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# TD Economics

### Data Release: Corporate Canada back in the red in Q3

- Corporate profits slipped back into the red in Q3 (-5.4% q/q), after an impressive but short-lived rebound (+15.7% q/q) in Q2. All in all, profits have fallen in three of the past four quarters, leaving them 10% lower than a year ago.
- The financial sector weighed heavily on the headline losses, with profits down 9% q/q, and essentially unchanged from a year ago. Nonfinancial sector profits suffered lesser declines (-3.7% q/q) in Q3, and are now down 14.6% on a year-over-year basis.
- The resource sector continues to feel the pain of the collapse in commodity prices. Oil and gas extraction posted a third consecutive quarter of outright losses in Q3 – a worse record than during the financial crisis, when the sector never registered outright losses. Statistics Canada notes that operating revenues in oil and gas have fallen $10.6 billion over the past year. Mining profits also fell 9.5% in Q3, and are down 13.2% from a year ago.
- Perhaps even more disappointing, manufacturing profits declined 8.6% q/q on weakness among primary metals and petroleum and coal product processors. Profits also fell in wholesale (-3.7% q/q) and retail (-4.9% q/q) trade industries.
- The lonely bright spots in the report were a 8.4% q/q increase in information and cultural industry profits. Transportation & warehousing (+1.3% q/q) and construction (+2.4% q/q) also posted gains in profitability.

### Key Implications

- It looks likely that Canada's economy returned to growth in real terms in Q3, but corporate Canada continues to struggle. Much of this is related to commodity prices which fell nearly 14% in the third quarter and weighed on revenues in the resource sector. The weak profit backdrop is likely to manifest in continued drag on business investment spending, which is expected to be a weak spot in the economic outlook for at least a couple of quarters more.
- Having said that, we do expect a gradual improvement in the overall economy in the coming quarters, with this trend helping improve the corporate profit environment. Profits should also get a boost once the big declines in commodity prices are behind us – something we foresee as a near-term scenario.

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