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TO: Committee of the Whole

FROM: Burlington Economic Development

DATE: February 2, 2024

RE: City of Burlington Outdoor Patio Program (PL-05-24)

Over the last few years, businesses have undergone the uncertainty of pandemic lockdowns, labour shortages, a disrupted supply chain, and record-breaking inflation. For restaurants, it has been especially difficult. Already an industry with tight profit margins, the pandemic caused high rates of unemployment, a significant accumulation of debt and business closures for nearly 89% of restaurants, rendering them more vulnerable to external pressures.

While 2022 saw the Canadian food service industry benefit from pent-up consumer demand, leading to the strongest traffic numbers since the start of the pandemic, sales continued to be lower than 2019 levels. Overall, the pandemic saw a 30% reduction in sales across the industry. According to Restaurants Canada, as of the start of 2024, the industry has still not fully recovered from these impacts, with 53% operating at a loss or barely breaking even, compared to just 10% pre-pandemic. The restaurant industry is now grappling with rising operational costs and food expenses, predominantly through increased labour, rent, and food costs.

In 2024 changing consumer preferences are expected to slow down recovery time for the industry even further. A study conducted by Dalhousie University found that any boosts seen in dining out over 2023 will likely be tempered by a reduction in consumers choosing to dine out in 2024, with over one-third of Canadians planning to eat out less frequently and 12% not at all to better manage their food expenses. Meanwhile Restaurant Canada's 2024-25 Federal Budget Submission projected more Canadian consumers (58%) will be more cautious about how often they visit restaurants due to inflation.

In the Canadian Federation of Independent Business's (CFIB) monthly Business Barometer Survey measuring small business confidence in their performance expectations over the next three months after accounting for normal seasonal changes, the hospitality industry responded with the second lowest confidence ratings out of all business industries at 32.2. Most respondents had a negative outlook for the general state of their business health and expected to cut down on staff. More than half of respondents cited wages, tax/regulatory costs, insurance, electricity, borrowing, fuel,

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and product input costs as major constraints to their business, citing a general shortage of working capital due to insufficient demand and trouble hiring staff.

Despite the moderate growth in sales since the lockdowns, minimum wage increases to $16.55/hour (+6.8% increase from the previous rate) and a lot of demand for staff, there is a significant shortage of people interested in pursuing work in the accommodation and food services sector as well. At a time when building back traffic is critical for many restaurants, they are unable to increase capacity and are struggling to absorb higher costs. More than 200,000 workers chose to leave the industry completely during the pandemic and there has been a declining participation of young adults entering the industry, making it increasingly difficult for to replace their workforce. Currently, the industry has one of the highest levels of job vacancies across industries, accounting for one of every six private-sector job vacancies in Canada.

Another major concern for the restaurant industry is the Canada Emergency Business Account (CEBA) repayment deadline, which passed on January 18th this year. The program, launched in April 2020 by the federal government in response to small businesses that were struggling to stay financially afloat due to the shock of the pandemic, provided up to $60,000 in loans to qualified businesses with the promise that $10,000-$20,000 of the loan would be forgiven if paid back in time. While the original deadline was postponed twice, the federal government declined to push the deadline further. Businesses that have not paid back the loan in full must now do so by December 31, 2026, with interest included and will not be eligible to retain a portion in loan forgiveness. Restaurants Canada expects 1 in 5 restaurants with a CEBA loan to close one or more of their locations as a result.

While navigating the aftershocks of the pandemic and managing the current economic trends, food service operators have shown resilience and adaptability, however they would be well-served with sector-specific supports that will allow them the opportunity to recover their losses and generate revenues.

Regards,

Anita Cassidy
Executive Director, Burlington Economic Development