

# Intelligence MEMOS



From: Glen Hodgson

To: Canadians Concerned about 2020

Date: May 7, 2020

Re: **THE BUSINESS IMPACTS OF THE PANDEMIC AND RESTART**

The pandemic shutdown has been very painful for many businesses and for the Canadian business sector collectively. And numbers are now emerging on the immediate damage.

A new data source, the [Canadian Survey of Business Conditions](#) (CSBC), has produced its first report, based on a mid-April sample of 13,000 businesses. The voluntary survey is a joint effort between Statistics Canada and the Canadian Chamber of Commerce, ideally to be repeated regularly, to provide trendlines.

Not surprisingly, there's a lot of bad news in the initial CSBC. More than 80 percent of respondents experienced a medium to high drop in demand for services or products, and 53 percent said their year-over-year revenue drop exceeded over 20 percent. In addition, more than half reported they would not be able to operate beyond 90 days without a source of revenue.

But there are also some positive findings on how Canadian businesses are adapting. More than half of respondents say they have changed methods of production or altered products or services offered. Nearly half reported using new methods to interact with customers and working from home. And a majority – 62 percent – said they could return to normal operations within one month of social distancing measures being removed.

So as the restart begins, with these survey findings as background, we can anticipate a few key factors and developments.

**Business closure and restructuring:** Given the scale of the shutdown and the weak financial foundations of many businesses, we should expect a significant number of business closures and restructurings. There had been a downward trend in business insolvencies in Canada over the past decade, but that is likely to change. Small- and medium-sized businesses will be on the frontlines of business closure and restructuring, as will some larger businesses. Ensuring a more orderly process for distressed small companies, in addition to the existing *Companies' Creditors Arrangement Act* (CCAA) for larger firms, would help in managing the coming wave of closures and restructuring.

Businesses in the retail and hospitality sectors are bearing the visible brunt of the shutdown. The energy sector has its own well-trumpeted challenges beyond COVID-19. The travel, event, and entertainment sectors have also been deeply affected, and probably require a widespread vaccine for full recovery. Access to adequate liquidity would help many businesses to bridge the shutdown period, but in some cases the shock to the operating environment, plus limitations in firms' core business model, mean businesses will be unable to recover.

**Going digital:** Digital business has been steadily gaining a competitive advantage. The digital economy is built on scale economies and low fixed costs, can be very nimble, and provides a direct and immediate contact with customers via information technology. Digital business will now have an even stronger advantage over conventional businesses, which are likely to face further disruption from additional digital alternatives and other innovations. Some sectors, like live entertainment, are still developing possible digital business models. Digital platforms can also provide an expanded alternative delivery model for some key public services, such as public education and medical diagnostics. The capacity to work remotely, at least partially, may prove to be a key business asset.

**Reliable supply chains:** Recent events have demonstrated that keeping business supply chains fully intact and functioning, while protecting the health of employees, is critical to a recovery in business and economic performance. As the economy restarts, domestic and international supply chains will need to be rebuilt; open trade and economic integration remain critical to Canada's long-term success. However, business efficiency as the driver of supply chains could be complemented with reliability and resilience as success factors. In areas such as the production and distribution of food and key medical supplies, resilience and reliability have become much higher national priorities, suggesting policy intervention to follow.

**Market power:** Competitive conditions in specific market segments may have been altered by the business shutdown. Firms that have maintained their operations and workforce should have an advantage over firms that did not, and may be able to capture an expanded market share and exercise more market power as the economy restarts, even if their specific market segment has declined. If specific markets are facing less competition and other market imperfections, that may lead to calls for intervention to ensure adequate competition and resulting pricing.

There are bound to be other consequences for business from the pandemic and the restart of the economy; these ones are likely to be prominent in defining how the economy will function in the months and years ahead.

*Glen Hodgson is a senior fellow at the C.D. Howe Institute.*

*To send a comment or leave feedback, email us at [blog@cdhowe.org](mailto:blog@cdhowe.org).*

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