

# THE 2020 SHUTDOWN: HOW DEEP IS THE ECONOMIC HOLE?

Q2 2020 BRITISH COLUMBIA  
ECONOMIC REVIEW AND  
OUTLOOK

June 2020

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Business Council of  
British Columbia  
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WHERE LEADERS MEET TO UNLOCK BC'S FULL POTENTIAL

# B.C. ECONOMIC REVIEW AND OUTLOOK



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Est. 1966

Q2 2020 (JUNE)

## THE 2020 SHUTDOWN: HOW DEEP IS THE ECONOMIC HOLE?

### HIGHLIGHTS

- Global GDP is expected to decline by 8% in 2020 and to rise by 2.8% in 2021 assuming a second pandemic wave later this year, according to OECD forecasts. Under an equally likely, best-case scenario of no further outbreaks, global GDP would decline by 6% in 2020 and rise by 5.2% in 2021. World economic activity is likely to remain depressed for some time. Activity will not recover to pre-pandemic levels by the end of 2021 under either OECD scenario. Risks are evenly weighted.
- Canada tottered into 2020 with a debt and immigration-reliant model of economic growth that was yielding low unemployment but little to no growth in GDP per person, labour productivity or real wages. Canada's economy was the world's 6th most indebted with national debt at 301% of GDP in 2019.
- Canada's economy has fallen into a very deep hole. Exiting from it will be uncertain and challenging given the paucity of ready catalysts for private sector GDP generation and job growth, the limited set of remaining options for macroeconomic policy stimuli, the overhang of private and public debt, and the (necessary) ongoing public health restrictions that virtually rule out a consumer-led recovery.
- Canadian GDP is projected to decline by 9.4% in 2020 and rise by 1.5% in 2021 assuming a second COVID-19 wave occurs later this year. Under the OECD's equally likely best-case scenario of no further outbreaks, Canadian GDP would decline by 8% in 2020 and rise by 3.9% in 2021. Canada's economy will not recover 2019 levels of activity during the forecast horizon under either scenario. Risks are evenly weighted.
- The B.C. economy is forecast to shrink by 7.8% in 2020, a bit worse than our preliminary estimate for a 7.3% decline done back in March.
- In 2021 the provincial economy will expand by 4.8%. This is a strong growth number by historic standards but comes in the wake of a very steep downturn and only results in the B.C. economy regaining just over half of the economic output lost in 2020.
- Job losses are concerning. Since February the number of people working in the province has plummeted by roughly 350,000. The unemployment rate nearly tripled in three months and now sits around 13%.
- The domestic consumer economy will emerge from its temporary freeze, but far from unscathed. As the shutdown is lifted, employment will rebound significantly. But the process will be uneven and slow. Many businesses will not re-open and several tens of thousands of jobs will be permanently lost.

### PANDEMICS ARE PRECEDENTED

COVID-19 is the 8<sup>th</sup> largest pandemic event with more than 100,000 global fatalities since 1889 and the 16<sup>th</sup> since the Black Death of 1347-1352 (**Table 1**). The pandemic is estimated to have originated in China between about 6 October and 11 December

2019, according to recent [studies](#) of the SARS-CoV-2 time to most recent common ancestor (tMRCA). There were 27 novel coronavirus cases in China as at 15 December, 60 cases as at 20 December, and 266 cases as at 31 December 2019 when China's government reported the outbreak to the World Health Organization (WHO). Ten weeks later, the WHO

declared a pandemic on March 11, 2020.

To date, COVID-19 has infected around 8.3 million people and killed about 450,000 globally. There have been 101,000 infections and over 8,300 fatalities in Canada, the vast majority of which have been concentrated in Quebec and Ontario.



Those two provinces account for 87% of cases and 95% of deaths in Canada. In B.C., there have been 2,756 cases and 168 fatalities as of mid-June — 3% of Canadian cases and 2% of Canadian fatalities.

## WORLDWIDE SOCIAL LOCKDOWNS AND ECONOMIC SHUTDOWNS ARE UNPRECEDENTED

While pandemics are preceded — most disease outbreaks in the past century have been mitigated through early containment and treatment of affected and vulnerable populations — the worldwide social lockdowns and economic shutdowns associated with COVID-19 are unprecedented. Most countries are facing multiple, simultaneous negative shocks not only to public health, but also to consumer demand, industrial activity, business investment, commodity prices, credit markets, and financial markets. According to the [International Labour Organisation](#) (ILO), full or partial lockdown measures have affected around 81% of the world's workforce, or almost 2.7 billion workers (**Figure 1**).

Global GDP is projected to decline by 8% in 2020 and rise by 2.8% in 2021 assuming a second pandemic wave later this year, according to the latest outlook from the Organization for Economic Cooperation and Development (OECD). Under an equally likely, best-case scenario of no further outbreaks, global GDP would decline by 6% in 2020 and rise by 5.2% in 2021 (see **Table 2** and link to [chart](#)). World economic activity will not return to 2019 levels during the forecast horizon under either OECD scenario. Risks are evenly balanced and the path to recovery is highly uncertain.

TABLE 1: **FIFTEEN PRE-COVID LARGE PANDEMIC EVENTS  
WITH AT LEAST 100,000 FATALITIES**

Event	Start	End	Deaths
Black Death	1347	1352	75,000,000
Italian Plague	1623	1632	280,000
Great Plague of Sevilla	1647	1652	2,000,000
Great Plague of London	1665	1666	100,000
Great Plague of Marseille	1720	1722	100,000
First Asia Europe Cholera Pandemic	1816	1826	100,000
Second Asia Europe Cholera Pandemic	1829	1851	100,000
Russia Cholera Pandemic	1852	1860	1,000,000
Global Flu Pandemic	1889	1890	1,000,000
Sixth Cholera Pandemic	1899	1923	800,000
Encephalitis Lethargica Pandemic	1915	1926	1,500,000
Spanish Flu	1918	1920	100,000,000
Asian Flu	1957	1958	2,000,000
Hong Kong Flu	1968	1969	1,000,000
H1N1 Pandemic	2009	2009	203,000

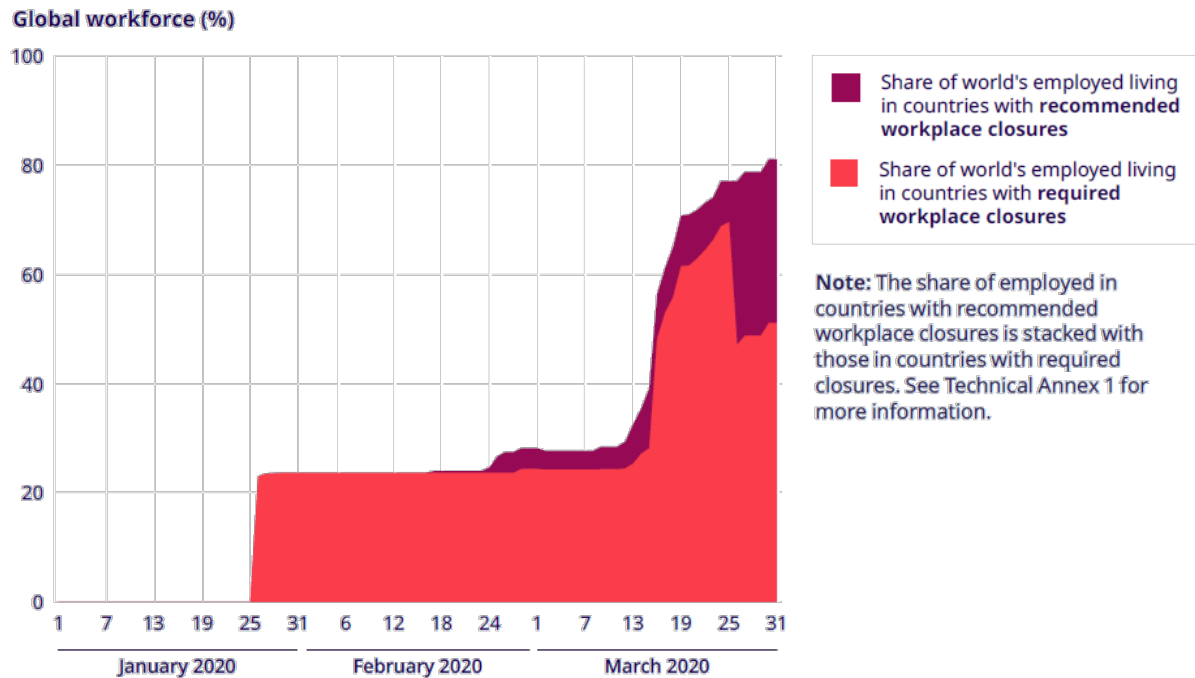
Source: [Jorda et. al 2020](#).

TABLE 2: **GLOBAL ECONOMIC FORECAST  
(ANNUAL % CHANGE IN REAL GDP)**

Region	2019	Scenario #1 Second wave later in 2020		Scenario #2 No second wave	
		2020f	2021f	2020f	2021f
World	2.7	-7.6	2.8	-6.0	5.2
U.S.	2.3	-8.5	1.9	-7.3	4.1
Canada	1.6	-9.4	1.5	-8.0	3.9
Euro area	1.3	-11.5	3.5	-9.1	6.5
Japan	0.7	-7.3	-0.5	-6.0	2.1
China	6.1	-3.7	4.5	-2.6	6.8

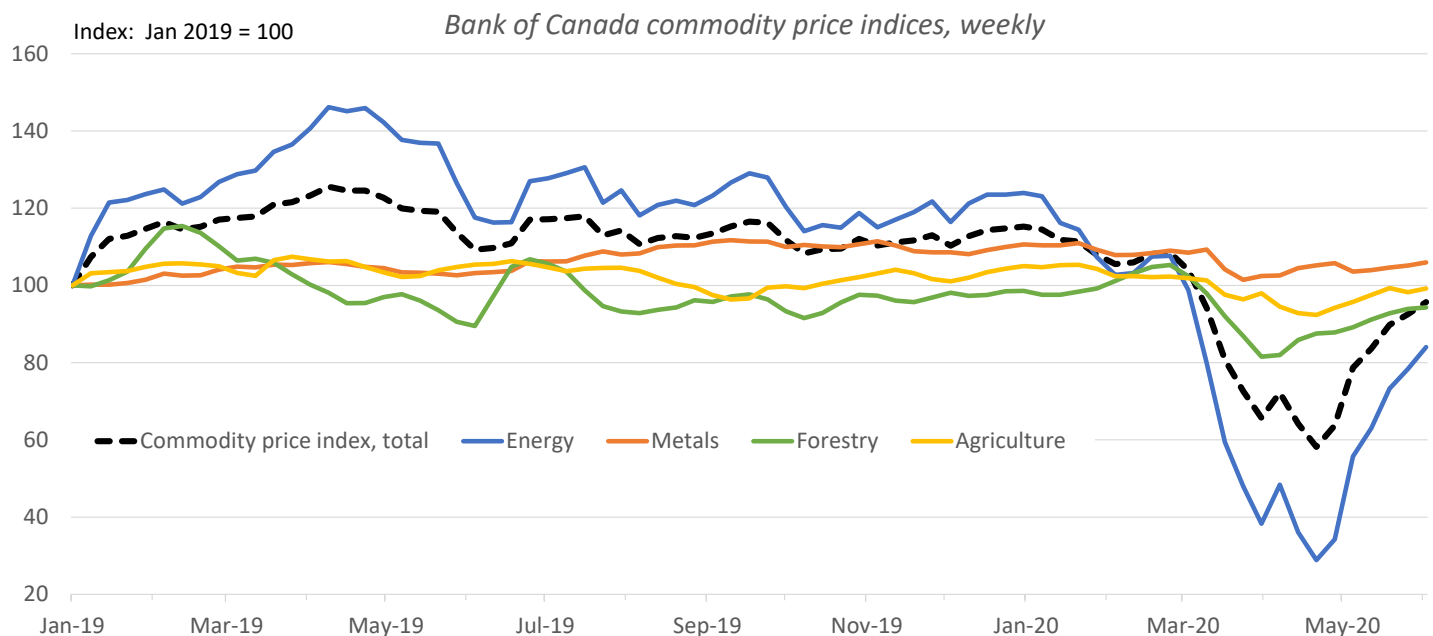
Source: OECD Economic Outlook.

FIGURE 1: **EMPLOYMENT IN COUNTRIES WITH WORKPLACE CLOSURES**



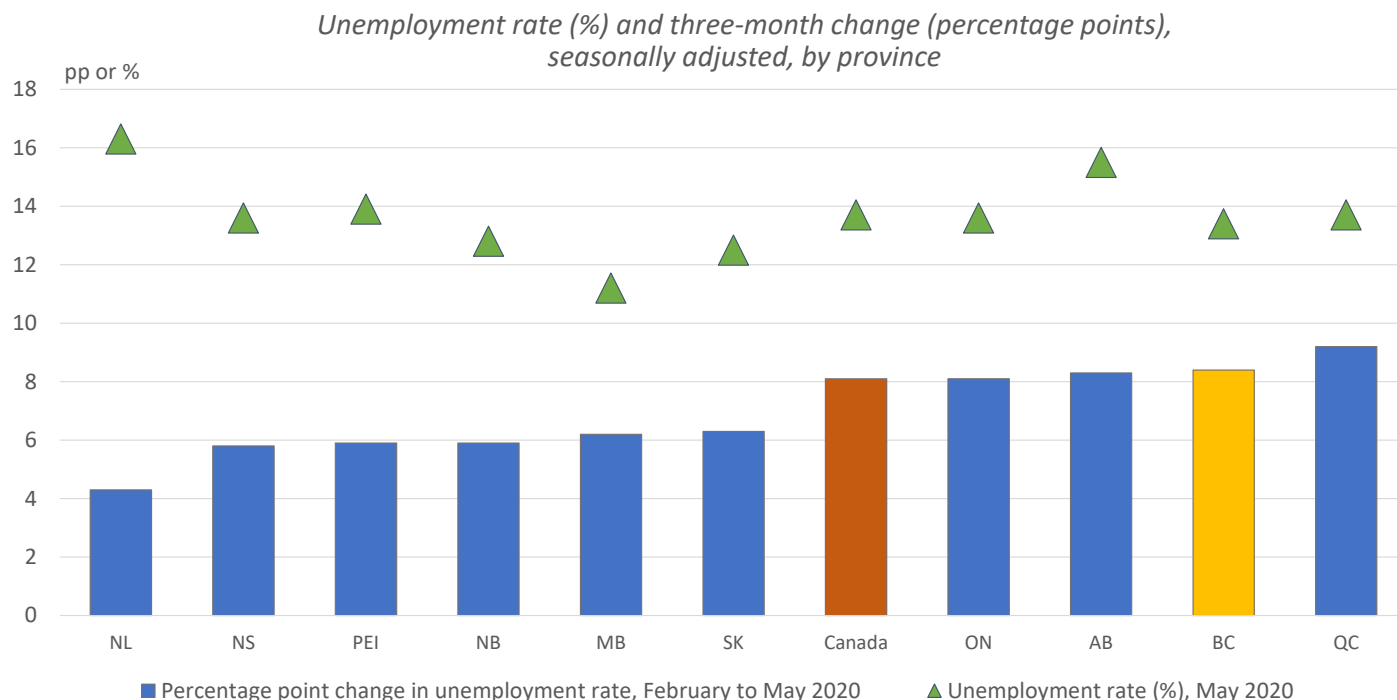
Source: [ILO](#).

FIGURE 2: **AS A RESOURCE-BASED ECONOMY, CANADA HAS BEEN HAMMERED BY COMMODITY PRICE SHOCKS**



Source: Bank of Canada.

FIGURE 3: **QUEBEC AND B.C. LABOUR MARKETS HAVE BEEN HIT HARDEST BY COVID-19**



Source: Statistics Canada.

## CANADA'S RICKETY ECONOMY HAS FALLEN INTO A VERY DEEP HOLE

Canada's economy tottered into 2020 with federal policymakers hoping that a lift in global growth would be enough to see the economy past its unaddressed structural fragilities. The gamble failed. While Canada's pre-pandemic economy was close to full employment, GDP growth was almost entirely reliant on expanding the absolute size of the labour force through unprecedented temporary and permanent immigration. Such an economic strategy cannot — and demonstrably did not — deliver gains in GDP per person or income per person.

**On a *per capita* basis, Canadian real GDP growth was non-existent at 0.0% y/y in 2019.** Real business investment per worker was lower in 2019 than in 2008. Labour productivity growth in 2019 made its weakest contribution to overall GDP growth since the 1980s, helping to explain why, despite low unemployment, there has been persistently weak growth in real total employee compensation over the past business cycle. And for all this, Canada's pre-pandemic economy was the 6th most indebted in the world, with national debt/GDP of 301% in 2019, of which private credit (corporations and households) was 214% of GDP and public credit was 85% of GDP.

Then in the first quarter of 2020, Canada's economy was hammered

by: February's #ShutDownCanada protests, paralyzing major transport and export infrastructure across the country for several weeks; a precipitous collapse in commodity prices in March, especially energy prices, due to contracting global demand and a Saudi Arabia-Russia oil price war (**Figure 2**); and the economic shutdown to combat the COVID-19 pandemic.

Since February, Canada has lost a staggering one-in-seven jobs — that is, 14% of all jobs, or 2.7 million out of 19.2 million jobs nationally. Quebec has been hit the hardest, with the unemployment rate jumping 9.2 percentage points to 13.7% in May (**Figure 3**). B.C.'s labour market was the second most affected. Although B.C.'s approach to shutting down

its economy was more targeted than in other jurisdictions, and although it was far more successful at suppressing COVID-19, B.C.'s greater exposure to hard-hit sectors (especially accommodation and food services, and wholesale and retail trade) resulted in the unemployment rate jumping 8.4 percentage points to 13.4% in May. Overall, from February to May, Ontario lost 1.2 million jobs, Quebec lost 590,000, B.C. lost 353,000 and Alberta lost 333,000 jobs.

In an unusual step, the Bank of Canada passed on providing detailed economic forecasts in its April Monetary Policy Report. The IMF (April) and OECD (June) have meanwhile continued to produce forecasts. The OECD projects that Canada's GDP will decline by 9.4% in 2020 and rise by 1.5% in 2021 assuming a second COVID-19 wave later this year. Under the equally likely, best-case scenario of no further significant outbreaks, Canadian GDP would decline by 8% in 2020 and rise by 3.9% in 2021. Risk levels are high and evenly balanced.

The *level* of Canadian economic activity is likely to remain depressed for several years. Due to lack of income, many households and businesses could struggle with pre-existing credit and lease obligations. Credit defaults, foreclosures, and insolvencies could rise significantly later this year and into 2021 as operating costs and losses mount, courts reopen, and the extraordinary but finite taxpayer support tapers off. Under either of the OECD's scenarios, the national unemployment rate is expected to remain high at around 8.9-9.4% in 2020 and 8-9% in 2021. Under either scenario, neither Canadian GDP nor employment are expected to return to pre-pandemic

levels by the end of 2021.

Canada's economy has fallen into a very deep hole. Exiting it will be challenging given the paucity of catalysts for private sector GDP generation and job growth, the limited set of remaining options for macroeconomic policy stimuli, the overhang of private and public debt, and the ongoing public health restrictions that rule out a fulsome consumer-led recovery.

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## **B.C. FACES THE SAME ECONOMIC CHALLENGES**

B.C. has done an exemplary job of containing and managing the Coronavirus. But the fallout from closing non-essential services, as jurisdictions around the world have done, has been substantial and has dragged the province into a deep economic hole. Under the provincial reopening plan unveiled a few weeks ago, retail, food services, personal services, and non-emergency medical services are permitted to open. This is welcome news and means economic activity and jobs will come back. But the virus will continue to weigh on much of the consumer-facing economy. It is unclear how consumers will

respond. Restaurants will only be operating at 50% capacity. The Canada-U.S. border remains closed, and international air travel will be restricted until a vaccine or effective treatment is available. This suggests that B.C.'s air transportation industry, international tourism and business/convention travel and large audience-attended sporting events will stay closed for much or even all of the year.

In early April, we published preliminary estimates of the potential impact of the COVID-19 pandemic on the B.C. economy, focusing on output or GDP. At the time, we assumed a global recession was "imminent or already underway" and that "the widespread lockdown and closing of non-essential B.C. businesses [would be] maintained for at least eight weeks." Under our initial baseline scenario, we expected "bars and restaurants [would be] permitted to open in the second half of 2020, with new social-distancing and cleaning guidelines in place". Our initial estimates also "assume[d] that international travel will remain heavily restrained for five or six months..."

Here we update our previous forecast. The closures and re-opening have unfolded largely as expected. We are only making a modest downward adjustment to our 2020 projection. The more difficult question is what 2021 will look like.

Our framework for estimating the depth of the recession and the recovery path is as follows. The domestic consumer economy will emerge from its temporary freeze, but far from unscathed. As the economy re-opens there will be a sizable employment rebound. But the process will be uneven and slow, with some important sectors

## Based on our updated industry-by-industry projections, we now expect B.C.'s economy to shrink by -7.8% in 2020.

remaining closed through the rest of the year. Many businesses will not re-open and several tens of thousands of jobs will be permanently lost.

One of the main reasons we are projecting a deep recession is because as the domestic economy struggles to regain its footing, B.C.'s export sector will be slammed by the steep global recession that is taking hold around the world. The drop in external demand will hammer the B.C. economy at the same time as domestically oriented sectors struggle to recover. The varying and widespread closures across countries, supply chain interruptions, international travel restrictions, and the likelihood of a second wave — all of these developments are conspiring to dampen and elongate the recovery process. As activity in the export sector weakens, secondary effects will weigh on parts of the domestic services economy. The latter will also be challenged by reduced in-migration and fewer foreign students at B.C. education institutions.

Based on our updated industry-by-industry projections, we now expect B.C.'s economy to shrink by 7.8% in 2020, a bit worse than our preliminary estimate of 7.3%. Our March projection also included an alternative scenario in which lockdowns were maintained through most of the summer and the global economy failed to recover, resulting in a contraction of more than 10%

of the province's output in 2020. With re-opening underway both in B.C. and some other economies, we believe the gloomier scenario is unlikely.

In 2021 as the consumer facing economy recovers more fully and the global economy emerges from the deepest downturn in 100 years, we expect real GDP in B.C. to expand by 4.8%.

The risks, however, are on the downside. A second wave of the virus will almost certainly emerge. Its severity and economic impact, however, are uncertain. Now that tests are readily available, systems in place, equipment stockpiled, and public awareness and knowledge vastly improved, there is a greater capacity to manage and contain outbreaks, which suggests that future closures can be more targeted. Alternatively, a very aggressive outbreak could prompt another round of widespread closures and a deeper global downturn, in which case we would trim another percentage point from our growth projections for both 2020 and 2021.

## ADDITIONAL CONTEXT FOR B.C.'S GROWTH OUTLOOK

As reflected in **Figure 4**, the expected 7.8% contraction in provincial gross domestic product (GDP) is more than three times the size of the downturn B.C. experienced in 2009. The 4.8% expansion penciled in for 2021 would normally be considered very robust. But the context is important. A recovery in 2021 will follow an unusually steep decline the year before. This means some of the expansion we expect next year will simply reflect a rebound from the plunge in output recorded in 2020 and an uptick in activity in economic sectors hit hardest by the business closures.

It is also important to recognize that while it is a strong pace of growth, a 5% increase in GDP in 2021 only results in B.C. regaining just over half of 2020's lost output (**Figure 5**). It will take another 3% expansion in 2022 before the province's economy returns to its 2019 level of output. If a serious second wave emerges in the fall, pulling growth lower, economic output will not retrace its pre-pandemic level until after 2022.

TABLE 3: **B.C. ECONOMIC OUTLOOK**  
(ANNUAL % CHANGE UNLESS OTHERWISE INDICATED)

	2018	2019	2020f	2021f
Real GDP	3.8	2.8	-7.8	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

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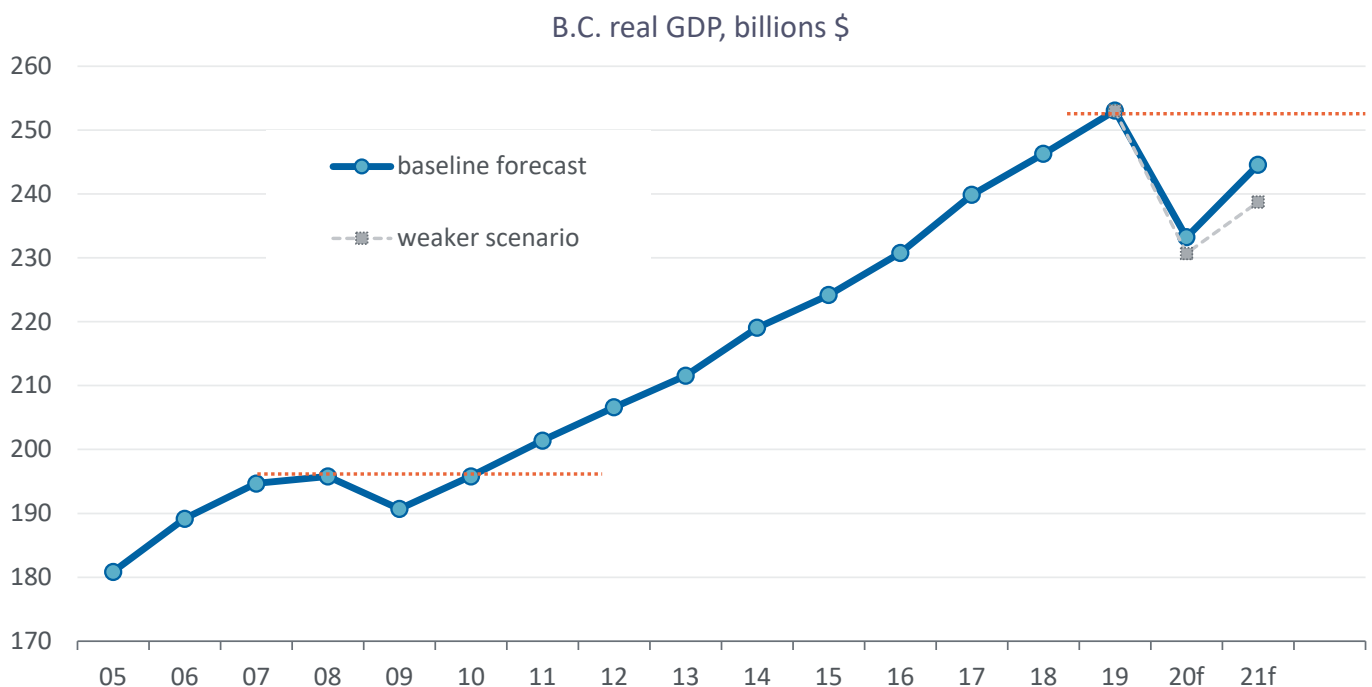
Sources: Statistics Canada and BC Stats; BCBC for forecasts.

FIGURE 4: **A DECLINE IN ECONOMIC OUTPUT SEVERAL TIMES LARGER THAN THE GREAT RECESSION**



Sources: Statistics Canada, Provincial Economic Accounts and BCBC for forecasts.

FIGURE 5: **B.C.'S ECONOMIC OUTPUT REMAINS WELL BELOW 2019 PEAK**



Sources: Statistics Canada, Provincial Economic Accounts and BCBC for forecasts.



## EXPORTS A DRAG ON GROWTH AS DOMESTIC ECONOMY REOPENS

As a small trade-dependent economy, B.C. will be affected by the global slowdown and the Canadian recession detailed in the first section. Early in the year transport infrastructure blockades and virus-related manufacturing interruptions in China curtailed B.C.'s exports. Now weaker demand and pricing for most of the province's key export products is pulling merchandise exports lower. Over the first four months of the year, total merchandise exports are down 15% compared to the same period last year. Exports to China are down almost 19% while the value of B.C. merchandise shipped to South Korea has tumbled 30%.

The downturn in export sales will accelerate in the months ahead as the global recession deepens. The prospects for exports are better in 2021, as the global economy recovers.

The COVID-19 crisis and global recession are also pinching B.C.'s service exports, which are an important part of the province's overall export base.<sup>1</sup> Many service industries were growth leaders but have now been shuttered or severely impacted by the crisis. Tourism is an example. Until just a few months ago, it was among the province's leading export engines. But today the industry is staring at a catastrophic downturn.

As detailed in B.C.'s re-opening plan, international tourism, conventions, concerts, and live audience professional sports will not re-start until either widespread vaccination, broad successful treatments, or

"community" immunity is achieved. In our industry-by-industry projections, we estimate a 50% drop in the economic output (GDP) of the accommodation sector this year. Domestic tourism activity will soon resume, with hotels and resorts and parks scheduled to re-open in June. But even if British Columbians realign their vacation budgets to domestic travel and there is a large jump in domestic tourism, it will not be enough to offset the losses which stem from halting international tourism. For 2021 we see a gradual recovery in the tourism sector, albeit from a disastrously low starting point.

The film and television production industry is another example of an "exportable" service that has recently stalled. It too was one of the province's fastest growing and substantial export industries in the past decade. However, the sector was shuttered in March. The reopening of domestic film and television production in June or July will be a welcome step on the bumpy recovery path, but the international segment is much larger and is also the source of valuable international export earnings. Presumably, a full re-start of all segments of the industry depends on the border reopening and the implementation of processes and protocols to keep workers safe.

## STAGGERING JOB LOSSES

Three months of labour market data have been produced since non-essential B.C. businesses were closed, allowing a somewhat clearer picture of job impacts. In March, total employment fell by 132,000. Not surprisingly, job losses accelerated in April, doubling to 264,000. Then

## Restoring the labour market to health will take many months if not years.

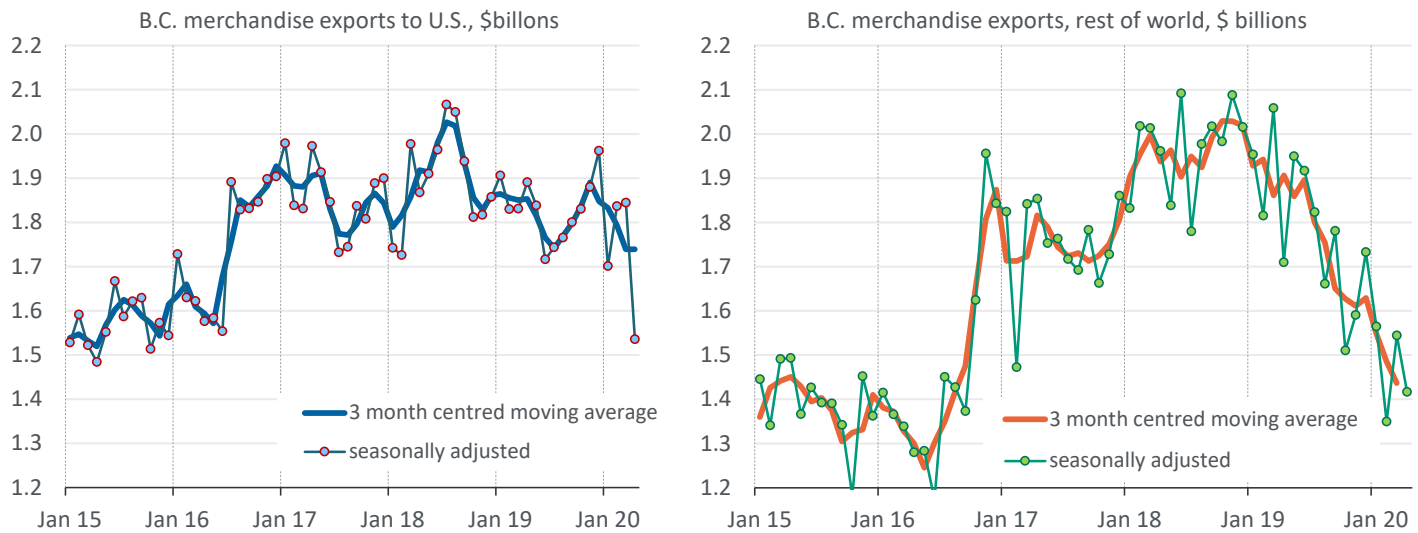
the most recent Labour Force Survey (LFS) showed a gain of 43,000 jobs, indicating some re-hiring occurred when phase two of the province's re-opening plan came into effect. The positive May figure may also reflect the fact that the federal wage subsidy program is now prompting some companies to recalibrate lay-off plans and recall some workers. While positive, the May job gain follows a completely unprecedented loss of nearly 400,000 jobs over the previous two months. Restoring the labour market to health will take many months if not years.

Somewhat counterintuitively, B.C.'s unemployment rate increased in May, even though employment rose sharply. The reason is that the announced re-opening of some consumer services prompted more people to re-join the labour force. The unemployment rate jumped to 13.4% in May; in February, it stood at 5%.

The job losses that have occurred to date are overwhelmingly concentrated in the private sector. Of the total 353,000 net B.C. jobs lost since February, 335,000, or 95%, have been in the private sector. Young people have also been disproportionately affected. Total employment is currently down 14% since February, but the number of jobs for people aged 15-24 has plummeted 34%. Meanwhile, the unemployment rate for this younger cohort has soared to 29%.

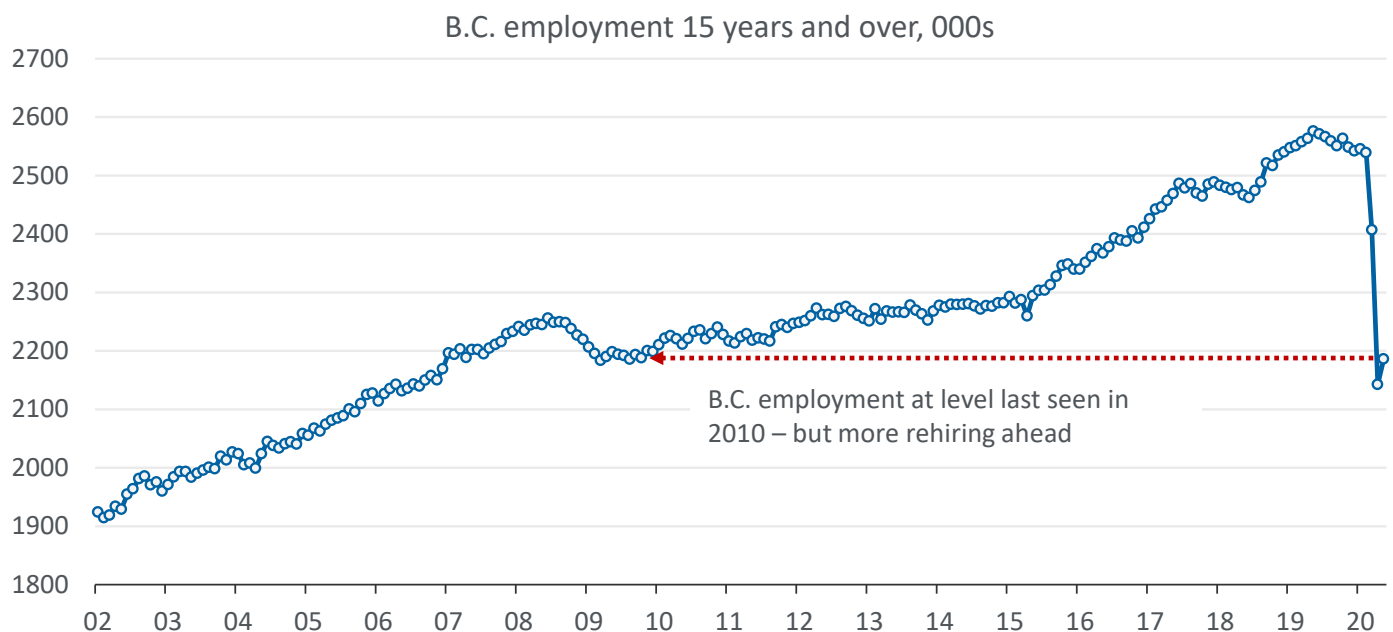
<sup>1</sup> Services make up 40-45% of the value of B.C.'s total exports, depending on the year.

FIGURE 6: **STEEP DROP IN EXPORTS TO THE U.S.**



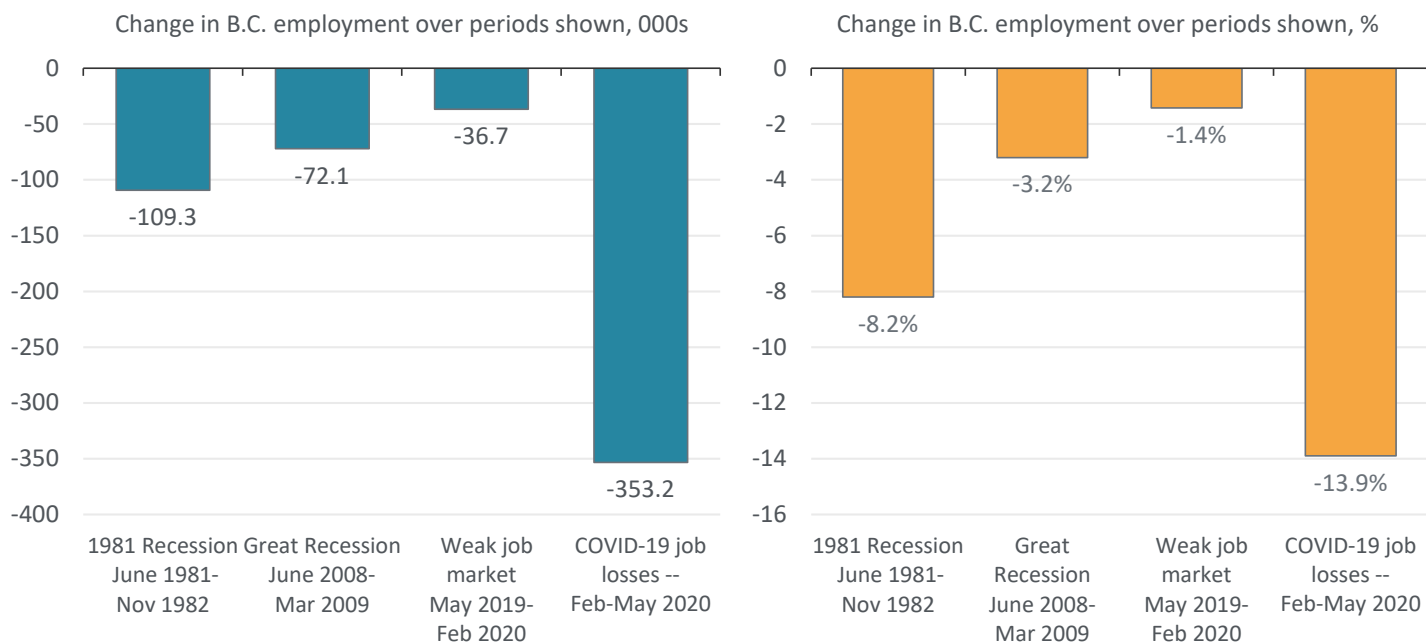
Source: B.C. Stats. Latest data April 2020, seasonally adjusted.

FIGURE 7: **VERY STEEP JOB LOSSES, BUT SOME RE-HIRING ALREADY EVIDENT**



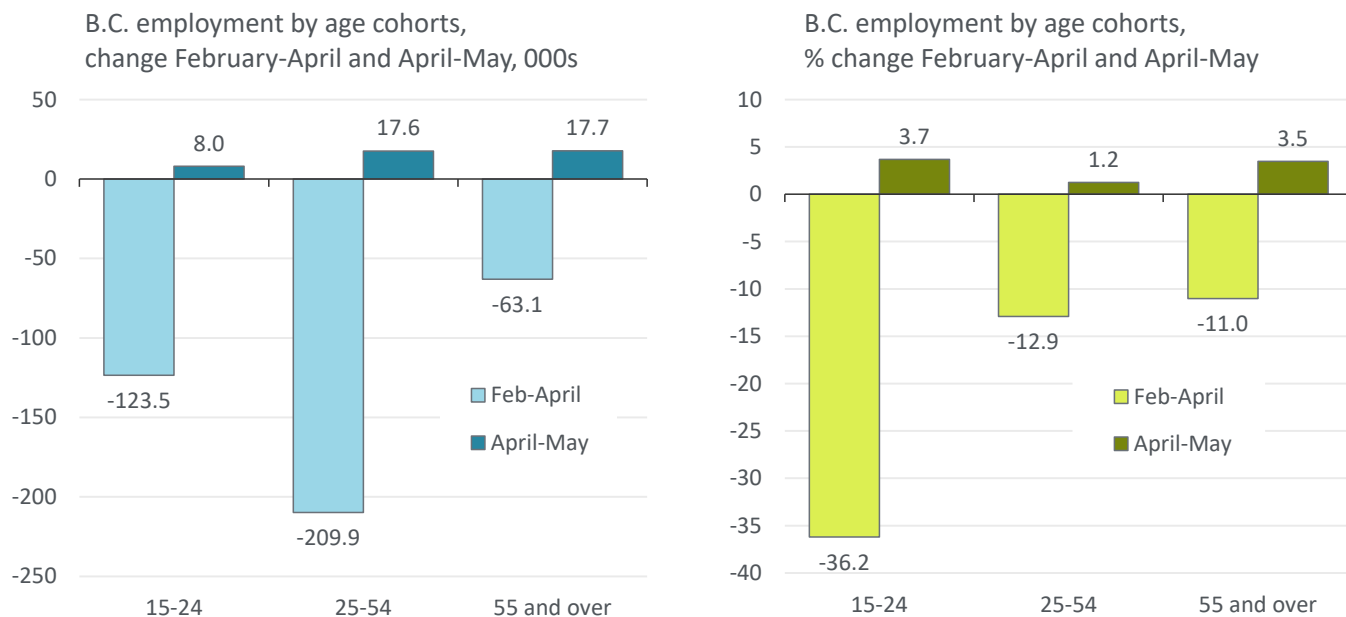
Source: Statistics Canada, Labour Force Survey. Table 14-10-0287-01. Latest: May 2020. Seasonally adjusted.

FIGURE 8: **NO HISTORICAL PRECEDENT FOR RECENT EMPLOYMENT DROP**



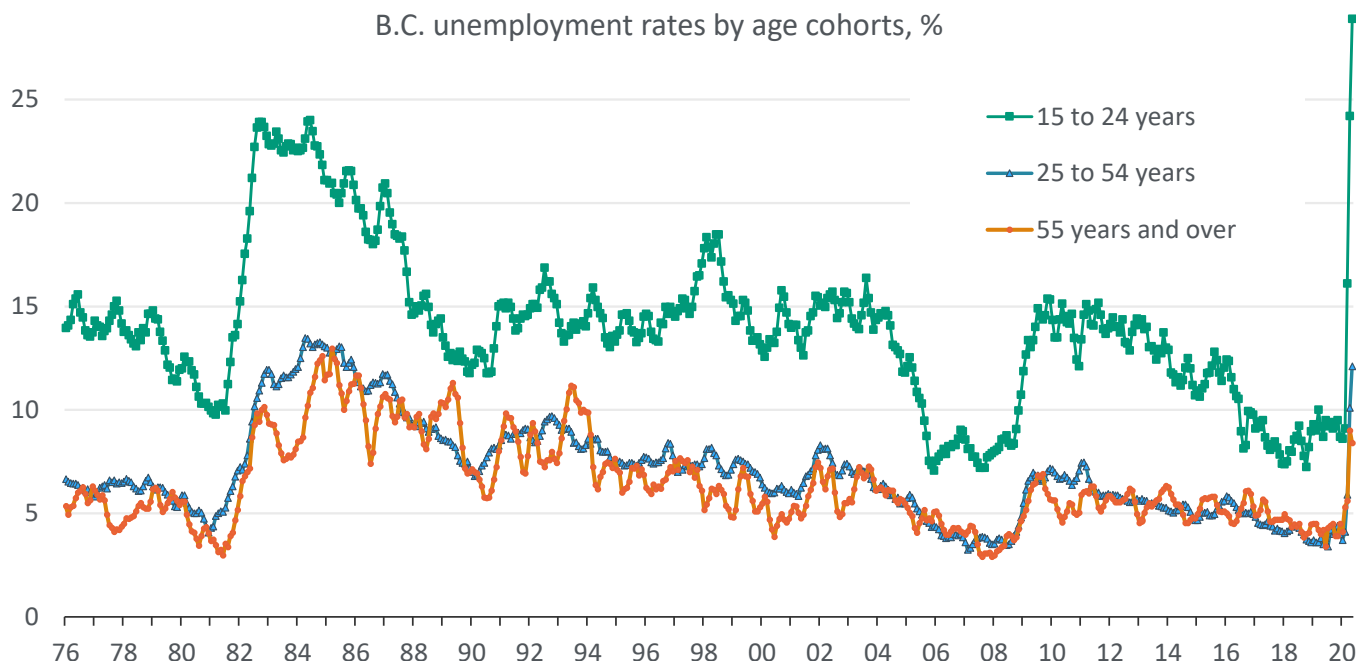
Source: Statistics Canada, Labour Force Survey. Table 14-10-0087-01. Seasonally adjusted.

FIGURE 9: **JOB LOSSES SPREAD ACROSS ALL AGE GROUPS, BUT YOUNGER WORKERS HIT DISPROPORTIONATELY**



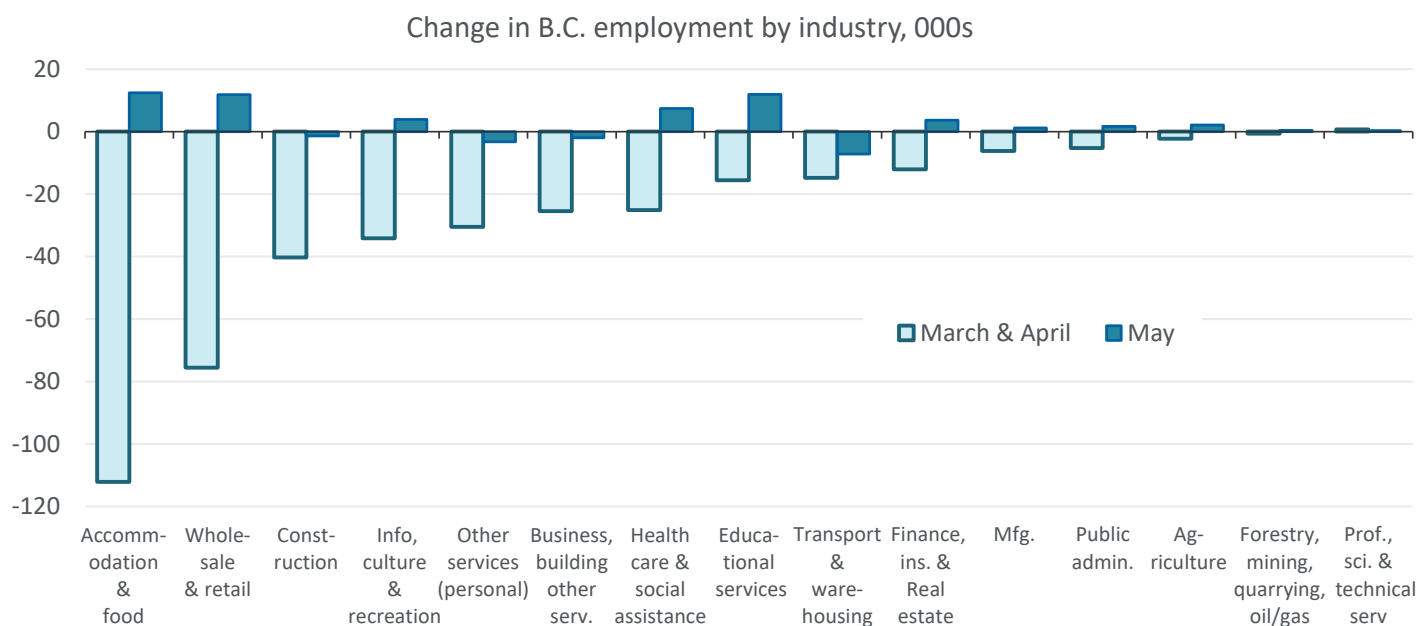
Source: Statistics Canada, Labour Force Survey. Table 14-10-0287-01. Seasonally adjusted.

FIGURE 10: **RECORD UNEMPLOYMENT RATE FOR YOUNGER PEOPLE**



Source: Statistics Canada, Labour Force Survey. Table 14-10-0287-01. Latest: May 2020. Seasonally adjusted, 3-month average up to 2019.

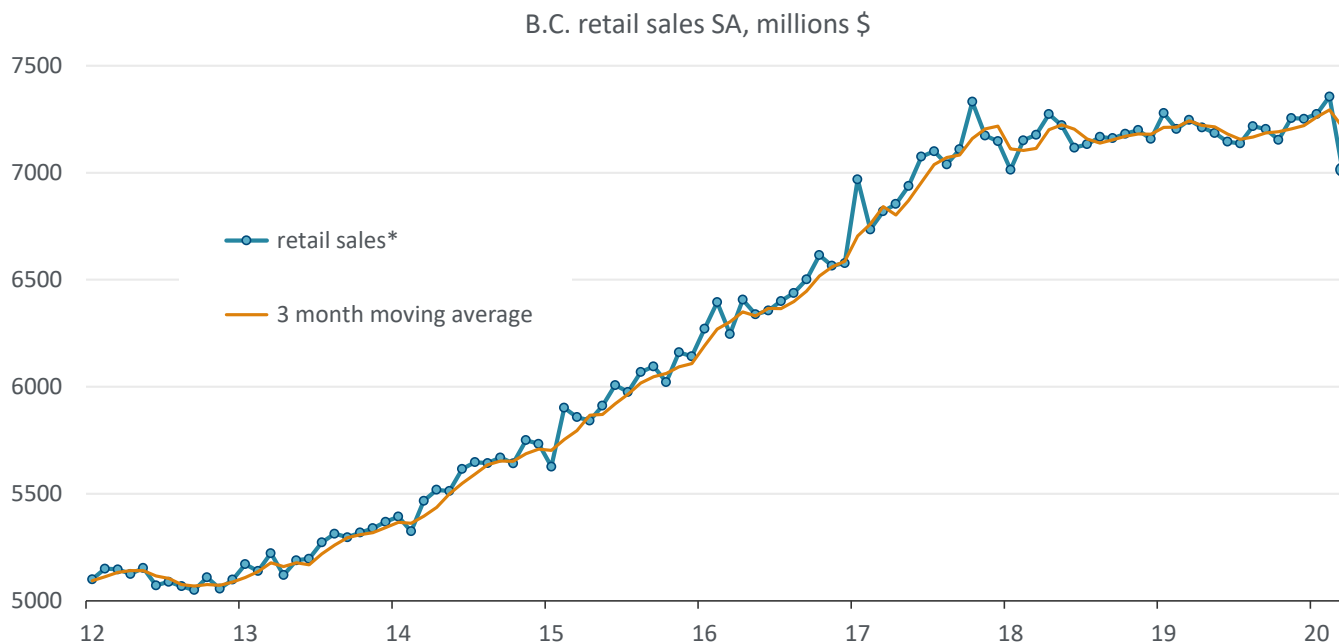
FIGURE 11: **SOME RECOVERY IN HARD HIT SECTORS**



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

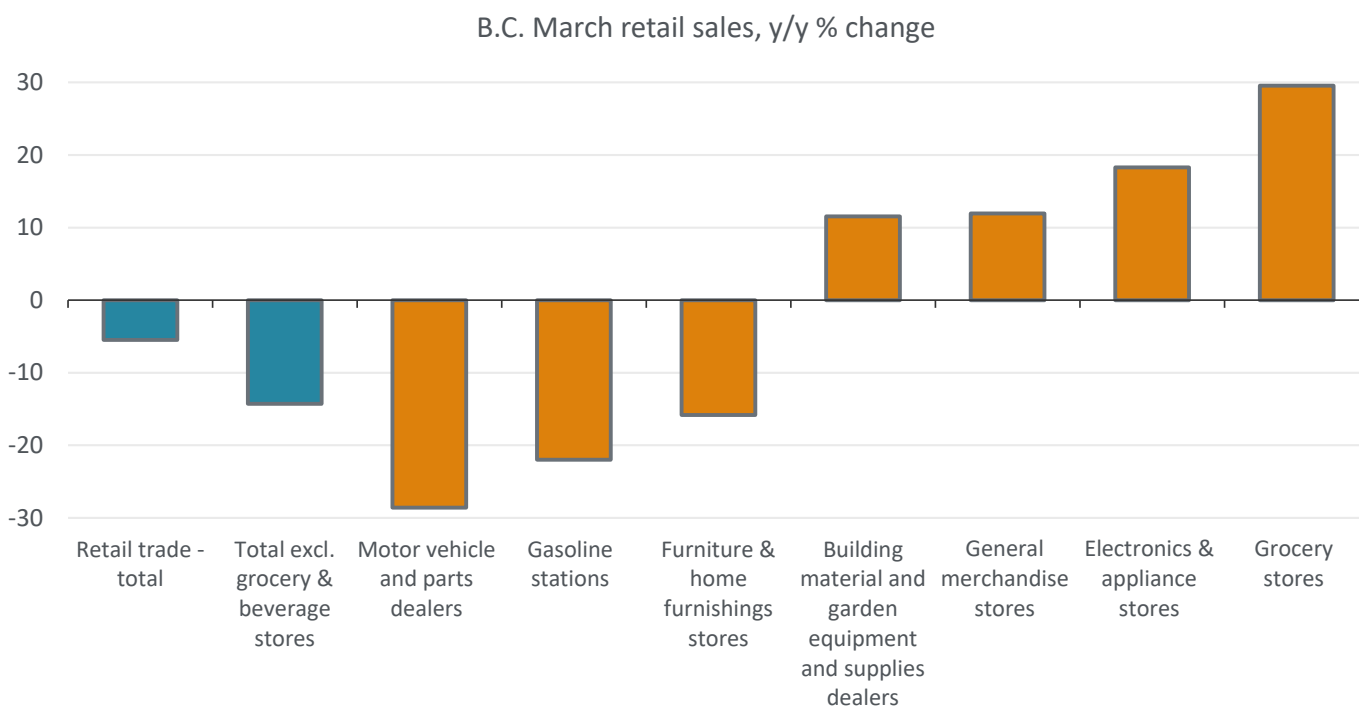


FIGURE 12: **RETAIL SALES PLUNGE...BIGGER DECLINE COMING**



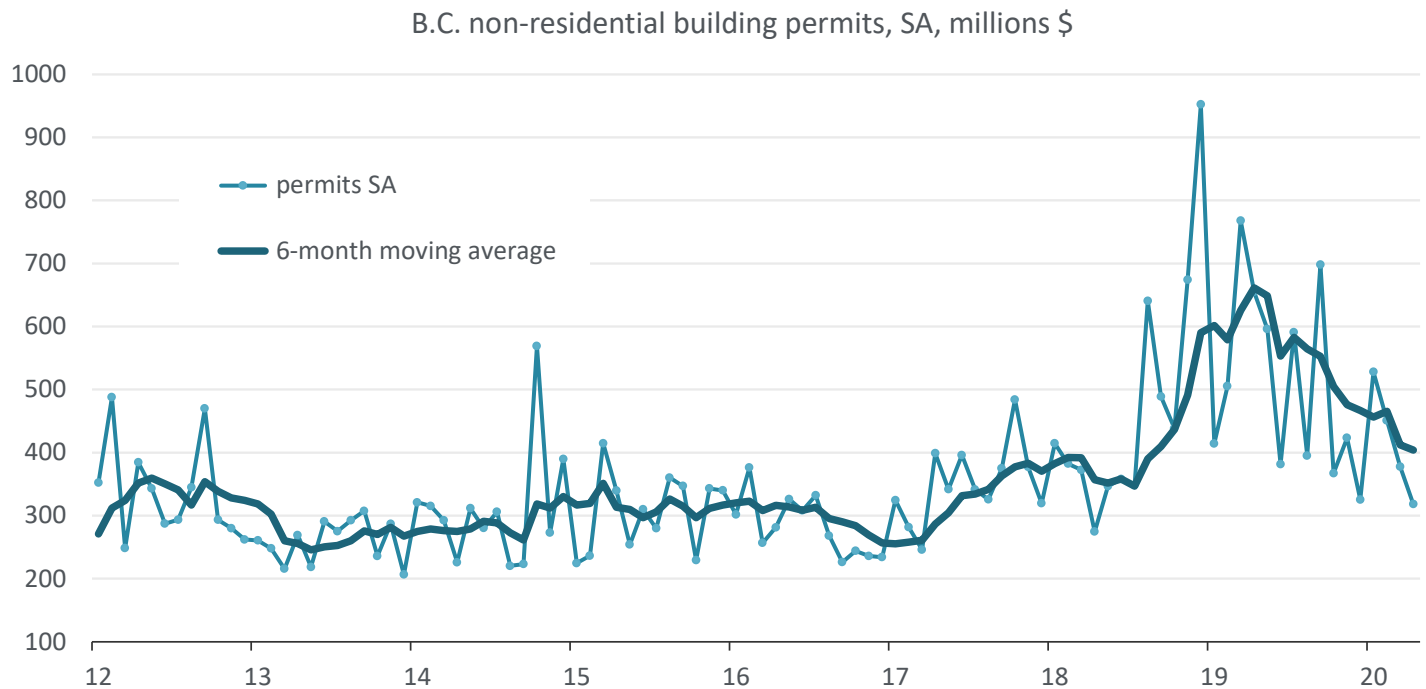
Source: Statistics Canada, Table: 20-10-0008-01. Latest: March 2020. \* Seasonally adjusted.

FIGURE 13: **IMPACT VARIES ACROSS SEGMENTS OF RETAIL**



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

FIGURE 14: **NON-RESIDENTIAL PERMITS HEADING LOWER BEFORE CRISIS**



Source: Statistics Canada, Table: 34-10-0066-01. Latest: April 2020. SA = Seasonally adjusted.

## JOB LOSSES ARE WIDESPREAD WITH RETAIL AND HOSPITALITY HARD-HIT

The biggest job losses have been in the accommodation and foodservices industry, where the combined March/April decline totaled 112,000. In May, the sector managed to regain 12,000 positions. Retail (and wholesale) trade and personal services have also been hard hit. Combined, these three service sectors account for more than half of all provincial job losses so far in 2020. The information and culture sector, which includes movie production as well as theaters, has also suffered substantial job declines.

## MANY JOBS SHOULD COME BACK

With the re-opening of non-essential services, plenty of jobs will come back. But the employment recovery path will be uneven and slow-going. In the early stages of re-opening monthly gains will be large, likely substantially outpacing May's advance on at least a couple of occasions. But the pace of rehiring is expected to be quite slow. As long as international travel remains closed, restaurants operate at just half capacity, other consumer-facing businesses operate with some restrictions in place, and [tens of thousands of B.C. businesses fail](#),

re-hiring and job creation will be choppy and weak. Restructuring will also weigh on job growth over the forecast horizon. In an environment where consumer spending is soft, companies in the retail and foodservices sectors will be looking to cut costs by scaling back the size and number of outlets. Starbucks' recent announcement that it is closing 200 stores across Canada is an example of what is certain to be a larger trend. Adding it all up, in our judgement B.C. will be fortunate to regain half of the 400,000 lost jobs between February and April by the end of the year.

## RETAIL SALES FALL SHARPLY, BUT SOME SEGMENTS EXPAND

The closure of much of the retail industry for much of March led to a y/y 5% decline in retail sales in that month. When sales data are reported for April, we expect to see a 15% y/y drop, with another negative y/y result for May.

The partially impacted March data show the motor vehicle and parts sector being hardest hit (down nearly 30% y/y). The shift to remote working and closures of non-essential businesses coupled with price declines led to a 22% decrease in gas station sales. Furniture stores also experienced big drops in sales as traffic plummeted.

Some essential segments of retail, however, were kept open. The closing of restaurants meant people had to cook at home. Sales at grocery stores surged almost 30% y/y in March, with an even bigger jump likely in April. Electronics and appliance store sales were also up sharply, as people scrambled to equip their home offices with computers, web cams and other electronics.

A broader recovery in retail will begin in the summer and through the end of the year, supported by the Canada Emergency Response Benefit (recently extended for another eight weeks) and other government support programs. But ongoing physical distancing and fear of contracting the virus will alter shopping patterns and keep some consumers away from all but essential retail outlets. Massive job losses will also leave many households struggling to rebuild finances. The retail sector will

undergo a period of transformation as the virus accelerates already existing trends such as the move towards online shopping, industry consolidation, and the relative decline in the number of small retailers.

## RECESSION WILL SLOW CONSTRUCTION ACTIVITY

The outlook for construction in B.C. is mixed. On the positive side construction remained open and thus will not have to go through a re-start process as in some other provinces. But even so, 40,000 construction jobs have been lost since February as activity has been pared back in certain parts of the sector.

B.C. non-residential building permits have been trending lower for more than a year. The downward trend continued into 2020. The value of non-residential permits was down 28% year-to-date through April. Permit values will continue to slide as projects are put on hold amid an uncertain economic and business environment and some companies re-assess their capital spending plans. In our industry-by-industry analysis, we have non-residential construction GDP contracting by 13% in 2020, followed by a small decline in 2021.

Boosted by government capital spending, large engineering and infrastructure construction is set to rise. Because it will take time for projects to ramp up, we expect much of the lift to show up in 2021.

The residential construction industry is harder to gauge. One of the main drivers of demand for homes is population growth, which in B.C.'s case is due largely to international immigration. Given the likelihood

that immigration will fall sharply over the next year or two, builders may temper development plans. On the other hand, the provincial government will probably view this as an opportune time to advance plans to increase the number of purpose-built social and other non-market housing units. This year economic output in the residential construction segment will fall but it should rebound in 2021. This year's anticipated downturn also reflects a temporary pull-back in renovation spending.

## SLOWER POPULATION GROWTH AHEAD AS IMMIGRATION SLUMPS

Immigration has long underpinned provincial population growth and has become even more significant in recent years. Until the COVID-19 crisis, Ottawa was still committed to adding 370,000 new permanent residents in 2020. This would have exceeded the record-setting 341,000 immigrants in 2019. The spread of COVID-19 and stringent travel restrictions, however, effectively have shut down immigration. Amid ongoing border restrictions, travel-related health fears, and the global economic downturn, we expect immigration levels to be down sharply in 2020. A partial recovery in 2021 will depend in part on the course of the pandemic.

Travel restrictions and border closures stopped new immigrants coming to Canada in mid-March. Immigrants are processed only with permanent residency or study permits approved before March 18. In March, permanent-resident additions were 30% below last year's level.<sup>2</sup> If these restrictions last all

<sup>2</sup> RBC Economics, "COVID-19 Derails Canadian Immigration" (May 29, 2020).

summer, RBC economics expects 170,000 fewer permanent residents will enter the country in 2020 than planned. This represents a 45% reduction.

In B.C. permanent immigration rose from ~38,000 in 2017 to ~50,000 last year. A 45% decline would mean 22,000 fewer immigrants than moved to B.C. last year.

Temporary foreign workers (TFWs) are exempt from travel entry restrictions. But not surprisingly few are coming. The number of TFWs entering Canada was down 35% y/y in March. In addition to fears of contracting the virus, the fact that TFWs are required to isolate in Canada for 14 days before starting work is a deterrent. While Canada is offering \$1,500 per worker to help buffer these costs, similar quarantines may exist in their home countries, thus altering the financial incentives to travel internationally for work.

Importantly for B.C., fewer foreign students are entering on study visas. Student entries were down 45% y/y in March. Fall enrolments of foreign students are almost certain to be down markedly given ongoing travel restrictions. To some extent the rapid and broad shift to online learning may result in a permanent move to remote learning.

## SUMMARY THOUGHTS

An important characteristic of this strange recession is the magnitude of job losses. Getting people back to work is going to be essential. But the recovery will be hampered by partial reopenings, physical distancing rules that throw sand in the gears of business operations in

some sectors, and probable changes in consumer preferences and behaviour.

For both Canada and B.C., the 2020 downturn is shaping up to be the deepest in 100 years. As the economy lurches and sputters, it will become evident that many businesses face higher operating costs owing to reduced occupancy, enhanced cleaning and service requirements and necessary safety-related costs for staff and clients. Additional costs change the math and will impact the ability of some firms to survive. The same trends also make it more difficult for new businesses to form and create jobs.

Looking ahead, government will need to do everything it can to support new company creation and help existing firms remain in business in the post-crisis world.

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