

# Economic Impacts and Recovery Related to the Pandemic

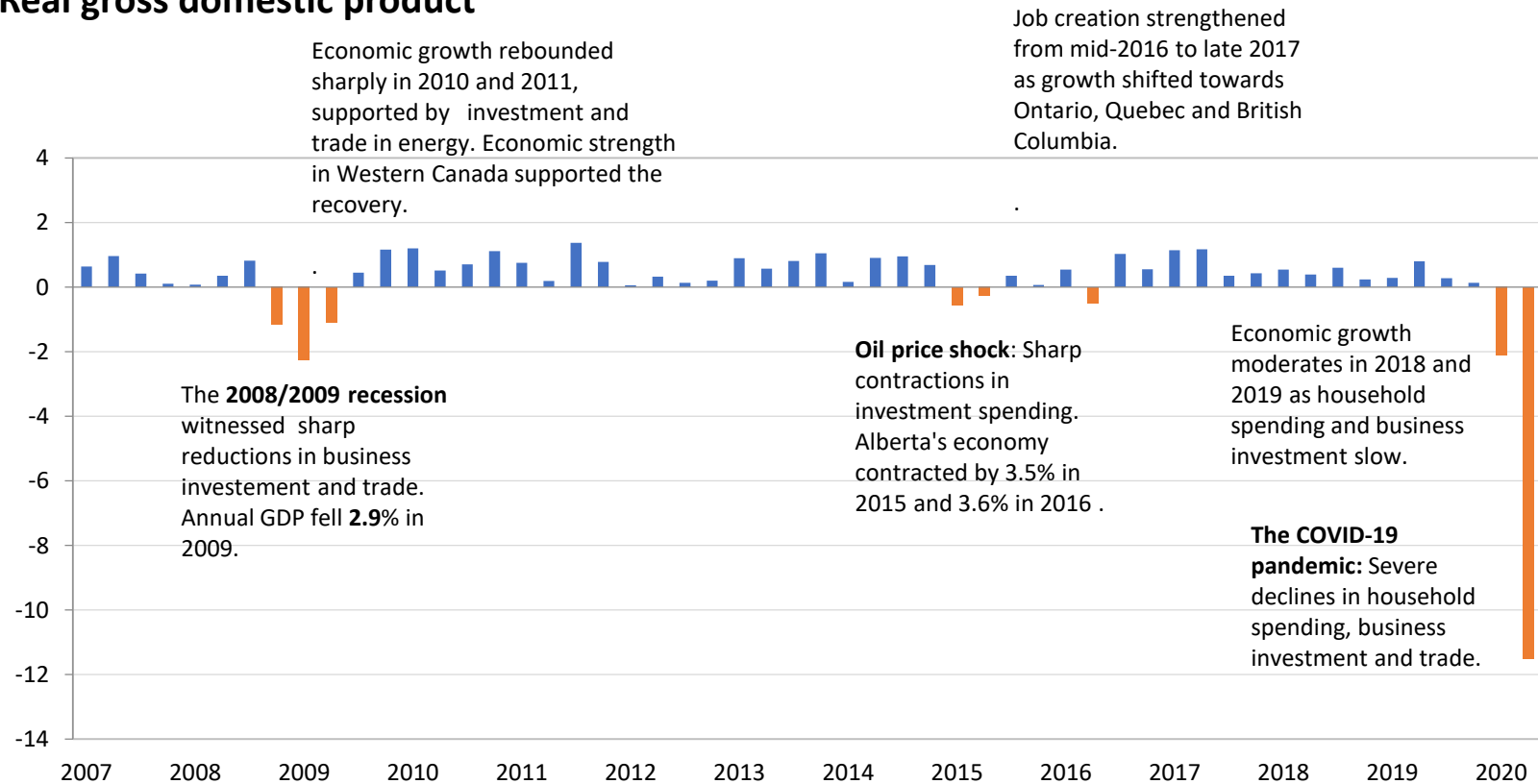
## Economic Impacts and Recovery Related to the Pandemic

### Key messages:

- Output is recovering as businesses reopen – but stark differences across sectors. Output in accommodation and food services in June was at 55% of its pre-pandemic level.
- Employment is recovering, but steep losses remain in certain highly impacted sectors. Youth, less educated workers, women, recent immigrants, and temporary employees have been hit harder.
- Prior to the pandemic, firm creation was on an upswing and the financial position of firms was improving. Closures rose dramatically during the shutdowns as employees left payrolls - 62,600 business closures were observed in May, 29% less than in April but still 59% higher than pre-COVID-19 levels observed in February.
- Structural challenges in heavily affected sectors - The retail sector rebounded quickly from storefront closures as companies developed or enhanced their on-line platforms.
- Digitalization will be a driver of structural change in the economy. The share of businesses with at least 10% of their workforce teleworking doubled from February to May 2020, from 16.6% to 32.6%.

# Unprecedented declines in output

## Real gross domestic product



As a purposeful, policy-based response to a health crisis, the COVID-19 restrictions brought about severe contractions in most industrial sectors, including in **many service-based industries** that typically support the economy during conventional downturns.

The road to recovery will involve major adaptations for businesses and households, which poses challenges for an equitable and resilient recovery.

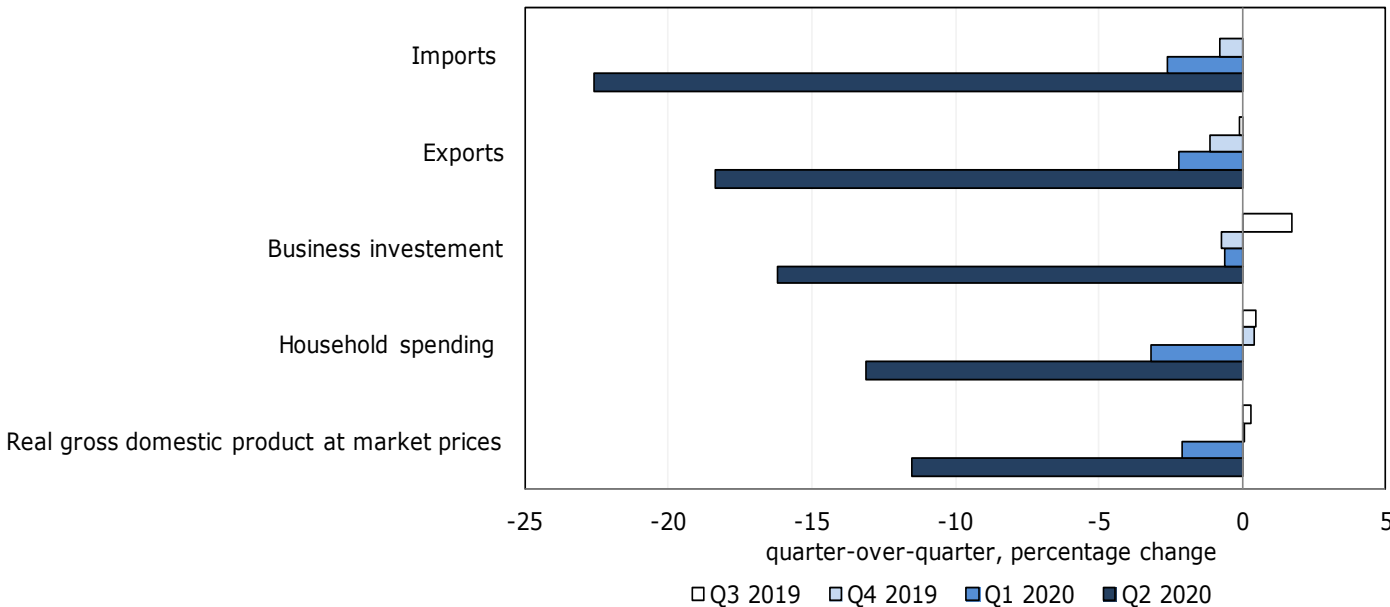
**Note:** Data available on CODR. Quarter over quarter percent changes derived and presented in the graph.

**Source:** Statistics Canada, table 36-10-0104.

## Severe declines in most types of economic activity

Historic declines in household spending, business investment, and international trade as the economy contracted by 11.5% in the second quarter

Real GDP and selected components



Source: Statistics Canada table 36-10-0104-01.

During Q2, household spending fell by a record 13% as families faced heightened levels of job and income uncertainty.

**Employment earnings fell by almost 9%** in the second quarter. At the same time, household **disposable income rose by almost 11%**, because of the transfers and income supports provided by governments. Higher disposable income, coupled with lower spending...

**...pushed the household savings rate to just over 28%, up from about 8% in the first quarter.**

Many different aspects of the economy, from trade to investment to consumer spending, will need to rebound if the recovery is to be robust.

Strong retail numbers in May and June and housing numbers in July **indicate consumers are opening their pocket books**, but questions about the long term impact of the pandemic on mid and lower income households remain. The **outlook on business investment remains weak** and the **outlook on trade is mixed**, depending largely on developments in the U.S.

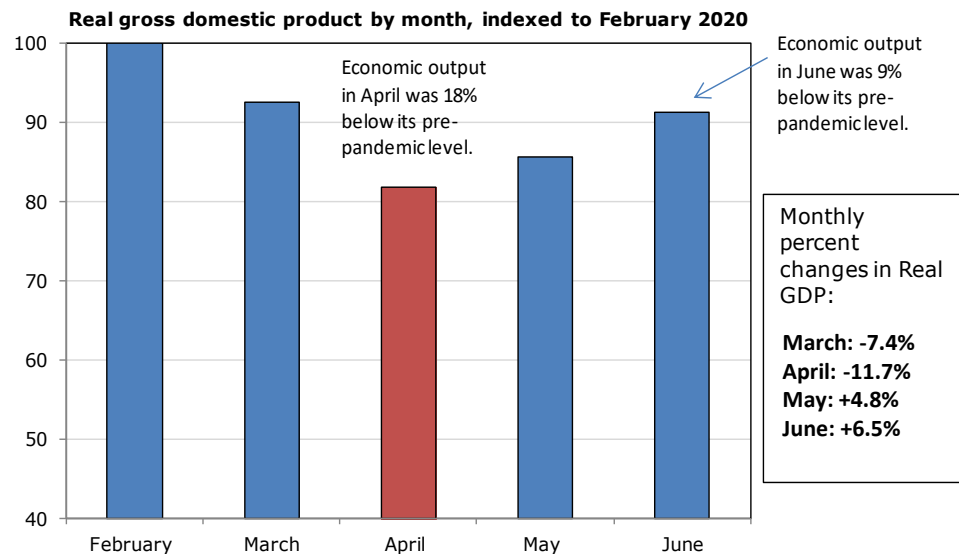
## Output is recovering as businesses reopen – but stark differences across sectors

Many consumer-facing services face **major logistical challenges and adaptation costs**, particularly those directly involved in tourism and hospitality.

**But, the recovery, especially in services, is very uneven**, with many professional services rebounding quickly while other services struggle to recover.

**Output in accommodation and food services in June was at 55%** of its pre-pandemic level.

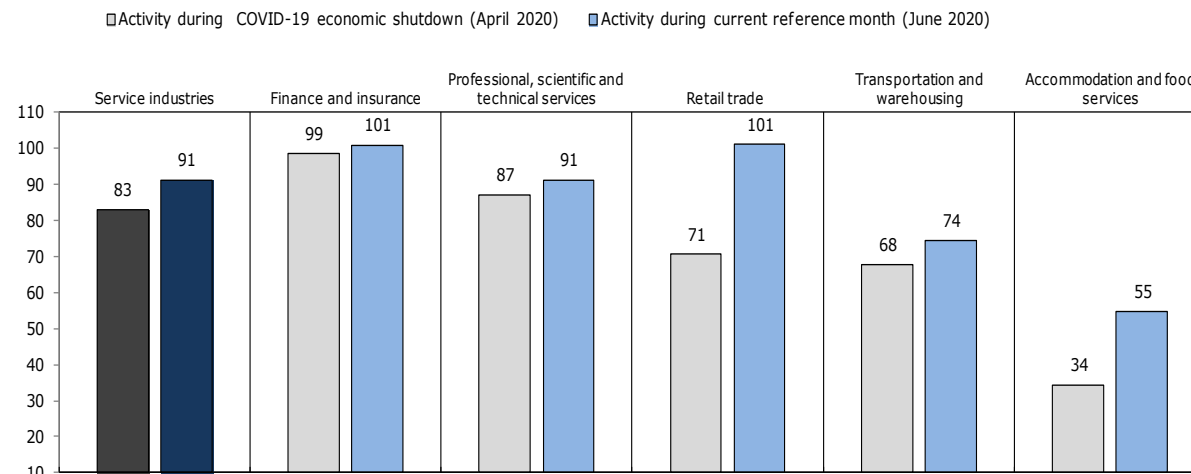
### Economic output continues to rebound as more businesses reopen



Source: Statistical Canada table 36-10-0434-01.

### Real gross domestic product, expressed as a percentage of pre-COVID levels, selected service industries

index (February 2020=100)



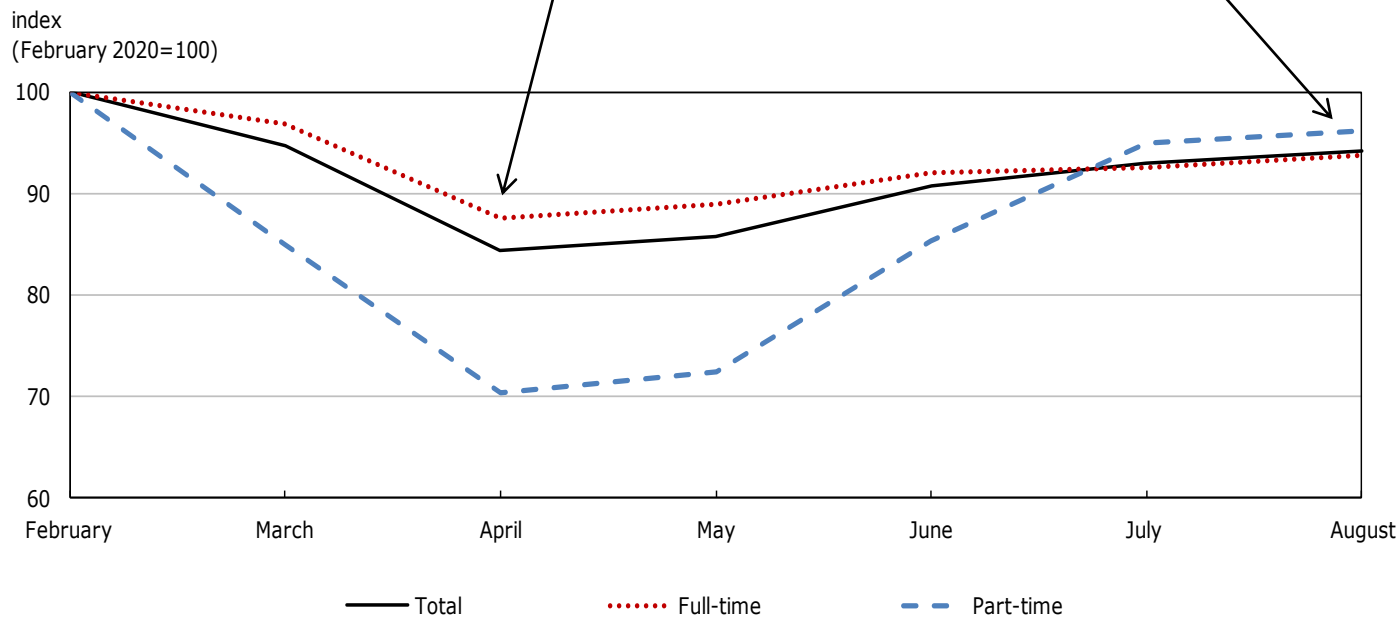
Source: Statistics Canada, table 36-10-0434-01.

# Historic declines in labour market activity

Employment losses totaled 3 million from February to April, almost 2 million of which were in full-time work.

Employment rose by 1.9 million from April to August. **Total employment in August was 5.3% below its pre-pandemic level.**

**Employment, by type of work**



## Labour market indicators:

### Unemployment rate:

- 10.2% (August)
- 10.9% (July)
- 13.7% (May)
- 5.6% (February)

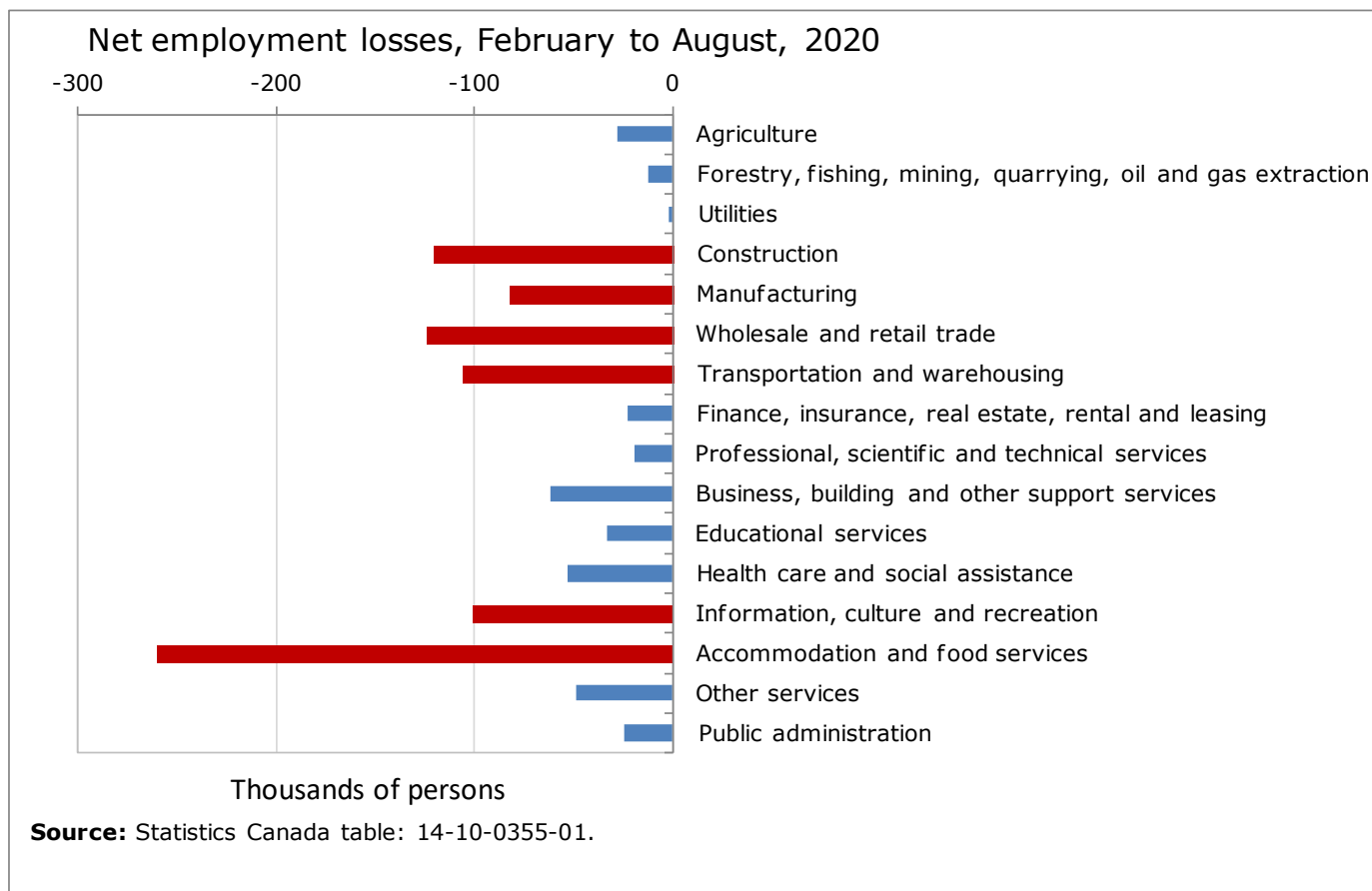
### Employment rate

- 58.0% (August)
- 57.3% (July)
- 52.1% (April)
- 61.8% (February)

**Assessing the recovery to date:** From February to April, **5.5 million** Canadian workers were affected by the COVID-19 economic shutdown. By August, the number of impacted workers had fallen to **1.8 million**.

Source: Statistics Canada, table 14-10-0287-01.

## Employment is recovering, but steep losses remain in certain highly impacted sectors

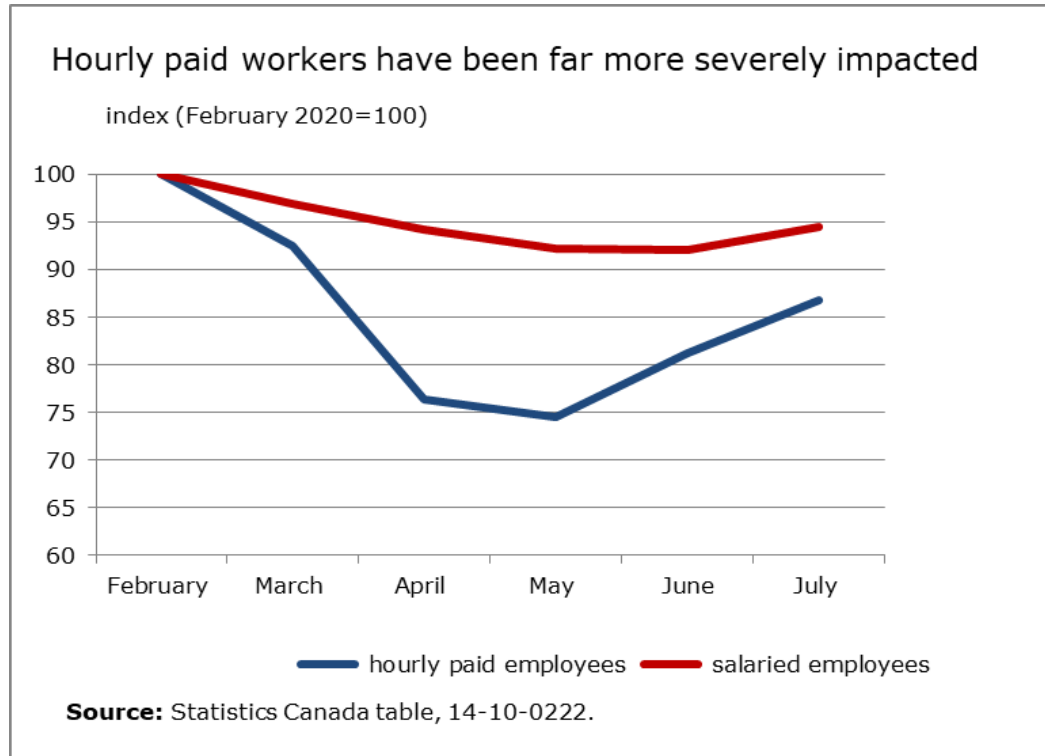


Employment in several heavily impacted industries (e.g., construction, manufacturing) has rebounded to more than 90% of pre-COVID levels as businesses reopen...

...By contrast, overall **employment in accommodation and food services remains over 20% below** levels in February.

However, payroll employment (a stricter measure of employment based on the number of workers receiving pay or benefits) yields a different perspective on the financial challenges facing many workers, especially those in lower earning occupations.

## Severe declines in payroll employment among hourly paid workers



- As of July, there had been only a modest recovery in the number of payroll jobs (based on the number of workers receiving pay or benefits in that month).
- Overall payroll employment **was down 1.9 million from February levels, with hourly paid workers accounting for two-thirds of overall losses.** Payroll employment in accommodation and food services was about two-thirds of its pre-COVID-19 level.
- Among hourly paid workers, payroll employment in July remained about 13% below February's level.



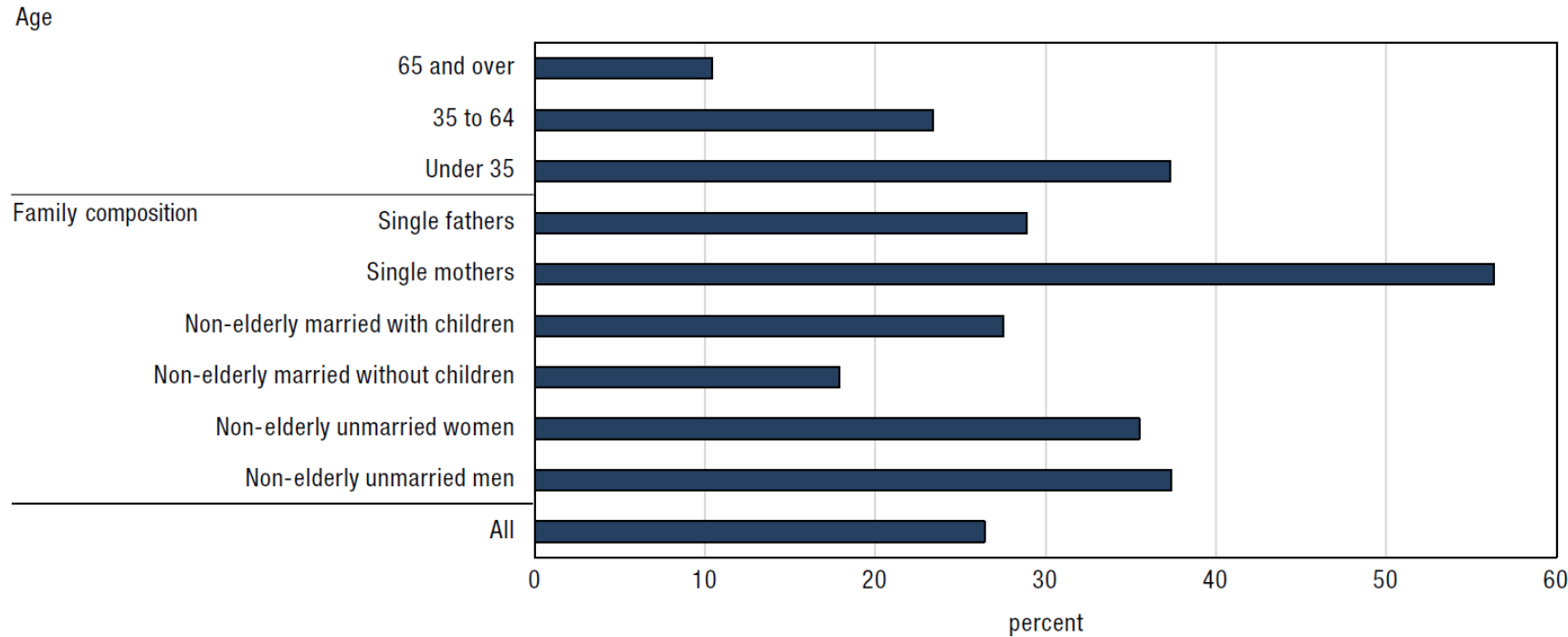
# Economic impacts - Unequal impacts on Canadian workers

## Challenges for robust, inclusive growth - Unequal impacts on Canadian households

- Prior to Covid-19, Canadian families were unequal in their ability to deal with a lockdown, as many had little savings or financial reserves to rely on during extended work stoppages.
- Facing a two-month work stoppage, about one in four families did not have enough savings to avoid falling into poverty in the absence of government transfers.
- New Canadians, lower educated workers, and diverse population groups are among those at most risk.

# Unequal impacts - Financial vulnerabilities among working families prior to COVID-19

## Financial vulnerability, by age and family type



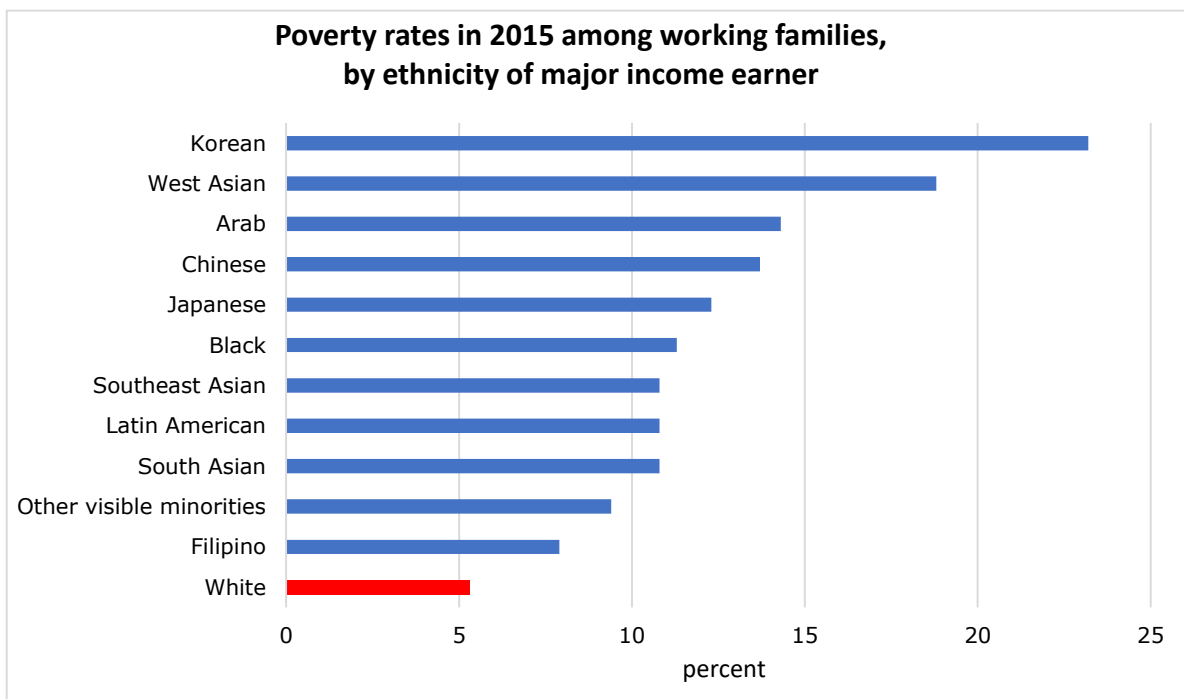
Without government transfers, financially vulnerable families would have needed, on average, **\$3,500** over 2 months to stay above low income.

1 in 3 Canadians did not have enough savings to handle a **3-month** work stoppage.

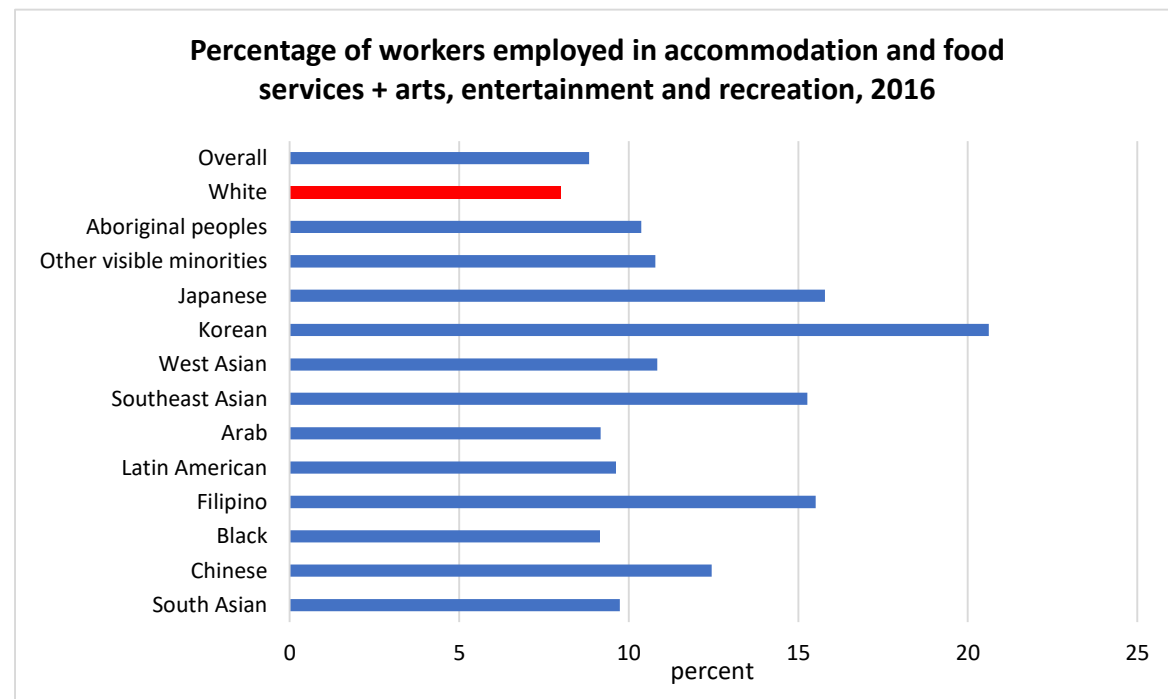
Source: Statistics Canada, Survey of Financial Security, 2016.

## Unequal impacts - Visible minority groups face much higher risks from work stoppages

Recent immigrants were more likely than Canadian-born workers to move out of employment in March and April, mainly because of their shorter job tenure and over-representation in lower-wage jobs.

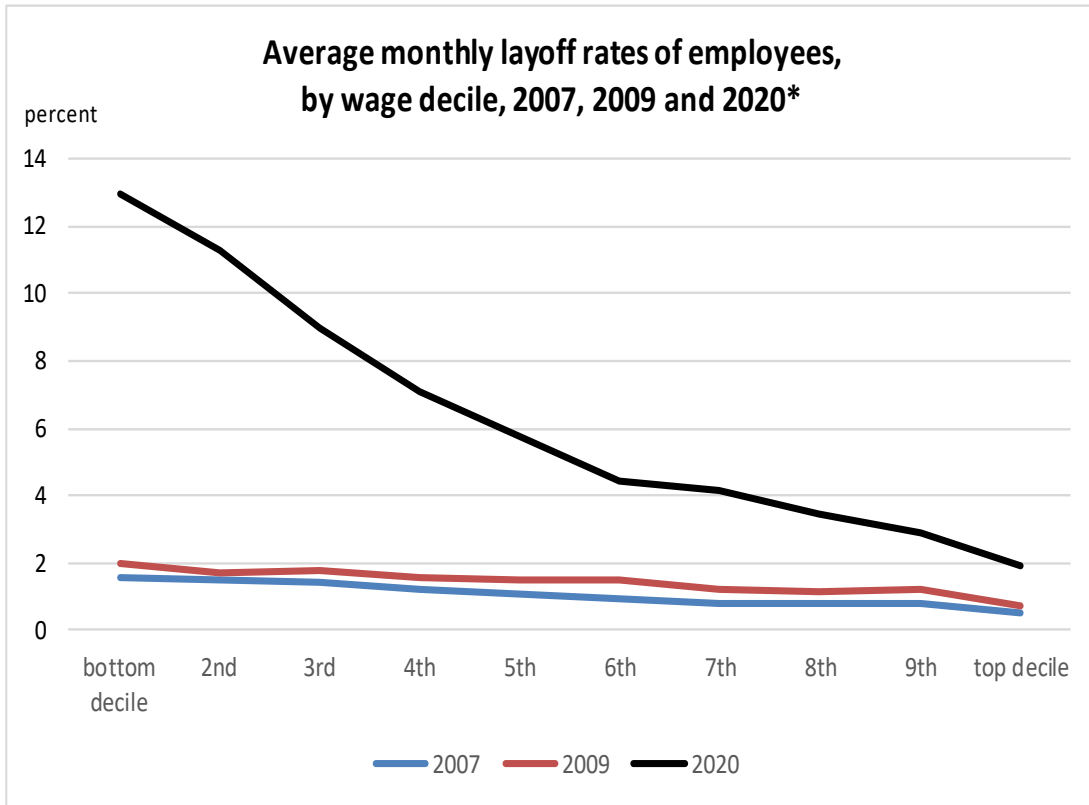


Note: People not designated as a visible minority are identified with the colour red.  
Source: Statistics Canada, Census of Population of 2016.



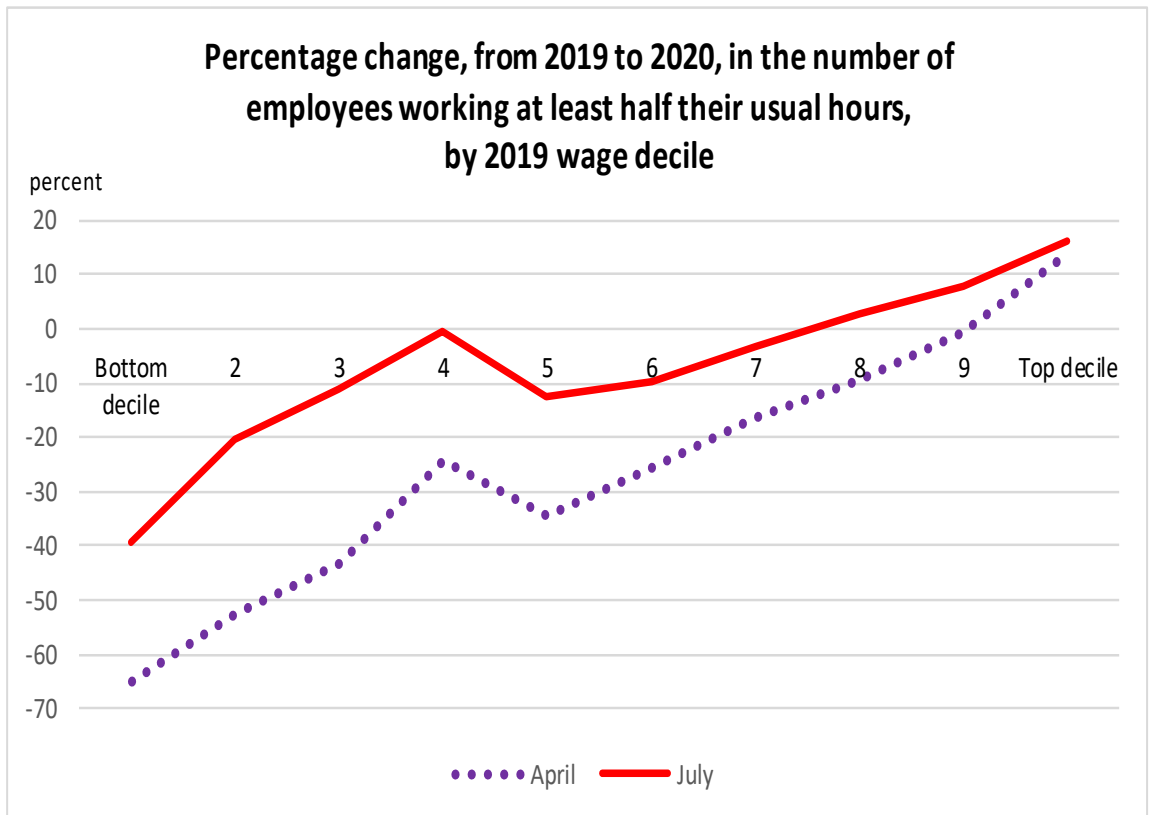
Note: People not designated as a visible minority are identified with the colour red.  
Source: Statistics Canada, Census of Population of 2016.

# Unequal impacts - Low-wage workers have been affected to a far greater extent than during the 2008-2009 recession



\* February-March, March-April and April-May 2020; all pairs of months for 2007 and 2009.

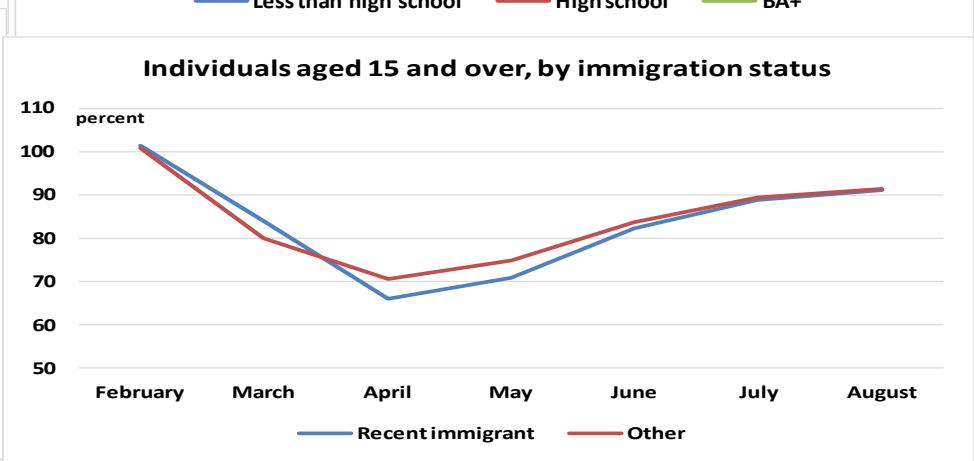
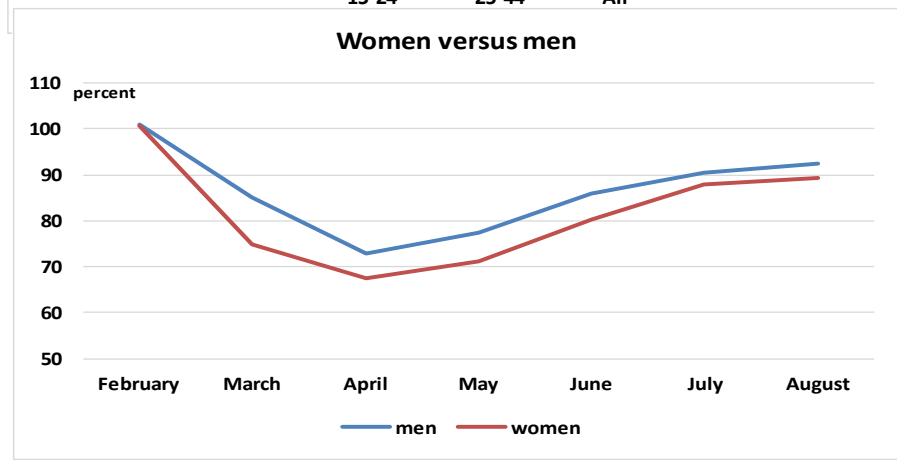
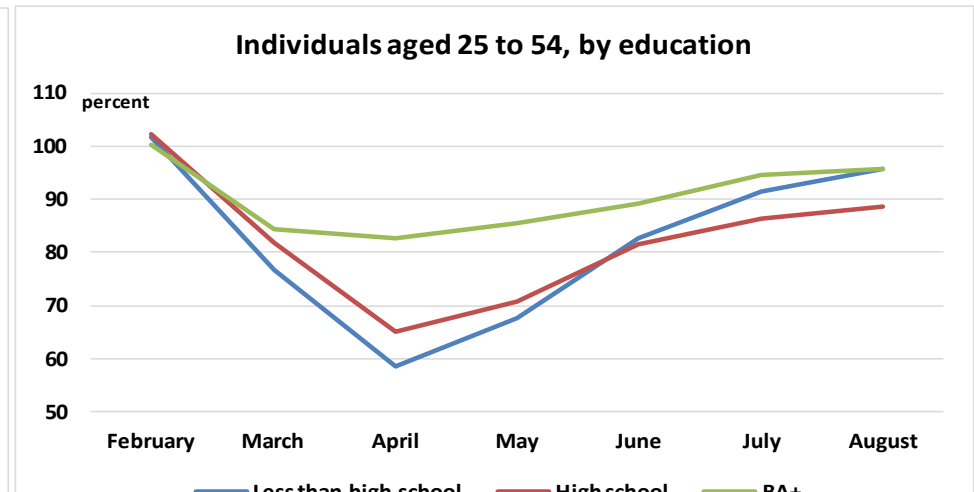
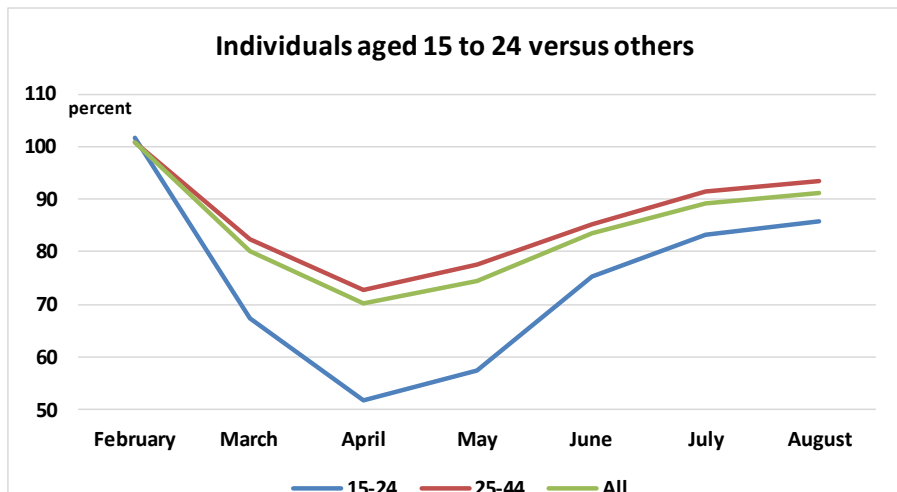
Source: Statistics Canada, Labour Force Survey.



Source: Statistics Canada, Labour Force Survey

# Unequal impacts - Youth, less educated workers, women, recent immigrants, and temporary employees have been hit harder

Percentage change in the proportion of population employed and working at least half of their usual hours



Among **temporary** employees aged 25-54, employment at significant hours was 20% lower in August 2020 than in August 2019.

Among **permanent** employees aged 25-54, the corresponding gap was 3%.

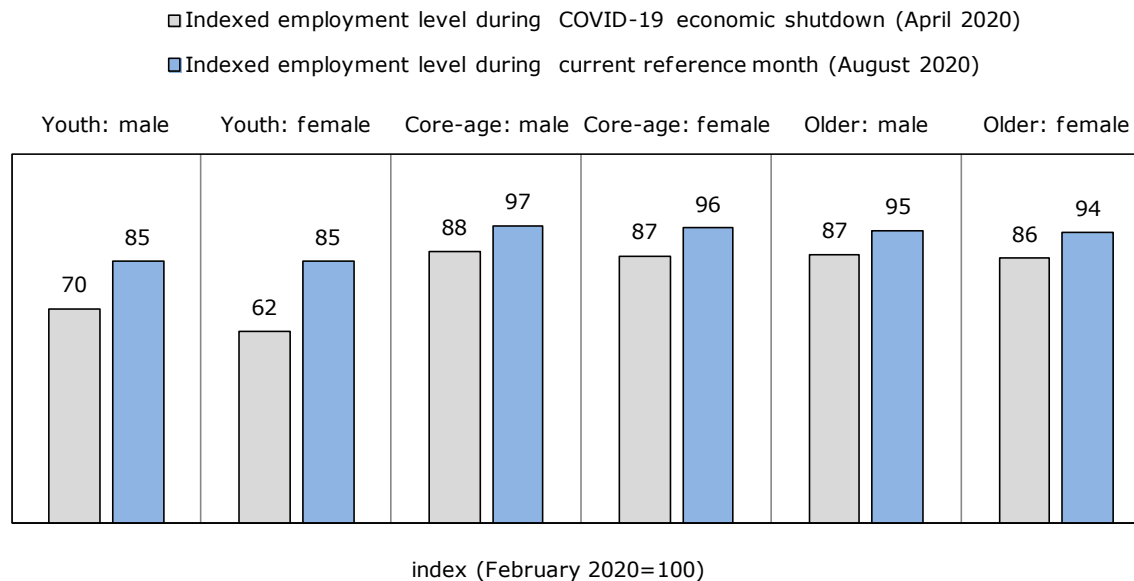
Employees holding jobs that can be done from home have generally fared better.

Source: Statistics Canada, Special tabulations, Labour Force Survey.

## Unequal impacts - Women and youth

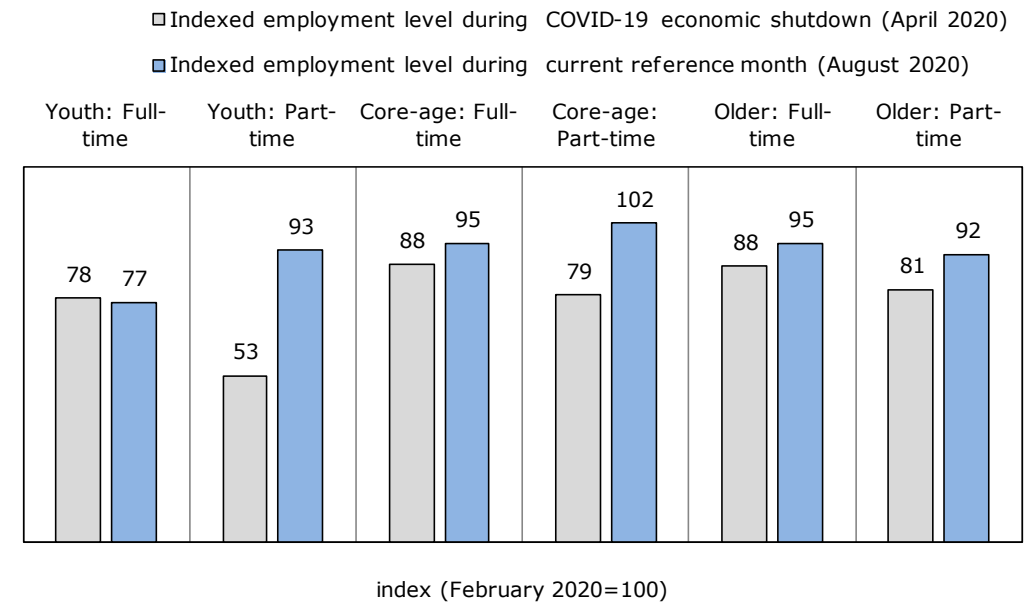
Employment losses among youth were severe during the containment phase (totaling over 870,000). Since April, youth employment has rebounded by 483,000.

### Employment, expressed as a percentage of pre-COVID levels, by age group and sex



**Notes:** Youth: 15 to 24 year-olds; Core-age: 25 to 54 year-olds; Older: 55 year-olds and over.  
**Source:** Statistics Canada, table 14-10-0287-01.

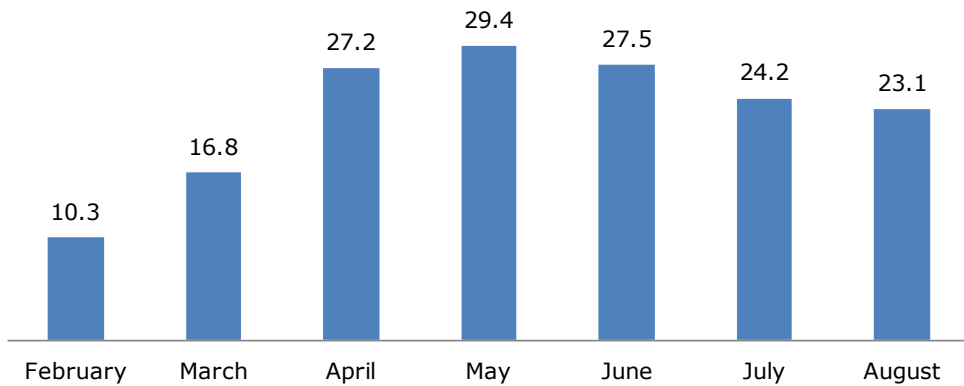
### Employment, expressed as a percentage of pre-COVID-19 levels, by type of work



**Notes:** Youth: 15 to 24 year olds; Core-age: 25 to 54 year olds; Older: 55 year olds and over.  
**Source:** Statistics Canada, table 14-10-0287-01.

## Unequal impacts - A weaker recovery among young Canadians

**Unemployment rate, 15 to 24 year-olds, February to August, 2020**

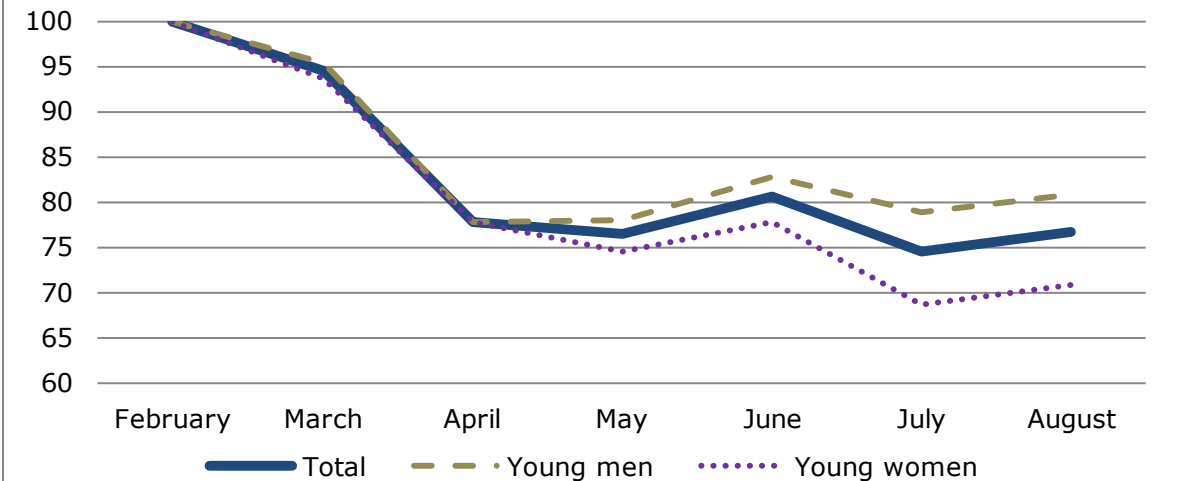


Source: Statistics Canada, table 14-10-0287-01.

Youth employment was much slower to recover, particularly in terms of full-time work, especially among women. **The youth unemployment rate in August was 23.1%, compared to 10.3% in February.**

The partial recovery in youth employment since April, has all been in part-time work. **Full-time work among young Canadians is down 23% from pre-COVID levels. Among young women, it's down almost 30%.**

**Full-time employment, 15 to 24 year-olds, February to August, 2020**



Source: Statistics Canada, table 14-10-0287-01.



## Unequal impacts - Larger impacts on women and youth

### Distribution of employment across industries

	All persons	Men	Women	Young men	Young women
Agriculture	2.4	3.3	1.5	3.3	1.6
Mining, quarrying, and oil and gas extraction	1.5	2.3	0.6	1.2	0.3
Utilities	0.7	1.1	0.4	0.5	0.2
<b>Construction</b>	<b>7.5</b>	<b>12.6</b>	<b>1.9</b>	<b>11.2</b>	<b>1.2</b>
<b>Manufacturing</b>	<b>8.7</b>	<b>12.1</b>	<b>5.1</b>	<b>8.0</b>	<b>3.0</b>
Wholesale	3.6	4.7	2.5	2.9	1.3
<b>Retail</b>	<b>11.6</b>	<b>10.3</b>	<b>12.9</b>	<b>21.7</b>	<b>26.3</b>
<b>Transportation and warehousing</b>	<b>4.8</b>	<b>6.9</b>	<b>2.5</b>	<b>3.3</b>	<b>1.1</b>
Information and cultural	2.3	2.6	2.0	2.0	1.8
Finance and insurance	4.3	3.4	5.3	1.8	2.4
Real estate, rental and leasing	1.8	1.9	1.7	1.1	0.8
Professional, scientific and technical	7.3	7.8	6.8	3.7	3.8
Management of companies	0.2	0.1	0.2	0.1	0.1
Administrative and support services	4.4	4.9	3.9	6.2	3.0
Education	7.4	4.4	10.6	3.1	5.9
Health care and social services	11.7	4.0	20.1	2.1	10.8
<b>Arts, entertainment and recreation</b>	<b>2.1</b>	<b>2.0</b>	<b>2.1</b>	<b>4.1</b>	<b>4.5</b>
<b>Accommodation and food</b>	<b>7.0</b>	<b>5.6</b>	<b>8.6</b>	<b>16.6</b>	<b>24.6</b>
Other services	4.5	3.9	5.1	3.6	4.1
Public administration	6.2	6.2	6.2	3.7	3.3

*"Pandemic threatens decades of women's labour force gains" – RBC Economics, July 16*

About 50% of young employed women work in either retail or accommodation and food, compared to 38% of young men.

Decline in labour force participation rate, February to August:

**Men: -0.5 percentage points**

**Women: -1.4 percentage points**

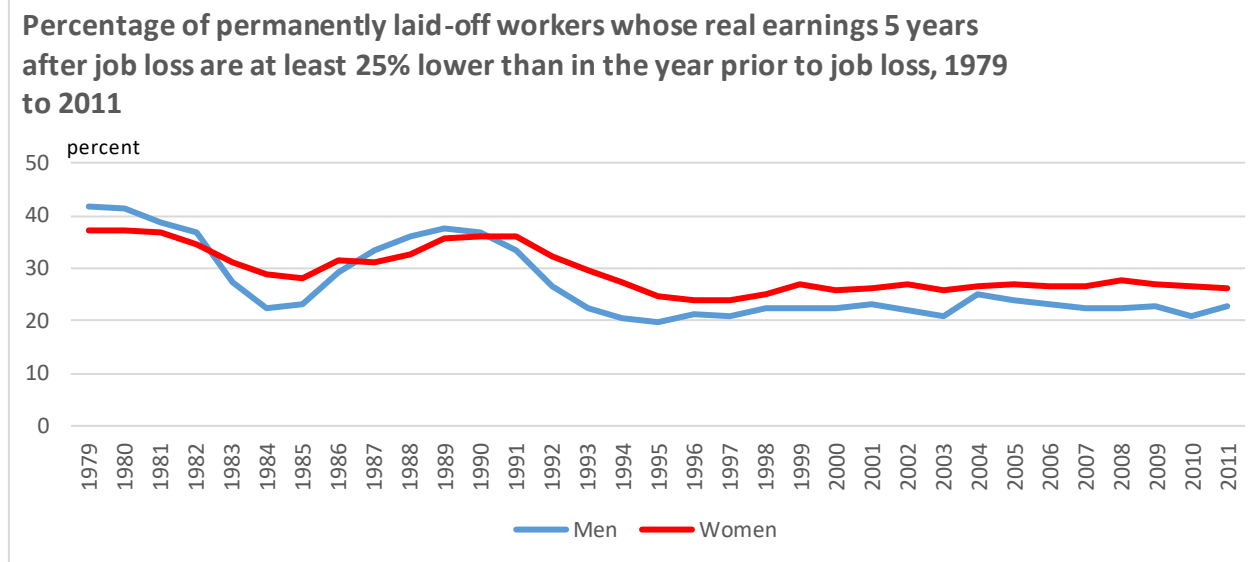
## Unequal impacts - Earning losses over time

Long-term effects of COVID-19 will depend critically on the degree to which layoffs become permanent job losses

Selected statistics --- current and previous labour market downturns				
Labour market downturn	Average monthly layoff rates			
	1981 to 1982	1990 to 1992	2008 to 2009	February-March and March-April 2020
	percent			
<b>Overall</b>	3.5	3.4	2.5	12.4
Men	3.9	4.1	3.3	12.2
Women	2.9	2.5	1.8	12.6
<b>Educational attainment</b>				
Below Bachelor's degree	3.8	3.8	3.0	15.1
Bachelor's degree or higher	1.2	0.8	1.1	7.2
<b>Age group</b>				
15 to 24	5.2	4.8	4.1	25.1
25 to 44	2.9	3.1	2.1	10.7
45 to 64	2.8	2.9	2.3	9.9
<b>Permanently laid-off workers as a percentage of all laid-off workers</b>	<b>46.2</b>	<b>46.4</b>	<b>44.6</b>	...
...not applicable				
<b>Notes:</b> Paid workers aged 15 to 64. Monthly layoff rates include temporary layoffs and permanent layoffs and are computed for the first two pairs of months of each labour market downturn.				
<b>Source:</b> Statistics Canada, Labour Force Survey and Longitudinal Worker File.				

In the 3 previous downturns, 45% of laid-off workers ended up losing their job.

Of those who lost their job, one in five had substantial (25% or more) earnings declines 5 years after job loss, when EI benefits no longer apply.

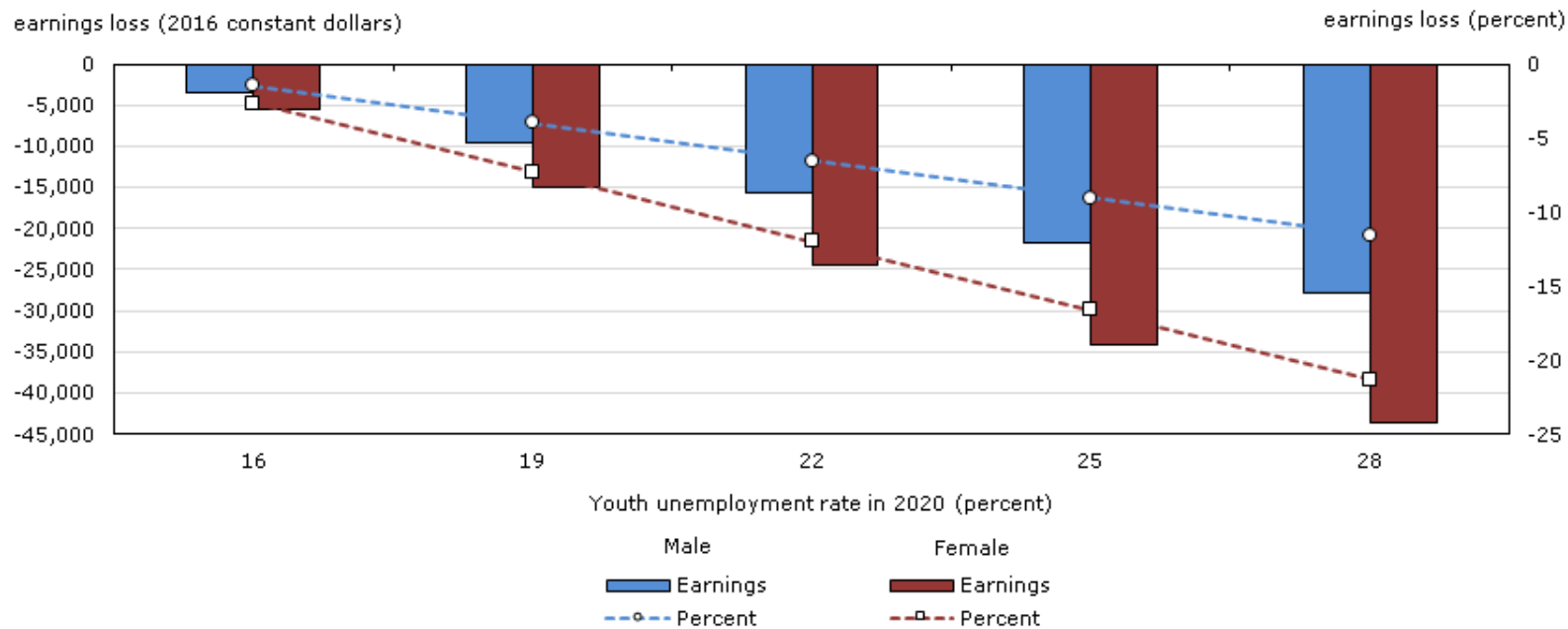


Note: Laid-off workers aged 25 to 44 with real annual earnings of at least \$10,000 (2016 dollars) in the year prior to job loss and with positive earnings 5 years after job loss.

Source: Statistics Canada, Longitudinal Worker File.

# Unequal impacts - Young workers entering the labour market will take an earnings hit

**Chart 1**  
Cumulative five-year earnings loss after graduation due to economic downturn  
(Bachelor's degree graduates in 2020 by gender)



If this year's youth unemployment rate roughly matches the historical high at 19.0%, potential losses could range from about \$8,000 to \$15,000.

**Notes:** Shown are the cumulative earnings loss in dollars and percent over the first five years following graduation under different scenarios of the youth unemployment in 2020, compared to historical average earnings in first five years following graduation.

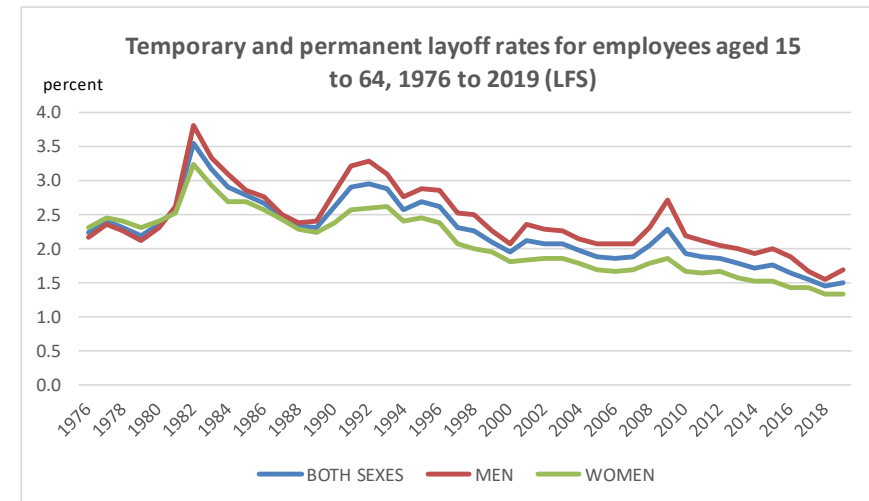
**Source:** Statistics Canada, Census of Population and Labour Force Survey.

# Unequal impacts - Lower wage growth, more job displacement, increases in teleworking and automation?

From 2000 to 2018, between **10% and 14%** of employees worked at home.

Estimates suggest that between **30% and 50%** of workers might have worked from home at the end of March 2020.

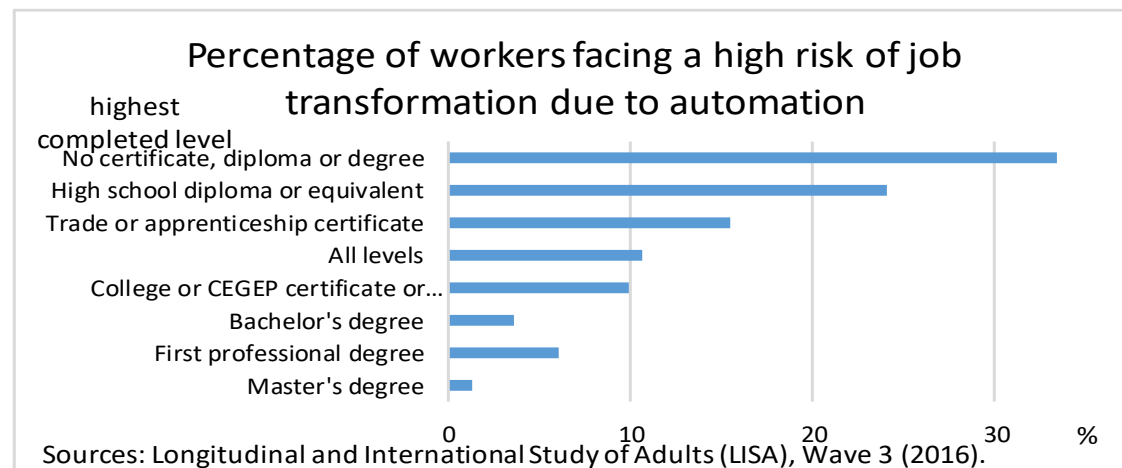
The density of industrial robots in Canada increased by **49.5%** between 2010 and 2015.



Note: Annual averages of monthly layoff rates.

## Potential impacts of COVID-19:

- Teleworking - The growth in telework will likely persist and may contribute to gender equality in the labour market.
- Automation - To manage future risks of pandemic, firms might not only increase their capacity to do telework: they might also choose to speed up the automation of certain tasks - This may impact predominantly less educated workers.



# Economic impacts - Business uncertainty in the recovery phase

## Business uncertainty - Steep challenges facing many firms

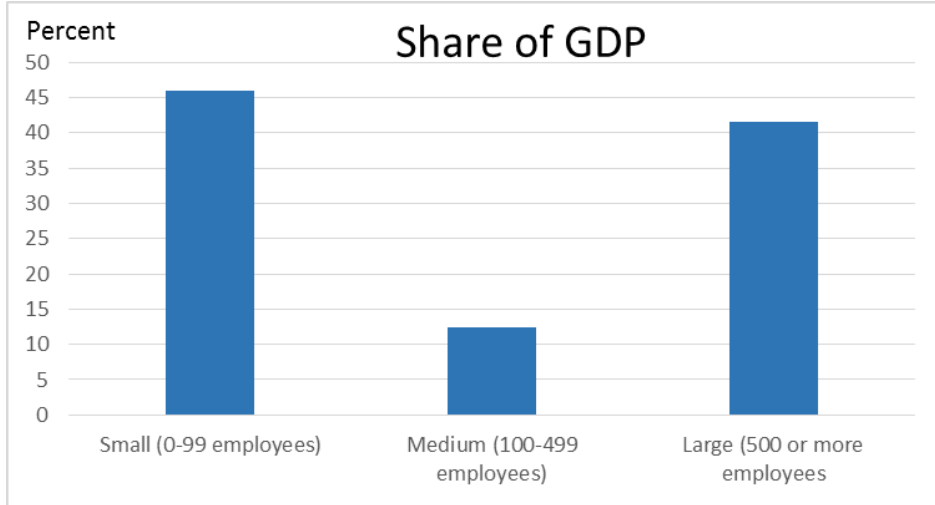
- Uncertain business conditions will likely persist for an extended period as debt-deferrals, wage supports and preferential access to financing begin to wind down. As of May 2020, **nearly one-quarter of businesses with rent or mortgage payments have been granted deferrals.**
- Many businesses will be reluctant to invest in the near term as they focus on their protecting their balance sheets and debt-servicing. Private-sector capital intentions, based on data collected by Statistics Canada in June and July, **point to a 17% annual decrease in private sector capital spending in 2020**, with substantial pull-backs across many sectors.
- Small service-based companies were disproportionately impacted by the pandemic. According to the Canadian Federation of Independent Business, **“three quarters of small businesses have taken on debt as a result of COVID-19 and a majority of those with debt (68 per cent) estimate it will take more than a year to pay off”.**

## Business uncertainty - Prior to the pandemic, firm creation was on a upswing and the financial position of firms was improving

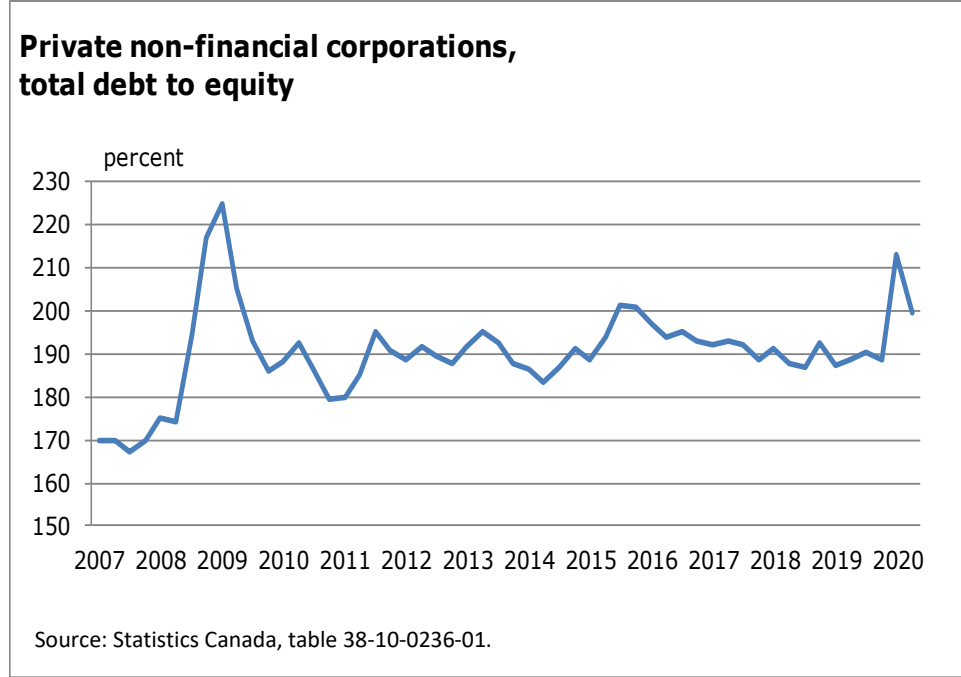
Since 2015, the number of active firms has increased. In the last two years, the economy added an average of **16,500 firms each quarter**.

The **potential rates of business failures, especially among small firms, that may occur in the wake of the shutdowns dwarf the entry and exit rates** observed over the last two decades.

Small firms (with less than 100 employees) account for about 45% of GDP.



Source: Statistics Canada, Special tabulations, National Accounts Longitudinal Microdata file.

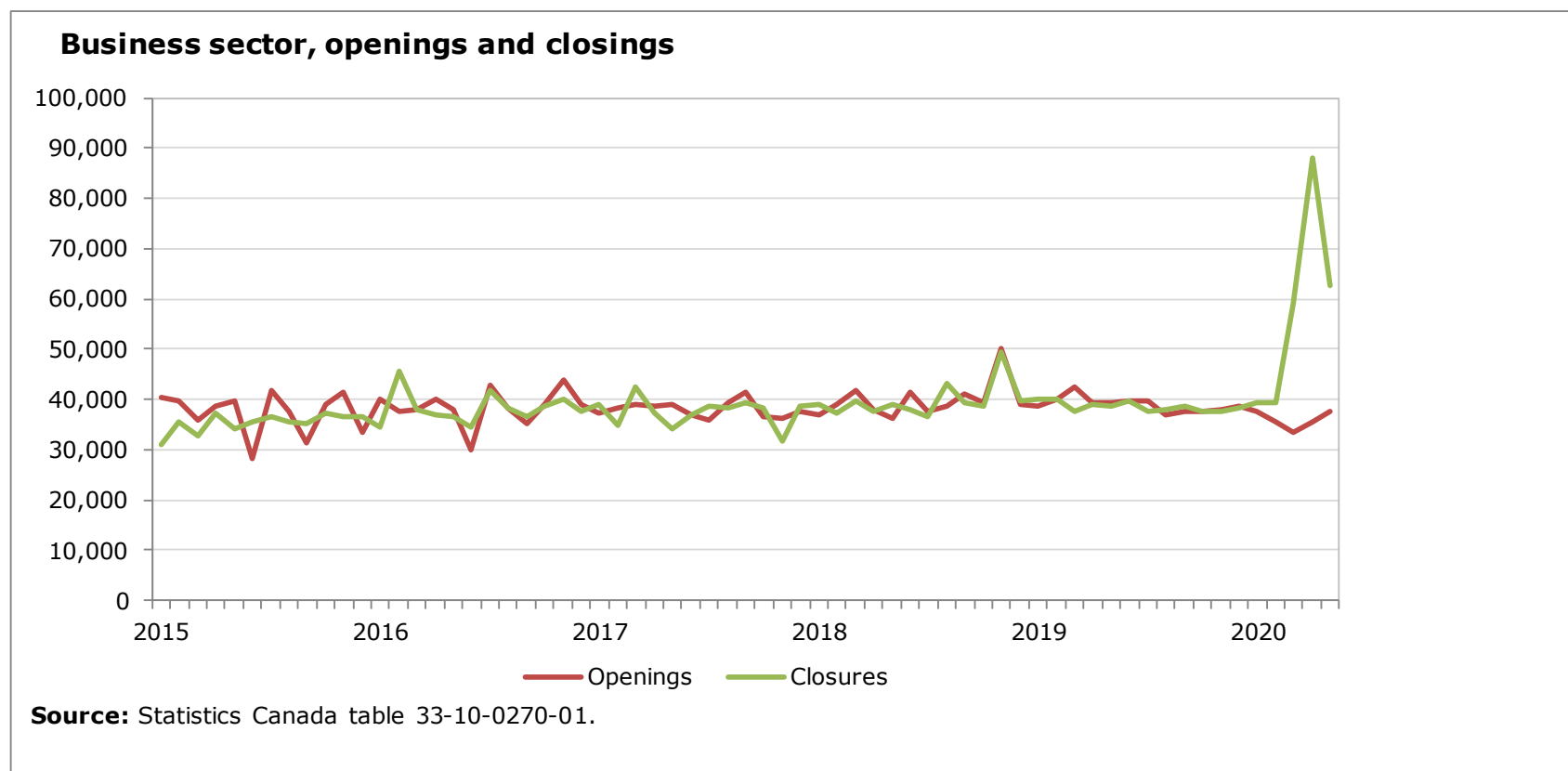


Source: Statistics Canada, table 38-10-0236-01.

Since mid-2015, the debt to equity ratio for larger firms has been declining, indicating lower debt and interest expenses.

## Business uncertainty - Closures rose dramatically during the shutdowns as employees left payrolls

**Closures** are businesses that did not have payroll employment in the current month, but did have payroll employment in the previous month.



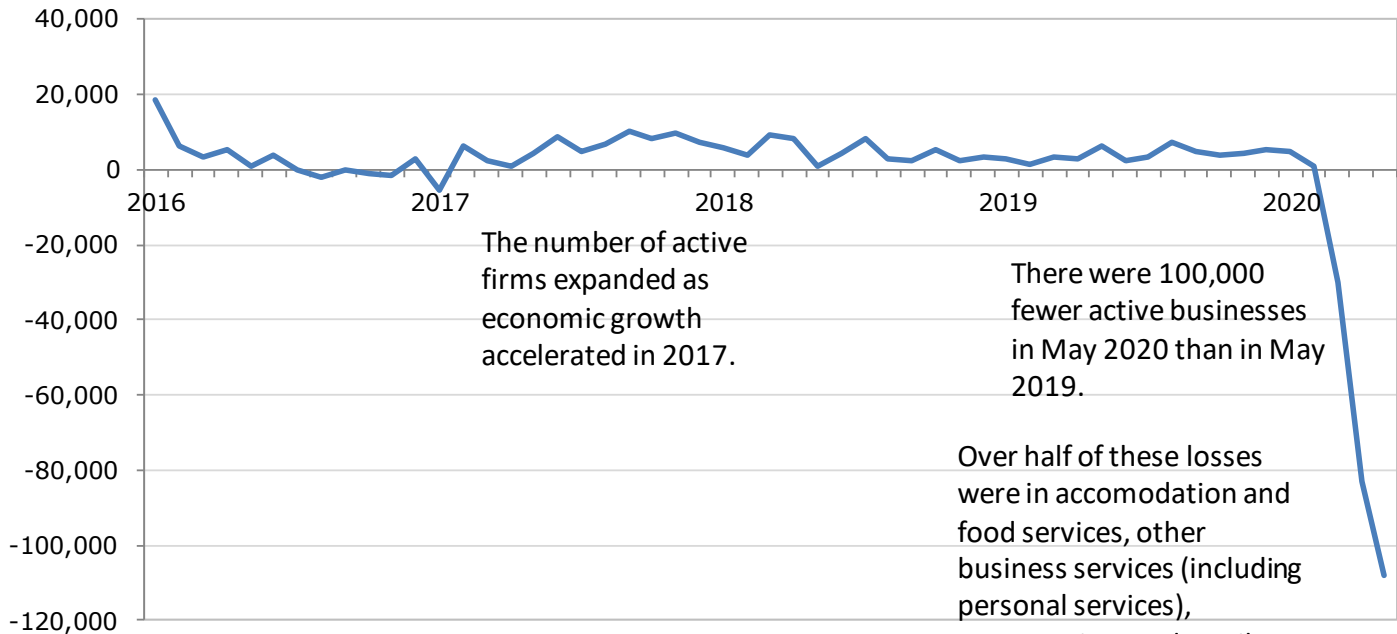
**Business closures more than doubled to 88,000 in April**, led by closures in construction, retail trade and accommodation and food services.

**62,600 business closures were observed in May**, 29% less than in April but still 59% higher than pre-COVID-19 levels observed in February.



## Business uncertainty - Historic declines in the number of active firms

**Business sector, change in the number of active firms, year-over-year**



The number of active firms expanded as economic growth accelerated in 2017.

There were 100,000 fewer active businesses in May 2020 than in May 2019.

Over half of these losses were in accommodation and food services, other business services (including personal services), construction, and retail trade.

**Source:** Statistics Canada table 33-10-0270.

The number of active firms fell sharply on a year-over-year basis in April (-10.4%) and May (-13.5%).

The pace of the job recovery will depend in large part on the extent to which many affected companies, especially small service-providing firms, can remain viable over the coming months.

Uncertain consumer demand for non-essential discretionary items, in light of heightened income uncertainty and concerns over safety, may limit the recovery for many businesses.

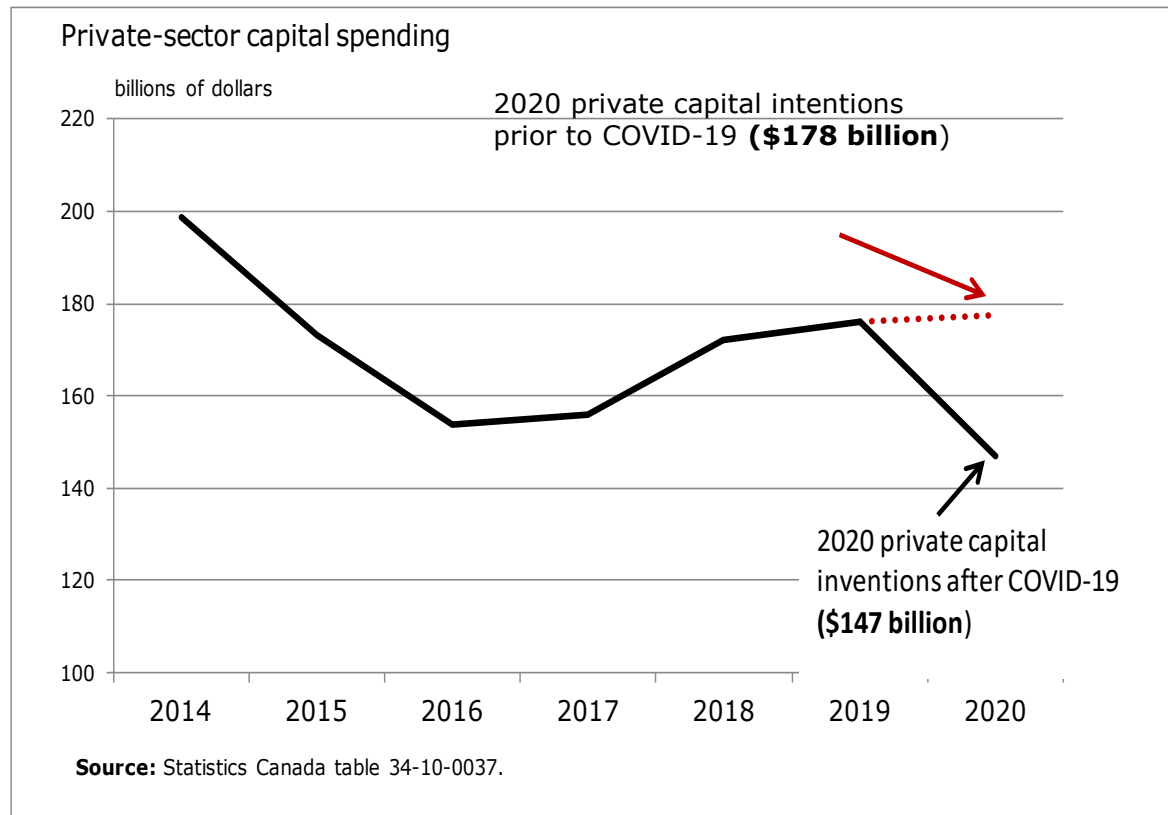
## Business uncertainty - Operating costs and weak demand cloud the outlook for many affected businesses

- According to the **Survey on Business Conditions (SBC)** for reference month May, **over 50% of businesses in accommodation and food services** with mortgage or rent payments **have had their payments deferred**.
  - This compares to less than one-quarter of construction and retail businesses.
- Of businesses with mortgage or rent payments, **24% of small companies have had payments deferred** as have **34% of new companies** (those two years old or newer).
- The SBC also found that **8% of companies could continue to operate for less than three months** at current revenue and expenditure levels before having to consider **further staffing action, closure or bankruptcy**.
  - Among businesses that provide **food and accommodation, or arts, entertainment or recreation**, the number was **18%**.
  - The risk of needing to consider staffing action, closure or bankruptcy in the near term was also **slightly elevated for newer businesses** and **women-owned firms**.

## Business uncertainty - Firms sharply downgrade capital spending plans and focus on protecting balance sheets

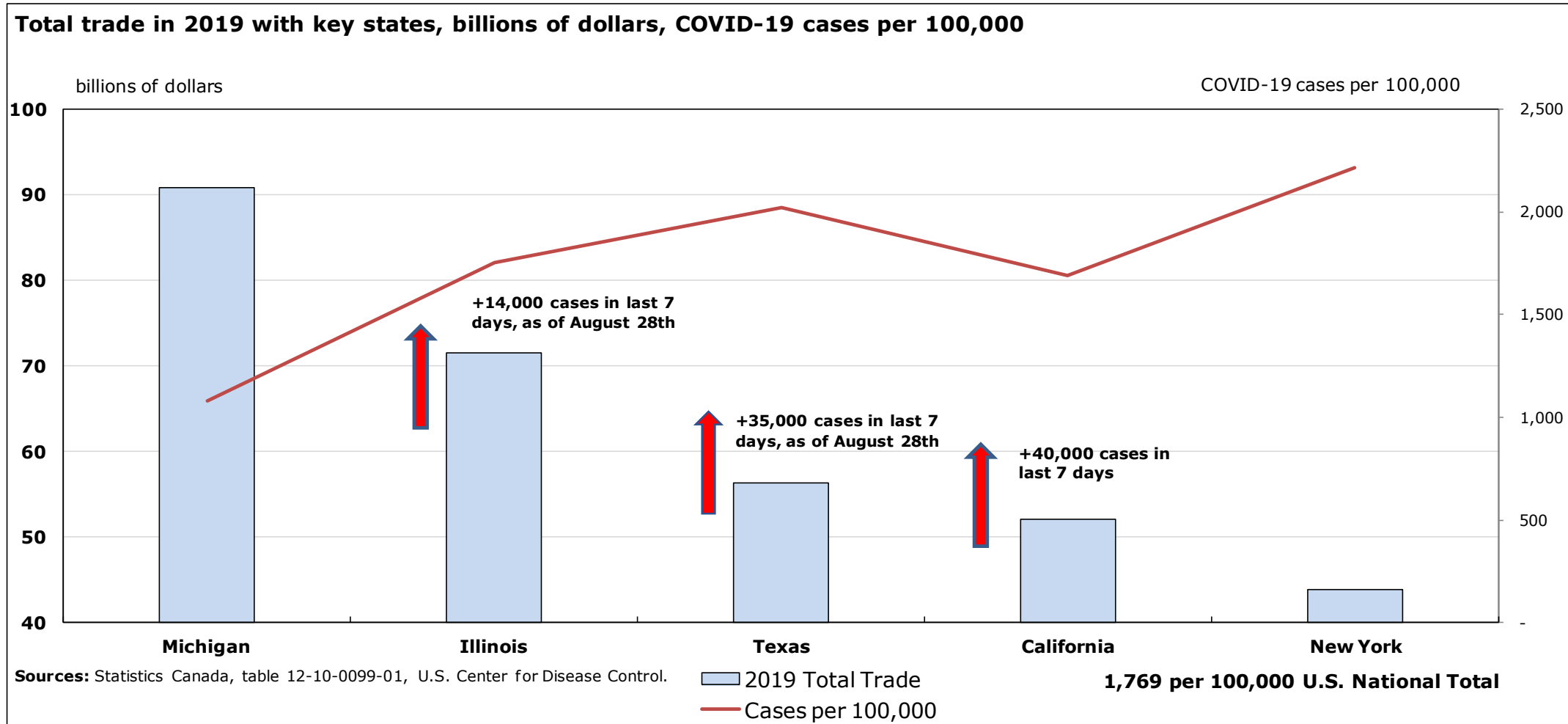
Businesses across most sectors of the economy revised their spending plans in light of heightened uncertainty.

As of May, about 1 and 6 businesses has had mortgage or rental payments deferred.



2020 capital intentions	Percent change from 2019 levels
All industries	-9.5
Private sector	-16.6
Public sector	4.2
Mining and oil and gas extraction	-27.2
Manufacturing	-18.5
Construction	-10.1
Accommodation and food	-39.2
Retail	-11.9
Real estate and rental	-27.0

## Business uncertainty - The recovery in Canadian trade may be influenced



# Economic impacts - Structural challenges in heavily affected sectors

## Structural impacts - Severe implications for transportation and tourism



- The transportation system provides a key foundation for the Canadian economy; with truckers and transport equipment operators the largest occupational group in the country.
- The transportation and warehousing sector employs roughly one million Canadians - many of these jobs are at risk as the movement of people and goods dwindles.



- In 2019, Canada welcomed 22.1 million tourists from abroad (excluding U.S. day trips) – These foreign travellers spent over \$22.0 billion while visiting Canada with overseas visitors averaging \$1,640 per trip in 2018.
- About half of all the employment generated through tourism is in accommodation and food services.

## Structural challenges in heavily impacted sectors - transportation

### Disruptions to the Canadian airline industry are unprecedented

Year over year percentage change in passengers

2001 – September 11 events in the United States



2003 – SARS (severe acute respiratory syndrome) outbreak

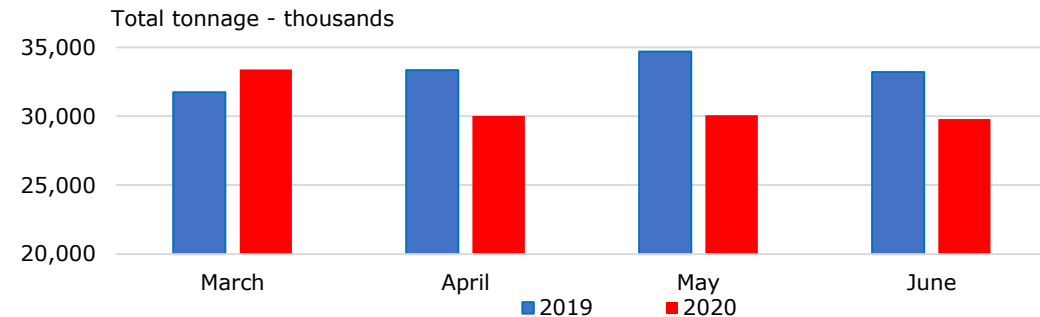


2020 – COVID-19 pandemic a steeper and deeper decline



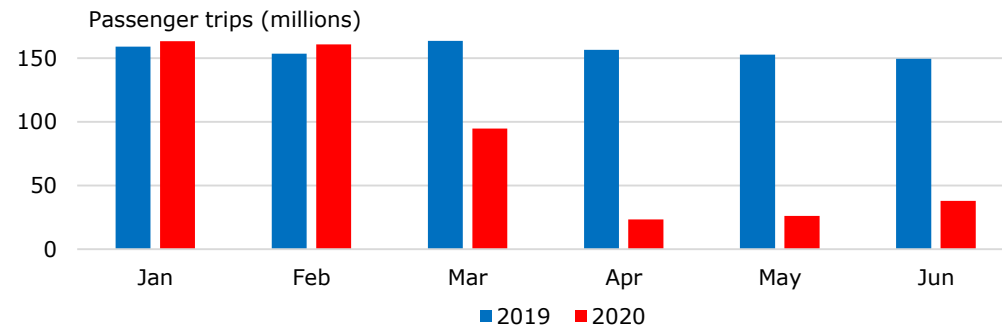
Source: Monthly Civil Aviation Survey (5026), table 23-10-0079-01

### Because of weaker demand for energy and autos, Canadian railways were hauling few tonnes of freight



Source: Statistics Canada, table 23-10-0216-01.

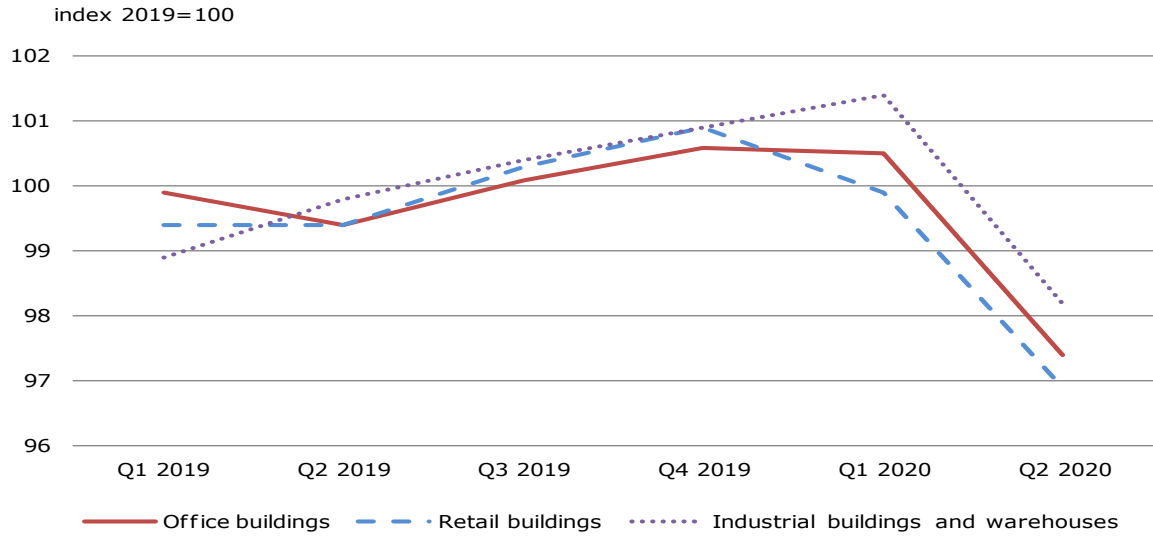
### Public transit made a tepid recovery



Source: Statistics Canada, table 23-10-0521-01.

## Structural challenges in heavily affected sectors – commercial real estate

The pandemic pulled down commercial rents across Canada



Source: Statistics Canada, table 18-10-0260-01.

- Commercial rents fell 3.1% in the second quarter of 2020, after edging down 0.2% in the first.
- Declines in Q2 were widespread across building types and reflected lower commercial rents in every province and territory.

As of the end of the second quarter, a small percentage of commercial property owners indicated that they applied for the Canada Emergency Commercial Rent Assistance (CECRA) program on behalf of their tenants.

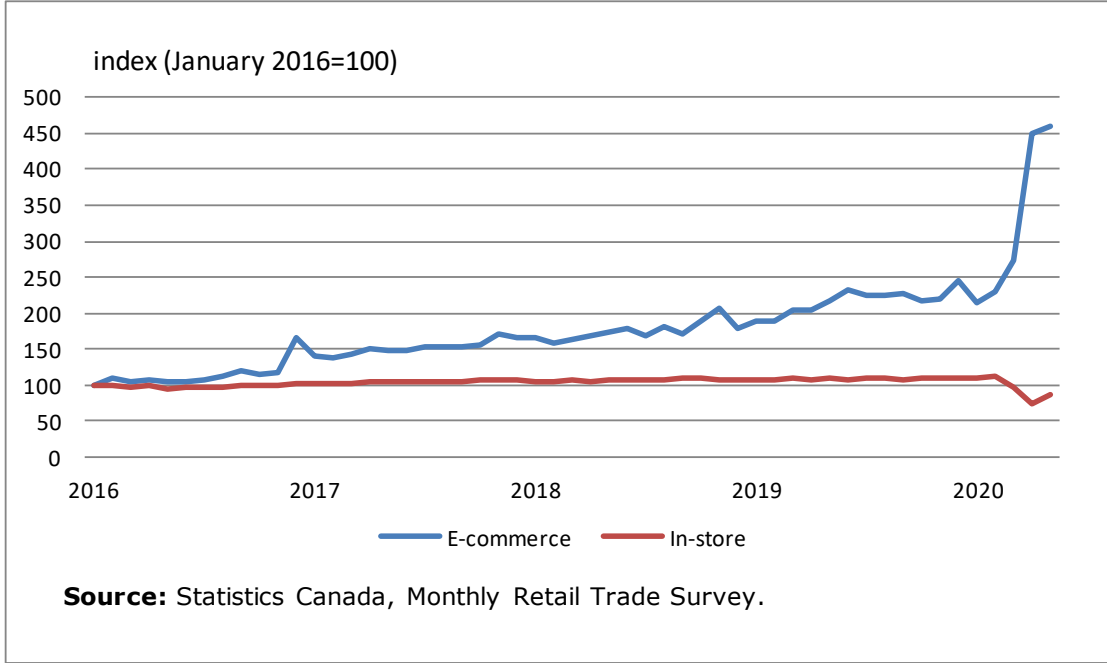
**The long-term outlook** of the commercial real estate market remains in flux as building tenants assess their future office space needs as large numbers of corporate employees continue to work from home . This could put further downward pressure on new office building lease rates.



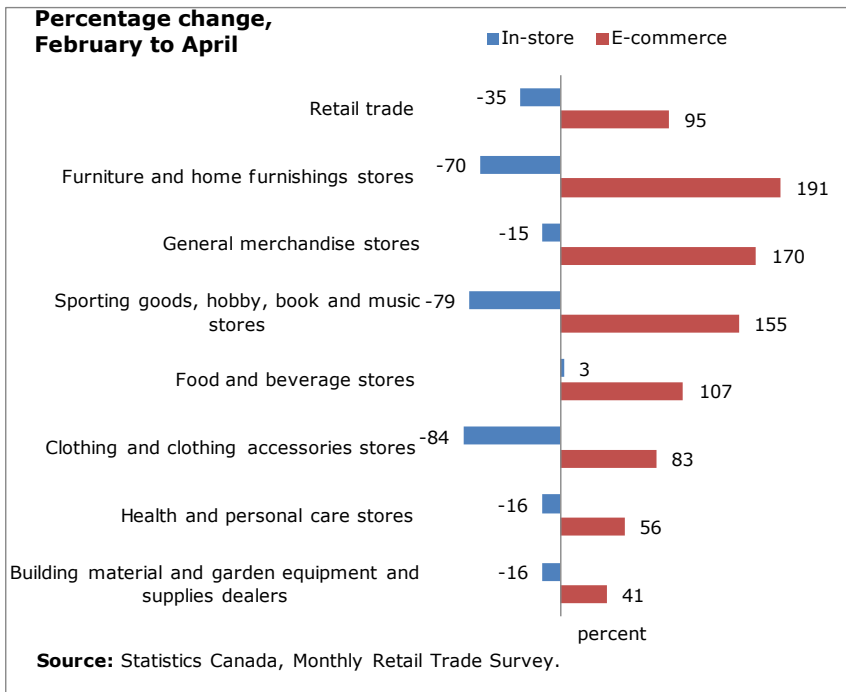
# Structural challenges in heavily affected sectors – retail trade

The retail sector rebounded quickly from storefront closures as companies developed or enhanced their on-line platforms. By June, the volume of retail activity had surpassed pre-COVID levels, while payroll employment in retail industries was 15% below levels in February.

## Retail e-commerce sales soar to all-time high



## E-commerce sales increased more among non-essential retailers



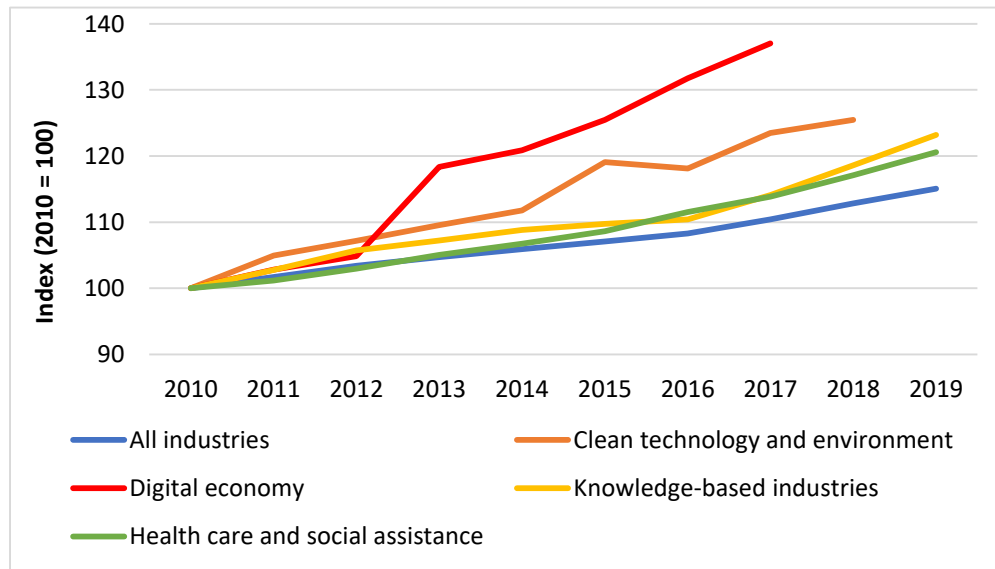
From February to May 2020, total retail sales fell by 18% while retail e-commerce sales doubled.

## Economic impacts - Investing in resilience and growth – digitalization and environmental and clean technology products

## Investing in resilience and growth - Digitalization a driver of structural change in the economy

Employment growth in the **digital economy** and in **clean technology and environmental production** has outpaced even high growth areas in the service sector.

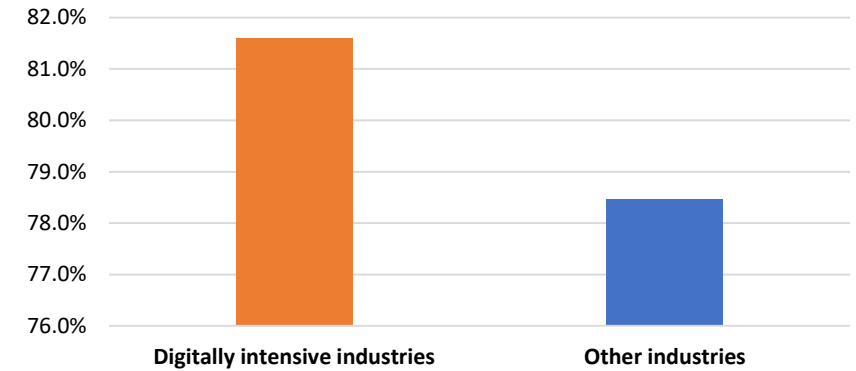
Employment growth in selected sectors since the 2008-2009 recession



**Digitally intensive industries have higher rates of innovation and more high growth firms than other sectors.**

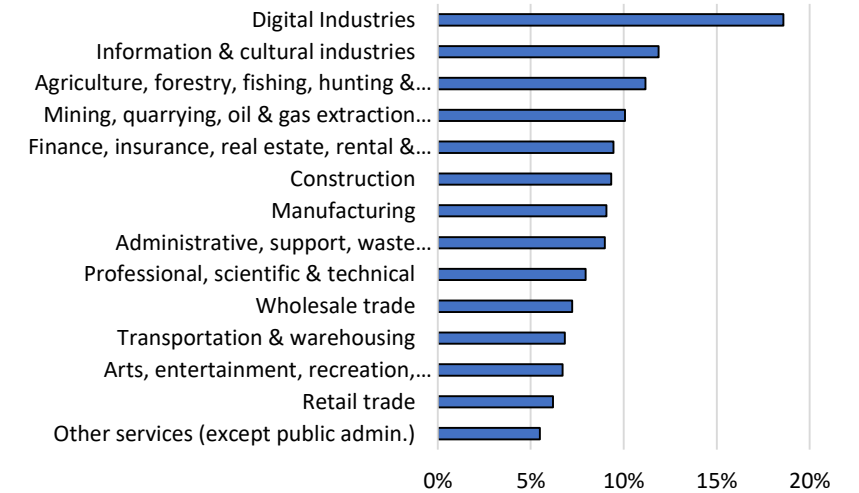
Sources: Statistics Canada, Special tabulations, Measuring digital economic activities in Canada: Initial estimates; Environmental and Clean Technology Products Economic Account; and Survey of Employment, Payrolls and Hours.

Percentage of innovative enterprises, 2017



Source: Statistics Canada, Special tabulations, Survey of Innovation and Business Strategy.

Percentage of High-Growth Firms by Industry



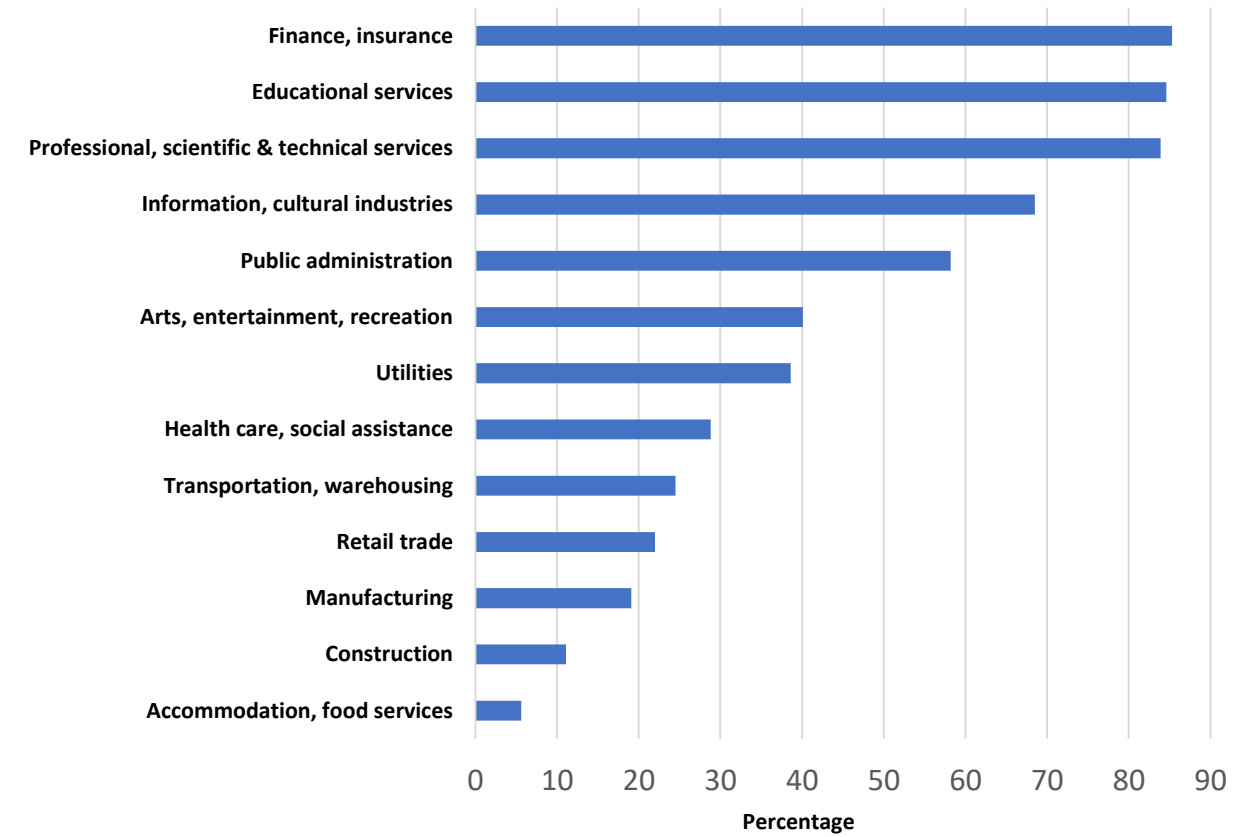
Source: Statistics Canada, Special tabulations, National Accounts Longitudinal Microdata file.

## Investing in resilience and growth - Digitalization accelerated during the pandemic

The share of businesses with at least 10% of their workforce teleworking doubled from February to May 2020, from 16.6% to 32.6%.

Over one-fifth of businesses (22.5%) expect at least 10% of their workforce to continue teleworking after the pandemic.

Telework capacity, selected industries, 2019

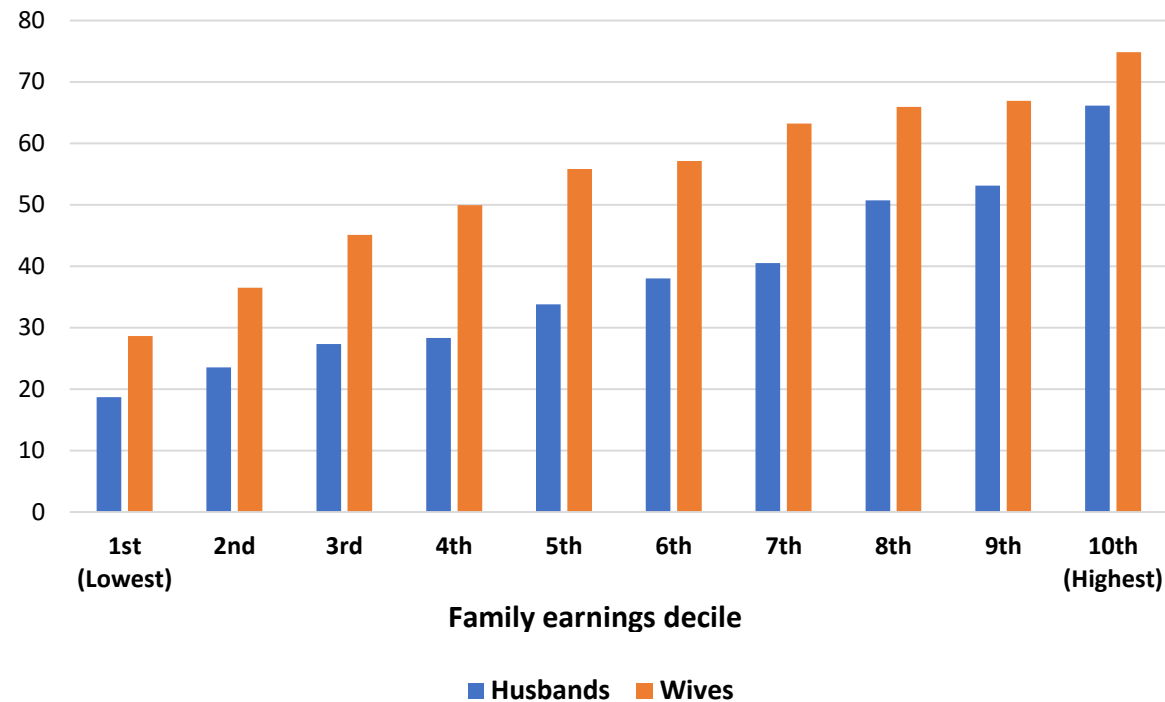
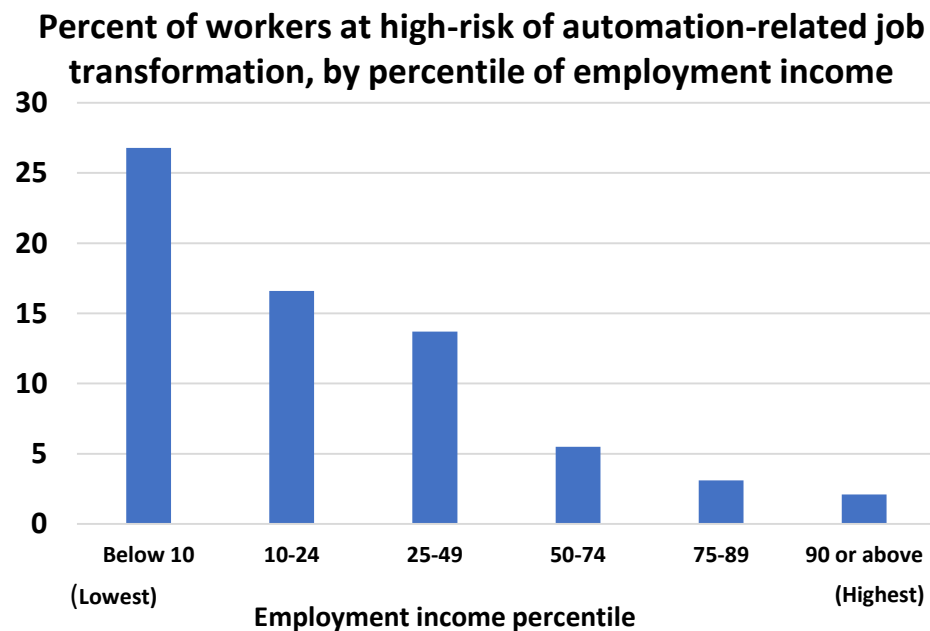


Source: Statistics Canada, Special Tabulations, Labour Force Survey, Occupational Information Network (O\*NET).

# Investing in resilience and growth - Risks and opportunities associated with digitalization in the workplace are unevenly distributed

Workers at the bottom of the earnings distribution have greater risk of job automation and less opportunity for telework.

Percent of adults in jobs that can be done from home, by family earnings decline, dual-earner families, 2019



Sources: Statistics Canada, Labour Force Survey, 2019 and Longitudinal and International Study of Adults, 2016.

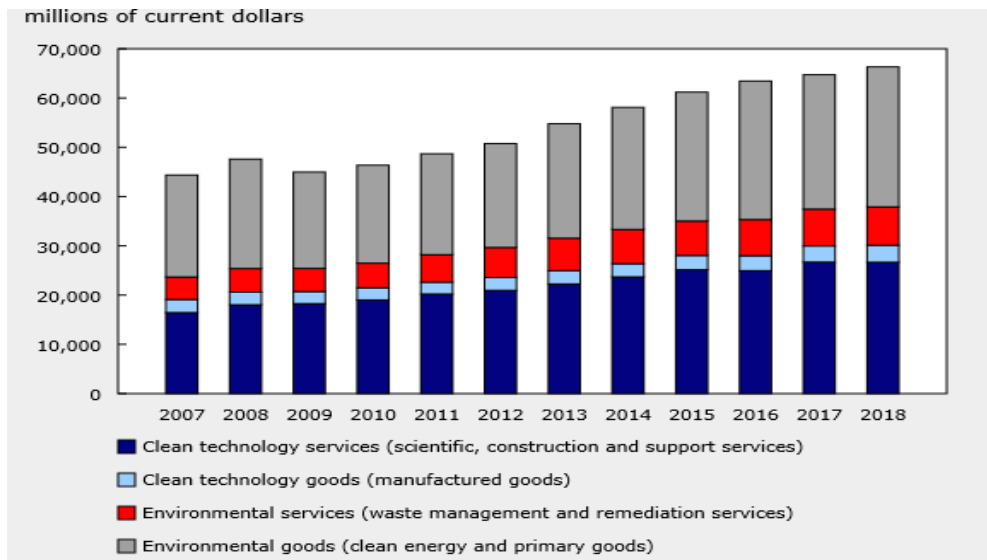
Source: Statistics Canada, Special Tabulations, Labour Force Survey, Occupational Information Network (O\*NET).

## Investing in resilience and growth - Environmental and clean technology (ECT) products and services

ECT products and services include clean electricity, clean-technology manufactured goods, scientific services, research and development services, construction services and support services. Examples include solar panels or the design and construction of energy-efficient buildings.

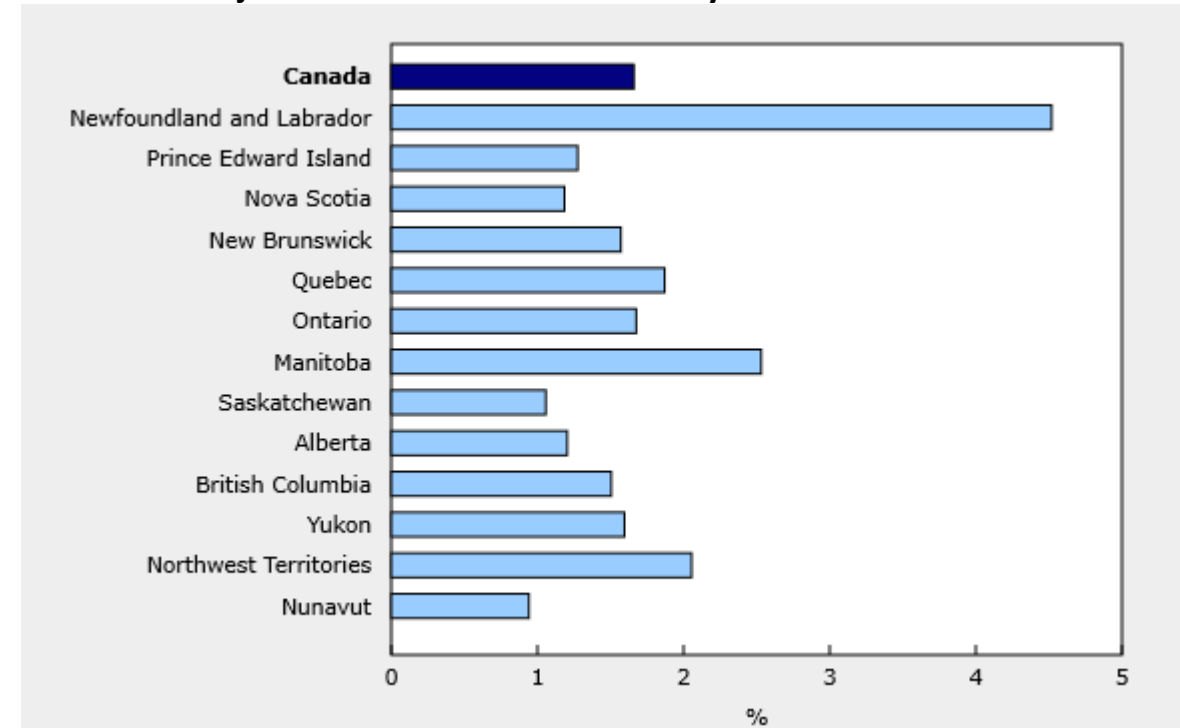
- ECT products and services account for **3.2% of GDP** and just under 1.9 % of Canadian exports and 2.6% of Canadian imports.
- Clean electricity production accounts for over 40% of GDP in this sector.
- ECT activity accounts for about 320,000 jobs.

### Gross domestic product, ECT activities



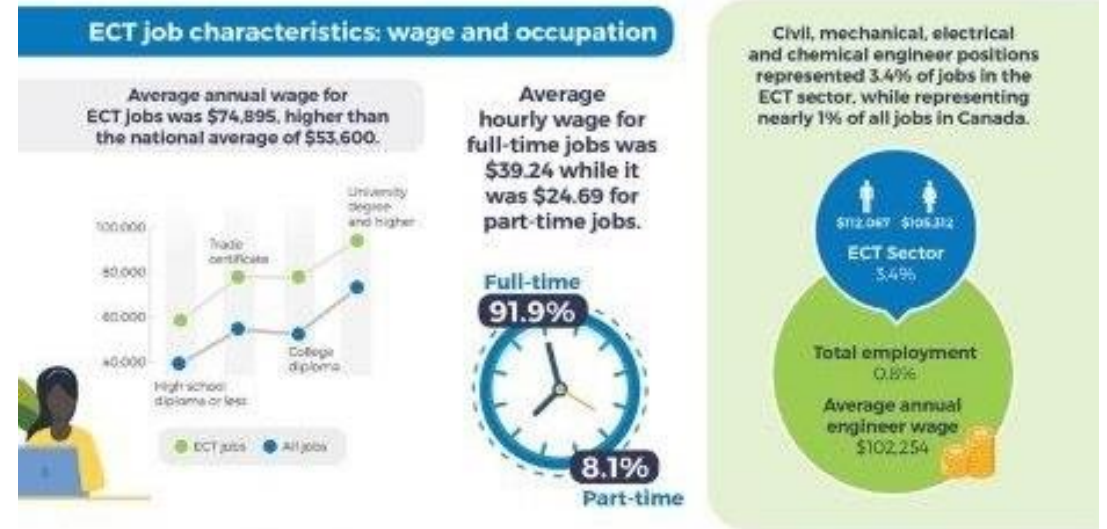
Source: Statistics Canada, Environmental and Clean Technology Products Economic Account.

### Share of total jobs attributable to ECT activity

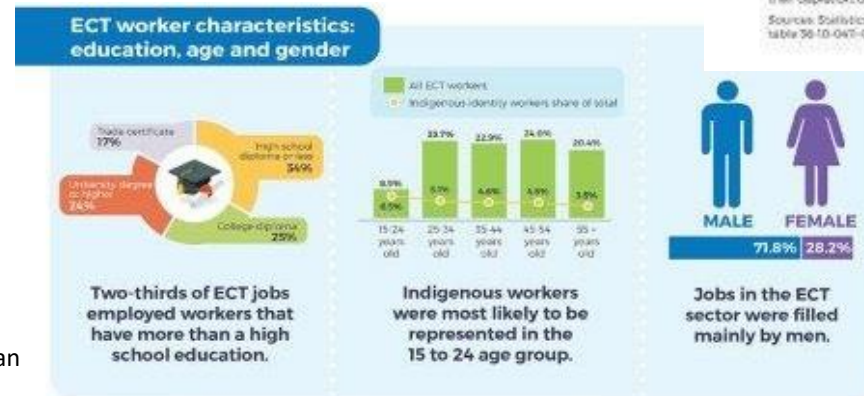


Source: Statistics Canada, Environmental and Clean Technology Products Economic Account.

# Investing in resilience and growth - Many environmental and clean technology (ECT) jobs are relatively high paying and high skilled



Average annual wages for ECT jobs were higher for than for non-ECT jobs across comparable educational levels.



1. ECT products are goods and services that reduce environmental impacts through environmental protection activities that prevent, reduce or eliminate pollution or any other degradation of the environment, resource management activities that result in the more efficient use of natural resources, thus safeguarding against their depletion or the production of goods that have been adapted to be significantly less energy or resource intensive than the industry standard.  
Sources: Statistics Canada, table 96-10-0480-01 and special tabulation based on the 2017 Environmental and Clean Technology Products Economic Account, table 96-10-045-01.

Two-thirds of ECT jobs employ workers with some post-secondary education.  
Engineering positions are relatively well represented in the ECT sector.

Source: Statistics Canada, Portrait of environmental and clean technology jobs in Canada, 2017.