

# Quarterly financial statistics for enterprises, second quarter 2020

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Since January, the COVID-19 pandemic has spread worldwide at an unprecedented speed. This has led many countries to take drastic measures to slow the circulation of the virus. These measures have continued to impact global economic activity.

In the second quarter, Canadian corporations reported a decline of 8.0% in net income before taxes, a decrease of \$4.5 billion, to \$52.3 billion. Operating revenue declined 11.6%, to \$940 billion during the quarter, with the decrease amplified by compounding weeks of confinement followed by a gradual re-opening.

## **Net income before taxes in the non-financial sector falls**

Net income before taxes in the non-financial sector declined 20.0% (or -\$6.1 billion) to \$24.6 billion in the second quarter, with revenue decreasing in several key industries.

One of the hardest hit industries, transportation, postal and couriers services, and transportation support activities saw a 243.5% drop (or -\$3.9 billion) in net income before taxes. This decrease was mainly attributable to the sharp drop in revenues for air transportation, as the COVID-19 pandemic led to border restrictions and mandatory quarantines for international travellers. According to the Monthly Civil Aviation Survey, major Canadian airlines reported a year-over-year decrease in passengers on scheduled and charter flights of 97.0% and 96.7% for the months April and May, respectively, reducing the number of air passengers to a level not seen in decades.

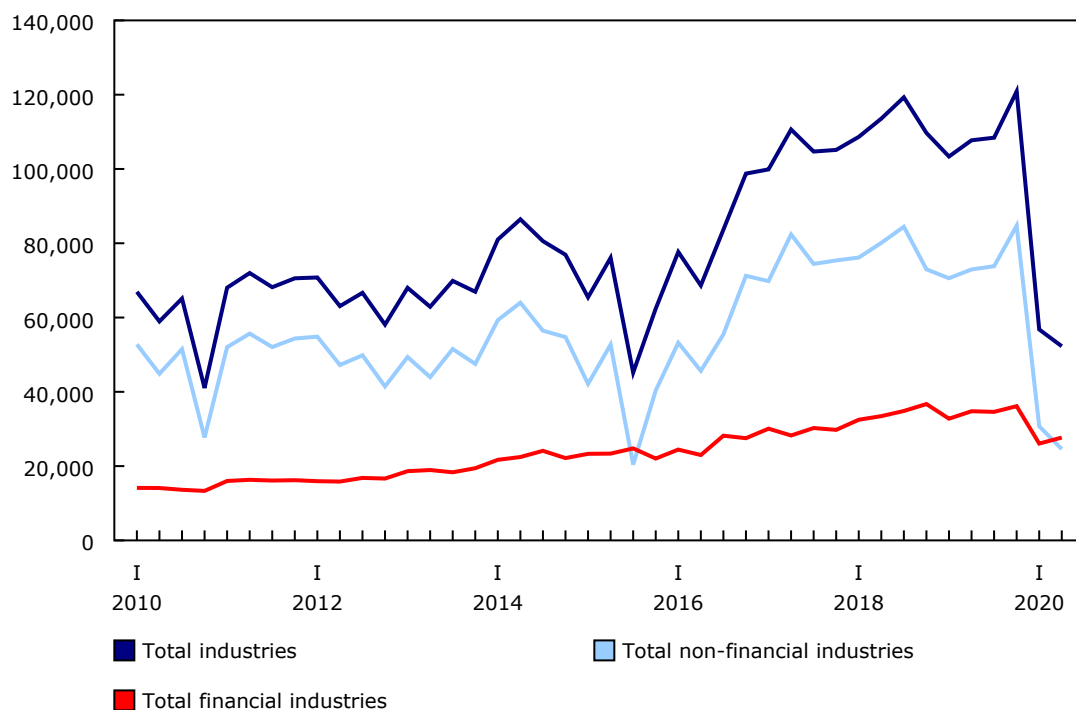
Oil and gas extraction and support activities posted a loss of \$9.2 billion in net income before taxes in the second quarter, following a loss of \$24.4 billion in the first quarter. Operating revenues in the industry continue to be affected by decreased production and lower oil prices.

Expenses in the oil and gas and support activities decreased in the second quarter, due to a decline in expenses associated with asset revaluations, as most of these expenses were booked in the first quarter of 2020.



**Chart 1**  
**Corporate net income before taxes (seasonally adjusted)**

millions of dollars



Source(s): Table 33-10-0226-01.

## Retail trade sector hit hard by COVID-19

The net income before taxes in the retail trade sector declined \$4.0 billion (-67.7%) in the second quarter. Motor vehicle and parts dealers led the decrease (-\$2.2 billion or -121.7%), partly attributable to lower motor vehicle sales.

Clothing, sporting goods, department and general merchandise stores also saw a decrease in their net incomes before taxes (-\$1.1 billion or -108.4%), as sales were down due to COVID-19 restrictions. Online sales did not rise enough to offset the loss in sales from brick-and-mortar stores.

## Manufacturing net income drops, as plants limit capacity or cease operations entirely

The manufacturing sector's net income before taxes decreased \$1.3 billion (-19.3%) in the second quarter, as many plants operated at reduced capacity or ceased operations to reduce the spread of COVID-19 or, in some instances, due to decreased demand.

Clothing, textile and leather manufacturing, and furniture and other manufacturing led the decrease (-\$975 million or -68.6%). This drop was mainly attributable to enterprises' operating at limited capacity, as many retailers closed in the month of April.

Aerospace, rail and ship products and other transportation equipment manufacturing recorded a decrease in net income before taxes of \$616.0 million (-92.6%), as aeronautic manufacturers recorded lower levels in production and deliveries.

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Partly offsetting these decreases in net income before taxes for the manufacturing sector was the wood product and paper manufacturing industry, which increased \$1.1 billion (+177.4%), mostly due to an increase in lumber sales.

## **Banking sector's net income before taxes impacted by COVID-19**

The net income before taxes for the financial sector increased by 6.2% (+\$1.6 billion) to \$27.7 billion in the second quarter.

Despite an increase in the net income for the overall financial sector, the banking and other depository credit intermediation industry's net income before taxes declined 42.0% (-\$4.2 billion) to \$5.8 billion in the second quarter, due to large loan loss provisions and decreased revenues.

The provision for losses on distressed loans continued to increase during the quarter due to, among other things, COVID-19, along with continued pressures on oil prices and a lengthy period of low interest rates.

However, Canadian banks had seen a small increase in the number of loans to companies in the oil and gas sector for several quarters. Loans to businesses also increased in the second quarter due to difficulties accessing debt markets.

The commodity and securities related industries and insurance industries saw increases in net income before taxes, which offset the declines seen in the banking sector.

## **A closer look: The impact of COVID-19 on the arts, entertainment and recreation, and accommodation and food services industry**

The COVID-19 pandemic had a profound impact on financial and labour markets across the globe. In Canada, border closures and public health restrictions significantly impacted the financial health of Canadian corporations.

In particular, the arts, entertainment and recreation, and accommodation and food services industry was among the hardest hit by the COVID-19 pandemic. Data from the Quarterly Survey of Financial Statements, as well as data on travel, employment and business conditions highlight the extent of the impact.

In the second quarter of 2020, the arts, entertainment and recreation, and accommodation and food services industry—representing around 2.5% of total revenues of Canadian corporations—recorded a decline of 173.9% in net income before taxes, falling from a net income of \$2.2 billion in the first quarter to a loss of \$1.6 billion in the second.

This industry saw operating revenues and operating expenses drop by 22.1% and 11.4%, respectively. Travel restrictions and physical distancing measures directly impacted the financial health of enterprises within this industry.

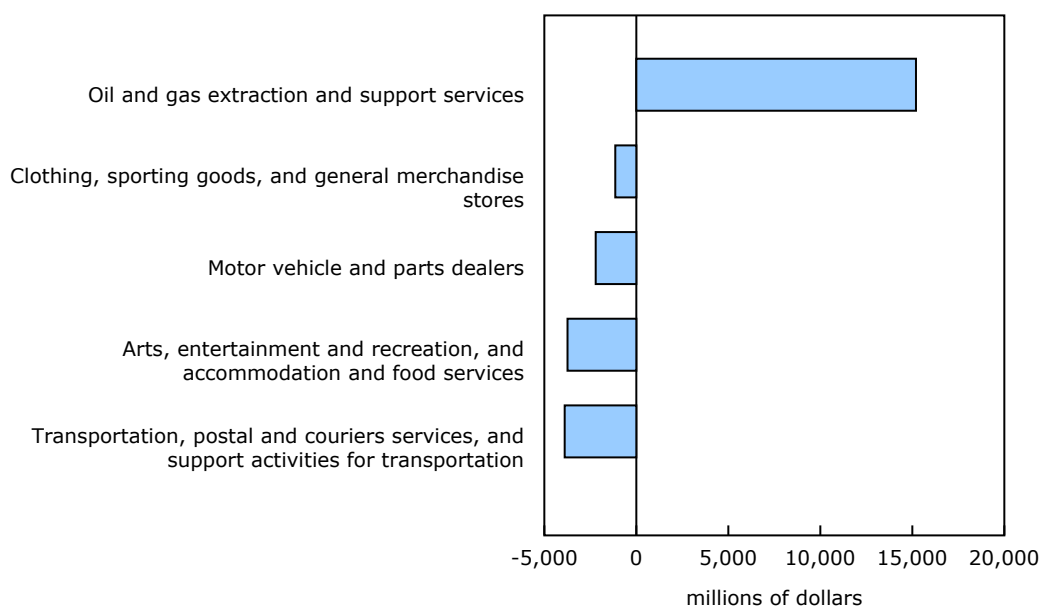
Total expenses for this industry, non-seasonally adjusted, have dropped (-10.6%), in particular labour wage salary expenses (-11.0%), as many employers were forced to either scale back or shut down operations, resulting in significant employee furloughs and layoffs. According to the Labour Force Survey, for the months of April, May and June, the accommodation and food services industry saw the largest decline (-38.6 %) in employment for the second quarter.

As the economy begins to reopen, changes in consumer behaviours place additional downward pressure on enterprises' operating profits and bottom-line (i.e. net income before taxes), as health risks posed by the coronavirus still loom and consumer confidence wanes. In fact, a Statistics Canada study ([Concerns over resuming activities in Canada](#)) showed that two-thirds of respondents (66%) were "very concerned" about the health risks associated with attending shows, festivals, movies or sporting events, and that 38% were also "very concerned" about going to restaurants or bars.

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**Chart 2**  
**Change in income or loss before income taxes in major non-financial industries**

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**Note(s):** Income or loss before income taxes are seasonally adjusted.

**Source(s):** Table [33-10-0226-01](#).

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## Note to readers

Data on quarterly net income before taxes in this release are seasonally adjusted and expressed in current dollars, unless otherwise stated.

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. The survey collects data on balance sheet, income statement and additional disclosures of enterprises.

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.

## Survey changes

The following changes were introduced to the survey starting with the first quarter of 2020:

1. New content was implemented in the first quarter to align the survey to new accounting standards adopted by corporations starting in 2011.
2. New industrial breakdowns, which allow for more granularity in the dissemination of data, were implemented. As a result, some industry groupings were merged, others were split and some remained the same.
3. The survey's sample was modified to support the new industrial breakdowns; however, a maximum sample overlap with the previous sample was adopted.
4. A more automated imputation strategy was implemented to streamline the process and to reduce the need for manual intervention.

## Analytical focus change

Up to the fourth quarter of 2019, the Quarterly Survey of Financial Statements (QSFS) focused primarily on operating profit/losses to track the financial performance of enterprises. Operating profit are profits an enterprise earns from its core business operations and is the difference between operating revenues and operating expenses.

The content for the QSFS questionnaire, up until the fourth quarter of 2019, did not include a distinction between operating revenues and expenses. To calculate an enterprise's operating profit, additional information on expenses, in particular, cost of goods sold (COGS), was collected and included in the calculation.

Over time, the response rate for the COGS variable declined. As well, the accounts used by financial industries and non-financial industries were different due to the nature of their activity, with some enterprises no longer reporting operating profits in their financial statements.

Changes to accounting standards in 2006 (new financial instruments standards) and in 2011 (adoption of International Financial Reporting Standards) included the introduction of gains/losses in asset revaluations, which further complicated the calculation of operating profits.

Asking respondents to report categories of revenue and expenses as well as a breakdown, within each of those two categories, between operating and non-operating amounts would have increased response burden.

Being an economy-wide program, the QSFS requires a certain degree of comparability in the concepts used to assess financial performance across enterprises and industries.

To overcome some of the difficulties in terms of comparability at the operating profit level, and to avoid increased response burden, starting with the first quarter of 2020, the focus of QSFS analysis will change from operating profit to net income before taxes to better assess an enterprise's financial performance. Net income before taxes is income earned from normal business activities.

Net income before taxes is a more inclusive measure, and its calculations are more standardized between enterprises and industries.

## Revisions, benchmarking and back casting

The second quarter 2020 release of the QSFS includes revised estimates from the first quarter of 2020.

Efforts are being made to back-cast these data to the first quarter of 2010 to allow for better historical comparisons. However, as more than one cycle of the new content is required before being able to start this exercise, users are encouraged to use caution when making historical comparisons.

*It is expected the back-casting work will be completed and results released at the end of 2021.*

*Larger than usual revisions may be anticipated in the future, as quarterly revisions, annual benchmarking, back casting and receipt of new survey data from respondents will be incorporated in order to improve data quality and include the most up-to-date data.*

***Business performance and ownership statistics portal***

*The [Business performance and ownership statistics portal](#), accessible from the Subjects module of our website, provides users a single point of access to a wide variety of information related to business performance and ownership in Canada.*

***Next release***

*Financial statistics for enterprises for the third quarter of 2020 will be released on November 20.*

**Available tables: [33-10-0224-01](#) to [33-10-0227-01](#) .**

**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](mailto:STATCAN.infostats-infostats.STATCAN@canada.ca)) or Media Relations (613-951-4636; [STATCAN.mediahotline-ligneinfomedias.STATCAN@canada.ca](mailto:STATCAN.mediahotline-ligneinfomedias.STATCAN@canada.ca)).