CANADA

Businesses continue to see improved financial positions

The financial statistics on Canadian businesses for the third quarter of 2014 were released this morning. Operating profits rose to $90.2B, up 3.7% over the previous quarter. The gain amounts to 8.8% over one year.

This is a very satisfactory result considering the dip in commodity prices during the period. However, operating profits did fall 13.1% in the energy sector and 3.7% in the mining sector in the third quarter. Without these two sectors, operating profits would have been up 5.0%. As for the other sectors, manufacturing warrants particular attention, with operating profits up 10.9% in the third quarter, driving up the annual change to 40.0%. Manufacturing is clearly benefitting from improved foreign demand from the United States and a lower Canadian dollar.

Profit margin growth is also very positive. At 9.7% for all businesses, the Canadian average has never been this high since this statistic began being tracked in 1988. This confirms the strong financial position for the vast majority of activity sectors, where 20 of the 22 main sectors have posted profit margins higher than their historic average (the two exceptions were oil and natural gas extraction and supporting activities, and insurance companies and related activities). Among other things, the profit margins for manufacturing businesses rose to 7.9% in the third quarter, compared with a historic average of 6.1%.

Implications: As shown in the graph below, the high level of profit margins that businesses are enjoying should encourage a sharp acceleration in business investment in non-residential buildings and machinery and equipment. Up until recently, the many uncertainties (particularly global) with the economic outlook still prompted Canadian businesses to be cautious, putting a damper on plans to accelerate their investments. Continued good news for the U.S. economy and the quick absorption of surplus production capacity in Canada should very soon make way for non-residential investment to make a larger contribution to economic growth, while likely maintaining significant productivity gains.

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Sources: Statistics Canada and Desjardins, Economic Studies