Corporate profits fell 2.8% (q/q) in the fourth quarter of 2014 to $89.4 billion, after three consecutive quarterly gains. On a year-over-year basis, profits were still up 8.5%.

Operating profits in the non-financial sector fell slightly (-0.2%) in Q4. Beneath that mild decline, oil and gas extraction profits dropped 16.7%. That marks the third straight decline in profits for the sector, which still remain up 30% on year-on-year basis. While non-energy commodity prices also slid in Q4, profits elsewhere in the primary sector (mining, agriculture, fishing and forestry) were up during the quarter.

Manufacturing sector profits also fell 4.2%, with 8 of 13 industries seeing profits decline. Notably, motor vehicle and parts manufacturing profits plunged 35.5%, as expense growth dramatically outpaced revenue gains. Lower profits for manufacturers come after a 10% gain in Q3, and profits are still up a healthy 29% versus the prior year’s level.

There were a few bright spots as profits rose in the wholesale (+5%), retail (+1.3%), transportation and warehousing (+2.1%) and information and cultural (5.2%) industries.

Financial sector profits plummeted 9.8% in the fourth quarter. The drop reflected a 10% decline in profits for depository credit intermediaries and a 24.5% decline in insurance carrier profits. Operating profits in the financial sector are down 2.2% on a year-over-year basis.

Key Implications

- Given the collapse in the price of oil, the drop in corporate profits in the fourth quarter is not surprising. Unfortunately, the profit slump is expected to continue for a couple more quarters yet, as oil prices remain low, and the knock-on effects of lower energy sector profits hit other industries. Weakness in corporate profits is expected to weigh on business investment through much of 2015.
- Before everyone starts running for the exits, there are offsets in Canada’s economy that will help it weather the downturn in the energy sector. The U.S. economy continues to gather speed, driving demand for Canada’s exports. Moreover, exporters are also getting a further kick from a weaker Canadian dollar, and businesses are getting a bit of relief on their borrowing costs thanks to lower interest rates. Overall, 2015 is likely to be a tough year for corporate profits, but we expect the situation to begin improving in the second half of the year.

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