

CANADA

Corporate profits fell in the third quarter

HIGHLIGHTS

- According to data from Statistics Canada, operating profits for businesses began to fall again in the third quarter (-5.4%), after enjoying a respite in the previous quarter (+15.7%).
- Operating profits slipped 3.7% in non-financial activities, while manufacturing recorded an 8.6% decrease.
- Operating profits slipped 9.0% in financial activities.
- Profit margins for businesses went from 9.13% to 8.59%.

COMMENTS

After a promising spring, operating profits for businesses started to slide again in the summer. Low oil prices clearly had a major impact on the financial results of the energy sector, which lost a little over \$1B in the third quarter, and a total \$2.4B since the year began. That said, profits also fell in several other activity sectors, attesting to more widespread difficulties. Income made a showing, however, rising 0.5% in the third quarter, but not enough to outpace growth in operating expenses (+1.1%). This could certainly be explained by fierce competition in several sectors as well as advancing wage costs.

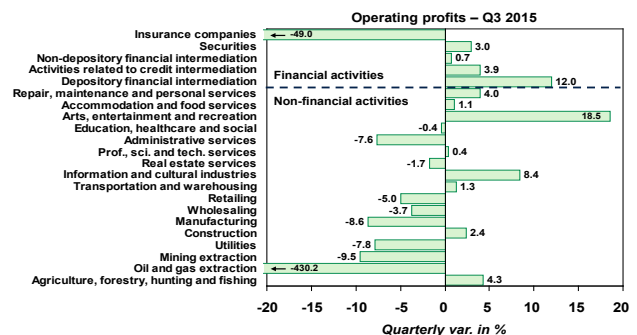
Implications: A lot of hope rests on a gradual increase of non-residential investment in non-energy sectors during 2016. Operating profits will need to be high enough, as will business confidence, for this to happen. With that in mind, the decrease in operating profits during the summer is a step backwards. However, profit margins for businesses are still above the historic average in most sectors. For now, financial conditions remain favourable for an increase in non-residential investment. This is especially the case in service sectors, where the profit margin is well above the average in several sectors. There is still hope that a rise in certain non-residential investments will materialize in the coming quarters, thereby contributing to more robust economic growth.

Operating profits for Canadian businesses lost ground again in the third quarter



Sources: Statistics Canada and Desjardins, Economic Studies

Operating profits were down in many sectors



Sources: Statistics Canada and Desjardins, Economic Studies

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