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Uh Oh...This is Gonna Hurt

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Uh Oh...This is gonna hurt! From Days of Thunder as Tom Cruise is about to put his race car right into the pit wall. Another Ouchy on that smashed up race car.

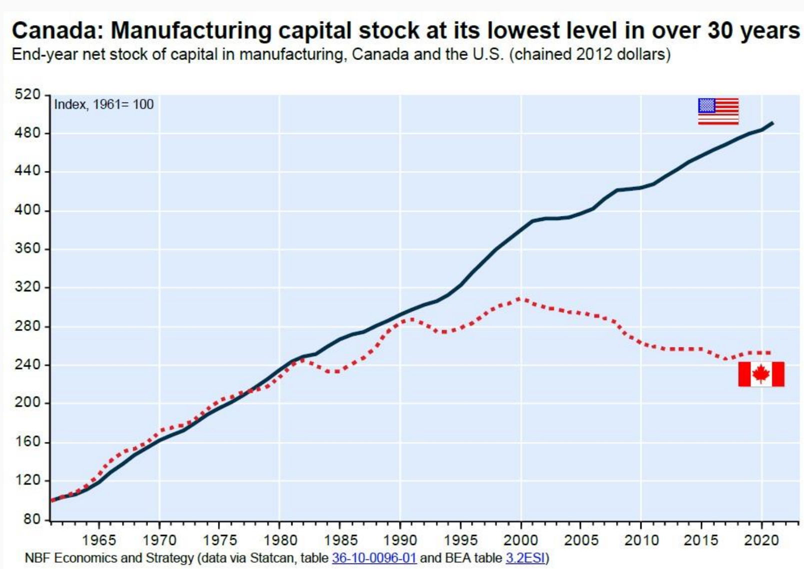
Well, that is what Canadian Manufacturing capital stock is looking like right now. The metaphor for "Capital Stock" is the race car. The entire race car is battered and beaten and the owner is not willing to spend anymore on it to fix it and certainly is not going to buy a fancy new race car. Just keep operating that business with that equipment it has until it runs no more.

Actually, it has looked like this since 1990. However, in the last 23 years it has really been a steady progression of negativity.

What Is Capital Stock?

The money companies spend on equipment, machinery and plants needed to make/convert product. If one does not continue to spend this money, eventually there is nothing left to make something.

Chart below courtesy of National Bank of Canada Financial Markets



Why Talk About This Now?
I have actually been talking about this for 15 years or so. When a country continues to see declines in these areas it becomes more critical for one to analyze if other locations are better served for our investment dollars. I feel we have to pay attention to this more than ever as, by example, the US is spending nearly double that of Canadian companies.

The unfortunate outcome of such under spending is the decaying of the manufacturing sector. This trajectory is actually opposite of what one would expect knowing we have 15 Free Trade Agreements that cover 1.5 Billion consumers worldwide. Would one not wish to assume that companies in Canada would be spending more knowing this? Companies have choices available to them to gain access to real estate, facilities, build outs and workers and are not choosing Canada.

I heard one analyst call this: *"troubling, to say the least".* I would suggest it is extremely dangerous and, Is it already irreversible? What I do know is that we need to continue to allocate our investment dollars both south of the border and overseas into other developed markets of Europe, Japan and Australia (EJA).

As many of you know, we began additional allocations into business units south of the border this past week and added strategically to our EJA exposure with an International Dividend ETF.

Used Automobile sales are falling
AutoCanada Inc. this week announced a -$12,400,000 write down in their used car inventories value. Additionally, with higher interest rates they have seen an increase of +$13,300,000 to their costs of financing their existing floorplan inventory. That is a double whammy for sure.

Simply, it is an example of the anticipation that COVID's spending over-exuberance would not end. Perhaps some good deals on cars are out there or coming to your local used car lot. New cars still have some limited availability, but it is getting better as well.

Happy to speak with you or your friends at 905-309-9990 or email vwarrington@alignedcp.com

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