EXECUTIVE SUMMARY

FRASER INSTITUTE

Capital Investment in Canada's Provinces: A Provincial Report

By Steven Globerman and Joel Emes

Previous research by the Fraser Institute has documented a substantial decline in capital investment after 2014. The decline was especially marked for business investment and, within that category, for machinery and equipment and intellectual property products (IPP). Furthermore, the decline in business investment after 2014 was not confined to the oil and gas sector. In fact, two-thirds of the 15 industries studied by Globerman and Emes (2019) experienced a decline in investment in recent years.

The research summarized in Globerman and Emes (2019) focused on capital expenditures at the national level. This study examines investment patterns at the level of the individual provinces and disaggregates investment into net capital expenditures on residential and non-residential assets. The study examines differences across provinces in net capital expenditures from 1990 to 2018, paying particular attention to how patterns of provincial investment behaviour changed when comparing the pre- and post-2014 periods.

The study finds that over the full period (1990-2018), there was substantial variation across provinces in the average annual rate of growth of investment in total net fixed assets (residential plus non-residential). A comparison of the pre-2014 and post-2014 periods identifies a particularly notable change. Specifically, after enjoying well above-average investment performance prior to 2014, Alberta's investment performance has been well below average since then. Newfoundland & Labrador exhibit the opposite timing pattern. Saskatchewan experienced a substantial decline in its relative overall investment performance after 2014, while Ontario enjoyed an increase in its relative performance in the most recent period. This pattern is consistent with the dramatic shifts in global and North American energy markets and the related fall-off in oil and gas investment in Alberta and Saskatchewan post-2014, alongside the growth of the utilities sector in Newfoundland & Labrador and the financial, insurance, and real estate sectors in Ontario.

When looking at specific asset categories, the dramatic decline in Alberta's relative investment performance post-2014 primarily reflects a sharp drop-off in non-residential, ie., business investment. Interestingly, the annual average growth rate of investment in residential assets in Alberta remained above the national average after 2014. Indeed, and unlike the case for the growth rates of total net fixed assets, relative provincial performances with respect to the annual growth of net residential fixed asset investment were relatively constant from 1990 to 2018.

Given significant differences across provinces in relative growth rates for total net fixed assets, the modest differences in the relative growth rates for net residential assets suggest that investment in non-residential net assets is where the main differences across provinces are found. And the data show that this is indeed the case. In particular, Alberta experienced the fastest relative average annual growth in the net stock of non-residential assets among all provinces from 1990 to 2014, whereas it posted the next-to-slowest average annual growth rate in these assets from 2014 to 2018. Conversely, Ontario ranked eighth in average annual growth in non-residential net assets from 1990 to 2014, while it recorded the third fastest growth rate from 2014 to 2018.

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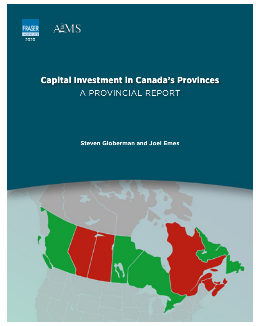
British Columbia was exceptional in that it experienced sustained above-average growth in total net assets, as well as in both the net residential and net non-residential asset categories. Conversely, Quebec and the Atlantic Provinces consistently experienced below average performances in average annual growth rates for each asset category as well as for total net assets over the entire sample period.



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