Quarterly financial statistics for enterprises, fourth quarter 2018

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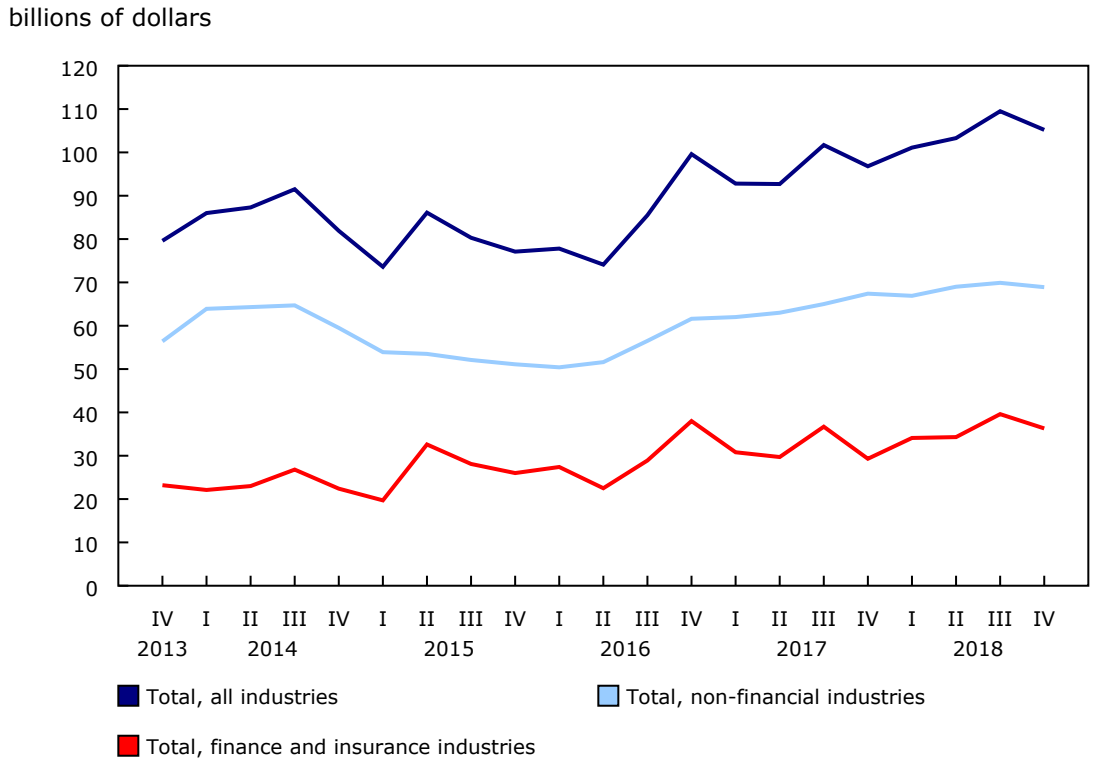
Overall operating profits

Canadian corporations earned $105.2 billion in operating profit in the fourth quarter, down $4.3 billion or 3.9% from the third quarter but 8.7% higher than the fourth quarter of 2017.

Chart 1
Quarterly operating profits



Note(s): Operating profits are seasonally adjusted.
Source(s): Table 33-10-0008-01.

Non-financial industries

In the non-financial industries, operating profit decreased $1.0 billion (-1.5%) from the third quarter to $68.9 billion in the fourth quarter. Overall, operating profit was down in 8 of 17 non-financial industries.

Compared with the fourth quarter of 2017, operating profit for Canadian non-financial enterprises increased 2.1%.

Operating profit down in wholesale trade

In wholesale trade, operating profit decreased by $588 million (-6.7%) from the third quarter to $8.3 billion in the fourth quarter. This decline was mostly attributable to the machinery, equipment and supplies merchant wholesalers (-20.1%), reflecting lower activity in the construction sector.

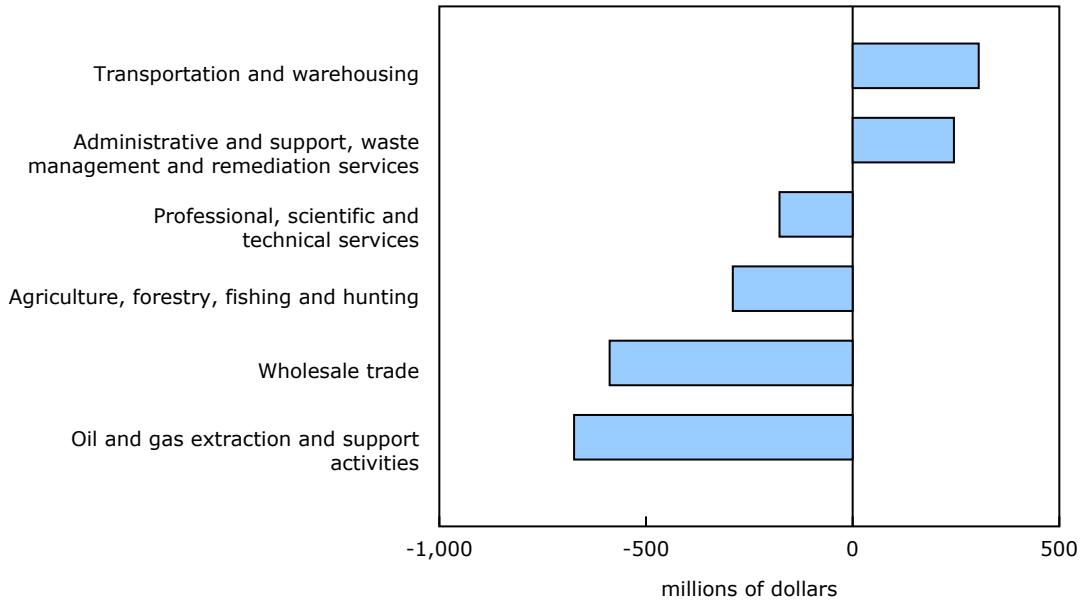
Operating profit down in manufacturing

Operating profit for manufacturing industries edged down $24 million (-0.2%) from the third quarter to $15.5 billion in the fourth quarter, as 4 of 13 industries reported decreases.

Operating profit for petroleum and coal products manufacturing decreased in the fourth quarter, down $412 million (-13.5%) from the third quarter due to lower oil prices. Wood and paper manufacturing operating profit decreased $311 million (-13.5%) in the fourth quarter, as lumber prices continued to decline.

Partially offsetting these decreases was the air, rail and ship products and other transportation equipment manufacturing, where operating profits were up by $568 million compared with the third quarter of 2018. The increase was partly attributable to a rise in aeronautic activities.

Chart 2
Change in operating profits in major non-financial industries



Note(s): Operating profits are seasonally adjusted.
Source(s): Table 33-10-0008-01.

Operating profit in the oil and gas extraction and support activities industry decrease

Operating profits in the oil and gas extraction and support activities industry declined $674 million in the fourth quarter, going from an operating profit of $276 million in the third quarter, to an operating loss of $398 million in the fourth quarter. This decrease was attributable to a decline in oil prices and a widening of the light-heavy oil differential.

Agriculture, forestry, fishing and hunting operating profit down due to cannabis producers

Operating profits for the agriculture, forestry, fishing and hunting industry decreased in the fourth quarter, down $290 million (-15.5%) from the third quarter. The main driver for this decrease was the financial performance of licensed producers of cannabis, which are now included in the results for the industry.

Table 1
Quarterly financial statistics for enterprises, non-financial industries – Seasonally adjusted

	Fourth quarter 2017	First quarter 2018	Second quarter 2018	Third quarter 2018[r]	Fourth quarter 2018[p]
	billions of dollars				
Non-financial industries					
Operating revenue	917.0	924.7	939.5	947.3	951.5
Operating profit	67.4	66.9	69.0	69.9	68.9
Net profit	56.1	53.0	57.9	59.0	56.8
	%				
Operating profit margin	7.4	7.2	7.3	7.4	7.2
	ratio				
Debt to equity	0.986	0.984	0.986	0.980	0.968

r revised
p preliminary
Note(s):
Figures may not add up to totals because of rounding.
The debt-to-equity ratio is not seasonally adjusted.
Source(s): Table **33-10-0008-01**.

Operating profit down in the financial industries

Operating profit in the financial industries declined by $3.3 billion (-8.3%), down from $39.6 billion in the third quarter to $36.3 billion in the fourth quarter.

Operating profit for depository credit intermediation rose $559 million (+3.9%) to $15.1 billion. Banking and other depository credit intermediation were the main drivers, as their operating profits increased $421 million (+3.1%) to $13.9 billion.

Profits for insurance carriers and related activities declined $3.5 billion (-46.2%) from the third quarter to $4.1 billion. Life, health and medical insurance carriers led the decline, down $2.9 billion for the quarter. This decrease was the result of fair value adjustments to actuarial liabilities, which increased related expenses by $5.0 billion.

Net income for the life, health and medical insurance carriers decreased 8.8% from $2.4 billion in the third quarter to $2.2 billion in the fourth quarter.

Table 2
Quarterly financial statistics for enterprises, finance and insurance industries – Seasonally adjusted

	Fourth quarter 2017	First quarter 2018	Second quarter 2018	Third quarter 2018[r]	Fourth quarter 2018[p]
	billions of dollars				
Finance and insurance industries					
Operating revenue	113.1	110.8	115.5	115.8	118.1
Operating profit	29.3	34.1	34.3	39.6	36.3
Net profit	23.9	25.3	25.8	29.1	27.1
	%				
Operating profit margin	25.9	30.8	29.7	34.2	30.7
	ratio				
Debt to equity	0.760	0.769	0.757	0.758	0.750

r revised
p preliminary
Note(s):
Figures may not add up to totals because of rounding.
The debt-to-equity ratio is not seasonally adjusted.
Source(s): Table **33-10-0008-01**.

Effects of overnight interest rate changes on depository credit intermediation

Following the financial crisis of 2008, central banks begun using the quantitative easing approach to stimulate the economy. During the period following the crises, they kept their overnight rates low. Those overnight rates levels trickled down to the lending markets. We observed the same behaviour in Canada by the central bank.

In the summer of 2017, the Bank of Canada decided to start increasing its overnight rate. This was the first increase since July 2015. The press release from the Bank of Canada announcing this change stated that "the Governing Council judges that the current outlook warrants today's withdrawal of some of the monetary policy stimulus in the economy."

The overnight rate changes, mainly the increases in the past year, have impacted the financial position and results of operations for the depository credit intermediation industry. This effect is reflected by the changes in the industry's net interest margin. However, this indicator is not publicly available for all depository credit intermediaries and therefore the net interest income, which is the difference between interest revenue and interest expense, is being used to determine the effects of the interest changes.

Data from the Quarterly Survey of Financial Statements are used to analyze the changes in the net interest income and the balance of mortgage and consumer loans assets for the industry from the third quarter of 2017 to the fourth quarter of 2018.

Interest income

Prior to the overnight interest rate change in July 2017, depository credit intermediation's interest income from mortgages was oscillating within a narrow band from quarter to quarter. However, since the first rate hike in July 2017, mortgage interest income went up from $9.8 billion in the third quarter of 2017 to $11.7 billion in the fourth quarter. That was a $1.9 billion increase in a little over a year. In terms of growth rate, that was a 19.3% change, which has not been observed prior to this period.

Interest revenue from consumer loans also responded to the rate increases, moving from $6.1 billion in the third quarter of 2017 to $7.0 billion at the end of the fourth quarter of 2018. This accounted for a 15.2% change in interest revenue.

Combined interest revenue for mortgage and consumer loans rose by $2.8 billion from the third quarter of 2017 to the end of the fourth quarter of 2018.

During the same period, interest expenses increased as well, up $4.0 billion. A rise in the overnight interest rate had an effect on both interest revenue and interest expenses for the depository credit intermediation industry, bringing the net interest income from $9.1 billion to $7.9 billion.

Trends in mortgages and consumer loans

The change in rates also had an effect on the volume of loans and the changes in volume can explain the behaviour of the net interest income from the third quarter of 2017 to the fourth quarter of 2018.

According to the Bank of Canada's Financial System Review released in November 2017, "Around half of outstanding mortgages have at least one year before their interest rates are reset." With rate hikes observed in 2018, borrowers had to renew their mortgages at higher rates to keep financing their residential properties.

A higher interest rate environment is normally not favourable for borrowing, especially for large long-term loans such as mortgages. However, while examining the balance sheet for the depository credit intermediation industry, we see that mortgages had begun to grow after the first rate increase.

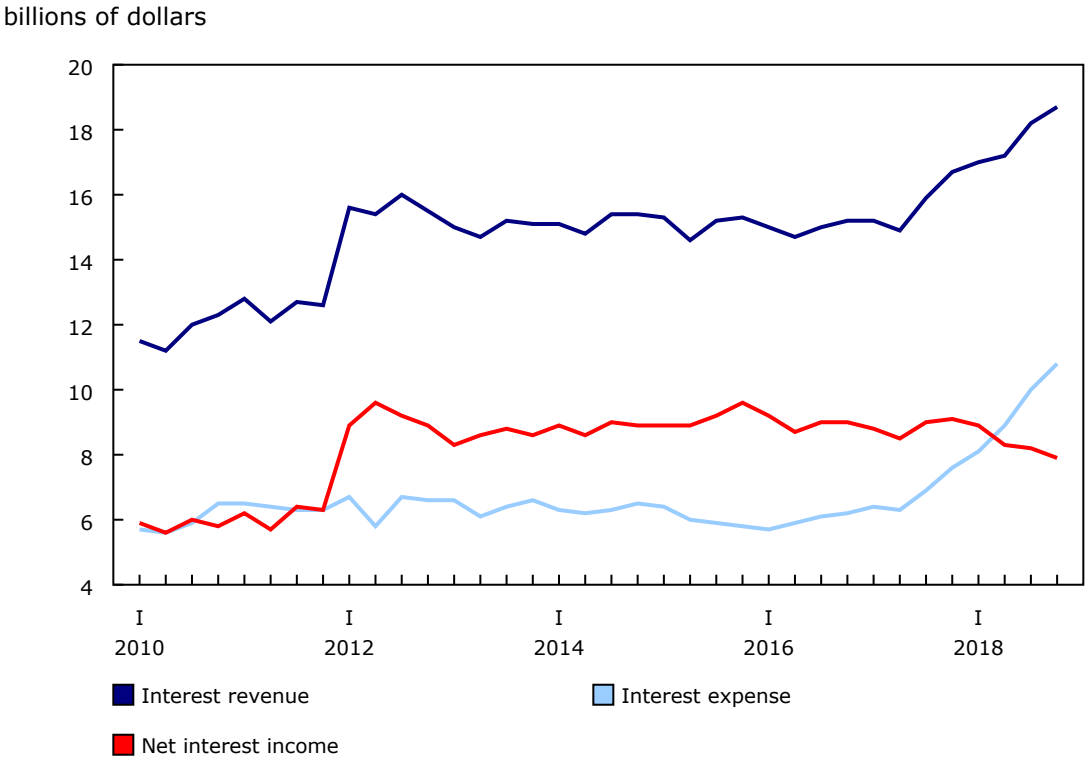
The sharp increase in mortgage loans in the fourth quarter of 2011 was due to the changes in the International Financial Reporting Standards, which affected mortgages. Financial institutions' balance sheets had to reflect the reporting of securitized mortgages which previously was not the case.

Since the sharp increase, on average, the growth was in a range from 0.6% to 2.2% per quarter before the July 2017 increase. The growth has ranged from 0.2% to 1.6% per quarter after the interest rate increased and lending conditions tightened with the introduction of the stress test in January 2018. Although growth for mortgages has slowed, it still continues to grow. At the end of the fourth quarter of 2018, mortgage loans increased to $1,513.3 billion, compared with $1,449.9 billion during the third quarter of 2017.

Consumer loans have been experiencing the same trend as mortgage loans, except for the first quarter of 2018 where loans declined by 1.0%. They then bounced back to 2.5% in growth in the second quarter, followed by further growth of 1.7% in the third quarter. Consumer loans growth slowed to 0.9% for the fourth quarter. This seems to show that consumers are still borrowing or renewing loans, despite the increase in the interest rate charged, but that growth is slowing down.

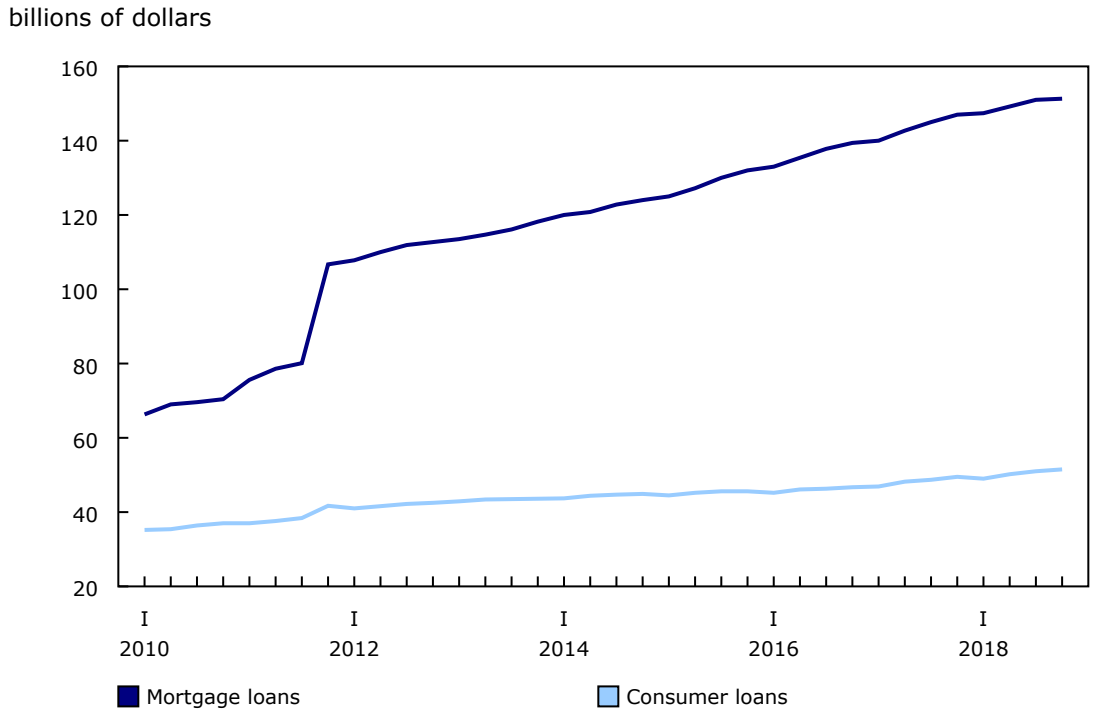
The combined effect of higher interest rates and the decline in growth for the value of loans therefore explains the decrease in net interest income for the depository credit intermediation industry.

Chart 3
Net interest income



Source(s): Table 33-10-0007-01.

Chart 4
Value of loans



Source(s): Table 33-10-0007-01.

Note to readers

Data on quarterly profits in this release are seasonally adjusted and expressed in current dollars. Financial data for the first, second, and third quarter have been revised.

For information on seasonal adjustment, see Seasonally adjusted data – Frequently asked questions.

Quarterly financial statistics for enterprises are based on a sample survey and represent the activities of all corporations in Canada, except those that are government-controlled or not-for-profit. An enterprise can be a single corporation or a family of corporations under common ownership and/or control, for which consolidated financial statements are produced.

Profits referred to in this analysis are operating profits earned from normal business activities. For non-financial industries, operating profits exclude interest and dividend revenue and capital gains/losses. For financial industries, these are included, along with interest paid on deposits.

In this release, all profits are operating profits unless otherwise stated. Operating profits differ from net profits, which represent the after-tax profits earned by corporations.

For more details on the concept of actuarial liabilities, consult the page Actuarial liabilities.

Real-time tables

Real-time tables 33-10-0160-01 and 33-10-0161-01 will be updated on March 18. For more information, consult the document Real-time tables.

Next release

Financial statistics for enterprises for the first quarter will be released on May 24.

Available tables: 33-10-0007-01 and 33-10-0008-01.

Definitions, data sources and methods: survey number 2501.

Aggregate balance sheet and income statement data for Canadian corporations are now available.

Data from the Quarterly Survey of Financial Statements are also available.

For more information, or to enquire about the concepts, methods or data quality of this release, contact us (toll-free 1-800-263-1136; 514-283-8300; **STATCAN.infostats-infostats.STATCAN@canada.ca**) or Media Relations (613-951-4636; **STATCAN.mediahotline-ligneinfomedias.STATCAN@canada.ca**).