

 **CANADA**

## Corporate profits continue to erode

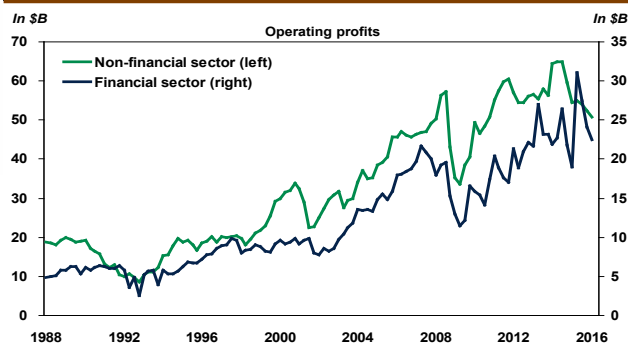
According to the figures released this morning by Statistics Canada, operating profits continued to decline in the first quarter of 2016, dropping 4.6%. Non-financial enterprises pulled back 3.5%, while financial enterprises fell 7.1%. Furthermore, the oil extraction sector and gas posted a fifth consecutive operating loss. The situation is likely to continue to deteriorate and the profits of the oil sector are expected to decline again in the second quarter since the closures associated with forest fires in Alberta significantly affect its production.

In manufacturing, financial conditions remain difficult. The sector has just seen operating profits decline for a sixth straight quarter. Note that growth by manufacturing sales remains disappointing—it is off 1.6% over the last year. The profit margin in manufacturing fell to 5.38% in the first quarter, below its historic average (6.15%). Profit margins are down in several other sectors, as well. Unfortunately, the decline by Canada's corporate profit margins suggests that it will be some time before increased investment by non-energy businesses starts to materialize.

Some observers may also be concerned that the loonie's recent rise will hurt the profits of Canadian businesses, especially those that trade south of the border. However, fluctuations in Canada's exchange rate and the change in profits for all businesses are positively correlated, historically speaking. The Canadian dollar tends to rise when economic and financial conditions are good at home, particularly with respect to movement by commodity prices.

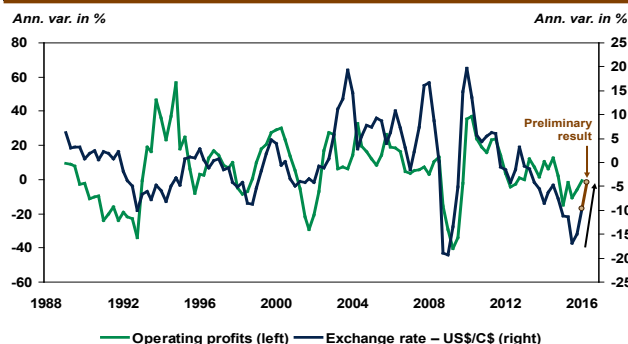
**Implications:** The loonie's recent appreciation and upswing by energy prices could augur an eventual improvement in businesses' financial situation. To see this, however, the loonie and oil prices would have to avoid losing further ground in the coming months—something that is far from certain.

### Corporate profits still slipping



Sources: Statistics Canada and Desjardins, Economic Studies

### Towards improving corporate profits?



Sources: Statistics Canada and Desjardins, Economic Studies

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