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Economic Impact Analysis of the Smoke Free By Laws on the Hospitality Industry in Ottawa

November 2002

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Executive Summary

This study reviews available evidence available concerning the impact on bars and restaurants of the smoke free by laws established in Ottawa, in August 2001.

An examination of the economic context indicates that Ottawa experienced significant disruption in two key elements of its economy over the period. Business travel to Ottawa decreased markedly, and was reflected in hotel occupancy rates declining from 65.7% to 58.7%. The high technology industry that spearheaded economic growth for a number of years experienced a significant reversal, with massive lay-offs by the two largest employers in particular, a reduction of 9,500 in total employment and a significant reduction in wealth among shareholders in the community. These impacts were somewhat off-set by growth in government employment and a strong housing market.

A survey of half the bars in the city attempted to quantify these effects more closely but received responses from only 51 establishments; with the result that it is not possible to extrapolate the results of such a small sample to bars generally. However six of the reporting bars showed sales declines that are not clearly related to the change in travel patterns or the shift in employment. The impacts experienced by these bars could be related to the smoke free by law, or to any of the other factors that influence the popularity of individual bars.

The food and beverage industry as a whole (including restaurants) continues to grow, with 90 establishments closing since the by law was implemented, and 123 establishments opening, resulting in approximately 1,200 licensed establishments. Turnover is the norm in this competitive industry that caters to rapidly changing consumer preferences, but the growth in numbers suggests the industry as a whole is healthy, with the greatest growth coming since May. The number of Employment Insurance applications by servers has also shown significant decline since May of this year. It is noted that hotel-based establishments have experienced a difficult year, likely related to the change in business travel, and that some west-end establishments, more dependent upon high technology clientele, have experienced a decline in sales. Bars did appear to have had a more difficult time than restaurants in the past year. A number of long term trends, such as reduced beer consumption, increased liquor consumption, and shifts from domestic to imported beer reflect the changing consumer preferences that pressure the industry. The smoking restrictions may have contributed to changing consumer preferences and the pressures on bars in some niches.

In the over-all economic context, the food and beverage industry appears to be stronger than one would expect. This suggests the smoke free by law has had little or no negative impact on the industry as a whole.

Introduction and Discussion

KPMG LLP was engaged by the City of Ottawa to provide assistance in the ongoing monitoring of the economic and health impacts of the smoke free by laws covering public places and places of work that went into effect August 01, 2001. The mandate was to review available economic indicators and data to determine whether the by-law had a measurable impact on the food and beverage sector, in particular restaurants and bars. Our first report in December 2001 outlined some early findings. Subsequent to that report, the mandate was expanded to conduct a survey of bar sales in particular to further examine this sub-sector. This report constitutes our final report, and incorporates data covering the first full year since the by law went into effect.

General Economic Conditions

Many influences have come to bear in a year marked by highly volatile market conditions, rising unemployment, the high technology meltdown, the erosion of wealth and retirement savings, terrorist attacks and a generally bleak economic outlook. Ottawa, being the recognized 'Silicon Valley North', has been particularly affected with the high tech workforce being severely depleted with massive layoffs and with telecom giants downsizing to a fraction of their previous local workforce.

Technology Jobs in Ottawa-Hull

source: OCRI Economic Development surveys

	Technology Employment	Increase (decrease)	
1996	41,000		mid-year
1997	48,300	7,300	end of year
1998	52,700	4,400	end of year
1999	63,000	10,300	end of year
2000	79,000	16,000	end of year
2001	69,500	(9,500)	end of year
2002	72,000	2,500	June

The Ottawa Business Journal has recently reported that JDS Uniphase, which at its peak employed 10,000 workers in Ottawa has reduced its workforce to 1,700 and further scheduled cuts could reduce their local workforce to 1,000. Nortel Networks recently disclosed the extent of its local job cuts, confirming that the local workforce currently stands at approximately 6,000 down from 18,000 at its peak. At the same time as these layoffs have taken place, stock values have declined at such a rapid pace that many employees and shareholders have seen vast amounts of wealth disappear. These impacts occurred almost entirely after the adoption of the smoke free by law, and their impact must be considered when attempting to measure the effect of the by law. June of 2001 appears to have been the peak of high technology employment, with substantial job losses between June and spring 2002. The trend appears to have reversed with new employment opportunities off-setting continued lay-offs, but only within the last months of the first year of the restrictions.

The impacts are reflected in the level of unemployment, which rose substantially in the past year, although the rate of increase began to diminish in April this year.

Unemployment

Ottawa-Gatineau CMA

	2000	2001	% Change
Annual Average	33,800	39,100	15.7%

Monthly	2001	2002	% Change
January	28,100	39,500	40.6%
February	28,800	42,000	45.8%
March	31,800	45,900	44.3%
April	33,500	43,600	30.1%
May	36,700	42,800	16.6%
June	37,900	42,300	11.6%
July	42,300	45,100	6.6%

Consumer bankruptcies stood at 156 in August compared to 145 in July and 134 in the same month a year ago. This represents a sixteen per cent increase in the past year.

The Ottawa Citizen recently reported on a Conference Board report that Ottawa ranked second worst of 18 Canadian cities this year in terms of economic performance, however they predict growth for 2003. The Conference Board predicts 'Ottawa's economic growth to show a slight negative of about 0.5 per cent for the full year because the downturn earlier this year was so steep it has pulled the annual average down'.

Labour Force

HRDC reported that Ottawa's employment between February and March 2002 fell by over 6,000 jobs. This was the largest February to March unemployment decline in more than 13 years. HRDC points to the collapse of the information technology sector as the major contributor as approximately 19,000 jobs were lost in a span of 3 months. Some effects of the high tech downturn have been offset by increased public service hiring and a vibrant housing market that has been fuelled by low interest rates.

Employment

Ottawa-Gatineau CMA

	2000	2001	% Change
Annual Average	564,858	575,267	1.8%

Monthly	2001	2002	% Change
January	580,000	575,700	-0.7%
February	580,300	573,700	-1.1%
March	578,600	567,100	-2.0%
April	579,400	564,500	-2.6%
May	580,200	566,600	-2.3%
June	582,500	573,100	-1.6%
July	578,700	580,500	0.3%

On average food and beverage servers filed 60.6 Employment Insurance claims per month in the year before the by law was adopted. In the first year the by law was in effect, this increased marginally to 61.3 (1%). The number of claims has been steadily decreasing since May, 2002 and were 17% lower in July, 2002 than a year earlier.

Travel and Tourism

The events of September 11, 2001 had a profound impact on travel and tourism. Although some of these impacts were temporary, the industry in Ottawa is also experiencing a marked reduction in business travel.

As mentioned in the June report, the Ottawa Tourism and Convention Authority (OTCA) reports that business travelers spend 2 to 4 times more than other travelers. The OTCA reports in the spring update that the decline in business travel has mostly to do with the economic environment, and in Ottawa, with the decline of the telecom manufacturing sector. Hotel occupancy at the end of April had decreased from 65.7 per cent to 58.7 per cent. This represents 39,260 fewer room nights, compared with the same period in 2001. The OTCA also reports that many U.S. companies have imposed restrictive travel policies. Corporate room nights were down 25.4 per cent in April, or 72,028 room nights at an average room rate of $129.33, which represents $9.3 million in accommodation alone. The decline in corporate room nights is somewhat offset by leisure nights which have increased by 17.2 per cent representing 15,531 more leisure room nights or $2.01 million.

Overall, hotel demand has been significantly affected by downturns in corporate travel related to the local technology slump. The OTCA reports that at the end of April no hotel clusters were reporting growth. The most significant decrease was posted by suite hotels with a decrease if 13.7 per cent and the smallest decline was 9.21 per cent posted by hotels other than small and large convention hotels.

Labour force statistics for Ottawa indicate that Ottawa CMA employment in the accommodation and food services sector (includes food services, drinking places, accommodation services, full service restaurants and special food services) has decreased month over month. All months in 2002 experienced decrease in employment over the same month in 2001, with an average decrease of 4.4 per cent in the period January to July. As reported in June of this year the OTCA 'Tourism Year in Review' reported that jobs supported by spending dropped by a significant margin of 10 per cent in 2001 over 2000. The impact appears to have been felt particularly hard in the accommodation and accommodation and food categories.

Food and Beverage Industry

Our December report, which was issued only 4 months after inception of legislation, focused on the available peer reviewed literature published on the topic to date. As reported in December, all retrospective studies using objective data (i.e. sales tax returns) concluded that there was no lasting adverse long-term economic impact on the restaurants and bar industry due to restrictive smoking legislation.

Notwithstanding the unanimous findings of previous studies, there were no studies focused on a Canadian environment, and few that focused on the bar and pub segment of the hospitality industry. Concern was raised that the impact of the smoking restrictions may be greater on bars and pubs, and that restaurants may actually benefit, masking the impact of the by laws on bars and pubs specifically in these studies. KPMG therefore undertook a comprehensive sales tax survey to measure the impact over the first six months, specifically on Ottawa bars and pubs. The survey methodology was developed by KPMG in consultation with PUBCO and the Ottawa chapter of the Ontario Restaurant Hotel and Motel Association. KPMG made repeated efforts to contact a sample of 150 "bars and pubs" (as the definition of "bar and pub" is subjective, the establishments were selected from the list of 300 top beer selling establishments), to obtain information related to sales before and after adoption of the by law, and information concerning other possible impacts on sales (expansions, etc.). The data collected was from sales tax returns, and hence reliable, but the submission of data was voluntary (unlike studies based on government provided sales tax returns), introducing the potential for self-selection bias.

Extensive and repeated efforts were made by KPMG professional personnel to locate, contact and obtain the cooperation of each establishment in obtaining accurate data. Establishments initially refusing to participate were contacted again and it was explained that the failure of establishments to participate could result in the study producing no results, and therefore no opportunity to demonstrate an economic impact of the smoke free by law, if such an impact exists. Despite repeated and persistent attempts to achieve the cooperation of all participants selected, KPMG experienced a very high rate of refusal and non-response from the selected participants. Only 51 establishments provided sales tax data. A number of establishments that indicated they had sales increases refused to provide the data required, indicating that self-selection bias is not only a theoretical problem, but in fact occurred during the study. As a consequence the results cannot be taken as representative of the industry, but are valid as the results of the individual establishments involved.

It is therefore impossible to provide an estimate of the financial health of the bar and pub industry as a whole, based on the survey results. It is even more difficult with limited data to attribute any impact to the smoke free by law as opposed to 9/11, tourism and employment declines or other factors. Although it is unreasonable to draw general conclusions from the limited sample available, it is clear from the data collected that some bars and pubs have had a poor year, while others have done quite well. The majority of bars and pubs that reported, experienced increases or decreases of sales in the 0 to 10% range. Hotel based establishments reported worse results, generally reporting a sales decrease of more than 10%. Similarly bars in the west end were more likely to have experienced a sales decline than those elsewhere. In fact some establishments with multiple locations in various parts of the city show their west end sales decreasing even when sales elsewhere improved. Both of these trends are consistent with the expectations that high tech lay-offs (largely in the west end) and decreased travel would impact west end and hotel-based establishments. In the east and south, where the tourism and high tech issues were less relevant, the increases and decreases were generally in the zero to 10% range and the average change was negligible. Of the downtown bars (Market, Bank and Elgin Street) that reported, six had increased sales and twelve had decreased sales, with six of the decreases greater than 10%.

Knowing that some bars with increased sales did not respond to the survey, and knowing that not enough bars responded to ensure a representative sample of bars, it is impossible to derive comprehensive conclusions. It is possible, even likely that the decrease in tourism and perhaps high technology lay-offs effected the sales of these downtown bars, but it remains possible that the by law may have had an impact on some particular establishments along with other factors (changing consumer preferences, etc.). However it also appears that the economic conditions (high tech lay-offs and reduced hotel occupancy and travel) are the more significant factors in the sales declines experienced by some bars.

Restaurant and Bar Bankruptcies

The table below provides data for the periods August 2001 through to July 2002 and for the same period in the previous two years for bankruptcies, proposals to creditors under the Bankruptcy Act and receiverships. The data includes licensed restaurants, taverns, bars and night clubs. It does not include take out food services or caterers, however this information is available. The reader should note that the data is not adjusted for economic factors such as unemployment levels in the capital region, consumer confidence levels and retail sales levels. Readers should note if comparing with previous data, that numbers may shift in prior periods. For example if a proposal to creditors is refused, the action is reclassified as a bankruptcy rather than a proposal retroactive to the time the original proposal was reported.

	Aug. '99 – July '00	*Aug. '00 – July '01*	*Aug. '01- July '02*
Restaurants (Licensed)			
Bankrupt	22	31	26
Proposals	6	1	5
Receivership	2	3	2
	30	35	33
Bars, Taverns, Nightclubs			
Bankrupt	0	3	6
Proposals	2	0	1
Receivership	0	0	0
	2	3	7

The data suggests that the number of insolvencies for restaurants is consistent with previous years, in fact declining marginally in the period after adoption of the by law. The level of insolvencies for bars, taverns and nightclubs increased the year before the by law went into effect, and has increased again in the past year. While the numbers are small, some economic factors may be influencing bars, taverns and nightclubs that are not affecting restaurants in the same way. From the survey results it appears the high tech lay-offs and tourism decline are significant factors affecting bar sales, however the smoke free by law may be another factor.

Number of Establishments

The Business Register Division of Statistics Canada reports on the number of establishments by Standard Industry Classification (SIC) in December of each year and includes only those businesses reporting at least $30,000 in GST. This reporting threshold is significant because the number of establishments included in the Statistics Canada numbers excludes all establishments reporting sales revenue less than $429,000 ($30,000/7% GST) which results in an underestimation of the number of establishments. The number of licensed restaurants totaled 1,022 at December of 2001, up 83 from a year earlier. The number of taverns, bars and nightclubs also increased, from 122 to 127.

Number of Establishments
Ottawa
Source, Statistics Canada

	Dec-00	Dec-01
Restaurants Licenced	939	1022
Restaurants Unlicenced	442	454
Taverns, Bars and Night Clubs	122	127

As mentioned in our previous report, the restaurant and bar industry is a volatile one in any economic circumstances. A review of licencing, health inspection and related data has established data for the number of restaurants, bars and pubs that have closed, and the number that have opened since the by law went into effect. In the period from August 2001 to May 2002 there were 82 bars, restaurants and pubs opened and 72 that closed. In many cases the openings were in the same physical premises as the closings, with the change being one of owner and often theme or orientation. In the period from August 2001 to September 2002 there were 123 confirmed openings and 90 confirmed closings.

Restaurant, Bar and Pub Openings and Closings

	August 2001 to May, 2002	June 2002 to September 2002	Total
Closings	72	18	90
Openings	82	41	123

This would suggest that the industry as a whole remains healthy and able to attract investment, although it continues to evolve and change in the format that is offered to clients.

Beer and Liquor Sales

Information reported by the Brewers Association of Canada indicates a .1 per cent decrease in Ontario domestic beer sales for the period January to July 2002 over the same period in 2001, continuing a long term trend towards reduced total beer sales. Beer sales data provided by the Brewers of Ontario show year over year declines in beer sales in every market provided (Ottawa, GTA, Kitchener/Waterloo, Windsor, Sarnia, Niagara Falls, Hamilton, London, Belleville, Kingston and Cornwall) with the exception of Sarnia and London. The decline in Ottawa, at 10 per cent, was higher than the decline in other markets. It is not clear the extent to which this relates to the increase in liquor sales, the economic changes, or other factors such as the smoke free by law.

Data provided by the LCBO through the Freedom of Information Act indicates positive growth in LCBO sales from 2000 to the present. A year over year analysis shows increases in every month in 2001 over the prior year with 5 months reporting double digit increases. In the 14 months following the smoking ban. LCBO sales have risen an average of 7% from September 2001 to October 2002.

Changes in consumer preference can also be seen in a comparison of LCBO sales to domestic and imported beer sales. Domestic Ontario Beer sales have gradually declined, by 10% since 1991 (Brewers Association of Canada), while imported beer sales have declined by 3% in the same timeframe. In Ontario the year 2001 saw an increase in imported beer sales of 16 per cent while domestic beer sales increased by only .09 per cent. These changes in consumer preferences are consistent with the trends toward change in the hospitality industry, the need for establishments to continually re-invent themselves to meet changing needs.

Health

The long term health impacts of smoke free legislation in Ottawa are not measurable in the short term, however a recent Workplace Safety and Insurance Board (WSIB) ruling awarded compensation to a non-smoking waitress who suffers from terminal lung cancer due to exposure from second hand smoke in the workplace. This is the third case of compensation offered to an individual claiming disability from second hand smoke in the workplace but the first to implicate exposure to second hand smoke in a restaurant or bar. The WSIB's recognition that this employee's lung cancer occurred as a result of second hand smoke indicates that it is an industry related injury and therefore that a duty of care to protect employees from second hand smoke exists in the industry. Hospitality establishment owners are now faced with increasing responsibility to provide employees with a safe work environment, a risk that will be reflected in WSIB insurance rates to the extent it results in significant claims.

The Rapid Risk Factor Surveillance System (RRFSS) is an ongoing survey occurring in various public health units across Ontario. The survey is conducted by the Institute for Social Research (ISR) at York University, on behalf of all RRFSS-participating health units. On a monthly basis, a random sample of 100 adults aged 18 years and older is interviewed regarding risk behaviours, knowledge, attitudes and awareness about health related topics of importance to public health. Topic areas include smoking, sun safety, use of bike helmets, water testing in private wells, etc. The RRFSS 2001/2002 data reports that smoking rates continue to drop in Ottawa. The rates for daily smoking in Ottawa have decreased from 22 per cent to 17.2 per cent for ages 20 and over, in the past four years. This represents a decrease of over 13,000 people. While the by law may have contributed to the decline in smoking, it is impossible to confirm the causative effect.

Conclusion

This past year has seen a number of substantial impacts on the Ottawa economy, most notably substantial lay-offs in the high technology sector, higher unemployment, and reduced travel to Ottawa, particularly business travel. In this context it is very difficult to isolate any effect the smoke free by law may have had on restaurant and bar sales. The industry traditionally experiences a turnover in ownership and concept. This has continued, but the industry as a whole continues to grow, with some establishments closing, but more new establishments opening, leading to an increase of 33 bars and restaurants over the year. It appears bars and pubs have experienced a more difficult year than restaurants. Some of this clearly relates to the changes in high technology employment and the tourism decline, however we cannot rule out that other factors, including changing customer preferences and the smoke free by law may have impacted establishments in particular niches.

Appendix ‘A’

Data Sources

Employment Data:

Statistics Canada Labour Force Survey provides monthly data and three month moving averages to determine the increase/decrease in the Ottawa labour force over time. These statistics are also available by Industry Classification to determine the labour force variation within specific sectors of the local economy. Employment data also comes from press releases reporting on company downsizing and layoffs. The level and stability of employment is one indication of the propensity to spend what may be considered disposable income, however the magnitude and timing of company layoffs also has an effect upon consumer confidence levcls.

Employment Insurance Data:

Data from employment insurance will be obtained through Human Resources Development Canada. This data also includes number of claimants per month by occupation by region. If smoking restrictions resulted in layoffs, then one would expect an increase in the number of recipients during the period under scrutiny

Number of Establishments by Industry Classification:

The Canadian Business Patterns, Business Register Division of Statistics Canada records the number of establishments by employee ranges and by classification. This information can be used to measure the growth/decline in establishments over time.

LCBO:

The Liquor Control Board of Ontario can provide sales data on commercial vs retail sales by region.

Ottawa Tourism and Convention Authority (OTCA):

The OTCA provides quarterly reports on tourism activity in Ottawa. These reports provide data on visitor numbers, spending, hotel room occupancy rates and conventions etc. This information is useful to determine if there is a significant drop in tourist business and discretionary spending. As previously mentioned, the complete review of 2001 statistics was unavailable at the time of this report.

Industry Canada/Office of the Superintendent of Bankruptcies:

This information is necessary to accurately determine the number of bankruptcies by industry classification and by region.

By law Enforcement Branch, City of Ottawa

The number of prosecutions and warnings issued will provide an indication of the extent to which the by law is being observed.

Beer Sales

Information provided by the Brewers of Ontario on domestic beer sales will indicate year over year variances in sales data.

Newspapers

Local and National articles related to the non-smoking legislation have been gathered to provide insight into the health and economic impacts of the by law.