# B.C. Economic Briefing

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## Highlights:

- Small business confidence retreats in second half of May
- Long road to recovery for foodservices sector
- International travel to B.C declined 58 per cent in March, recovery well into the future
- B.C. payrolls declined 5.7 per cent or 135,000 positions
- Building permits rebound in April, but down 26 per cent through four months

## Small business confidence retreats in second half of May

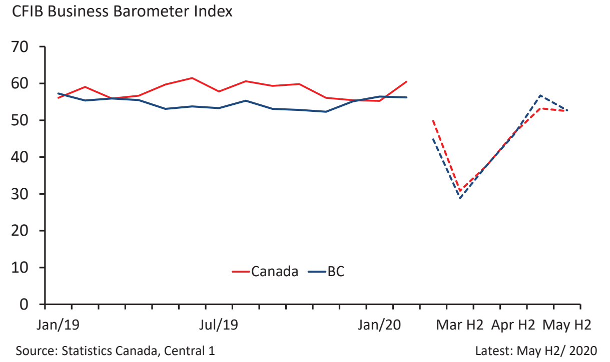
Confidence at B.C.'s small- and medium- sized businesses retreated during the second half of May after reaching a pandemic-period high earlier in the month. The Canadian Federation of Independent Business' (CFIB) latest index reading, currently published twice monthly, came in at 52.7 points. This was down four points from the first half of the month. The index hit an historic low of 28.8 points during the second half of March.

While showing signs of stabilizing, businesses understandably remain pessimistic about the business environment. Revenues have been hammered amidst physical distancing measures and a drop in demand. Many businesses closed temporarily (either voluntarily or required) or operated at a fraction of capacity. While government supports have helped, including wage subsidies, interest free loans, tax deferrals, and rent subsidies if applicable, much of the benefit has flowed to employees with losses still accruing to business owners.

B.C.'s re-start plan, which has already entered phase 2, means many businesses, particularly restaurants and retail, are in a recovery phase but will continue to operate well below capacity. A return of customers may also be slow going and depend on confidence that COVID-19 is under control. Sectors reliant on tourism and major events will continue to struggle due to bans on large crowds.

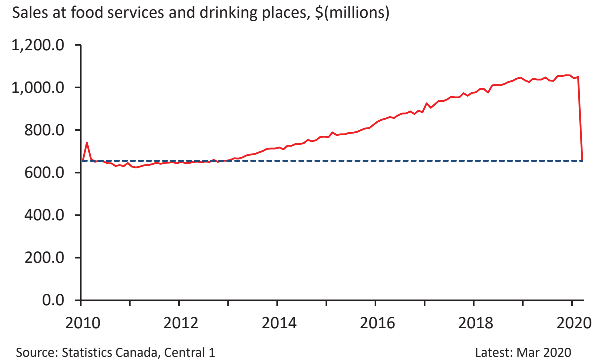
The CFIB's latest reading shows that 43 per cent of businesses deem business health as bad with only 17 per cent noting good conditions. On the employment front, staffing plans are low with 36 per cent of survey respondents planning full-time staffing cuts, although this is down from nearly 70 per cent in April. The downshift may reflect a combination of realized cuts, although the wage subsidy program also saved some jobs. Capacity utilization in the province came in at 39.4 per cent, compared to 49 per cent nationally.

Small business confidence slips in May, levels weak




Source: Statistics Canada, Central 1 Latest: May H2/ 2020

COVID-19 closures drive collapse in foodservice sales in March




Source: Statistics Canada, Central 1 Latest: Mar 2020

## Long road to recovery for foodservices sector

Restaurants have clearly been among the hardest hit sectors from the COVID-19 pandemic as the combination of public health orders to enforce physical distancing such as the closure of dining rooms, a collapse in tourism, stay-at-home recommendations and massive loss of jobs has decimated the sector.

While many changes came into play during the latter half of March, consumers were already exhibiting caution prior to the closures amidst health concerns. Early stage data points to a massive sales decline. B.C. food services and drinking sales data plunged 37.6 per cent in March to $655 million, which was slightly deeper than the national decline of 36.6 per cent. This was the lowest level since October 2012, unadjusted for inflation.

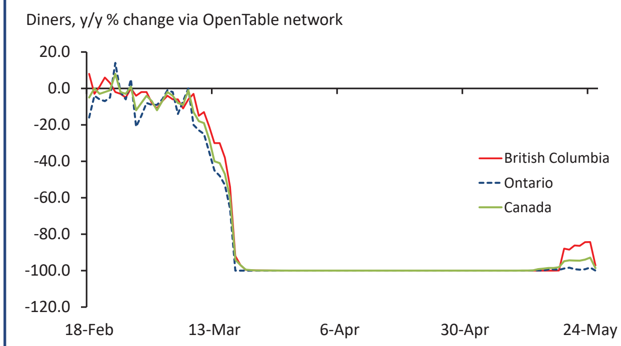
Not surprising, full-service restaurants and drinking establishments (including night clubs) showed the deepest sales decline. Compared to an overall decline of 38 per cent year-over-year, both segments fell 51.6 per cent. In contrast limited service (fast-food) declined 24 per cent. While some full-service restaurants pivoted to emphasize take out during the period and into April, this provided only some offset.

April data will undoubtedly be lower with an accelerated decline as the full effects of the health measures and behavioural changes were observed. Daily reservation and dine-in data from Opentable show dine in activity in their network fell sharply from the second week of March onwards, with 100 per cent year-over-year declines by mid-March as dine in options closed. This persisted in April and through mid-May.

The sector is embarking on a long recovery phase. B.C.'s Phase 2 re-opening has allowed restaurants to re-open dining rooms with appropriate physical distancing measures in place. This means establishments will be operating significantly below capacity for the foreseeable future, although some municipalities are also shifting policies to allow increased patio space to boost sales. Restaurants will also have to contend with consumer health concerns, as customers shy away from dining in immediately, meaning increased reliance on take out. The recovery in the sector will be gradual and stunted, dependent on consumer confidence and pace of relaxation of distancing measures.

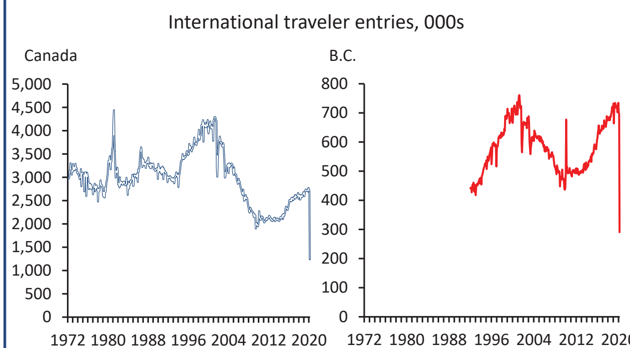
Despite some improvement, the foodservices sector will have a horrendous year. July and August are peak sales months, reflecting tourism flows, weddings and other recreational activities. COVID-19 attendance restrictions will severely stunt these activities impacting catering services, while tourism will remain a small fraction of normal levels. The industry will be heavily dependent on government support through wage subsidy, loan programs, and tax deferrals. A significant share of the sector is unlikely to survive a prolonged period of sharply constrained revenue.

Dine in activity ticks higher as restaurants re-open dining areas




Source: Statistics Canada, Central 1 Latest: May 25, 2020

International travel entries collapse amidst COVID-19




Source: Statistics Canada, Central 1 Latest: Mar 2020

## International travel to B.C declined 58 per cent in March, recovery well into the future

With border restrictions in place by the end of March, it is not surprising that international travel came to a standstill. Total inflows through B.C. fell 58 per cent from February to a seasonally- adjusted 290,656 travellers with a similar decline relative to a year ago. Both overseas and U.S. visits declined by a similar amount. Suffice to say, like many other economic indicators, this is an unprecedented decline as global air travel and cross-border movements have collapsed amidst COVID-19 due to international travel bans around the world, while the U.S.- Canada border has closed to non- essential travel. Ongoing travel continues for essential workers, goods traffic, and immigration, while Vancouver is designated as an airport accepting non-U.S. travel during the health crisis.

The inflow was the lowest on record for both B.C. and Canada as a whole, the latter data going back to 1972 and has crushed the tourism-related activity in the province. Interprovincial/domestic tourism is unlikely to be any better given stay-at-home recommendations across the country. Aircraft movements for April point to a bottoming of trend as total itinerant movements (from one airport to another) fell to a weekly 13,000 from 41,000 in mid-March. Levels have only gradually increased into May led by domestic movements. It will be a long trek for the airline and broader tourism sector to normal.

## Declines in payroll employment align with Labour Force Survey employment losses

Employment losses recorded through Statistics Canada's Survey of Employers, Payrolls and Hours (SEPH) for March were severe, but unsurprising given data from the timelier Labour Force Survey (LFS). Based on employer data, B.C. payrolls declined 5.7 per cent or 135,000 positions. Nationally, the decline came in at 5.4 per cent.

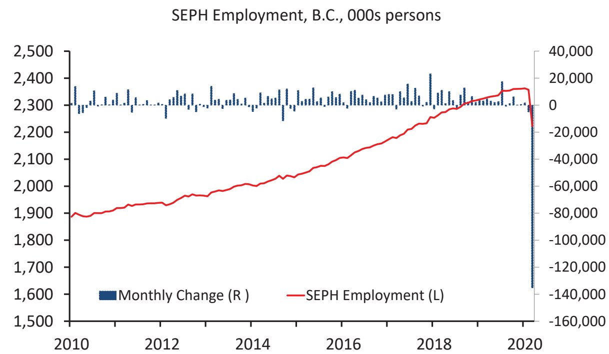
In comparison, March LFS employment declines in B.C. were estimated at 5.2 per cent. Differences between the surveys reflect various factors. The SEPH is largely based on administrative data while the LFS is a household survey. The SEPH also excludes self-employed and farm workers.

SEPH employment losses by industry were consistent with LFS estimates. The steepest declines came in the accommodations and foodservices sectors (-19.8 per cent) and arts, entertainment and recreation sector (-8.5 per cent), although the losses in the latter were less than observed in the LFS. Similarly, declines in finance, insurance, real estate and leasing (-2.6 per cent) was significantly less than the 5.7 per cent decline in the LFS. A higher share of self-employed workers in some of these sectors may be a factor. A notable deviation came in manufacturing, where SEPH declined 4.4 per cent, compared to a LFS increase of 1.6 per cent. The difference reflects timing of the LFS which captured mid-month data, while manufacturing losses picked up later in the month.

Payroll counts will plunge in April data given an 11 per cent decline in already released April LFS employment estimates.

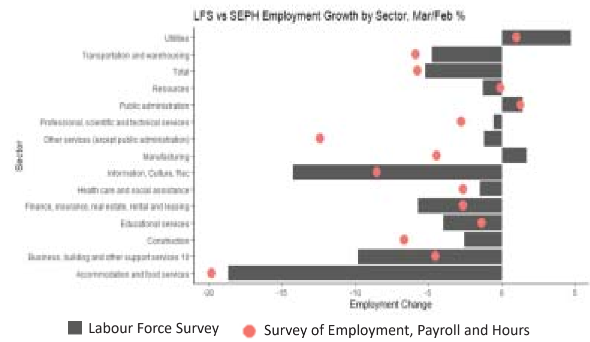
Average weekly wages continued to rise with a 0.8 per cent gain from February to $1,033, which was 4.8 per cent higher than a year. Given the employment contraction, rising wages levels is surprising but partly reflected compositional factors as job losses were concentrated in lower paid sectors. Among sectors, weekly earnings patterns were mixed. Sharp monthly declines were observed in retail trade (-2.9 per cent), information and culture (-5.8 per cent), accommoda-

Record decline in payroll employment




Source: Statistics Canada, Central 1 Latest: Mar 2020

Similar sector declines between SEPH and LFS, manufacturing a key difference




Source: Statistics Canada, Central 1 Latest: Mar 2020

tions and food services (-0.7 per cent). Finance and insurance earnings, and arts and entertainment both rose 4.2 per cent. The index of fixed hourly earnings, which holds occupation, industry and hours remained robust suggesting wages rates had yet to decline. That said, the key take away is that job losses dominate these gains which cut aggregate income in the economy during the month, a pattern that deepened in April.

## Building permits rebound in April, but down 26 per cent through four months

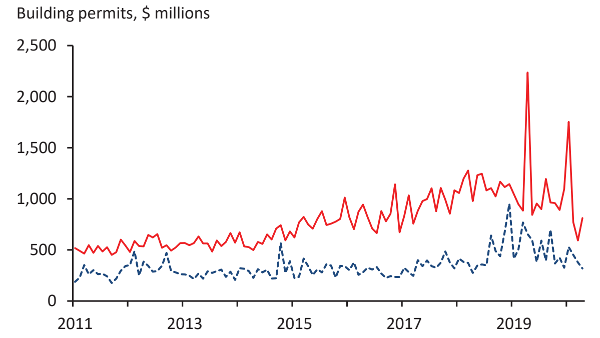
Building intentions in B.C. bucked the national pattern in April as permit volume rose 16.9 per cent from March on a seasonally- adjusted basis to $1.13 billion. This compared to a 17 per cent decline nationally.

Residential permit volume rose 37 per cent to $811 million in April, following sharp declines the prior two months. Non-residential permits declined 16 per cent from March owing to fewer private sector permits. April's overall increase was driven by a 15 per cent gain in Metro Vancouver to $600.8 million which was lifted by multi-family permits, while volume in Victoria fell 37 per cent to $63.5 million.

That said, B.C.'s gain marked only a partial rebound of March's 20 per cent decline, and average permit volume during the March/April period has decline about 30 per cent from the pre- Covid-19 trend driven largely by a steep decline in residential activity. It should be noted that there was some front-loading of permit activity early this year as builder moved in advanced of fee hikes in Metro Vancouver. Nevertheless, the recent pull back likely reflects a slowdown in new construction due to economic uncertainty, the need to ensure physical distancing protocols at worksites, and potential delays at municipalities. Year-over-year, total permit volume fell 26 per cent compared to the first four months of 2019, with residential permits down 23 per cent and non-residential permits down 33 per cent.

Ongoing challenges in the economic environment are expected to constrain new construction activity through the summer months.

Building permit volume climbs on residential activity




Source: Statistics Canada, Central 1 Latest: Mar 2020

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