



MEMORANDUM

TO: Mayor Bonnette and Members of Council

FROM: Graham Lowe, Senior Economic Development Officer

DATE: November 10, 2020

MEMORANDUM NO.: MEM-ADMIN-2020-0014

RE: State of the Economy – Impacts of COVID-19

PURPOSE OF THE MEMORANDUM:

The purpose of this Memorandum is to provide Council with an overview and status update on the business and economic impacts of COVID-19, including its effect on the international, national, regional and local economies. A subsequent staff report from the Economic Development, Innovation and Culture division will highlight the many measures taken by the Town in response to the pandemic.

BACKGROUND:

Since the onset of COVID-19, Halton Hills has taken early, decisive and coordinated action. This work is ongoing, as the Town continues to respond to the pandemic and support the local business community. The success of Halton Hills' businesses is key to the Town's ability to deliver services that are critical to the well-being of the community.

The spread of COVID-19 has impacted the global economy in extraordinary and unprecedented ways: threatening health, disrupting trade, hurting labour markets and affecting personal well-being. Most analysts expect a prolonged period of economic uncertainty well into 2021, with any assumptions made regarding markets, sectors and investment activity requiring reassessment on a continuing basis. As such, information presented in this Memorandum was current at the time of writing and is subject to change due to the constantly changing conditions caused by COVID-19.

Halton Hills' path to recovery is inherently connected to larger economic, trade and labour trends at the global, national and regional levels. Any recovery planning and future initiatives must be developed with consideration of the macro-economic context.

What follows is a summary of current economic data, based on the review of a variety of economic reports and sources, to provide Council with an update on the 'State of the Economy' (see Appendix 1).

COMMENTS:

1. Summary of Key Data

- Export Development Canada (EDC) projects a decline of 4.3% in global Real Gross Domestic Product (GDP)¹ and a decline of 5.8% in Canadian Real GDP for 2020;
- Canadian exports have returned to 94% of their pre-pandemic levels;
- Statistics Canada data indicates that foreign investors have been buying-up Canadian debt, signaling that the country is considered a safe haven for international investors;
- Canadian e-commerce sales levels hit a record \$3.9 billion in May 2020 (an increase of over 110% from May 2019);
- The Canadian Federation of Independent Businesses reports that 56% of businesses nation-wide will not easily survive a second wave of business restrictions, 31% of businesses will survive less than a year with current revenues, and 14% of business are actively considering bankruptcy or winding down operations;
- As of September 2020, Ontario's employment is within 4.2% of its pre-COVID February levels;
- Ontario's Real GDP growth is forecasted to fall by 5.7% in 2020. This aligns with the national average but also represents the third largest Real GDP decline of any Canadian province;
- Halton Region's current unemployment rate of 10.1% is lower than Hamilton (11%), Toronto (14.1%), Ontario (12%) and Canada (11.3%); and
- In Halton Hills' COVID-19 Business Recovery Survey, 64% respondents described their current business situation as either stable (44.6%) or doing well (19.6%), while 32% said they were still vulnerable to closure.

2. International Impacts of COVID-19

Across the globe, governments and central banks have implemented wide-ranging policies to protect people and businesses from the consequences of the sudden stop in economic activity caused by COVID-19.

¹ Real GDP is an inflation-adjusted measure that reflects the value of all goods and services produced by an economy in a given year. Nominal GDP is calculated using current prices and does not require any adjustments for inflation. As such, Real GDP provides a better basis for judging long-term economic performance than Nominal GDP.

Economic activity collapsed across the Organisation for Economic Co-operation and Development (OECD)² during the shutdowns implemented in spring 2020. By the end of 2021, the OECD predicts that the loss of income will exceed that of any previous recession over the last 100 years, outside of wartime.

In Export Development Canada's (EDC's) Global Economic Outlook released in April 2020, global Real GDP was forecast to decline by 4.4% in 2020, before rebounding by 0.8% in 2021. This analysis projected Canadian Real GDP to be the hardest impacted amongst developed countries, suffering a 9.8% decline in 2020 before rebounding with a 1.4% increase in 2021.

EDC's latest Global Economic Outlook, released in October, provides a better forecast than originally feared in spring 2020, but still projects a slow and uneven road ahead for the global economy. The October report projects a similar decline of 4.3% in global Real GDP for 2020, however, Canada's projected decline has improved from 9.8% to 5.8%.

Real GDP growth is expected to experience a sharp decline around the world in 2020, in both developed and emerging countries. As shown in the figure below, looking ahead to 2021, global Real GDP is forecasted to increase by 6.6%, with Canadian Real GDP increasing by 5.7%.

Figure 1: EDC Global Economic Outlook, October 2020

Real GDP Growth (Annual % change)	2019	2020 Forecast	2021 Forecast
<u>Developed Countries</u>	1.7	-5.5	5.7
Canada	1.7	-5.8	5.7
United States	2.2	-3.4	4.9
<u>Eurozone</u>	1.3	-7.5	7.0
Germany	0.6	-5.6	6.3
France	1.5	-9.6	8.9
Japan	0.7	-5.6	4.6
<u>Emerging Countries</u>	3.7	-3.6	7.0
China	6.1	1.7	9.0
India	3.7	-11.7	16.1
Brazil	1.2	-6.5	4.0
Mexico	-0.3	-10.0	5.9
<u>Total World</u>	2.9	-4.3	6.6

Source: EDC Economics Global Economic Outlook, Oct. 1, 2020

The amended projections from EDC suggest a fundamental resilience in the Canadian economy and the potential to rebound from the impacts of COVID-19. Indeed, retail sales have returned to pre-pandemic levels in the United States, Canada and the European Union. Canadian exports have also returned to 94% of their pre-pandemic

² OECD is an inter-governmental economic organization with 37 member countries, founded in 1961 to stimulate economic progress and world trade.

levels. Although this initial rebound in growth is encouraging, there are still many unknowns related to the future containment of COVID-19 around the world.

3. National Impacts

Canada is in the midst of its worst economic downturn in decades, with Real GDP expected to decline by 5.8% this year. The arrival of the COVID-19 pandemic has devastated the economic outlook for all provinces, with significant declines in economic activity across the country.

Following the economic downturn caused by the COVID-19 shutdown in March, Canada's economy has started to bounce back in recent months. According to Statistics Canada, in April, three million Canadians were out of work and the Canadian economy declined 11.6% (following a 7.5% drop in March). However, by May 2020, the economy rebounded with a 4.5% increase as Canadian businesses began to adapt to the "new normal" by shifting to teleworking, reducing operating hours, laying off staff, and applying for government funding and rent relief. Further evidence of the economic transformation caused by COVID-19 can be seen in Canadian e-commerce sales levels hitting a record \$3.9 billion in May (an increase of over 110% from May 2019).

Regardless, according to a Canadian Federation of Independent Business survey from September 2020, 22% of Canadian small businesses are making half or less of their usual revenues (an improvement from 46% in June). The survey reports that 56% of businesses nation-wide will not easily survive a second wave of business restrictions, 31% of businesses will survive less than year with current revenues and 14% of business are actively considering bankruptcy or winding down operations. However, it also reports that 30% of small businesses surveyed are now making 95% or more of their usual revenues.

Across the country, small businesses have been hardest hit by COVID-19. The Canadian Survey on Business Conditions, a collaboration between Statistics Canada and the Canadian Chamber of Commerce, reported that small businesses with less than 100 employees were more likely to:

- Report revenues from Q1 2020 that were down by 20% or more from Q1 2019;
- Have laid off at least one employee, and more likely to have laid off more than 80% of their workforce; and
- Have requested credit from financial institutions to cover operating costs due to COVID-19.

When it comes to Canada's firms engaged in international trade, the numbers are not as negative as originally forecasted – although there is substantial differentiation across export sectors. Export Development Canada has identified the food, advanced technology, telecom, wood products and minerals sectors as significantly outperforming the oil and gas, aerospace, transportation and tourism sectors for the foreseeable future.

From a Foreign Direct Investment (FDI) perspective, the latest Statistics Canada data shows that foreign investors have been buying-up Canadian debt, signaling that the country is considered a safe haven for international investors. As all levels of government in Canada begin to look at ways to revive the economy, it is encouraging that foreign investors still consider Canada as an attractive destination to invest in. A key consideration driving future foreign direct investment will be a market's ability to manage the impact of the pandemic, which favours countries like Canada that have relatively successfully implemented a national strategy to contain the spread of COVID-19.

4. Provincial Impacts

Ontario accounts for 32% of COVID-19 cases in Canada, and the province comprises 38% of Canada's population. Though Ontario is only second to Quebec in total number of COVID-19 cases, it has not been as hard hit economically as energy-producing provinces such as Alberta, Saskatchewan and Newfoundland.

Prior to the pandemic, Ontario had the third highest proportion of employees working from home full-time out of all the Canadian provinces (6.3%). The number of employees working from home full-time rose to 22.5% by the end of March 2020, with approximately 40% of all provincial employees reporting working from home more than 50% of the time. According to the Conference Board of Canada, these higher than average work-from-home numbers contributed to lessened economic impacts of the pandemic in Ontario when compared to other Canadian provinces.

Between February and May 2020, Ontario's employment declined by approximately 1.2 million – the largest three-month employment decline on record. In June, Ontario bounced back with four consecutive months of employment increases representing a net gain of 838,000 jobs. As of September 2020, provincial employment is now within 4.2% of its pre-COVID February levels.

In Ontario – as in Canada as a whole – small businesses disproportionately bore the brunt of pandemic. A study released by the Ontario Chamber of Commerce in June reported that 84% of Small and Medium-Sized Enterprises (SMEs) with less than 500 employees had experienced negative impacts from COVID-19. 49% of SMEs surveyed had partially suspended their business activities. They listed their top concerns as: cash flow, economic repercussions, and reduction in consumer spending. The challenges caused by the economic shutdown were especially difficult for small businesses to overcome given a Government of Ontario report finding that approximately 40% of Ontario small businesses did not have a website at the onset of the COVID-19 outbreak.

According to TD Economics September forecast, Ontario will have strong third and fourth quarters, pending any unforeseen challenges caused by the second wave of COVID-19. Ontario's Real GDP growth is forecasted to fall by 5.7% in 2020, which aligns with the national average but also represents the third largest Real GDP decline

of any Canadian province. As shown in the below table, Ontario's Real GDP is anticipated to recover at a rate exceeding the national average in both 2021 and 2022.

Figure 2: TD Provincial Economic Forecasts, September 2020

Real GDP Growth (% change)	2020 Forecast	2021 Forecast	2022 Forecast
National	-5.6	4.1	3.2
Newfoundland & Labrador	-7.5	2.6	1.9
Prince Edward Island	-2.9	2.6	1.9
Nova Scotia	-4.2	3.7	1.8
New Brunswick	-3.0	2.6	1.8
Quebec	-5.5	4.5	2.5
Ontario	-5.7	4.3	3.4
Manitoba	-3.3	3.0	2.2
Saskatchewan	-5.4	3.6	3.0
Alberta	-7.2	3.8	3.4
British Columbia	-5.4	4.4	3.2

Source: TD Economics Provincial Economic Forecast, Sept. 17, 2020

5. Regional Impacts

Over the past decade, Halton Region's unemployment rate has trended lower than GTHA, provincial and national unemployment rates. Due to COVID-19, the Region's unemployment rate rose from 5% in Q1 of 2020 to 13.9% in Q2 2020. Though the regional labour market made a moderate recovery in Q3 of 2020, with the unemployment rate dropping to 10.1%, it is still twice its pre-pandemic level. However, Halton Region's current unemployment rate is lower than Hamilton (11%), Toronto (14.1%), Ontario (12%) and Canada (11.3%).

Halton Region administered a COVID-19 Business Impact Survey in late August to early September, which received about 1,000 responses from businesses and had a distribution of responses that aligned with the geographic distribution of businesses across Halton Region's four local area municipalities. The survey provided the following key takeaways:

- 75% of Halton businesses have been negatively impacted by the pandemic;
- Over 75% of businesses reported decreased revenues;
- 40% of businesses have laid off employees;
- Over 30% of businesses have applied for or received support under the Canada Emergency Response Benefit (CERB), Canada Emergency Business Account (CEBA) and Canada Emergency Wage Subsidy (CEWS) programs;
- Over 20% of businesses have applied for the Ontario-Canada Emergency Commercial Rent Assistance (OCECRA) program;
- 1% of businesses closed permanently; and
- The three biggest challenges that businesses have faced during COVID-19 are:

- Financial impacts;
- Reduction in sales and service; and
- Overall economic uncertainty.

When asked about how COVID-19 will change business operations moving forward, survey respondents identified taking the following top three recovery measures:

- Increasing online sales;
- Modifying workspaces for physical distancing; and
- Reducing physical business space.

The overall findings of the Halton Region survey complement and align with economic data reported at the national and provincial levels, as well as two surveys that were administered earlier locally by the Town's Economic Development division.

6. Local Impacts

Since the emergence of COVID-19, in close collaboration with other Town departments and key community stakeholders, Halton Hills' Economic Development division has taken a proactive and coordinated approach. The Town continues to implement over 20 new and modified initiatives to support businesses, position Halton Hills for an expedited economic recovery, as well as to remain competitive and 'open for business.' The support and recovery initiatives that the Town has implemented have been largely informed by feedback received from administering two surveys of the local business community.

The first survey ran from late March to early May and focused on measuring business impacts. It about 230 responses – representing approximately 15% of the local business community. Responses were received from a wide range of industries and a balanced cross-section of company sizes. At the time (i.e. early stage of the pandemic), 70% of respondents said that the business impacts of COVID-19 had either been catastrophic (29%) or major (41%). 56% of businesses had closed temporarily and 41% had laid off employees. The top three impacts respondents were most concerned about were:

- Financial – immediate revenues, cash flow, ability to make/receive payments;
- Cancellations – events, registrations, purchase orders, reduced demand; and
- Effects on workforce – employee health, productivity, layoffs.

The Town administered a second survey of the business community in July. It focused on gathering business feedback to inform potential further recovery initiatives. The COVID-19 Business Recovery Survey received 56 responses and provided evidence that local businesses were beginning to stabilize in the wake of the spring economic shutdown. 64% respondents described their current business situation as either stable (44.6%) or doing well (19.6%), while 32% said they were still vulnerable to closure. Respondents anticipated projected revenue decreases, as compared to this time last year, and believed this trend would continue for the next 12 months. 29% of respondents reported receiving support through CERB, and 23% of respondents had utilized CEBA and CEWS, respectively.

The slow return of customers was identified by 60% of respondents as the top obstacle to recovery, and when asked what recovery measures businesses required most support with, they identified:

- Funding;
- Business planning for post-COVID conditions; and
- Enhancing online presence and e-commerce

As a direct result of the survey findings, the Town implemented new initiatives to help address obstacles and respond to needs identified by businesses. These included the launch of the Digital Main Street program and Ritual ONE partnership, in order to provide funding opportunities and free resources to help businesses improve their online presence, as well as launching the 'Al Fresco in the Hills' temporary patio program to address businesses concerns about the slow return of customers and reduced indoor dining capacity in restaurants. In addition, an updated 'Shop Local' campaign (to complement the Digital Main Street and Ritual ONE initiatives) is being launched with new components planned for the Holiday Season to support shopping at local businesses.

CONCLUSION:

The pandemic has resulted in a sharp decline in the Canadian economy and a significant weakening of the labour market. Various sources of market and economic data all tell a story of businesses being negatively impacted by the pandemic, with an ongoing concern for their own financial position and larger economic conditions.

Businesses are changing their day-to-day operations in order to adapt to COVID-19. There is some evidence that an economic rebound is already occurring in Canada. However, the global economy was hard hit as borders closed, trade plummeted, and governments implemented rapid, wide-spread and innovative support measures to help cushion the impacts and subsidize both workers and firms.

Halton Hills' economic prosperity makes it possible for the Town to deliver the services that residents and business rely on. The Town has implemented a number of COVID-specific business supports, as well as advanced and modified other important initiatives already underway. Over 20 new and modified initiatives have been implemented to support businesses and help position Halton Hills for an expedited recovery.

Town staff will continue to assess the most current economic data available, and continue to take proactive, decisive and coordinated action to respond to COVID-19 and support the local business community.

Reviewed and approved by,

A handwritten signature in dark ink, reading "Damian Szybalski". The script is cursive and fluid, with the first name and last name clearly legible.

Damian Szybalski, Director of Economic Development, Innovation & Culture

A handwritten signature in dark ink, reading "C. Mills". The signature is stylized, with a large, sweeping initial "C" and the last name "Mills" written in a cursive script.

Chris Mills, Acting Chief Administrative Officer

APPENDIX 1

A Hand Up for Small Business – 2020 Progress Report

Ontario Business Improvement Area Association (OBIAA), October 2020

After the Lockdown, a Tightrope Walk Toward Recovery – OECD Economic Outlook 2020, Editorial

Organisation for Economic Co-operation and Development, June 2020

Canada's State of Trade 2020 – The early impacts of COVID-19 on trade

Government of Canada, July 2020

Canadian Survey on Business Conditions

Statistics Canada, May 2020

Collaboration in a Crisis: A Memo from COVID-19

Ontario Chamber of Commerce, April 2020

COVID-19 and Uncertainty to Flatten the Curve of Economic Recovery – Canada's Two-Year Outlook Summary

The Conference Board of Canada, September 2020

COVID-19 Business Recovery Survey

Town of Halton Hills, August 2020

COVID-19 Halton Hills Business Economic Impact Survey

Town of Halton Hills, April 2020

COVID-19: State of Small Businesses (Key Results – Survey 21)

Canadian Federation of Independent Business, September 2020

Global Export Forecast – Better than Feared, But Slow and Uneven Road Ahead

Export Development Canada Economics, October 2020

Global Economic Outlook – Fast Won't Last

Export Development Canada Economics, October 2020

Halton COVID-19 Business Impact Survey Results

Halton Region, September 2020

Impact of COVID-19 on the Canadian Economy and Consumer Sentiment

Destination Ontario, July 2020

Labour Force Survey

Statistics Canada, April 2020

Labour Market Highlights (Q3 2020)

Halton Region, October 2020

Ontario's Action Plan: Plan, Support, Recover (2020 Budget)

Government of Ontario, November 2020

Ontario's Long-Term Report on the Economy

Ontario Ministry of Finance, June 2020

Provincial Economic Forecast – Not Out of the Woods Yet

TD Economics, September 2020

Reimagining Recovery – Retrofitting Our Urban Region

Toronto Region Board of Trade, May 2020

Retail E-Commerce and COVID-19: How online shopping opened doors while many were closing

Statistics Canada, July 2020

Small Business, Big Impact – How SMEs are Pivoting During COVID-19

Ontario Chamber of Commerce, March 2020

Uncharted Territory: Assessing the Landscape for Ontario's Economic Recovery Post COVID-19

Ontario Chamber of Commerce, April 2020

