



CANADA

Corporate earnings back in positive territory

After retreating sharply for two quarters, Canadian corporate operating profits rebounded last spring, posting a quarterly increase of 12.9%. Several factors had a hand in the boom.

Firstly, the weaker Canadian dollar is inflating the revenue of export businesses. Secondly, U.S. demand is doing better, as shown by this morning's upgrade to that country's real GDP for the second quarter. Canadian merchandise exports also recorded substantial growth in June. Thirdly, prices for energy and some other commodities rose on average in the second quarter. Fourthly, the financial services sector saw one of its biggest quarterly increases in operating profits, primarily as a result of a substantial drop in life insurance companies' actuarial liabilities, which led to a big drop in operating expenditures. This could be in part explain by the second-quarter rise in bond yields.

Although the second quarter's results are encouraging, everything suggests this is a temporary spike, and that operating profits will fall again in the third quarter. For one thing, energy prices started to slide again this summer on the concerns about the robustness of China's economy. For another, bond yields have retreated substantially since June due to the uncertainty over the economic outlook and the prospects of monetary easing from the Bank of Canada. This means there is a possibility that the fluctuation in the value of life insurance companies' actuarial liabilities could reverse. The financial and oil and natural gas extraction sectors account for over 90% of the second-quarter improvement in operating profits. If the situation reverses in these sectors, it could have a negative impact on corporate financial results in the third quarter.

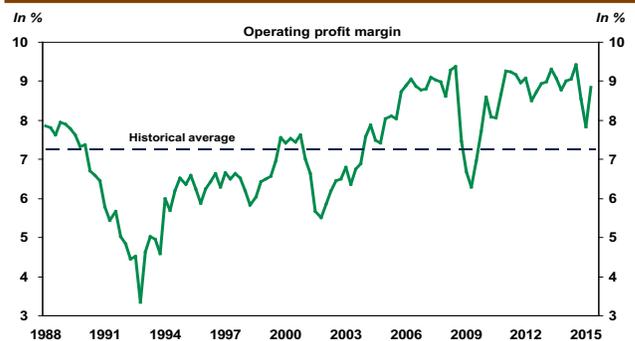
Implications: Despite operating profits' highs and lows, the fact remains that, in most industries, profit margins remain high. This means conditions are favourable for an increase in non-residential investment in non-energy sectors. All that is required is renewed business confidence, which we

Canadian corporate operating profits rebounded in Q2



Sources: Statistics Canada and Desjardins, Economic Studies

Profit margins remain high



Sources: Statistics Canada and Desjardins, Economic Studies

could eventually see with an improvement in demand from the United States.

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