

SMALL BUSINESS QUARTERLY

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PERFORMANCE

Trends

- Private sector employment dropped significantly during the recession, with small businesses¹ being hit hardest. Though private sector employment has not yet recovered, employment levels are approaching pre-recession levels.
- The number of jobs in Canada grew by 1.4 percent in the first quarter of 2011 compared with the first quarter of 2010.
- By December 2010, the number of business locations in Canada increased by 2.0 percent over the previous year. This growth was driven by a 3.8-percent increase in non-employer businesses. In contrast, there was little growth in the number of employer businesses² (0.1-percent increase).
- There were 2.6 million self-employed individuals in the first quarter of 2011, a decrease of 0.8 percent from the same quarter in 2010.
- Forty-three percent of small manufacturing businesses with at least 20 employees reported having business activities outside of Canada between 2007 and 2009.
- Debt financing to businesses grew substantially between 2000 and 2008 (53-percent increase). As of 2010, outstanding debt to businesses was \$489 billion.
- Angel groups, which were recently surveyed, made the majority of their investments in Ontario.

¹ Small businesses are defined as having fewer than 100 employees, medium-sized businesses having 100 to 499 employees and large businesses having 500 or more employees.

² An employer business is a business location that has a Canada Revenue Agency payroll deductions account.

PRIVATE SECTOR EMPLOYMENT TRENDS *during and after the Global Recession*

Canada has so far weathered the impact of the global recession relatively well compared with other developed nations. Despite this positive development, private sector¹ employment has not yet recovered from the recession. Current employment data suggest, however, that economic recovery may finally be taking hold in the private sector.

Private sector employment trends before, during and after the recession by firm size were captured using the latest figures from Statistics Canada's *Survey of Employment, Payrolls and Hours* (SEPH), which is a business census of non-farm payroll employees.² To illustrate the recession's effect on employment levels, Figure 1 presents changes in the number of jobs by firm size relative to Q4 2008 employment levels. As revealed in Figure 1, private sector employment dropped precipitously during the recession (Q4 2008 to Q2 2009) across all firm sizes. Figure 1 also shows that small businesses were impacted most by the end of the recession. At this point, small businesses had lost 171 000 jobs, representing 40 percent of total jobs lost. In comparison, large businesses had lost 156 000 jobs (37 percent of total jobs lost), while medium-sized firms had lost 99 000 jobs (23 percent of total jobs lost).

Following the recession, small business employment stabilized and then grew by 41 000 jobs from Q3 2009 to Q4 2009 before decreasing by 17 000 jobs

(continued on page 2)

Contents

Job Creation	2
Business Locations	4
Self-Employment	5
SME Involvement in Global Value Chains	5
Business Financing	6
Angel Group Investment in Canada	7
Recent Development / Upcoming Event	8

(continued from page 1)

between Q4 2009 and Q2 2010. This dip in employment was short-lived, however, as small business employment rose again in the subsequent two quarters before declining slightly in Q1 2011.

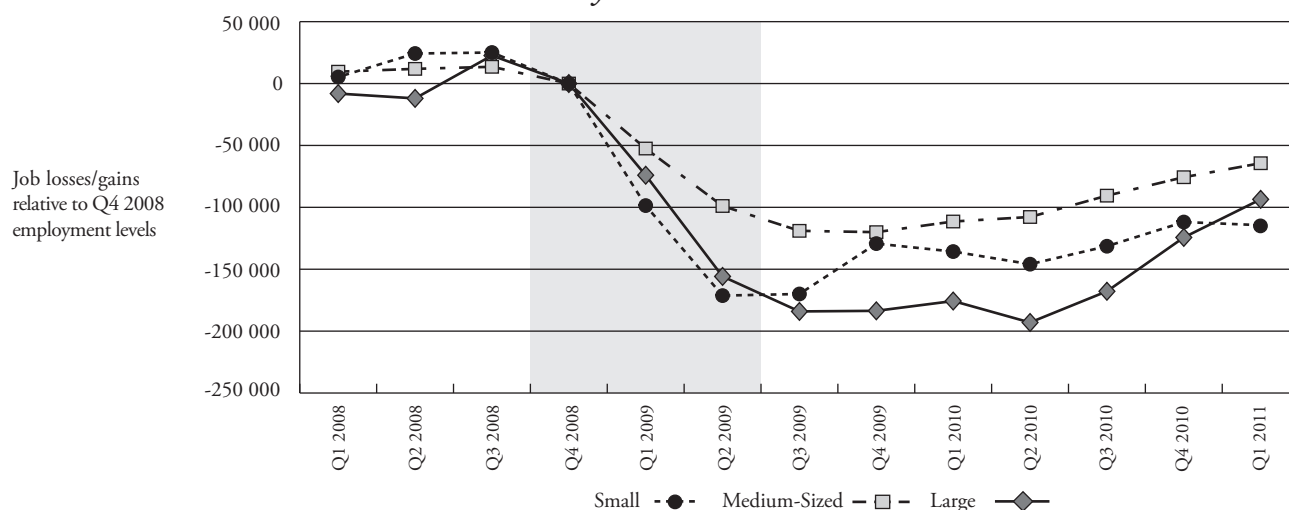
As for medium-sized firms, the number of jobs continued to drop for a short period following the recession, but then steadily grew by 56 000 jobs between Q4 2009 and Q1 2011. Similar to medium-sized firms, large business employment decreased further after the recession but then stabilized. The number of jobs among large firms increased slightly before experiencing another drop in employment in Q2 2010. However, over the subsequent three quarters, large business employment experienced strong and steady growth, increasing by 99 000 jobs.

Overall, employment levels are approaching pre-recession levels across all firm sizes, an encouraging sign for Canada's economy. In addition, the Bank of Canada's 2011 *Business Outlook Survey* found evidence of higher employment expectations, providing yet another positive sign of economic recovery in times of uncertainty.

¹ The private sector excludes the following three industries: public administration, educational services, and health care and social assistance.

² Another source of employment data is Statistics Canada's *Labour Force Survey*. Unlike SEPH, the *Labour Force Survey* is a monthly household survey with a sample size of approximately 100 000 households. An article in the November 2010 edition of the *Small Business Quarterly* analyzes employment trends by firm size from January 2008 to August 2010 using data from the *Labour Force Survey*.

Figure 1: Change in Private Sector Employment Levels Relative to the Beginning of the 2008 Recession, by Firm Size



Source: Statistics Canada, *Survey of Employment, Payrolls and Hours*, seasonally adjusted by Industry Canada.

JOB Creation

In the first quarter of 2011, businesses of all sizes experienced an increase in year-over-year employment levels. This was also true for all regions of Canada.

According to Statistics Canada's *Survey of Employment, Payrolls and Hours*, the number of jobs in Canada grew by 190 211 (1.4 percent) in the first quarter of 2011 compared with

(continued on page 3)

(continued from page 2)

the first quarter of 2010 (Table 1). Over this period, small businesses created 29 126 jobs, while medium-sized and large firms created 59 966 jobs and 101 117 jobs respectively. These job gains correspond to a 0.5 percent, 3.0 percent and 1.5 percent increase in employment for small, medium-sized and large firms respectively.

By firm size, the year-over-year contribution to job growth by small businesses was 15.3 percent as opposed to 31.5 percent and 53.2 percent by medium-sized and large firms respectively.

Nunavut posted the largest year-over-year percentage employment gain (6.3 percent), while Ontario had the largest increase in

total number of jobs created (72 405 jobs). Large employment gains also occurred in Alberta and Quebec, increasing by 46 368 jobs and 27 419 jobs respectively.

Newfoundland and Labrador posted the largest percentage increase in small business employment among the provinces at 2.8 percent. In contrast, Nova Scotia, New Brunswick and British Columbia experienced a drop in small business employment (-0.2 percent, -1.4 percent and -0.2 percent respectively).

Table 1: Year-Over-Year Change¹ in Payroll Employment² by Province and Territory, 1st Quarter 2011

Quarter	Change		% Contribution to Total Change (Number of Employees)								
	%	Jobs	0-4	5-19	20-49	50-99	0-99	100-299	300-499	100-499	500+
Q1 2010	-0.9	-128 775	-2.5	1.8	10.4	11.7	21.4	18.8	16.7	35.4	43.2
Q2 2010	0.2	34 931	43.9	13.3	26.1	20.8	104.2	-0.1	-11.3	-11.4	7.2
Q3 2010	0.9	131 342	-28.4	26.9	16.6	22.8	37.9	18.5	10.6	29.1	33.0
Q4 2010	1.1	158 964	4.3	-5.4	1.7	13.0	13.6	24.5	7.5	31.9	54.4
Q1 2011	1.4	190 211	-9.5	-1.3	14.6	11.6	15.3	24.2	7.4	31.5	53.2
Province and Territory			Growth Rate (%)								
Newfoundland and Labrador	3.0	5 489	-2.6	2.8	1.2	12.4	2.8	8.8	11.3	9.4	2.0
Prince Edward Island	2.3	1 308	-5.0	1.6	4.0	1.4	1.2	-6.0	-8.1	-6.7	5.2
Nova Scotia	1.6	6 107	-3.7	-0.6	2.2	0.4	-0.2	1.1	1.4	1.2	2.9
New Brunswick	0.7	1 957	-4.2	-1.3	2.8	-4.8	-1.4	1.3	10.3	3.8	1.4
Quebec	0.9	27 419	-3.8	-0.8	1.8	1.5	0.0	2.8	4.5	3.2	0.9
Ontario	1.3	72 405	-1.0	0.1	2.0	1.8	0.8	3.5	1.0	2.8	1.3
Manitoba	1.1	5 948	-1.0	0.7	1.1	2.4	0.9	6.8	-8.9	2.1	1.0
Saskatchewan	1.9	8 104	-0.2	1.5	1.8	2.1	1.4	5.9	8.7	6.7	1.0
Alberta	2.8	46 368	-1.6	0.6	2.5	6.2	1.7	6.1	5.3	5.9	2.7
British Columbia	0.7	13 417	-1.2	-0.8	1.1	0.4	-0.2	-0.7	0.2	-0.4	2.1
Yukon ³	2.0	362	2.7	6.6	21.3	-4.4	8.0	-9.6	—	-9.6	—
Northwest Territories ³	2.6	696	-7.4	-1.8	8.7	-13.5	-2.0	1.2	—	1.2	—
Nunavut ³	6.3	632	0.8	-1.0	3.0	13.9	5.4	-21.0	—	-21.0	—
Canada Total	1.4	190 211	-1.9	-0.1	1.9	2.0	0.5	3.2	2.4	3.0	1.5

Source: Statistics Canada, *Survey of Employment, Payrolls and Hours*, unadjusted for seasonal variations, July 2011.

¹ Year-over-year change in payroll employment is calculated as the variation between the level of employment in a given quarter and the level in the same quarter a year before.

² *Survey of Employment, Payrolls and Hours* data exclude self-employed workers who are not on a payroll and employees in the following industries: agriculture, fishing and trapping, private household services, religious organizations and military personnel of defence services. The data breaking down employment by size of firm also exclude unclassified industries.

³ Data for firms with 300 or more employees in the territories are suppressed due to confidentiality restrictions but are included in the size category and territorial totals.

BUSINESS *Locations*

Using data from Statistics Canada's *Business Register*, there were 2 428 270 business locations¹ in Canada at the end of 2010 (Table 2), a year-over-year increase of 2.0 percent. This increase follows annual growth of 2.8 percent from 2008 to 2009; however, unlike the 2008–2009 growth, which was driven

primarily by an increase in employer businesses, almost all of the 2009–2010 growth was attributed to an increase in the number of businesses that have no employees (indeterminate businesses²), which expanded by 47 392 (3.8 percent).

Table 2: Business Locations by Size of Employment and Province or Territory, December 2010

Province or Territory	Grand Total	Non-Employee Businesses (Indeterminate ¹)	Employer Businesses ²	Year-Over-Year Change in Employer Businesses (%) (2009–2010)	Number of Employees							
					1–4	5–9	10–19	20–49	50–99	1–99	100–499	500+
Newfoundland and Labrador	26 351	8 494	17 857	-0.3	9 697	4 048	2 158	1 309	347	17 559	255	43
Prince Edward Island	10 505	4 347	6 158	0.4	3 094	1 477	829	508	151	6 059	86	13
Nova Scotia	55 078	23 490	31 588	0.1	17 150	6 694	3 806	2 557	750	30 957	554	77
New Brunswick	42 907	16 190	26 717	0.4	14 444	5 662	3 379	2 101	641	26 227	432	58
Quebec	496 463	249 028	247 435	0.0	125 641	55 587	32 718	21 930	6 834	242 710	4 128	597
Ontario	901 190	504 232	396 958	0.6	219 425	77 557	47 799	32 356	10 849	387 986	7 878	1 094
Manitoba	78 400	41 288	37 112	0.8	18 525	8 070	5 111	3 462	1 107	36 275	723	114
Saskatchewan	96 548	56 778	39 770	0.9	21 793	8 341	5 033	3 121	868	39 156	547	67
Alberta	344 135	188 815	155 320	-1.2	91 328	28 308	17 792	11 342	3 729	152 499	2 481	340
British Columbia	370 262	194 349	175 913	-0.1	99 322	35 518	21 240	13 108	3 982	173 170	2 445	298
Yukon	2 985	1 294	1 691	3.4	848	403	225	144	36	1 656	33	2
Northwest Territories	2 606	981	1 625	-2.7	553	385	329	236	74	1 577	45	3
Nunavut	840	223	617	1.3	148	139	135	118	52	592	23	2
Canada Total	2 428 270	1 289 509	1 138 761	0.1	621 968	232 189	140 554	92 292	29 420	1 116 423	19 630	2 708
Share of Employer Businesses²												
December 2010					54.6%	20.4%	12.3%	8.1%	2.6%	98.0%	1.8%	0.2%
December 2009					54.4%	20.5%	12.4%	8.1%	2.6%	98.0%	1.8%	0.2%

Source: Statistics Canada, *Business Register*, December 2010.

¹ The indeterminate category consists of incorporated or unincorporated businesses that do not have a Canada Revenue Agency payroll deductions account. The workforce of such businesses may consist of contract workers, family members and/or owners.

² An employer business is a business location that has a Canada Revenue Agency payroll deductions account.

In contrast, there was very little growth in the number of employer businesses, increasing by only 1080 (0.1 percent) over the previous year. The distribution of these businesses by firm size was virtually unchanged from 2009 to 2010. Small, medium-sized and large businesses still accounted for 98.0 percent, 1.8 percent and 0.2 percent, respectively, of employer businesses at the end of 2010.

In 2010, every province and territory except Nunavut posted an annual increase in the number of businesses in the indeterminate category. Quebec alone experienced an increase of 22 060 (9.7 percent), the largest growth in the indeterminate category among the regions by a substantial margin. Ontario and British Columbia posted increases of 9964 (2.0 percent) and 7808 (4.2 percent) in the indeterminate category respectively.

(continued on page 5)

(continued from page 4)

Similar to the national level, growth in the number of employer businesses by region from 2009 to 2010 was low. Of the few notable changes, Ontario posted growth of 2275 employer businesses (0.6 percent), whereas Alberta experienced a drop of 1851 (-1.2 percent). In both provinces, most of the changes occurred among businesses with 1–4 employees.

¹ For an individual business location to be included in Statistics Canada's *Business Register*, the company to which it belongs must meet one of the following criteria: have at least one paid employee (with payroll deductions remitted to the Canada Revenue Agency), have annual sales revenues of at least \$30 000, or be incorporated and have filed a federal corporate income tax return at least once in the previous three years. Several business locations can belong to the same company and each company owns at least one business location.

² Indeterminate businesses consist of incorporated or unincorporated businesses that do not have a Canada Revenue Agency payroll deductions account. The workforce of these businesses may consist of contract workers, family members and/or owners.

SELF-Employment

The first quarter of 2011 witnessed a slight decrease in year-over-year self-employment levels. Individuals 30 years of age and over accounted for a disproportionately large share of self-employed workers.

According to Statistics Canada's *Labour Force Survey*, the number of self-employed workers in Canada decreased from 2 656 800 in the first quarter of 2010 to 2 634 600 in the first quarter of 2011, a decrease of 0.8 percent (Table 3). In contrast, the number of employees increased by 2.5 percent over the same period from 13 939 600 to 14 282 800.

By age group, the largest decrease in self-employment occurred among workers aged 15 to 24 years (-7.6 percent), followed by those aged 30 to 54 years (-2.4 percent). In comparison, the number of self-employed workers aged 25 to 29 years and those over 55 years of age increased by 6.9 percent and 1.7 percent respectively.

Among the self-employed, unincorporated individuals with paid help experienced the largest decrease, falling 5 percent. The number of unincorporated individuals without paid help and the number of incorporated individuals without paid help also fell (-2 percent in both categories). On the other hand, the number of incorporated

Recent developments in the global economy have changed the reality of many businesses in Canada in that their global activities go beyond traditional exports. More and more firms are participating in global value chains (GVCs) through activities such as outsourcing to third parties, locating parts of firms' supply chains outside their home country (offshoring), and partnering with other firms through strategic alliances and joint ventures.

According to Statistics Canada's *Survey of Innovation and Business Strategy 2009*, 50 percent of all manufacturing enterprises surveyed engaged in international business activities between 2007 and 2009. In addition, 10 percent of manufacturing enterprises outsourced (contracted out) their business activities to a business in another country and 5 percent relocated their business activities abroad (still performed within the company).

By firm size, 49 percent of small manufacturing enterprises (with at least 20 employees) and 71 percent of medium-sized manufacturing enterprises (with at least 100 employees and fewer than 250 employees) exported or attempted to export goods and services. Moreover, 43 percent of small manufacturing firms reported having business activities outside of Canada, while 60 percent of medium-sized manufacturing firms had business activities outside of Canada. Small and medium-sized manufacturing enterprises were more likely to outsource business activities (8 percent and 16 percent respectively) than to relocate business activities to another country (3 percent and 9 percent respectively). These findings may suggest that contracting out is a less costly alternative than relocating business activities for small and medium-sized manufacturing enterprises.

The report *Canadian Small Business Exporters* describes small and medium-sized enterprise (SME) involvement in GVCs in further detail. This report also includes information on exports by firm size, industry, destination, province and commodity exported, as well as the financing activities of SME exporters. To access the report, visit www.ic.gc.ca/eic/site/sbrp-rppe.nsf/eng/h_rd02587.html.

(continued on page 6)

(continued from page 5)

workers with paid help and the number of unpaid family workers increased by 4.6 percent and 9.1 percent respectively.

The majority of self-employed workers were between the ages of 30 and 54 years (60 percent), followed by workers over 55 years of age (31 percent). Individuals aged 30 years and older, therefore, accounted for 91 percent of self-employed workers; however, they represented 75.6 percent of all employees. At the same time,

only 9 percent of self-employed workers were under 30 years of age, but this age group represented 24.4 percent of all employees. These numbers reflect more than just aging of the Canadian population as a whole. Increased prevalence of self-employment with age suggests that self-employment may be used as a transition out of the labour force.

*Table 3: Self-Employed Workers by Age, 1st Quarter 2010 and 1st Quarter 2011**

Age	Employees				Self-Employed				Incorporated				Unincorporated				Unpaid Family Workers	
			Percentage	2011			Percentage	2011	With Paid Help		Without Paid Help		With Paid Help		Without Paid Help			
	2010	2011	Change	Share	2010	2011	Change	Share	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011
	(Thousands)			(%)	(Thousands)			(%)	(Thousands)									
15 years and over	13 940	14 283	2.5	100.0	2 657	2 635	-0.8	100.0	583	610	500	489	224	213	1 332	1 303	18	19
15-24 years	2 208	2 228	0.9	15.6	84	78	-7.6	3.0	3	2	11	6	2	4	64	61	5	5
25-29 years	1 643	1 658	0.9	11.6	150	160	6.9	6.1	18	24	29	30	12	10	89	96	0	0
30-54 years	8 071	8 214	1.8	57.5	1 618	1 578	-2.4	59.9	391	403	319	298	143	135	759	735	6	7
55 years and over	2 017	2 183	8.2	15.3	805	818	1.7	31.0	171	182	140	155	67	65	421	411	5	6

Source: Statistics Canada, *Labour Force Survey*, 2010 and 2011.

* Figures may not add up exactly due to rounding.

BUSINESS *Financing*

Trends in Business Lending in Canada

Business lending in Canada, as measured by the total dollar value of business debt financing, has grown substantially since 2000 and reached its highest level in 2008 according to data recently released by Statistics Canada.

The *Survey of Suppliers of Business Financing*, conducted by Statistics Canada in partnership with Industry Canada, follows commercial lending to small, medium-sized and large Canadian businesses and covers products related to term debt financing and operating capital. Major categories of lenders

reflected in the survey include domestic banks, foreign banks, credit unions and Caisses populaires, finance companies (including some Crown corporations), portfolio managers, financial funds and insurance companies.

Recently released data reveal that debt financing to businesses grew substantially between 2000 and 2008 from \$348 billion to \$534 billion (53-percent increase). As of 2010, outstanding debt to businesses was \$489 billion.

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ANGEL GROUP INVESTMENT in Canada

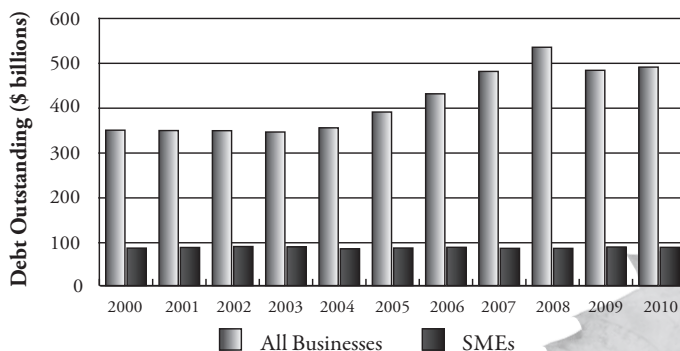
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Survey results also showed the decline in business debt financing that occurred in 2009 following the economic recession. As shown in Figure 2, outstanding debt to businesses decreased by almost 10 percent between 2008 and 2009. A slight reversal was observed in 2010 as outstanding balances increased by about 1.5 percent. Outstanding balances to small and medium-sized enterprises (SMEs) remained fairly stable from 2000 to 2010, increasing slightly (3.7 percent) in 2009.

Although not shown in Figure 2, tightening credit markets were most apparent in the operating segment of the market, where outstanding balances decreased by 27 percent in 2009 compared with a 2.1-percent decline in the term product segment. Businesses in Ontario and Alberta felt the effects of the crisis/recession most (with outstanding balances declining by 13 percent and 12 percent respectively), whereas businesses in Quebec felt the effects least (2-percent decline).

For more information on the *Survey of Suppliers of Business Financing* and to access survey data, visit the SME Financing Data Initiative website (www.sme-fdi.gc.ca/surveys).

Figure 2: Business Debt Financing in Canada, 2000 to 2010



Source: Statistics Canada, *Survey of Suppliers of Business Financing*, 2000–2010; and Industry Canada.

Note: 2000–2007 data have been recalculated to ensure comparability with 2008–2010 figures following a change in survey methodology.

While angel investors represent an important source of risk capital and support for early-stage and start-up enterprises, the fact that they have traditionally invested informally has made measuring their activity difficult. However, the recent emergence of an increasingly organized angel market in which formal angel groups have become more prominent has provided an opportunity to accurately measure at least one segment of the market. With this in mind, Canada's National Angel Capital Organization (NACO) has completed a study entitled *Investment Activity by Canadian Angel Groups: 2010 Report*. The study, funded in part by Industry Canada, surveyed angel group members of NACO on the topics of group characteristics and investment activity with the objective of capturing the main features of this segment.

The study showed that the majority of the groups surveyed had been created in the past three years. This may, in part, be explained by various government programs recently launched to stimulate angel network activity. The vast majority (90 percent) of reported investments were new, as opposed to follow-on, with the majority taking place in Ontario (61 percent). Amounts invested by angels in a single deal tend to cluster in the \$100 000 to \$999 000 range. Angels invested in a wide range of industries, but with a strong technology focus. The greatest concentrations of investments were in the information and communications technology sector (43 percent), followed by life sciences (18 percent) and clean tech (16 percent).

To access the report, visit the National Angel Capital Organization's website at www.angelinvestor.ca/.

RECENT *Development*

OECD REPORT: *Entrepreneurship at a Glance, 2010*

In June 2011, the Organisation for Economic Co-operation and Development (OECD) released a report entitled *Entrepreneurship at a Glance, 2010*. The report provides indicators of entrepreneurship collected through the OECD–Eurostat Entrepreneurship Indicators Programme (EIP) and is a more comprehensive version of the OECD’s previous publication entitled *Measuring Entrepreneurship, A Collection of Indicators*. The Small Business Branch of Industry Canada has been active in the development of these indicators and has contributed to both of these publications. This new publication

presents consistent data on firm start-ups, firm survival and high-growth firms, including gazelles (young high-growth companies). In addition, indicators on determinants of entrepreneurship in the areas of access to finance, regulatory framework and culture are included in the report. Finally, special sections on women and migrant entrepreneurship have been added. This year, a record number of 25 countries have been included in the report. The report is available at www.oecd.org.

Small Business Quarterly Small Business Branch

The *Small Business Quarterly* (SBQ) provides a quick and easy-to-read snapshot of the recent performance of Canada’s small business sector. The SBQ is published by the Small Business Branch of Industry Canada.

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UPCOMING *Event*

SMALL BUSINESS WEEK 2011

Launched in 1981 by the Business Development Bank of Canada, the annual *Small Business Week* pays tribute to Canada’s entrepreneurs. The event provides entrepreneurs with an opportunity to share success stories, exchange ideas and network with leading business experts. This year’s events will be held across the country from October 16–22 and the theme will focus on “Power Up Your Business. Invest. Innovate. Grow.”

For more information, visit www.bdc.ca/EN/about/events-sponsorships/small_business_week/Pages/sbw.aspx.