BMO Blue Book

Small Businesses in the Recovery

Summer 2020

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BMO Blue Book — Summer 2020

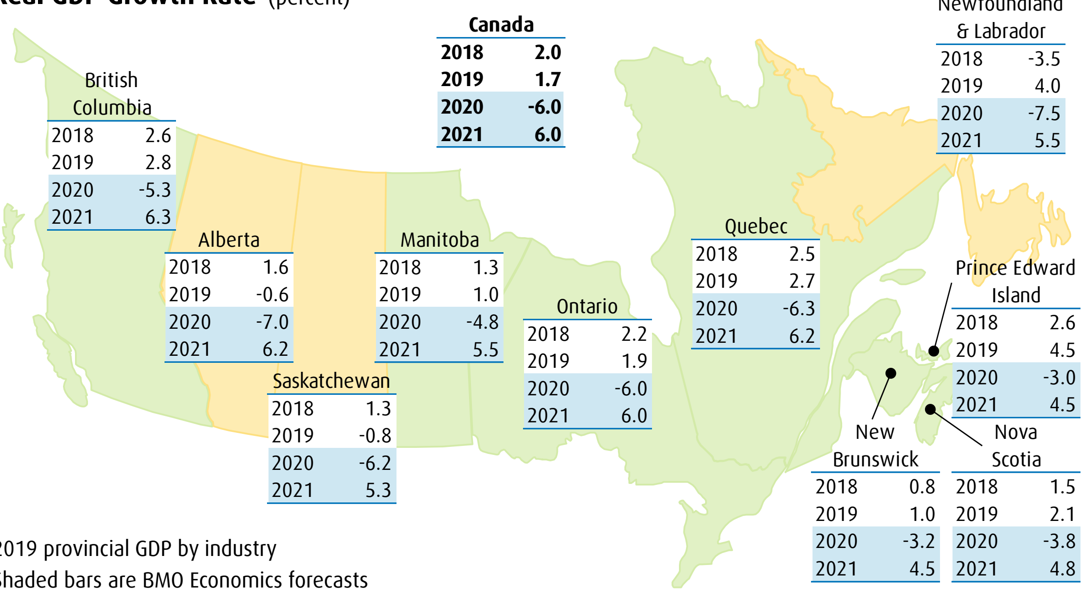
Reopening, Recuperation and Recovery

Douglas Porter, CFA,
Chief Economist

Following the steepest, deepest, and fastest recession in history, there are clear signs that the Canadian and global economies have begun the initial stages of recovery. As workplaces have gradually started to re-open, consumer spending, construction, and manufacturing are reviving, in some cases rapidly so. However, with some restrictions still in place, borders still closed, and many Canadians understandably reluctant to venture out, a complete recovery will likely take an extended period of time. In particular, there are a variety of sectors that could face an extremely rocky road over the next year (notably travel, dining, and entertainment), and may never fully return to pre-pandemic levels. As well, the hit to confidence, wealth, and employment prospects from the swift downturn will keep some households and businesses cautious in their spending plans.

Provincial GDP

Real GDP Growth Rate (percent)



2019 provincial GDP by industry
Shaded bars are BMO Economics forecasts

Attention is turning to what the economy will look like after the storm. Some encouraging early indications from the re-opening include a partial rebound in jobs, auto and home sales, and overall retail sales. Even so, we still believe that the Canadian economy will contract by roughly 6% in 2020, by far the deepest annual decline in economic activity in the post-war era. Yet, as we have consistently maintained since the shutdowns began, growth is expected to rebound to roughly 6%

next year, helping bring the jobless rate down markedly. Even with a forceful recovery, the challenge will be to get the economy back to full health.

Canada's economy is largely following the contours of other major economies, albeit with each confronting quite different experiences with the virus. But one specific area of divergence between North America and other economies is on the employment front. Even with strong job gains in June, unemployment rates on both sides of the border remain well into double-digits, and up roughly 7 percentage points from a year ago. That deterioration has simply not been repeated in other major economies. Across Canada, the regional jobs picture has typically been primarily driven by the intensity and timing of the shutdowns. Looking ahead, while the unemployment rate is expected to continue receding from its post-war high, we expect it to still be north of 7% by the end of 2021, or roughly two percentage points higher than pre-virus lows.

While much of the focus on Ottawa's Fiscal Snapshot was trained on the record $343 billion budget deficit, the report also revealed the underlying economic forecast for this year and next from private sector analysts. The deficit projection was based on the assumption of a 6.8% drop in GDP this year, but a 5.5% rebound next year, both slightly more downbeat than our expectations. However, given that the consensus is more upbeat on price increases, the overall view on nominal GDP that the deficit forecast is based on is quite similar to our assumption. Instead, much of the surprise in Ottawa's outsized deficit was due to a $50 billion cushion for potential future outlays on the wage subsidy program. Further details are pending, but the government has proposed expanding eligibility and extending the program to mid-December. Regardless, the main message from the fiscal update is that Ottawa still believes that it will need to provide significant further support for the economy, to ensure the recovery sticks and strengthens. The Bank of Canada delivered a similar message in its quarterly Monetary Policy Report, and in fact was even more cautious on the economic outlook; it looks for a 7.8% contraction in GDP this year, and a more moderate 5.1% rebound in 2021.

Provincial Economic Summary

	BC	AB	SK	MB	ON	QC	NB	NS	PE	NL	Canada
Real GDP Growth (chain-weighted : year/year change)											
2019[1]	2.8	-0.6	-0.8	1.0	1.9	2.7	1.0	2.1	4.5	4.0	1.7
2020	-5.3	-7.0	-6.2	-4.8	-6.0	-6.3	-3.2	-3.8	-3.0	-7.5	-6.0
2021	6.3	6.2	5.3	5.5	6.0	6.2	4.5	4.8	4.5	5.5	6.0
Employment Growth (year/year % change)											
2019	2.6	0.5	1.6	0.9	2.9	1.7	0.7	2.2	2.7	0.7	2.1
2020	-6.4	-7.2	-4.2	-2.6	-4.9	-4.7	-2.1	-5.7	-1.5	-7.2	-5.3
2021	5.8	5.4	3.0	3.4	4.0	5.5	3.4	2.5	3.0	2.2	4.5
Unemployment Rate (percent)											
2019	4.7	6.9	5.4	5.3	5.6	5.1	8.0	7.2	8.8	12.0	5.7
2020	9.0	11.7	8.8	7.9	9.1	9.6	10.0	10.8	10.7	14.3	9.5
2021	6.5	9.6	8.2	7.2	7.9	7.6	9.4	10.2	10.0	13.6	8.0
Housing Starts (thousands)											
2019	45.1	27.3	2.4	7.0	69.0	48.1	2.9	4.7	1.3	0.9	209
2020	36.5	21.0	2.5	6.0	74.0	48.0	2.4	3.5	1.0	0.6	195
2021	40.0	25.0	2.8	6.7	78.0	53.0	2.5	5.0	1.3	0.7	215
Consumer Prices (year/year % change)											
2019	2.3	1.7	1.7	2.3	1.9	2.1	1.7	1.6	1.2	1.0	2.0
2020	0.4	0.9	0.4	0.4	0.5	0.4	0.2	0.2	-0.2	0.0	0.4
2021	1.6	1.5	1.5	1.4	1.5	1.5	1.0	1.0	1.2	1.0	1.5

Shaded bars are BMO Economics forecasts; [1] 2019 = provincial GDP by industry

Mike Bonner,
Head,
Canadian Business Banking

Together, as a country, we have been facing one of the most challenging economic times in recent history. While we are not turning the page on the pandemic quite yet, as economies begin to re-open across the country, we are starting to get a view into what the economy will look like in the short and medium term based on sentiment from our emerging and scaling business clients.

Small businesses have been more adversely affected by the economic downturn resulting from COVID-19. They have recorded almost double the rate of job losses as mid-sized and large firms. In particular, we have seen businesses that operate in close physical proximity to their customers and with higher fixed costs and debt loads being hit harder by social distancing measures. At the same time, more than any other grouping of businesses, it's crucial that we all help small businesses bridge the gap back to profitability – they are the foundation of local economies across this country and account for a large portion of local tax revenue and local employment. Their rebound will influence Canada's recovery.

While challenges persist – for some industries, likely for the foreseeable future – there is a level of optimism that is beginning to surface across the country as businesses start to re-open. As we continue to have conversations with clients nationally, the focus is shifting to how to maximize cash flow in the short- to medium-term in case we experience a second wave. As well, we are seeing businesses across sectors adjust and adapt their operations. Agility and nimbleness will be crucial to sustaining growth going forward. However, one persisting headwind small businesses are facing is re-hiring employees and returning staffing to normal levels. Once the relief programs run their course, this should help to alleviate any labour concerns.

The technology sector is one that continues to excite us, as we witness its growth and the rate at which companies are investing in innovation. Canada is building ecosystems from B.C. to Newfoundland & Labrador, which is helping attract and retain talent and creating an environment supportive of smaller companies operating in the sector. We expect to see continued growth among technology and innovation companies across the country and anticipate that – with technology expected to play a much larger part in our post-COVID economy – this sector will contribute growth both provincially and nationally.

Manufacturing is another sector that is holding up well and is poised for growth. Smaller operators are adjusting operations and finding opportunities to produce personal protective equipment. As medium-sized and large businesses continue to bring employees back into their offices in the coming months, there will be a continued need for items like Plexiglas, hand sanitizers, and masks. Overall, this will create positive momentum for those operating in that space.

We view our commitment to stand with our customers in both prosperous as well as challenging times as a competitive differentiator. We believe choosing a bank is one of the more consequential decisions a business owner can make. We know that the success of the partnerships established between business owners and their financial institution is vital to the ongoing success of both. As the bank for business, we stand ready to support our customers.

Douglas Porter, CFA,
Chief Economist

Outlook for Five Key Sectors

1. Technology

Clearly, the tech sector is the good news story on the Canadian industrial outlook. And, with Canada's economy and workers crushed by COVID-19 and low energy prices, there has **never been a better time for high-tech to carry the torch.** Though still relatively small, the sector is growing rapidly and can only benefit from an acceleration in online shopping and remote working, activities that rely on efficient, high-speed digital technology.

Few sectors have grown faster than Information and Communications Technologies (ICT). Led by a number of high-flying homegrown companies and a rapid expansion of U.S. technology giants north of the border, it has consistently outperformed the national economy in recent years. From 2014 to 2019, ICT expanded 4.3% per year, more than double aggregate growth (2.0%).

ICT accounted for 4.8% of Canada's GDP in 2019, up from 4.2% in 2007, and has surged above 5% so far in 2020. That's more than twice the size of the hard-hit accommodation and food services sector, though still much smaller than the energy sector (9.3% share this year). ICT has been a stable source of jobs for Canadians. Employment in **computer systems design and related services expanded 7.5% on average** between 2014 and 2019. Foreign tech firms are attracted to Canada's welcoming immigration policies, stable political system, well-educated population and relatively low industry wages. Overall, the tech sector is a beacon of light in a very cloudy economic outlook.

2. Agriculture

The coronavirus pandemic has weighed heavily on the North American agriculture sector. Although food demand has held up relatively well, widespread meatpacking plant closures resulted in an excess supply of livestock in the spring, which pulled benchmark hog and cattle prices to lows not seen in a decade or more. Although most meatpackers are now back online, social distancing measures have left plants running below capacity and there remains a substantial backlog of animals awaiting processing. As a result, **livestock prices have improved only moderately as the economy has started to reopen**. That said, livestock industry conditions should improve considerably over the next year, as herd expansion has slowed sharply and demand for higher-quality cuts should firm alongside the broader economy.

In the crop space, global stockpiles were already abundant leading into the coronavirus crisis and a sharp drop in ethanol production has **undercut demand for corn and other major products**. Moreover, since China has not yet followed through the agricultural purchase commitments made under its Phase One trade agreement with the United States, North American oilseed exports remain muted. Although the relatively weak Canadian dollar has helped prop up prices north of the border, U.S. producers are struggling. Crop industry conditions should firm over the coming year as ethanol production recovers, but producers are unlikely to experience a sharp rebound in pricing. Not only will it take time to work down today's elevated inventories, but renewed trade tensions between China and the United States could keep product stranded in North America, maintaining downward pressure on benchmark prices.

Looking beyond the immediate impact of the pandemic, the path of crop and livestock prices will depend on the balance between industry productivity growth and global demand growth. If the past few decades are any indication, real agricultural prices will likely continue to trend lower, as the impact of ever more sophisticated technology and management practices continues to outstrip growing demand. If anything, current industry challenges will hasten this trend. Smaller, lower-margin producers will continue to be acquired by larger and more cost-efficient operations, which will lower industry costs, increase production, and maintain steady downward pressure on product prices.

3. Energy

The **short-term outlook for the Canadian energy sector, though improving, remains quite challenging** as energy prices, particularly crude oil, are still well below pre-COVID-19 levels.

Crude oil production, which is estimated to have declined 760,000 b/d from a year-ago, is likely to remain depressed, although at somewhat higher levels in the coming year. Note that Canadian oil production averaged 5.55 mb/d in 2019, so the output declines represent a drop of roughly 13%. The curtailment in Canadian crude production has not been solely driven by conventional wells as some oil sands output has also been shut in, accounting for roughly half of the drop in overall production. We look for a partial recovery in the year ahead, as WTI oil prices are projected to average $45/bbl next year, up from around $38 this year, but still down from the $57 average in 2019.

Canadian natural gas prices have held steady with benchmark AECO averaging around US$1.50/mmbtu in the year to date despite a sudden glut in global LNG supply. Canadian producers could benefit further from a decline in associated gas output from U.S. shale oil production, which would increase demand below the border. Still, the outlook for the natural gas sector is quite clouded; our forecast for Henry Hub is US $2.25/mmbtu in 2021, up from an expected average of $1.90 for all of this year.

4. Manufacturing

While the tech sector is the bright light for the overall outlook, **the manufacturing sector more broadly faces a much more challenging backdrop**, albeit with some potential and important opportunities. Manufacturing's share of GDP has shrunk from 15.7% in 2000 to 10.2% in 2019. The COVID shutdown has the potential to shrink the share sharply further as demand may not revive quickly enough to keep some firms in business. Manufacturing employment has seen a similar decline over the past decades, now sitting at around 9% of total employment.

The most critical element of the outlook for manufacturing is simply how the global economy recovers from the deep virus-driven recession in the year ahead. Given that we expect a relative rebound in factory activity globally in 2021, we look for Canadian manufacturing to also rebound by roughly 6% next year from a 7% setback this year. Layered on top of that key factor, though, is ongoing competitiveness challenges for

Canada, which could play a key role on the extent to which some industries restart after the pandemic shutdowns.

For example, **auto production** is a key sector that was already under pressure; a less-than-complete rebound in North American auto sales would introduce yet more questions around future Canadian production (with the latest clouds forming around Ford's plant in Oakville). Even prior to the shutdowns, Canadian vehicle assemblies had dropped almost 20% from just five years ago to around 1.85 million units, which was below the level of domestic sales (of just under 2 million last year). Peripheral industries (auto parts, etc.) are faced with similar uncertainties.

At the same time, there are **some potential positives** for the sector in the post-pandemic era, including shortened supply chains, and keeping production closer to the end user (i.e., reshoring). As well, the freshly signed USMCA deal contains North American production requirements which are expected to slightly benefit Canada, on net.

5. Construction

Construction activity has held up relatively well during the pandemic, as one sector that has largely been able to continue operating near capacity. Residential construction will remain solid in the near term, with housing starts expected to rebound to 215,000 units in 2021, from 195,000 in 2020. The average of the two years marks only a slight downshift from home-building activity in recent years. One concern over the medium term is the status of international immigration, which has been a major driver of housing demand, especially in the past few years. International inflows (particularly nonpermanent residents) have showed signs of falling sharply, and if that persists, it will lead to a lower run-rate for residential construction. Prior to the pandemic, Canada's population was growing about 1.5% per year (the fastest rate in three decades), but we suspect that may cool to something closer to 1% on the other side of the divide.

Nonresidential construction should remain mixed. Construction in the oil sector will likely remain quite subdued given the oil price backdrop, as the sector has shifted to maintenance from new project development. Office and retail construction will also be weak, and only partly offset by stronger warehouse building. However, public-sector infrastructure investment should remain solid, particularly if federal and provincial budgets focus on stimulus post-COVID. Some provinces have already hinted at pulling forward capital spending programs to support economic growth.

British Columbia

Robert Kavcic,
Senior Economist

The B.C. economy is expected to contract 5.3% this year, slightly shallower than the 6.0% decline expected nationally. Growth should rebound 6.3% in 2021.

The province entered the downturn in a position of strength, and had earlier success in flattening the COVID curve than Quebec and Ontario.

The unemployment rate is expected to remain below the national average, at 9.0% for all of 2020, versus 9.5% for Canada.

The housing market effectively paused during the pandemic, but sales have rebounded strongly, absorbing new listings and keeping prices firm.

The Province has rolled out more than $6 bln in support measures, including various tax deferrals, support for those with lost jobs and a cut to the commercial property taxes. The deficit is currently pegged at $12.5 bln in FY20/21 (4.4% of GDP).

Paul Seipp,
Head,
Business Banking,
Western Region

British Columbia's businesses have done a strong job in reacting to the adversity of the pandemic.

In the hospitality industry, we remain optimistic for many of our clients. A number of businesses were quick to shift to online ordering and pick up, and benefited from local bylaws allowing restaurants to move patios out into the street for physical distancing purposes. Business has increased and margins have improved, while revenues have not dropped as much as other sectors have seen.

In agriculture, the supply-managed sector has been stable; dairy and poultry have seen generally strong retail demand, although there have been adjustments to production in restaurants. Farmers feel they will survive; while there may be some stress, they will get through and crops will be managed similarly to other years.

We've also seen opportunistic consolidation and acquisition among entrepreneurs. Weaker but relevant players are being absorbed by stronger market consolidation players, and we're not seeing much evidence of entrants leaving the market.

Among our Indigenous clients, they continue to pursue their diversified business models; there's been no real disruption other than a need to focus on local health. Support from government has certainly been an important help, and key infrastructure projects continue to push along.

Alberta

Robert Kavcic,
Senior Economist

The Alberta economy is expected to contract 7.0% this year, deeper than the decline expected nationally. The province entered the downturn already in a position of relative weakness, and the steep decline in oil prices (and associated pullback in production) adds another headwind in the near-term. Production was down 15% y/y in May.

The COVID curve in Alberta hasn't been as steep as in Ontario and Quebec, and the province has been faster to re-open. The CFIB reports that almost 60% of small businesses were fully open as of mid-June.

The unemployment rate held at 15.5% in June, and is expected to average 11.7% for all of 2020, versus 9.5% for Canada.

The Province has rolled out roughly $4 bln in direct support measures. BMO Economics estimates that the deficit could be around $19 bln in FY20/21 (just over 5% of GDP), including a hit to resource revenues from low oil prices.

Paul Seipp,
Head,
Business Banking,
Western Region

In Alberta, the pandemic has added to pre-existing difficulties in oil & gas, office space, and agriculture. However we are seeing some optimism stemming from the Alberta Recovery Plan, which will see $10 billion in new infrastructure spending and a corporate tax cut. Stimulus from the government should help benefiting sectors ramp up; it has the potential to provide good opportunities to a number of our clients. We are continuing to watch this play out but expect it will help to stimulate the economy.

Alberta will also benefit from the beginnings of efforts to diversify the province's industry base. It's still early in the cycle, but the trend is clear and has the potential to help diversify employment opportunities, move away from dependency on certain industries, and shift residents toward a start-up mindset. What we've seen thus far is encouraging, even if it's not yet relevant to overall GDP growth. We expect these efforts will all be incredibly valuable as the economy works to get back on its feet.

We are also seeing a major difference between different cities and regions. The diverse economies of urban centres have led to better overall performance there, in comparison to the rural areas. That momentum will hopefully stimulate broader provincial growth, while rural marketplaces work to recover from a more pronounced downturn.

One city that is sure to get a major boost is Edmonton. With the news that it has been selected as a host city for the NHL playoffs, this should act to revitalize the downtown and provide a lift to local businesses.

Saskatchewan

Robert Kavcic,
Senior Economist

The Saskatchewan economy is expected to contract 6.2% this year, somewhat deeper than the decline expected nationally. The province came into the downturn with an already weak economic backdrop, as the resource sector was challenged by low prices.

That said, the COVID situation has been milder than in most other provinces, leaving the province earlier flexibility to re-open. The CFIB reports that 66% of small businesses were operating as of mid-June, near the highest in Canada.

The unemployment rate sat at 11.6% in June, and is expected to average 8.8% for all of 2020, versus 9.5% for Canada.

The Province has rolled out roughly $400 mln in direct support measures during the pandemic. The deficit is currentily estimated at $2.4 bln in FY20/21 (2.8% of GDP), including a hit to resource revenues from low oil prices.

Paul Seipp,
Head,
Business Banking,
Western Region

As with the rest of the country, Saskatchewan is facing a number of challenges as a result of the pandemic.

Accommodation and restaurants have taken a significant hit, with corresponding job losses. Wholesale and retail have had a similar experience. Combined with decreases in oil investment and production, the difficulties for the province are clear.

One area showing a positive outlook is agriculture; the industry has seen growth with corresponding increases in employment. This year's crop is in the ground and for the most part, proceeding well. Moisture levels have varied throughout the province but considered adequate for most areas; this has led to optimism in the cash crop sector. Although equipment and land sales have slowed this year, land prices have remained fairly stable.

Cattle producers, on the other hand, are less optimistic, with several packing plants having to close because of COVID-19 outbreaks. This has led to a long backlog for slaughter; as well, export markets may be limited which will lead to a drop in prices.

The Saskatchewan government is working to keep the economy going with a planned $3.1 billion in spending for schools, highways, and hospitals. This will lead to strength and employment growth in the construction sector.

Manitoba

Robert Kavcic,
Senior Economist

The Manitoba economy is expected to contract 4.8% this year, milder than the decline expected nationally. Manitoba has typically weathered downturns much better than the rest of Canada, but COVID-related lockdowns will still weigh heavily.

That said, re-opening began in phases in early-May, and the overall decline this year will likely be shallower than the larger provinces that had more challenging pandemic curves.

The unemployment rate has risen sharply, but should remain below the national average at 7.9% for all of 2020, versus 9.5% for Canada.

The Province has rolled out roughly $2 bln in support measures (plus various tax deferrals). BMO Economics estimates that the deficit could approach $3 bln in FY20/21 (under 4% of GDP), but the Province has hinted at a deeper shortfall.

Paul Seipp,
Head,
Business Banking,
Western Region

Overall, Winnipeg is seeing more business as usual given the lack of COVID-19 cases. There has been a lot of activity in the construction of multi-unit family residences and even activity of continued construction of retail strip and commercial space throughout the city.

Manitoba is also seeing a number of major infrastructure announcements, particularly related to roads. Meanwhile, manufacturing is holding steady with most of our clients avoiding serious financial difficulty so far.

Certain industries have experienced difficulty – particularly the hospitality sector. The situation has improved with provincial restrictions being eased and pivots to takeout and delivery have helped restaurants. Retail remains slow, with many residents remaining cautious.

We have seen a number of our clients take the opportunity to restructure their operations, given shifts in market demand as a result of the pandemic. Several are diversifying their business operations, while others are focusing just on core areas of their industries.

On the agriculture side, crops are looking good and we are seeing more investment from neighboring provinces – especially in the dairy sector.

Businesses have done a good job either adjusting their operations to changing consumer preferences or adapting to changing trends – online shopping and going cashless. Manitoba is relatively well positioned for coming out of COVID, compared to other provinces, which may attract businesses to the province.

Ontario

Robert Kavcic,
Senior Economist

The Ontario economy is expected to contract 6.0% this year, in-line with the decline expected nationally. The province entered the downturn in a position of strength, but struggled with a steeper COVID curve early on versus B.C. and Atlantic Canada.

As a result, the province has been somewhat behind others in reopening. Staged re-opening has proceeded more quickly outside Toronto. As of mid-June, the CFIB reports that 43% of small businesses were fully open, the lowest share in Canada. Larger sectors, such as finance and professional services, have held up relatively well.

The unemployment rate has risen sharply, but is expected to remain slightly below national average, at 9.1% for all of 2020.

Housing market activity paused during the pandemic, but sales have rebounded forcefully, absorbing new listings and keeping prices firm. Longer-term, the lower end of the markets (i.e., condos) could face some pressure, as will impacted pockets of commerecial real estate.

The Province has rolled out roughly $8 bln in support measures (plus various tax deferrals), including a one-time child payment and electricity cost relief. BMO Economics estimates that the deficit could be around $21.5 bln in FY20/21 (2.4% of GDP), but could be meaningfully deeper.

Rob McLean,
Head,
Business Banking,
Central Ontario Region

Greater Ontario

When COVID-19 hit Canada full force in March, the Ontario economy was benefiting from low interest rates and a buoyant residential housing market. The virus has managed to take a lot wind out of the economy but there are some companies and industries where it has brought opportunity.

We are hearing from our manufacturing clients that some of their customers are looking to rebuild an on-shore supply chain, which is resulting in a manufacturing resurgence. Our technology sector has never been healthier with Ontario's innovators leading the way. Artificial intelligence and cybersecurity work is more prevalent as companies look to protect themselves from cyber threats that have spiked during the pandemic and with online activity expected to continue at a higher rate.

Another area that is enjoying some newfound success is the manufacturing of personal protective equipment, with traditional businesses pivoting their operations to meet demand. This has ensured we can keep costs down, ensure supply, and create jobs for local companies.

Businesses that have relied on a face-to-face delivery model (restaurants, bars and retailers) have had to move to an online model, which has led to many companies being able to reach a wider audience than before. Meanwhile, Ontario's agriculture sector has been working to manage production differently with restaurant and hotel demand down across the world.

Greater Toronto Area

The pandemic and lockdown has had a dramatic effect on the Toronto economy, but many businesses have quickly rebounded and are managing in the new normal.

The downtown core of Toronto is operating at a fraction of what it was; many small businesses in this area remain shut and may never recover. That being said, refurbishing those that are either open now or trying to meet the guidelines has resulted in a mini-construction boom, as renovators scramble to install physical barriers or new walls to help business protect staff and customers.

Service industries like personal care, dental, and massage/physiotherapy are reopening with huge pent-up demand for their services; such providers are showing strong signs of early recovery.

Retailers are also emerging from the lockdown in a different way as they look to reopen their stores to the public and serve in a largely cashless environment; moving online and touchless payments have helped.

The GTA's technology sector is still not showing any signs of slowing down. The Toronto to Kitchener-Waterloo corridor has many innovative companies that never skipped a beat. Their workers were already used to remote working and continue to operate in the new normal with a small physical footprint.

Quebec

Robert Kavcic,
Senior Economist

The Quebec economy is expected to contract 6.3% this year, slightly worse than the decline expected nationally given more widespread shutdowns early in the pandemic. For example, construction and manufacturing were aggressively shut during April, and housing starts fell to zero.

The province began to re-open in early-May, though the Montreal region was delayed by COVID cases. The province entered the downturn in a very strong position, but struggled with a steeper COVID curve early on versus B.C. and Atlantic Canada.

The unemployment rate jumped above 17% in April, but pulled back below 11% in June as lockdowns eased. The full-year average is expected at 9.6%.

Housing market activity paused briefly, but both sales and construction have rebounded strongly through the summer. Montreal was arguably the hottest market in Canada heading into the downturn. The commercial real estate sector could be more challenged as many small businesses struggle with solvency.

The Province is projecting a $12.4 billion deficit for FY20/21. While Quebec came into pandemic in historically strong fiscal shape, aggressive spending measures and the economic impact will swing the balance meaningfully.

Karine Eid,
Head,
Business Banking,
Eastern Region

For the most part, BMO's Quebec clients are doing quite well despite the pandemic, although they have expressed less confidence in the current economic environment. Many are taking a cautious approach, and we anticipate that remote work will become even more widespread, which will allow some companies that take this on board to stand out when hiring and retaining talent.

Some companies have taken the opportunity to innovate and reinvent their operations. Several are emerging stronger, more diversified and better structured for online sales; this is borne out by the fact that, in the majority of cases, sales lost in April have been made up in May and June.

Thus far, like in much of the country, the restaurant, retail, and travel industries have been affected the most. Meanwhile, with larger retailers being able to remain open, smaller stores with single owners have had to bear the brunt of the lockdown.

We have also noted that the drop in housing starts in the United States could eventually affect exports of materials and other goods for construction. Entrepreneurs in this space are worried about the coming year, but not feeling any effects right now.

New Brunswick

Robert Kavcic,
Senior Economist

The New Brunswick economy is expected to contract 3.2% this year, much milder than the decline expected nationally. While COVID-related lockdowns will still weigh heavily, the pandemic curve has been much flatter in Atlantic Canada, and re-opening has been earlier than in the larger provinces.

The unemployment rate still rose sharply above 13% in April before falling below 10% by June. The CFIB reports that more than two-thirds of small businesses were open by mid-June, the highest share in Canada.

While the province has seen a recent boost in population, demographic flows will be a medium-term issue post-COVID, potentially dampening a previous support.

The Province has rolled out a number of COVID-related support measures, which should leave the deficit around $330 mln in FY20/21 (0.9% of GDP).

Karine Eid,
Head,
Business Banking,
Eastern Region

Our business clients in New Brunswick are still concerned about the pandemic. While there are very few cases in the province and in Atlantic Canada more broadly, our economy is still closely tied to our neighbours down south; as the border province to the U.S. for the Atlantic provinces, we always seem to follow their economy good or bad.

The hospitality industry continues to be hit hard, but the opening of the Atlantic bubble has seen an increase in traffic. Fisheries and agriculture have been affected by the slowdown in restaurant operations, with French fry and dairy consumption significantly decreasing.

We do see some positives, however. Home sales are significantly higher, and there is actually an inventory problem in some markets such as Moncton and Fredericton; even Saint John has seen higher than normal housing sales. We are also seeing a number of multi-residential projects going up throughout the province, and the Saint John Port Authority will be starting a $205 million modernization project this year.

New Brunswick remains a key transportation hub, housing a number of large national players who are all doing very well in this market. However, the three main provincial airports have seen a large decrease in traffic since the start of the pandemic.

Nova Scotia

Robert Kavcic,
Senior Economist

The Nova Scotia economy is expected to contract 3.8% this year, much milder than the decline expected nationally. While COVID-related lockdowns will still weigh heavily, the pandemic curve has been much flatter in Atlantic Canada.

That said, businesses have been slow to re-open with the CFIB reporting just 50% fully operating by mid-June, the lowest in Atlantic Canada. The unemployment rate has risen sharply, and is expected to average 10.8% for all of 2020, versus 9.5% for Canada.

Resale housing market activity slowed sharply, but sales in the Halifax area have almost fully returned to pre-COVID levels. Residential construction activity has gone ahead relatively unscathed.

The Province has rolled out roughly $250 mln in support measures (plus various tax deferrals). BMO Economics estimates that the deficit could be around $500 mln in FY20/21 (1.1% of GDP), which would be shallower than most other provinces.

Karine Eid,
Head,
Business Banking,
Eastern Region

Nova Scotia has benefited by being less affected by the pandemic compared to other provinces. The lockdown was not as robust in comparison to other provinces, and the economy basically re-started in early June. Of particular help, childcare centres were able to open on June 15th at 50 per cent capacity; this has allowed many businesses to continue to operate.

For those businesses that found ways to continue to operate throughout the shutdowns within health guidelines, many were able to take advantage of those competitors that could not adapt, seeing many with increased sales for the period compared to the same period last year. The ability to maintain those new sales will be key to future success.

Many in the hospitality sector have begun to open under strict health guidelines, although they remain challenged in adopting business models where they can remain viable. Tourism operators are hopeful of receiving visitors from the other Atlantic provinces with the regional bubble.

Multi-residential developers and landlords were for the most part insulated throughout the closure, and are anticipating a very quick return to normal. The near-term outlook for single family homes remains good as developers continue to work to keep up with the rising demand.

Overall, we are seeing an underlying uncertainty remain for small business. Clients are indicating that, while the government loans have helped to keep the doors open and offset a decline in revenue, there is still a concern with their ability to repay the loans at a later date. It is encouraging to watch a lot of people travelling within Atlantic Canada and making an extra effort to support local businesses – it will go a long way to helping pull business revenue back to more normal levels.

Prince Edward Island

Robert Kavcic,
Senior Economist

The PEI economy is expected to contract 3.0% this year, much milder than the decline expected nationally. Keep in mind that the province was enjoying a quiet boom before COVID broke out, leading the country in 2019.

While COVID-related lockdowns will still weigh heavily, the pandemic curve has been much flatter given the small and closed-in nature of the province. Re-opening has been quicker than most other provinces through June.

The unemployment rate has still risen sharply, and is expected to average 10.7% for all of 2020, versus 9.5% for Canada.

The Province is projecting a $173 million budget deficit for FY20/21, down from just under $4 million in FY19/20. That will mark a record high in dollar terms, and weigh in at just over 2% of GDP.

Karine Eid,
Head,
Business Banking,
Eastern Region

Prince Edward Island's agricultural sector experienced strong demand up until the shutdown, which led to oversupply, dumping of product, and herd culls. The good news is this oversupply issue appears to have corrected itself and demand is again strong.

The fisheries sector in PEI directly employs more than 2,000 people and indirectly fuels employment in multiple product and service industries. With approximately one third of the workforce comprised of foreign workers, access to foreign labor has been a major issue for local processors given travel restrictions. Spring lobster season was delayed two weeks; results have been good although below previous years given the shortened season. Overall the industry remains optimistic; we expect processors to seek ways to re-enter the market and rebuild demand, particularly in the food service sector.

In real estate, PEI continues to have a strong construction demand with new projects all over the province – especially in Charlottetown and Summerside. Most projects are multi-unit apartment buildings and townhouse units to meet housing demand; immigration will no doubt slow given the pandemic, but it appears the recent construction projects are having no problems filling their units. Commercial real estate projects continue to see expansion with the construction of new self-storage units, retail locations and a car dealership.

We are in a holding pattern, as we wait until stimulus measures and relief measures end to see the full impact of the pandemic on small businesses. Core industries and businesses, which were performing well prior to the pandemic, are expected to remain and or return to profitability as soon as restrictions are lifted.

Newfoundland & Labrador

Robert Kavcic,
Senior Economist

The Newfoundland & Labrador economy is expected to contract 7.5% this year, deeper than the decline expected nationally. The province was already in a challenged position pre-COVID, and current shutdowns and the decline in oil prices have exacerbated the headwinds.

Despite being relatively sheltered and having a flat COVID curve, the province was slower to re-open than most. And, a deep deficit pre-pandemic will likely limit the fiscal response at the provincial level.

The unemployment rate jumped to 16.5% in June, and is expected to average 14.3% for all of 2020, the highest in Canada.

BMO Economics estimates that the provincial deficit could top $2 bln in FY20/21 (more than 6% of GDP), which would be back in the range seen during the 2014-2016 oil price shock.

Karine Eid,
Head,
Business Banking,
Eastern Region

Newfoundland and Labrador is experiencing a challenging moment, with difficulties related to government finances, oil & gas prices, and reduced tourism and hospitality given the pandemic. The one word we keep hearing from businesses is uncertainty.

The province is still experiencing positives, however. The technology sector continues to see additional investment, with a growing local workforce. The fishery remains good and licences continue to change hands.

Meanwhile, smaller contractors are seeing an increase in orders – bolstered by the work from home and additional government incentives. Small contractors for home renovation are now booking out several months.

Office space in downtown St. John's and retail vacancies have increased over the last few months, with major employers moving to the suburbs. The vacancy rate downtown is having a direct impact on the associated retail and hospitality sectors.

The ability of small hospitality/retail sector to recover will be key; CEBA and the wage subsidy has kept them afloat, but the jury remains out on how well they will do at 50 per cent capacity and how many clients will return after a prolonged absence.

Some of the slowdown in the oil and gas industry will provide additional hours of work for small contractors as equipment is being way sided for a period of time. This is a welcome and unanticipated bonus.

The hospitality industry has been supported by the closure of the main street in St. John's, and outdoor decks have been added to assist with capacity and social distancing measures at restaurants and bars – this will be ongoing through the summer. As well, a staycation campaign is in full swing and is supporting the local tourism industry. We see this boding well in the near-term to support local businesses and provide a boost to one of the more challenged industries during the pandemic.

General Disclosures