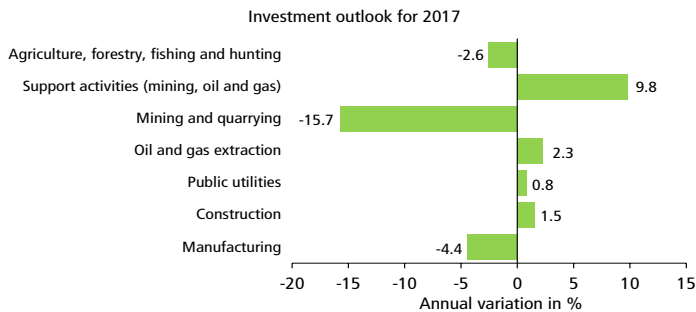
For the other goods sectors, manufacturing is once again expected to reduce its investments in 2017. This industry is clearly still grappling with difficulties. The rise of protectionism in the United States and the uncertain future of the free-trade agreement between the United States, Canada and Mexico

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**GRAPH 2**  
Investment outlook for the goods sectors

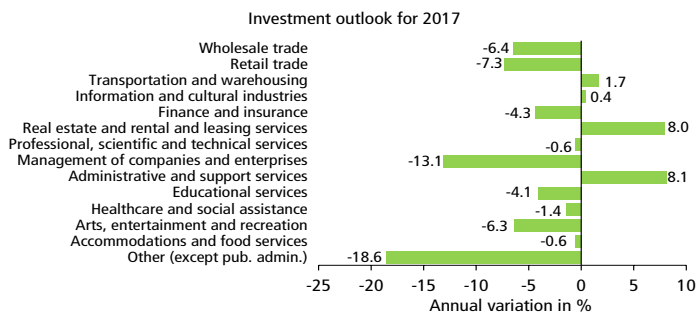


Sources: Statistics Canada and Desjardins, Economic Studies

is obviously causing several manufacturers to rethink their investment plans.

For the services sectors, besides administrative and support services, real estate and rental and leasing services, most sectors should reduce their investments in 2017 (graph 3). These are disappointing forecasts, considering that domestic demand in Canada is still poised to grow in 2017, with consumer spending expected to make good advances. In addition, the profit margin in Q4 2016 was quite high in most of these sectors, from a historical standpoint.

**GRAPH 3**  
Investment outlook for the services sectors



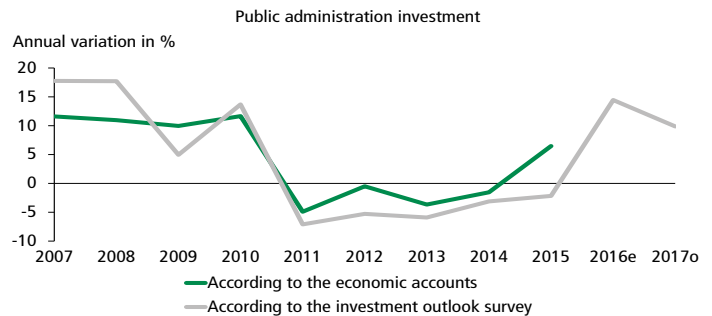
Sources: Statistics Canada and Desjardins, Economic Studies

That said, weak investments in the private sector should be offset in part by the ongoing increase in public administration investments in 2017. This offers hope that the impacts of the federal government's recovery plan will boost economic growth in the coming quarters (graph 4).

### The energy-producing provinces still lagging behind

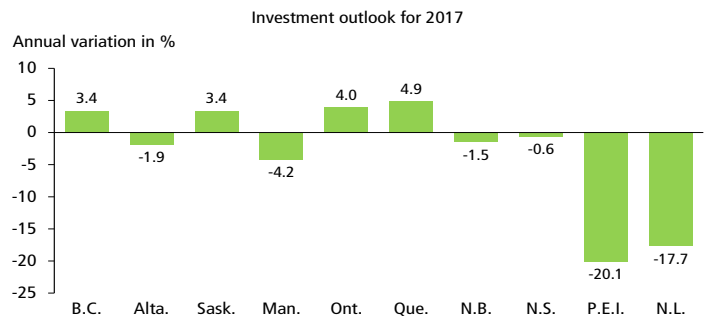
From a regional standpoint, the investment outlook varies greatly from one province to the next (graph 5). In 2017, most of the energy-producing provinces could still feel the negative effects

**GRAPH 4**  
The rebound in government investment should continue in 2017



e: preliminary estimate; o: outlook  
Sources: Statistics Canada and Desjardins, Economic Studies

**GRAPH 5**  
Investment could still fall in most energy-producing provinces



Sources: Statistics Canada and Desjardins, Economic Studies

of the difficulties that gripped the oil and gas industry in recent years. In contrast, Quebec stands out with the fastest forecast growth in 2017, followed by Ontario, British Columbia and Saskatchewan.

### Many obstacles remain

In the end, the investment outlook for 2017 shows the extent to which the current climate of uncertainty holds sway over Canada's companies. Many obstacles clearly remain, highlighting the need to proceed with caution in terms of policy management. In such conditions, we expect key interest rates to stay put until 2018.

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