



Industry
Canada

Industrie
Canada

SMALL *Business*

VOL. 1, NO. 3

Q U A R T E R L Y

<http://strategis.ic.gc.ca/SSG/mi04698e.html>

PERFORMANCE

Trends

Between the first quarter of 1998 and the first quarter of 1999, almost 170 000 net new jobs were created in employer businesses in Canada — a significant decrease from the 380 116 jobs recorded during the same period in 1997-98.

More than one third of manufacturers intend to increase production in the coming three months.

Chartered bank loans to small and medium-sized enterprises (SMEs) reached almost \$54 billion in the first quarter of 1999, approximately the same amount as in the first quarter of 1998.

After the sharp gains in the number of self-employed workers in 1997-98, growth in self-employment slightly weakened in 1999, falling to 2 535 400 workers — or approximately 17.7 percent of the employed labour force — at the end of July 1999.

There were 2764 business bankruptcies reported in the first quarter of 1999 compared with 2693 bankruptcies in the fourth quarter of 1998, an increase of 2.6 percent.

LIFE CYCLES FOR CANADIAN SMEs

New Business Entries: According to Statistics Canada data, in 1996, 19 percent of all employer businesses (those with at least one payroll employee, not including self-employed) with fewer than five employees were new businesses. The rate of new business entries in this category has dropped steadily since 1984, when it was 23 percent. In contrast, the entry rate for businesses with between five and 19.9 employees was just 4 percent in 1996, reflecting a plateau of between 3 percent and 4 percent that has been maintained since 1984 (see Table 1, on page 2).

Job creation: In 1983, employer businesses with fewer than 100 employees represented 36 percent of total payroll employment. By 1996, their share had risen to 41 percent. Much of this increase can be attributed to the fact that these businesses were responsible for 68 percent of the gross job creation between 1983 and 1996.

Survival: Between 1989 and 1996, the survival rate of very small businesses (fewer than five employees) was much lower than that of larger businesses. Of businesses with fewer than five employees, 72 percent survived the first year, 44 percent were still alive after three years and only 32 percent were still in business after five years. In comparison, of businesses with between five and 99 employees, 90 percent survived the first year, 67 percent survived three years and 54 percent were still alive

(continued on page 2)

CONTENTS

<i>Job Creation</i>	2
<i>Business Size and Employment Trends</i>	3
<i>Economic Snapshot</i>	4
<i>Business Conditions</i>	5
<i>Business Loans</i>	6
<i>Self-Employment</i>	7
<i>Business Bankruptcies</i>	7
<i>Recent Developments</i>	8

Industry Canada
Library - Queen

OCT 25 1999

Industrie Canada
Bibliothèque - Queen





(continued from page 1)

after five years. In 1996, 37 percent of all employer businesses in Canada had fewer than five employees and had been active for no more than three years (see Table 2).

Table 1: Percentage of New Businesses by Size, in Canada

Size (ALU*)	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
<5	22.8	22.7	21.7	21.7	21.1	20.7	20.5	19.0	18.5	18.4	18.6	18.7	18.9
5-19.9	4.2	4.2	4.3	4.5	4.4	4.3	4.3	4.2	3.5	3.5	3.6	3.5	4.4
20-49.9	2.5	2.7	2.6	2.7	2.6	2.7	2.7	2.3	2.3	2.4	2.4	2.5	3.2
50-99.9	1.6	1.8	2.0	2.3	1.9	1.9	2.2	1.9	1.8	1.8	1.9	2.0	2.2
100-499.9	1.0	1.5	1.8	1.8	1.4	1.5	1.5	1.4	1.6	1.9	1.9	1.7	1.9
500+	0.8	0.8	1.7	1.1	0.6	0.5	0.7	0.7	0.9	0.7	1.5	2.1	1.8
All Sizes	18.8	18.6	17.7	17.8	17.2	16.7	16.5	15.3	14.8	14.8	15.1	15.3	15.7

*Average labour unit

Source: Employment Dynamics, Statistics Canada

Table 2: Survival Rates of Newly Identified Firms by Cohort

Life Status	Size in 1989 (ALU*)	Survival Rate				
		1 year	2 years	3 years	4 years	5 years
Alive in 1989	Micro (<5)					
Born in 1990	Micro (<5)	71.0	54.3	44.3	37.4	32.0
Born in 1991	Micro (<5)	72.9	55.5	45.4	38.0	32.0
Born in 1992	Micro (<5)	72.4	55.1	44.3	36.3	
Born in 1993	Micro (<5)	73.2	54.7	43.2		
Born in 1994	Micro (<5)	73.4	54.1			
Born in 1995	Micro (<5)	71.9				
Born in 1996	Micro (<5)	72.4	54.7	44.3	37.3	32.0
Alive in 1989	SMEs (5-99.9)					
Born in 1990	SMEs (5-99.9)	88.1	74.4	64.7	57.7	51.9
Born in 1991	SMEs (5-99.9)	89.7	78.2	69.0	62.2	56.8
Born in 1992	SMEs (5-99.9)	89.2	77.0	67.5	60.4	
Born in 1993	SMEs (5-99.9)	90.9	78.2	68.4		
Born in 1994	SMEs (5-99.9)	90.5	78.2			
Born in 1995	SMEs (5-99.9)	91.4				
Born in 1996	SMEs (5-99.9)	89.9	77.1	67.3	60.0	54.3

*Average labour unit

Source: Employment Dynamics, Statistics Canada

JOB Creation

Almost 170 000 net new jobs were created in employer businesses in Canada between the first quarter of 1998 and the first quarter of 1999, a significant decrease from the 380 116 jobs recorded during the same period in 1997-98. SMEs accounted for nearly 50 percent of this employment growth.

As Chart 1 indicates, small and medium-sized firms posted a slight job loss in the first quarter of 1999, with the decrease more apparent in small firms. During this period, small firms created 25 683 net new jobs, medium-sized firms increased their payroll employment by 56 283 and large firms added 86 082 net new jobs.

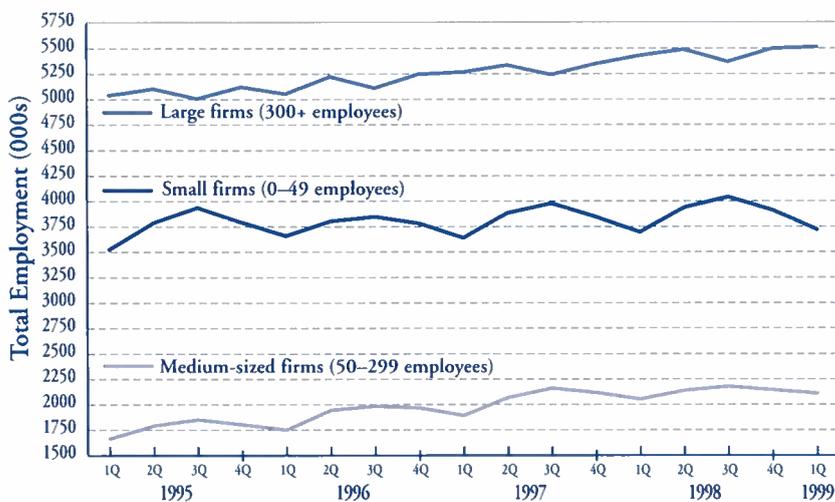
Chart 2 illustrates the quarter-by-quarter variation in employment by size of firm (excluding self-employment). It indicates that small firms experienced a net loss of jobs during the last two quarters.

The largest number of new jobs were added in the service sector (35 percent), followed by manufacturing (23 percent), trade (18 percent) and the construction industry (17.5 percent). Both the mining (10 461) and logging (3533) sectors registered a net decline in employment.

BUSINESS SIZE and Employment Trends

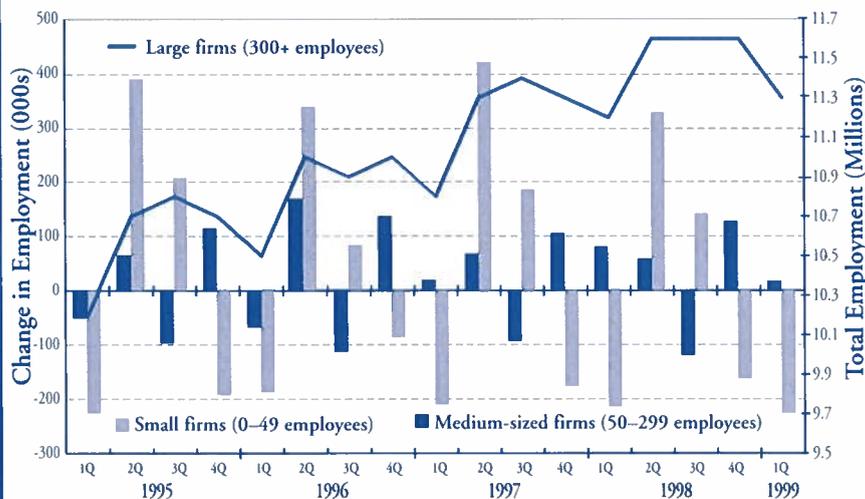
Business Size and its Change in Shares of Employment

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



Source: Survey of Employment, Payroll and Hours, Statistics Canada

Chart 2: Change in Payroll Employment
in Canada by Firm Size, All Industries



Source: Survey of Employment, Payroll and Hours, Statistics Canada

Statistics Canada's recently released *Insights on... Change in the Share of Employment by Firm Size Over the Period 1989–1996*¹ presents some interesting observations. The data for average labour units (ALUs) — calculated by dividing the wage bill by the average wage for both full- and part-time workers for that industry, province and company size — have shown interesting shifts between different sizes of firms in the period 1989–1996. Overall, there was an increase in the number of firms, a corresponding increase in the number of ALUs and a decrease in the average number of ALUs per firm. As noted in *Insights on...*, the greatest growth in employment came from firms with fewer than 20 ALUs. This is because of an increase in the numbers of these firms, as the growth in ALUs per firm has been negligible. Also interesting was the comparably significant increase in ALUs per firm among medium-sized firms (20–100 ALUs per firm), although growth was even higher for firms with 100–500 ALUs.

This phenomenon can be examined in terms of several factors, including the effects of the recession of 1991. The implication is that large firms, having achieved a certain critical mass, successfully managed to rationalize their operations to the point where they could reduce labour (perhaps in favour of capital investment). Evidence would suggest that, in the wake of the recession, they managed to maintain productivity with a “leaner” staff. It is possible that medium-sized firms were not in a position to rationalize and, therefore, increased staff as the economy

¹ Catalogue No. 61F0019XPE, Vol. 3, No. 2, accessible at <http://www.statcan.ca>

(continued on page 4)

ECONOMIC *Snapshot*

Data as of August 6, 1999

The Canadian economy... expanded a stronger-than-expected 4.2 percent (annual rate) in the first quarter of 1999, with broad-based gains in both domestic and external markets. Monthly data for real GDP point to continued growth in the second quarter of the year.

The economic outlook... has improved considerably in recent months. The June consensus of private sector forecasts calls for real GDP growth of 3.2 percent this year and 2.6 percent in 2000.

The national unemployment rate... was 7.7 percent in July, up slightly from 7.6 percent in the previous month (the lowest unemployment rate in nine years). Employment rose by 40 000 in July, bringing year-to-date gains to 116 000.

Inflation... remains in check. The year-over-year rate of CPI inflation remained at 1.6 percent in June, well within the Bank of Canada's official target range of 1–3 percent.

The prime rate... dropped 25 basis points to 6.25 percent early in May, its lowest rate since January 1998. The prime rate is the benchmark for many consumer and commercial loans. Canadian interest rates are now below comparable U.S. yields across all maturities.

The Business Conditions Survey... shows that more than one third of manufacturers intend to increase production in the third quarter of 1999.

The Canadian dollar... staged a modest recovery in the spring, in line with firming commodity prices, but has since fallen back given concerns of higher interest rates in the United States.

Merchandise exports... increased by 10.4 percent in the first five months of 1999 compared with the same period in 1998. The trade surplus totalled \$12.2 billion from January to May, up from \$7.0 billion last year.

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.

The housing sector... posted its largest gain in nearly three years in the first quarter of 1999, shaking off a year-long slump. Available data point to a continued rebound in housing in the second quarter, boosted by rising consumer confidence and historically low interest rates.

Corporate profits... rose sharply in the first quarter of the year, extending their recovery from sharp losses in the first half of 1998. The recent firming of commodity prices has provided some support to the profit outlook in resource-based industries.

(continued from page 3)

(and presumably their business) expanded. Those firms that survived (bearing in mind that there was a notable decrease in the number of medium-sized firms during this period) were probably in the best shape to weather a difficult economic slowdown, and likely built on earlier successes (resulting in increases in the ALUs per firm).

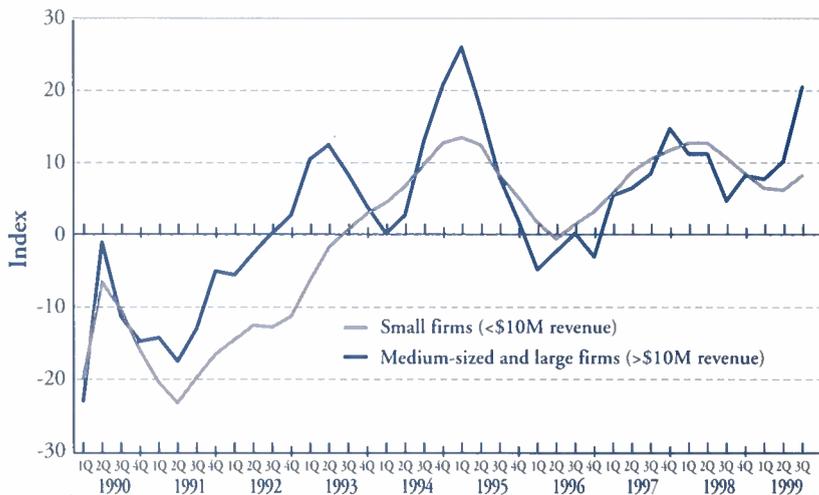
Large Firms by Sector

Insights on... more thoroughly examines the phenomenon of declining ALUs per firm among larger firms (more than 500 ALUs) by breaking down the data among goods and services producers and their sub-sectors. In the goods sector, there was a significant disparity in the decline in ALUs-per-company figures (the highest was in mining and the lowest was in construction). As firms tend to focus on their "core competencies," the notion that related upstream industries may become separate businesses (that then supply to the parent firm) is quite plausible. It appears that a similar situation may be occurring in services, with the exception of retail trade, business services and education services, all of which experienced an increase in ALUs per company. In this case, smaller, albeit related, businesses are probably being established. In the accommodation industry, for example, hotels might be separating guest services from conference facilities.

Small Firms by Sector

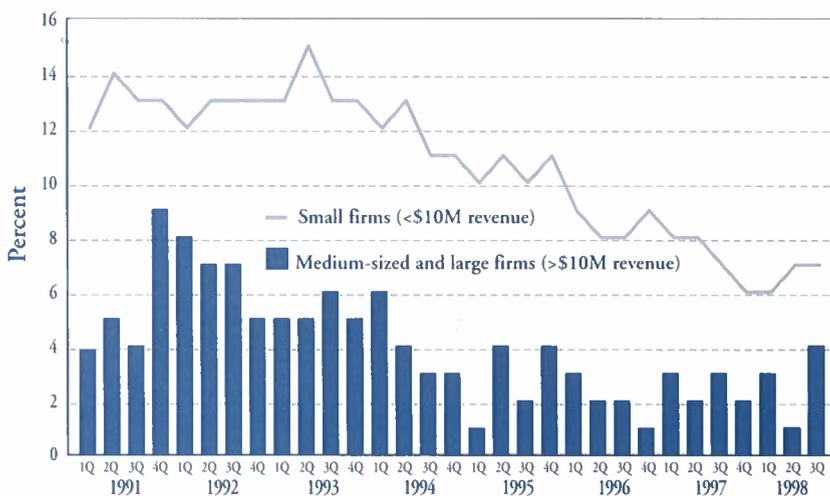
In contrast to large firms, businesses with fewer than 20 ALUs per firm showed overall increases in the number of businesses, the number of ALUs and the ALUs per business, with some notable exceptions. A decrease in the number of businesses appears to be less an indicator of declining employment than a decline in ALUs per business. While the number of firms dropped significantly in two sectors, agriculture (by 8553 firms) and retail trade (by 4826 firms), the total number of employees increased by 4300 and 27 700 respectively (the number of firms also dropped in the construction industry, with a corresponding decline of 28 400 ALUs). Both sectors also had an increase of 0.3 ALUs per firm. In the real estate and insurance industry, although the total number of firms increased by 299, the total number of employees dropped by 4300 as the ALUs per firm declined by 0.2.

Chart 3: Manufacturers' Confidence: Projections of Next Quarter Production



Source: *Business Conditions Survey*, Statistics Canada

Chart 4: Working Capital Difficulties: Small and Medium-sized and Large Manufacturers



Source: *Business Conditions Survey*, Statistics Canada

BUSINESS Conditions

According to Statistics Canada's July 1999 *Business Conditions Survey*, manufacturers are very optimistic about production prospects in the coming quarter. More than one third of manufacturers intend to increase production in the coming three months. It is worth noting that this was the second consecutive quarter in which optimism concerning production prospects increased.

As Chart 3 illustrates, on a four-quarter moving average basis, medium-sized and large manufacturers tended to be more optimistic about production expectations than small manufacturers for the third quarter of 1999.

Most manufacturers surveyed in July stated that the size of their work force would change little in the coming three months. The survey also reported that working capital concerns continue to be a low priority for both SMEs and large firms. Only 4 percent of medium-sized and large manufacturers and 7 percent of small manufacturers reported problems with working capital (see Chart 4).





BUSINESS Loans

Chartered bank loans to SMEs reached almost \$54 billion in the first quarter of 1999, approximately the same amount as in the first quarter of 1998. Small loans to businesses declined by 5 percent over the last four quarters, while medium-sized loans to businesses registered an increase (3.4 percent) since the fourth quarter of 1998 (see Charts 5 and 6). However, large loans (\$5 million or more) to enterprises have increased slightly over the last four quarters.

Chart 5: Chartered Bank Small Loans to Businesses (less than \$0.5 million)

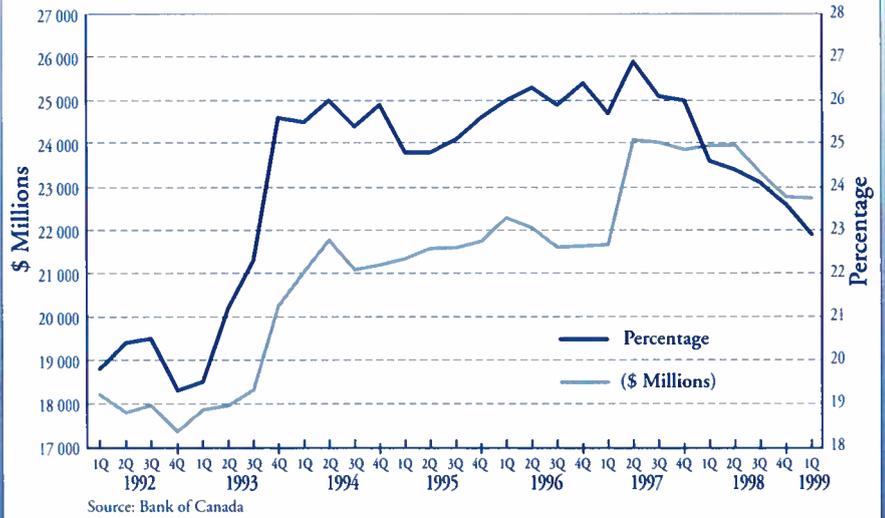
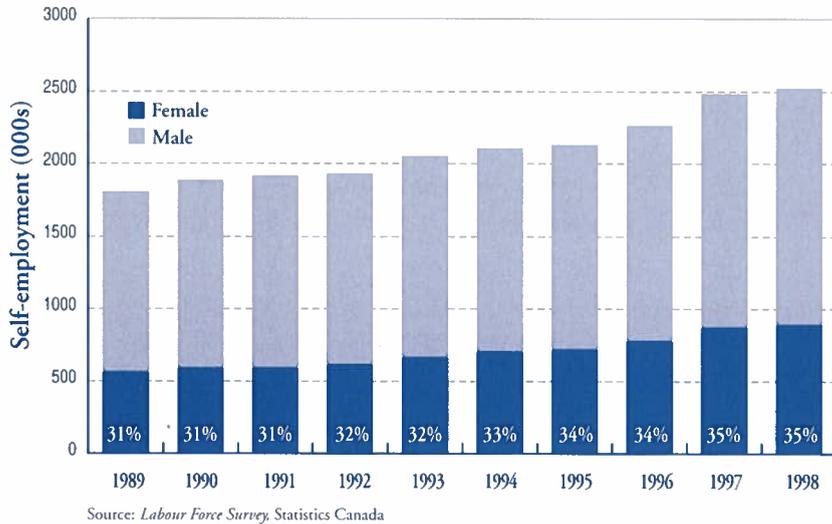


Chart 6: Chartered Bank Medium-sized Loans to Businesses (\$0.5 to \$5 million)



Chart 7: Number of Self-employed by Gender, Annual Averages from 1989 to 1998

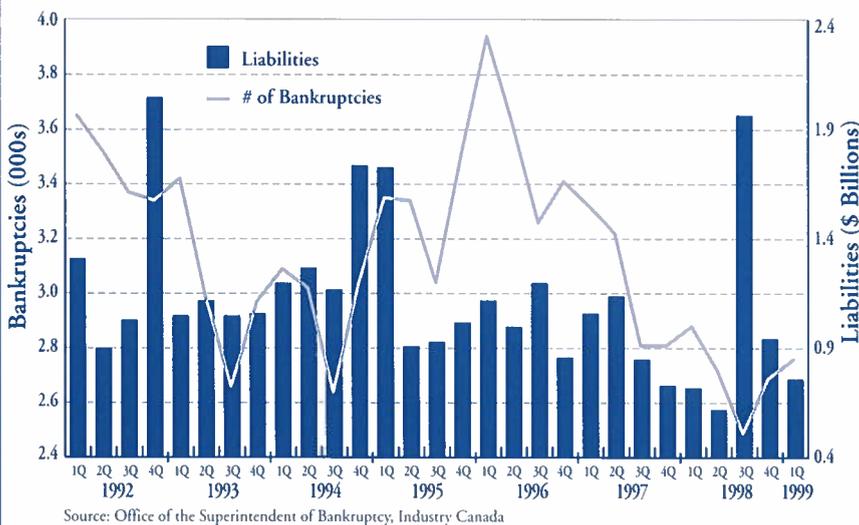


SELF- Employment

After the sharp gains in the number of self-employed workers (as defined by Statistics Canada's seasonally adjusted *Labour Force Information*, Catalogue No. 71-001) in 1997-98, growth in self-employment slightly weakened in 1999, falling to 2 535 400 workers at the end of July 1999. This represents approximately 17.7 percent of the employed labour force. Between May and July 1999, the number of self-employed workers declined by almost 57 100.

As illustrated in Chart 7, at the end of 1998 there were 1 634 000 self-employed male workers (almost 65 percent). It is worth noting that the female share of self-employment has been increasing at a steady pace since 1989, when there were 560 500 (31 percent) self-employed women.

Chart 8: Business Bankruptcies and Liabilities, 1st Quarter 1992 - 1st Quarter 1999



BUSINESS Bankruptcies

There were 2764 business bankruptcies reported in the first quarter of 1999, an increase of 2.6 percent from the 2693 bankruptcies in the fourth quarter of 1998. However, business bankruptcies in the first quarter of 1999 were down by 4.4 percent when compared with the same period last year.

Business liabilities involved in bankruptcies were up slightly in the first quarter of 1999 compared with the first quarter of 1998 (see Chart 8).

Several industries showed significant improvements in bankruptcy rates between March 1998 and March 1999. Among the larger declines were the fishing and trapping industries (70 percent), the health and social service industries (29 percent), and the accommodation, food and beverage service industries (25 percent). In comparison, the mining, quarrying and oil exploration industries reported an increase of 58 percent in the number of bankruptcies, followed by agriculture and related services industries (12 percent rise).

RECENT *Developments*

International Small Business Congress: Small Business... Smart Business

All Canadian entrepreneurs, small business people and others with an interest in SMEs are welcome to attend the International Small Business Congress (ISBC '99), which will take place in Toronto, October 12–15, 1999. Co-hosted by Industry Canada and the Canadian Federation of Independent Business (CFIB), ISBC '99 is a leading global forum for exchanging information about innovative small business practices and policies. More than 1000 delegates from as many as 60 countries are expected to attend.

This year's theme is **Small Business...Smart Business**, and the sub-themes are **International Smart, Technology Smart, People Smart** and **Entrepreneurship Smart**. Delegates will hear practical

advice from entrepreneurs and small business people who have achieved outstanding success, and learn from leading experts such as author Don Tapscott, world-renowned authority on the information age. They will be able to discuss realistic solutions to problems and share success stories with other small business people and entrepreneurs from North America and around the world.

DISCOVER the latest innovations in smart business practices in sessions on:

Innovative Financing to Reach SMEs
Trading Blocks: Opportunities and Limitations for SMEs
Partnerships and Joint Ventures: Opportunity or Illusion for SMEs?
Small Business Information "On Line"
Successful Management of the Family Business
Building Human Capital: Best Practices of SMEs
Employee Training in Small Business / What Works, What Doesn't
E-Business Communities and Small Business

DISCUSS a wide range of critical issues facing SMEs

The ISBC '99 program maximizes opportunities for discussion. Following short presentations by the experts, there will be 45 minutes of discussion and questions and answers in most plenaries and all sessions. The Knowledge Café features small group discussions with experts on a variety of important issues, such as electronic commerce, export financing and international partnerships.

ESTABLISH valuable contacts that could lead to new business

The ISBC '99 Matching Program will connect delegates with each other for one-on-one discussions. All ISBC delegates can register for the Matching Program, which includes an on-line directory of participants and their areas of interest, and a telephone help desk. Participants will be able to arrange on-site appointments in private rooms, use the Matching Program Help Desk and attend a Matching Breakfast on October 14.

The Business Exposition will showcase services and business solutions for SMEs, and a varied and exciting social program will maximize networking between domestic and international delegates.

"ISBC '99 is a great opportunity to share ideas and learn about the smartest business practices and policies from around the world."

The Honourable John Manley, Minister of Industry

For more information and on-line registration, visit the ISBC '99 Web site at:

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

E-mail: isbc1999@ic.gc.ca

Tel.: (613) 954-5478

Fax: (613) 954-5492

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.

Please send your comments to the editor:

Rizak Abdullahi
Entrepreneurship and Small Business Office
Industry Canada
Room 505A
235 Queen Street
Ottawa ON K1A 0H5
Tel.: (613) 954-3601
Fax: (613) 954-5492
E-mail: abdullabi.rizak@ic.gc.ca

© Her Majesty the Queen in Right of Canada (Industry Canada) 1999

ISSN 1205-9099

52859B

  10% recycled material