

MARCH 8, 2021

ECONOMIC OUTLOOK AND THE IMPLICATIONS FOR
THE B.C. TOURISM AND HOSPITALITY SECTOR

PRESENTED TO

B.C. TOURISM & HOSPITALITY CONFERENCE

Jock Finlayson, Senior Advisor
jock.finlayson@bccbc.com

Ken Peacock, Senior Vice President & Chief Economist
ken.peacock@bccbc.com



www.bccbc.com | [@bizcouncilbc](https://twitter.com/bizcouncilbc)

GLOBAL PICTURE

- COVID-19 pandemic to date: ~115 million infections and >2.5 million fatalities
- Most severe world-wide economic contraction of the post-war era
- Recovery from spring 2020 downturn is underway in many countries, including Canada, but it's choppy. Q1 2021 is likely to be sluggish
- Dramatic variations in the impact of the virus and containment measures across different industry sectors and segments of society
- The crisis and its aftermath may encourage 'de-globalization' and a shift toward increased nationalism and more populist politics
- It will also leave a lasting impact on the organization of work and the pace and scope of digital transformation

U.S. ECONOMY AND COVID-19

- In 2020, the U.S. suffered the **smallest decline in real GDP** (-3.5%) among all advanced countries, despite its poor handling of the virus
- By December, the level of output was **only 2.5% below January 2020**
- Household disposable income, in aggregate, is **~5% above pre-pandemic levels**. The **household savings rate** is 13.4%
- **Business profitability**, particularly for larger firms, has held up well outside of the hardest-hit industries
- A **booming tech sector** has buoyed the U.S. economy....and the stock market
- Significant progress in **vaccinations and additional stimulus spending** augur well for the American economy in 2021

POSITIVE ECONOMIC OUTLOOK FOR THE U.S. (ANNUAL % CHANGE UNLESS NOTED)

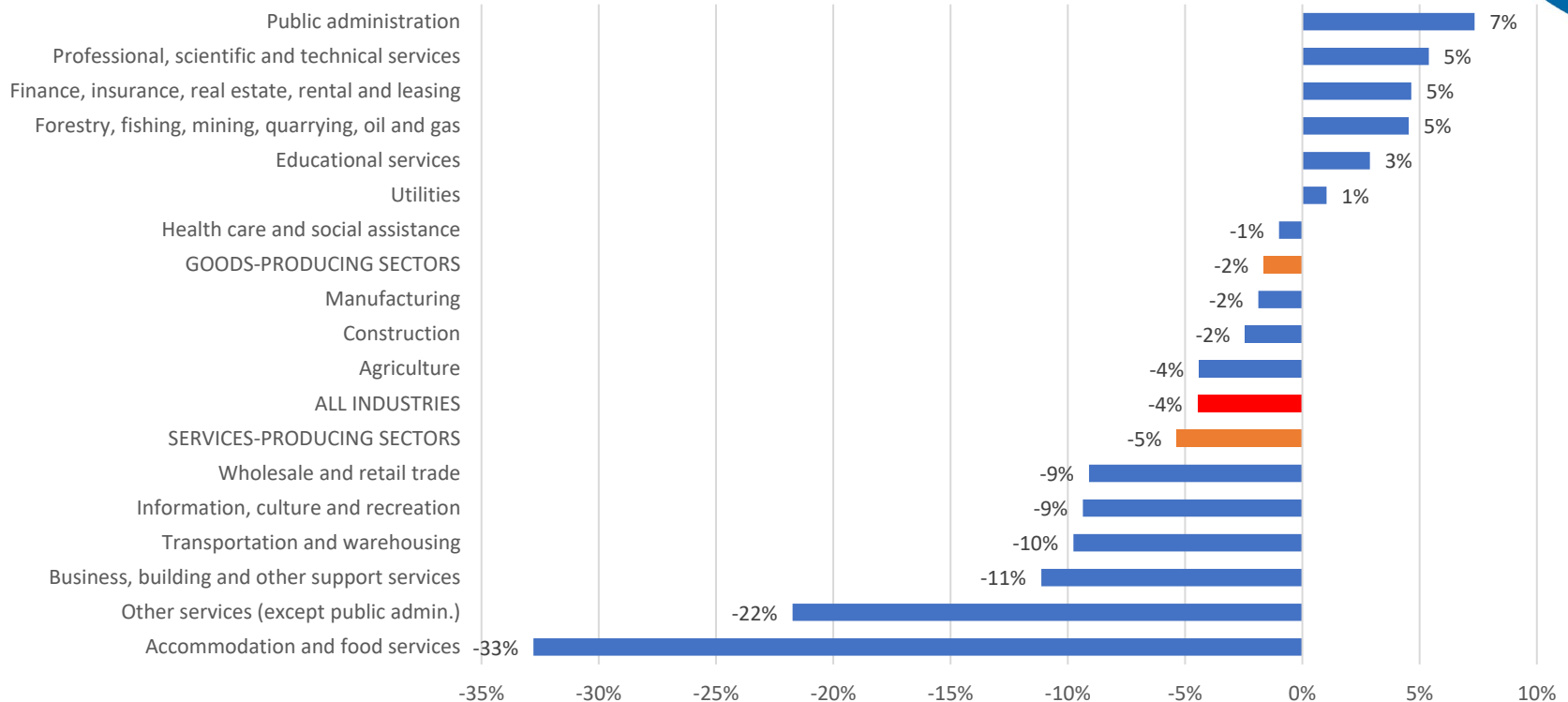
	2020	2021	2022
Real GDP	-3.5%	+6.0%	+4.0%
Real consumption	-3.9%	+7.1%	+4.6%
Real non-residential investment	-4.0%	+7.5%	+4.0%
Housing starts (millions)	1.4	1.65	1.7

CANADIAN ECONOMY – CURRENT SITUATION AND NEAR-TERM OUTLOOK

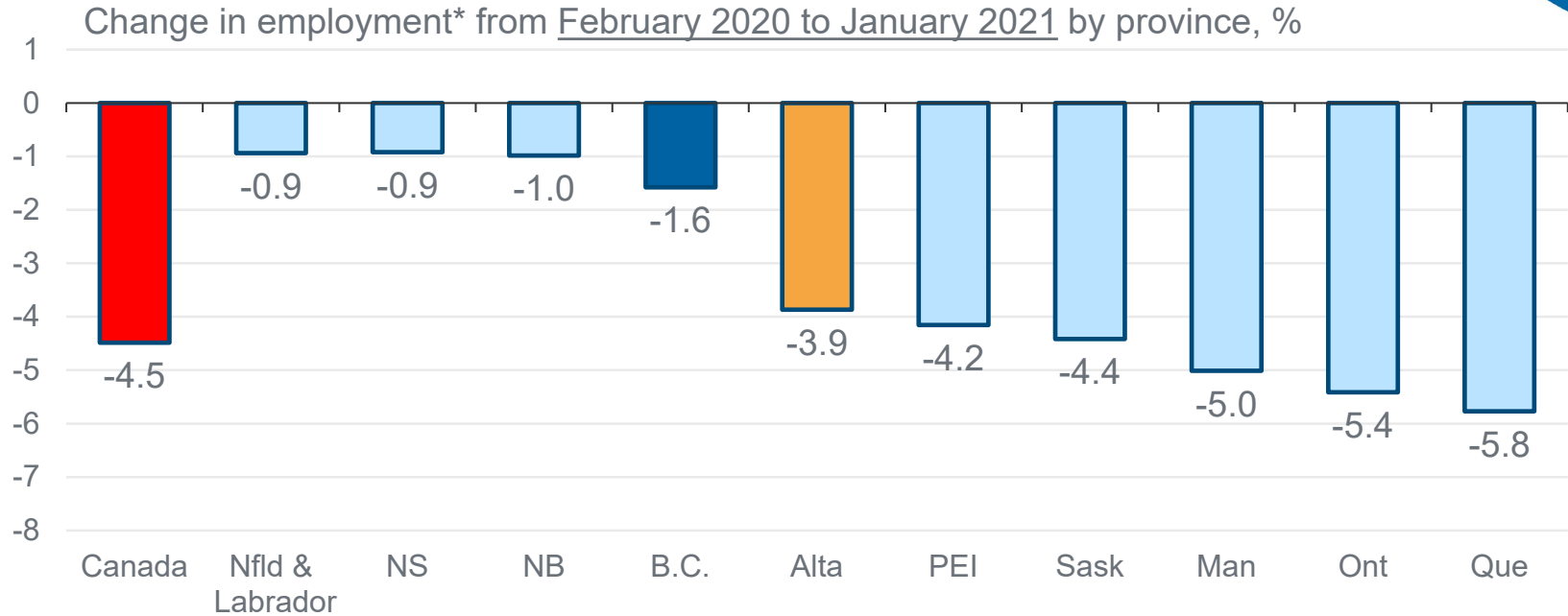
- Canada's economy performed better than anticipated in Q4 2020, with real GDP surging by almost 10% annualized despite the 'second wave' of COVID-19. Some of this reflected inventory accumulation as many firms anticipate better business conditions in 2021
- The level of GDP in Q4 was down 3.2% vs 2019 (in Q2, it was down 13%)
- Consumer spending has continued to recover, overall. However, in hospitality/travel services it remains exceptionally weak
- Housing markets have been robust, and business investment in machinery and equipment has been picked up
- Substantial policy tailwinds are in place to support continued recovery in 2021. In addition, households have accumulated more than \$200 billion in savings which will help to support an economic rebound as the virus fades

EMPLOYMENT HAS DROPPED IN MOST INDUSTRIES

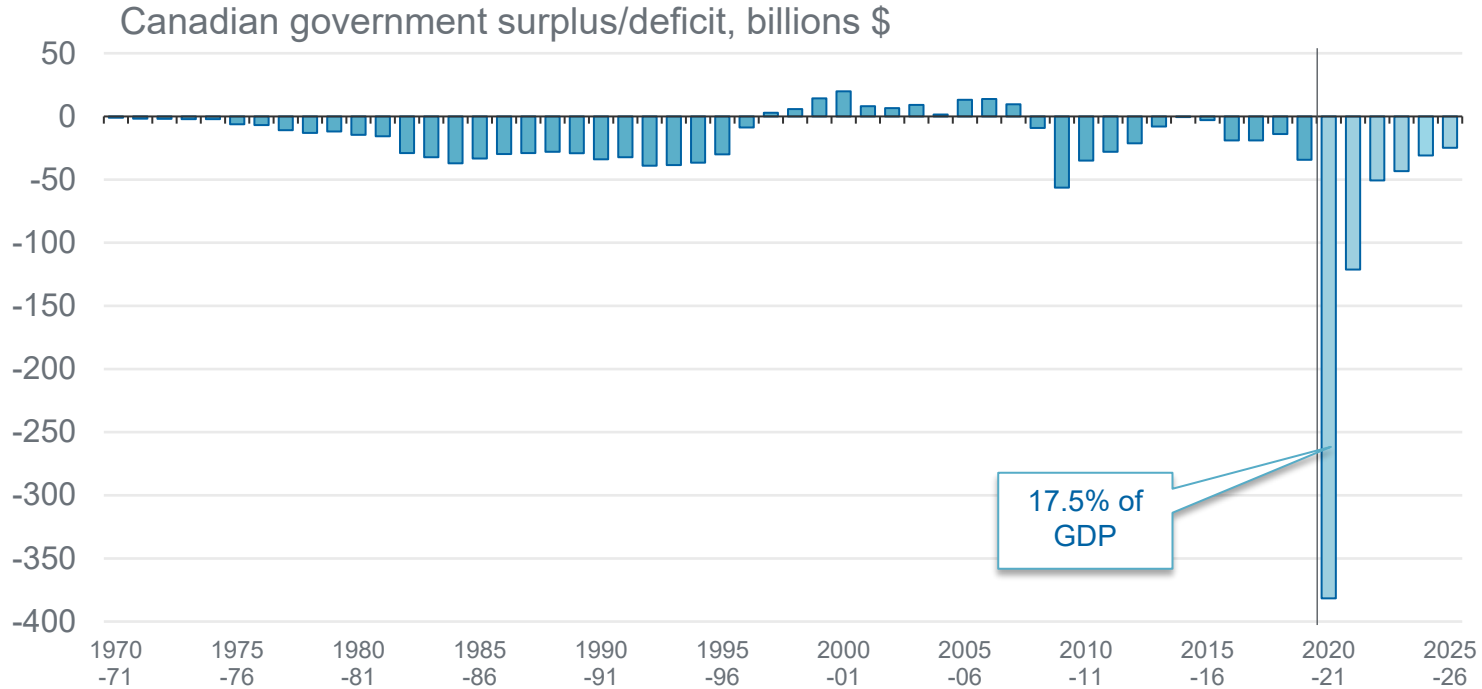
Hours worked by industry, change from Feb 2020 to Jan 2021, seasonally adjusted, Canada



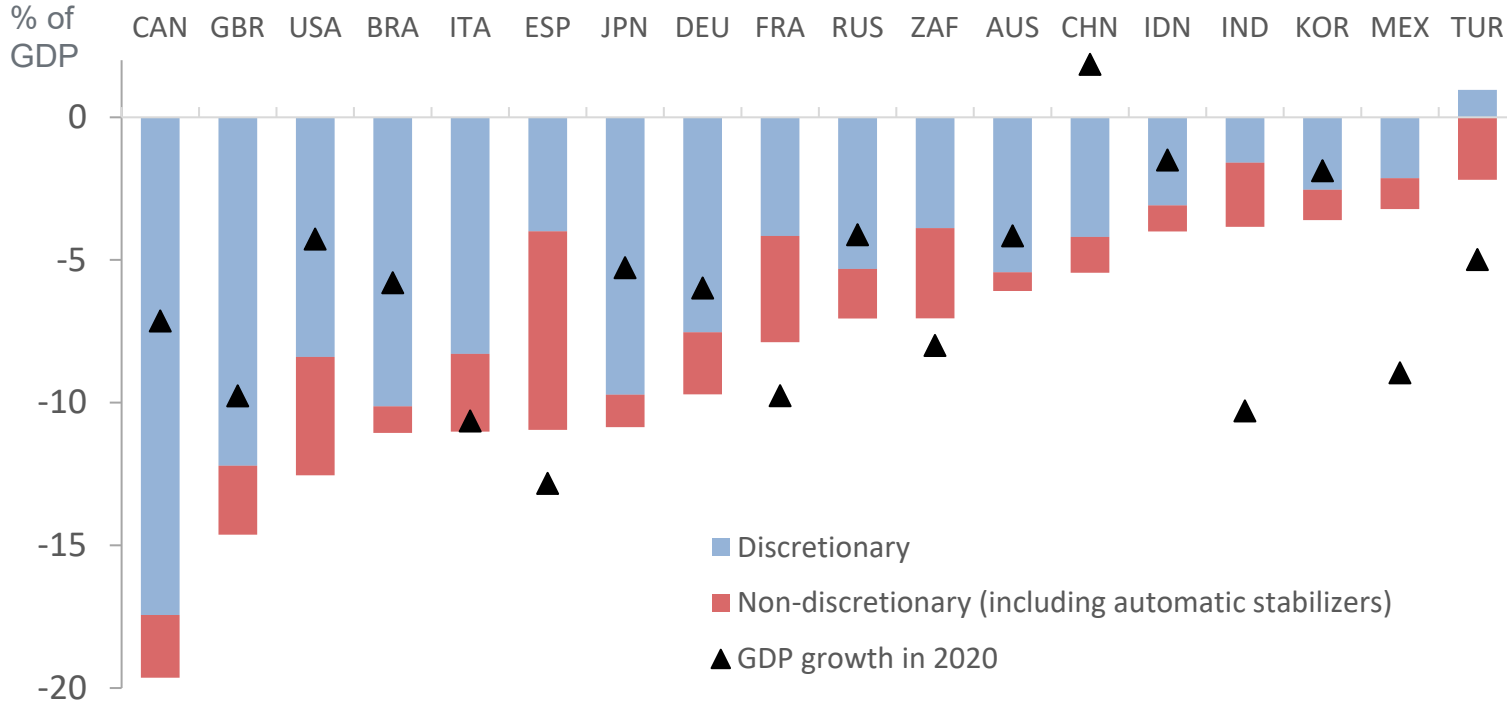
JOBS HAVE PARTLY RECOVERED ACROSS THE PROVINCES



WAR-TIME FEDERAL DEFICIT



CHANGE IN G20 PUBLIC SECTOR BUDGET DEFICITS: CANADA'S FISCAL RESPONSE WAS THE BIGGEST



Note: Discretionary fiscal support is measured as the change in the cyclically adjusted primary balance (CAPB); nondiscretionary fiscal support is the residual. The allocation between discretionary and non-discretionary measures should be considered indicative because output gap estimates, which are used to derive the CAPB, are subject to a high degree of uncertainty.

Source: IMF, WEO database; and IMF staff estimates.

CANADIAN ECONOMIC FORECAST

(ANNUAL % CHANGE UNLESS OTHERWISE INDICATED)

	2020	2021	2022
Real GDP	-5.4%	+5.0%	+4.5%
Employment	-5.1%	+4.5%	+3.5%
Real consumer spending	-6.4%	+5.3%	+4.8%
Pre-tax corporate profits	-6.3%	+29%	+8%
Housing starts (000 units)	219	220	210
U.S./Canada exchange rate (Q4)	77 cents	80 cents	80 cents

FINANCIAL OUTLOOK

	2019	2020	2021	2022
Bank of Canada rate (Q4)	1.25%	0.25%	0.25%	0.25%
10 yr Cdn government bond yield (Q4)	1.2%	0.67%	1.55%	1.60%
10 yr U.S. government bond yield (Q4)	1.4%	0.86%	1.70%	1.75%
Annual CPI inflation, Canada	1.9%	0.8%	2.0%	2.1%
Annual CPI Inflation, U.S.	1.8%	1.2%	2.4%	2.3%

WILL INFLATION SURGE IN THE NEXT FEW YEARS?

Pro

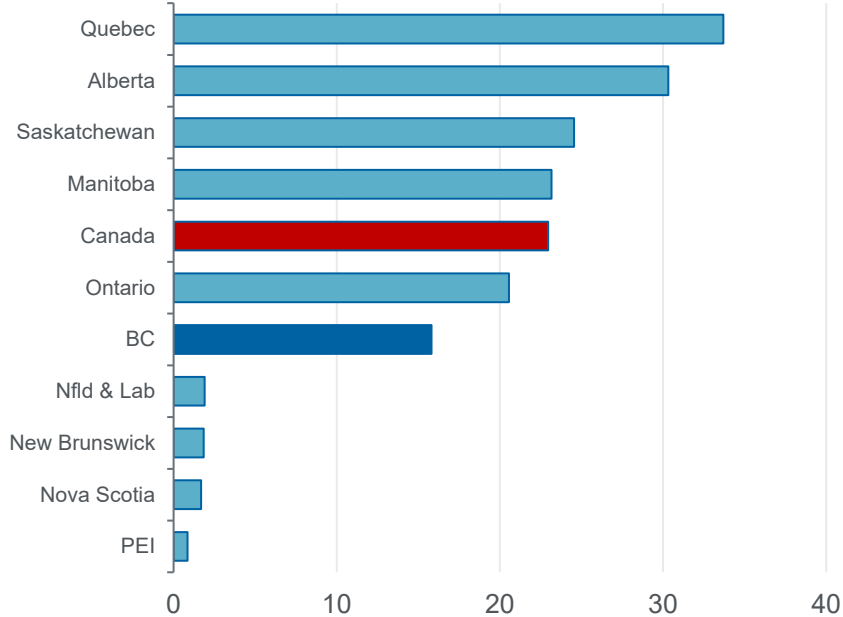
- Massive government deficits/debts pose a risk of economic overheating and create incentives for policymakers to aim for ‘stealth’ inflation
- Asset bubbles supported by zero interest rates and central bank QE policies
- Some COVID-related supply destruction
- Pent-up demand to spend once the virus is gone
- Sand is being thrown in the gears of global supply chains

Con

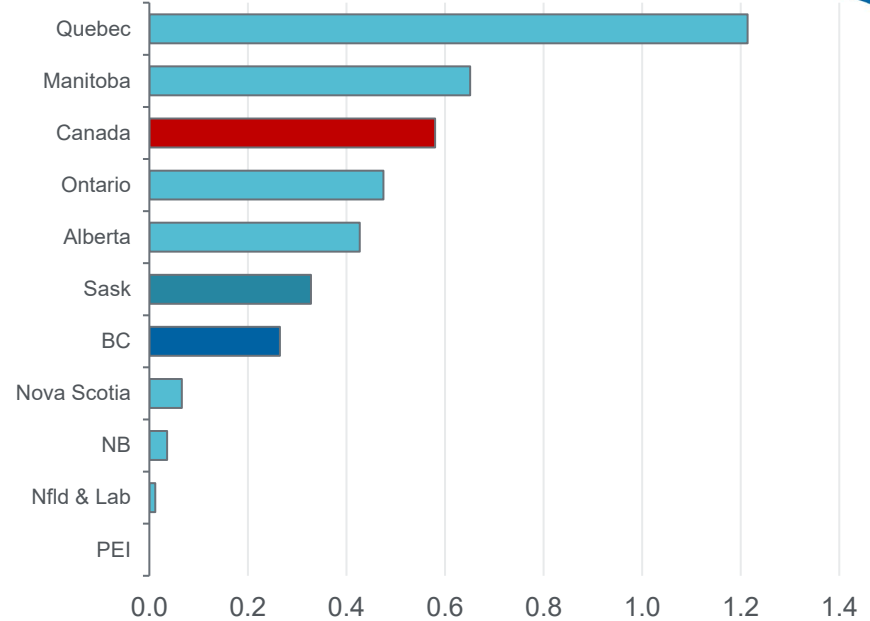
- Economic slack will exist in the wake of the crisis
- Major central banks consistently *undershot* inflation targets for 10 years before 2020
- Role of technology in dampening price pressures
- Plus...fixed income markets – until recently – signalled little fear of inflation

PROVINCES HAVE FARED DIFFERENTLY IN MANAGING COVID

COVID-19 **Cases** per 1,000 population, at 2 March 2021

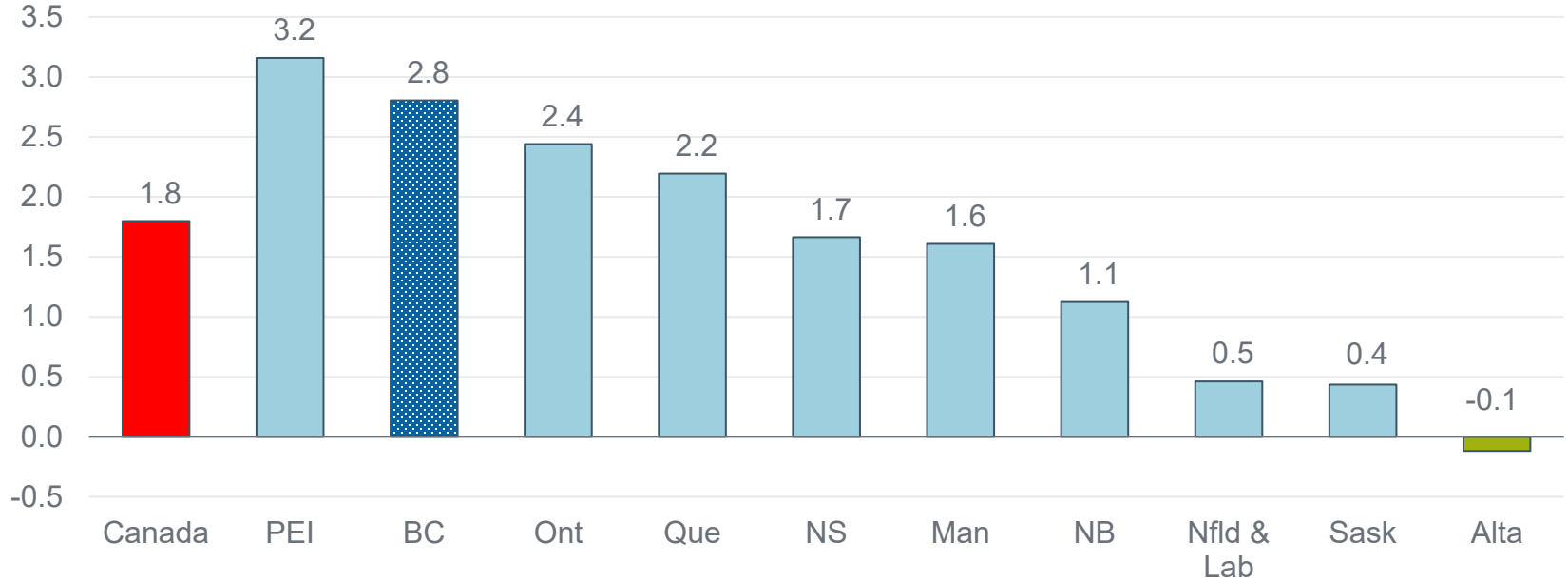


COVID-19 **Deaths** per 1,000 population, at 2 March 2021



OVER THE 5 YEARS TO 2019, B.C. WAS A GROWTH LEADER

Average real GDP* growth 2015-2019, %

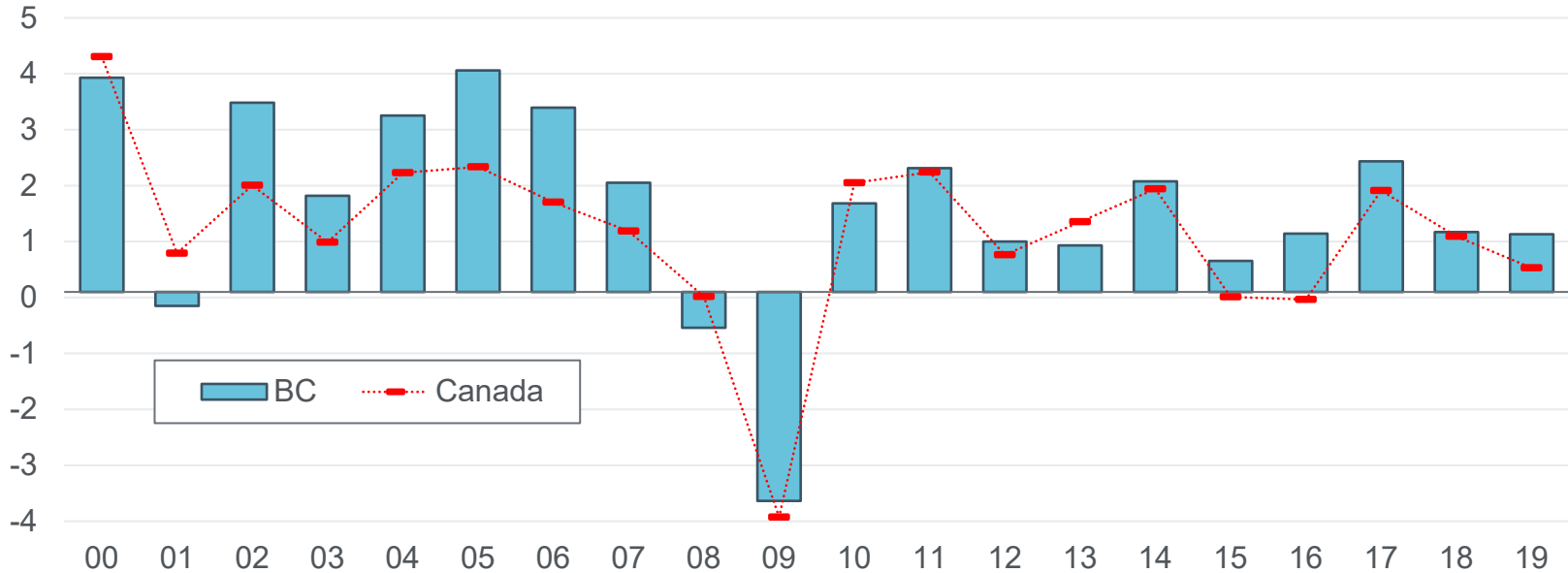


* 2012 chained \$

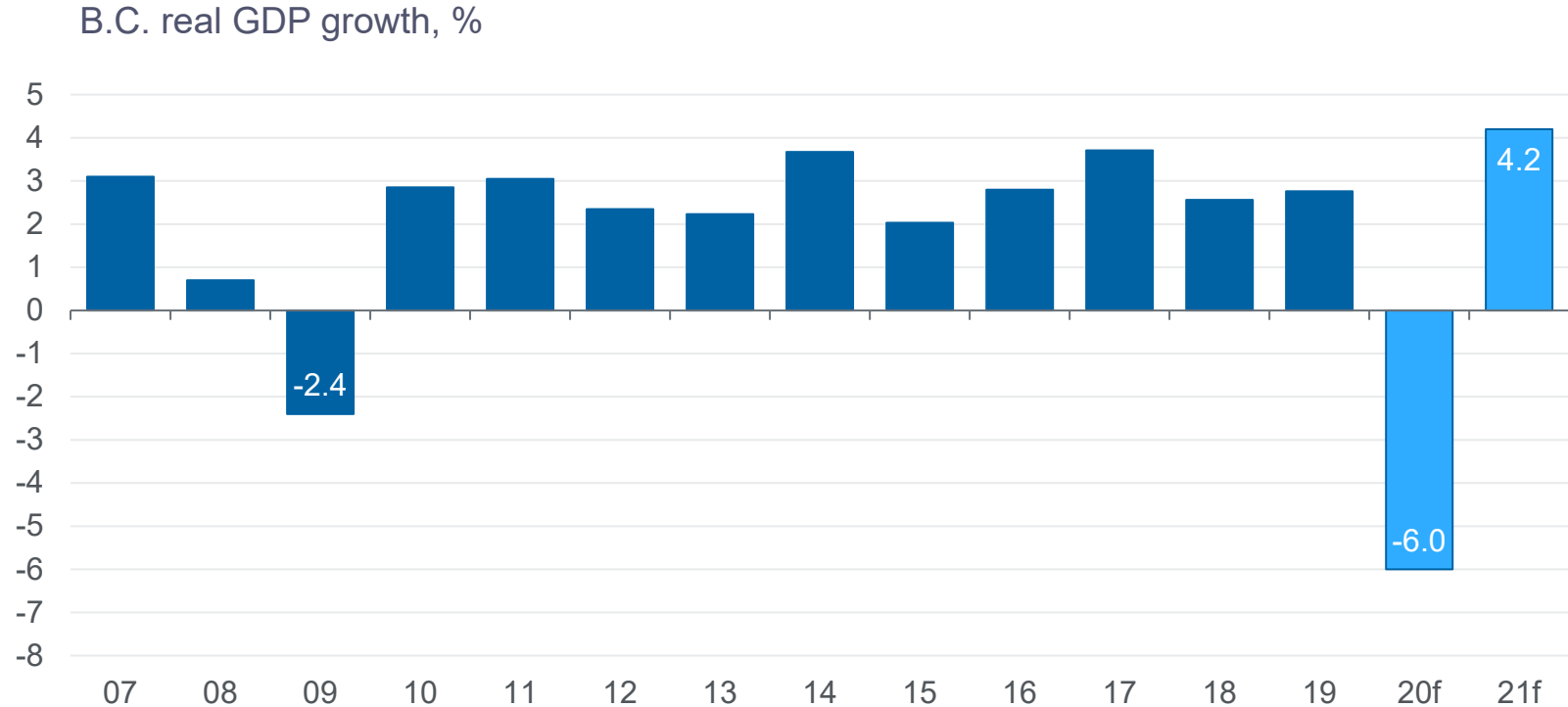
Source: Statistics Canada, Table: 36-10-0222-01.

ON PER CAPITA ECONOMIC GROWTH....B.C. HAS ALSO OUTPACED CANADA SINCE 2014

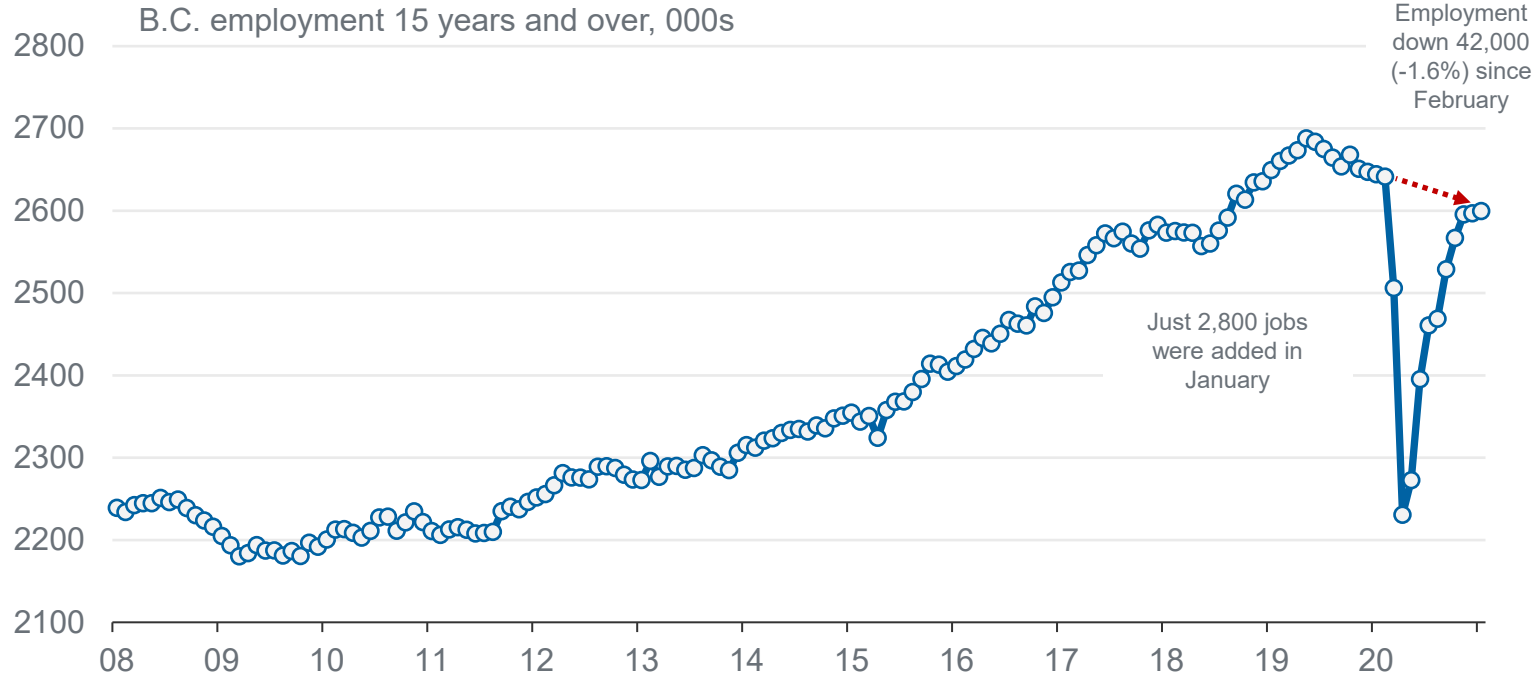
Real per capita GDP growth, %



ECONOMIC DECLINE IN 2020 WAS GREATER THAN IN 2009

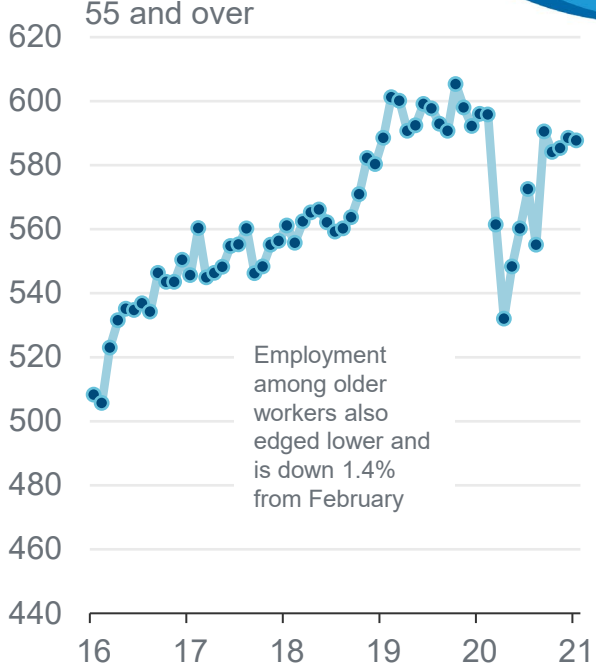
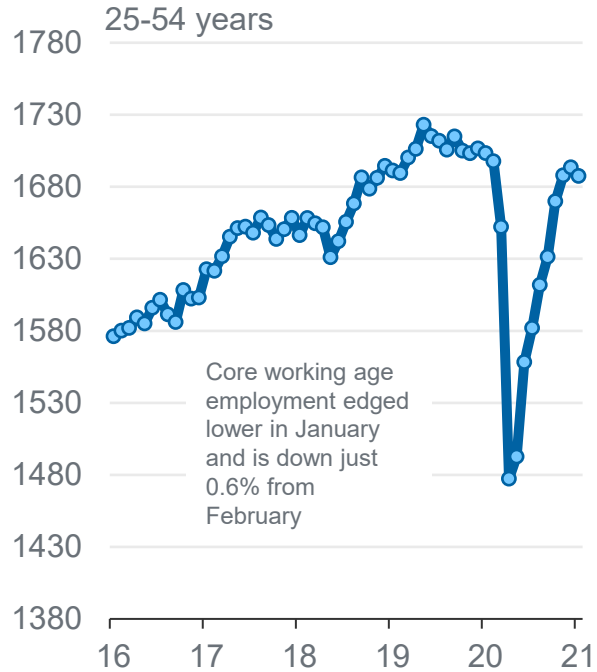
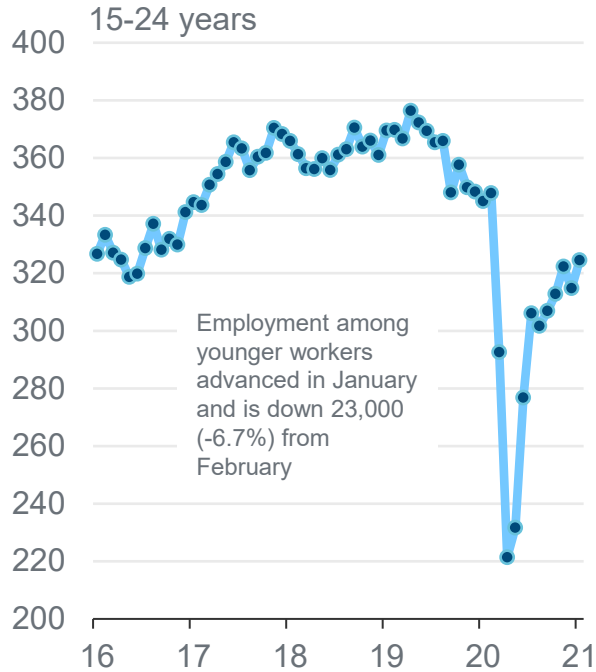


SOLID B.C. EMPLOYMENT REBOUND SINCE MAY

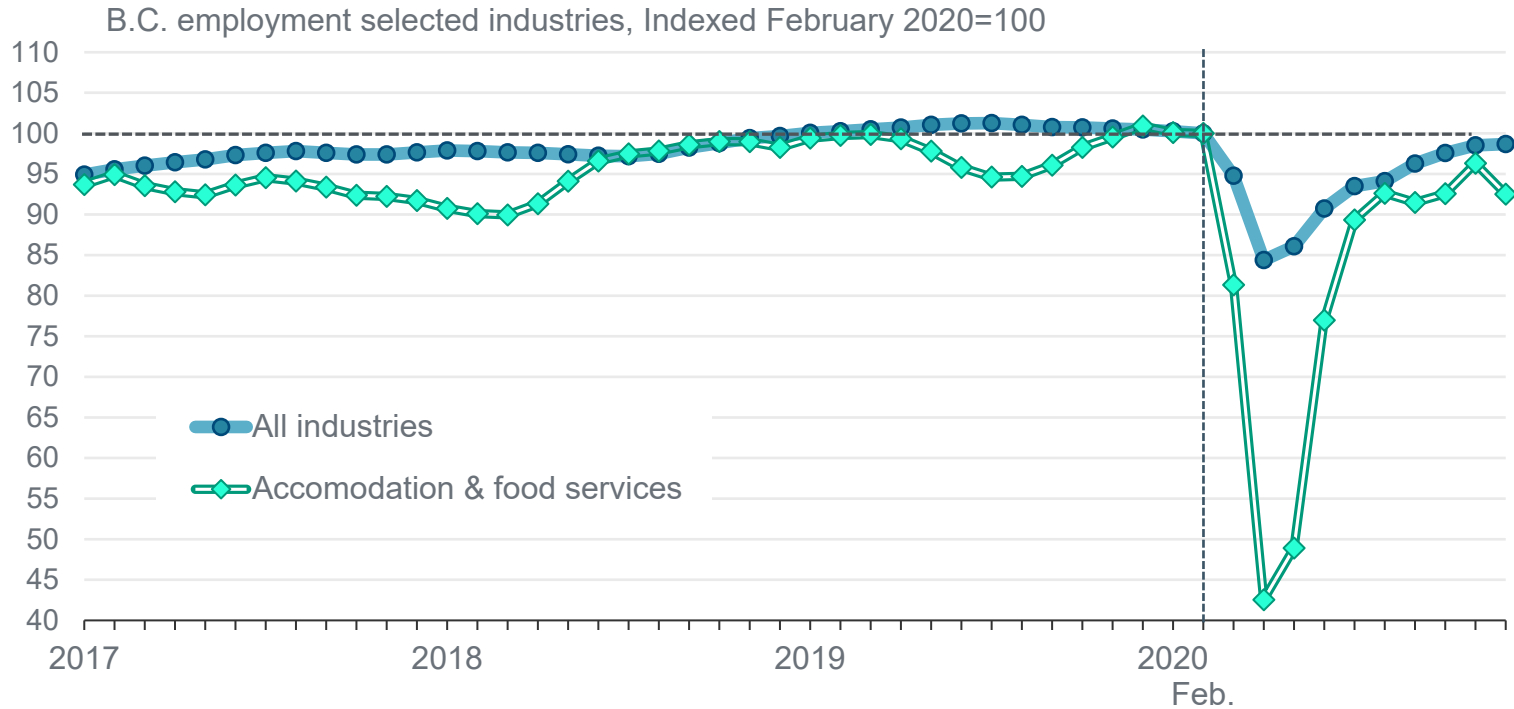


CORE WORKING AGE EMPLOYMENT HAS NEARLY RECOVERED

B.C. employment by age cohorts, 000s

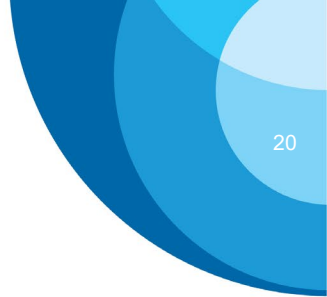


OUTSIZED JOB LOSSES IN HOSPITALITY INDUSTRY



Latest: December 2020. aged 15 and over, seasonally adjusted, 3-month moving averages up to 2020.
Source: Statistics Canada, Labour Force Survey. Table: 14-10-0294-01.

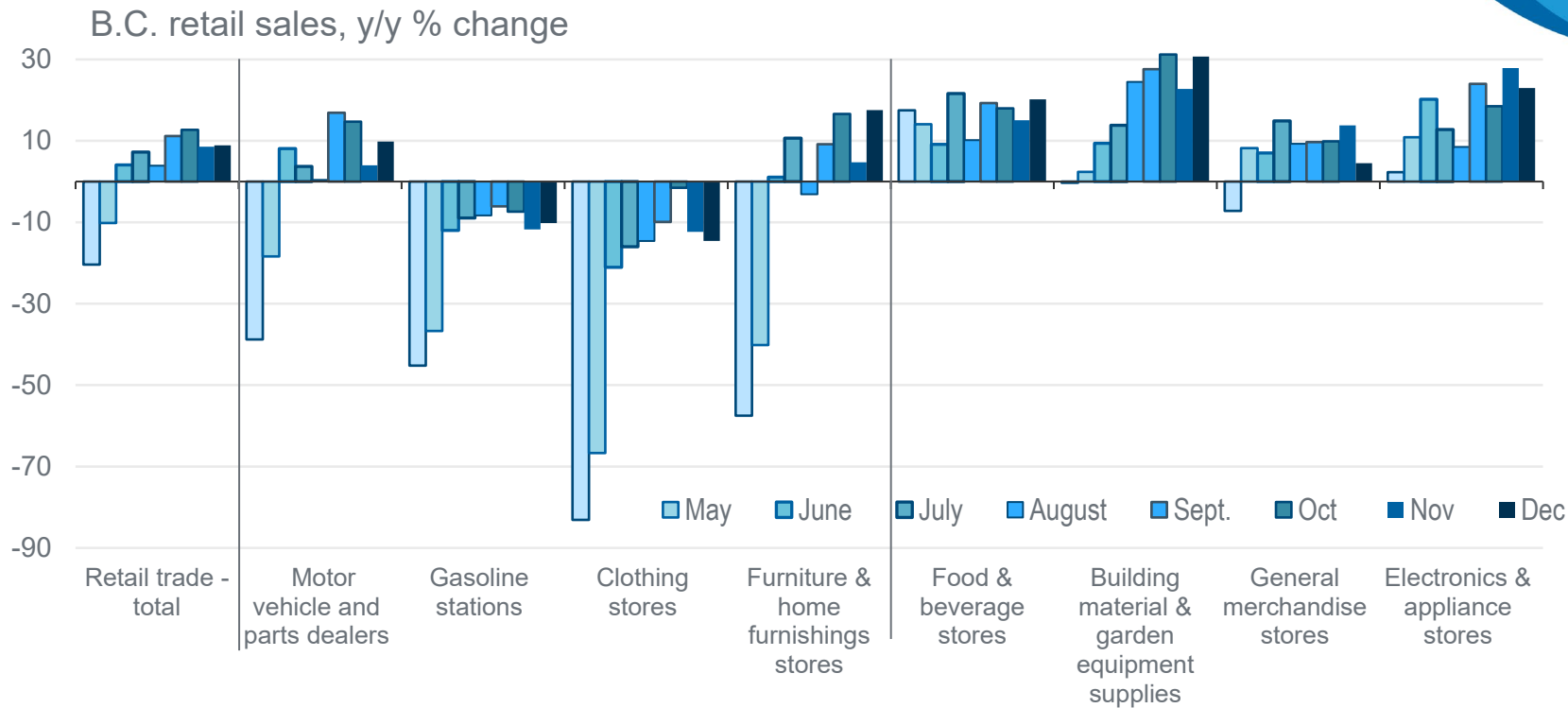
TOTAL RETAIL SALES ARE NOW ABOVE THE PRE-PANDEMIC LEVEL



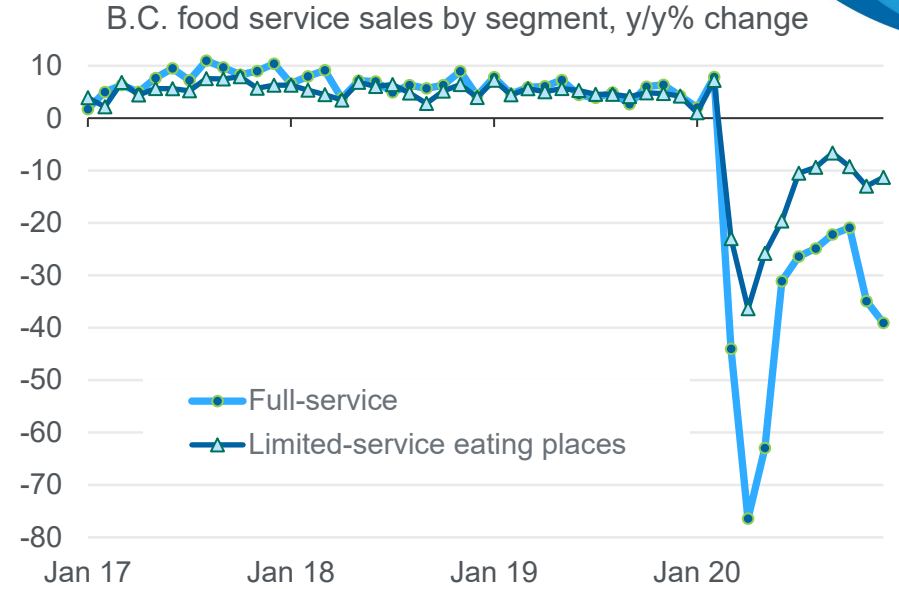
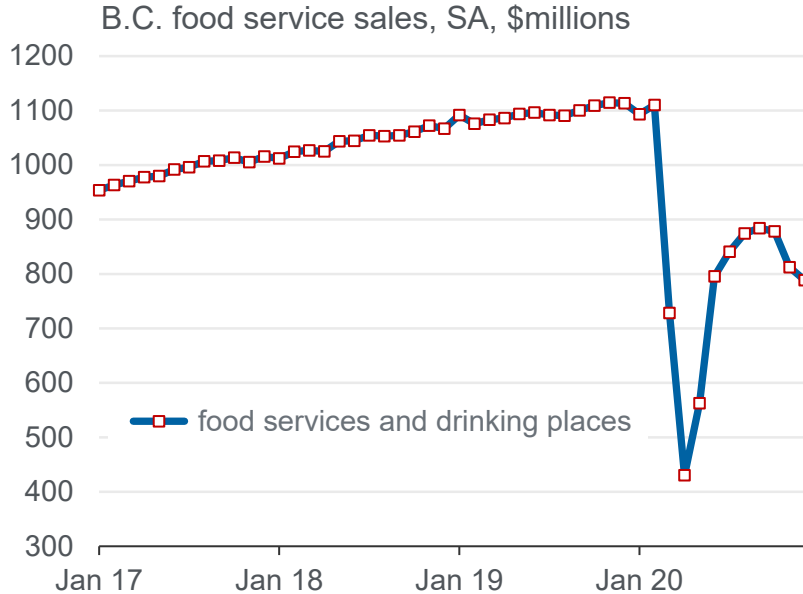
B.C. retail sales SA, millions \$



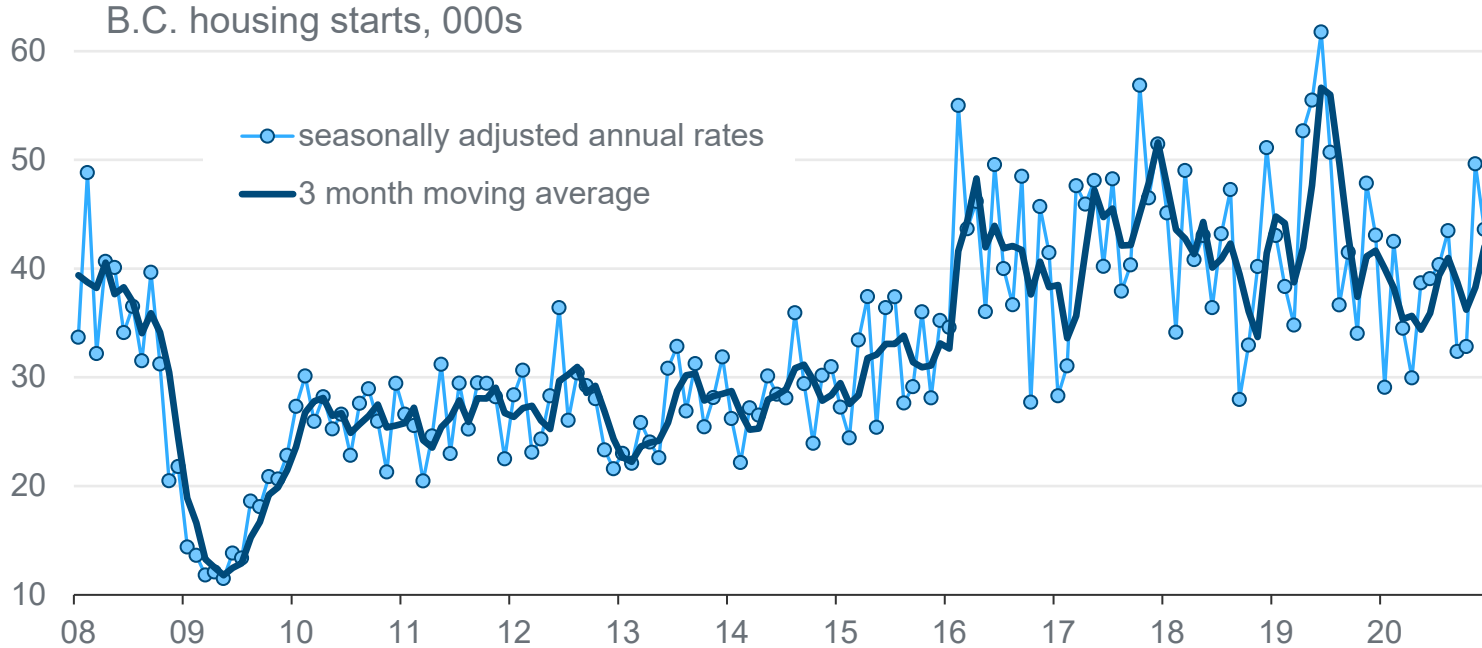
COVID-19 IMPACT VARIES ACROSS RETAIL SEGMENTS



FOOD SERVICE SALES STILL WELL BELOW PRE-PANDEMIC LEVELS

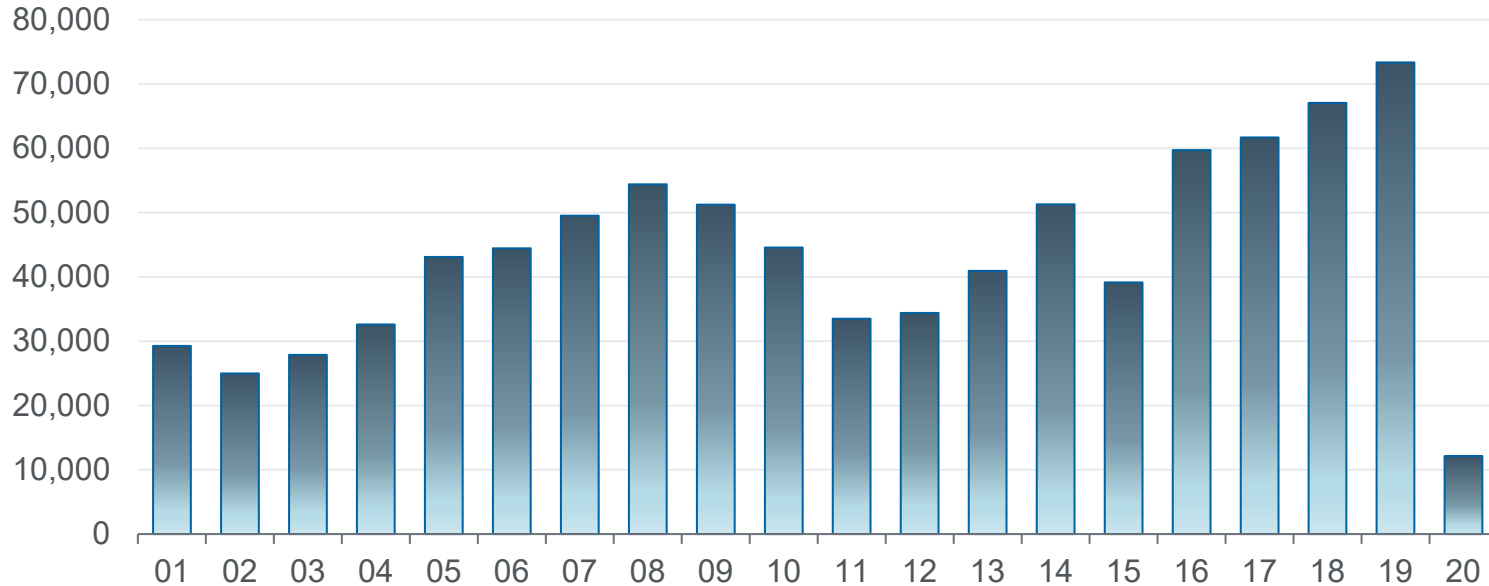


B.C. HOUSING STARTS FELL IN 2020...BUT HOUSING MARKETS HAVE SURGED SINCE JUNE

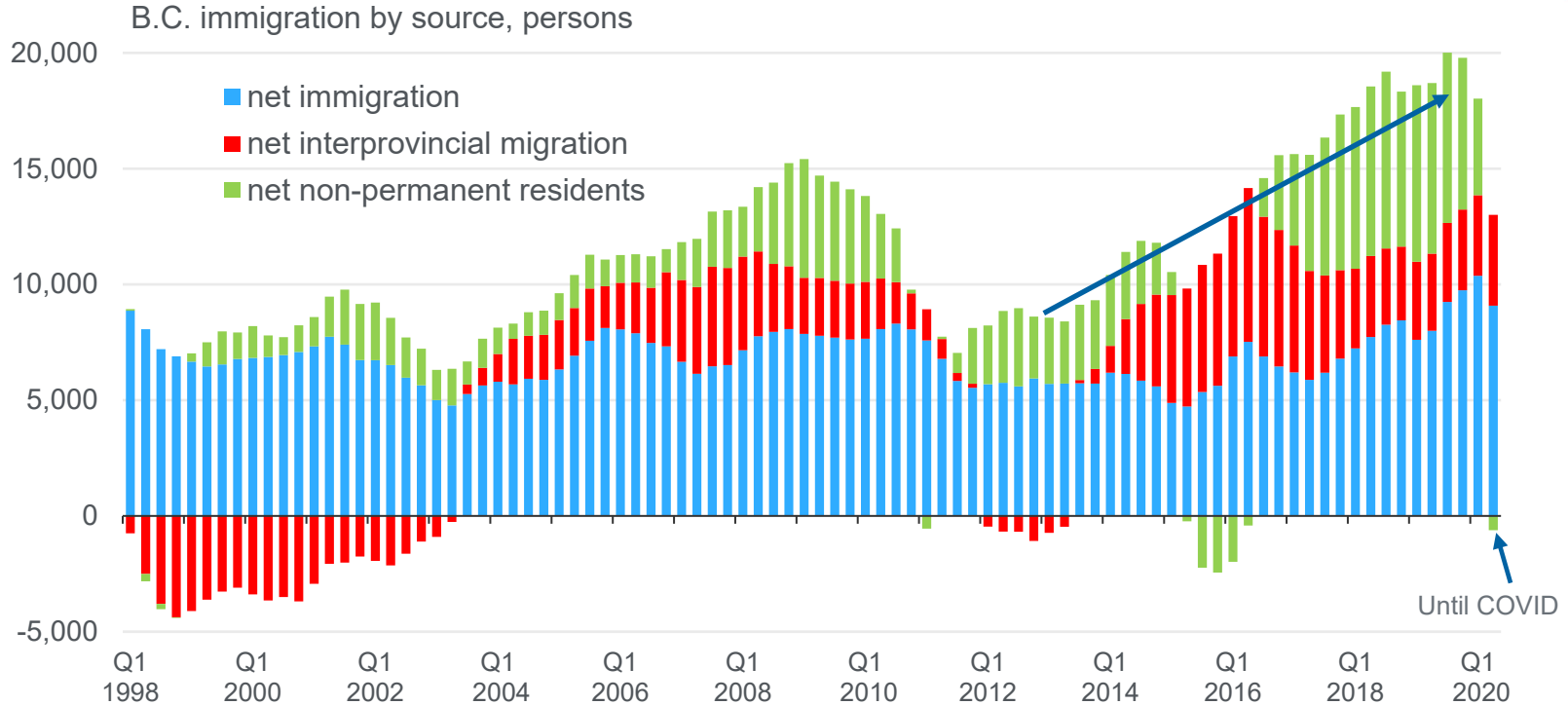


MIGRATION INTO B.C. A KEY ECONOMIC DRIVER

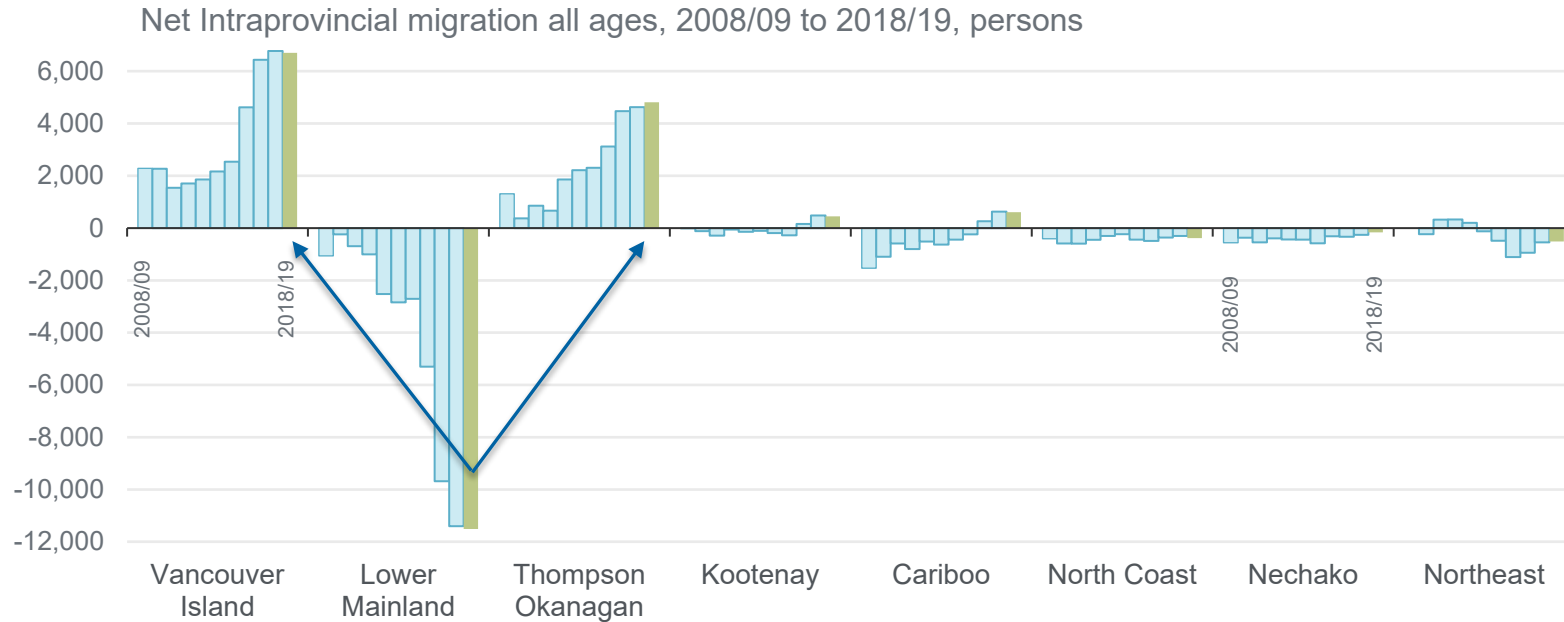
B.C. net in-migration all sources, first three quarters of each year, persons



NON-PERMANENT IMMIGRATION INCREASINGLY IMPORTANT BEFORE 2020...



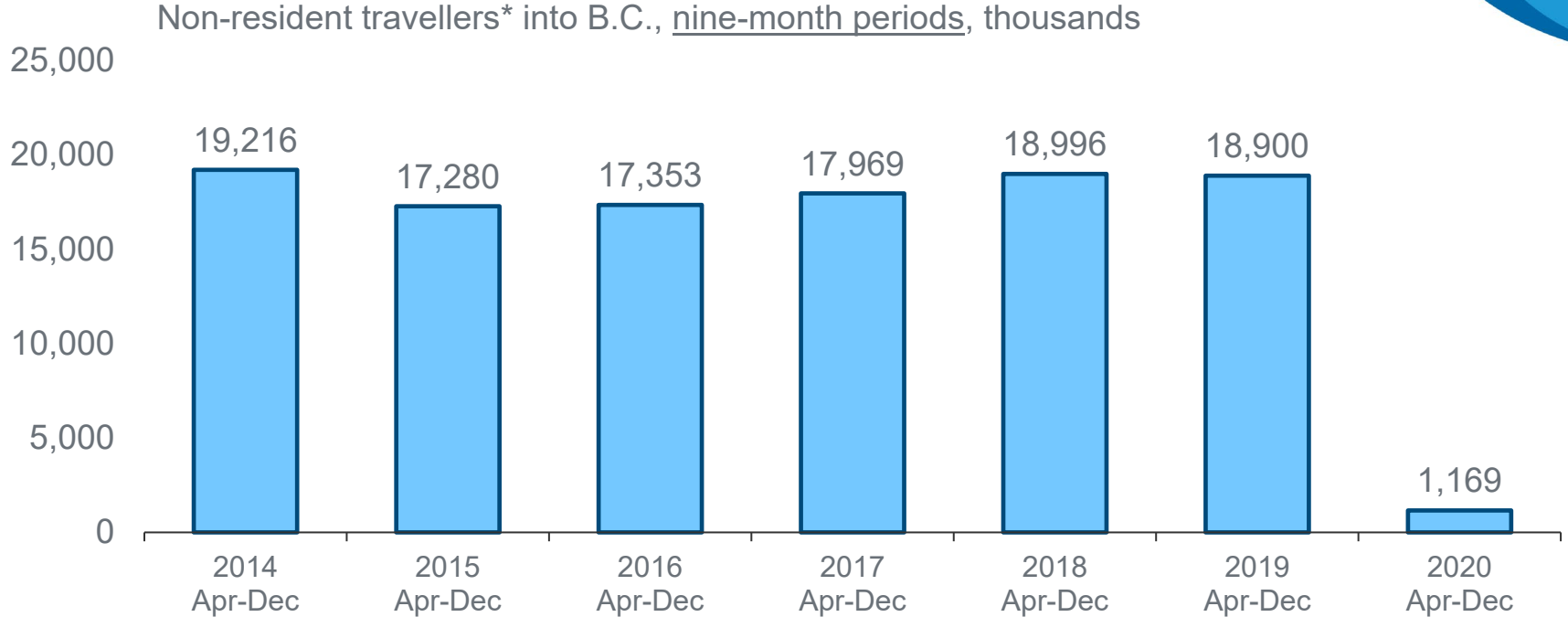
MIGRATION WITHIN THE PROVINCE HAS ACCELERATED AS MORE PEOPLE MOVE OUT OF METRO VANCOUVER



WHICH B.C. INDUSTRY SECTORS HAVE TAKEN THE BIGGEST HITS FROM COVID-19?

- Several sectors have borne the brunt of the pain:
 - Air transportation
 - Other transportation modes (taxis, buses, ferries, passenger rail, etc.)
 - Accommodation (hotels, motels, resorts, etc.)
 - Hospitality and foodservices
 - Some segments of retail trade
 - Entertainment, leisure and recreation services
 - Personal-touch consumer and health services (hairdressers, nail salons, massage therapists, etc.)

INTERNATIONAL VISITORS HAVE DISAPPEARED



SNAPSHOT OF B.C. TOURISM 2020 VS 2019

U.S. overnight visitor arrivals	-87%
Average daily room rate (Metro Vancouver)	-33%
Average daily room rate (Van Island)	-18%
Hotel occupancy rate (Metro Vancouver)	-54%
Hotel occupancy rate (Van Island)	-43%
Domestic passenger volume, YVR	-68%
U.S. passenger volume, YVR	-79%
Victoria airport passenger volume	-70%
Ferries, lower mainland to Van Island, passengers	-47%
Highway traffic volume....Coquihalla	-45%

B.C. ECONOMIC OUTLOOK (BCBC FORECAST)

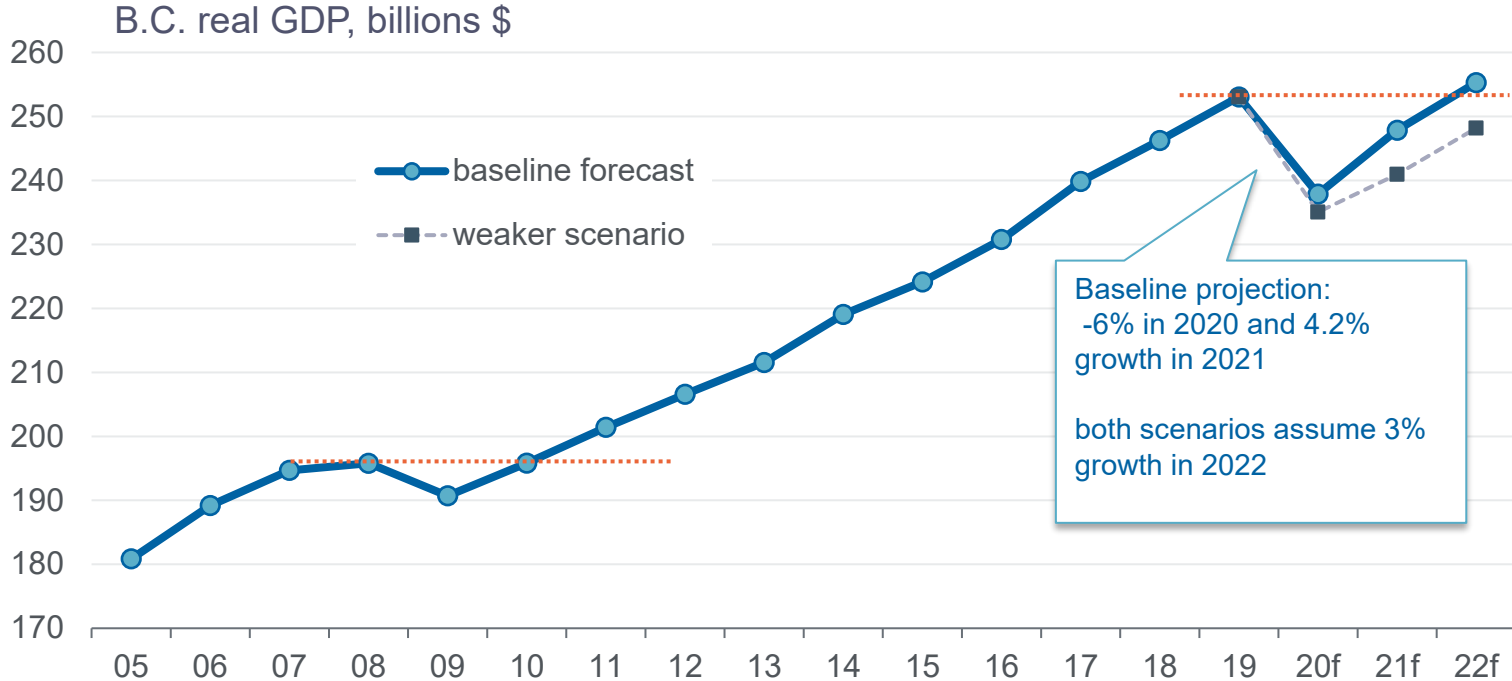
(ANNUAL % CHANGE UNLESS OTHERWISE INDICATED)

	2019	2020	2021f	2022f
Real GDP	1.7	-6.0e	4.5	4.8
Employment	2.6	-6.2	5.2	3.2
Unemployment rate (%)	4.7	8.8	6.4	5.2
Housing starts (000 units)	45.2	38.0	42.0	45.0
Retail sales	0.7	1.8	4.5	4.0
B.C. budget balance (\$) Fiscal year	+1.5 billion	-321 million	-12.8 billion (e)	?

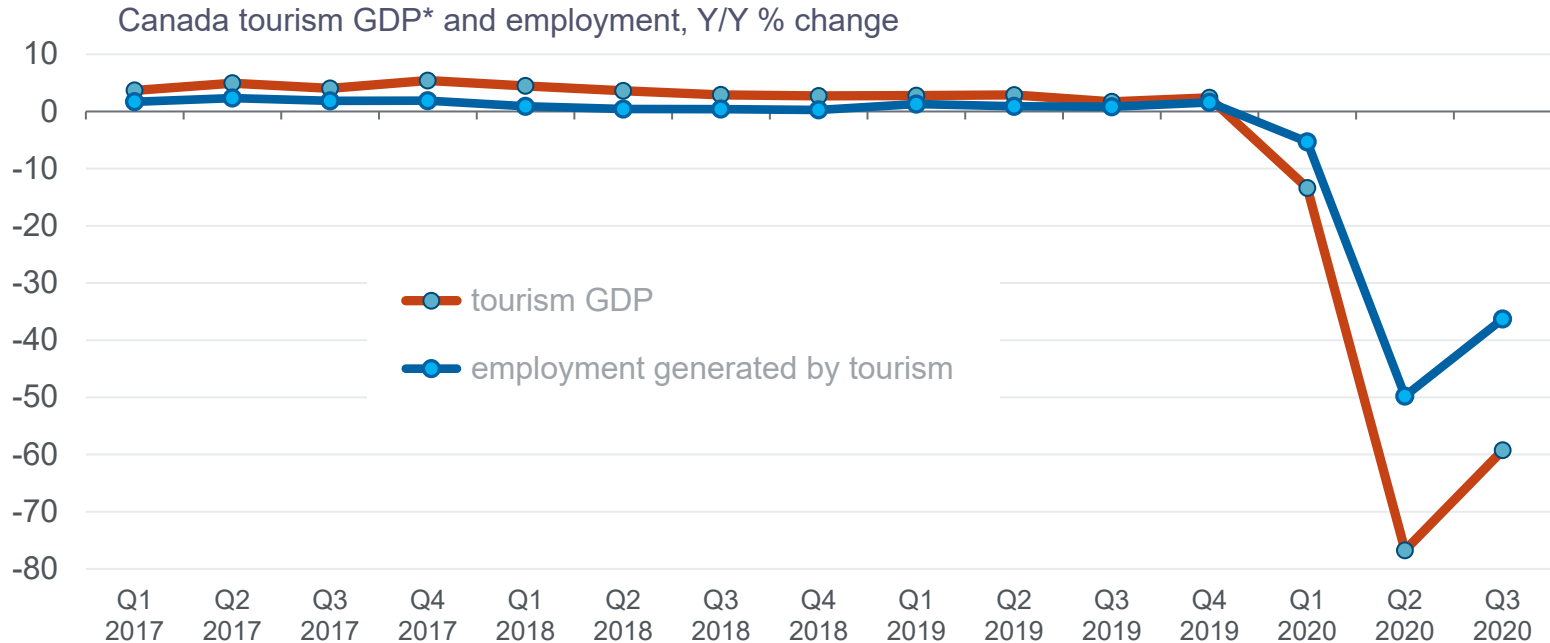
e – estimate f – forecast

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

ECONOMIC OUTPUT LIKELY WILL REMAIN BELOW 2019 PEAK UNTIL THE SECOND HALF OF 2022



OVER Q1-Q3 2020, CANADA'S TOURISM GDP DOWN 50% AND TOURISM EMPLOYMENT DOWN 43%

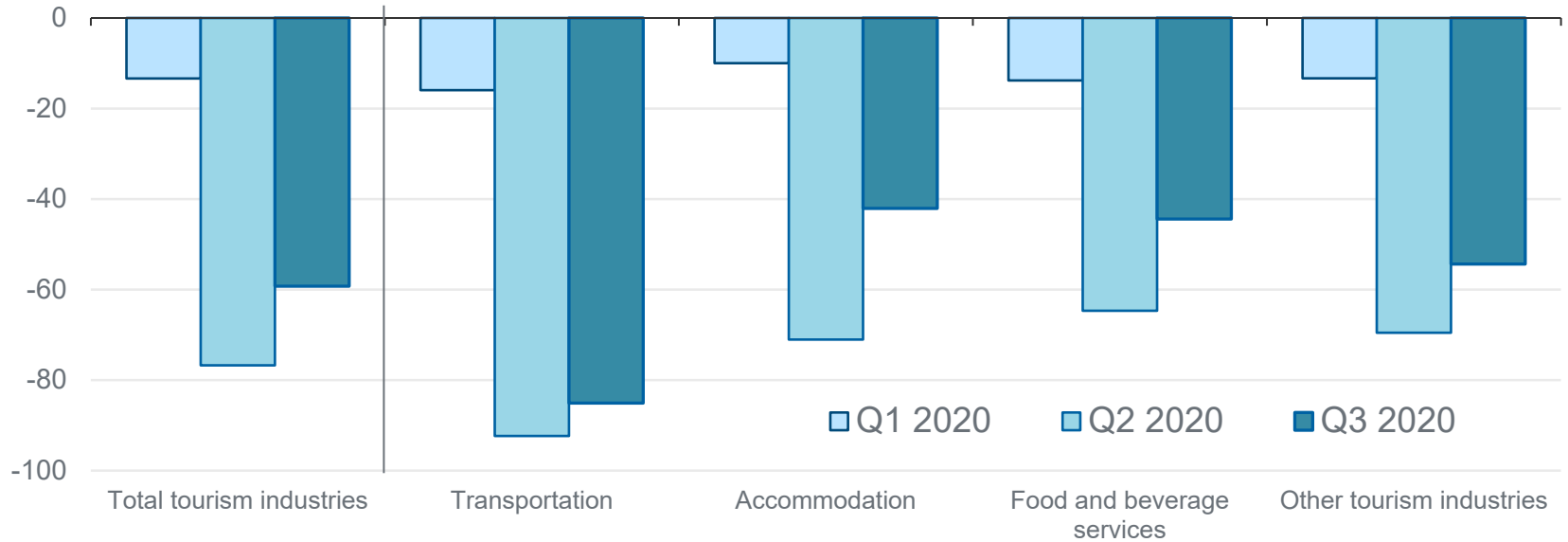


Source: Statistics Canada. Table: 36-10-0232-01 and 36-10-0234-01.

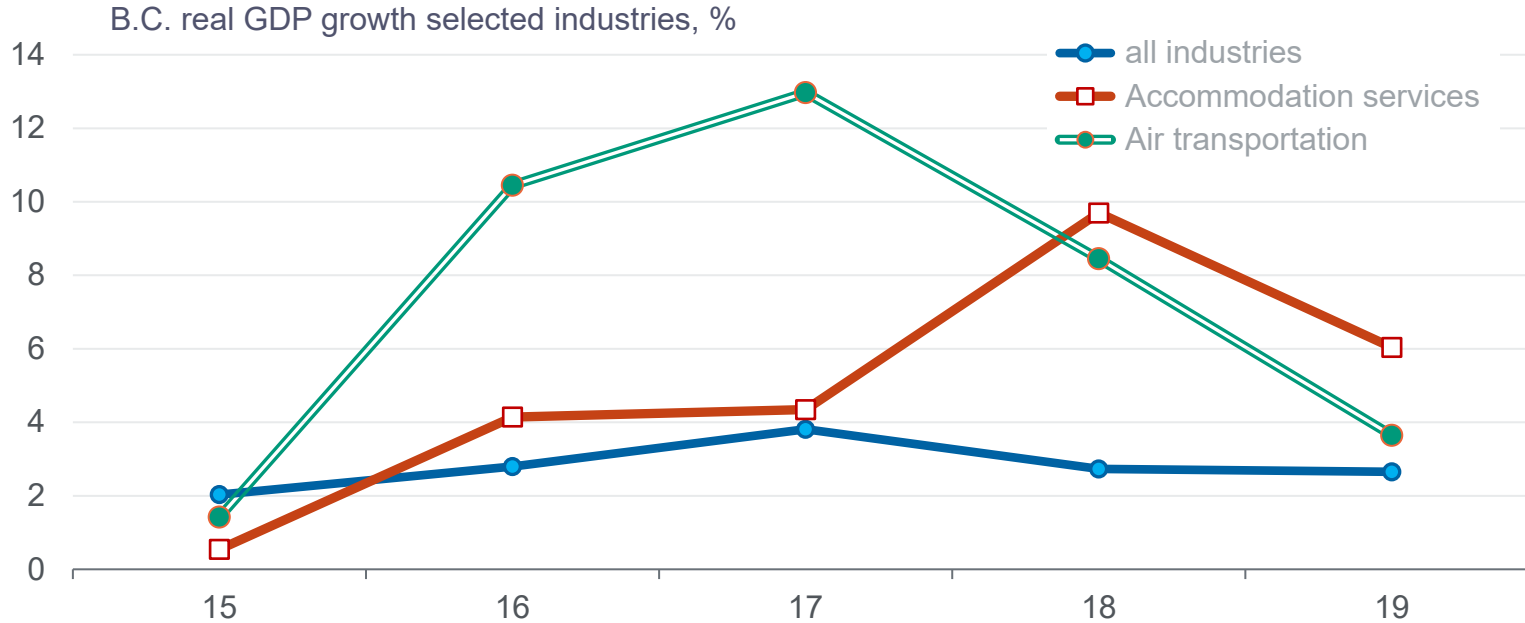
*real chained 2012 dollars

TOURISM RELATED TRANSPORTATION ACTIVITY HARDEST HIT

Canada tourism GDP by industry, y/y % change



STRONG GROWTH IN KEY B.C. TOURISM INDUSTRIES PRIOR TO THE PANDEMIC



Source: Statistics Canada. Table: 36-10-0222-01.
real chained 2012 dollars

TOURISM RECOVERY – WHAT WILL IT LOOK LIKE?

- Vaccines roll-out and efficacy will be critical
 - U.S. is doing well...cases falling sharply
 - when does the Canada-U.S. land border reopen?
- Large pent-up demand for leisure travel, which may come roaring back
- Business travel/events/conventions will be slower to recover
- Concern around the path ahead for Canada's airline industry, future service levels, and competition/costs
- Opportunity to invest in B.C.'s tourism infrastructure and attractions
 - tourism industrial strategy for B.C. – more than marketing
 - leverage and work with B.C.'s film/television/digital production industry
 - focus on growing larger tourism businesses to strengthen resiliency

B.C. ECONOMY IN 2021-22... SOME KEY TRENDS TO MONITOR

- Population growth after temporary slowdown in 2020 and regional shifts
- Impact of the unwinding of government stimulus and support programs
- Plus...future steps taken by governments to repair their finances
- Strength of B.C. exports – goods plus services
- Progress on large B.C. capital projects
- Office leasing activity and demand in urban markets
- Persistence of work-from-home