Canada: Businesses Are in Good Financial Shape despite Hurdles

With the labour market tightening and the ongoing labour shortage, wage growth is climbing in several industries and areas across Canada. For the time being, these constraints do not seem to be having a significant impact on the financial situation of Canadian businesses. Based on the results of the second quarter released this morning by Statistics Canada, advances in operating expenses for Canadian businesses remain relatively stable, with a seasonally-adjusted quarterly increase of 0.8% and an annual gain of 3.5%. By comparison, operating income posted an annual change of 4.0%. As a result, operating profits continued to climb with a quarterly gain of 1.0% and an increase of 8.2% over one year. At 9.6%, Canadian businesses are still posting healthy profit margins, easily cruising past the historical average of 7.4%.

These results are reassuring. Not only do businesses seem to be well poised to absorb the cost of rising wages, they clearly have some leeway to deal with unforeseen events. Substantial uncertainties regarding trade negotiations between Canada and the United States could make the situation worse. This could translate into the introduction of new customs tariffs, which would boost costs for many companies.

**IMPLICATIONS**

The solid financial situation in businesses partly explains the relatively high level of business confidence. Under such conditions, we believe that many businesses will continue to ramp up their investments to meet demand, now that production is operating at full capacity. This should help keep real GDP growth humming along at about 2% on average in 2018 and 2019, making the case for continuing gradual monetary tightening in Canada.

**GRAPH 1**

Growth in spending continues to trail income growth

Annual variation in %

- Operating income
- Operating expenses

Sources: Statistics Canada and Desjardins, Economic Studies

**GRAPH 2**

The profit margins of Canadian businesses remain very strong from a historical standpoint

Profit margins

Sources: Statistics Canada and Desjardins, Economic Studies

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