

Canadian Corporate Profits Remain Elevated Despite Economic Slowdown

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Summary

Statistics Canada has released year-end data on corporate financial performance for 2023. The new data confirm that corporate profits remain elevated relative to pre-COVID norms, despite the stalling of economic growth in 2023, largely due to weak consumer demand conditions caused by two years of high interest rates. After-tax corporate profits across the financial and non-financial sectors of the economy totaled \$577 billion for the year. That was down just 3% from all-time record profits booked by corporate Canada in 2022 – the same year inflation peaked at over 8%. The moderation in profits (both in absolute dollars and as a share of GDP) last year contributed to the rapid easing of inflationary pressures. But profits remain unusually high compared to pre-pandemic years: in absolute dollars, as a share of total business revenue, and relative to GDP. This indicates that corporations are continuing to profit from supply chain disruptions, high energy prices, and other pandemic after-shocks. These excess profits remain a key factor in the stubborn inflation which continues to roil Canada's macroeconomy.

The Resilience of Corporate Profits

Year-end data from Statistics Canada show that corporate profits in Canada remained historically high in Canada in 2023, despite the stalling of economic growth, rising unemployment, and stagnating consumer demand. Total after-tax corporate profits equaled \$577 billion for the year, down 3% from record 2022 levels – but still over \$200 billion (or 55%) higher than in 2019, the last year before the COVID pandemic.

Profits retreated modestly for both non-financial and financial corporations.¹ Annual changes in profits and profit margins (defined as net after-tax profits as a share of total corporate revenue) are summarized in Table 1. Profits of non-financial corporations

¹ It is important to note that financial profits are mostly excluded from GDP factor income statistics, since interest revenue and capital gains (which account for most financial profit) are considered transfers not current production.

equaled \$409 billion in 2023, down 3% from record 2022 levels. Financial corporation profits equaled \$168 billion in 2023, down 4% from 2022. The financial sector's share of total corporate profits has been stable throughout this period, at just under 30% of all after-tax corporate profits.

Table 1 Corporate Profits in Canada, 2019-2023					
	2019	2022	2023	Change 2019-23	Change 2022-23
Non-Financial Corporations					
Net Income (\$ bil)	\$260.3	\$421.3	\$408.7	\$148.4	-\$12.6
As Share Revenue (%)	6.33%	8.22%	7.70%	1.37%	-0.52%
Financial Corporations					
Net Income (\$ bil)	\$111.1	\$175.2	\$168.2	\$57.0	-\$7.1
As Share Revenue (%)	21.65%	31.07%	22.95%	1.29%	-8.12%
All Corporations¹					
Net Income (\$ bil)	\$371.5	\$596.5	\$576.9	\$205.4	-\$19.6
Source: Centre for Future Work calculations from Statistics Canada Tables 33-10-0225-01 and 33-10-0227-01. 1. Comparing or combining net profit margins across financial and non-financial industries is not meaningful.					

As a share of total revenue, non-financial after-tax profits retreated by one-half percentage point in 2023: from 8.2% of total revenues in 2022 (the highest in the history of this Statistics Canada data) to 7.7%. Despite this modest decline, profit margins remain much higher than pre-pandemic norms. As illustrated in Figure 1, profit margins surged in early 2022 following the Russian invasion of Ukraine, the corresponding spike in petroleum and other fossil fuel energy prices, and the take-off of inflation (which peaked in Canada in June 2022). While profit margins moderated over the subsequent two years, they remain much higher than pre-pandemic norms. The average profit margin recorded by Canadian non-financial corporations since 2021 (and the end of COVID lockdowns) is just over 8% -- more than one-third higher than average margins recorded by the non-financial sector in the five years prior to the pandemic. This attests to the lasting impact of post-pandemic disruptions, which corporations have leveraged into sustained high profits. Those profits have persisted despite the dampening impacts of high interest rates and economic slowdown.

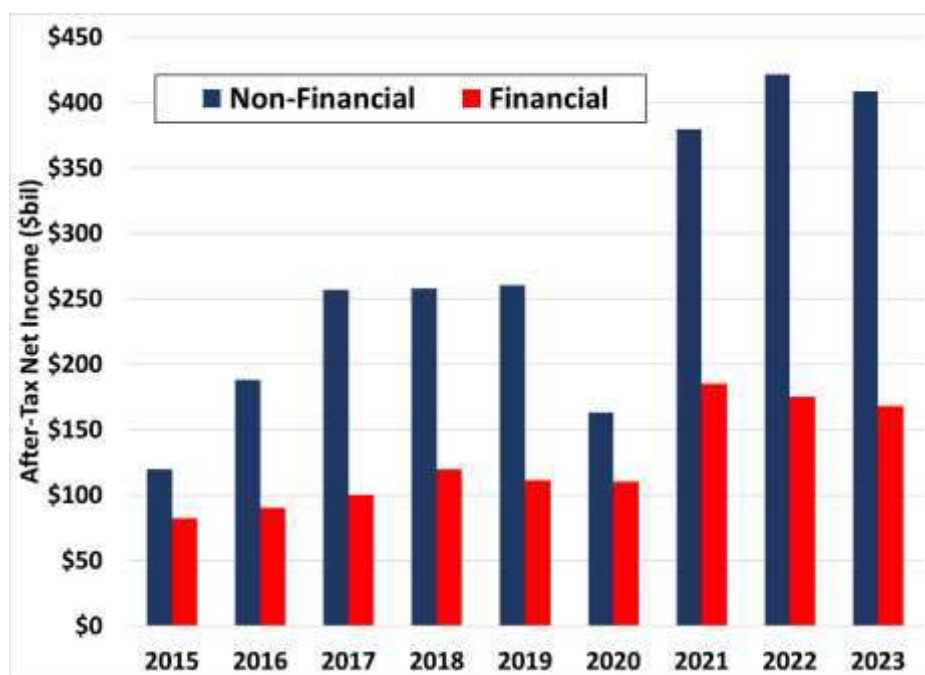
Figure 1. Evolution of Non-Financial Profit Margins, 2015-2023



Source: Calculations from Statistics Canada Table 33-10-0225-01.

Profits for financial corporations also surged in the wake of the COVID pandemic. Figure 2 illustrates the course of non-financial and financial profits since 2015. Profits for financial companies were not significantly affected during the COVID lockdowns (unlike non-financial corporations, whose profits fell significantly during the lockdowns).

Figure 2. Profits for Non-Financial and Financial Corporations, 2015-2023



Source: Calculations from Statistics Canada Tables 33-10-0225-01 and 33-10-0225-01.

Financial profits increased by two-thirds in 2021, fueled by massive mortgage lending (and bank profits) stimulated by ultra-low interest rates. Financial profits have moderated since then, but remain elevated compared to pre-pandemic norms. As a margin on total revenues, financial sector profits retreated more significantly during 2023: falling 8 percentage points, from 31% in 2022 to 23% in 2023. However, that decline in the apparent profit margin is an artefact of the sharp increase in interest rates over the last two years. Higher rates dramatically boosted *gross* interest revenue for banks and other lenders (total finance sector revenue grew over three-quarters from early-2022 to end-2023), but had little impact on *net* interest income. Therefore, despite reduced lending volumes and a modest rise in non-performing loans, banks have mostly preserved their overall volume of profits. For these reasons, the decline in profit margins in the finance sector cannot be interpreted as a sign of financial weakness; to the contrary, even in 2023 the financial profit margin was more than 1 full percentage point higher (as a share of total revenues, now inflated by high interest rates) than in 2019, the last year before the pandemic.

While overall average profit margins declined for both non-financial and financial corporations in 2023, many sectors were able to maintain and even increase profit margins last year. Statistics Canada reports financial data for 53 separate sectors (39 non-financial and 14 financial). In close to half of those sectors – 24 sectors in total, including 21 non-financial and 3 financial – profit margins widened in 2023. This group includes several retail sectors where a combination of supply chain disruptions, shortages, and consumer desperation substantially pushed up prices (and profits) during and after the COVID lockdowns: including motor vehicle dealers, general merchandise, and supermarkets and other food retailers. The fact that these retail segments could not just sustain, but even increase, profit margins even as consumer spending was hard-hit by high interest rates and falling real wages, is testament to concentrated corporate power in many parts of the overall retail sector. Other industries which enjoyed widened profit margins in 2023 include transportation, some manufacturing sectors (including food, transportation equipment, and computers), and securities traders.

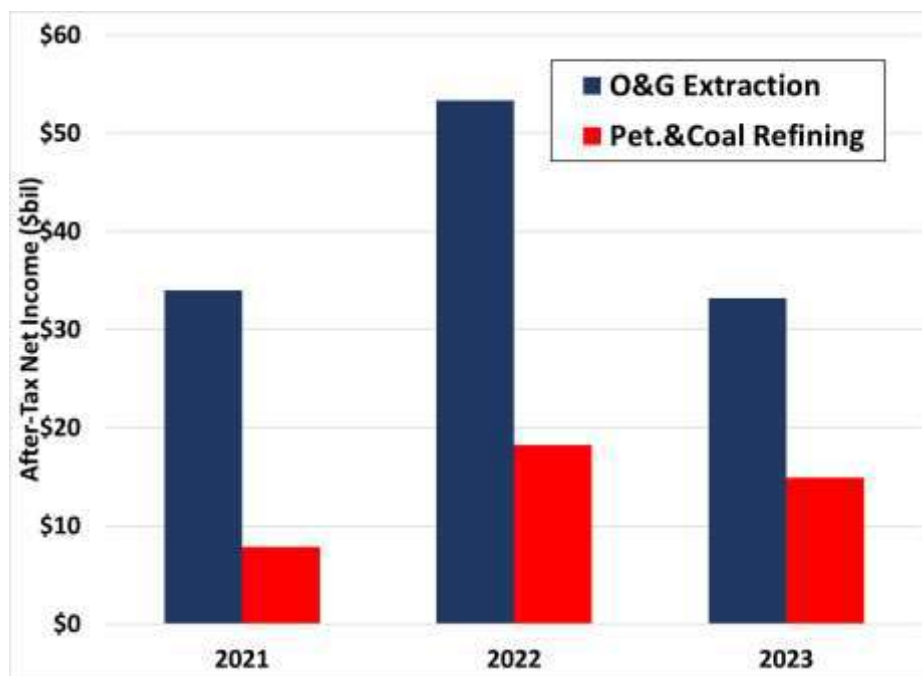
After-tax profits for Canadian corporations accounted for over 21% of Canada's total nominal GDP in 2022: up from 16% in 2019, and the highest in Canadian history. The corporate profit share of GDP will decline modestly in 2023, likely to around 20% of GDP – reflecting both the modest decline in profits and continuing growth in nominal GDP.² While real GDP growth effectively stalled in 2023, nominal GDP continued to grow (mostly due to inflation, itself initially sparked largely by record profit-taking after the COVID lockdowns). Nevertheless, even after that modest fallback, the profit share remains far above historical averages, again attesting to the resilience of corporate profits even as supply chains normalized and consumer spending retrenched.

² Year-end national accounts data for 2023 will be released by Statistics Canada on February 29, 2024.

Energy Prices and Profits

One sector in which profits increased very dramatically after the COVID pandemic, and which consequently contributed substantially to the take-off of inflation, is the petroleum industry.

Figure 3. Petroleum Profits, 2021-2023



Source: Calculations from Statistics Canada Table 33-10-0225-01.

Figure 3 illustrates the rise and fall of petroleum-related profits since 2021, when global oil prices started rising after the end of COVID lockdowns. The lockdowns resulted in low prices and losses for petroleum producers and refiners in 2020; however, those losses were more than recouped as the pandemic waned. Profits reached \$34 billion for oil and gas producers, and another \$8 billion for the refining sector³ (both after-tax). In 2022, with soaring world oil prices (and rocketing gasoline and other fossil fuel prices in Canada), profits rose another 60% for the upstream (extraction) sector, and they more than doubled in the downstream (refining) sector. That combined \$70 billion flow of profits to the petroleum industry was a key cause of the spike in inflation experienced in the same period. Since mid-2022, world oil prices have retreated – and not coincidentally, so have gasoline prices, petroleum profits, and domestic inflation. Nevertheless, even with lower world prices, profits have remained elevated in both the upstream and downstream segments of the petroleum industry. Upstream profits in 2023 retreated to their (healthy) 2021 levels, with after-tax profits of \$33 billion. Downstream profits have remained unusually high, totaling \$15 billion after-tax in 2023

³ Figure 3 illustrates profit for Statistics Canada’s sector titled “petroleum and coal product refining,” the vast majority of which consists of petroleum products.

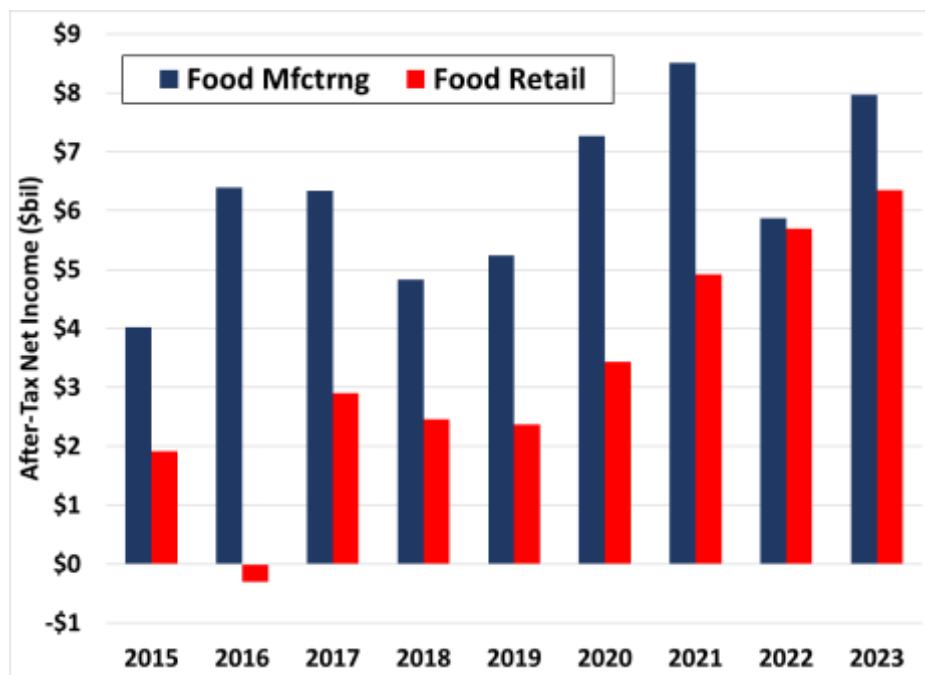
– the second-highest in history. This reflects the fact that petroleum product prices for consumers (including gasoline) have not come down as much as upstream prices.

Elevated energy prices have been a central factor in the rise and partial fall of Canadian inflation since the COVID pandemic. They are insensitive to interest rates and domestic demand conditions – casting great doubt on the wisdom of the Bank of Canada’s strategy to wring inflation from the economy by lifting interest rates to suppress job-creation and consumer demand. Any future surge in global oil prices (resulting, potentially, from geopolitical instability in the Middle East or elsewhere) could quickly send Canadian inflation – and petroleum industry profits – surging again, undoing the painful progress made so far in the battle against inflation. Ultimately, Canadians should reconsider the current settings of domestic energy policy, which allows uncontrollable fluctuations in world oil futures markets to be fully reflected in domestic energy prices and hence overall inflation.

Food Prices and Profits

Another sector of particular importance to hard-pressed Canadian households has been the food industry. Inflation in grocery prices has been significantly faster than overall inflation since 2021. The facts that food demand is inelastic (that is, consumer purchases are relatively insensitive to price, for the obvious reason that everyone has to eat), and that lower-income households spend a much larger share of total disposable income on food, makes food prices a particularly painful (and controversial) dimension of recent cost-of-living challenges.

Figure 4. Food Manufacturing and Retail Profits, 2017-2023



Source: Calculations from Statistics Canada Table 33-10-0225-01.

In repeated public proclamations and Parliamentary appearances, executives from Canada's largest supermarket chains (the five largest of which collectively control about 80% of Canada's total food retail market) deny they have profited from, or contributed to, rapid food price inflation. Statistics Canada's latest corporate financial data, however, clearly refutes this claim.

After-tax net income in the food retail sector⁴ increased again in 2023, reaching \$6.35 billion⁵ – up more than \$650 million (or 11%) from 2022 levels. This sets a new all-time record for food retail profitability in Canada. Food retail profits rose despite the hardship faced by Canadian food consumers, who have grappled with falling real incomes and have sought ways to reduce food expenditure (including shifting to lower-cost products or even reducing the quantity of groceries they purchase). 2023 represented the fourth consecutive year of higher profits in food retailing. Profits in the food manufacturing sector also expanded robustly in 2023 (after a temporary decline in 2022). Food manufacturing profits rose even faster last year: up by 35%, to just under \$8 billion (after-tax). That is still slightly smaller than the record \$8.5 billion in profit that food processors racked up in shortage-plagued 2021. This new data confirms that excess profits in both food retailing and food manufacturing (totaling nearly \$15 billion between them) continue to contribute to the elevated food prices paid by Canadian consumers.

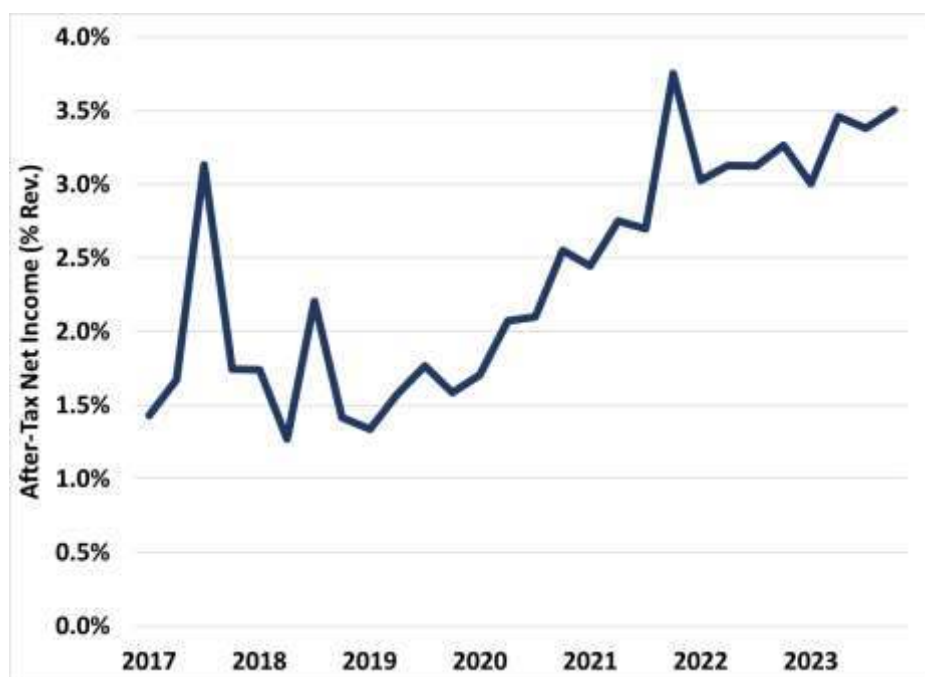
Another oft-made but refutable claim of supermarket executives is that their industry's record profits do not reflect an increase in fundamental profitability, but rather are simply the result of a steady (and small) profit margin applied to a growing base of total revenue – revenue that grows, they claim, due to higher prices charged by their suppliers. The new Statistics Canada data confirms once again that profit margins in the food retail industry (dominated by the five largest chains) have in fact increased, far above pre-pandemic norms. The average food retail profit margin for 2023 increased by 20 basis points (0.2 percentage points) from 2022. And the margin in food retail increased reached over 3.5% of revenues in the last quarter of 2023 (see Figure 5). That is the second highest profit margin for food retail in the history of this data – surpassed only by a 3.75% profit margin captured in late-2021 (as food price inflation was first ramping up). The higher profit margin offset the effects of a 4% decline in total food retail revenue experienced in the fourth quarter of 2023, resulting from weaker consumer spending. Despite a \$2 billion decline in quarterly revenue in the last three

⁴ Statistics Canada's sectoral definitions include food and beverage retailers of all sizes in its category "food and beverage stores"; the vast majority of both revenues and profits in this sector are accounted for the largest food retail chains, and about two-thirds by the three largest chains alone (Loblaw, Metro, and Empire).

⁵ In testimony presented to the House of Commons Agriculture and Agri-Food committee on December 11, 2023, the author projected that year-end profits in food retail (based on the trend over the first nine months of the year) were likely to exceed \$6 billion (see "Updated Industry-Wide Data on Food Retail Prices, Volumes & Profits: Submission to House of Commons Agriculture and Agri-Food Committee," by Jim Stanford, <https://centreforfuturework.ca/2023/12/10/new-data-on-continued-record-profits-in-canadian-food-retail/>). That projection turns out to have been quite conservative: food retail profits exceed that forecast by \$350 million.

months of the year, food retail profits were stable (falling less than \$10 million). That cemented the record profits earned by the sector for calendar 2023 as a whole.

Figure 5. Food Retail Sector After-Tax Net Profit Margin



Source: Calculations from Statistics Canada Table 33-10-0225-01.

Food retail margins have increased steadily since the onset of the COVID pandemic; the strong margins generated in 2023 have reinforced that trend. Current margins are more than twice as high as typical margins earned in the years before the pandemic. It is often suggested that food retail is a “low margin” business, since margins are smaller relative to total revenue than many other industries (in which companies take on more responsibility for capital, technology, innovation and risk than retailers do). However, applied to a huge flow of consumer food spending (nearly \$200 billion in 2023), this margin nevertheless translates into a lucrative flow of profit. And relative to the modest amounts of capital invested in food retail, this “low margin” generates very strong rates of return on invested shareholder equity. It is quite wrong to assume that “low margins” mean “low profits.”

Conclusion

Profits captured by Canadian corporations have retained the historic highs achieved in the turbulent aftermath of the COVID pandemic. Despite the normalization of supply chains, easing of shortages, and weaker consumer demand (suppressed by falling real incomes and high interest rates), aggregate corporate profits hardly changed in 2023. A modest 3% decline in after-tax profits has helped to ease inflationary pressures. But continued restraint in profits will be needed: both to restore pre-pandemic distributional patterns (including the aggregate division of income between labour and capital), and to facilitate a recovery in real wages (badly damaged by post-COVID inflation).