Economic Commentary

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Business closures surge with pandemic

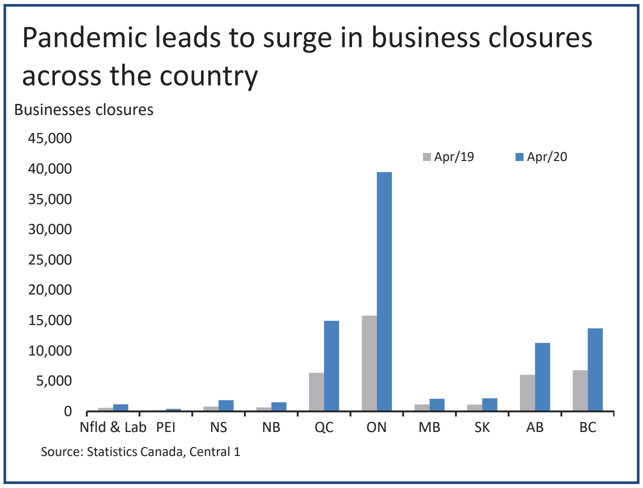
A new report published by Statistics Canada this week highlights the staggering effect the COVID-19 pandemic has had on Canadian businesses.

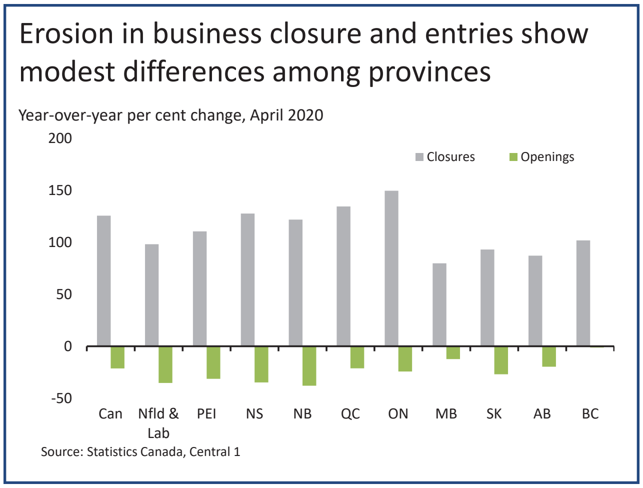
The agency's aim is to track how many businesses have been immediately impacted by the COVID-19 shutdown and to track how many are reopening. Statistics Canada also wants to know how many of these closings are permanent (and are therefore exits) and how many new entrants (openings) there are to replace those permanent closures, as this will inform the longer term impact of the pandemic.

Given that credit unions remain a popular banking option among smaller businesses and small businesses have been hit hardest by this pandemic, it's important to take note of the trends and strategize accordingly.

This latest data set shows that 88,187 businesses were reportedly closed in April 2020, a month when government measures to stem the spread of the virus through economic suppression peaked. In any given month, there will naturally be ebb and flow of closures (businesses that paid employment the prior month (i.e. March), but not in April), however closures have risen sharply since February. April 2020 closures were more than double the 49,109 closures observed in April 2019. Similarly, March closures had also surged by 57 per cent year-over-year. While factors such as energy price declines and trade wars/disputes were contributing to a rising trend prior to the pandemic, the spike is most directly attributable to the public health measures which were implemented as a result of COVID-19. These closures are not equivalent to a permanent business exit (e.g. if a business reports no paid employment through 2020 and 2021) which will not be known until sometime in the future.

Similarly, the pace of new business openings (businesses that paid no employment the month prior to opening) also fell in April, which is understandable given the sharp economic downturn and health risks. Business openings fell 21 per cent year-over-year to 33,002 businesses.





On net, active businesses in Canada fell 10.9 per cent to 711,472 businesses both on a year-over-year basis and as compared to February reflecting stable trend pre-pandemic.

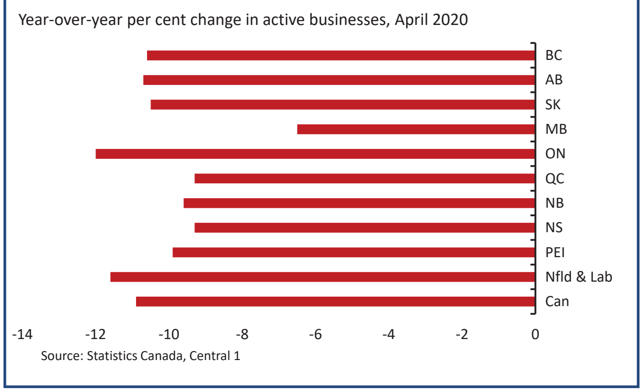
Ontario and Quebec see most business closures

Among Canada's provinces, there were significant divergences in business closures reflecting the severity of the COVID-19 spread among provinces, the degree of provincial government health measures and the structure of the economy. The sharpest relative increase in closures from April 2019 – April 2020 was observed in Ontario (up 149.7 per cent to 39,463 business closures), followed by Quebec (up 134.6 per cent to 14,953 business closures). This was due to mandatory closures of non-essential businesses in both provinces and the shutdown of construction sites in Quebec. Atlantic Canada generally observed a doubling of closures while Prairie provinces saw an increase in closures in the 80 to 100 per cent range, which is still sharp but better than other regions. B.C. closures roughly doubled with an increase of 101 per cent to 13,715 closures.

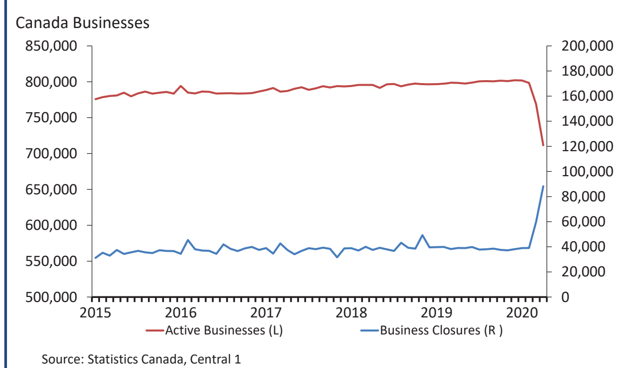
The number of active businesses in B.C. contracted 10.6 per cent while Ontario declined 12 per cent, which was the steepest decline in the country.

Closures were understandably concentrated in sectors of the economy with a high level of regular exposure to the public. The largest increases of business closures were reported in accommodations and foodservices (up 274 per cent) as health measures shuttered nearly all restaurant activity with some minor exceptions such as take-out services, while tourism plummeted, and hotels closed. Personal services business closures rose 274 per cent and retail closures climbed 217 per cent. Construction and manufacturing also saw a doubling of closures, but labour market data has signaled these areas have rebounded faster, likely due to their ability to retool quickly to protect public health and less exposure to the public on a regular basis. Generally larger metro areas have experienced the most severe business closures, likely reflecting a higher concentration of services sectors.

Active businesses decline 10.9 per cent, led by Ontario decline



Active businesses decline by 87,000 from February through April



Many businesses likely to reopen but recovery to slow after initial surge

From this latest data, one can speculate that the extent of the closures will likely be temporary as businesses were forced to shutter their operations for a variety of emergency reasons such as government decree, health concerns (i.e. virus outbreaks among staff) and through less consumer foot traffic.

Some smaller businesses were able to remain open, but they did so on reduced staff, contributing to a 15 per cent decline in peak-to-trough employment losses. At this point, the economy is in an initial recovery state. Retail spending, housing and employment have all turned substantially higher amidst restarts of the economy across the country albeit at varying paces. With the recovery one expects a substantial portion of closed businesses to reopen. That said, the expected recovery will slow after the initial surge.

Physical distancing requirements, border closures and generally lower demand in the economy will mean many businesses will re-open only at partial capacity, with others remaining permanently closed. According to the Canadian Federation of Independent Business only 62 per cent of businesses surveyed in July were fully open, with 37 per cent fully staffed, and 26 per cent operating at normal sales levels. Roughly 34 per cent were fully closed at the time. Notably these reflect a self-selection of responses but suggests ongoing challenges for businesses.

Challenges facing businesses in coming quarters will be substantial. Re-opening business will have lower sales expectations than prior to the pandemic. Emergency government support programs such as the Canada Emergency Wage Subsidy (CEWS), Canada Emergency Business Account (CEBA), and Canada Emergency Commercial Rent Assistance (CECRA) are supporting business operations, amidst weaker revenues – but they are temporary measures. Lower margin businesses, particularly smaller businesses, may find the environment too difficult to navigate and permanently exit leading to a period of higher than normal business closures into 2021. At the very least, businesses will be hesitant to invest in their operations, and likely to scale back given lower revenues and uncertain outlook.

This speaks to potential scarring for the economy beyond the short-term. Business closures or retrenchment and fewer business entries will impact investment and limit future potential output growth and prosperity for everyone. The employment recovery phase will by extension be truncated, impacting opportunities for workers and long-term income growth.

Bryan Yu
Deputy Chief Economist
byu@central1.com / P 604.742.5346
Mobile: 604.649.7209