

The Pandemic and its Effect on the Economy

The effects on business will be felt as much locally as globally.

The pandemic represents a unique event of our time. It paralyzed the economy of the northern hemisphere and then the southern hemisphere. The effects vary according to the territory, according to the degree of criticality recognized locally. A downturn in the economy for more than eight weeks, which could last for a few more months, depending on the sector of economic activity, will necessarily produce overall economic effects. Here is a Canadian perspective on the possible effects of this pandemic.

1. **Households.** They represent the benchmark consumer unit. The period of inactivity at work will lower the level of annual income. Despite the financial compensation, the decrease in income and the uncertainty linked to an economic recovery will help to change purchasing behavior. We can first expect a deferral of certain expenses for thoughtful goods (furniture, appliances) and live a little longer with current assets. More specifically, we can assume:

a. A decrease in household income will be offset by a greater decrease in spending. The cancellation of trips, the postponement or cancellation of the purchase of a house, the increase in the life of the current vehicle and the rental of motor vehicles

rather than the purchase will make a drain on the business economics. Food will be cut from part of the family budget, as will clothing.

On the other hand, we can envisage an increase in food expenditure. We will also likely see an increase in sales by electronic platform (kijiji, Craigslist, Letgo, Les Pac, VitePouf and CarCostCanada, AutoTrader) and traditional newspaper classified ads.

b. Financial stress and intense cohabitation can lead to the emergence of critical situations. This can result in breakdowns of households and splitting of households. This situation has two other effects.

The first is the sale of the residence to resolve cases of separation and financial stress. We can expect a buyer's market and a real estate oversupply on the market.

The second also targets the real estate sector. Rather than buying, we could favor the rental sector. Expect some increase in the cost of rents and potentially additional sales of furniture and appliances.

Finally, for households, this is a situation of a financial diet which will affect commercial consumption, travel and which will cause a fall in the asset portfolio.

2. **Retail Trade.** It is certain that many will not survive. The financial fragility of the majority of businesses will favor another epidemic - that of bankruptcies. Already, an estimated 30% of the number of retailers will not be able to weather this crisis. The anticipated effects are as follows:

a. Retail trade will shrink in practically every city in Quebec. This contraction will generate a significant increase in the vacancy rate.

b. The contraction will also have some positive effect. Indeed, the commercial sectors marked by market saturation will rebalance. For example, the restaurant industry may experience a significant drop in its workforce, both for freelancers and banners (including franchises and corporate stores). But there will also be positive effects that will have an impact on entry-level businesses, warehouse clubs and used goods businesses.

c. Prices can be expected to rise during the economic recovery. Long lead times, finance charges to support scrapped assets and additional finance charges to restart the business will justify a price hike.

3. **The Manufacturing and Agricultural sectors.** Financing costs and relative financial insecurity will translate into higher financing costs, a corresponding increase in interest rates and generalized inflation. Moreover, recourse to public financing per share could once again become an alternative to the costs of financing conventional loan tools. The contraction in the supply of Canadian manufactured goods may emulate the use of imports. This will fuel the balance of payments deficit.

4. The Service Sector. A significant share of jobs (estimated at 15%) seems to be able to be assigned at home to carry out telework. This formula is neat, but more experimented at present can suggest new employment habits. This would reduce the need for office space and reduce the cost of rent over time.

5. The Canadian Government. The cost of the various financial rescue operations will eventually have to be amortized. In addition to taxes on all categories of taxpayers, this amortization will require the production of bonds to finance the catch-up. Here too, the rise in interest rates will confirm the gravity of the economic situation. Only an industrial and agricultural upgrading strategy would generate new revenue streams for the benefit of Canadians and the government.

6. Real Estate. The housing contraction in the residential sector could find a counterweight in the attraction of the rental sector. Faced with the perceived difficulties of selling homes, renovation becomes a choice for many households. The risk of inflation threatens this sector. Material costs are rising, building contractors are enjoying a rising market and can choose their projects. Not all projects can be completed immediately. There will thus be significant delays in real estate deliveries, as several contractors will also have suffered significant financial losses.

7. Shopping Centers. Shopping centers are subject to mortgage obligations so that they will have diffi-

culty absorbing the batch of closings, bankruptcies and departures of their tenants, not to mention the requests for clarification of leases from the strongest tenants. Since their room for maneuver is limited, it would certainly be a relevant option to review the value of their assets and opt for a reclassification of their assets. Already, the trend started by some property owners which consists in studying the advantages of mixed uses and transforming their properties into multi-use projects.

8. The Cities. They cannot remain speechless in the face of events that affect the basis of their local economy. They must react: the commercial closings that will affect the city centers represent an opportunity to re-script the commercial function and re-value the place in a more studied manner. For example, the misfortunes of shopping centers can represent a suitable circumstance for downtown areas, which attracts banners, franchises and corporate stores to locate in the downtown area. This would help enhance their dominant local commercial destination.

The clothing sector presents interesting opportunities for both parties. The retailer benefits from an already well-established

customer base and the city center enhances its urban and regional reputation.

Ultimately, the pandemic creates dissonance in all parts of the economy. Indeed, the economic repercussions affect both the local and the global scale. There will be a necessary adjustment period which will break the current way of doing things. A new economic logic will be necessary. This is called a paradigm. The ways of operating yesterday no longer meet the new expectations of today. You have to do it differently. For municipalities anxious to support their local economy, a commitment to the development of the commercial framework is necessary. A local economy is being built.

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demarcom.ca
1 855 672-8989

Marie-Andrée Bastien:
Pierre Laflamme:
Toll-free number:

mabastien@demarcom.ca
plaflamme@demarcom.ca
1.855.672.8989