

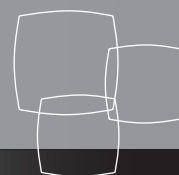


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SMALL BUSINESS QUARTERLY

VOLUME 11, No. 2, AUGUST 2009

PERFORMANCE

Trends

- Job creation in Canada reported a decrease of 0.8 percent or a loss of 109 650 jobs in the first quarter of 2009 compared with the same period in 2008. Small and medium-sized businesses¹ contributed 84.2 percent and 42.4 percent to job losses, respectively, while large firms minimized the losses by creating 29 230 jobs, an increase of 26.7 percent.
- A grand total of 2 314 563 business establishments² existed in Canada by December 2008, a slight increase of 0.4 percent from December 2007. Small businesses accounted for 97.8 percent of employer establishments.
- The number of incorporated self-employed workers without paid help in 2009 rose to 494 000, an 8.3-percent increase from 2008. Unincorporated self-employed workers without paid help grew by only 2.0 percent to 1 302 000 over the same period.
- The five-year survival rate for Canadian knowledge-based venture capital funded small and medium-sized enterprises (SMEs) was 57 percent compared with a five-year survival rate of less than 55 percent for all SMEs.

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 For an individual business establishment 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 \$30 000, or be incorporated and have filed a federal corporate income tax return at least once in the previous three years. Some business establishments can belong to the same company, and each company owns at least one business establishment.

SMALL BUSINESS PERFORMANCE

through Changes in Economic Conditions

As the decline in Canadian economic activity becomes more pronounced, increased attention is directed towards understanding how enterprises are affected and how they perform during challenging economic times. While all businesses, whether small, medium-sized or large, are impacted by economic recessions and slowdowns, their relative performance is not known.

Industry Canada has undertaken an analysis of how businesses of different sizes are affected by changes in economic conditions in terms of the number of active businesses and employment. Previous recessions and slowdowns are analyzed in an attempt to draw significant conclusions on the relative performance of small, medium-sized and large firms.

Number of Businesses by Firm Size

Data from Statistics Canada's *Business Register* allow observations of the number of businesses by firm size, starting from 1988. These data are used to examine how the number of businesses have fluctuated during recessions and slowdowns over the past 20 years. As illustrated in Figure 1, periods of interest include the recession in the early 1990s, slowdowns in 1996 and 2001, and the current economic downturn that started in 2008.

Statistical analysis reveals that the number of small businesses (fewer than 100 employees) is less sensitive to changes in gross domestic product (GDP)

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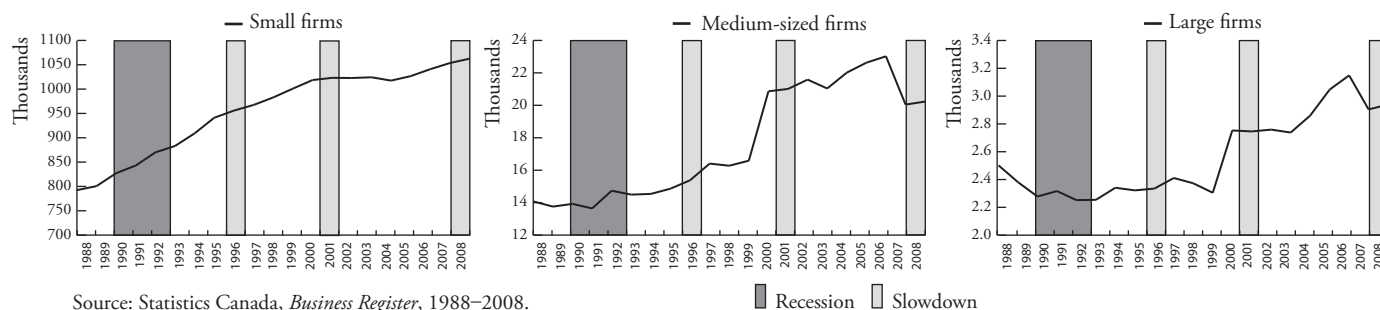
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growth than medium-sized and large businesses. Over the past 20 years, the number of small businesses has been growing during periods of economic growth as well as during economic downturns. Growth rates, however, have been lower over the last decade.

The populations of medium-sized (100 to 499 employees) and large (500 employees or more) businesses exhibited very different growth patterns than small businesses. The number

of large businesses decreased during the recession in the early 1990s, grew significantly in 1999 and between 2003 and 2006, and declined afterwards. Medium-sized firms were also impacted by the 1990 recession, and grew afterwards until 2006. In addition, medium-sized firms experienced considerable changes during the past three years when the pool of businesses shrunk significantly as GDP growth decreased.

Figure 1: Number of Businesses by Firm Size, Canada, 1988–2008



Employment by Firm Size

Employment by firm size was compared with GDP growth over the period starting in the first quarter of 1997 until the second quarter of 2009. Analysis over a longer time frame was limited due to data constraints. Table 1 illustrates the changes in private employment by firm size over four periods of low annualized GDP growth that are of particular interest: Q4 2000 to Q3 2001 (0.7 percent), Q1 2003 to Q3 2003 (0.8 percent), Q4 2007 to Q3 2008 (0.3 percent) and Q4 2008 to Q2 2009 (-3.9 percent).¹

Statistical analysis reveals that employment in businesses with fewer than 100 employees is less responsive to slow GDP growth than in medium-sized and large firms. Since the beginning of the current economic difficulties in the fourth quarter of 2008 until the second quarter of 2009, all small businesses experienced a 0.6-percent decrease in employment (with firms with less than 20-employees faring a bit worse). Employment has fallen the most in large businesses during the current economic climate, decreasing by 15.6 percent, while employment in medium-sized businesses has decreased by 7.7 percent.

Table 1: Private Employment by Firm Size and GDP Quarterly Annualized Growth Rates, Canada

Firm Size (Number of Employees)	Period			
	Q4 2000–Q3 2001	Q1 2003–Q3 2003	Q4 2007–Q3 2008	Q4 2008–Q2 2009
All Firms	2.5%	1.1%	0.9%	-3.7%
<20	0.8%	2.8%	1.6%	-0.7%
20–99	3.6%	-2.3%	0.6%	-0.4%
Small (0–99)	2.1%	0.4%	1.1%	-0.6%
Medium (100–499)	2.9%	2.3%	0.1%	-7.7%
Large (500+)	3.8%	4.1%	0.7%	-15.6%
GDP Annualized Growth Rate	0.7%	0.8%	0.3%	-3.9% ¹

Source: Statistics Canada, Industry Canada calculations.

¹ This rate was calculated using the GDP projection for the second quarter of 2009 from Global Insight.

¹ The *Labour Force Survey* (LFS) allocates businesses by establishment size. Other surveys, such as the *Survey of Employment, Payrolls and Hours* (SEPH), allocate businesses by enterprises. Therefore, a firm, with less than 100 employees, within an enterprise, will be counted as a small firm establishment in the LFS, but will be accounted for as an enterprise in the SEPH data, given it is an establishment within an enterprise.

BUSINESS *Establishments*

According to Statistics Canada's *Business Register*, there were 2 314 563 business establishments in Canada at the end of 2008 (Table 2), a decline of 1.2 percent compared with December 2007. The number of businesses in the "indeterminate" category¹ fell by 31 387, a drop of 2.5 percent from the previous year. The number of employer businesses (those with at least one employee) grew by 3921, reaching 1 080 968 in December 2008, an increase of 0.4 percent from 2007.

In December 2008, small businesses accounted for 97.9 percent of employer businesses, with the distribution by firm size essentially the same as December 2007, medium-sized businesses accounted for 1.9 percent and large businesses accounted for 0.3 percent.

At the provincial level, Ontario posted the strongest year-over-year increase in the number of employer businesses at 1.6 percent. Alberta and British Columbia were tied for

second place with increases of 0.6 percent each. The number of employer businesses fell everywhere else in Canada, with Nunavut experiencing the sharpest decline at 4.7 percent, followed by Newfoundland and Labrador at 4.5 percent.

In December 2008, most business establishments were located in Ontario (37.6 percent) and Quebec (19.8 percent). The Western provinces accounted for 36.8 percent of business establishments and the Atlantic provinces for 5.6 percent. The distribution of business establishments by province was similar to that in December 2007.

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.

Table 2: Business Establishments by Size of Employment and Province or Territory, December 2008

Province or Territory	Grand Total	Indeterminate ¹	Total	Year-Over-Year Change (%) (2007–2008)	Number of Employees							
					1–4	5–9	10–19	20–49	50–99	100–199	200–499	500+
Newfoundland and Labrador	25 506	8 335	17 171	-4.5	9 700	3 817	1 875	1 137	338	160	94	50
Prince Edward Island	10 120	4 239	5 881	-4.3	3 085	1 321	761	477	140	56	30	11
Nova Scotia	52 836	22 753	30 083	-1.7	16 593	6 245	3 538	2 317	746	402	170	72
New Brunswick	41 568	16 049	25 519	-1.6	14 029	5 306	3 101	2 015	583	291	128	66
Quebec	458 030	221 873	236 157	-0.6	121 505	52 619	30 350	20 284	6 537	2 838	1 355	669
Ontario	869 651	498 118	371 533	1.6	204 355	73 193	44 883	29 167	10 575	5 300	2 802	1 258
Manitoba	74 459	39 697	34 762	-0.8	17 436	7 544	4 732	3 093	1 102	472	264	119
Saskatchewan	90 181	53 393	36 788	-0.1	20 249	7 779	4 571	2 782	825	342	164	76
Alberta	331 405	181 439	149 966	0.6	88 627	27 133	16 942	10 617	3 691	1 729	878	349
British Columbia	354 695	185 273	169 422	0.6	95 987	34 020	20 268	12 277	3 969	1 718	833	350
Yukon	2 770	1 217	1 553	-1.3	760	364	212	150	31	21	12	3
Northwest Territories	2 534	985	1 549	-4.1	543	365	302	223	69	33	12	2
Nunavut	808	224	584	-4.7	145	146	131	104	38	13	6	1
Canada Total	2 314 563	1 233 595	1 080 968	0.4	593 014	219 852	131 666	84 643	28 644	13 375	6 748	3 026
Canadian Share of Employer Businesses			December 2008		54.9%	20.3%	12.2%	7.8%	2.6%	1.2%	0.6%	0.3%
			December 2007		54.7%	20.3%	12.2%	7.9%	2.7%	1.3%	0.6%	0.3%

Source: Statistics Canada, *Business Register*, December 2008.

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.

JOB *Creation*

Between the first quarter of 2008 and the first quarter of 2009, while large firms created 29 231 jobs, small firms lost 92 368 jobs and medium-sized firms lost 46 511 jobs, resulting in an overall job loss of 109 650 jobs (Table 3).¹ These figures correspond to a decrease in jobs by 1.7 percent and 2.2 percent among small and medium-sized firms, respectively, and an increase in job creation by 0.4 percent among large firms.

Of the 109 650 jobs lost, small and medium-sized businesses contributed 84.2 percent and 42.4 percent to job losses, respectively, while large firms reduced overall losses through job growth of 26.7 percent.

Provincially, the Northwest Territories recorded the largest job growth in Canada at 8.1 percent, 1 974 jobs, and

a small business employment loss of 3.1 percent. Nunavut documented the greatest employment loss with 8.9 percent, a 934 job loss; however, Nunavut also had the largest small business employment in Canada at 2.8 percent.

Ontario's overall job loss was 1.6 percent and it recorded a small business employment loss of 2.0 percent. Quebec recorded 0.2 percent growth in employment, but small businesses shed 0.3 percent of their jobs. Small business employment loss was greatest in Yukon (-6.2 percent).

¹ Data collected from the *Survey of Employment, Payrolls and Hours*, July 2009, which is different from the data used in "Employment by Firm Size" of the feature article "Small Business Performance through Changes in Economic Conditions." See footnote 1.

Table 3: Year-Over-Year Change¹ in Payroll Employment² by Province and Territory, 1st Quarter 2009

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 2008	2.1	298 728	4.4	14.3	11.2	10.2	40.1	4.4	5.3	9.7	50.2
Q2 2008	2.1	301 763	6.9	9.7	11.6	9.7	37.9	2.2	10.6	12.7	49.4
Q3 2008	1.6	232 081	2.8	1.9	11.0	11.4	27.0	-0.4	13.9	13.6	59.4
Q4 2008	1.0	142 488	-1.1	7.5	6.2	3.7	16.3	0.0	5.4	5.4	78.3
Q1 2009	-0.8	-109 650	16.0	30.1	10.6	27.6	84.2	36.4	6.0	42.4	-26.7
Province and Territory			Growth Rate (%)								
Newfoundland and Labrador	1.9	3 226	-3.2	0.7	1.5	3.2	0.5	10.9	25.9	14.3	0.9
Prince Edward Island	0.2	107	-4.4	1.5	0.2	-11.5	-2.3	-22.6	-31.6	-25.2	10.1
Nova Scotia	-0.3	-974	-4.2	-3.3	0.5	-3.3	-2.5	-1.1	17.6	4.4	0.1
New Brunswick	-0.8	-2 321	-3.4	-0.3	-1.1	-1.2	-1.3	-3.2	5.4	-0.6	-0.5
Quebec	0.2	7 981	-1.0	-1.2	1.0	-0.1	-0.3	-1.4	-0.6	-1.2	1.3
Ontario	-1.6	-90 144	-1.4	-1.4	-1.3	-4.5	-2.0	-4.1	-2.0	-3.5	-0.7
Manitoba	-0.7	-3 580	-2.4	-1.1	-1.4	1.0	-0.9	0.4	7.3	2.4	-1.3
Saskatchewan	1.6	6 780	-4.1	0.8	3.9	0.9	0.7	4.4	-6.2	1.0	2.5
Alberta	0.2	3 571	-2.3	-1.7	-1.3	-1.4	-1.7	-3.3	-5.6	-4.0	3.4
British Columbia	-1.9	-35 066	-2.0	-4.0	-3.3	-5.0	-3.6	-2.4	0.3	-1.7	0.0
Yukon ³	-1.5	-269	2.5	-8.7	-7.7	-7.6	-6.2	13.4	—	—	—
Northwest Territories ³	8.1	1 974	-4.1	-4.6	-1.4	-1.8	-3.1	12.4	—	—	—
Nunavut ³	-8.9	-934	-6.5	-3.9	-4.6	24.2	2.8	-10.8	—	—	—
Canada Total	-0.8	-109 650	-1.8	-1.7	-0.8	-2.6	-1.7	-2.6	-1.1	-2.2	0.4

Source: Statistics Canada, *Survey of Employment, Payrolls and Hours*, July 2009.

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.

SELF-*Employment*

According to the latest figures of Statistics Canada's *Labour Force Survey*, the number of self-employed workers increased by 40 000 to 2.633 million from 2008 to 2009 (Table 4), an increase of 1.5 percent. This contrasts with the decrease of 1.8 percent in the number of employees over the same period. During an economic slowdown, it is normally expected that individuals may turn to self-employment when they have difficulty finding employment.

Growth in self-employment was mostly associated with an increase in the number of self-employed without paid help. The number of incorporated self-employed without paid help grew by 8.3 percent from 456 000 to 494 000 between 2008 and 2009, while the number of unincorporated self-employed without paid help grew by only 2.0 percent, going from 1 277 000 to 1 302 000. In contrast, incorporated self-employed with paid help grew by only 3000 (a 0.5-percent increase) and unincorporated self-employed with paid help fell by 19 000, a 7.7-percent drop.

The share of self-employed individuals varies across different industries. In 2009, the largest shares of self-employed individuals were in the management industry (19 percent) followed by the trades, transport and equipment operators (18 percent). The category with the lowest share of self-employed individuals belonged to occupations unique to processing, manufacturing and utilities (2 percent), with 44 000 self-employed individuals.

Similarly, there were share fluctuations among employed individuals. The category with the largest share of employed individuals was in the sales and service occupations (26 percent), followed by the business, finance and administration category (20 percent). The primary sector had the smallest share of employed individuals (1 percent), with 209 000 employed.

In some sectors there were opposite trends in self-employment and employment segments of the labour market. While the number of self-employed in the art, culture and recreation and sport category increased by 13.9 percent from 2008 to 2009 (the third largest increase), the number of employees in that sector decreased by 5 percent. Similarly, self-employment increased in the natural and applied sciences; the sales and services occupations; and the occupations unique to processing, manufacturing and utilities while the number of employees in these sectors decreased. In management occupations, the number of employees increased while the number of self-employed managers decreased.

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BUSINESS DEVELOPMENT *Bank of Canada (BDC)*

Brief History

The BDC is a wholly-owned Crown corporation created to provide managerial and financial support to small and medium-sized Canadian businesses. The BDC was originally formed in 1944, under the name Industrial Development Bank (IDB), to help soldiers returning from World War II start their own businesses. In 1975, the IDB was transformed into the Federal Business Development Bank (FBDB) and again in 1995 into the Business Development Bank of Canada. Although the BDC has changed in name and structure, the underlying purpose for creating the bank has remained essentially the same over the years, that is, to serve the financing needs of eligible credit-worthy Canadian businesses when the market fails to do so.

Post-Recession

The recession of fiscal years 2008 and 2009 has represented two years of significant challenge for Canadian businesses. A major concern of the government has been that smaller firms have a more difficult time gaining access to financing. As smaller firms typically have less collateral and shorter credit lives than their larger counterparts, gaining access to financing has been more difficult.

Funding Commitment

In response to this challenge, the federal government has committed \$700 million to the BDC to help increase businesses' access to funds, of which \$250 million is being used to increase the BDC's term lending activities, and \$100 million is being used to set up an Operating Line of Credit Guarantee (OLCG) program. An OLCG program is similar to an insurance program that protects financial institutions from non-payment (up to 80 percent) in the event that clients default on their lines of credit. This essentially allows lenders to transfer default risk from their loan portfolios to the BDC, which should increase lenders' willingness to lend funds to businesses, or at least discourage them from lending fewer funds.

To qualify for coverage under the OLCG program, a business must satisfy the following criteria:

- The business must be commercially viable
- The business must have an operating line of credit of between \$400 000 and \$40 million that can be secured by short-term assets, such as inventories and accounts receivable
- The business must satisfy the eligibility criteria set by its financial institution

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Table 4: Self-Employment Workers and Employees by Occupation, Canada, First Quarter for 2008 and 2009

Occupation	Employees				Self-Employed*				Incorporated				Unincorporated			
			Percent	2009			Percent	2009	With Paid Help		Without Paid Help		With Paid Help		Without Paid Help	
	2008	2009	Change	Share	2008	2009	Change	Share	2008	2009	2008	2009	2008	2009	2008	2009
	(Thousands)		(%)		(Thousands)		(%)		(Thousands)							
Business, finances and administration	2 823	2 769	-1.9	20	287	280	-2.4	11	63	56	65	63	20	20	132	135
Health occupations	866	907	4.7	7	137	147	7.3	6	39	40	12	16	30	25	56	66
Management occupations	1 008	1 031	2.3	7	498	488	-2.0	19	230	231	67	75	67	53	134	128
Natural and applied sciences	1 057	1 028	-2.7	7	142	152	7.0	6	26	27	50	58	6	7	59	60
Art, culture, recreation and sport	340	323	-5.0	2	180	205	13.9	8	9	11	29	34	5	7	137	153
Social science, education and government	1 354	1 382	2.1	10	158	186	17.7	7	19	22	17	20	15	22	107	123
Primary industry	220	209	-5.0	1	273	249	-8.8	9	40	40	50	44	27	25	147	133
Sales and services occupations	3 643	3 613	-0.8	26	412	418	1.5	16	56	57	53	70	32	27	267	262
Trades, transport and equipment operators	2 027	1 941	-4.2	14	469	465	-0.9	18	95	92	104	104	39	37	228	230
Occupations unique to processing, manufacturing and utilities	859	738	-14.1	5	37	44	18.9	2	12	18	10	10	5	3	10	13
Total, all occupations	14 196	13 940	-1.8	100	2 593	2 633	1.5	100	590	593	456	494	246	227	1 277	1302

*Includes unpaid family workers.

Source: Statistics Canada, *Labour Force Survey*, July 2009.

BUSINESS *Financing*

Venture Capital-Backed Firms Have Higher Survival Rates

Small and medium-sized enterprises (SMEs) are important contributors to Canada's economic activity. Their survival rates, and an understanding of the factors that impact those rates, have long been a research area of interest to academics and policy-makers.

Canadian SMEs have posted five-year survival rates of less than 55 percent between 2001 and 2006.¹ When considering the subset of SMEs focused on innovation and research and development (R&D), which are considered to be riskier

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endeavours, one may expect their five-year survival rates to be even lower. However, an internal Industry Canada analysis of Canadian knowledge-based venture capital (VC) funded SMEs between 1999 and 2006² showed the opposite. The survival rates for VC-backed firms were slightly higher, with 57 percent of these firms surviving for at least five years after receiving their first round of VC financing. This suggests that VC has a positive, albeit small, impact on the survival prospects of innovative and R&D intensive SMEs.

Similar results have been reported in the United States, where VC-backed firms have a five-year survival rate of 77 percent compared with 49 percent for non-VC-backed firms.³ VC funds not only provide financing but also business support, access to networks and access to managerial talent, which can possibly affect the performance of their portfolio companies.⁴ VC funds are also known to invest in emerging technologies and recognize technological trends, selectively choosing technologies that have potential for accelerated growth and adoption.

In Canada, many of the VC-backed firms that were analyzed still rely on venture capital financing. Most of these firms were still in the early stages of their life cycle and continue to receive VC financing. Additional analysis of the profitability and self-sustainability of these companies is required in order to come to a definitive conclusion about the impact that VC financing has on the true survival rates of firms.

¹ Industry Canada, *Key Small Business Statistics*, January 2009.

² This data set consists of Canadian companies that received at least one round of venture capital funding between 1999 and 2006.

³ Manju Puri and Rebecca Zarutskie. *On the life cycle dynamics of venture-capital- and non-venture-capital-financed firms*. National Bureau of Economic Research, NBER Working Paper 14250.

⁴ Bottazzi, Laura, Da Rin, Marco and Hellmann, Thomas, 2005. *Human Capital in the Knowledge-Based Firm: Evidence from Venture Capital*.

BUSINESS DEVELOPMENT *Bank of Canada (BDC)*

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The remaining \$350 million is being used to increase the BDC's venture capital (VC) investments. VC represents a form of private equity investment that does not trade on an organized stock exchange. It is generally used to fund young small and medium-sized businesses that have significant growth potential (typically associated with positive net sales and greater assets).

Of the \$350 million, \$260 million is being provided to the BDC's existing venture capital businesses (those that have the highest likelihood of success), and to new early-stage and late-stage technology companies.¹ The remaining \$90 million is being invested directly in various VC funds.

Finalizing all VC investments, term loans and OLCGs will take some time. Although the effect of these initiatives will be substantial, their full impact remains to be determined.

In summary, of the \$700 million that has been committed to the BDC:

- \$250 million is being used for term lending activities
- \$100 million is being used for setting up an OLCG program
- \$350 million is being used to increase venture capital investments
 - \$260 million is being provided to existing VC businesses
 - \$90 million is being invested in other VC funds

For more information on the BDC, please visit www.bdc.ca.

¹ An early-stage firm is defined as a firm that has begun initial marketing and related development and needs financing to achieve full commercial production and sales. A late-stage firm is defined as an established or nearly established company that needs capital to expand its productive capacity, marketing and sales.

UPCOMING *Events*

CCSBE:

30th Annual Conference

The Canadian Council for Small Business and Entrepreneurship will be hosting its 30th Annual Conference tailored to entrepreneurs, practitioners, policy-makers and academics at the Ted Rogers School on Management in Toronto, Ontario, October 16–18. This year's theme will focus on the "Commercialization of Innovation: Fuelling Growth in Canada."

For more information, visit www.ryerson.ca/ccsbe/.

SMALL BUSINESS WEEK 2009

Originally created by the Business Development Bank of Canada (BDC) to provide business management training sessions, the annual *Small Business Week, 2009* will be held during October 18–24 across Canada. This year's theme will focus on "Your Dream, Your Business, Your Passion" with the Young Entrepreneur Awards being held the night of October 20 in Ottawa, Ontario.

For more information, visit www.bdc.ca/en/about/events/small_business_week/default.htm.

SIXTH ANNUAL STRATEGIC INVESTORS' *World Summit*

Attracting investors and investing communities worldwide is the purpose of the Strategic Investors' World Summit. This is comprised of three forums: a Public Policy Forum, Institutional Investors Forum and the Main Summit. The World Summit will be held at the Fairmont Le Château Frontenac Hotel in Québec City, Quebec, October 19–20.

For more information, visit www.navcs.com.

***Small Business Quarterly* Small Business and Tourism 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 and Tourism Branch of Industry Canada.

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Cat. No. C12-18/11-2E-PDF

ISSN 1205-9099

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