



JUNE 16, 2020

THE ECONOMIC FALL-OUT OF COVID-19:
HOW BAD IS IT AND WHERE ARE WE GOING?

PRESENTED TO
ROTARY CLUB OF VANCOUVER

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Business Council of
British Columbia
Est. 1966

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VIRTUAL FOOD FOR THOUGHT



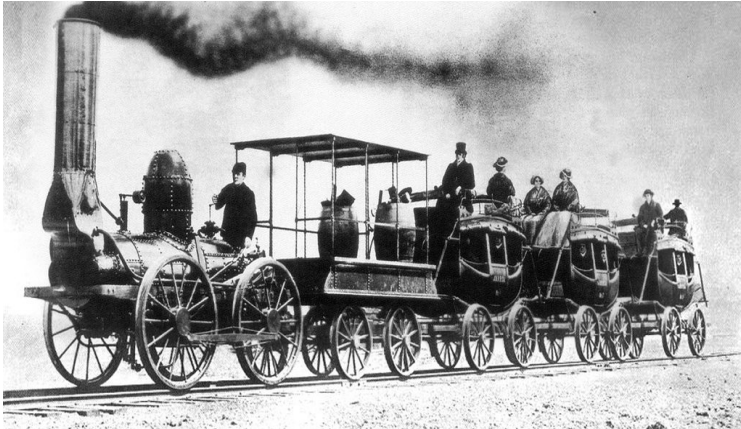
TERMINAL CITY CLUB

BROAD FRAMEWORK FOR THINKING ABOUT THE PANDEMIC

- Countries are at different stages in the infection / stabilization process -- supply chains interrupted
- Non-essential international travel restricted through the end of the year- borders with 22 states and many jurisdictions seeing an increase in transmission
- Concerns over a second wave above 70% of social interactions in BC.
- No vaccine may be available for **18 months**, will an effective one be found?
- Canada went into the crisis with high debt loads and a slowing economy
- Businesses will fail and there will be permanent job losses – government does not have enough resources to make everyone whole

BROAD FRAMEWORK FOR THINKING ABOUT THE PANDEMIC

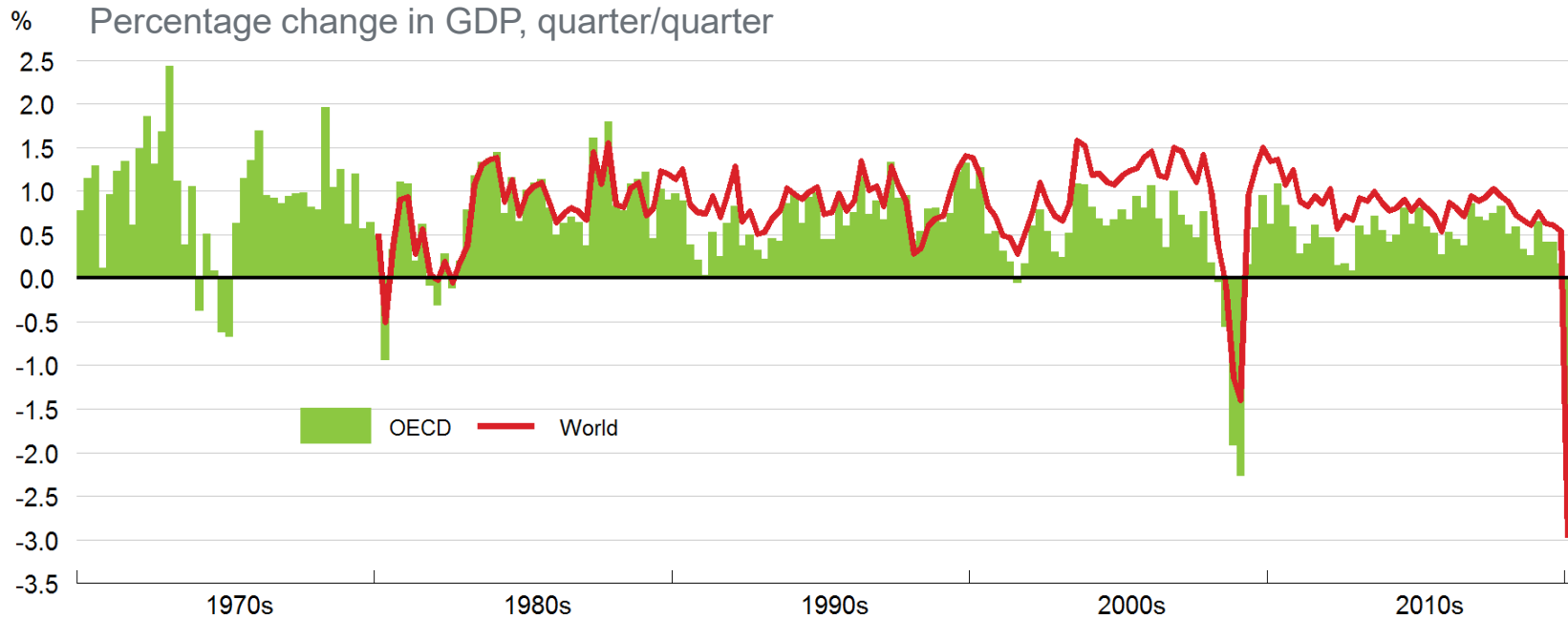
- Crisis is accelerating existing trends and externalities by a decade
- Fundamental transition of society and the economy but in 3-5 years not 40-80 years such as the industrial revolution, post war era or ICT transformation of 1980
- Changes how we buy, work, live, learn, entertain, travel, trade and manage health



ECONOMIC SETTING

- First modern global pandemic is sweeping the world
- Governments shuttered large parts of their economies to slow disease spread and protect public health – most are now re-opening, in stages
- The global economy is headed for a sharp recession
 - output to decline in all OECD economies with **– 6 percent global real GDP decline**
 - much deeper than 2008-09 (B.C. was – 2.6%)
 - Most digital sectors of the economy are growing during this time.
- Governments and central banks have taken unprecedented steps to shore up sinking economies and facilitate the supply of and access to credit and liquidity
- The pandemic and related economic fallout may have lasting effects on the business, financial and public policy landscape

GLOBAL ACTIVITY DECLINED ABRUPTLY IN THE FIRST QUARTER OF 2020

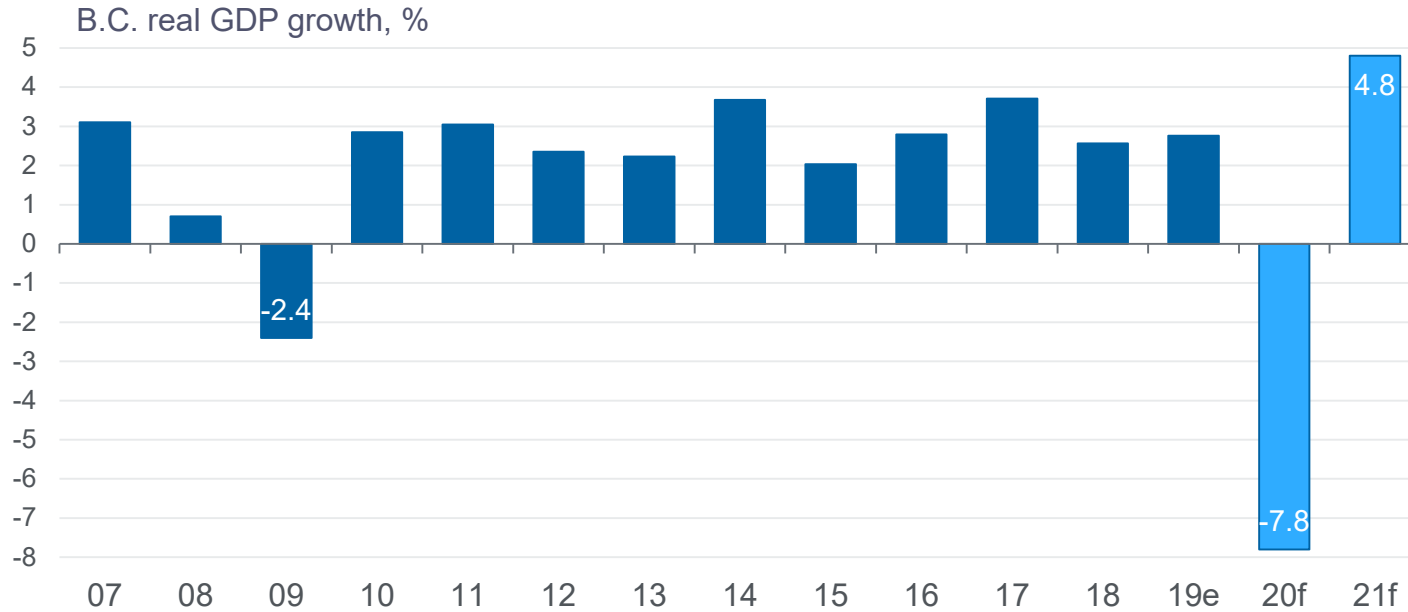


DEEP GLOBAL RECESSION

Real GDP growth, % change - OECD “single-hit” scenario

	2019	2020	2021
World	2.7%	-6.0%	5.2%
U.S.	2.3%	-7.3%	4.1%
Canada	1.7%	-8.0%	3.9%
Euro Area	1.3%	-9.1%	6.5%
Japan	0.7%	-6.0%	2.1%
China	6.1%	-2.6%	6.8%

A DECLINE IN ECONOMIC OUTPUT SEVERAL TIMES LARGER THAN THE GREAT RECESSION

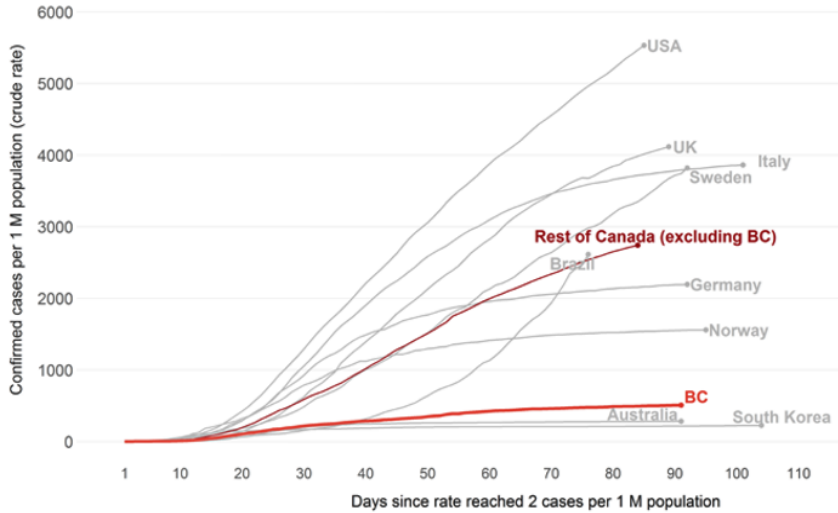


Sources: Statistics Canada, BCBC for forecasts.

Case Rate Comparison

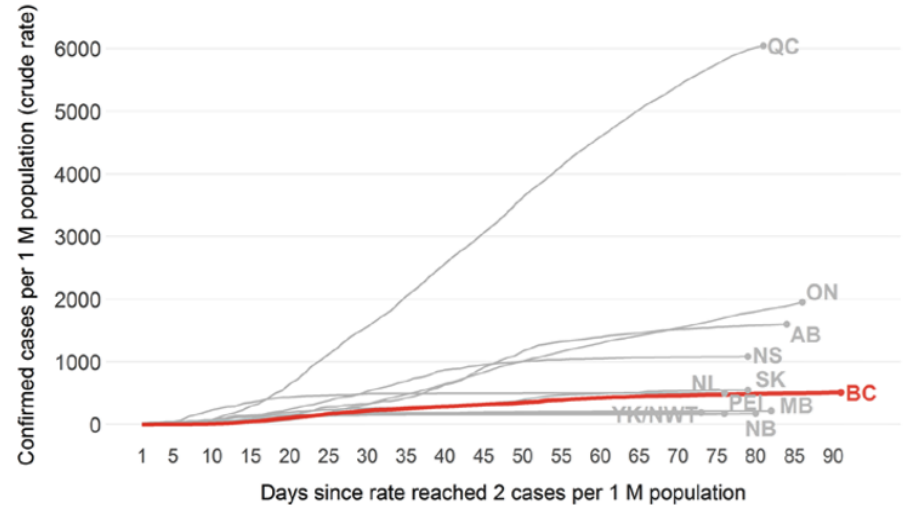
International Case Rates Comparison:

Cumulative diagnosed COVID-19 case rates by select countries vs BC and rest of Canada.



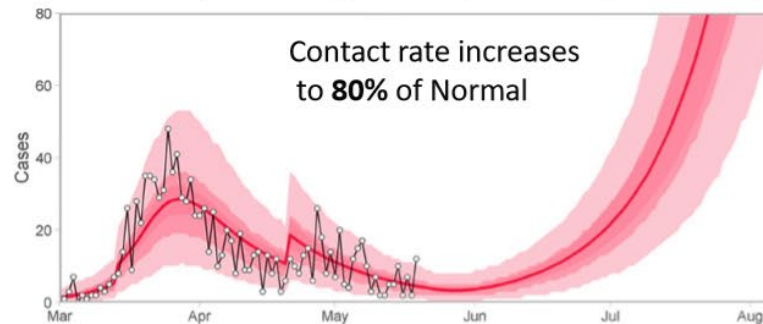
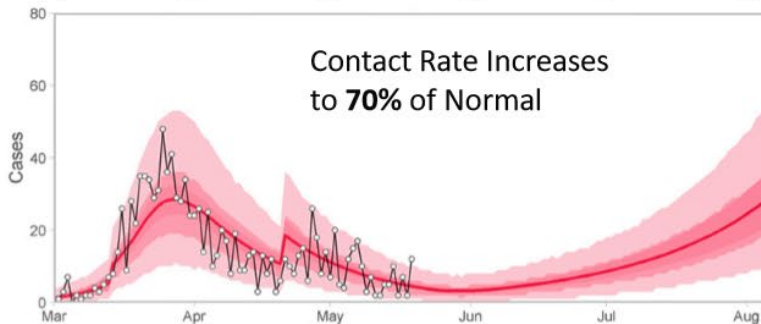
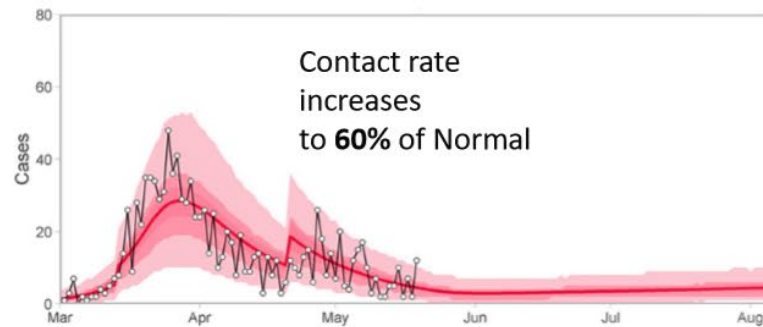
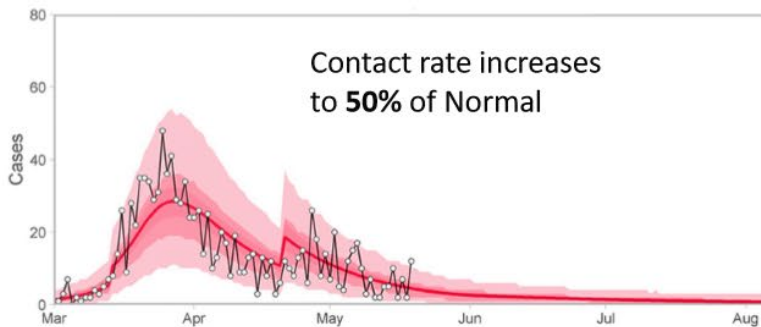
National Case Rates Comparison:

Cumulative diagnosed COVID-19 case rates by Canadian provinces.



Note: QC, and, to a lesser extent, ON, account for most of the deaths count for the Rest of Canada.

Dynamic Compartmental Modelling: If too much relaxation of distancing occurs, it may result in a rapid rebound in transmission.

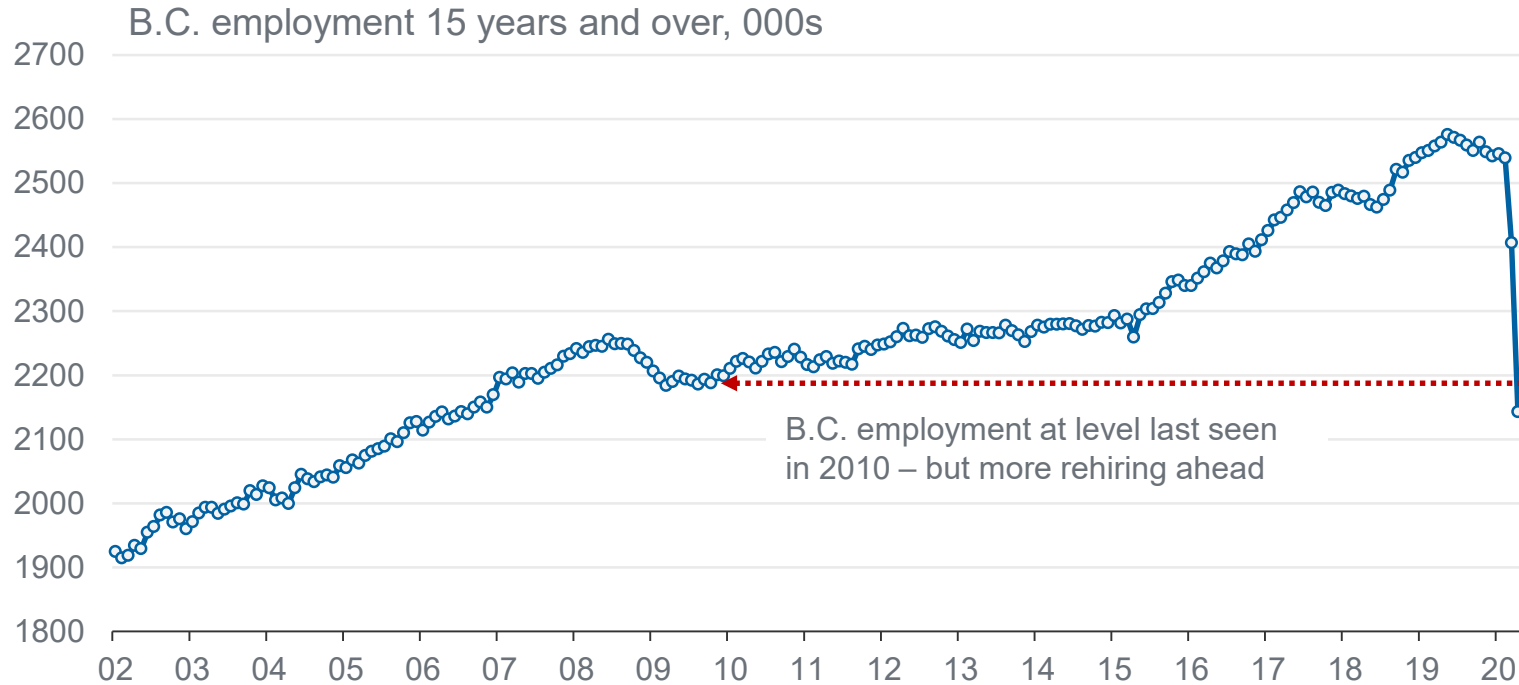


B.C. ECONOMIC RECOVERY AND REBUILDING PLAN

4 Phased re-opening of the economy

- Note that construction, manufacturing, resources large supporting parts of the economy were never shut in B.C.
- **Phase 2** May 2020 – non-essential retail, offices, non-essential health care, other professional services, restaurants (50% capacity) all come back on line, but new restrictions and safety protocols apply
- **Phase 3** June-September – hotels, resorts, parks, film/tv production, post-secondary education, K-12 education all resume operations, but new restrictions in place
- **Phase 4** No date has been set for the return of international tourism/travel, conventions and large meetings, concerts and sporting events, etc.
- The staged re-opening should bring a rebound in jobs, retail sales, real estate activity, and investment....but it will take time (2-3 years) for the province to fully emerge from the deep economic hole it has fallen into

VERY STEEP JOB LOSSES, BUT SOME RE-HIRING ALREADY EVIDENT

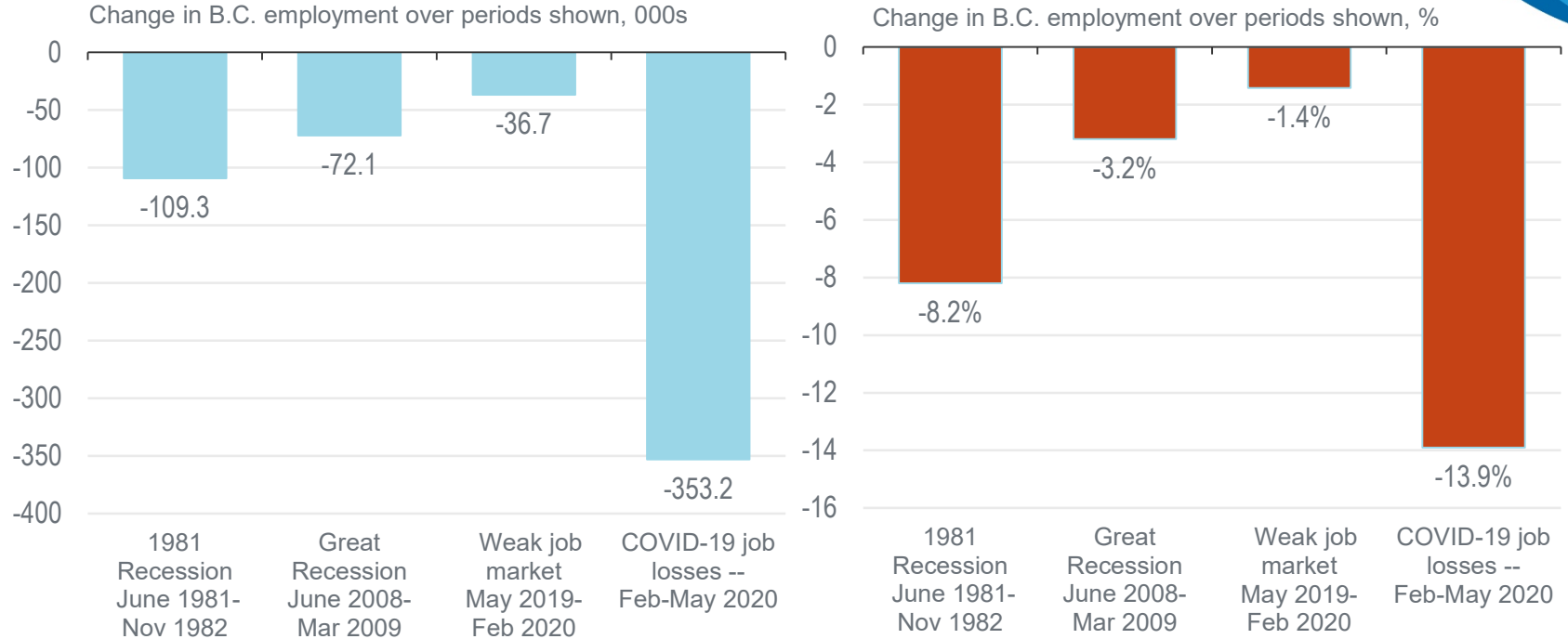


Latest: May 2020. seasonally adjusted; Source: Statistics Canada, Labour Force Survey. Table 14-10-0287-01.

ONE IN FOUR PRIVATE SECTOR JOBS LOST, FOLLOWED BY SOME REHIRING IN APRIL

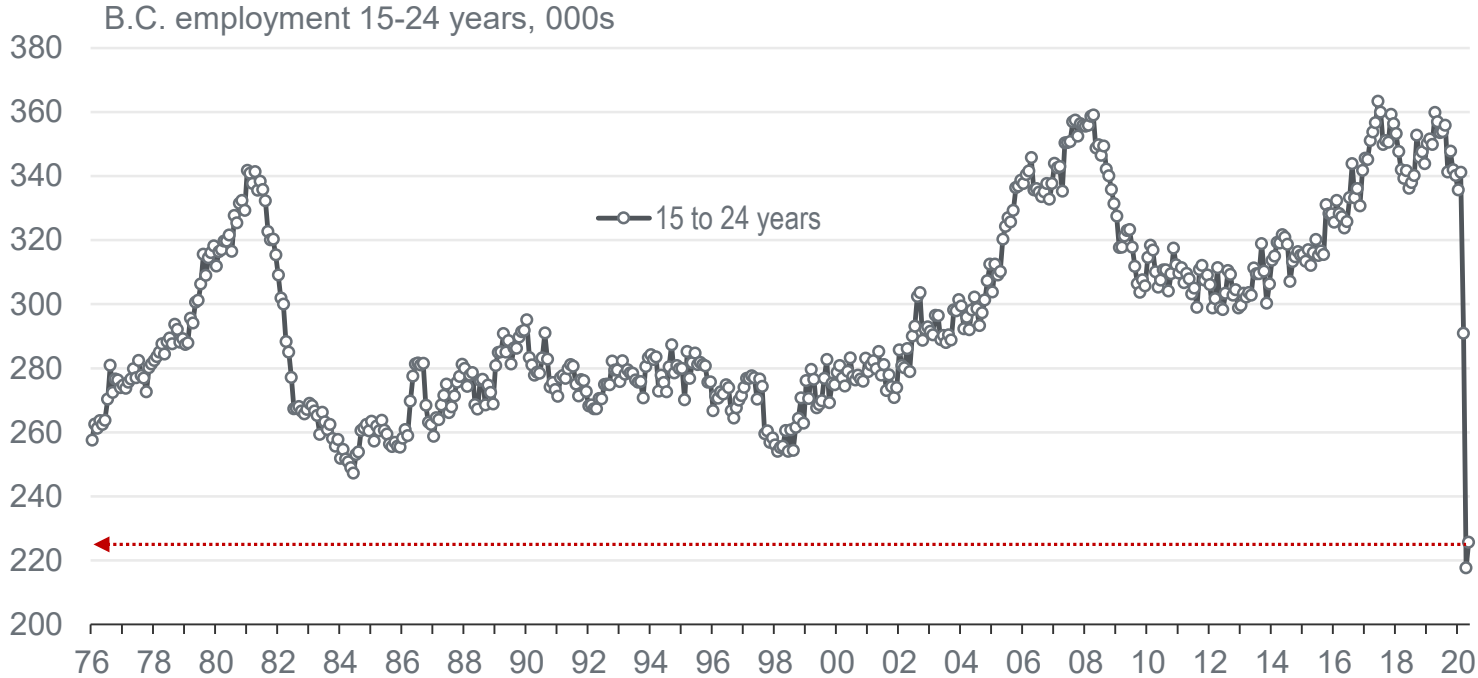


NO HISTORICAL PRECEDENT FOR RECENT EMPLOYMENT DROP



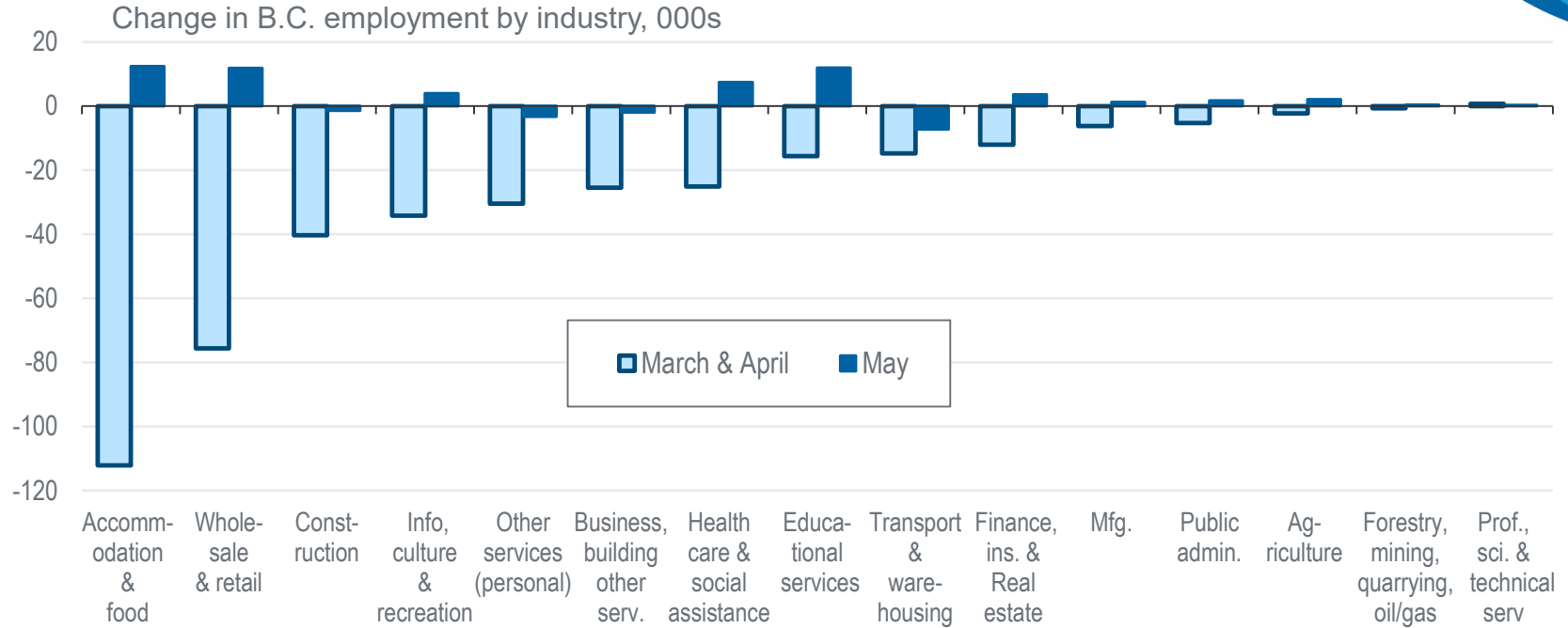
Seasonally adjusted. Source: Statistics Canada, Labour Force Survey. Table 14-10-0287-01.

YOUNGER WORKERS: LOWEST LEVEL OF EMPLOYMENT ON RECORD



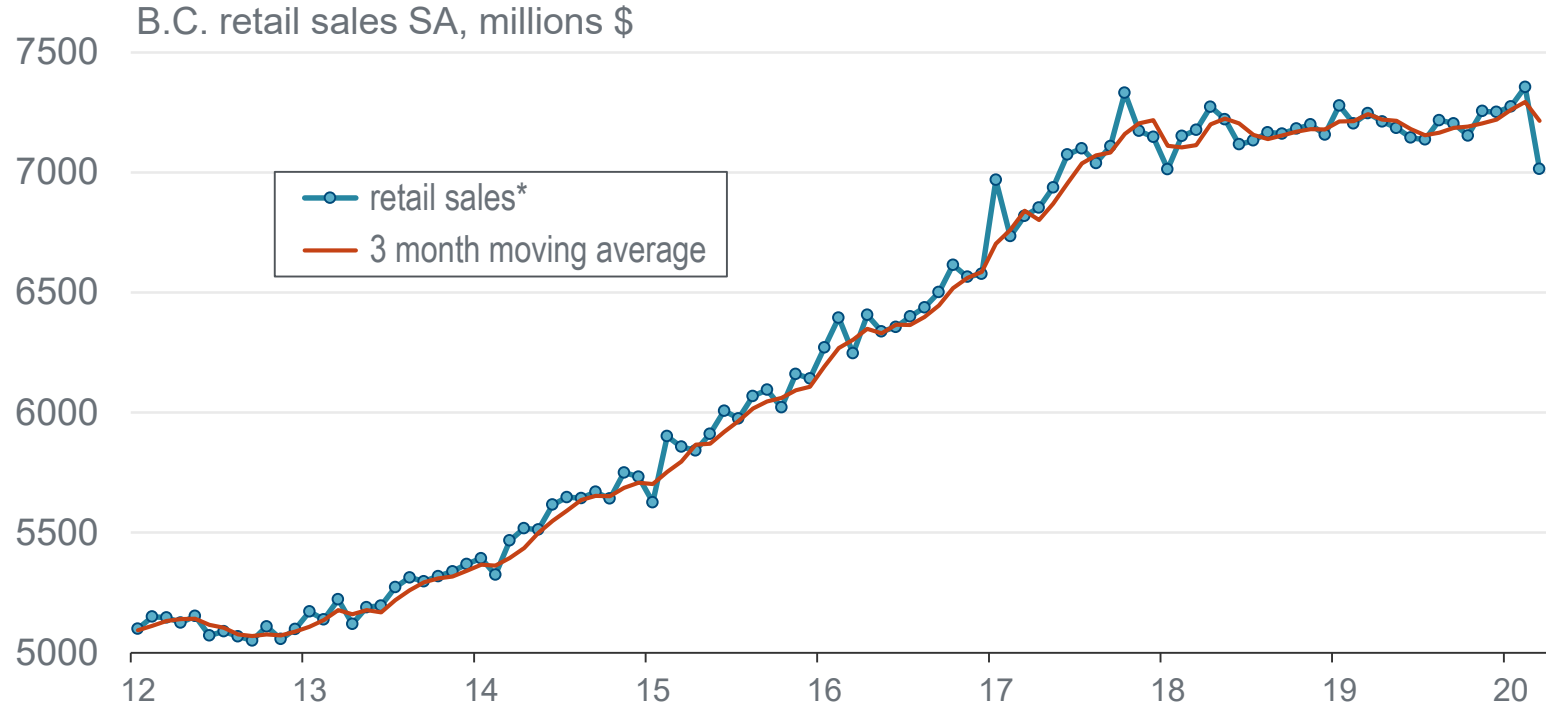
A gain of 8,000 jobs for younger workers in May which is 6% of jobs lost the previous two months
Note: unemployment rate for 15-24 group is 28.9%

SOME JOB RECOVERY IN HARD HIT SECTORS



Source: Statistics Canada, Labour Force Survey. Table: 14-10-0355-01

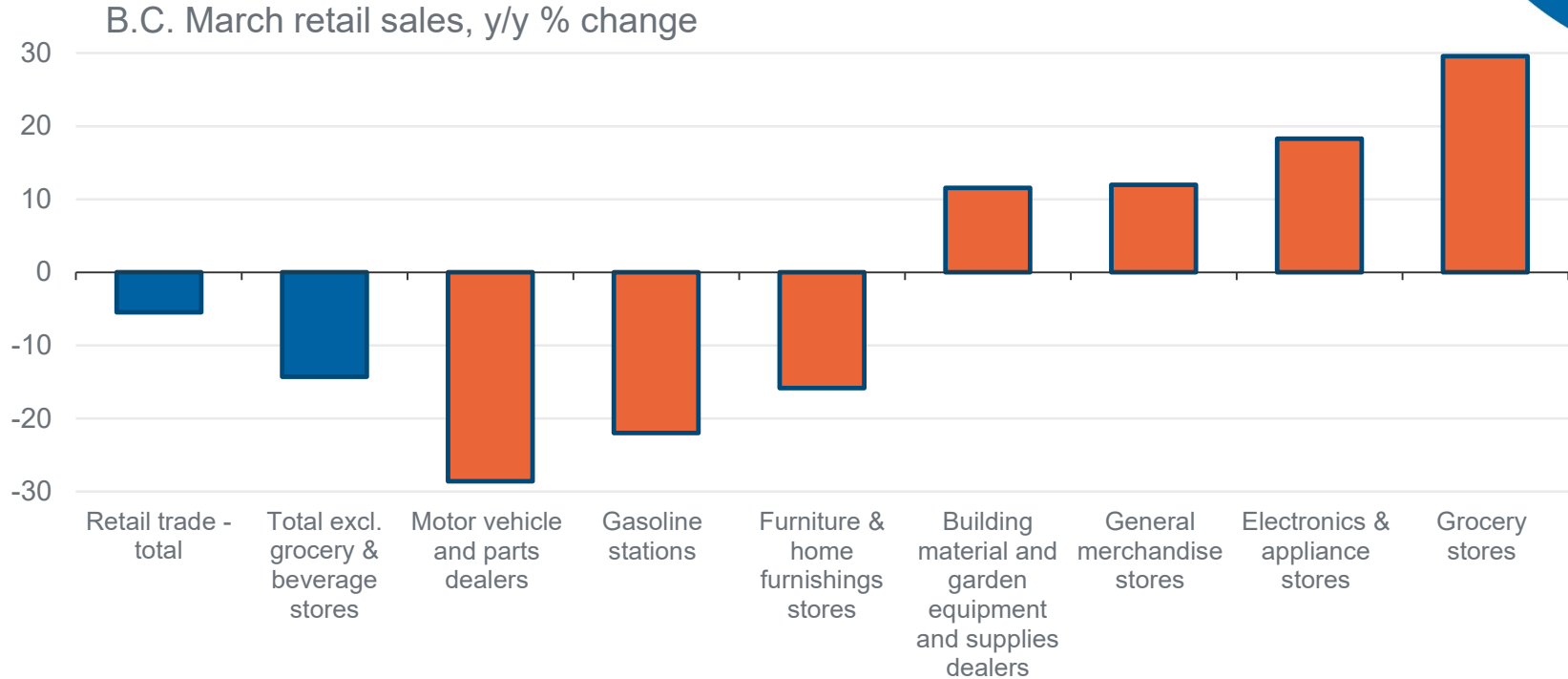
RETAIL SALES PLUNGE... BIGGER DECLINE COMING



Latest: March 2020. * seasonally adjusted

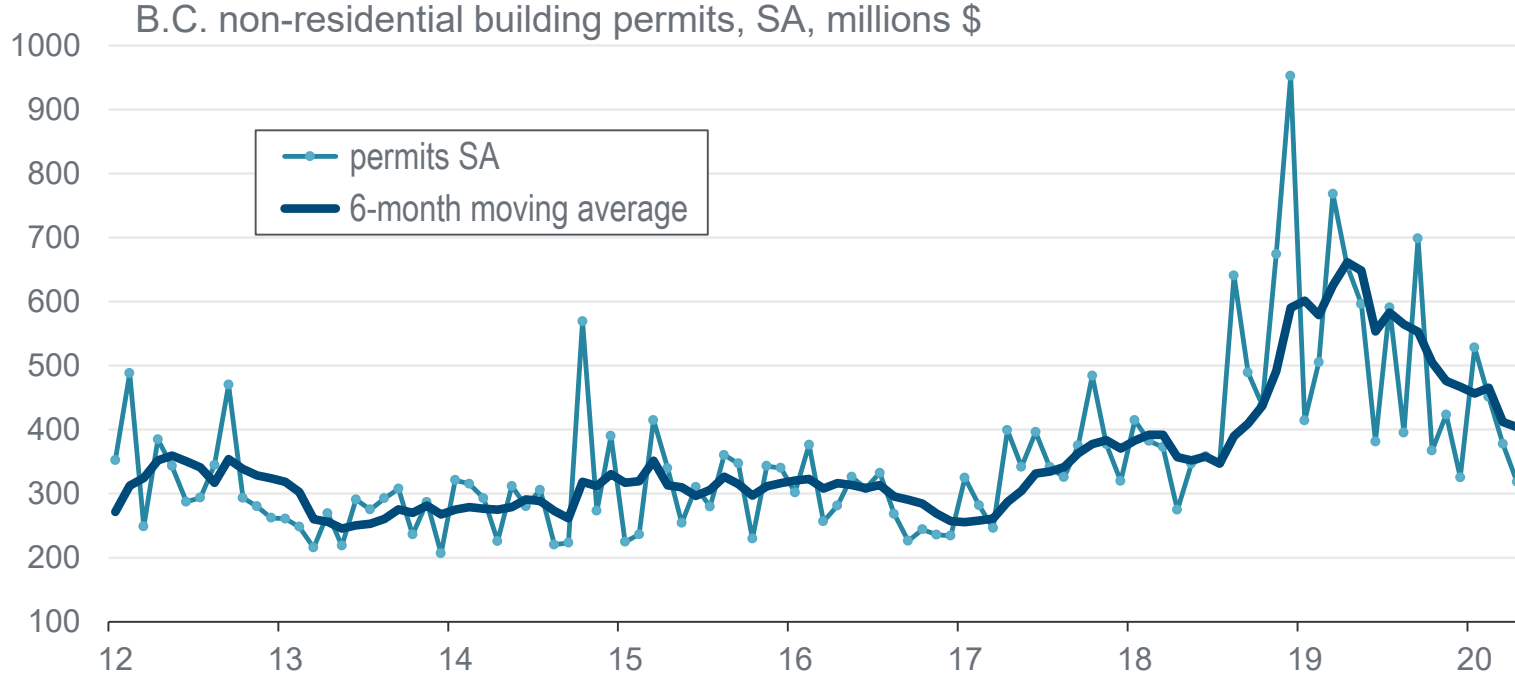
Source: Statistics Canada . Table: 20-10-0008-01

IMPACT VARIES ACROSS SEGMENTS OF RETAIL



Source: Statistics Canada, Labour Force Survey. Table: 14-10-0355-01

NON-RESIDENTIAL PERMITS HEADING LOWER BEFORE CRISIS



Latest: April 2020. SA=seasonally adjusted

Source: Statistics Canada, Table: 34-10-0066-01.

STEEP DROP IN EXPORTS TO THE U.S.



Source: B.C. Stats. Latest data April 2020, seasonally adjusted

GOVERNMENT SUPPORT PROGRAMS TO ASSIST BUSINESSES

Canadian government

- **Canada Emergency Wage Subsidy** (75% up to \$847/week; effective March 15 and runs through August 29, 2020). Designed to encourage businesses not to lay off employees. Open to all businesses and non-profits experiencing COVID related revenue declines
- **Canada Emergency Business Account** (up to \$40,000 in interest free loans for firms with payrolls up to \$1.5 million; \$10,000 is forgivable if \$30,000 is repaid by December 31, 2022)
- Business credit availability programs (Export Development Canada; Business Development Bank)
- New support announced (April 24) for small firms unable to pay commercial rent
- Large employer emergency financing facility (LEEFF) – loans
- Tax remittance delays/deferrals (not reductions or waivers)

GOVERNMENT SUPPORT PROGRAMS TO ASSIST AFFECTED BUSINESSES

B.C. government

- Tax remittance filing and payment deadlines are extended (PST and EHT)
- 50% reduction in provincial school tax rates for commercial and industrial properties -- for 2020 only
- Temporary relief on B.C. Hydro payments
- Carbon tax freeze...but just for one year
- Cooperate with Ottawa on commercial rent subsidy program
- B.C. has set aside \$1.5 billion for 'economic recovery,' with no decisions yet on specific allocation of the funds

WHICH B.C. INDUSTRY SECTORS TAKE THE BIGGEST HIT?

- Regardless of which scenario plays out, the same B.C. industry sectors experience the steepest declines in production and overall business activity:
 - Air transportation
 - Accommodation (hotels, motels, etc.)
 - Hospitality (restaurants/foodservices; bars and pubs)
 - Retail trade (except on-line retailers, building supplies, food & beverage stores)
 - Entertainment, leisure and recreation services
 - Film and television production
 - Manufacturing
 - Real estate services
 - parts of Professional services

B.C. ECONOMIC OUTLOOK (BCBC FORECAST)

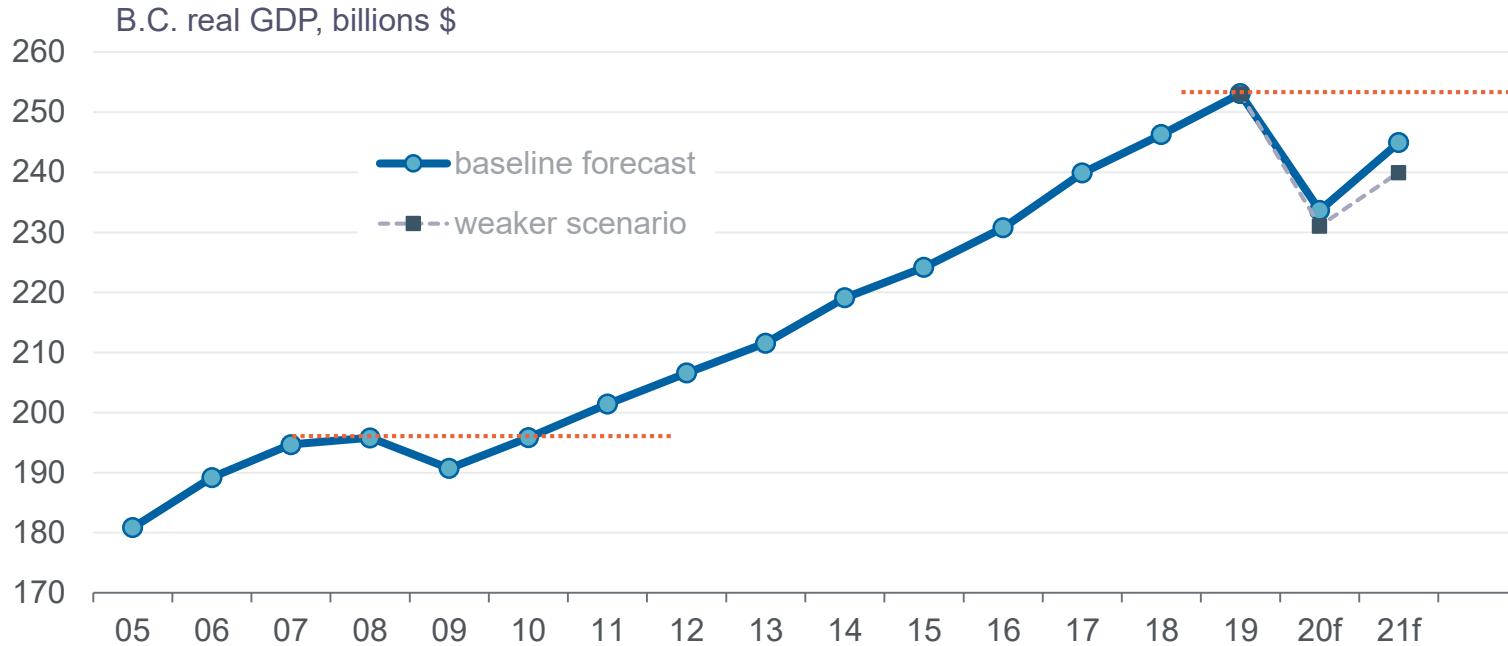
(ANNUAL % CHANGE UNLESS OTHERWISE INDICATED)

	2018	2019	2020f	2021f
Real GDP	3.8	2.8	-7.7	4.8
Employment	1.1	2.6	-8.3	1.0
Unemployment rate (%)	4.7	4.7	10.0	8.5
Housing starts (000 units)	41.0	45.0	32.0	37.0
Retail sales	2.1	0.7	-1.5	1.0
B.C. CPI	2.7	2.3	1.2	1.5

e – estimate f – forecast

Source: Statistics Canada and BC Stats; Business Council for forecasts.

B.C.'S ECONOMIC OUTPUT REMAINS WELL BELOW 2019 PEAK UNTIL Q4 2022



Sources: Statistics Canada, GDP at basic prices. Table 36-10-0402-01 and BCBC for forecasts

COVID-19 CRISIS... IMPLICATIONS FOR LIFE BUSINESS AND THE WORKPLACE

- Shift to remote and work-from-home in many organizations...leading to cost savings and reduced demand for office space and **live where you want** to serve a global marketplace.
- Sharp fall-off in personal business meetings, business travel, conferences/trade shows
- Increased use of digital platforms across the board and automation, predictive computing , IOT and machine learning and augmented reality. **Productivity matters**
- **Acceleration** of pre-COVID trend toward e-commerce and in the decline of brick-and-mortar retail

COVID-19 CRISIS... IMPLICATIONS FOR LIFE BUSINESS AND THE WORKPLACE

- Pressure to shorten and strengthen the resiliency of global supply chains (implying higher costs/prices for many goods...and fewer imports from China)
- **Collaboration and sharing** within and with other business will matter
- Higher costs and taxes and more trade barriers and protections
- Changing nature and access of education and importance of **life long learning**
- Healthcare “ **the patient will see you now**”

CLYDESDALES AND RACE HORSES



RECAP

- B.C. is slipping into a very deep recession (3x the Great Recession)
- **Global recession** weighs on B.C.'s export sector as non-essential businesses re-open
- There will be widespread **business failures**
- **Recovery** to pre-crisis levels will **take several years**, perhaps longer for employment
- Risks are to the downside – second wave of the virus
- We are in a **transformational period moving** at speed to a new era for society and the economy
- **Clydesdales and Race Horses**