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SMALL Business

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Q U A R T E R L Y
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PERFORMANCE *Trends*

- Between the fourth quarter of 1997 and the fourth quarter of 1998, more than 242 000 net new jobs were created in employer businesses in Canada.
- Growth in the number of employer businesses in Canada has continued its strong upward trend, reaching a total of 1 795 130 by December 1998.
- In the fourth quarter of 1998, medium-sized firms posted higher profit margins than large firms.
- Manufacturers have increased optimism for the next three months. Close to one third of manufacturers indicated that they were planning to increase production in the coming three months.
- The Bank of Canada reported that chartered bank loans to small and medium-sized enterprises (SMEs) reached \$52.5 billion in the fourth quarter of 1998, representing a 1.3 percent decline (from \$53.2 billion) from the same quarter of 1997.
- The number of self-employed workers reached 2 614 900 at the end of the first quarter of 1999, representing approximately 18 percent of the employed labour force.
- The number of business bankruptcies in the fourth quarter of 1998 was up by 8.3 percent compared with the third quarter of 1998.

DATA SOURCES FOR SMALL BUSINESS STATISTICS

Small business data are available from several information sources (which, in turn, rely on their own "sub-sources"). This issue of the *Small Business Quarterly* (SBQ) sheds some light on the various sources of data and elaborates on their differences to enhance our clients' understanding of small business statistics.

Table 1 on page 2 illustrates the major sources of data on employment and businesses. The following is intended to highlight the distinguishing features of the SBQ's major sources of information: the Survey of Employment, Payrolls and Hours; the Labour Force Survey; the Business Register; and Employment Dynamics.

Survey of Employment, Payrolls and Hours (SEPH)

The SEPH provides estimates measuring month-to-month trends of payroll employment. It distinguishes between employment by type; average weekly and hourly earnings; average weekly hours at the national, provincial and territorial levels; detailed industrial sector; and firm size.

The enterprise-based SEPH employment estimates do not include unpaid family or self-employed workers, unpaid absentees (such as workers on strike) or the working partners of incorporated businesses without employees, unlike the household-based Labour Force Survey (see next page) data.

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Labour Force Survey (LFS)

The LFS is a monthly survey of approximately 53 000 households. It covers all types of employment, including the self-employed.

Business Register (BR)

The BR includes all Canadian businesses meeting at least one of the following three criteria:

- the business has a work force for which it submits a payroll remittance to Revenue Canada;
- the business has a minimum of \$30 000 in estimated annual sales revenue; and
- the business is incorporated under a federal or provincial act.

The BR updates business accounts by employer size, industry and detailed level geography. The BR, unlike the LFS or the SEPH, does not have employment data.

Employment Dynamics (ED)

The ED provides annual data on employment, payrolls and the number of businesses with employees at the national, provincial and territorial levels. The ED is produced annually, with the most current reference year being 1996. The data are presented by size and the life status of businesses at the 1- and 2-digit levels. The data source for the ED is Revenue Canada's T4 records and covers only businesses with paid employees. Although the ED has a two-year lag, it is a good source of data on job creation by firm size.

The SBQ uses many data sources to produce information items on business profitability, business conditions, self-employment, employer businesses, business loans, business bankruptcies and general economic conditions. For job creation, we use the SEPH because it provides detailed information by industrial sector and by firm size (small vs. large enterprises), which is, naturally, important from a small business's perspective.

Table 1: Employment and Business Data from Various Data Sources

Variable (000s)	Survey of Employment, Payrolls and Hours (SEPH)	Labour Force Survey (LFS)	Business Register (BR)	Employment Dynamics (ED)
Number of Businesses				
1998	n/a	-	1 795.1	not available
1997	n/a	-	-	not available
1996	n/a	-	-	941.1
1995	n/a	-	-	936.9
1994	n/a	-	-	930.8
Total Employment				
1998	11 619.6	14 326.4	n/a	not available
1997	11 299.0	13 940.6	n/a	not available
1996	10 967.2	13 676.2	n/a	11 743.9
1995	10 876.4	13 505.5	n/a	11 412.3
1994	10 650.9	13 291.7	n/a	11 291.8
Self-employment				
1998	n/a	2 525.2	n/a	n/a
1997	n/a	2 487.9	n/a	n/a
1996	n/a	2 266.6	n/a	n/a
1995	n/a	2 135.6	n/a	n/a
1994	n/a	2 111.4	n/a	n/a
Data Source	Payroll employment only	All types, including self-employed	Establishments	Based on payroll

Chart 1: Payroll Employment in Canada by Firm Size, All Industries

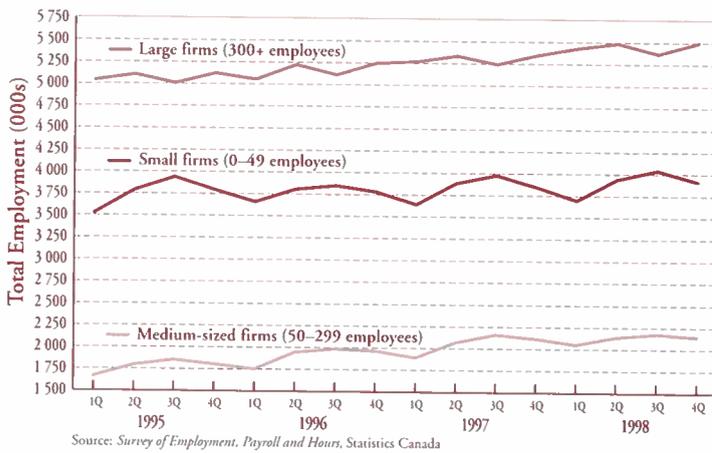


Chart 2: Payroll Employment in Canada, Large Firms vs. SMEs

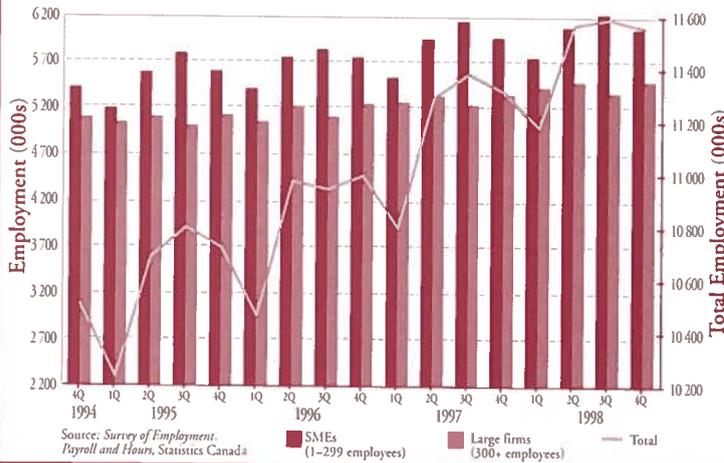


Table 2: Business Establishments by Employment Categories and Province or Territory, December 1998

Province or territory	Number of Employees								
	Indeterminate	1-4	5-9	10-19	20-49	50-99	100-199	200-499	500+
Newfoundland	5 601	11 163	3 118	1 792	1 027	315	136	79	49
Prince Edward Island	2 464	4 373	1 211	705	440	109	52	27	8
Nova Scotia	13 412	18 634	5 302	3 597	2 364	664	318	132	75
New Brunswick	11 796	16 988	4 480	3 039	1 908	558	279	125	49
Quebec	189 702	152 641	37 430	23 150	16 389	5 434	2 307	1 120	600
Ontario	284 813	181 762	55 698	39 487	28 786	9 377	4 585	2 105	960
Manitoba	30 403	19 706	6 198	4 582	3 097	1 017	421	202	104
Saskatchewan	43 555	24 945	7 636	4 848	2 607	647	336	145	67
Alberta	102 709	69 427	21 711	15 655	10 235	2 956	1 291	561	215
British Columbia	107 461	91 499	27 076	18 522	11 465	3 242	1 382	598	243
Yukon Territory	915	886	346	219	141	33	12	12	2
Northwest Territories	782	957	591	372	231	79	35	17	1
Canada	793 613	592 981	170 797	115 968	78 690	24 431	11 154	5 123	2 373

Source: Business Register Division, Statistics Canada

JOB Creation

Between the fourth quarter of 1997 and the fourth quarter of 1998, more than 242 000 net new jobs were created in employer businesses in Canada, representing a less rapid rate of job creation than that posted in the previous 12-month period, when 318 021 net new jobs were created. SMEs accounted for almost 40 percent of this increase.

Chart 1 illustrates the quarter-by-quarter variation in employment by size of firm (excluding self-employment). During this period, small firms created 67 329 net new jobs, medium-sized firms increased their payroll employment by almost 27 000 and large firms added 148 513 net new jobs. Chart 2 shows total employment and breaks it down by large firms and SMEs.

Most job creation took place in the services sector (54 percent), followed by manufacturing (24 percent), the transportation industry (14 percent) and the construction industry (13 percent). The mining sector registered a net decline (10 182) in employment.

NET EMPLOYER Businesses

Growth in the number of employer businesses in Canada has continued its strong upward trend, reaching 1 795 130 by December 1998. According to the Business Register Division's December report, 77 percent of all established businesses in Canada have fewer than 5 employees, 86 percent have fewer than

10 employees, 93 percent have fewer than 20 employees and almost 99 percent of established businesses have fewer than 100 employees (see Table 2).

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Geographically, approximately 58 percent of all established businesses are located in Ontario and Quebec, 36 percent in the Western provinces and the territories, and 7 percent in the Atlantic provinces.

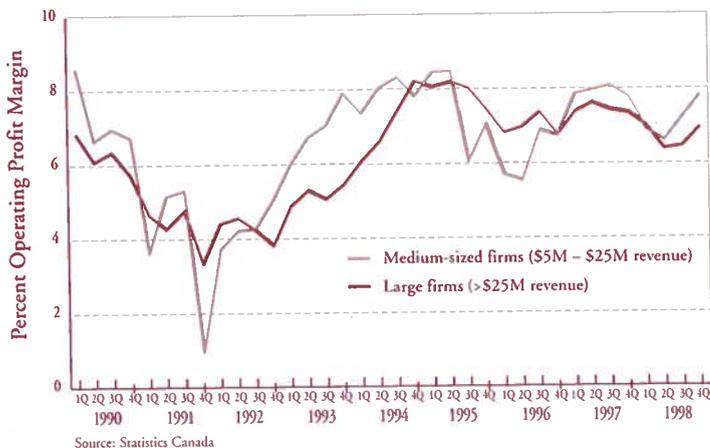
Furthermore, 13 percent of all established businesses are in retail trade, 12 percent are in business services, 11 percent are in construction, 10 percent are in other services, and 8 percent are in agricultural and related services.

BUSINESS Profitability

In the fourth quarter of 1998, medium-sized firms posted higher profit margins than large firms.

Chart 3 contrasts the quarterly profit margin position of medium-sized businesses with those of large firms. As illustrated, both medium-sized firms and large enterprises increased their profit margins during the last two quarters of 1998.

Chart 3: Business Profitability Trends (total non-financial industries)



RECENT Developments

Recent Tax Developments

Provincial Small Business Tax Rates

The 1999 round of provincial and territorial budgets is nearing completion. Several of these budgets announced changes in the corporate tax rates that apply to the first \$200 000 of active business income of Canadian-controlled private corporations (CCPCs) as follows:

British Columbia announced that the small business rate for CCPCs will be reduced from the current rate of 8.5 percent to 5.5 percent, effective July 1, 1999.

The Manitoba budget also announced phased decreases in the tax rates that apply to CCPCs. Effective July 1, 1999, the rate will fall from 9 percent to 8 percent, and then to 7 percent on January 1, 2000. The rate will then decrease by 1 percent annually until January 1, 2002, when it will reach 5 percent.

New Brunswick has proposed to reduce its small business tax rate from 7 percent to 6 percent, effective January 1, 1999.

In addition to the above measures, several provinces and territories announced measures to assist in the financing of small enterprises. Manitoba, New Brunswick and the Yukon announced various forms of equity tax credits that will provide individuals who invest in small enterprises within these jurisdictions with non-refundable tax credits at rates that range from 5 percent to 30 percent of the amount invested. Quebec and Ontario announced enhancements to their existing incentives for encouraging investments in research and development.

Personal Income Taxes

The owners of unincorporated small businesses may benefit from the additional reductions in personal income tax rates, surtaxes, or increased exemptions and tax credits that were contained in most provincial and territorial budgets.

Tax Relief for Year 2000 Costs — Last Chance

Small and medium-sized enterprises are reminded that on June 11, 1998, the federal government announced tax relief to help address the Year 2000 computer compliance problem. When first announced, the measure provided an accelerated capital cost allowance (CCA) deduction of up to \$50 000 for computer hardware and software acquired by SMEs between January 1, 1998, and June 30, 1999, to replace equipment that is not Year 2000 compliant. The deadline for the acquisition of eligible computer equipment was

(continued on page 7)

BUSINESS Conditions

Manufacturers are exhibiting increased optimism for the next three months. According to Statistics Canada's April 1999 *Business Conditions Survey*, nearly one third of manufacturers indicated that they were planning to increase production in the next quarter. The survey results also reported that this increase could be handled with approximately the same work force size.

As Chart 4 illustrates, overall, medium-sized and large manufacturers tended to be more optimistic about production expectations than small manufacturers for the second quarter of 1999.

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Chart 4: Manufacturers' Confidence: Projections of Next Quarter Production

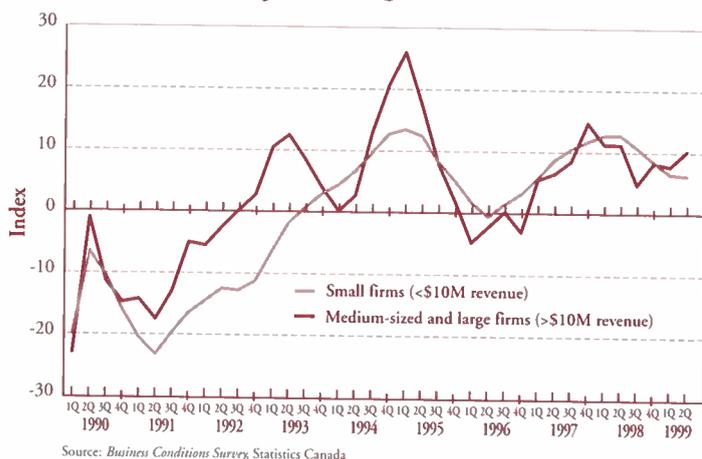
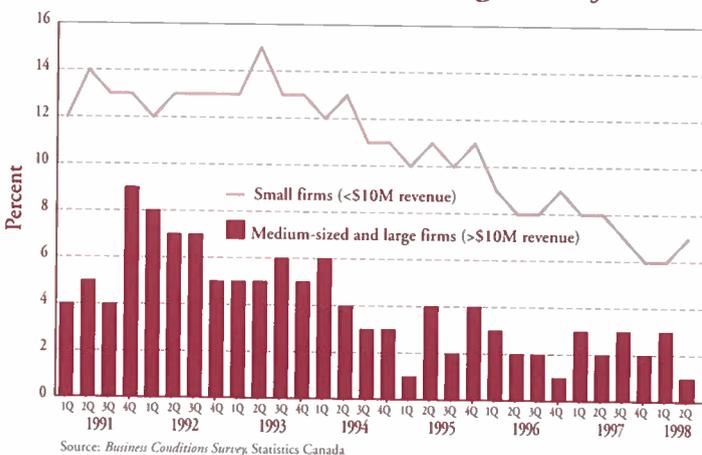


Chart 5: Working Capital Difficulties: Small and Medium-sized and Large Manufacturers



ECONOMIC Snapshot

Data as of May 12, 1999

The Canadian economy...

expanded 3.0 percent in 1998 and has posted modest output gains in the first two months of the current year.

The economic outlook...

has improved somewhat in recent months. The April consensus of private sector forecasts calls for real GDP growth of 2.8 percent this year, up from 2.1 percent in January.

The unemployment rate...

jumped half a percentage point to 8.3 percent in April, after holding steady at 7.8 percent for the first three months of 1999. This hike in the unemployment rate was the result of a sizeable increase in the number of job seekers, including a larger than usual influx of students into the labour force. Following very strong growth late in 1998, employment growth has levelled off so far this year.

CPI inflation...

stood at 1.0 percent in March, just above the 0.9 percent rate registered for all of 1998. The 1998 outcome was the lowest annual rate of inflation in 36 years (not accounting for 1994, when a sharp reduction in tobacco taxes depressed the CPI).

The bank rate...

was lowered 25 basis points by the Bank of Canada on March 31 and May 4, triggering corresponding reductions in the prime rate and other consumer and mortgage lending rates. With these most recent interest rate cuts, Canadian interest rates are once again below comparable U.S. yields across all maturities.

The Business Conditions Survey...

shows that manufacturers were generally satisfied with prospects for production and employment in the second quarter of 1999. Twice as many manufacturers expect to increase production in the coming three months than those who expect to lower production.

The Canadian dollar...

has rallied this spring after setting a record low last fall. The dollar traded above 69 cents early in May, its highest level in nearly a year, boosted by a modest recovery in commodity prices.

The merchandise trade surplus...

reached a near two-year high of \$2.7 billion in January on the strength of surging exports to the robust U.S. economy. Although the surplus subsequently slipped back to \$2.6 billion in February, it remains at a very high level.

The federal budget...

was estimated to be in balance last fiscal year (1998-99) following a surplus of \$3.5 billion in the previous year. This represents two straight years in which the federal books have been in the black, the first time this has occurred since 1951-52.

Corporate profits...

rebounded in the fourth quarter of 1998, but were still down 5.3 percent on the year as a whole. Corporate profits in resource-based industries in particular have been strongly affected by a global plunge in commodity prices triggered by the Asian financial crisis.



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The April 1999 survey also reported that problems with working capital are a relatively low priority for all firms. Only 1 percent of medium-sized and large manufacturers and 7 percent of small manufacturers reported problems with working capital (see Chart 5 on page 5). The survey also found that 7 percent of all manufacturers reported that the shortage of skilled labour is a concern.

BUSINESS Loans

The Bank of Canada reported that chartered bank loans to SMEs reached \$52.5 billion in the fourth quarter of 1998, which represents a 1.3 percent decline (\$53.2 billion) from the same quarter of 1997. Small loans to businesses declined by 4.6 percent over the last four quarters, while medium-sized loans to businesses registered a slight increase (1.3 percent) since the fourth quarter of 1997 (see Charts 6 and 7). However, large loans (\$5 million or more) to enterprises have increased by 14.3 percent over the last four quarters.

SELF- Employment

The number of self-employed workers (as defined by Statistics Canada's seasonally adjusted *Labour Force Information*, Catalogue No. 71-001) reached 2 614 900 at the end of the first quarter of 1999, representing approximately 18 percent of the employed labour force. Over the first three months of 1999, the number of self-employed workers grew by almost 25 300.

As illustrated in Chart 8, which details the percentage increase in self-employed by province from 1989 to 1998, British Columbia is in the lead with an impressive 72 percent increase in this 10-year period, followed by Alberta at 47 percent, Ontario at 43 percent and Newfoundland at 39 percent.

Chart 6: Chartered Bank Small Loans to Businesses (less than \$0.5 million)

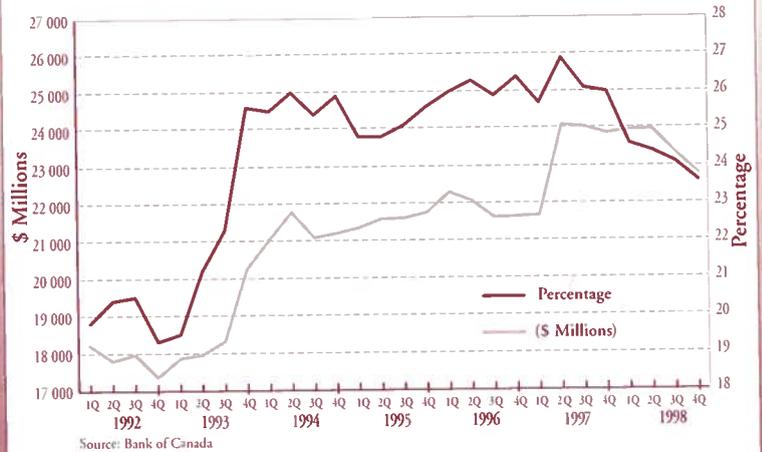


Chart 7: Chartered Bank Medium-sized Loans to Businesses (\$0.5 to \$5 million)

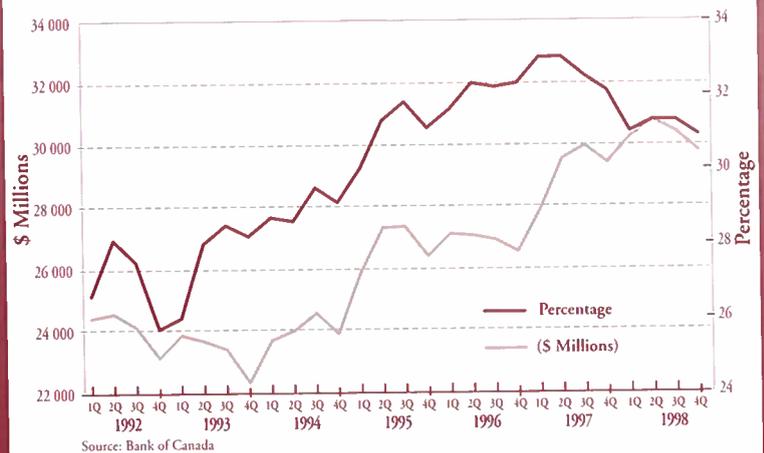
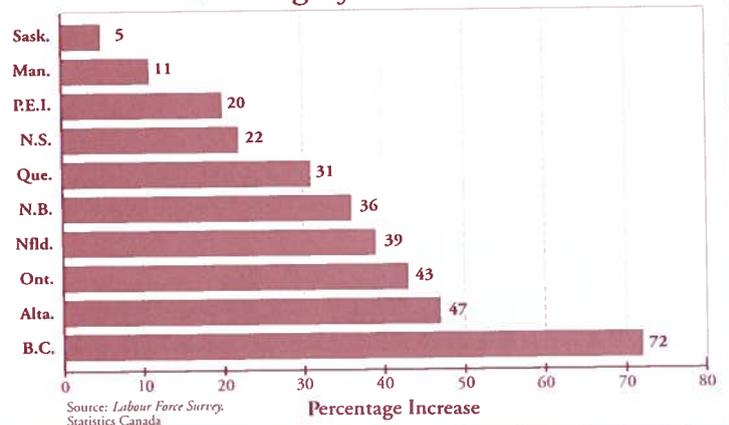


Chart 8: Percentage Increase in Self-employed by Province, Annual Averages from 1989 to 1998



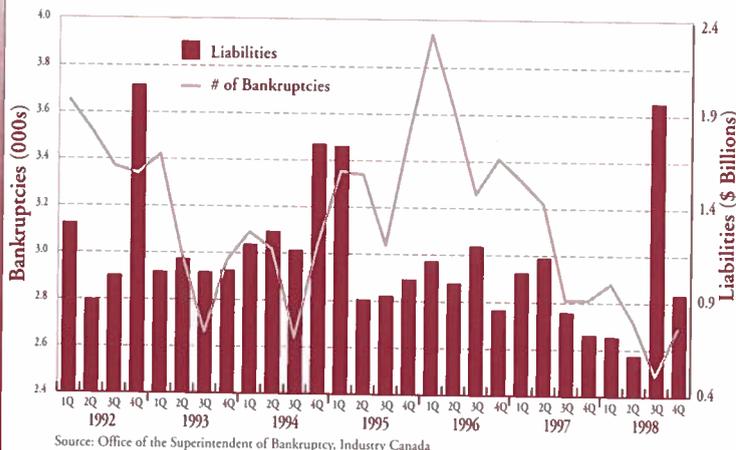
BUSINESS Bankruptcies

The number of business bankruptcies in the fourth quarter of 1998 was up by 8.3 percent (to 2693 bankruptcies) compared with the third quarter of 1998 (from 2486 bankruptcies). However, business bankruptcies were down by 21 percent when compared with the fourth quarter of 1996 when 3408 business bankruptcies were logged.

Business liabilities involved in bankruptcies were up by 29.5 percent when comparing the fourth quarter of 1998 to the fourth quarter of 1997 (a comparison of the fourth quarter of 1998 with the third quarter of 1998 is misleading because of a single large corporate bankruptcy that took place in this quarter) — see Chart 9.

The industries showing the biggest improvement in declining bankruptcy rates over the last year were the fishing and trapping industries (30 percent), transportation and storage industries (25 percent), health and social service industries (24 percent), and wholesale trade industries (24 percent), followed by the logging and forestry industries (16 percent) and the real estate operations and insurance industries (14 percent). By way of contrast, the mining, quarrying and oil exploration industries reported an increase of 45 percent in the number of bankruptcies, followed by educational services industries (12 percent).

Chart 9: Business Bankruptcies and Liabilities, 1st Quarter 1992 – 4th Quarter 1998



Source: Office of the Superintendent of Bankruptcy, Industry Canada

(continued from page 4)

recently extended to October 31, 1999. Additional information on this measure is contained in Government of Canada News Releases No. 98-057, dated June 11, 1998, and No. 99-047, dated June 2, 1999, available on the Department of Finance Web site (<http://www.fin.gc.ca>), or by contacting the Distribution Centre in Ottawa by telephone (613) 995-2855 or fax (613) 996-0518.

ISBC '99

Today's dynamic economy presents new challenges and opportunities for Canada's 2.5 million small businesses to succeed in the 21st century. That's why the Government of Canada supports innovative opportunities for networking and development, such as the 26th International Small Business Congress (ISBC '99).

The International Small Business Congress has championed the interests of small business around the world since its creation in 1974. The annual congress is designed to bring the public and private sectors together to learn new ways for small businesses to prosper in the global economy.

ISBC '99 will be held October 12-15, 1999, at the Metro Toronto Convention Centre. Cohosted by the Canadian Federation of Independent Business (CFIB), the focus of the congress is "Small Business...Smart Business." There are four sub-themes: International Smart, Technology Smart, People Smart and Entrepreneurship Smart.

"The ISBC is a great opportunity to share ideas and learn about the smartest business practices and policies from around the world," says Industry Minister John Manley. "It also provides a forum to celebrate Canadian small businesses success stories and to promote Canada as a smart place to do business."

Mr. John Bulloch, chairman and founder of the CFIB, adds, "The congress is a practical way to get involved in small business issues and ideas for the 21st century. And the new format we are featuring will place a primary focus on panel discussions, providing the opportunity for individual entrepreneurs to get involved in the congress."

More than 1000 entrepreneurs, business and trade association leaders, suppliers of SME services, government officials and academics committed to strengthening small business are expected to attend. Sixty countries will be represented. A special Business Matching Program has been established to encourage information sharing and exploration of potential business partnerships.

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Equity Financing for Small Businesses

If strategies are the "how to," then investor forums are the medium that entrepreneurs may draw on when seeking partner investors and venture capital. Investor forums provide a venue to showcase the practicality and economic worth of new ideas, inventions and even product improvements. In an investor forum, entrepreneurs tell their stories to an assembly of venture capitalists and individuals with money to invest, with the hope of identifying the source of equity financing needed for their business. These innovative gatherings are growing in popularity around the country as they actually bring results — several SMEs find needed equity financing through this approach. Several communities participating in the Canada Community Investment Plan (CCIP) have experienced considerable success with this recent phenomenon. London, Niagara Falls, Kitchener-Waterloo and Saint-Hyacinthe are but a few of those communities that continue to benefit from such activities. If you are interested in obtaining more information concerning investor forums or launching one in your community, contact Marsha Warren at (613) 952-5095 or by E-mail: warren.marsha@ic.gc.ca

SME Financial Service Charges Calculator

An SME Financial Service Charges Calculator is now available on Industry Canada's Web site *Sources of Financing*. This calculator is designed to help small businesses easily compare the monthly cost of most business bank accounts offered by the major financial institutions in Canada. The calculator is based on an interactive questionnaire. Users will enter their individual financial service usage profile. The program will use this to produce a highly tailored result by financial institution. This way entrepreneurs can compare the monthly cost of 52 small business financial services accounts according to their specific usage profile. The calculator output helps small businesses to choose the service package that best suits their needs.

Located on Industry Canada's *Sources of Financing* site (<http://strategis.ic.gc.ca/sources>), the SME Financial Service Charges Calculator complements an already extensive information base for the small business looking for financing. Using *Sources of Financing*, SMEs can locate traditional and alternative sources of financing. The site has a powerful, searchable database of financial providers; tips to improve chances of success in securing financing; and financing information about factors, leasing companies, venture capital and more. The site also offers a comprehensive tools section where users can find, among other things, an extensive reference library and the Lease or Buy Calculator that helps them decide whether to lease or buy business equipment.

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A special, half-day Entrepreneurs' Program will also be part of ISBC '99, allowing hundreds of local SMEs to benefit from this gathering of small business leaders and experts. As well, an on-site business exposition will give up to 50 exhibitors a remarkable opportunity to present themselves to this international forum.

For more details on the 26th ISBC, visit our Web site at:

<http://strategis.ic.gc.ca/isbc>

For information on congress fees, registration or hotel accommodation, please contact:

ISBC '99 Registration Secretariat

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Small Business Quarterly Entrepreneurship and Small Business Office

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 Entrepreneurship and Small Business Office of Industry Canada.

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