ONTARIO REPORT CARD
Government Fingers in the Till

Restaurateurs in Ontario are among the most passionate and energetic entrepreneurs in the province. They work hard every day to deliver an exceptional customer experience, provide jobs in their local communities and give back charitably. Ontario's restaurant industry generates $33 billion in economic activity, representing 4% of GDP. In Ontario this means 500,000 direct and indirect jobs and charitable contributions in the range of more than $100 million dollars annually.

We are however at a crossroads in Ontario. While there are many good news stories in the sector, it has become increasingly challenging for restaurant owners to be successful due to dramatically increasing costs and burdensome regulations. Restauranteurs have seen their operating costs continue to spiral out of control, and many feel that the government is dipping their hands deeper and deeper into the restaurants till with no relief.

Foodservice operators and restaurant owners are in business not only to make a profit, but to share their vision of hospitality. They welcome their local community, tourists and visitors. They create jobs and showcase artists. They promote local foods and beverages. The question remains, why does the government make it so difficult to do so?

Ontario operators are increasingly fearful for their livelihood and the well-being of their staff. The Canadian Centre for Economic Analysis has indicated that the foodservice and accommodation sector will experience a $1.3 billion increase in costs due to Bill 148 alone.

Anticipating the impact of Bill 148 Restaurants Canada members in Ontario indicated they would manage costs by:

98% increase menu prices
97% to decrease labour hours
71% to lay off staff
26% to close their business

Without a doubt, labour costs remain the number one concern of restauranteurs. The question is how will the sector react and respond to these massive new costs?

Restaurants Canada remains political neutral in all political activities and throughout the provincial election. We advocate on behalf of the foodservice industry for economic and social policy that will benefit members. What we have seen in Ontario over the past decade will require a new approach to public policy that strikes a balance between the needs of the industry and employees. Below, Restaurants Canada has outlined a number of concerns with the current public policy environment in Ontario that have created an untenable situation for operators across the province. Ontario is simply no longer a competitive jurisdiction.

Restaurants Are Under Attack

Ontario foodservice operations are struggling to survive with rising costs and burdensome regulations. Restaurants in this province maintain the lowest profitability in Canada at just 3.4%. Relative to other sectors of the economy where profitability is much higher. The average profit margin across all industries sits at roughly 10.1%, roughly two and half times the foodservice sector.

> "*Premier Wynne promised to help businesses manage the massive cost increases caused by Bill 148. The March 2018 budget is confirmation that they have no intention of keeping this promise*".
> James Rilett, VP Central Canada

There are a number of conditions that go into isolating the foodservice's margins, not the least of which is the overwhelming proportion of labour in relation to total operational cost is a fundamental to this equation. Salaries and wages in the foodservice industry make up more than 30% of total cost.

This ratio comes from the high demand for labour, and in particular skilled labour, but also speaks to the detrimental impact of the lack of response from the Ontario government when considering the impacts of Bill 148.

It should be noted that the foodservice industry has never objected to increases in minimum wage in Ontario, but did strongly caution the Ontario government that the volume of change in such a short amount of time would have severe consequences. In Ontario, Bill 148 will have massive consequences for the foodservice industry. Estimates indicate that the legislative changes will cost more than 17,000 jobs over the next two years in the sector, with a broader impact of more than 185,000 jobs across the province. This will compromise opportunities for students, women, seniors and new Canadians. The outcome of this government's social policy agenda will have a devastating impact on those very people they most wanted to help.

The government's decision to make massive labour changes in a short timeframe will cost the foodservice industry almost $2 billion per year. We are already seeing the effects; menu prices have increased by nearly 7% and restaurants are closing their doors. The foodservice industry has seen a progressive decline in progressive public policy that benefits not only owners and operators, but staff and customers. Below, we have outlined a variety of concerns that need to be addressed.

Labour

Employment There can be no denying the impact the sector has on employment. In The restaurant industry is the fourth-largest private-sector employer. Ontario Restaurants directly employ 466,200 staff, representing more than 6% of the province's total workforce, with another 107,200 indirect jobs. Since the implementation of Bill 148, Ontario has witnessed the loss of more than 60,000 part time jobs across a variety of other sectors, and Restaurants Canada would anticipate the impacts on the foodservice sector to have an equally devastating impact in the near term.

Youth Jobs: Failing Students

Many across this country are proud that their first job was at a local restaurant. In fact, restaurants are the number one source for first-time jobs across Canada. It should be no surprise that young people account for 40% of the restaurant industry workforce.

Young people use these jobs to generate income but also to gain invaluable work experience and improve skills. The restaurant industry employs nearly 190,000 young people between the ages of 15 and 24, representing one in five youth jobs in Ontario. The changes to labour and employment legislation in Ontario have now put a premium on part-time opportunities for students.

> *"Seeing that teens are the majority of minimum wage workers, Canadian evidence has shown that a 10% increase in the minimum wage would lead to a 3-6% reduction in the employment of teens. Increasing minimum wages results in greater unemployment."*
> *Minimum Wages: Good Politics, Bad Economics. Northern Policy Institute July 2014*

Seniors

More seniors are choosing to work in restaurants. Nevertheless, a growing number of seniors are working at restaurants, either to keep active or supplement their income. In 2016, the number of workers 65 years of age and older climbed to a record levels in Ontario. Seniors now account for 1.9% of total foodservice employment, a 280% increase since 2000.

Hydro Rates: Under this government, rates for power have increased four times that of inflation. Since 2006, the price Ontarians pay for off-peak electricity has gone from 3.5 to 8.7 cents per kilowatt-hour – an increase of nearly 150 per cent. Mid-peak pricing, which accounts for roughly 18 per cent of average usage, has risen from 7.1 to 13.2 cents per kilowatt-hour over the past ten years – an increase of more than 85 per cent. Add to this, the Global Adjustment has cost all Ontarians $37 billion since 2006, and will cost another $133 billion to 2032. Maybe it's no surprise then that of all the things that keep operators up at night, utility pricing is the fourth biggest concern behind Labour Costs, Food Costs, and Labour Shortages.

Liquor Pricing: As we reported in our 2017 "Raise the Bar" report card, the frustration of licensees in Ontario has gone without acknowledgement by the province. In fact, bar and restaurant owners have been largely shut out of government initiatives to modernize the system. Licensees continue to face a number of roadblocks. The biggest barriers are an outdated and unresponsive system for selection, ordering and delivery of alcohol, combined with lack of wholesale pricing. Ontario is the largest buyer of alcohol in the world, but customers are not seeing any benefit from this buying power. In fact, prices for many products are higher than in other jurisdictions, and continue to escalate.

Rental Rates:

Labour Costs: Restaurants Canada supported raising the minimum wage in order to keep up with the overall cost of living, a significant increase in the minimum wage has a detrimental impact on foodservice operators and employees. The Ontario government's decision to raise the minimum wage by 32% in 18 months. Keeping in mind of course, that these minimum wage changes are the largest in 45 years, being 15 times the average. This kind of cost escalation has been difficult for countless sectors, including foodservice to absorb.

Regulatory Change: Bill 148 will require the restaurant industry to absorb more than $1.3 billion dollars in new costs. And while 58% of those costs are associated with wage related increases, another 42% is directly attributable to the regulatory changes. This administrative burden alone will amount to more than $750 million dollars each year for operators across the province. As a result, business owners will be forced to look to ways of increasing efficiency, layoffs and reducing shifts as a means of managing costs. The impacts on employment will have negative long term consequences across Ontario.

Profitability: Calculating the above cost profile, and adding in numerous other concerns, Ontario restauranteurs operate with the lowest profit margins in Canada. According to Statistics Canada, the average pre-tax profit margin for a foodservice operator in Ontario is just 3.4%, and full-service restaurants average is a scant 2.1%. The average profitability of all businesses in Ontario sits at roughly 10.1%, or more than two and a half times the average restaurant.

Increasing the Costs for Consumers: These policies are crushing the Ontario foodservice sector. Operators who have decided to avoid cuts to staff or hours will have to raise menu prices by more than 8% to offset the minimum wage increase. This would be an unprecedented increase as menu prices in Ontario have increased by an average of 2.4% per year over the past two decades. Research suggests that the impacts from Bill 148 will increase the average consumer's annual household costs by as much as $2,200.00

Bill 148 will increase costs for Ontario households by as much as $2,200
Canadian Centre for Economic Analysis