Canadian corporate operating profits stood at $72.5B in Q4 2012, up 1.4% from the previous quarter. However, operating profits are down 1.2% from the same time last year.

In the last year, profits are down 7.2% in non-financial sectors. Utilities (-23.0%), manufacturing (-17.6%), and accommodation and food services (-18.5%) are especially hard hit by the drop in earnings. Conditions seem better for the financial and insurance sectors, which are up 19.7% over one year.

These results are raising concerns about the economic outlook, in a context in which non-residential investment is one of the only pillars on which the country’s growth can lean. The slowdown seen in operating profits over the last few quarters could prompt many companies to revise their investment plans.

Fortunately, most sectors are still showing profit margins (the ratio of earnings to operating expenses) that are above historic averages. This is true for manufacturing, in particular, where the need to modernize is substantial given the strong loonie.

The situation for the oil and gas extraction industry and support activities is much more worrisome, however. There, operating profits are down by 68.8% over the last year, while profit margins have dropped to 2.24%, well below the historic average (+11.23%). The erosion is not only due to softer global demand resulting from the recession in Europe, but also to an unfavourable spread between Canadian and U.S. crude oil prices. If the plans for new oil pipelines are not resolved soon, some firms could have to reconsider their investment projects due to lower profitability.

**Implications:** The slowdown by operating profits is raising a lot of questions about the future movement of corporate investment. We should learn more tomorrow when Statistics Canada unveils the investment outlook for 2013.