

Highlights:

- Small business sentiment collapses as COVID-19 drives a collapse in economic activity
- New federal announcements can help businesses bridge the gap
- B.C. provincial government announces COVID-19 economic response
- Economic statistics in data firm prior to pandemic

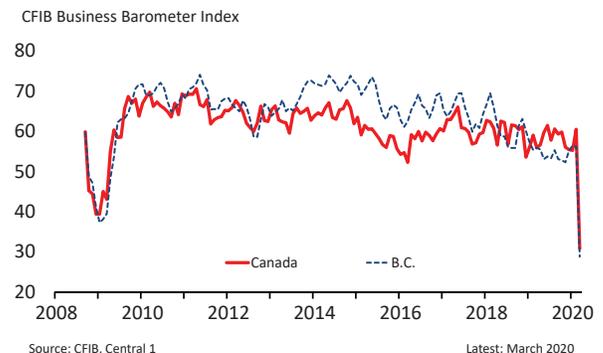
Canadian Federation of Independent Business (CFIB) business sentiment index provides first glimpse of COVID-19 carnage

As media stories roll in about the toll of COVID-19 on the Canadian economy, for many small businesses it has become an existential crisis. Revenues have dropped substantially amidst lower demand and necessary measures to flatten the epidemiological curve.

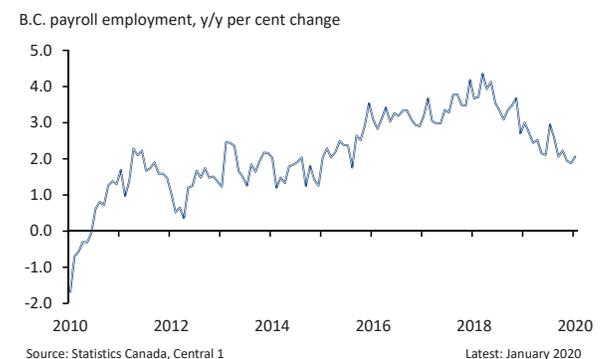
Tourism has collapsed as COVID-19 led to a lower travel demand and, more recently, the federal government has restricted entry into Canada to only Canadian citizens and permanent residents – albeit exempting U.S. citizens and select other groups – while the U.S.-Canada border has been closed to non-essential travel. Social distancing policies have contributed to lower spending as consumers stay home and is causing some retail businesses to temporarily close through the pandemic. Restaurants have shifted to take out/delivery only or closed their doors. Manufacturing is grappling with broad slowdown across North America amidst measures to control the pandemic, with reverberations felt throughout the supply chain.

While data remains scarce at this point, the latest business confidence survey from the CFIB monthly Business Barometer shows how deep the pandemic is cutting. The index fell to a record low nationally from 60 points in February to 30 points during the second half of March, which is below levels observed during the Great Financial Crisis of 2008/09. A value above 50 denotes positive expectations for the year ahead.

Small business confidence plunges



Payroll employment growth firmed heading into pandemic



B.C.'s index fell from 56.2 points in February, an already soft level, to 28.8 points in March.

Like provinces across Canada, the rapid deterioration in the business environment is readily seen in B.C., particularly given high exposure to tourism. On the state of business health, only 12 per cent noted it was bad in February, with 42 per cent assessing the state as good. This flipped in March, with 41 per cent assessing as bad and 18 per cent as good. On the employment front, 51 per cent of survey respondents look to cut full-time staff over the next three months, and only four per cent are looking to add positions. This is consistent with media reports of widespread layoffs across both large and small organizations.

Support for small businesses were heavily enhanced Friday. The Federal Government announced wage subsidizations of up to 75 per cent for affected businesses backdated to March 15. This is up from a prior announcement of 10 per cent. Additionally, the Federal

Government also guaranteed business loans of up to \$40,000, interest free for one year.

B.C. Government announces Covid-19 economic plan

The B.C. Government announced measures this past week in response to the economic toll COVID-19 is taking on residents. Premier John Horgan introduced a \$5 billion plan, with \$2.8 billion allocated to direct relief and \$2.2 billion for business and recovery. This is in addition to a raft of federal measures to bridge the gap during the health crisis for households and businesses.

Key measures included:

Households

- B.C. Emergency Benefit for Workers provides a one-time tax-free \$1,000 to individuals who lost income due to Covid-19, validated by EI and Canada Emergency Response Benefit
- Enhancement to climate action tax credit
- Suspension of student loan payments for six months
- Deferral of BC Hydro payments, and a grant of up to \$600
- Up to \$500/month for four months as a rental supplement for three months, rent increase freeze for 2020, and freeze on most evictions

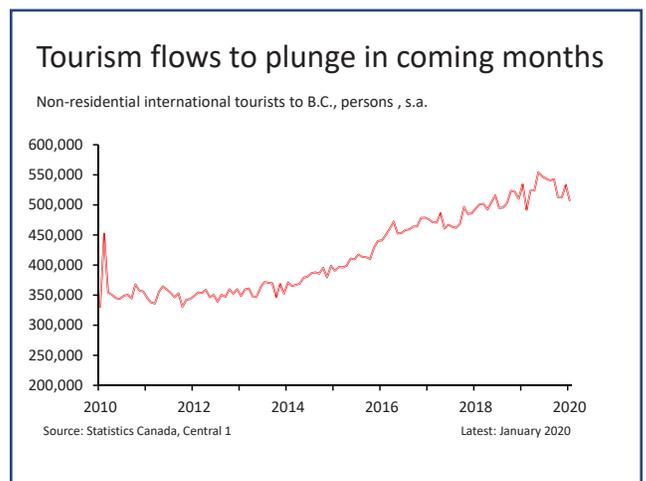
Businesses

- Deferred tax payments for businesses, including Employer Health Tax to September 30, 2020
- Delayed tax changes for PST, School tax, and carbon tax hikes

January economic data gives reference point prior to COVID-19 collapse

With much of the economic landscape cratering below our feet, the standard data released provides only a point of reference for the pre-COVID-19 period, which seems like a lifetime ago. Payroll employment numbers will be closely watched alongside Labour Force Survey employment/unemployment numbers in coming months.

From December to January, B.C. payroll counts rose 0.3 per cent month-to-month to 2.368 million persons, marking a 2.1 per cent year-over-year gain and a



solid entry point into 2020. Growth in services led the gain with a 0.4 per cent increase from December, while goods-producing sectors rose 0.1 per cent after a 0.5 per cent decline the prior month. A rising trend in services employment will likely collapse in coming months. The impact of COVID-19, due to various factors such as the collapse in global travel demand, necessary but drastic measures to stem the viral spread through social distancing, and consumer fear have led to mass layoffs and closures in sectors such restaurants, accommodations, retail, personal services, and recreation as commerce has essentially shuttered outside essential services. This is highlighted CFIB sentiment data. Goods production employment will likely hold up better as construction and, to a large extent, manufacturing continues – but declines are inevitable. Provincial unemployment rates are expected to shoot up to 8-10 per cent in coming months. A downturn is temporary, but the duration of temporary remains uncertain.

The seismic shift means the tight labour market and rising wage environment has run headfirst into a wall, with wage cuts/freezes and fewer hours for many since the start of the COVID-19 crisis. Average weekly earnings climbed 1.3 per cent in January from December and rose 5.6 per cent year-over-year. The latter exceeded the national gain of four per cent.

Similarly, tourism data is from a more normal time. Total international tourist visits to B.C. remained elevated in January despite declining close to five per cent from December and same-month 2019, to a seasonally- adjusted 507,861 entries. Fluctuations in the data partly owes to timing of the Lunar new year which is associated with tourist flows from Asia, but with dates that change annually between January and February.

Tourism has since plummeted as COVID-19 has taken hold. Related service- sectors have seen activity fall

to essentially zero. Tourism related weakness will continue even after the pandemic eases and the economy returns to a sense of normalcy as consumers will remain hesitant to travel amidst health concerns and a reduced capacity in the airline sector.

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