

CANADA

Corporate profits continue to slide The energy sector is in the red

According to data released this morning by Statistics Canada, operating profits for Canadian companies were down 6.0% in the first quarter of 2015, following a 9.1% decrease in the fourth quarter of 2014. Unsurprisingly, the natural resources sectors were particularly affected by this deterioration. For example, operating profits plummeted 128% in the first quarter in the oil and natural gas extraction and support activities sector. The significant fall in oil prices since July 2014 certainly had a hand in this result. Note that the current level of oil prices is below the cost of production for several extraction sites, particularly in oil sands. As such, the values of operating profits and profit margins in the oil and natural gas extraction and support activities sector fell into negative territory in the first quarter of 2015 for the first time since this historical data started being collected (in 1988). Operating losses were \$631M and the profit margins were -1.77%.

That said, profit margins were also down in many other sectors. Manufacturing, construction and professional, scientific and technical services have pulled back. It is easy to see a correlation with the difficulties in the energy sector due to business ties with these industries. Insurance companies and their related activities also posted two consecutive quarters of significant retreats, a trend without a clear connection to the oil sector.

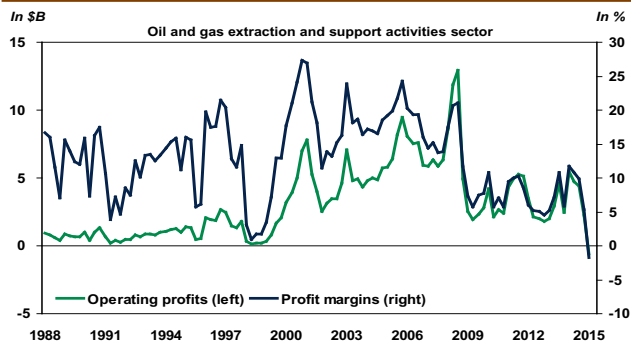
Implications: Negative profit margins in the oil sector paint a clear picture of the difficulties the industry is weathering. With such a financial result, we can expect investments in this sector to continue to fall in the coming months. In addition, some producers could decide to stop operating at a loss and thereby significantly reduce their extraction volume. Either case is not good news for the Canadian economy.

Canadian corporate operating profits continued to lose ground



Sources: Statistics Canada and Desjardins, Economic Studies

The energy sector is experiencing financial difficulties



Sources: Statistics Canada and Desjardins, Economic Studies

The recent stabilization in oil prices is nonetheless reassuring, and the slow recovery expected in the coming quarters should gradually improve the situation.

Benoit P. Durocher
Senior Economist

François Dupuis
Vice-President and Chief Economist

Mathieu D'Anjou
Senior Economist

Benoit P. Durocher
Senior Economist

Francis Généreux
Senior Economist

Jimmy Jean
Senior Economist

Hendrix Vachon
Senior Economist

514-281-2336 or 1 866 866-7000, ext. 2336
E-mail: desjardins.economics@desjardins.com