Canada: The Oil Industry Fails to Regain Profitability

Statistics Canada released its third quarter financial results for businesses this morning. For all sectors, operating profits rose 8.5% over the quarter, reaching $100.5B, its highest level since this time series began in 1988. The profit margin climbed to 10.5% in the third quarter, far above its historical average of 7.40%. In fact, nearly all sectors posted profit margins that were significantly higher than their historical averages.

That said, the oil industry continues to be a notable exception. Operating profits for the oil and gas extraction sector and support activities remained in negative territory for the 11th straight quarter in the summer of 2017. This is clearly due to revenues failing to exceed operating expenses.

However, despite some volatility, oil prices stayed within the same range until recently, with a WTI (West Texas Intermediate) price of around US$50 per barrel. This was certainly an improvement over their low in early 2016, but prices are still clearly too low as compared to Canadian producers’ operating costs. Nevertheless, a spike in oil prices has been observed in the last few weeks. This could help the Canadian oil industry eventually return to slight profitability.

**IMPLICATIONS**

Given its difficulties in achieving profitability, we do not expect significant investment growth in the Canadian oil industry in the coming quarters. That said, conditions are much more favourable in other sectors, which have posted strong profitability. However, growth in total Canadian business investment remains fairly weak. There are several obvious causes for uncertainty, particularly the renegotiation of the North American Free Trade Agreement (NAFTA), which is a major deterrent. In the current climate, it’s difficult to forecast any notable increase in business investment for the next few quarters.

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