



## Highlights

- B.C. benefits from broader growth in hospitality and services sectors
- Hotel occupancy rates normalize
- Transitional challenges of a tight labour market and inflation persist
- Average capacity utilization in B.C. one of the highest in the country
- Increased uncertainty continues to affect planning
- Fewer SMEs expect to increase full-time hiring

## Tourism and hospitality spending recoveries continue

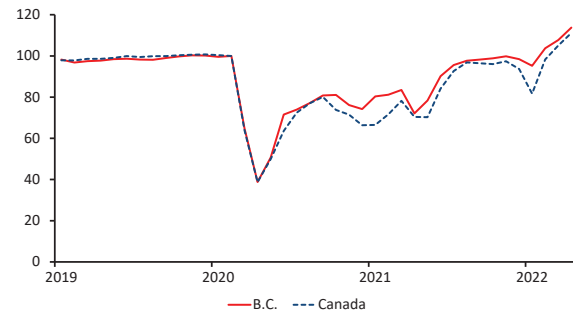
*Bryan Yu, Chief Economist*

Today's national [GDP reading](#) highlighted the ongoing recovery in pandemic-sensitive services industries as people increasingly made up for experiences delayed or lost over the past two years. Air travel surged 20 per cent from March while activity in the arts/entertainment/recreation sector rose 7 per cent. In both cases, levels remained sharply lower than pre-pandemic levels but are improving. Nationally, hospitality has fully recovered to pre-pandemic levels.

While GDP data is available nationally, provincial estimates are not. That said, key tourism and hospitality metrics point to a strong recovery path. Highlighting the recovery in B.C.'s high-touch services is a full recovery in food services and drinking receipts. April dollar-volume sales rose 5.6 per cent from March. Sales rose 58 per cent on a year-over-year basis owing to pandemic restrictions a year ago, and were 14 per cent higher than February 2020. In comparison, sales in the rest of Canada were up a more modest 10 per cent. The recovery is most pronounced in full-service establishments which bore the brunt of pandemic restrictions. Higher and rising prices account for part of this increase, but CPI data points out menu price increases of about 8 per cent over the pandemic and significant increases in real spending.

## B.C. foodservice spending up 14 per cent from pre-pandemic level

Food-services and drinking place receipts, Feb/20 = 100

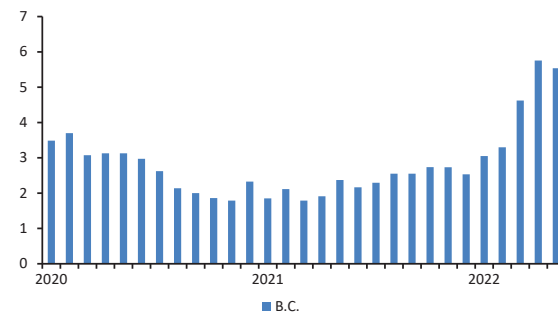


Source: Statistics Canada, Central 1, seasonally-adjusted

Latest: Apr/22

## Menu costs on the rise but lag growth in receipts

B.C. CPI Inflation, food purchased from restaurants, y/y %



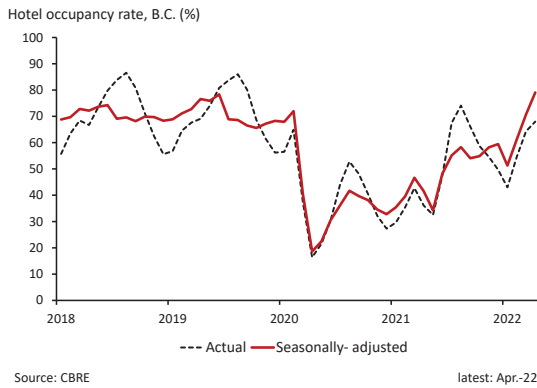
Source: Statistics Canada, Central 1, seasonally-adjusted

Latest: Apr/22

Last week's [Briefing](#) also highlighted rising trends in international travel visits to B.C. which rose 43.5 per cent in April having regained nearly 75 per cent of pre-pandemic inflows. The province took a big hit during the pandemic as travel restrictions and COVID fears turned off international tourism taps. This was, however, offset in large part by strong domestic tourism as Canadian dollars flowed to the coasts. Hotel occupancy rates have recovered as international tourist flows take the reins from domestic tourists. Occupancy rates have largely moved back to pre-pandemic trends with seasonally-adjusted figures pointing to a full recovery. Markets outside Metro Vancouver, specifically Vancouver Island, have led this recovery.

This recovery in client-facing sectors is expected to continue, but significant transitional challenges are already visible and likely to continue both in B.C and nationally.

## Hotels return to normal occupancy rates



## Tight labour market for hospitality sector



Despite strong recoveries in activity, employment is still well short of pre-pandemic levels by roughly 10 per cent, but not for lack of trying. B.C.'s job vacancy rates for food services are above 12 per cent as employers scramble to find any available bodies for positions. The accommodations sector is faring better at 6.5 per cent, but the provincial average for all industries came in at 6.1 per cent. Pandemic layoffs likely triggered an exodus from the industry that has yet to fully reverse after many individuals re-trained and pivoted to more stable sectors. Firms will need to adjust through investments in technology to increase productivity.

Inflation is also a challenge not only for households but also for services sectors. Rising cost pressures will need to be passed on, but as households become pinched by higher prices and interest rates, they may need to re-allocate spending away from entertainment - even with rising wages. This could limit pass through of costs from the hospitality sector, although high pandemic savings and the desire for households to get back to normal provides some cushion.

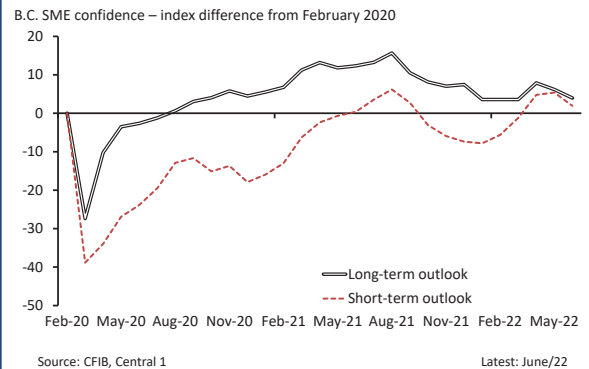
Lastly, the snarled-up airports and announcements of flight cancellations which we have all seen as of late will impede some growth momentum.

## B.C. small and medium enterprise confidence down further in June

*Edgard Navarrete, Regional Economist*

The Canadian Federation of Independent Businesses (CFIB) released its latest small and medium enterprise (SME) confidence index for June and as expected, with increased uncertainty in the air, both the short-term and long-term outlooks have slid down in B.C. In June, the long-term outlook fell 2.2 points m/m and 8.4 points y/y to 60.2 points while the short-term outlook slid 3.5 points m/m but remained up 1.5 points y/y to 54.1 points.

## SME confidence remains above pre-pandemic levels in B.C. but is gradually trending lower



Both the long-term and short-term indices while down, remained ahead of other regions such as Ontario, and point to the strong economy in B.C. and growth despite the pandemic. Amidst increased uncertainty making planning more difficult, an index above 50 points still suggests that while tamped down at the moment, SMEs expect growth on the horizon.

On the higher end of all provinces surveyed, the average capacity utilization for B.C. SMEs came in at 78 per cent in June and has been steadily trending up.

At the same time, firms continue to grapple with a tight labour market, although the latest barometer index points to potential easing as economic momentum slows. Most SMEs surveyed (55 per cent) do not expect to increase full-time hiring plans. This has been trending down and is another signal that increased uncertainty is cause for concern for SMEs.

Inflationary pressures continue to trend higher even as the Bank of Canada continues to tighten monetary policy. The housing market has already started to correct downward, shaving some wealth from households. Ongoing inflationary pressures may add to possible belt tightening for consumers affecting SME revenues and any expansionary plans.

*For more information, contact [economics@central1.com](mailto:economics@central1.com).*