

APRIL 2020

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



Business Council of
British Columbia
Est. 1966

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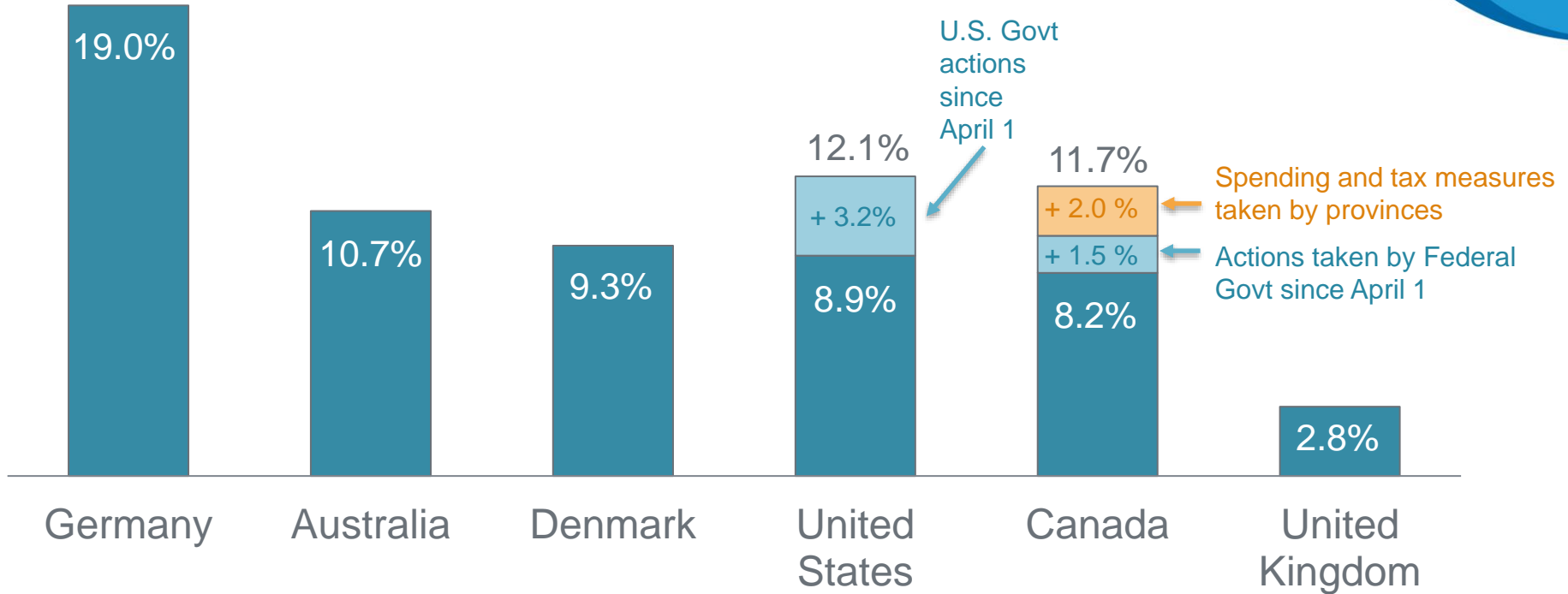
EXTERNAL ECONOMIC SETTING

- First modern global pandemic is sweeping the world
- Countries are at different stages in the infection/stabilization process
- Many governments have shuttered large parts of their economies to slow disease spread and protect public health – an unprecedented step
- The global economy is headed for a sharp – but hopefully temporary – recession, with a bigger drop in output than in 2008-09
- For the advanced economies, consensus forecasts point to some recovery in the second half of 2020 extending into 2021
- B.C. looks to be in a better position than several other provinces and some American states, based on infection rates and the extent of business closures. Still, our economy is currently being pummeled by the toxic combination of 1) mandated business closures in many sectors, and 2) the onset of a world-wide recession

GLOBAL RECESSION (ANNUAL ECONOMIC GROWTH ADJUSTED FOR INFLATION)

	2019	2020	2021
World	2.9%	-3.0%	5.8%
U.S.	2.3%	-5.9%	4.7%
Canada	1.6%	-6.2%	4.2%
Euro Area	1.2%	-7.5%	4.7%
Japan	0.7%	-5.2%	3.0%
China	6.1%	1.2%	9.2%

NATIONAL ECONOMIC PACKAGES FOR COVID-19, IMMEDIATE FISCAL MEASURES AND DEFERRALS, % OF GDP, AS AT APRIL 1



Note: Excludes sub-national government fiscal packages, and agency-provided liquidity support & guarantees.

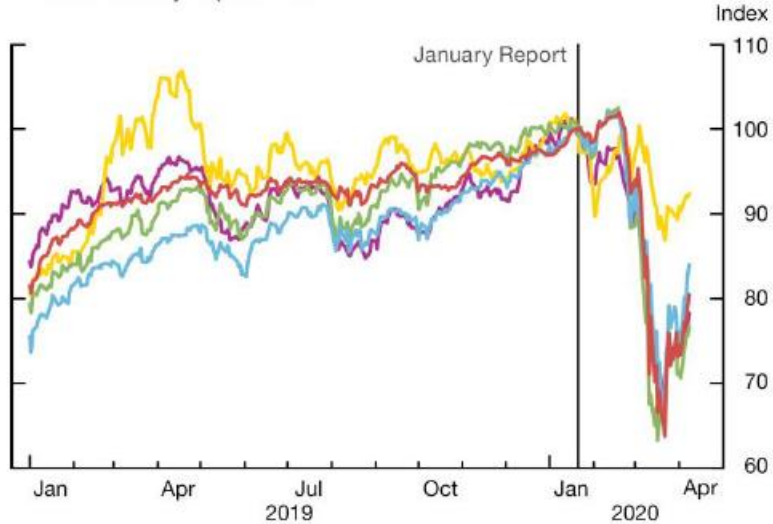
Source: National government press releases and media reports.

FINANCIAL CONDITIONS DETERIORATED SUDDENLY

Daily data

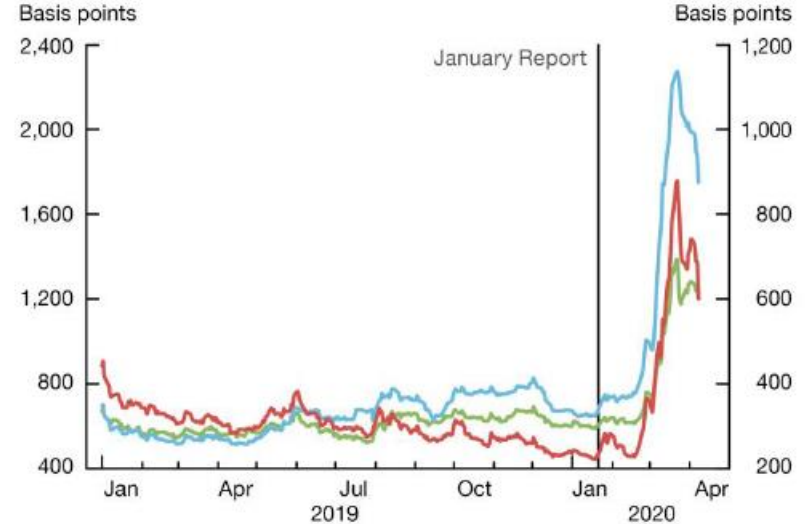
a. Equity prices

Index: January Report = 100



— Canada—S&P/TSX composite
— United States—S&P 500
— Euro area—STOXX 50
— China—SSE composite
— MSCI emerging markets

b. Credit spreads relative to US Treasuries



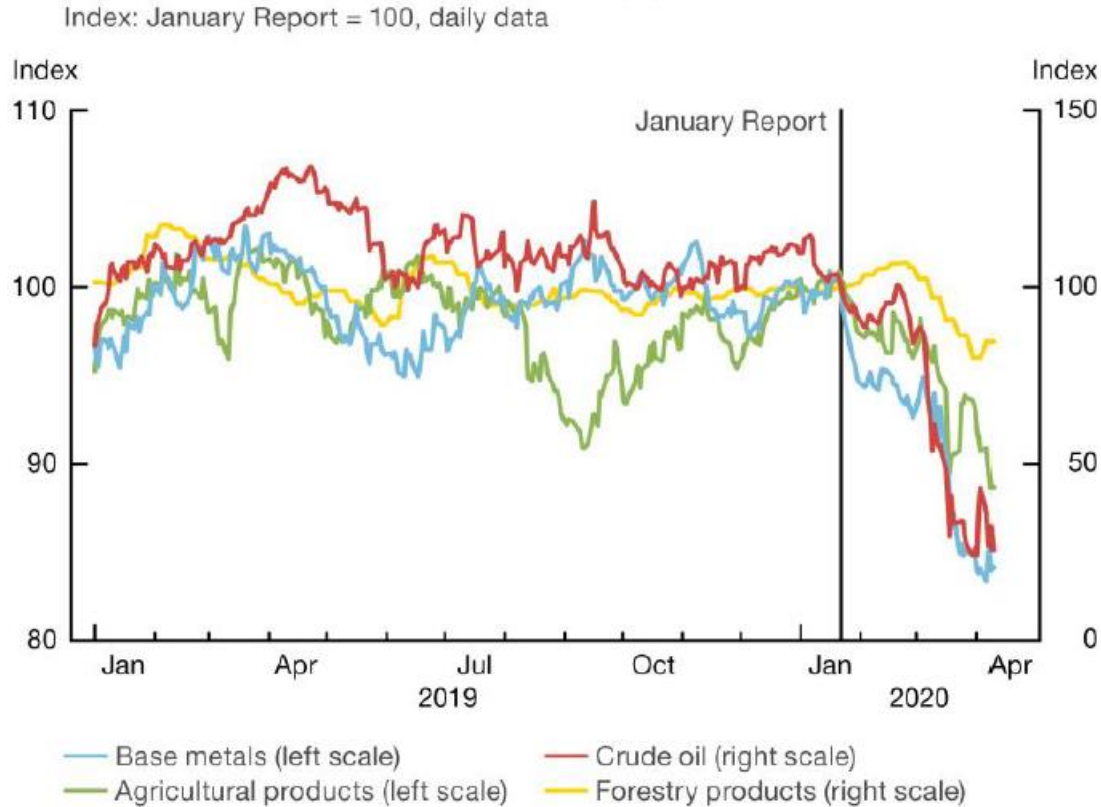
— US high-yield energy corporate bonds (left scale)
— US high-yield non-energy corporate bonds (right scale)
— Emerging-market sovereign bonds (right scale)

Note: The credit spreads are the option-adjusted spreads between bonds denominated in US dollars and US Treasuries.

Sources: Bloomberg L.P., Bank of America Merrill Lynch and Bank of Canada calculations

Last observation: April 9, 2020

COMMODITY PRICES HAVE FALLEN SHARPLY

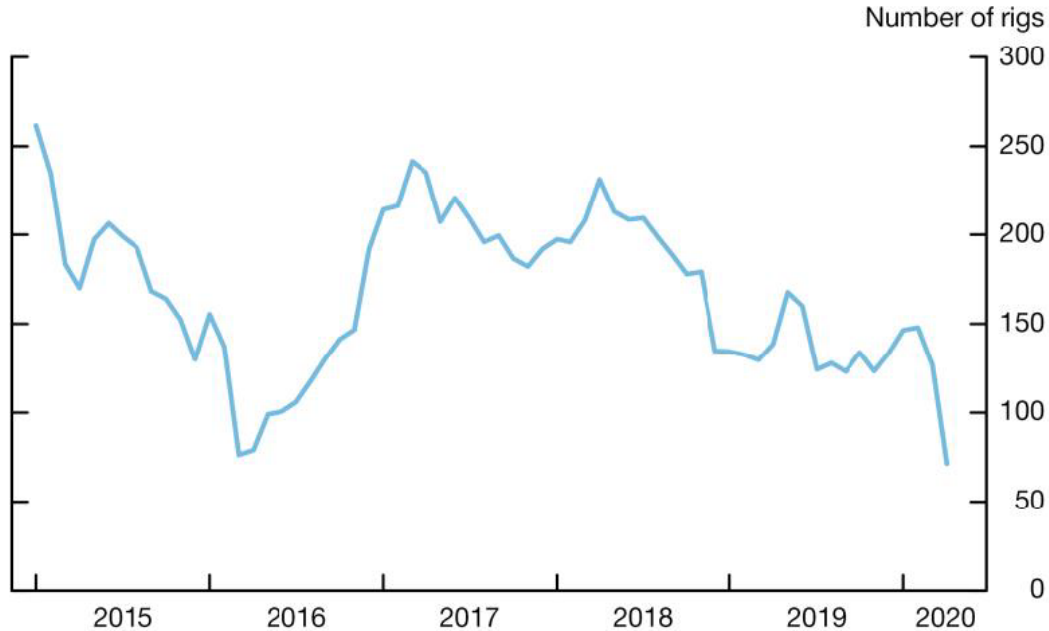


Source: Bank of Canada

Last observation: April 9, 2020

DECLINING DRILLING ACTIVITY POINTS TO WEAKER INVESTMENT IN THE OIL AND GAS SECTOR

Total rig count, monthly data



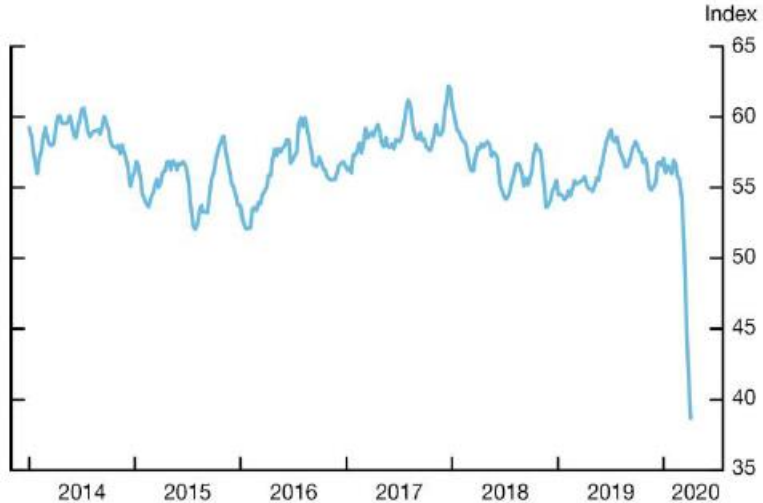
Note: The total rig count has been seasonally adjusted by the Bank of Canada. The April figure is based on data for the second week of April.

Sources: Baker Hughes and Bank of Canada calculations

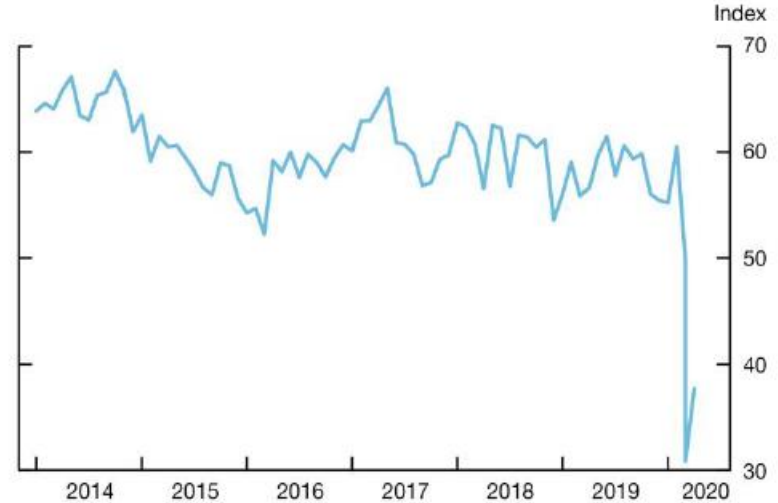
Last observation: April 2020

HOUSEHOLD AND BUSINESS CONFIDENCE HAVE FALLEN SHARPLY

a. Bloomberg Nanos Canadian Confidence Index (BNCCI), weekly data



b. Canadian Federation of Independent Business business barometer, monthly data*

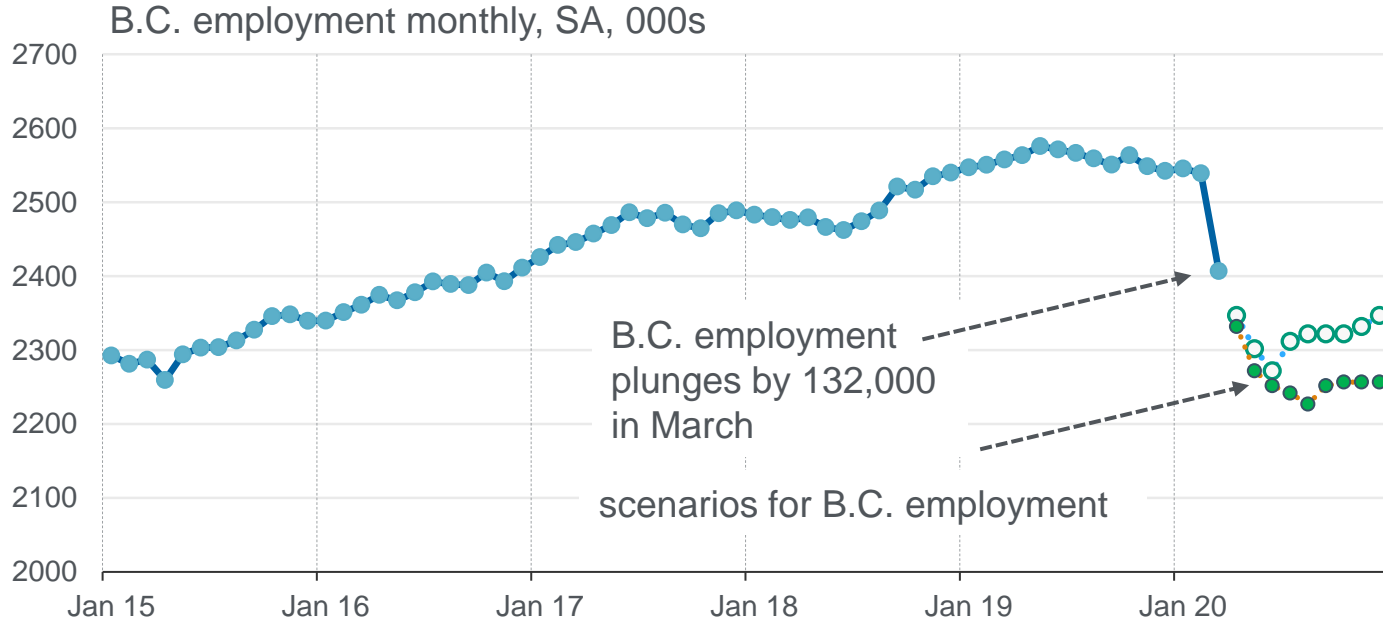


* In March 2020, the Canadian Federation of Independent Business (CFIB) started publishing data biweekly.

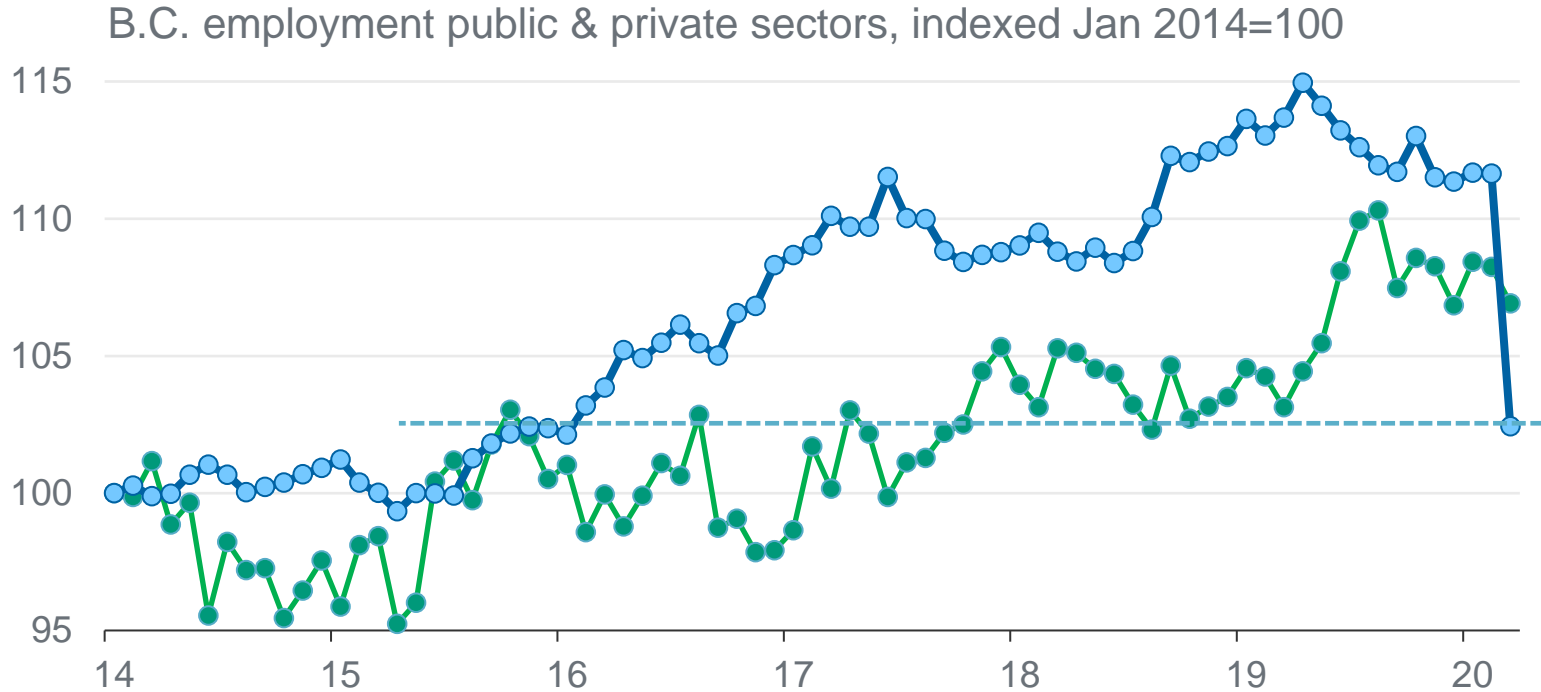
Sources: Nanos Research Corporation and CFIB

Last observations: BNCCI, week ending April 10, 2020;
CFIB business barometer, first half of April 2020

MASSIVE B.C. JOB LOSSES IN MARCH – WITH MORE TO COME

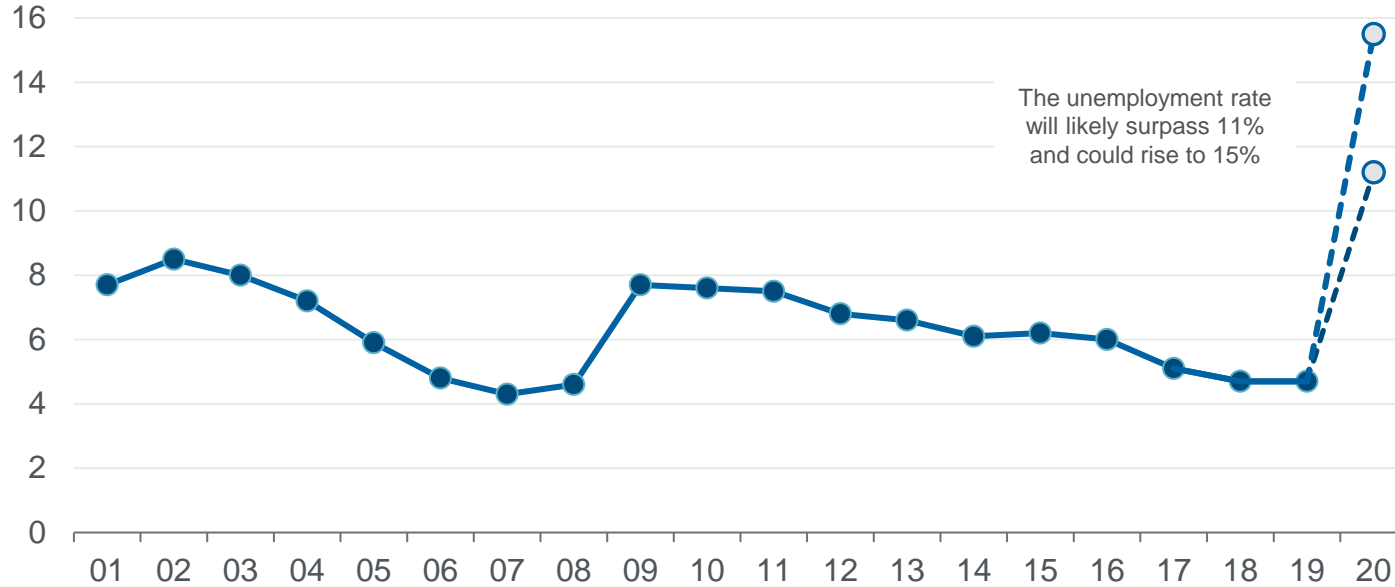


JOB LOSSES ARE IN THE PRIVATE SECTOR

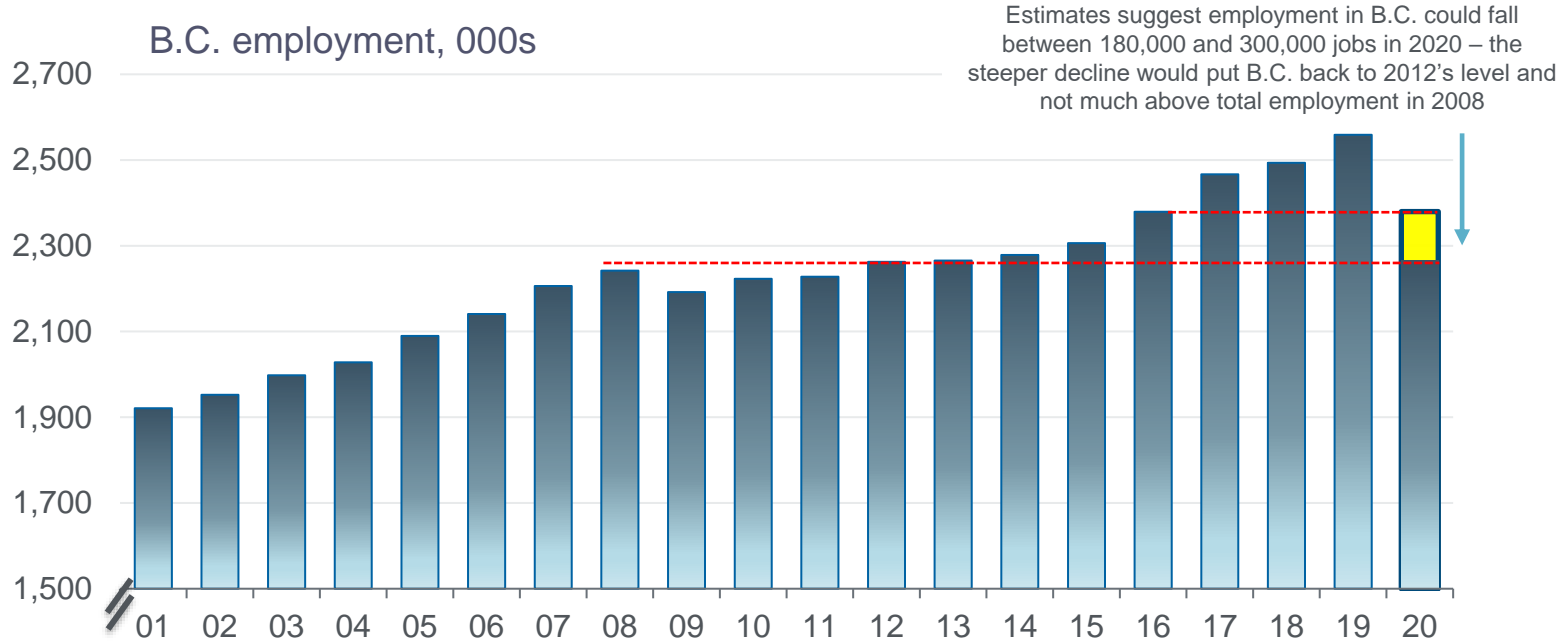


UNEMPLOYMENT RATE SOARS IN 2020

B.C. unemployment rate, %

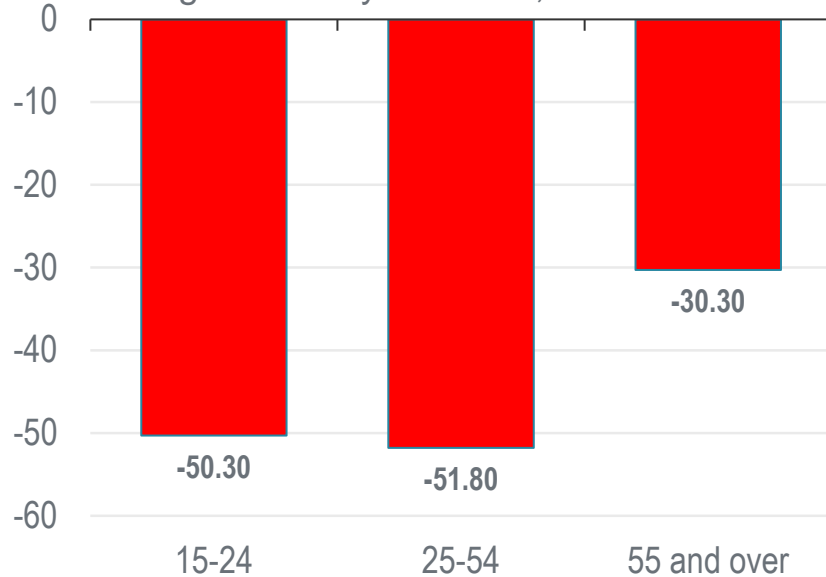


YEARS OF JOB GROWTH WILL BE ERASED IN 2020

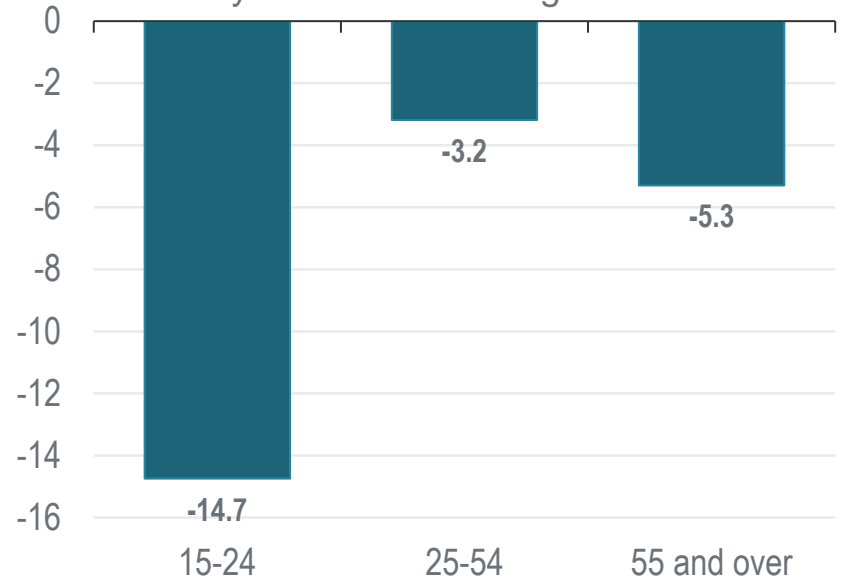


JOB LOSSES SPREAD ACROSS ALL AGE GROUPS, BUT YOUNGER WORKERS HIT DISPROPORTIONATELY

B.C. employment by age cohorts,
change February to March, 000s



B.C. employment by age cohorts,
February to March % change



TWO ECONOMIC SCENARIOS FOR BRITISH COLUMBIA

- Economic activity will fall significantly in 2020, with the downturn and job losses concentrated in the March-June period -- but some weakness to the end of the year
- British Columbia's GDP (adjusted for inflation) declines by 7-12% under two different scenarios modelled by the Business Council. For context, the economy expanded by 1.8% in 2019. And during the 2009 recession, GDP fell by 2.6%

Scenario 1

- Most shuttered B.C. businesses resume operations (but some do not) by Q3. The global economy hits bottom by summer and then starts to rebound. Under this scenario, the B.C. economy contracts by 7.3% in 2020 and job losses reach ~15%

Scenario 2

- Virus cases increase again in the fall, leading to the reintroduction of some restrictions and closures. The global downturn lasts through most or all of 2020. Under this scenario, the B.C. economy shrinks by 10-12% and job losses reach 20-25% at the worst point in the coming months

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)
 - Entertainment, leisure and recreation services
 - Film and television production
 - Advertising, public relations and related services
 - Manufacturing
 - Real estate services
 - Legal and accounting services
 - Retail trade (other than hospitality)

WHAT ABOUT THE CONSTRUCTION SECTOR?

- Under our baseline scenario, where overall GDP adjusted for inflation falls by 7.3% in 2020:
 - Aggregate construction sector GDP drops by 11-12%, led by residential building (-20%)
 - Small decline in non-residential building construction GDP as many companies reduce capital spending and some current project work slows (e.g., LNG Canada, Site C)
 - Repair construction GDP also declines (~15%) in 2020, as some planned work is postponed or cancelled
- Note that B.C. businesses collectively are scaling back capital investment in the short-term, which will hit the construction industry in 2020
- However, many ongoing construction projects are continuing to advance, and the B.C. government has not ordered a shut-down of the industry

GOVERNMENT SUPPORT PROGRAMS TO ASSIST AFFECTED BUSINESSES

Canadian government

- **Canada Emergency Wage Subsidy** (75% up to \$847/week; effective March 15 and runs through June 6, 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)
- Some support for firms unable to pay rent
- Tax remittance and customs duty deferrals (not reductions or waivers)

Note: Compared to several other advanced economies, Canada is doing less to support hard-hit businesses and industries

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
- Temporary relief on B.C. Hydro payments
- Carbon tax freeze...but only for one year

Note: BCBC is urging the province to do more to help business and industry, including exporters, survive the current downturn.

This includes halting all new policy and regulatory initiatives that would result in higher costs for business; rebating B.C. Hydro payments for the first 6 months of 2020 to firms that can demonstrate hardship related to COVID-19; rolling back all municipal business property tax increases implemented or planned for 2020; and establishing a fund to assist SMEs forced to shutter their business in covering their fixed costs for a period of 3-4 months

B.C. ECONOMIC RECOVERY AND REBUILDING PLAN

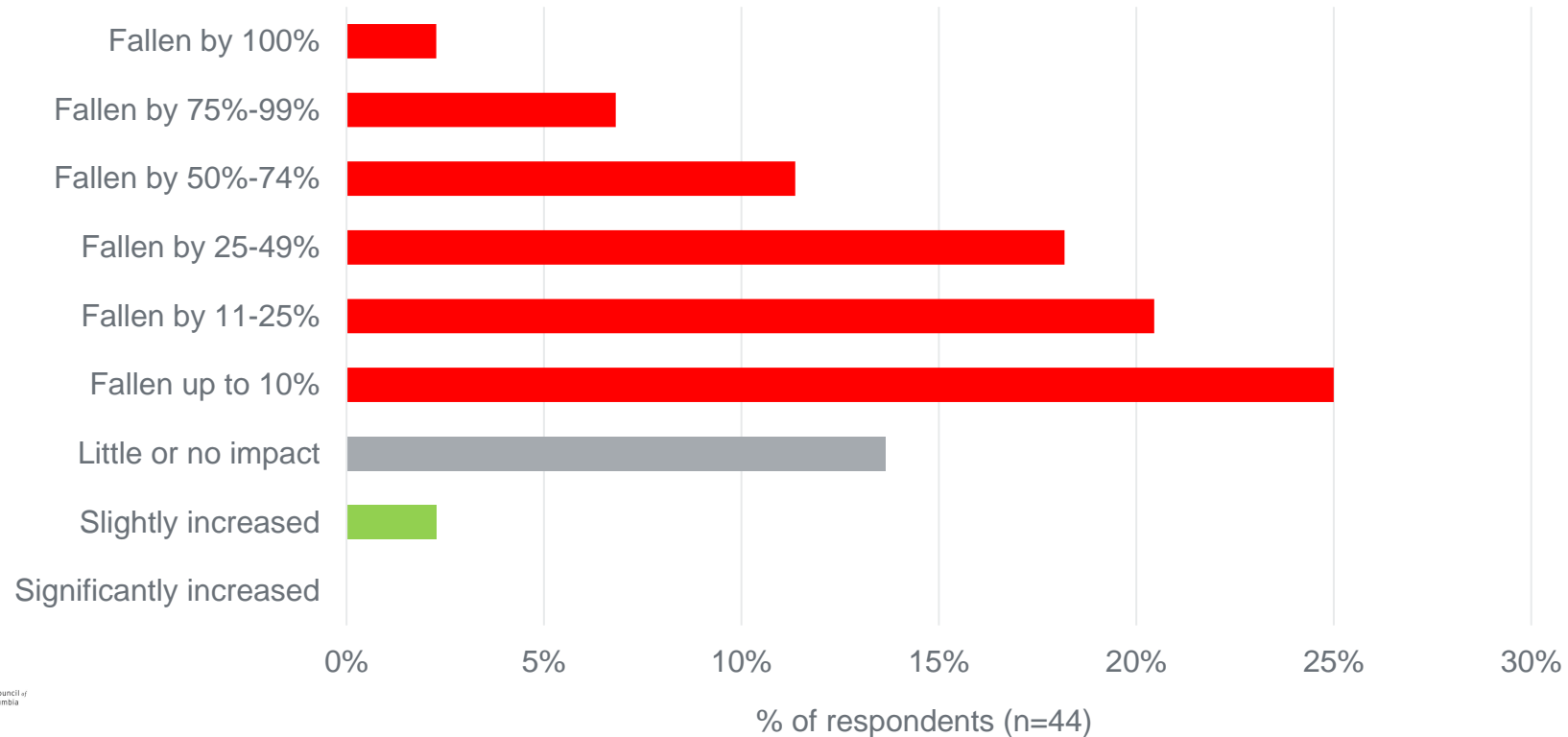
- Policymakers need to give top priority to economic recovery/rebuilding for the next two years
- The province will be fighting for every dollar of incremental GDP and every new/restored job for the next 18-24 months as we dig out from a deep hole
- Economic recovery/rebuilding should start with selectively re-opening economic sectors once the virus threat has abated (not disappeared), as is now happening in China, Korea and some EU countries – with some US states set to follow by mid-May
- Job one is accelerating and advancing development and investment projects across the economy to kick-start economic and job growth. This includes residential development projects, maintenance/repair of public sector capital assets and infrastructure, and significant investments across all industries where companies are prepared to move quickly
- Delay and bureaucracy are the enemies of recovery

B.C. ECONOMIC RECOVERY AND REBUILDING PLAN

- Construction has an important role to play in both the initial recovery phase and in positioning B.C. for greater prosperity over the medium term:
 1. Construction is a large sector that employs more than 230,000 British Columbians and pays above-average wages/salaries
 2. Many private sector projects (residential and non-residential) can move ahead quickly. This includes TMX, LNG Canada, the Coastal Gas Link pipeline, investments announced by Fortis BC, mines, etc. It also includes multi-family residential projects mired in municipal red tape
 3. The government controls the timing and sequencing of significant public sector capital projects
 4. Building new and refurbishing existing physical infrastructure (transportation, communications, energy) is essential to strengthen the foundations for economic success and enhanced competitiveness

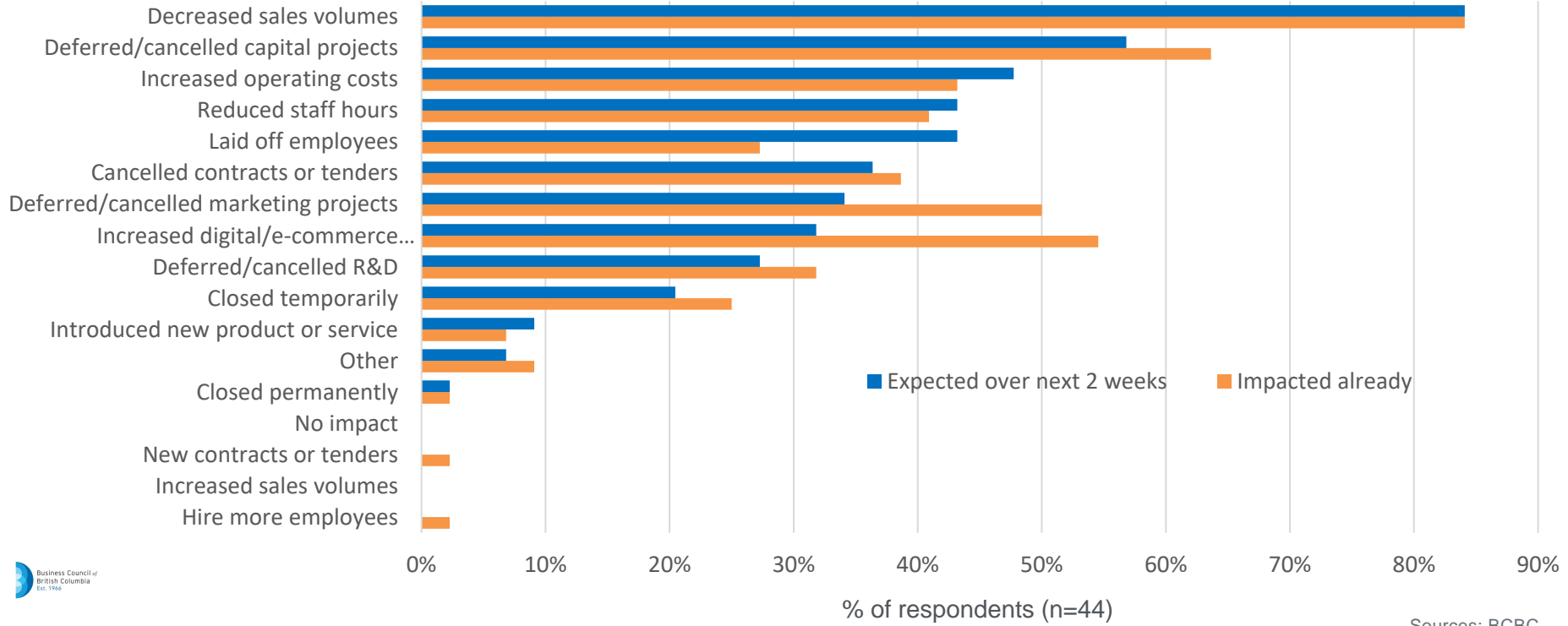
MOST LARGE B.C. EMPLOYERS HAVE SEEN SIGNIFICANT DECLINES IN SALES VOLUMES

As a result of COVID-19, how have your sales volumes changed over the past two weeks?



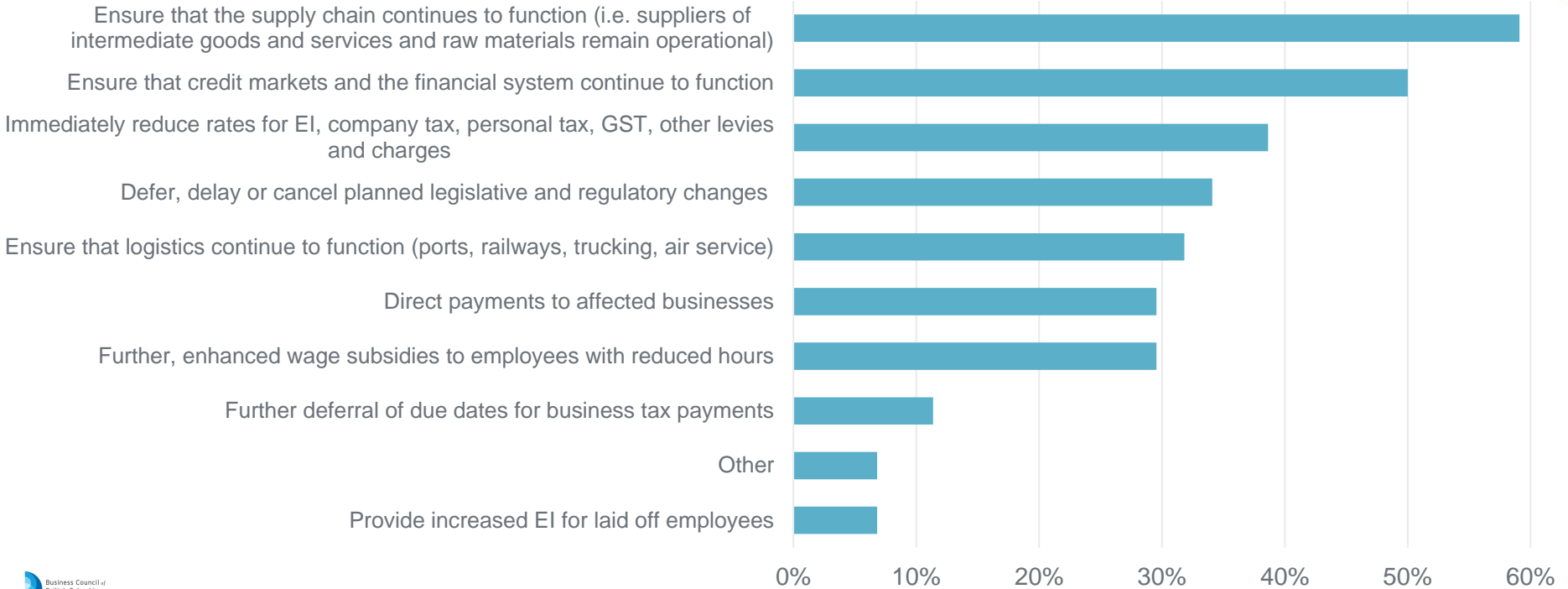
MANY LARGE B.C. EMPLOYERS PLAN TO REDUCE CAPITAL INVESTMENT AND STAFFING

To date, how has COVID-19 impacted your business?
 What impacts on your business from COVID-19 do you expect over the next two weeks?
 (Select all that apply)



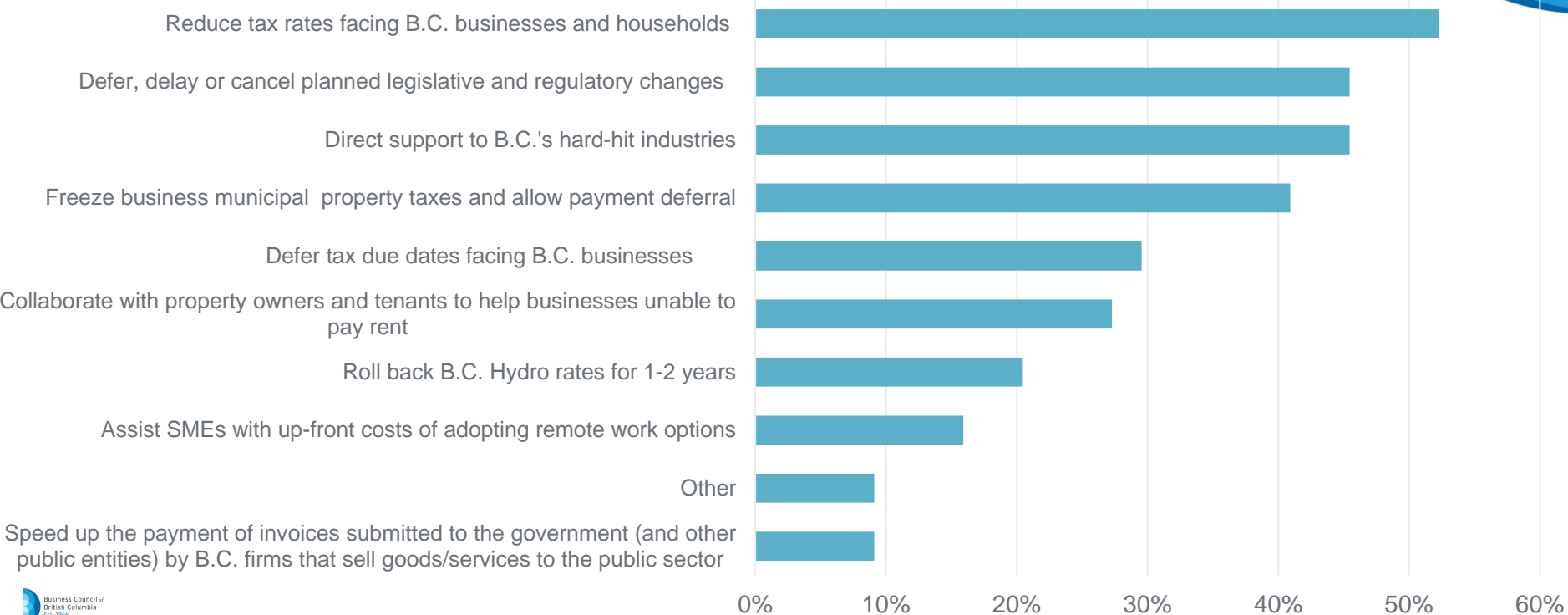
TOP FEDERAL PRIORITIES SHOULD BE THE FUNCTIONING OF SUPPLY CHAINS, FINANCIAL AND CREDIT MARKETS

What are the top 3 business support measures within the FEDERAL government's jurisdiction that would be most helpful in keeping your business operational?



TOP PROVINCIAL PRIORITIES ARE TO REDUCE TAX & REGULATORY BURDENS, AND TO DIRECTLY SUPPORT HARD-HIT SECTORS

What are the top 3 business support measures within the PROVINCIAL government's jurisdiction that would be most helpful in keeping your business operational?



SUMMARY OF KEY POLICY MEASURES (AS OF APRIL 13/20)

Fiscal policy to support households and businesses

Government of Canada*

- Increased Canada Child Benefit for the 2019–20 benefit year
- Paid one-time enhanced goods and services tax credit
- Introduced Canada Emergency Response Benefit and Indigenous Community Support Fund
- Launched Canada Emergency Business Account
- Introduced Canada Emergency Wage Subsidy
- Extended maximum duration of Work-Sharing program
- Established Business Credit Availability Program through the Business Development Bank of Canada and Export Development Canada
- Increased lending capacity for Farm Credit Canada
- Deferred business and personal income tax payments (until September 1, 2020) and sales tax remittance and customs duty payments (until June 30, 2020)
- Reduced minimum withdrawals for registered retirement income funds
- Implemented temporary enhancements to the Canada Summer Jobs program
- Established a six-month interest-free moratorium on repayment of National Student Loans

Provincial, territorial and municipal governments:

- Implemented transfers, rebates and subsidies to businesses, households and community organizations
- Deferred taxes and student loan payments and interest

* For more details on the Government of Canada's COVID-19 economic response, see [Canada's COVID-19 Economic Response Plan](#).

SUMMARY OF KEY POLICY MEASURES (AS OF APRIL 13/20)

Financial policy to support lending

Office of the Superintendent of Financial Institutions*

- Lowered the Domestic Stability Buffer by 1.25 percentage points to 1.00 percent of risk-weighted assets
- Introduced additional measures of regulatory flexibility for federally regulated financial institutions

Government of Canada

- Launched Insured Mortgage Purchase Program through the Canada Mortgage and Housing Corporation

SUMMARY OF KEY POLICY MEASURES (AS OF APRIL 13/20)

27

Bank of Canada actions to support the economy and financial system*

Monetary policy

- Lowered the target for the overnight rate by a cumulative 150 basis points to the effective lower bound of 0.25 percent

Government of Canada

- Launched Bankers' Acceptance Purchase Facility
- Introduced program to purchase Canada Mortgage Bonds in the secondary market
- Introduced Provincial Money Market Purchase program
- Introduced Commercial Paper Purchase Program
- Launched program to purchase Government of Canada securities in the secondary market (minimum of \$5 billion per week, across the yield curve)
- Enhanced term repo operations
- Activated Contingent Term Repo Facility

Liquidity support for individual financial institutions

- Coordinated with international policy-makers for US-dollar liquidity and announced that a US-dollar term repo facility would be made available on a contingency basis (should the need arise)
- Launched Standing Term Liquidity Facility