

Highlights:

- B.C. firms cautiously optimistic about the future
- “Fall stall” likely as businesses adapt to a low demand environment
- Food and drink growth momentum could be short-lived as weather turns
- Weekly earnings rose 0.6 per cent from June and 10.8 per cent year-over-year but reflects composition of pandemic job losses

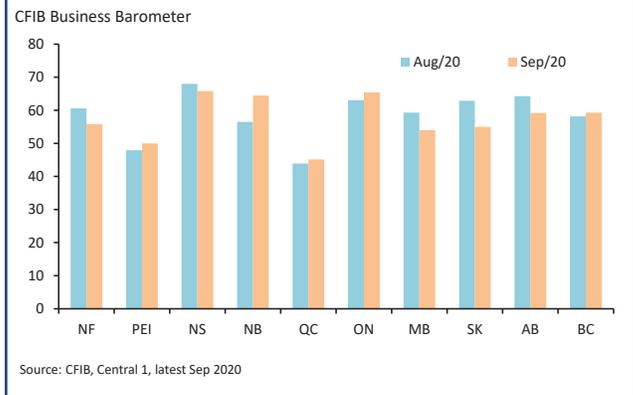
B.C. firms cautiously optimistic about the future

Small business confidence in B.C. continued to improve in September, but slowing momentum pointed to some caution about the future amidst the pandemic. The latest Canadian Federation of Independent Business (CFIB) Business Barometer rose to 59.3 points in September, up from 58.2 points in August. B.C. was the only western Canadian province to record a gain.

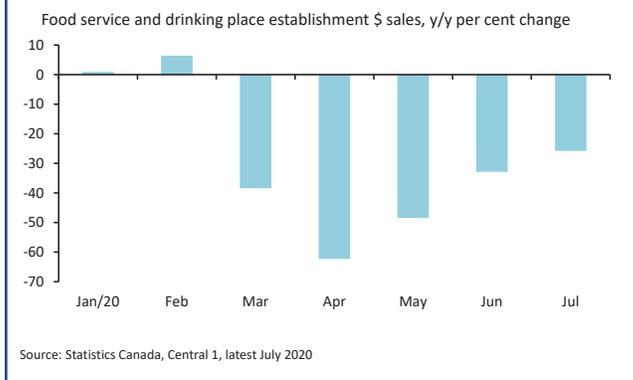
With a value above 50 points, B.C.’s reading means more businesses surveyed by the CFIB are optimistic about business conditions 12 months out than not. The low point of the index was 28.8 points in March. That said, in a normal economy, the indicator is closer to 65 points. Moreover, the index may be biased upwards by failed businesses during the pandemic as stronger businesses survived, while an optimistic outlook now looks significantly different than it was pre-COVID19. Federal programs such as the Canada Emergency Wage Subsidy, commercial rent assistance and other measures are also supporting businesses confidence.

Details from the CFIB report suggest businesses are more optimistic 12 months out, but still pessimistic about the near-term 3 month future which sat at 40 points. This is in line with our view that a “Fall stall” is likely as businesses adapt to a low demand environment. Temporary patios will not be all that attractive, while events and tourism will be non-existent. The prospects of a debilitating second wave of the virus on the economy is also a factor, although we do not expect early year restrictions to return. On the bright

B.C. small business confidence edges higher



Struggles in food services sector continue despite improved sales



side, the pace of expected full-time job cuts continues to diminish at 27 per cent, compared to a peak of 70 per cent earlier this year, but above levels near 16 per cent before the pandemic. Hiring intentions were weak at 13 per cent.

Hard hit food service sector sees modest rebound, but struggles continue

Restaurants and other food services sectors were among the hardest hit during the pandemic amidst required closures of dining spaces, collapse in tourism, and shutdowns of large events. Business has since risen since B.C.’s restart phase which allowed dining spaces to re-open albeit with physical distancing requirements but remain well below pre-pandemic levels.

July food services and drinking place receipts climbed 6.6 per cent from June to a seasonally-adjusted \$757.4 million. This marked a third straight monthly

gain following a 60 per cent decline from February through April when many restaurants shuttered temporarily. Despite the momentum, sales were still 28 per cent below February levels, with unadjusted sales down 26 per cent on a year-over-year basis. The latter fared worse than the national decline of 24.4 per cent, and third deepest among provinces, with only Ontario and Prince Edward Island faring worse. The shutdown of international tourism, business conferences, events, and consumer health fears continue to hammer the sector.

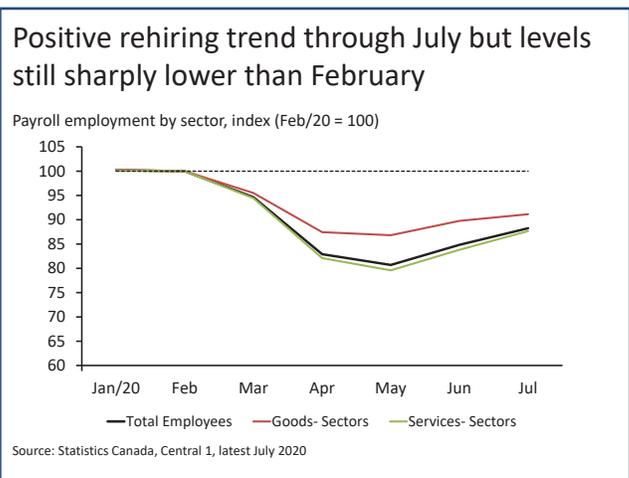
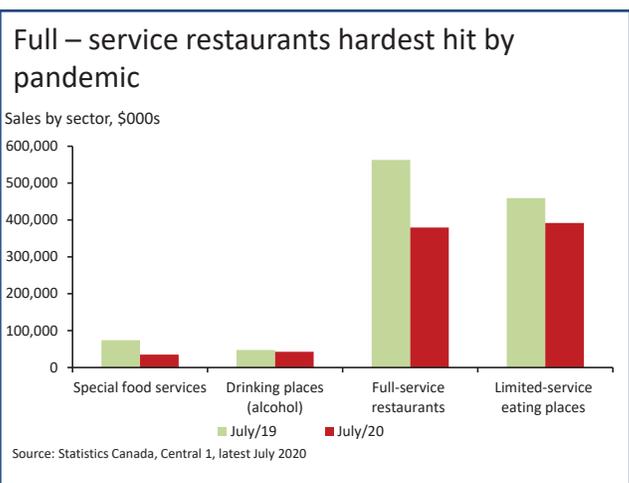
A scan of the data shows the deepest decline in full-service restaurants (down 32.6 per cent year-over-year) which contributed to more than 60 per cent of the decline. Special food services which reflects catered events fell 52.7 per cent from a year ago, making up 15 per cent of the drop as weddings, business conferences, and other events were cancelled.

Sales likely rose further in August amidst summer weather, outdoor patios and domestic tourism but growth momentum could be short-lived. Temporary patios constructed to lift revenues during the summer months will be less attractive as the weather turns, while no lift from business conferences and sporting events are forthcoming. OpenTable booking data, while only a slice of restaurant volume, showed declines of 30-40 per cent year-over-year during the second half of September.

B.C. firms continue to rehire in July with restart phase

Payroll employment data for B.C. pointed to a strong pace of re-hiring through July as the count rose four per cent or 80,000 positions from June to 2.08 million. This marked a second consecutive increase following a May trough. Relative to February, payroll counts estimated through the Survey of Employment, Payroll and Hours (SEPH) were still down by 11.8 per cent.

Industry patterns reflected the restart phase of the economy as businesses ramped up activity following a painful period of partial or full closures of businesses during the spring. Restaurants re-opened their dining areas with reliance on outdoor patios, while more private service operators including dental and doctor's offices and others also returned to more normal volume. The largest gains were in the hardest hit sectors, with payroll counts up 13 per cent in accommodations/foodservices which contributed to 20 per cent of the increase. Arts/entertainment/recreation positions rose 16 per cent (5.0 per cent contribution to the total gain), while education rose 8.3 per cent (17 per cent contri-



bution), and health care/social assistance up 5.9 per cent (19 per cent contribution). Retail trade employment also propelled higher by 5.8 per cent contributing to 18 per cent of the net increase.

That said, sectors geared toward hospitality and tourism, culture and events, and building management remained well below pre-pandemic levels. Accommodations/foodservices payroll employment was down 34 per cent from February, with arts/entertainment/recreation down by nearly half. Retail trade is back within 10 per cent of February after a 20 per cent decline. Both construction and manufacturing are down about 10 per cent from February.

Broadly, goods- sector payroll counts were down 8.9 per cent from February while services- sectors were still 12 per cent lower.

Upward momentum in payroll employment is positive, but the rebound has underperformed that of the closely watched Labour Force Survey (LFS) which is published with shorter data lag and at the beginning of the month. SEPH employment outpaced LFS employment growth of three per cent in July but the latter

was only down 6.5 per cent from February levels. A number of factors play into this including differences in estimation methodology. The SEPH is based on administrative data while the LFS is a household survey. Households may have been technically unemployed earlier than job losses showed up in wage and benefits payments. The SEPH also excludes self-employed and agriculture workers, while some multiple job workers may be working for fewer organizations. We expect SEPH payroll counts to trend higher and dovetail more closely with the LFS data, although the growth trend is likely to slow.

On the wage front, weekly earnings rose 0.6 per cent from June and 10.8 per cent on a year-over-year basis to \$1,104. Headline weekly earnings spiked during the pandemic, but this reflected the compositional impact of job losses amongst lower wage earnings sectors and front-line workers during the pandemic. As a result average earnings were skewed towards sectors and occupations less affected by job loss. The fixed weighted index of hourly earnings, which accounts for industry effects and part-time/full-time split was up a more moderate 6.9 per cent from a year ago, but similarly job losses in lower paid occupations has likely kept levels firm.

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Spike in average weekly earnings eases with employment gains in lower wage sectors



Source: Statistics Canada, Central 1, latest July 2020