Working Party on Financial Statistics

Recent Trends in Corporate Finance: Some evidence for Canada

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This document has been prepared by Patrick O'Hagan (Statistics Canada) and will be presented under item 4 of the draft agenda.

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Recent Trends in Corporate Finance: Some evidence for Canada

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Fundamental shifts in saving behaviour and net lending positions among sectors in the Canadian economy.

- Persons and unincorporated businesses
- Corporations and government business
- Government
- Non-residents

Charts showing net lending percentages and billions of dollars from 1961 to 2011.
Net lending/borrowing: Corporations now running large net lending balances

Corporations running all time high levels of surplus
Corporations’ profits, undistributed earnings

Profit growth leads corporations into an overall surplus position

(Billions of dollars)

Corporation profits before taxes
Undistributed corporation profits
Dividends and implied stock market returns

Investors accept higher returns from stock market in lieu of dividends
Corporations’ net lending/borrowing ... non-financial corporations

Non-financial corporations drive overall corporate net lending

(Billions of dollars)

Net lending -corporations and GBE
Net lending -non-financial corporations
Net lending -financial corporations
Saving of non-financial corporations leads to large net lending position
Investment relatively flat … as net lending position expands, from 1997
Uses of funds: Non-financial corporations — M&E investment slows in recent years

The slowing of investment more evident in machinery and equipment
(Billions of dollars)

Business investment in non-residential structures
Business investment in machinery and equipment
Uses of funds: Cash and inter-company investment on the rise ... to whom
Uses/sources of funds: Reliance on debt slows

Corporations reliance on debt slows
(Billions of dollars)

Non-financial investment
Credit market debt
Sources of funds from markets: Borrowing versus equity issues

Share issuance catching up borrowing
(Percentage)

Credit market credit
Shares
Sources of funds from capital and money markets: debt and equity

Share issuance vs borrowing
(Percentage)

Credit market credit -bonds and short-term papers
Shares
Sources of funds from capital and money markets: short-term versus long-term debt

Go long, stop short
(Billions of dollars)

Short-term credit market debt
Long-term credit market debt
Sources of funds: external debt finance versus equity issues + undistributed earnings

Less reliant on borrowed funds
(Percentage)

Other's funds (credit market debt)
Own funds (saving and net new equity)
Sources of funds … digression: Credit crunch for nonfinancial corporations?
Sources of funds non-financial corporations: From whom?

- **Loans** … largely from the banking sector; and, as part of inter-company investment, with a significant amount as cross-border (FDIC)

- **Bonds and short-term paper** … widely held, with large proportions in insurance, pension funds and investment funds (all which favour domestic debt instruments); ↑share from non-residents, as most inward portfolio investment is debt-focused

- **Equities** … widely held, with large proportions in pension funds and investment funds (both of which invest heavily in equities; households for both listed and unlisted equity; and, as part of inter-company investment, with a significant amount as cross-border (FDIC)
Balance sheet positions: Financial asset growth ... deposits on the rise
Balance sheet positions: Unprecedented liquidity

Record liquidity a feature of corporate balance sheets
(Percentage)

Current assets (without inventories)/short-term liabilities
Balance sheet positions: Relative decline of short-term debt

Short term debt pressure eases

Short-term to long-term debt
Interest payments trend down

Overall debt burden continues lower

(Percentage)

Interest payment/profit before tax
Balance sheet positions: Debt to equity continues to slide
Similar pattern to quarterly leverage ratio

Corporate leverage continues to decline

Debt to equity
Balance sheet positions: Debt to equity, book and market measures follow suit

Corporate leverage continues to decline

(Percenage)

Debt to equity --market (red) vs book values
Non-financial corporations … summary

- Significant evolution in the net lending/borrowing, financing activity and balance sheet indicators of financial position … beginning in the mid-1990s
- Non-traditional role as supplier of funds to the economy … Outlook for investment and composition of investment?
- Questions … comments