Daily Economic Update

February 28, 2017

Canadian 2017 investment intentions up but only modestly

- Canadian public and private organizations expect total non-residential investment expenditures to inch up just 0.8% in 2017 following declines in 2015 (-7.6%) and 2016 (-5.0%).
- Private investment is projected to decline 1.6% following a 12.2% drop in 2016 that was slightly weaker than intentions for a 9.3% drop in that year in last year's survey. Public investment intentions were up 4.9% following a 10.9% 2016 jump.

Oil & gas producers intend to increase investment modestly in 2017 (2.3%) after large declines (30%-plus) in each of the prior two years but mining companies excluding oil & gas plan to cut investment for a fifth consecutive year. Manufacturers plan to cut investment by 4.4% after an outsized 14.9% decline in 2016 that was larger than the already-large 10.9% decline reported in intentions last year. The decline in manufacturing investment intentions in 2017 was largely concentrated in large declines in the non-metallic mineral and petroleum & coal production industries; however, excluding those two industries, intentions in the sector still inched up just 1.2% following a 17% drop in 2016.

Our Take:

With oil prices still sharply below 2014 levels, the modest rebound in oil & gas investment intentions (retracing only ~2% of the 50% drop over the previous two years) is not surprising, although our monitoring of company and analyst plans are pointing to a somewhat larger increase. More disappointing was another pull-back in investment intentions in the manufacturing sector that built on an outsized 2016 decline that was larger than initially intended. The outlook for stronger GDP growth in Canada this year has long been premised more on an easing in weakness in business investment (as the pull-back in the oil & gas sector ends) than a sharp strengthening and, in that regard, today's data suggests only modest downside risk to our forecast that assumed a 0.1 percentage point add to 2017 growth from business investment and, arguably, was in line or slightly stronger than the 0.1 percentage point drag assumed by the Bank of Canada in the year. Public spending also appears to be providing a long-expected boost; however, the decline in private investment intentions, and particularly the pull-back in intentions outside of the mining sector will nonetheless do little to ease concerns about future productivity growth in the medium- to long-term and, in the near-term, that activity in the non-resource goods production side of the economy is not gaining sufficient traction to warrant higher interest rates over the course of 2017.

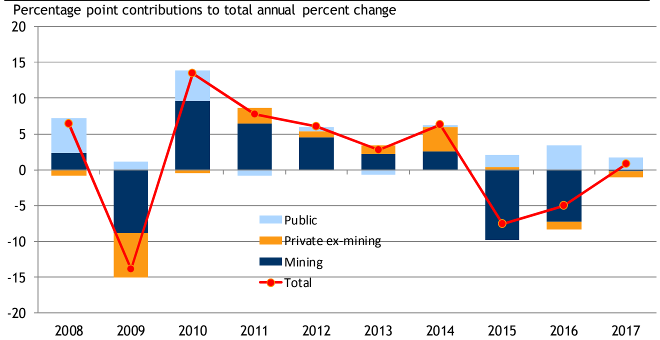
Canada Capital and Repair Expenditures Survey

	2015	2016	2017
Total planned CAPEX	-7.6	-5.0	0.8
Private	-12.8	-12.2	-1.6
Oil & gas extraction	-32.9	-30.3	2.3
Non-o&g mining	-8.3	-14.1	-15.7
Ex-mining	1.0	-2.6	0.0
Manufacturing	4.2	-14.9	-4.4
Public	6.5	10.9	4.9

Source: Statistics Canada, RBC Economics Research

Canada CAPEX Intentions Survey

Percentage point contributions to total annual percent change



Source: Statistics Canada, RBC Economics Research

Nathan Janzen, Senior Economist, (416) 974-0579, nathan.janzen@rbc.com

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