



Resource Industries Drive Investment Spending Higher in BC

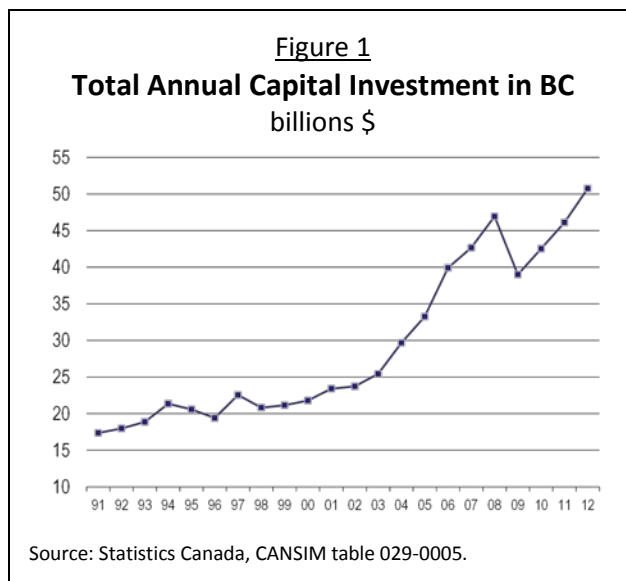
The release of Statistics Canada's annual Public and Private Investment survey provides information on recent business capital spending and affords a useful glimpse into where and how much BC businesses are planning to invest in the coming year. The latest survey predicts a healthy increase in capital spending in 2012, and confirms that business investment will be a significant economic driver in the province. It also underscores the important role that resource industries and related infrastructure development are playing in the growth of BC's economy.

Recent History

Following a steep drop in 2009 in the wake of the global financial crisis and recession, capital spending has steadily recovered. The preliminary estimate for 2012 indicates that total capital investment in BC last year rose by 8.4% to reach \$46.1 billion. In terms of sectors, investment expenditures on housing were flat in 2011, following a rebound in 2010. Since the 2008-09 recession, the mining and oil and gas industries have seen sizable increases in capital investment and both have emerged as major contributors to gains in overall capital outlays in British Columbia.

Capital Investment to Climb Again in 2012

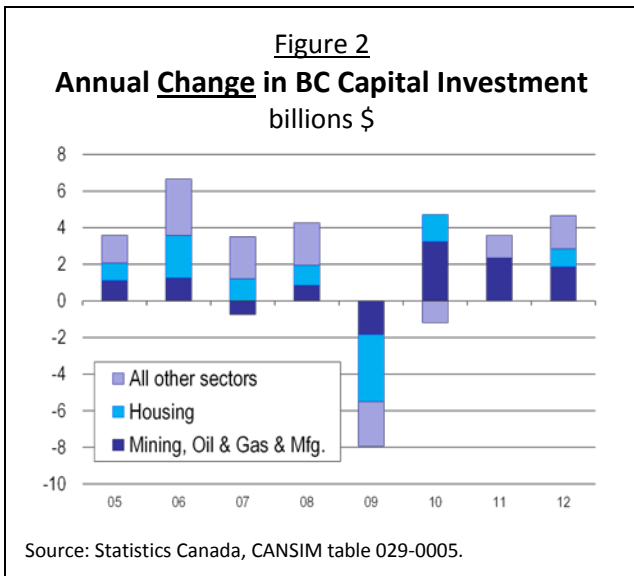
Looking to 2012, the Statistics Canada survey foresees capital investment in BC rising by 10.1% to \$50.8 billion. If this figure is realized, it will mark the first time capital outlays have surpassed the \$50 billion threshold.



Among the provinces, BC is expected to post the third strongest advance in capital spending this year, behind Newfoundland (where investment will jump 27% thanks to mining and oil projects) and Alberta (on track for a 10.3% increase).

Resources Lift Capital Expenditures

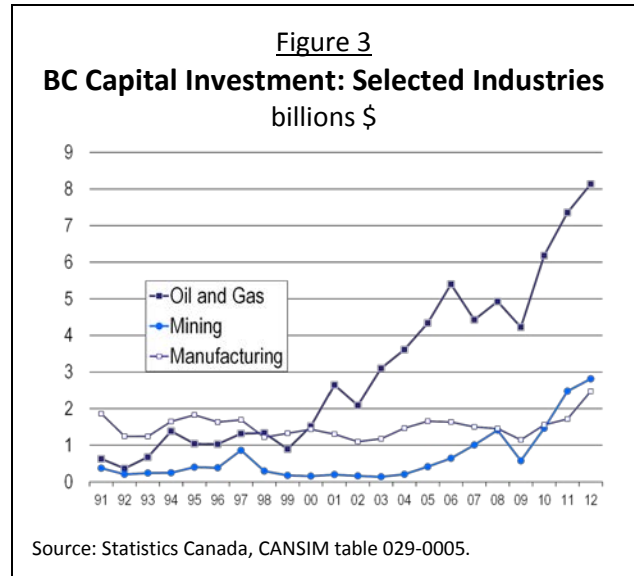
The broadly defined resource sector continues to be a hotbed of capital spending. For 2012, the mining industry plans on investing a record \$2.8 billion in the province (this figure includes exploration). Expansion in this sector has resulted in the dollar value of investment doubling since 2008. Capital spending in the BC natural gas sector is also up sharply, which in part reflects the fact that plans for LNG facilities are going ahead. Investment in the gas patch is projected to reach \$8.1 billion this year.



The mining and natural gas sectors have rebounded since the recession, with the upsurge in natural gas investment being particularly impressive in light of the challenging market environment created by extremely low continental natural gas prices.

Combined, mining and oil and gas will account for about one quarter of the expected increase in capital spending in BC this year. This continues a trend: in 2010 and 2011, these sectors made even larger contributions, as they were responsible for 80% and 60%, respectively, of the annual increases in fixed capital investment.

Rio Tinto Alcan’s Investment in its Kitimat production facility will help lift manufacturing investment by 44% in 2012. While investment will advance in other parts of manufacturing as well, the survey suggests that about one-third of the multi-billion dollar upgrade of the Kitimat aluminum smelter will occur in 2012; this is a key factor pushing investment higher in the manufacturing sector as a whole.



It would be misleading, however, to suggest that the rise in investment is due only to resource industries. Stripping out investment in natural gas, mining and also manufacturing (and setting aside home construction), investment in the remaining BC industries is still projected to climb by 11% in 2012.

Here, a notable increase is expected in the transportation and warehousing industry, where capital spending will jump 20% this year (following on the heels of a 37% gain in 2011). This reflects sustained investment in Gateway-related infrastructure and other projects, and the growing economic importance of Western Canada’s expanding Asia-Pacific trade linkages. Capital spending at BC Hydro, which is upgrading dams and transmission infrastructure, together with a number of independent power projects, will boost investment in the utilities industry by almost 21%, to nearly \$4 billion, in 2012.

Housing Has Yet to Regain Lost Ground

This year, BC builders plan on investing just over \$14 billion in residential housing,

Table 1
BC 2012 Planned Capital Investment
by Industry

Industry	Millions \$	% chg 2011-12
Mining, oil and gas extraction	11,792.3	13.6
Utilities	3,979.3	20.8
Public administration	3,808.2	13.7
Transportation and warehousing	3,053.0	20.3
Manufacturing	2,474.2	44.1
Real estate and rental and leasing	1,752.1	2.6
Retail trade	1,264.2	-3.0
Educational services	1,246.2	-10.9
Health care and social assistance	1,195.9	8.6
Information & cultural industries	1,126.2	3.3
Finance and insurance	1,019.2	-7.6
Construction	822.2	4.7
Wholesale trade	728.3	2.2
Professional, scientific & technical services	517.4	6.3
Accommodation and food services	415.1	-15.6
Agriculture, forestry, fish.	339.3	4.0
Arts, entertainment & recreation	305.1	-1.4
Admin., support, & waste management	248.1	-12.8
Other services	239.6	-6.6
Management of companies	76.5	-11.9

Source: Statistics Canada, Private and Public Investment Intentions, Canada, 2012.

which is a solid 7.3% increase over 2011. While investment in housing is at a decent level, it remains below the frothy 2008 peak.

Machinery and Equipment

Spending on new machinery and equipment in BC is slated to rise by a tepid 1.8% this year. One quarter of all capital investment in the province will be for new machinery and equipment. While this is not a particularly strong showing, it does follow a couple of years of 8% plus gains. Investment in M&E is an important element in productivity growth, which in turn drives wealth and prosperity. Over the past decade, BC ranks in the middle of the pack among the ten provinces in the growth of M&E investment.

Concluding Thoughts

Rising capital spending in 2012 will provide foundational support for economic growth in the province. It is clear that resource industries are playing an outsized role in the capital spending picture, but they are not the only reason investment is set to increase. Overall, just over half of all of the major industry categories should see higher capital outlays in 2012.

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