Data Release: Corporate profit slump continued in Q1

- Corporate profits fell again in the first quarter (-6.0% q/q), as lower energy prices hit revenues. With two consecutive contractions, corporate profits are now down 9.3% on a year-on-year basis.
- Operating profits in the non-financial sector dropped 7.9% in Q1, the largest decline since the recession. Oil and gas extraction profits dropped an eye-popping 128% on the quarter, as the sector recorded a loss overall. Even for a sector where profit swings are typically wide, that marked the largest decline in the data series, which goes back to 1988. Profits in the sector are down 112% year-on-year. Lower prices for non-energy commodities in Q1 also led profits elsewhere in the primary sector (mining, agriculture, fishing and forestry) down 3% on the quarter.
- Weakness was not confined to resources, however, with manufacturing sector profits down 12.7% in Q1. The decline was led by petroleum and coal products manufacturing, but profits were down in 9 of 13 manufacturing industries. Manufacturing profits are now down 10% on a year-over-year basis.
- There were a few bright spots as profits rose in the wholesale (+2.8%), retail (+7.9%), transportation and warehousing (+8.4%) and information and cultural (5.2%) industries.
- Financial sector profits were down a more modest 0.2% in the first quarter, after falling nearly 20% in the fourth quarter of 2014. The Q1 weakness was due to lower profits at insurance carriers. Operating profits in the financial sector are down 0.9% on a year-over-year basis.

Key Implications

- Given low oil prices and economic growth which had stalled in both the U.S. and Canada in Q1, the drop in corporate profits was expected. Unfortunately, it isn't over yet. Profits are likely to be weak in Q2 as well as 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, particularly for nonresidential construction (please see Canada’s Non-Residential Construction Outlook). Data for Q1 GDP will be released tomorrow, and we expected a contraction in business investment to be a key factor keeping growth essentially flat on the quarter.
- Fortunately, looking ahead to the second half of the year, the U.S. economy is forecast to gather speed, and take Canada's export sector along for the ride. This should lead to a modest acceleration in growth in Canada, and a better corporate profit backdrop as we head into 2016.