

Controlling Covid-19: Business Dynamics

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Bottom Line

Controlling the COVID-19 outbreak is critically dependent on the ability of government to set ground rules, conduct contact tracing, and encourage/enforce compliance. The triad of employers, employees, and customers each play a crucial role in controlling the spread of the virus. Success in controlling this virus is critical to returning to reasonably strong economic activity, which in turn benefits employees and their families, employers and governments.

Fear of COVID-19 and the uncertainty that it has engendered throughout the world led to massive lockdowns in March – May, and a phased in restart to the economy. Today's 2020-Q2 GDP were down sharply from Q1, as expected. The story of where we are headed is better represented by the monthly figures; Canada's GDP grew 6.5 per cent in June, following an increase of 4.8 per cent in May. Jun is about 9 per cent below Feb.

We are now far better placed to contain the virus, with expanded means to contact trace, and to reduce the spread. Having knowledge as to where clusters are and differentiated rules for areas experiencing local outbreaks helps to contain the virus and maintain confidence.

Economic recovery will continue to be somewhat uneven across industries as we work out the rules for more complex issues and find additional ways to rebuild confidence while controlling the virus. **Controlling the virus is crucial to maintaining confidence, which is in turn supports:**

- **Kids returning to daycares and schools,**
- **Employees returning to work,**
- **Consumers supporting local businesses, and**
- **Governments collecting taxes.**

Analysis

Rules of the Game and COVID-19 Cases

Containing the COVID-19 outbreak is a key consideration of all levels of government. Adherence to the Manitoba government's public health guidelines is crucial to setting the ground rules for businesses, residents and domestic visitors.¹ Many other provincial government departments are playing a key role in ensuring rules support the industries that they work with. Federal and civic governments are playing a role as well.

¹ These guidelines also apply to international visitors (whose entry is a federal responsibility).

In addition, Manitoba COVID-19 data is now available in a more refined manner, helping people to assess health risk. The Province of Manitoba recently rolled out a [pandemic response system](#) to help allay concerns and offer geographically differentiated approaches to COVID-19 controls. These measures should improve confidence, offer greater certainty, and enable more people to return to work in areas of lower risk.

The number of [COVID-19 cases](#) in Winnipeg is fairly low at this time, but each of us needs to remain vigilant in following the basic public health rules put in place. As we are seeing in the Prairie Mountain Health Regional Health Authority (PMH), COVID-19 clusters can develop quickly. Renewed vigilance, contact tracing, testing and differentiated restrictions in the PMH should bear positive results over the following weeks and months.

Business and Consumer Confidence

In the [Weekly Economic Digest # 28](#), we noted that business and consumer confidence has been strengthening. This is crucial to encouraging a return to 'normal' business activity. The Canadian Federation of Independent Business (CFIB) released its [Business Barometer Index](#) for August 2020. While the index for Canada overall dropped month-over-month, Manitoba's index strengthened. **Keeping COVID-19 under control will help maintain business confidence.**

Table 1: CFIB Business Barometer August 2020

Geography	Index	Directionality	Change in Index
Canada	59.2	Down	-2.1
Manitoba	59.3	Up	+3.8

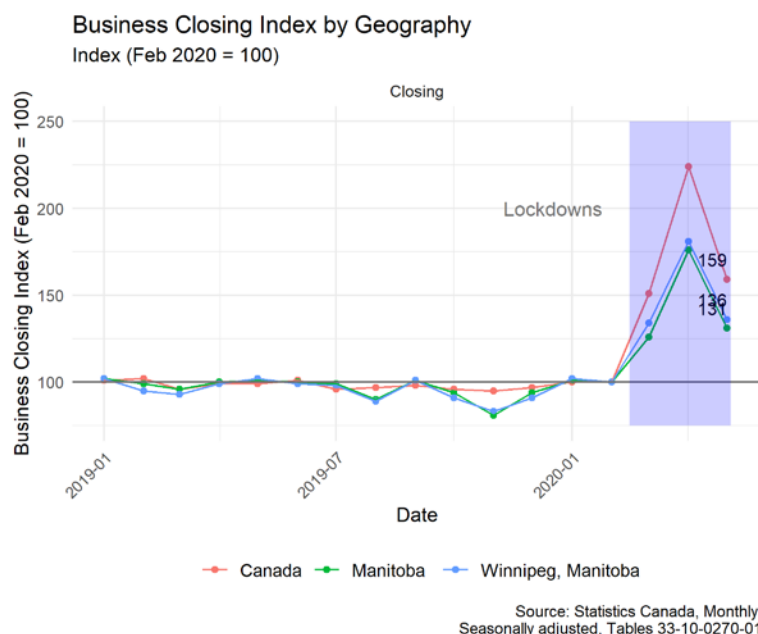
Labour Supply Constraints

Two crucial areas were identified as labour supply concerns, specifically, early childhood learning (ECL), and schools. These are important contributors to the ability of parents of children under 12 to return to work. **Having safe, quality ECL and schooling is crucial to our long-term competitiveness. It is important for keeping young parents (particularly women) attached to the labour market (short- to long-term), and to ensure a sufficient labour force to satisfy today's work demand.**

In order to address these concerns Manitoba's provincial education department in conjunction with private and public schools and school divisions has rolled out plans for [reopening schools](#). The federal government also announced additional funding to assist provinces with the costs associated with the return to school in September. The Province announced [additional funding](#) to help daycares to have sufficient space for children while complying with social distancing rules.

Labour Demand Constraints

Figure 1: Business Closures data (May 2020)

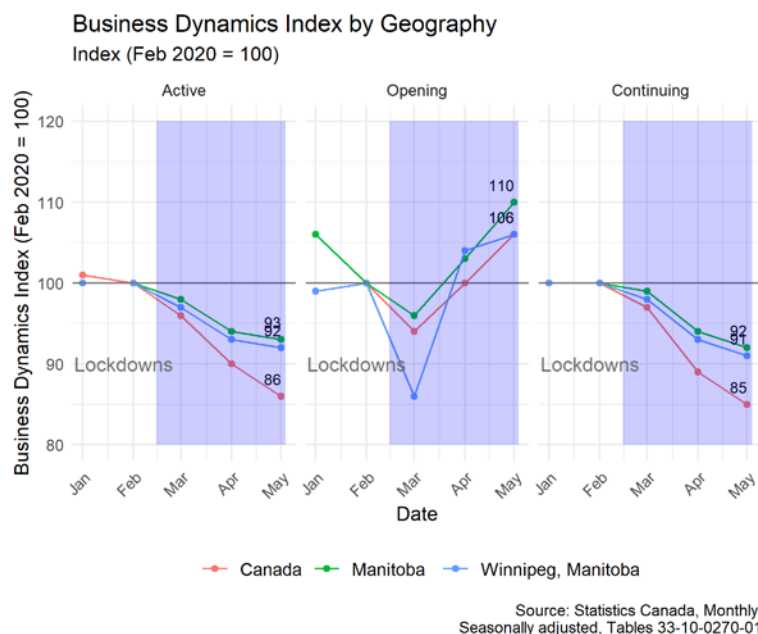


Another area of concern is labour demand. **Government programs to help businesses bridge pandemic-induced cash flow issues may help to prevent excessive business exits.** Small business and certain industries have shown more vulnerability to closing.²

Statistics Canada's experimental monthly business closures data for May 2020 indicated a sharp drop-off in closures from April 2020, but they are still elevated from February 2020 (Figure 1). Indexed February 2020's

closure data show Canada's closures in May 2020 at an index of 159 (or 59 per cent higher than in February 2020). This is higher than the 136 and 131 index values for Manitoba & the Winnipeg CMA respectively, indicating a lower share of local closures.

Figure 2: Business Dynamics Index by Geography



Business openings are only slightly up from February 2020 levels, with index values of 106 to 110 in May 2020 (Figure 2).

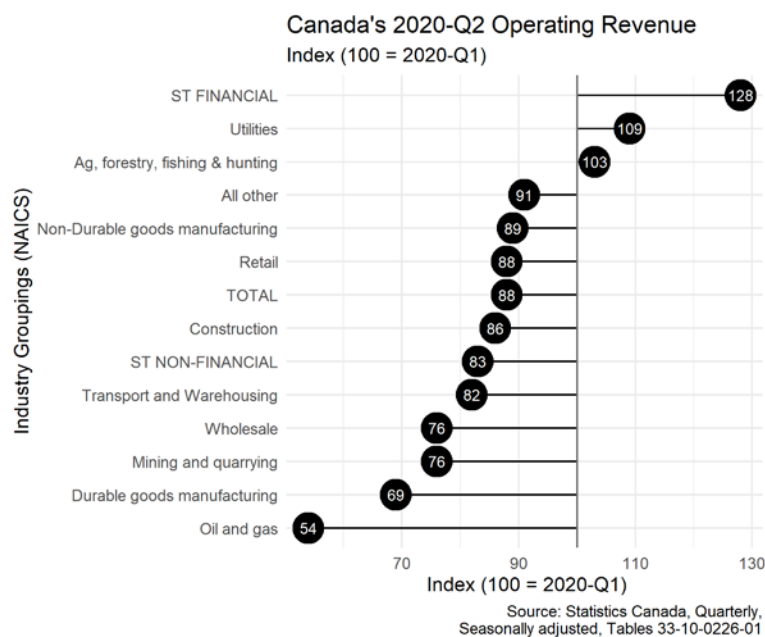
Active/Continuing business remain lower than February 2020 levels. Canada's active/continuing businesses have an index of 85 and 86. Manitoba and the Winnipeg CMA both have indexes in the low 90's (Figure 2).

Statistics Canada released [quarterly financial statistics](#) on August 25, 2020. We developed a custom regrouping of the data

to simplify the data presentation for non-financial firms, while only showing the overall category subtotal for financial firms (Figure 3).

² See [Weekly Economic Digest # 28 for more details on the industries.](#)

Figure 3: Canada's 2020-Q2 Operating revenues Index



Compared to Q1 2020, Q2 revenues dropped 14 per cent. Operating revenues for **all industries have an index of 86**. Dragging down the all industries average in the quarter were:

- **Oil and gas** (Index of 54),³
- **Durable goods manufacturing** (Index = 69)
- **Mining and quarrying / wholesale** (Index of 76),
- **Transport and Warehousing** (Index of 82), and
- **Construction** (Index of 86).

The data for 2020-Q2 should represent the lowest point for the Canadian economy during the COVID-19 pandemic to date, given trends observed in other economic indicators.

Retailers without ecommerce solutions were also particularly vulnerable to revenue reductions. Given this risk, varieties of entities have emerged promoting the use of e-commerce: [Federal trade commissioners](#). The latest Canadian Survey on Business Conditions (CSBC) published by the [Canadian Chamber of Commerce](#) noted that 60 per cent of Canadian restaurants are at risk of having to close their doors.

While the federal government has offered the common programs to support individuals and business, each province has offered tailored solutions. The Province of Manitoba is now offering an enhanced [Back to Work Wage Subsidy Program](#). We expect to see further adjustments by the federal government on business supports (e.g. [CEWS](#)) over the coming months. The Canadian Chamber of Commerce has launched [Our Restaurants](#) campaign to draw attention to the risks to restaurants.

EDW Contacts for Assistance or Inquiries:

- **For Winnipeg businesses looking for help accessing government programs, please reach out to our Yes! Winnipeg Team** through our [Help us help you form](#) if you are not sure who to contact on the Y!W team.
- For general inquires please email wpginfo@edwinnipeg.com.
- For Marketing & Communications Inquiries, please email marketingandbranding@edwinnipeg.com.

³ Oil and gas was hit by a double whammy of both low prices and weak demand during the lockdown.