Industry Canada Industrie Canada

Canada

www.ic.gc.ca/SMEquarterly

SMALL BUSINESS QUARTERLY

VOLUME 13, No. 4, FEBRUARY 2012

EMPLOYMENT RECOVERY:

A Comparison of the Last Three Recessions

As employment levels return to those seen prior to the recession, it is an opportune time to compare employment recovery from the most recent recession with the two that preceded it. Using Statistics Canada's *Labour Force Survey*,[1] Figure 1 illustrates private sector employment (excluding self-employment) recovery levels following the last three recessions.

As shown, the 1981–1982 recession, although lasting only six quarters (Q3 1981 to Q4 1982), was marked by a sharp and significant decrease in private sector employment. In total, close to 640 000 private sector jobs were lost in the trough. Private sector jobs began to recover moderately but steadily following the trough, reaching pre-recessionary levels 11 quarters after the trough.

The 1990–1992 recession was more prolonged, lasting 10 quarters (Q2 1990 to Q3 1992), and was just as severe as the 1981–1982 recession in terms of the number of job losses; however, unlike after the previous recession, job losses continued for an additional three quarters. Consequently, from peak to trough, a total of 647 000 jobs were lost. Private sector employment began to increase slowly by the third quarter of 1993; however recover was slow. It took 15 quarters after the trough for private sector employment to return to pre-recessionary levels. This lag led to this post-recessionary period to be dubbed the "jobless recovery."

The 2008–2009 recession lasted only three quarters (Q4 2008 to Q2 2009), but experienced a more rapid initial decline in private sector employment than the two previous recessions.

(*continued on page 2*)

PERFORMANCE

Trends

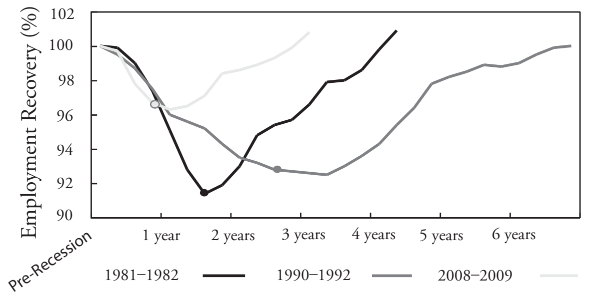
- **The 2008–2009 recession was less severe for private sector employment than the 1981–1982 and 1990–1992 recessions. Small businesses,[1] although losing the most jobs during the last recession, quickly regained jobs and recently surpassed pre-recessionary employment levels.**
- **Year-over-year employment in Canada increased by 1.3 percent (191 849 jobs) in the third quarter of 2011. Small business employment grew by 0.5 percent, contributing 28 777 jobs.**
- **Self-employed males today typically work more hours per week than self-employed females, but historical data indicate that the gender gap in average usual hours worked is narrowing.**
- **Trends in operating profit margins and return on equity indicate that performance among small businesses increased steadily from 2002 to 2006. Since then, these ratios have been stable, with slight declines occurring during the 2008–2009 economic recession.**
- **Between 2000 and 2010, total capital investment in Canada's accommodation sector is estimated to have reached $25.7 billion. Concerns of hotel lenders include an oversupply of products and an inability to raise room rates because of stiff competition within the industry.**
- **On average, Canada's top 200 fastest growing businesses grew by 1464 percent in terms of revenues between 2005 and 2010. Of these high-growth companies, 95 percent were small and medium-sized enterprises.**

[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.

Contents

(*continued from page 1*)

Figure 1: Post-Recessionary Private Sector Employment Recovery (seasonally adjusted)



Source: Industry Canada calculations based on Statistics Canada's *Labour Force Survey*.
Note: ● indicates end of recession.

Nevertheless, in terms of total jobs lost and length of time to recovery, the 2008–2009 recession was less severe than the 1981–1982 and 1990–1992 recessions. Employment continued to shrink for an additional quarter after the 2008–2009 recession, but the total number of jobs lost in the trough (Q3 2009) was only 404 000 compared with 640 000 and 647 000 jobs lost during the 1981–1982 and 1990–1992 recessions respectively. Moreover, jobs began to recover quite quickly after the 2008–2009 recession, with private sector employment restored to pre-recessionary levels eight quarters after the trough.

Recent disaggregation of employment data allows for analysis by size of business during the recent recession. As shown in Table 1, small businesses (1–99 employees) in the private sector were affected most by the 2008–2009 recession in terms of total jobs lost in the trough. In their respective troughs, small businesses shed 160 000 jobs, while medium-sized (100–500 employees) and large (more than 500 employees) businesses lost 131 000 and 141 000 jobs respectively. Nevertheless, in terms of the percentage of jobs lost, large businesses were hit hardest, losing 11.8 percent of their total number of pre-recession jobs compared with 2.1 percent and 5.8 percent lost by small and medium-sized businesses respectively. In terms of recovery, small businesses fared much better than medium-sized and large businesses, returning to pre-recessionary levels only three quarters after the trough. In comparison, it took nine quarters for medium-sized businesses in the private sector to recover and large businesses in the private sector have not yet recovered.

In conclusion, the 2008–2009 recession was less severe for private sector employment than the 1981–1982 and 1990–1992 recessions. Small businesses, although losing the most jobs during the last recession, quickly regained jobs and recently surpassed pre-recessionary employment levels.

---

[1] The *Labour Force Survey* is a monthly household survey with a sample size of approximately 56 000 households.

Table 1: Post-Recessionary Private Sector Employment Recovery (seasonally adjusted)

Recession	Duration of Recession (quarters)	Job Losses (start of recession to trough): Duration of Job Losses (quarters)	Total Number of Job Losses	Job Losses as a Percentage of Total Pre-Recession* Jobs	Time to Recovery after Trough (quarters)
1981–1982 (Q3 1981 to Q4 1982)	6	6	640 000	8.6	11
1990–1992 (Q2 1990 to Q3 1992)	10	13	647 000	7.5	15
2008–2009 (Q4 2008 to Q2 2009)	3	4	404 000	3.7	8
Small (1–99 employees)		3	160 000	2.1	3
Medium-sized (100 to 500 employees)		3	131 000	5.8	9
Large (> 500 employees)		7	141 000	11.8	Not yet recovered

Source: Industry Canada calculations based on Statistics Canada's *Labour Force Survey*.
* Pre-recession is defined as the quarter prior to the official start of the recession. Total pre-recession private sector jobs (adjusted) were approximately 7 408 000 for the 1981–1982 recession, 8 584 000 for the 1990–1992 recession and 11 060 000 for the 2008–2009 recession.
Note: Small, medium-sized and large business employment reached their troughs at different times during the 2008–2009 recession. As a result, the sum of job losses by size (432 000) does not equal total job losses in the trough of the recession (404 000).

JOB *Creation*

According to the latest release of Statistics Canada's *Survey of Employment, Payrolls and Hours*, year-over-year employment in Canada increased by 1.3 percent in the third quarter of 2011 (Table 2). By firm size, employment grew faster for large (1.4 percent) and medium-sized firms (3.3 percent) during this period than the overall rate for Canada. Small firms recorded lower employment growth (0.5 percent), partly due to negative growth rates for firms with 0–4 employees and 5–19 employees.

The total number of jobs in Canada increased by 191 849 in the third quarter of 2011 compared with the same quarter in 2010. Large firms made the biggest contribution to total jobs created (47 percent), followed by medium-sized firms (38 percent) and small firms (15 percent). Although small firms contributed least to employment growth during this period, it was significantly larger than their year-over-year contribution of 0.3 percent in the second quarter of 2011.

By region, only three provinces experienced negative employment growth between the third quarter of 2010 and the third quarter of 2011: Prince Edward Island (-0.8 percent), Nova Scotia (-0.6 percent) and New Brunswick (-1.8 percent). The province

Table 2: Year-Over-Year Net Change[1] in Payroll Employment[2] by Province and Territory, 3rd Quarter 2011

	Change		% Contribution to Total Net Change (Number of Employees)								
Quarter	**%**	**Jobs**	**0–4**	**5–19**	**20–49**	**50–99**	***0–99***	**100–299**	**300–499**	***100–499***	**500+**
Q3 2010	0.7	101 905	-36.8	36.9	23.3	32.6	*56.0*	24.0	14.1	*38.1*	5.8
Q4 2010	1.2	169 782	4.3	-4.1	2.6	14.0	*16.9*	25.2	7.9	*33.2*	49.9
Q1 2011	1.4	190 211	-9.5	-1.3	14.6	11.6	*15.3*	24.2	7.4	*31.5*	53.2
Q2 2011	1.3	184 014	-8.4	-13.8	8.6	13.8	*0.3*	29.5	6.3	*35.8*	63.9
Q3 2011	1.3	191 849	-8.5	-2.6	15.0	10.9	*14.9*	27.7	10.2	*37.9*	47.2
Province and Territory						**Growth Rates (%)**					
Newfoundland and Labrador	2.3	4 612	0.4	-1.4	1.1	4.9	*0.6*	10.6	-8.1	*5.5*	2.9
Prince Edward Island	-0.8	-520	-3.3	-0.4	-1.4	0.0	*-1.0*	1.8	-25.1	*-5.3*	0.8
Nova Scotia	-0.6	-2 315	-3.1	-1.3	3.2	-1.6	*-0.4*	0.6	-5.8	*-1.3*	-0.5
New Brunswick	-1.8	-5 784	-3.4	-2.2	0.7	-5.8	*-2.3*	4.8	0.5	*3.6*	-2.8
Quebec	0.5	17 915	-3.6	-1.3	1.3	1.5	*-0.3*	1.1	0.4	*0.9*	1.2
Ontario	1.0	56 464	-0.8	0.4	1.4	1.3	*0.7*	3.4	5.1	*3.9*	0.3
Manitoba	1.1	5 904	-0.5	-0.9	2.4	-2.3	*-0.2*	6.3	-0.2	*4.4*	1.1
Saskatchewan	2.2	9 611	-1.0	1.0	2.2	2.9	*0.0*	0.2	9.9	*0.0*	2.9
Alberta	4.4	74 344	-1.0	0.6	4.8	7.5	*2.7*	5.9	6.5	*6.1*	5.3
British Columbia	1.6	30 232	-1.5	-0.3	1.5	0.8	*0.1*	5.9	1.3	*4.5*	2.4
Yukon[3]	3.7	751	-1.6	4.2	7.1	18.3	*5.9*	4.2	—	—	—
Northwest Territories[3]	1.5	412	-7.9	0.7	-10.0	9.8	*-1.5*	-17.5	—	—	—
Nunavut[3]	2.0	222	0.4	9.1	-13.0	14.9	*2.6*	-44.4	—	—	—
Canada Total	**1.3**	**191 849**	**-1.7**	**-0.2**	**1.8**	**1.7**	***0.5***	**3.4**	**3.2**	***3.3***	**1.4**

Source: Statistics Canada, *Survey of Employment, Payrolls and Hours*, December 2011.

Note: Employment by firm size differs for the *Labour Force Survey* (LFS) and *Survey of Employment, Payrolls and Hours* (SEPH). LFS allocates businesses by establishment size while SEPH, normally used in the *Small Business Quarterly*, allocates businesses by enterprises. For example, a firm, with less than 100 employees, within an enterprise will be counted as a small firm establishment in the LFS, but will be counted as an enterprise in the SEPH (a medium-sized or large enterprise).

[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 Yukon, the Northwest Territories and Nunavut are suppressed due to confidentiality restrictions, but are included in the territorial totals.

(*continued on page 4*)

(*continued from page 3*)

with the highest employment growth was Alberta (4.4 percent), followed by Yukon (3.7 percent) and Newfoundland and Labrador (2.3 percent).

Small firms in Yukon (5.9 percent) and Alberta (2.7 percent) recorded some of the highest employment growth in the regions.

Small businesses in New Brunswick reported the highest negative growth (-2.3 percent), representing close to 40 percent of the total jobs lost in New Brunswick during this period.

SELF-*Employment*

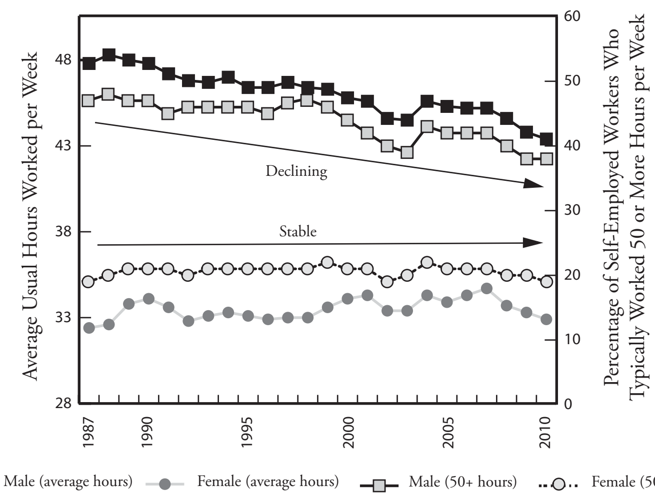
Shrinking Gender Gap in Usual Hours Worked

While self-employed males today typically work more hours per week than self-employed females, historical data from Statistics Canada's *Labour Force Survey* indicate that the gender gap in average usual hours worked is narrowing.

Between 1987 and 2010, the number of self-employed females in Canada increased from 513 300 to 933 500 (82 percent increase), yet despite the strong influx of women entering self-employment the average usual hours worked among self-employed females was notably stable at 33 to 34 hours per week over that period (Figure 2). The number of self-employed males grew from 1 185 800 to 1 736 300 (46 percent increase) over that same period; however, the average usual hours worked among self-employed males dropped steadily from a high of 48.3 hours per week in 1988 to 43.4 hours per week in 2010.

The primary reason for this drop in the average usual hours worked among self-employed males was the decline in the proportion who worked 50 or more hours per week on a regular basis. In 1988, almost half (48 percent) of self-employed males typically worked 50 or more hours per week, but by 2010 the proportion dropped to 38 percent (Figure 2). On the other hand, the proportion of self-employed females typically working 50 or more hours per week hovered steadily between 19 and 22 percent over the same period.

Figure 2: Self-Employed Workers in Canada (male versus female)



Source: Statistics Canada, *Labour Force Survey*, CANSIM, Table 282-0020.

(*continued on page 5*)

FINANCIAL PERFORMANCE OF *Canada's Small Businesses (2000–2009)*

The importance of small businesses[1] in the Canadian economy makes it desirable to assess their financial performance over time and against the aggregate economy. This can be done by decomposing their financial statements into various component ratios. This article focuses on two key profitability ratios: operating profit margins and return on equity (ROE).

Operating profit margins are calculated as operating profits[2] divided by net sales. This ratio characterizes a firm's pricing power and operating efficiency by measuring how much revenues remain after paying variable costs, but before paying financing costs and taxes to the government. Ultimately, a higher margin indicates better performance and a lower margin indicates business risk.

Return on equity is calculated by dividing net income by total equity.[3] This measure characterizes the returns that the company has earned on the capital contributed by shareholders after accounting for all operating costs, financing costs and taxes. Similar to operating profit margins, a higher ratio is indicative of better performance.

Figure 3 illustrates trends in operating profit margins and ROE for Canada's small businesses between 2000 and 2009. As shown, both ratios experienced a slight decline in 2001 following bursting of the information technology (IT) bubble in 2000. Operating profit margins then rebounded in 2003 and experienced a fairly stable increase from 3.5 percent to a peak of 6.8 percent in 2006. This was followed by relative stability through 2008 and a slight decline to 6.2 percent in 2009 as the financial crisis in the United States and the economic recession unfolded. Similarly, ROE experienced an overall increase from 7.0 percent in 2002 to a peak of 13.8 percent in 2006. This was followed by a decline to 11.5 percent in 2008 and 8.9 percent in 2009, mirroring the underlying slowdown, and eventual decline, in economic activity.

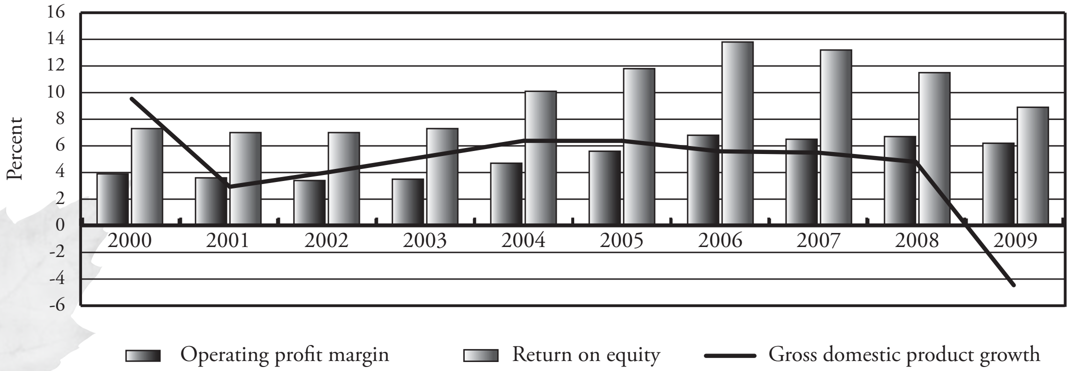
---

[1] Small businesses are defined as businesses generating less than $5 million in annual revenues.

[2] Operating profits are revenues minus the cost of goods sold, less selling, general and administrative expenses.

[3] ROE is also frequently calculated as (net income – preferred dividends)/common share capital.

Figure 3: Key Financial Performance Ratios of Small Businesses, 2000–2009



Source: Statistics Canada, *Annual Financial and Taxation Statistics for Enterprises*, 2000–2009.

BUSINESS *Financing*

Investment and Financing in the Accommodation Sector

Between 2000 and 2010, total capital investment in Canada's accommodation sector is estimated to have reached $25.7 billion, through a combination of construction of new hotel properties, upgrades and reinvestment in existing assets as well as through the acquisition of existing hotel properties,[1] according to PKF Consulting Inc., an internationally recognized consulting firm that specializes in the hospitality and tourism industries.

Over the period, hotel acquisitions represented approximately 51 percent ($13.2 billion) of the total investment, while construction of new hotel properties represented 26 percent ($6.7 billion) and reinvestment in existing assets represented $5.8 billion (23 percent). Despite the impacts of the economic downturn, new hotel development was strongest during the 2009–2010 period. This was purely due to the fact that a significant number of projects were already well under construction when the downturn hit, so both developers and lenders were committed to completing the projects.

Between 2000 and 2010, typical hotel investment in Canada was financed with approximately 60 percent debt and 40 percent equity. From 2000 to 2004, the average interest rate paid on hotel investment loans ranged between 5 percent and 6 percent, rising to between 7 percent and 8 percent from 2005 to 2008, and falling to between 5 percent and 7 percent in 2009–2010.

Tighter lending conditions for newly proposed projects stalled transaction activity in 2009–2010. In the context of industry risk, with the economic downturn and the decline in industry performance, lenders took a more conservative approach toward financing, with the majority requiring a loan-to-value ratio below 60 percent in 2009–2010 compared with 69 percent between 2005 and 2008. In many cases, this put pressure on hotel investors to pay down a portion of their existing loans at the time of renewal.

During this period, the three primary sources of debt financing for the hotel and accommodation sector were chartered banks (supplying on average 32 percent of loans), trust companies / credit unions (supplying on average 22 percent of loans) and finance companies (supplying on average 21 percent of loans). Government lending agencies (e.g., Business Development Bank of Canada) played a secondary role (supplying on average 7 percent of loans).

PKF Consulting Inc. highlighted that two major concerns facing hotel lenders in the years ahead include an oversupply of hotel products and an inability to raise room rates significantly because of stiff competition within the industry.

[1] PKF Consulting Inc., *Financing and Capital Investment in the Canadian Accommodation Sector: Trends, Issues and Considerations*, 2011.

CANADA'S FASTEST *Growing Businesses*

One category of small and medium-sized enterprises (SMEs) that has been attracting special attention is high-growth firms. These SMEs are of strategic importance to the economy as they contribute significantly to output, job creation, productivity and technological advancement. High-growth firms are distinguished from other firms because of their general intent to grow. These businesses are also more inclined to incorporate new technologies and innovative processes into their operations and to bring new ideas and methods of service delivery to market. Furthermore, high-growth firms compete largely independently from the rest of the economy, that is, even when the economy is in a recession, high-growth firms can continue to display strong growth.

To gain insight into the growth situation of Canadian SMEs, *PROFIT* magazine, a Canadian small business magazine, publishes an annual ranking of Canada's 200 fastest growing firms. Businesses are ranked based on their 5-year growth rates in

(*continued on page 7*)

(*continued from page 6*)

sales (the 2011 ranking, therefore, reflects the percentage change in sales between 2005 and 2010). Revenues are recognized and booked according to Generally Accepted Accounting Principles (GAAP). Minimum revenue requirements of $200 000 are also applied in the base year (2005) so as to not overly exaggerate growth calculations (i.e., businesses with revenue below $200 000 in 2005 are raised to $200 000). Results of the ranking are summarized in Table 3.

PROFIT determined that the average growth of the top 200 companies was substantial. On average, businesses grew by 1464 percent between 2005 and 2010 through development, production and delivery of unique and highly valued goods and services. This equated to total sales revenues of over $26.6 billion and job growth of about 56 000 jobs. Over the same period, the total economy created 723 850 jobs,[1] indicating that the top 200 companies created 7.7 percent of all jobs during this period.

Small and medium-sized businesses, defined as having 500 or fewer employees, accounted for 95 percent of the top 200 businesses. In addition, the majority of the top 200 businesses were unlisted (86.5 percent). Listed companies were predominantly on the Toronto Stock Exchange (TSX), 41 percent, or the TSX—Venture, 59 percent. Also, most businesses operated in the high-tech sector, though not exclusively, offering such products/services as in-store background music, messaging and signage; surveillance software and hardware; sales performance management software; sonar technology; and on-board retailing software for the airline sector, to name a few.

PROFIT attributes the success of these businesses to a variety of factors. One factor is the export intensity of many of the businesses. Based on the data gathered, it is estimated that about one third of Canada's 200 fastest growing firms generated 50 percent or more of their revenues from foreign sales.

Commitments to maintaining healthy balance sheets and recruiting and retaining dedicated and skilled employees are other factors, as is having sufficient access to capital. Many businesses, for instance, have increased their use of government financing through the Business Development Bank of Canada or Export Development Canada.

Another factor, perhaps the most important in explaining the success of these businesses, is that they all offer a highly valued, differentiated, and/or low-cost product/service that consumers want regardless of the state of the economy.

[1] Source: Statistics Canada, *Survey of Employment, Payrolls and Hours*, unadjusted for seasonal variation.

Table 3: Statistics on Canada's 200 Fastest Growing Businesses (2005–2010)

Average growth of top 200 businesses (%)	1 464
Highest growth business ($ revenues)	$200 000 (2005) to $144 967 000 (2010) — 72 384%
Total revenues	$26.6 billion
Average revenues per business	$16.5 million (2005), $131 million (2010)
Number of SMEs as % of total*	95%
Average number of employees (2010)	384
Number of businesses with high export orientation as % of total**	32%
Number of unlisted companies as % of total	86.5%
Number of jobs created (2005–2010)	56 000

Source: PROFIT, *PROFIT 200: Canada's Fastest Growing Companies*, 2011.
*SMEs are defined as businesses with 500 or fewer employees.
**Businesses with a high export orientation are defined as those generating more than 50 percent of sales in foreign markets.

RECENT *Developments*

ENTREPRENEURS SPEAK OUT: *A Call to Action for G20 Governments*

Recently, Ernst & Young produced a report entitled *Entrepreneurs Speak Out: A Call to Action for G20 Governments* for the G20 Young Entrepreneurs Summit, which took place from October 31 to November 2, 2011. The report uses a combination of macroeconomic indicators, business environment indicators and surveys to assess the environment of entrepreneurship in G20 countries. It highlights five key pillars needed to build a successful enterprise environment: entrepreneurship culture, education and training, access to funding, regulation and taxation, and coordinated support among the different public agencies involved in facilitating and supporting entrepreneurship within a country.

The report is available at www.ey.com/entrepreneurship-barometer.

SMALL BUSINESS FINANCING PROFILES: *Small and Medium-Sized Enterprises in Tourism Industries*

Industry Canada's financing profile on *Small and Medium-Sized Enterprises in Tourism Industries* is now available. Published by the Small Business Branch, this report presents a profile of SMEs in tourism industries and examines their differences compared with SMEs in non-tourism industries in terms of business and owner characteristics, access to financing, financing terms and conditions, and obstacles to business growth. The profile uses data from Statistics Canada's *Survey on Financing of Small and Medium Enterprises* and is part of a series of publications produced to build knowledge on financing various types of SMEs (e.g., *Women Entrepreneurs*, *Exporter SMEs* and *Innovative SMEs*).

The full report is available at www.sme-fdi.gc.ca/sbfprofiles.

UPCOMING *Event*

GLOBAL ENTREPRENEURSHIP *Congress 2012*

The Global Entrepreneurship Congress 2012 will take place March 13–15, 2012, in Liverpool, England. The Congress, run by the Kauffman Foundation, brings together global leaders, entrepreneurs and intermediary organizations from more than 100 countries. During the Congress, delegates will hear from world leaders, economists and other experts regarding programs, policies and research aimed at advancing entrepreneurship. They will also have an opportunity to gain valuable insight from successful and experienced entrepreneurs on the key elements of an environment that encourages entrepreneurial growth and is conducive to innovation.

More information about this event is available at http://gec.unleashingideas.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.

If you would like to subscribe or modify the information in your previous subscription, please make your request at www. ic.gc.ca/SMEstatistics/subscription. If you have questions or comments about the content, please send them to the editor:

Andrea Pierce
Email: andrea.pierce@ic.gc.ca
Small Business Branch
Industry Canada
235 Queen Street
Ottawa ON K1A 0H5
Tel.: 613-957-7903
Fax: 613-946-1035
Website: www.ic.gc.ca/sbresearch

Cat. No. C12-18/13-4E-PDF

ISSN 1493-664X

60992