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Economic Impact Analysis of the No-smoking By- Law on the Hospitality Industry in Ottawa

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Executive Summary

KPMG LLP has been engaged by the City of Ottawa to provide assistance in the ongoing monitoring of the economic and health impact of no smoking legislation enacted on August 01, 2001. This is the first of a series of quarterly reports KPMG will issue that will examine the impacts using credible, defensible and methodologically sound data.

The primary purposes of this report are to:

1. Provide a brief review of economic impact studies carried out in other jurisdictions;
2. Examine the methodologies and data sources KPMG will use to reach an objective and unbiased conclusion; and
3. Provide the available preliminary data on potential economic impacts and the economic context.

Methodologically sound studies in other jurisdictions have found restrictive legislation does not have a permanent negative impact on restaurant, bar and pub sales, although short term effects have been observed, generally lasting a month or two, but occasionally as long as six months. Surveys based on establishment owners' or managers' perceptions of impact have often reported significant impacts, but these have not been born out by proper studies.

KPMG will use a variety of data sources and approaches to evaluate the impact in Ottawa. Retail sales tax returns will be the primary measure of sales change, but the analysis will have to consider the impact of the general economic trends, tourism trends, and the "September 11 effect" on sales volumes.

The effects on health and health care costs are hard to measure as they affect a substantial number of people and develop over an extended period of time. It will not be possible to measure them accurately in Ottawa over the current one-year period. However, based upon studies elsewhere, Dr. Ron Colman of GPI Atlantic has estimated the impact of tobacco related illness on the Ottawa economy at between \$270 and \$390 million. Workplace exposure to

second hand smoke costs the economy an additional \$40 million in health care costs and lost productivity.

Our next three quarterly reports will include:

1. **March, 2002** – a survey of pub and bar sales in Ottawa, based on random sampling and documentary evidence, and data on smoking prevalence.
2. **May, 2002** – results of a comprehensive analysis of retail sales tax returns for restaurants, bars and pubs in Ottawa (to January, 2002), compared with those in the rest of the province carried out by the Ontario Tobacco Research Unit of the Government of Ontario.
3. **September, 2002** – results of an econometric analysis of restaurant, bar and pub sales in Ottawa, distinguishing the effects of the by-law from the effects of the recession, the terrorist attacks, employment and travel changes and other factors, to be carried out by the Conference Board of Canada.

Each report will also provide other statistical data as relevant to monitor impact or establish the context of any observed changes. Some preliminary findings from this data include:

- Employment in the Ottawa accommodation and food service sector appears to have risen 6.5% from June to October (from 22,800 to 24,300) despite the decline in total employment from 585,500 to 566,900 (a decline of 18,600 or 3.1%).
- Similarly, Employment Insurance claims in the accommodation and food service industries actually declined by 5% in August 2001 compared to August 2000 and by 9% in October over a year previous. Claims increased by 1% in September 2001 relative to a year earlier.
- Bankruptcy and insolvency statistics for restaurants are lower for the period August to November than they have been the last two years (7 verses 12 last year and 8 in 1999). Two “tavern, bar or nightclub” operations underwent insolvency procedures this year, verses one last year and two in 1999.