

memorandum

DATE: May 7, 2021

TO: Hon. Mayor Bevilacqua and Members of Council

FROM: Raphael Costa, Director, Economic and Cultural Development
cc: Jim Harnum, City Manager
cc: Senior Leadership Team - Executive
cc: Michael Genova, Director, Corporate and Strategic Communications
cc: Economic and Cultural Development
cc: Stephan Schmied, Economic Development Coordinator

RE: COVID-19 Impact Analysis – 2020 Business Counts for the City of Vaughan

The following is the Economic and Cultural Development (ECD) department's analysis of the Canadian Business Counts (CBC), from 2019 to 2020. The purpose of this analysis is to identify any notable changes to Vaughan's business count (i.e. business closures) during the COVID-19 global pandemic.

With limited data sources available at this time to fully gauge the economic/business impact of COVID-19 at the census subdivision (city) level, the Canadian Business Counts play an important role in providing some insights to what is happening at the city-level. As new data sets and sources are being published by Statistics Canada, and other reputable organizations, these points will be incorporated with those of the CBC to provide a more holistic picture of Vaughan's local economy.

HIGHLIGHTS

- 2020 City of Vaughan Business Count (Total, with employees): 18,955, down -0.88% from 2019—overall, a relatively minimal decline that is line with the province and country.
- 2020 Small Business (1 to 19 employees) accounted for 87% of the total business count, remaining nearly unchanged from 2019.
- While Vaughan saw a small decline in business counts, a decrease in 168 counts (-0.88%), overall, the City's counts and location quotients (defined below) remain stable—there have been no major changes to Vaughan's business sector composition and concentration.
- Notable growth in the Professional, Scientific and Technical Services, and Transportation and Warehousing sectors; however, this could still change as the pandemic continues.
- Real Estate and Rental and Leasing, and Manufacturing sectors saw the greatest declines to business counts. The Manufacturing sector experienced global (and national) demand slowdowns in 2019 and into early 2020 before the pandemic, which likely impacted counts for Q2 2020. Real Estate and Rental and Leasing saw a large hit to small business counts in the Real Estate subsector; the Real Estate subsector had seen growth in preceding years.

- ECD expects to see additional declines in the overall business counts in 2021, primarily due to Statistics Canada’s Business Register playing “catch-up,” as well as from previous Statistics Canada surveys indicating continued operational risks from respondents. The declines anticipated in 2021 will likely reflect the true 2020 impact of the COVID-19 pandemic on Vaughan.
- Had the events of the pandemic never happened, given historic performance, as well as the growth seen in Q2 2020, Vaughan likely would have continued on its trajectory and realized continued business count growth for 2020.
- More detail on the full impact of the pandemic on Vaughan’s business count will come from the upcoming publication of Q2 and Q4 2021 Canadian Business Counts—at present, it is still too early to accurately assess the full impact of the pandemic.

SUMMARY

Overall, it is still too early to assess the full impact of the COVID-19 pandemic on Vaughan’s business count. Until vaccines have been disseminated, restrictions lifted, and a post-pandemic recovery point officially recognized by economists, the upcoming data could still see new changes that negate initial assessments—therefore, this analysis should be considered more of a snapshot. Given the methodology of the Canadian Business Counts (detailed below), as well as sentiments from the surveys conducted by Statistics Canada (also detailed below), it will likely not be until the Q2/Q4 2021 publications that one will begin to see the true impacts of the pandemic on Vaughan’s business counts. Furthermore, as the Business Counts are delayed in reflecting closures, post-pandemic growth in employment estimates, sector sales, GDP, etc. will likely be more noticeable before the CBC catches up.

Thus far, from 2019 to 2020, Vaughan’s business count remains nearly unchanged, with relatively small growths and contractions happening across sectors. The City of Vaughan’s business count growth is also performing on average with that of the province and nation. In addition, Vaughan’s sector LQs saw only minute changes, indicating a strong degree of economic stability so far. Ultimately, the business counts alone do not provide enough context to identify new priority areas for business supports—as more data is made available and other supplemental data sets incorporated this could change.

BACKGROUND

Canadian Business Counts

The Canadian Business Counts (CBC) is a Statistics Canada data product produced semi-annually for each June and December. The counts can be used to compare numbers of businesses across industries, provinces, census metropolitan areas, and census subdivisions (cities), as well as employment size categories. Businesses are usually counted on the basis of the statistical concept of “location” where each operating location is counted separately, including cases where one business comprises multiple locations. The CBC is based on the Business Register, a database maintained internally by Statistics

Canada, which is compiled primarily from Canadian Revenue Agency (CRA) tax records. The business counts employed for this analysis are by statistical location.

The limitations

In action, the Canadian Business Counts (CBC) measures only businesses that are “active.” Businesses will only have a status change to “inactive” once tax accounts are formally closed or become dormant over an extended period. What this means is that there can be an inherent delay in the Business Register reflecting businesses beginning and/or undertaking the process of closure. As a result, this knowledge of methodology is important in interpreting the data for this report: **it may take time before the CBC reflects the full impact of the pandemic on the City of Vaughan’s business counts.**

Statistics Canada also advises cautious interpretation of period-to-period changes in the counts, because they can be affected by administrative and/or methodology changes with Business Register. To ensure the validity of this analysis, it has been previously confirmed with representatives at Statistics Canada that there were **no significant changes to methodology between 2019 to 2020**, therefore one can assert a higher degree of confidence that the data is appropriate for the analysis.

Lastly, the data in the CBC are simply counts categorized by industry and employment size range, as such **the counts are devoid of contextual information**, such as if businesses opted to close, if they divested and moved, or even if they downsized and became classified as a small business again, etc.

ANALYSIS

This analysis focuses on reviewing CBC data on the census subdivision (City of Vaughan), and provincial (Ontario) and national levels for the purposes of identifying major changes to Vaughan’s business count, as a result of the COVID-19 global pandemic. The reference period, from Dec. 2018 to Dec. 2020, encompasses five (5) publication periods and is the foundation for effectively reviewing 2019 and 2020, where the methodology remains consistent and analysis feasible.

In addition, this analysis will primarily focus on the CBC Total, with employees and provide basic insights for small businesses (1 to 19 employees). The reason for this choice is based on two (2) factors:

1. “Total, with employees” captures those businesses that are contributing to Vaughan’s job growth. The “Total, without employees” can include those self-employed, but it also can contain holding companies, shell companies, etc.—businesses that may have no employees—there is no way to accurately identify that ratio. In terms of guiding policy, the focus on “Total, with employees” is more than sufficient to provide context.
2. When it comes to analyzing employment size ranges within the CBC, especially those for small business (1 to 19 employees), the CBC data set does not provide sufficient detail to identify

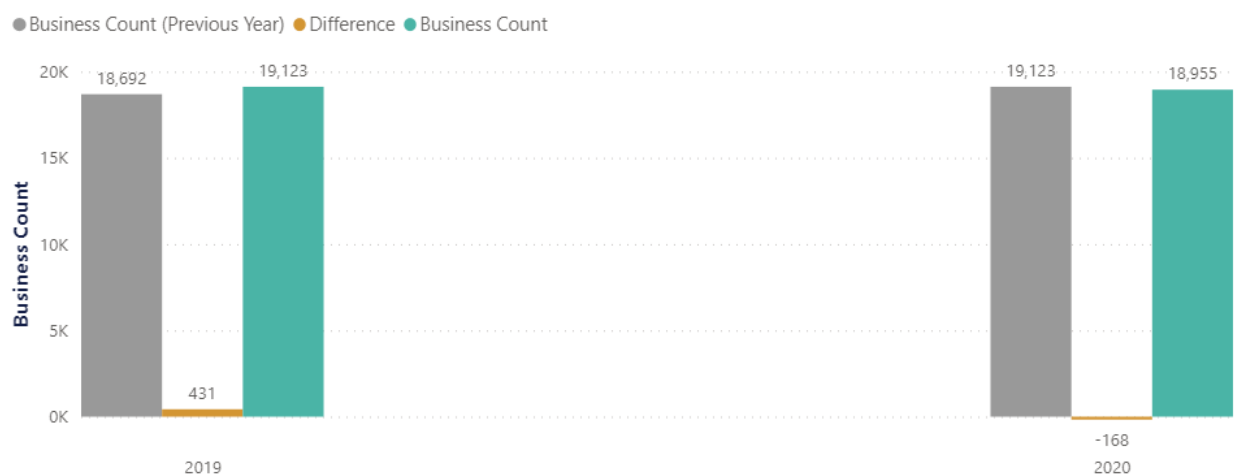
business starts, closures and other such events. Changes to these types of counts could be due to closure or that the business has downsized and/or grew, thus shifting counts between ranges and “falsely” flagging growth or decline. It is for this reason that detailed analysis of business counts by employment size ranges can be incredibly misleading, especially under a time series analysis— therefore only a basic analysis will be undertaken in this area.

Total Business Count Analysis

As illustrated in Figure 1 below, on Dec. 2019, Vaughan’s business [location] count (Total, with employees) was 19,123, an increase of 431 counts (2.31%) from 2018. By the end of Dec. 2020, during the “second wave,” business counts declined to 18,955, a decrease of 168 counts (-0.88%) from 2019.

Figure 1. Canadian Business Counts (Total, with employees) for Vaughan by Year.

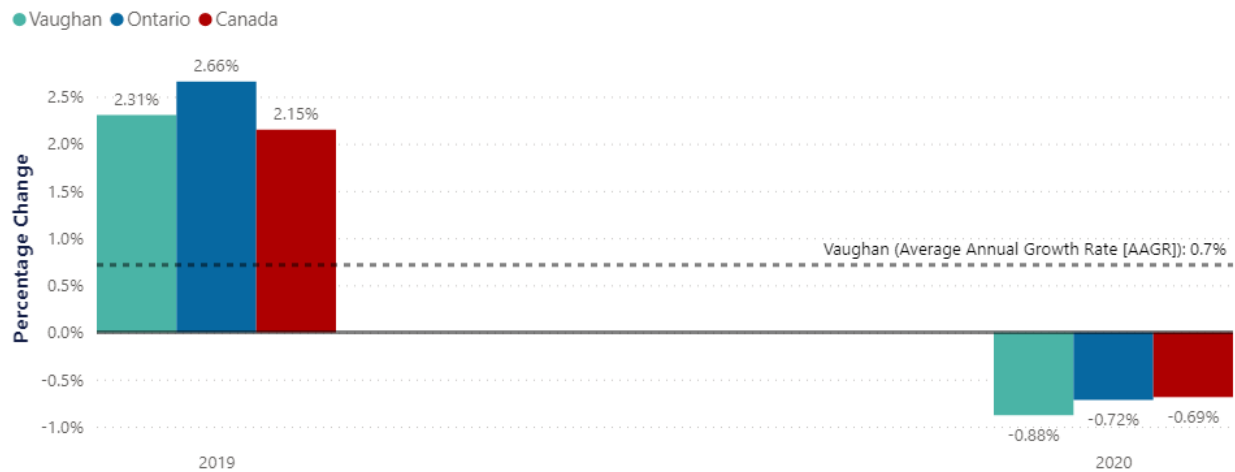
Business Count (Total, with employees) for Vaughan by Year



When it came to small businesses (employing between 1 to 19 individuals), on Dec. 2019, Vaughan’s small business count was 16,629, accounting for 86.96% of Vaughan’s total business count. By then end of Dec. 2020, the small business count declined by 89 counts (-0.54%) to 16,540, with small businesses now comprising 87.26% of the total. When comparing percentage change (2019-2020) for small business counts at the provincial and national levels, -0.54% and -0.6% respectively, Vaughan’s small business decline remains consistent with the broader economy’s performance.

Figure 2. Canadian Business Count (Total, with employees) Year-Over-Year Percentage Change for Vaughan, Ontario and Canada by Year.

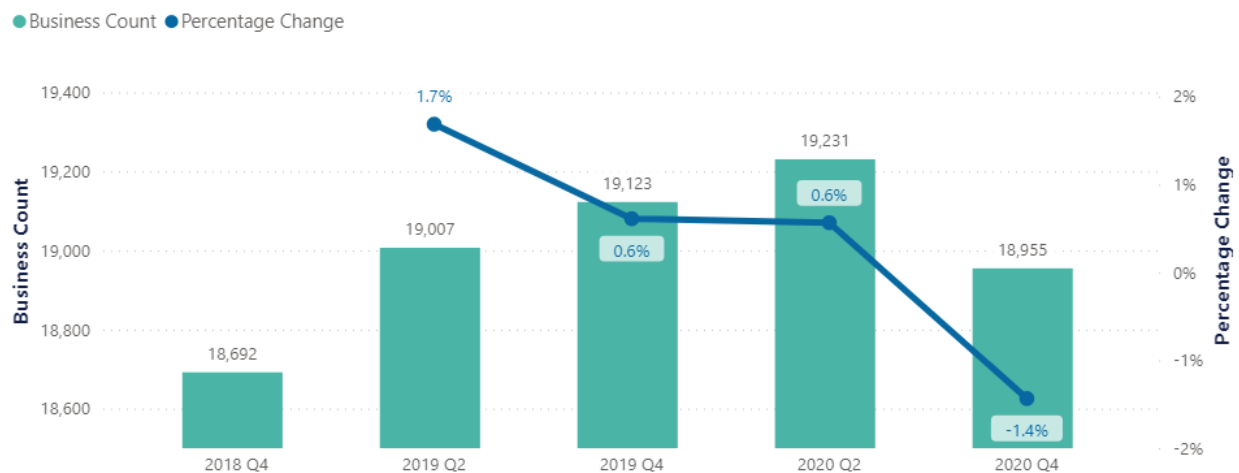
Business Count (Total, with employees) Year-Over-Year Percentage Change for Vaughan, Ontario and Canada by Year



Referencing Figure 2 above, when comparing Vaughan's year-over-year percentage change in business count with those of the province and nation, Vaughan is performing in line at the provincial and national levels.

Figure 3. Canadian Business Count (Total, with employees) and Percentage Change by Year-Quarter.

Business Count (Total, with employees) and Period-to-Period Percentage Change by Year-Quarter



When comparing Vaughan's business counts period-to-period (Q2 to Q4), referenced in Figure 3 above, instead of year-over-year (2019-2020) as referenced in Figure 1, business count growth continued into Q2 2020 before declining in Q4 2020. The growth seen in Q2 2020 is predominately due to economic growth from 2019 carrying over into early 2020, where the Canadian economy was realizing growth in January and February 2020, before the economic impacts of COVID-19 took root in March 2020 onward. The Q2 2020 business counts better reflect the early growth in Q1 2020 carrying over from 2019 and

less so from the changes brought on by the pandemic beginning in March. It is not until Q4 2020 that the counts begin to reflect the impact of COVID-19, as the Business Register is likely beginning to pick up business closures—one of the CBC limitations mentioned earlier. While business count growth from 2019 to 2020 declined by -0.88%, Q2 2020 saw a growth of 0.6%, where the counts peaked, before declining by -1.4% in Q4 2020.

Had the events of the global pandemic never transpired, given historic performance and the growth seen in Q2 2020, Vaughan likely would have continued on its trajectory and realized continued business count growth for 2020.

Even with the relatively small decline in business count growth from 2019 to 2020, it is anticipated business counts in 2021 will likely continue to decline—a catch-up from 2020, as new data is reflected in the Business Register. This assumption is not made simply because of the CBC's limitations, but also indicated in surveys previously undertaken by Statistics Canada. In reviewing the May 2020, Q3 2020 and Q1 2021 surveys for **Canadian Survey on Business Conditions (CSBC)**, conducted by **Statistics Canada**, York Region respondents were asked to estimate the length of time their operations could continue before considering staffing actions, closure or bankruptcy:

- In the May 2020 survey (sample size = 61), 42.5% of respondents indicated seeing operations impacted somewhere within less than 1 month to 12 months or more, 31.2% were unknown.
- In the Q3 2020 survey (sample size = 91), 34.3% of respondents indicated seeing operations impacted somewhere within less than 1 month to 12 months or more, 31.7% were unknown.
- Most recently, in the Q1 2021 survey (sample size = 105), 47.3% of respondents indicated seeing operations *closed* somewhere within 3 months to 12 months or more, 52.7% were unknown.

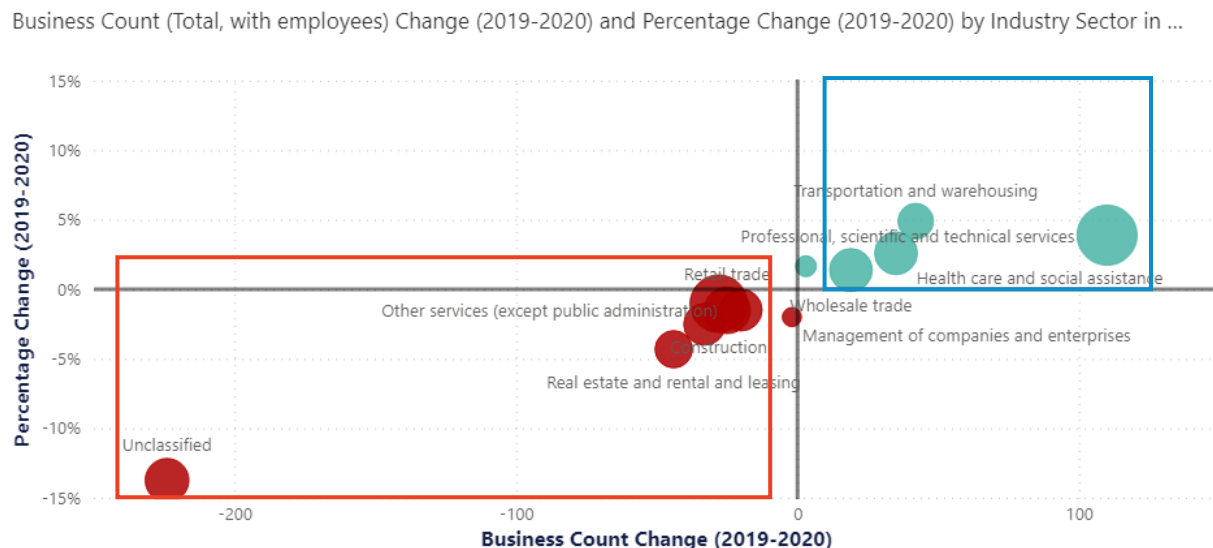
While the survey sample size is relatively small, especially in relation to the size of York Region's economy, it does still convey a degree of uncertainty being experienced by the Region's business community. Furthermore, while Q1 2021 respondents indicating somewhat improved economic prospects, businesses continue to identify operational risks as a result of the pandemic. While nothing can be guaranteed, given business sentiment and the CBC's methodology, there is a strong likelihood that Vaughan's business counts will continue to see declines in 2021.

Sector Business Count Analysis

When analyzing the changes in Vaughan's sector business count for 2020, as categorized at the 2-digit NAICS (North American Industry Classification System) code level: 9 out of 20 sectors saw positive growth to their business counts; 2 sectors remained unchanged; and the remaining 9 out of 20 sectors saw a decline in their counts. In contrast, for both Ontario and Canada: 12 out of 20 sectors saw declines with growth in only 8 sectors. While Figure 2 illustrated a decline in Vaughan's *total* business count, the City's sectors counts were not all uniformly impacted, as seen below in Figure 4.

Figure 4. Canadian Business Counts (Total, with employees) Change (2019-2020) and Percentage Change (2019-2020) by Industry Sector in 2020.

Filtered: Business count above 50, and percentage change $\geq 1\%$ or $\leq -1\%$.



The purpose of Figure 4 is to compare each sector's percentage change (2019-2020) in relation to its business count change (2019-2020) to identify outlier sectors most impacted by the pandemic, positive or negative. For simplicity, especially as the pandemic has not been concluded, those sectors that saw no or minimal changes (less than $\pm 1\%$) have been omitted. Also not included in Figure 4 are Vaughan's Public Administration and Primary and Utilities sectors, which combined make up approximately 0.3% of Vaughan's total business count in 2020. While it is impossible to ensure these sectors will continue to remain static in the future, this analysis will focus on those sectors that have seen major changes thus far.

While Figure 1 and 2 identified a decline from 2019 to 2020, Figure 4 illustrates more nuanced changes, with Vaughan's sector counts seeing a mix of growth (plotted in teal) and decline (plotted in red). From Figure 4, the following sectors were identified as outliers, those sectors that saw the greatest change (thus far) during the pandemic.

Of the 9 sectors that grew (plotted as **teal** in Figure 4 and outlined in **blue**), between 2019 to 2020:

- **Transportation and Warehousing** increased by 42 counts, up 4.90% from 2019;
- **Professional, Scientific and Technical Services** increased by 110 counts, up 3.89%;
- **Health Care and Social Assistance** increased by 35 counts, up 2.59%; and
- **Wholesale Trade** increased by 19 counts, up 1.38%.

Of the 9 sectors that declined (plotted as **red** in Figure 4 and outlined **red**), between 2019 to 2020:

- **Real Estate and Rental and Leasing** decreased by -44 counts, down 4.31% from 2019;
- **Manufacturing** decreased by -33 counts, down 2.51%;

- **Retail Trade** decreased by -25 counts, down 1.52%;
- **Other Services (except Public Administration)** decreased by -20 counts, down 1.49%; and
- **Construction** decreased by -28 counts, down 1.04%.

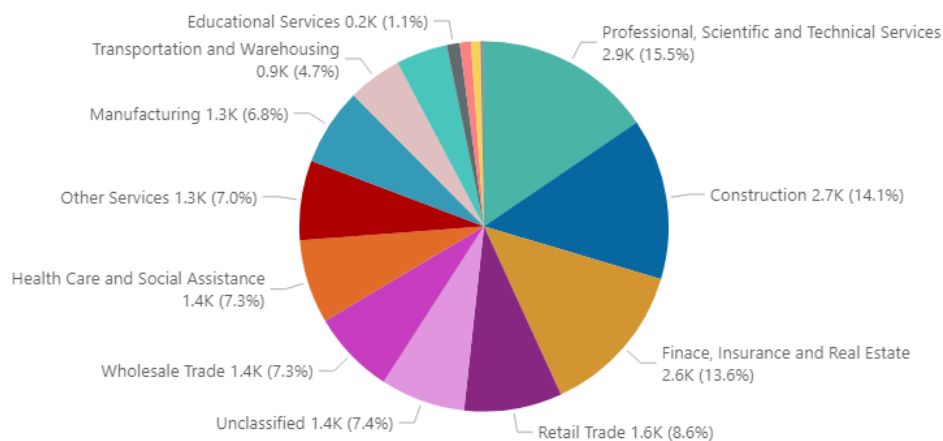
Unclassified, while not an actual sector, is used when the Business Register cannot categorize a business. Unclassified decreased by -244 counts, down -13.74% from 2019, this decrease *should* be considered as a decline across all of Vaughan's sectors; however, the exact ratios cannot be determined. In addition, while Unclassified is an unsorted category, there is always a possibility that part of those counts could be tied to businesses being correctly classified in 2020 (i.e. removed from Unclassified) and cannot be ruled out. For the purposes of this analysis, Unclassified will be recognized; however, its implications are difficult to quantify and analyze.

While both the above lists highlight outlier sectors in 2020, sectors that saw growth or decline, these sectors are not static and can change with the inclusion of Q2 and Q4 2021 data. To provide context to these fluctuations, 2018 to 2019 saw business counts for sectors increase by an average of 21 counts per sector, while 2019 to 2020 saw an average of -8 counts per sectors. While sectors such as Manufacturing, and Real Estate and Rental and Leasing saw more notable declines than other outlier sectors, a large portion of sectors, outliers or otherwise, did not see substantial changes to their counts in 2020.

For the Real Estate and Rental and Leasing sector, there was a large hit to small business counts in the Real Estate subsector for 2020; the Real Estate subsector had seen growth in preceding years. For Manufacturing, Vaughan's largest sector by GDP and employment, this sector had been experiencing global and national slowdowns in 2019 due to declines in demand. This major change to market conditions carried over into Q1 2020, which likely played a factor in the decline seen in 2020 overall.

Figure 5. Canadian Business Count (Total, with employees) Industry Sector Composition by Business Count in 2020.

Business Count (Total, with employees) by Industry Sector in 2020



From 2019 to 2020, even with the fluctuations in industry sector counts noted previously, there were no significantly noteworthy changes to sector composition (by business count)—Vaughan’s economic diversity remains stable, a key factor for a strong post-pandemic recovery. In 2020, as illustrated in Figure 5, Vaughan’s “Top 5” sectors by business count continue to be:

1. Professional, Scientific and Technical Services, 15.5% of total
2. Construction, 14.1%
3. Finance, Insurance and Real Estate*, 13.6%
4. Retail Trade, 8.6%
5. Wholesale Trade, 7.4%

**The Finance, Insurance and Real Estate sector (or FIRE) are four (4) sectors commonly aggregated: Finance and Insurance; Real Estate and Rental and Leasing; Management of Companies and Enterprises; and Administrative and Support, Waste Management and Remediation Services.*

NEXT STEPS

The ECD department will continue to monitor the Canadian Business Counts, as well as all other relevant data sets, to advise and comment on the state of Vaughan’s local economy. With the recent acquisition of the Conference Board of Canada’s 2021 economic forecasts, a follow-up analysis will be conducted, and an accompanying memo distributed city-wide.

For more information regarding this analysis, please contact:

Raphael Costa

Director, Economic and Cultural Development

raphael.costa@vaughan.ca

Stephan Schmied

Economic Development Coordinator

stephan.schmied@vaughan.ca

Sources

Statistics Canada. 2021. *Canadian business counts* [Statistical location], with employees, Canada [Country], Ontario [Province] and Vaughan, City [Census subdivision], June 2018 to December 2020. Community Data Program (Distributor).

Statistics Canada. 2021. *Canadian Survey on Business Conditions*, York, Regional Municipality [Census division], May 2020 to March 2021.