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SMALL Business

VOL. 1, NO. 4, December 1999

Q U A R T E R L Y

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PERFORMANCE

Trends

- Between the second quarter of 1998 and the second quarter of 1999, more than 175 000 net new jobs were created in employer businesses in Canada. Small and medium-sized enterprises (SMEs) represented 60 percent of this employment growth.
- The number of employer businesses in Canada continues to rise, reaching 1 833 005 in June 1999.
- The growth in self-employment has recently been stabilizing. In October 1999, the number of self-employed workers was 2 533 400.
- Manufacturers remain positive about production prospects for the next three months. One in three manufacturers (34 percent) stated an intention to increase production in the coming quarter.
- The Bank of Canada reported that chartered bank loans to SMEs reached more than \$54 billion in the second quarter of 1999.
- In the second quarter of 1999, the number of business bankruptcies was down by 7.2 percent compared with the first quarter of 1999; however, the liabilities associated with these bankruptcies rose 5.7 percent between the first and second quarters of 1999.

INTERNET USE AMONG SMEs: *Recent Findings*

The Canadian Federation of Independent Business (CFIB) recently released its report *Virtually a Reality — Results of 1999 CFIB Survey on Internet Use Among Small- and Medium-sized Firms*. The survey, conducted between January and June 1999, measured the responses of the owners of 18 514 SMEs. Given the increasing importance of electronic commerce (e-commerce), the results were quite encouraging: 61 percent of business owners indicated that they are connected to the Internet, almost twice the number revealed by a survey conducted just two years earlier. Internet access was strongest among businesses in British Columbia, Alberta, Ontario and Nova Scotia, and less prevalent in Saskatchewan and Quebec.

SMEs are going beyond merely accessing the World Wide Web to setting up their own Web sites. Eighteen percent of SMEs indicated that they had their own site, although this figure varied depending on the size of the business. For example, although only 12 percent of firms with fewer than 5 employees had their own Web site, that figure jumped to 18 percent for firms with 5–19 employees and increased to 26 percent for firms in the 20–49 employee range.

Internet use also varied between sectors. For example, although 85 percent of firms in the business services sector use the Internet, only 48 percent of retail

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JOB Creation

Between the second quarter of 1998 and the second quarter of 1999, more than 175 000 net new jobs were created in employer businesses in Canada, a pace of job creation significantly lower than the 276 996 net new jobs created in the same period in 1997–98. SMEs represented 60 percent of this employment growth.

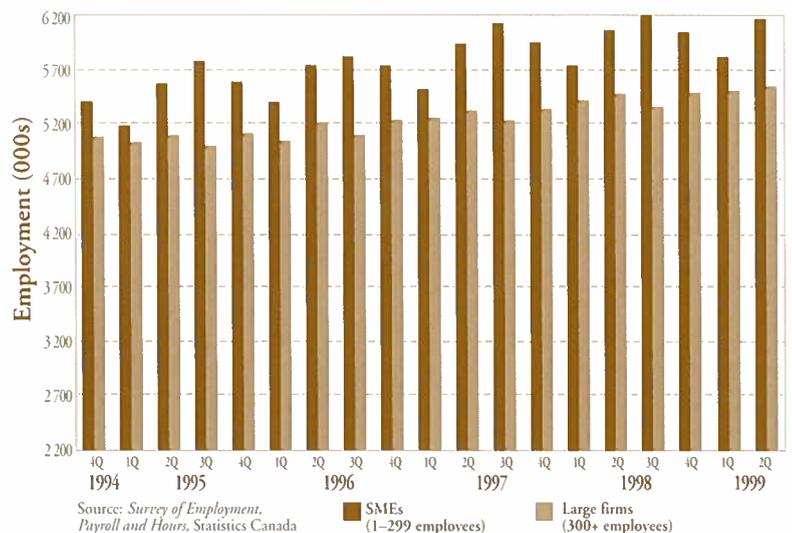
The service sector accounted for the largest increase in new jobs in the second quarter of 1999 at 37 percent, followed by the trade (33 percent) and manufacturing (16 percent) sectors. SMEs accounted for the majority of new jobs in these high-growth sectors: 79 percent of new jobs in the construction sector and 69 percent in the trade sector.

Chart 1 illustrates the quarter-by-quarter variation in employment by size of firm (excluding self-employment). Of the 175 000 net new jobs created during this period, small firms contributed almost 18.4 percent (32 177) of this employment growth, medium-sized firms 41.8 percent (73 194), and large firms 39.9 percent (69 677). Chart 2 illustrates that SMEs are responsible for the greater share of employment when compared to large firms.

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



Chart 2: Payroll Employment SMEs and Large Firms



NET EMPLOYER Businesses

According to the Business Register Division, the number of employer businesses in Canada continues to rise, reaching 1 833 005 in June 1999. Of all established businesses in Canada, 78 percent have fewer than 5 employees, 97.6 percent have fewer than 49 employees, and almost 99 percent have fewer than 100 employees. There are only 2337 establishments in Canada with more than 500 employees (see Table 1).

Table 2 provides the number of businesses in Canada by province and by industry, as of June 1999.

Table 1: Establishments by Employment Categories and Province or Territory, June 1999

Province or Territory	Total	Indeterminate*	Number of Employees							
			1-4	5-9	10-19	20-49	50-99	100-199	200-499	500+
Newfoundland	23 678	5 843	11 177	3 166	1 818	1 082	319	146	78	49
Prince Edward Island	9 584	2 556	4 414	1 246	743	419	121	51	27	7
Nova Scotia	45 310	13 925	18 712	5 339	3 690	2 443	664	337	129	71
New Brunswick	39 900	12 303	17 053	4 492	3 037	2 012	561	271	122	49
Quebec	437 381	195 330	154 594	37 481	23 518	16 833	5 557	2 351	1 124	593
Ontario	622 325	294 209	185 308	55 650	39 267	30 092	9 990	4 816	2 046	947
Manitoba	66 627	31 007	20 075	6 109	4 550	3 122	1 037	425	200	102
Saskatchewan	85 567	44 420	25 132	7 451	4 751	2 607	668	324	147	67
Alberta	230 725	105 872	72 472	21 692	15 266	10 256	3 091	1 319	544	213
British Columbia	266 203	111 578	92 203	26 790	18 232	11 813	3 331	1 418	602	236
Yukon Territory	2 618	941	911	354	218	135	35	11	11	2
Northwest Territories	2 447	684	764	440	285	172	57	30	14	1
Nunavut	640	117	181	143	100	64	25	7	3	-
Canada	1 833 005	818 785	602 996	170 353	115 475	81 050	25 456	11 506	5 047	2 337

Source: Business Register Division, Statistics Canada

* Establishments that do not have employee payroll

Table 2: Establishments by Province and Industry, June 1999

Industry	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.	Y.T.	N.W.T.	Nun.	Canada
Agricultural and related services	371	1 270	1 700	1 585	24 381	32 904	14 472	35 157	30 699	8 006	31	12	-	150 588
Fishing and trapping	612	959	2 569	1 827	922	259	121	21	50	1 719	6	14	6	9 085
Logging and forestry	254	66	883	1 344	5 590	2 461	243	342	1 134	6 301	18	14	1	18 651
Mining (including milling), quarrying and oil wells	95	5	118	95	879	1 476	188	1 162	7 823	1 690	124	36	1	13 692
Manufacturing	1 068	465	2 527	1 968	29 225	36 686	2 917	2 519	8 964	13 045	69	54	17	99 524
Construction	2 480	902	5 177	4 612	42 416	70 491	6 074	5 549	27 175	37 589	373	326	89	203 253
Transportation and storage	1 258	413	2 032	2 879	19 805	23 020	3 529	3 448	11 996	12 343	150	189	30	81 092
Communication and other utilities	224	68	434	365	3 441	3 978	467	454	1 725	1 895	31	47	17	13 146
Wholesale trade	1 473	447	3 054	2 362	31 878	44 667	4 027	3 840	13 108	18 011	99	115	24	123 105
Retail trade	4 354	1 220	6 867	5 946	66 055	82 199	7 630	7 784	22 528	30 604	289	252	83	235 811
Finance and insurance	981	534	2 763	2 095	33 340	53 628	4 710	4 253	14 435	20 834	198	160	28	137 959
Real estate operators and insurance agents	1 168	432	2 539	1 945	28 094	48 857	3 814	3 393	13 637	23 350	132	151	58	127 570
Business services	1 590	458	3 621	2 834	52 475	89 265	4 650	3 816	33 234	33 037	281	283	57	225 601
Government services	456	133	257	349	2 081	1 334	426	1 096	616	855	108	118	31	7 860
Educational services	294	118	418	354	2 949	4 490	580	528	1 720	2 063	39	40	13	13 606
Health and social services	2 484	500	2 685	2 453	20 158	29 861	3 212	2 805	9 922	14 623	135	163	72	89 073
Accommodation, food and beverage services	1 757	593	2 759	2 521	28 155	35 391	3 265	3 431	10 110	15 012	226	145	48	103 413
Other services	2 759	1 001	4 907	4 366	45 537	61 358	6 302	5 969	21 849	25 226	309	328	65	179 976
Total	23 678	9 584	45 310	39 900	437 381	622 325	66 627	85 567	230 725	266 203	2 618	2 447	640	1 833 005

Source: Business Register Division, Statistics Canada

ECONOMIC Snapshot

Data as of December 3, 1999

The Canadian economy... expanded a strong 4.7 percent (annual rate) in the third quarter of 1999, the fourth consecutive period of solid growth. There was a sharp advance in exports, due to the robust demand from the United States. Investment in machinery and equipment, and housing slowed after a particularly strong second quarter. Consumer spending maintained healthy growth, advancing on the strength of durable goods purchases.

The economic outlook... has improved considerably in recent months. The October consensus of private sector forecasts calls for real GDP growth of 3.6 percent this year and 2.9 percent in the year 2000.

The national unemployment rate... dropped to 6.9 percent in November, its lowest level since 1981. Employment rose by 60 000 in November, bringing year-to-date gains to 313 000.

Inflation... remains in check. The year-over-year core rate of CPI inflation stood at 1.6 percent in October, well within the Bank of Canada's official target range of 1–3 percent. The headline rate of inflation stood at 2.3 percent in October, based on higher energy prices. The core rate excludes the volatile food and energy components.

The prime rate... dropped 25 basis points to 6.25 percent early in May, its lowest rate since January 1998, where it remained until its quarter point increase in late November. The prime rate is the benchmark for many consumer and commercial loans.

The October Business Conditions Survey... showed that more than one third of manufacturers were intending to increase production in the fourth quarter of 1999.

The Canadian dollar... continues to hold its strength against the U.S. dollar and other major foreign currencies (with the exception of the Japanese yen), supported by the rising prices of gold and other commodities. These upward pressures on the dollar continue to be moderated by concerns of higher interest rates in the United States.

Merchandise exports... increased by 11.9 percent in the first nine months of 1999 compared with the same period in 1998. The trade surplus fell to \$2.5 billion in September, after reaching \$3.6 billion in August, its highest level since September 1996. The cumulative trade surplus since January remains almost double the level posted for the same period of 1998.

The federal budget... recorded a surplus of \$2.9 billion in fiscal year 1998–99, following a surplus of \$3.5 billion in 1997–98. This represents two consecutive years in which the federal books have been in the black, the first time this has happened since 1951–52.

Housing investment... rose 2.5 percent in the third quarter, following two quarters of very strong growth. Rising consumer confidence and historically low interest rates — as well as second quarter gains in new housing construction, renovations and resale activity — all point to a sustained recovery from the slump experienced in 1998.

Non-residential construction... rose 8.5 percent (annual rate) in the third quarter (after five periods of decline), marking the third consecutive quarter of solid growth.

Retail sales... rose 0.4 percent in September to \$22.2 billion, marking the fifth consecutive monthly gain.

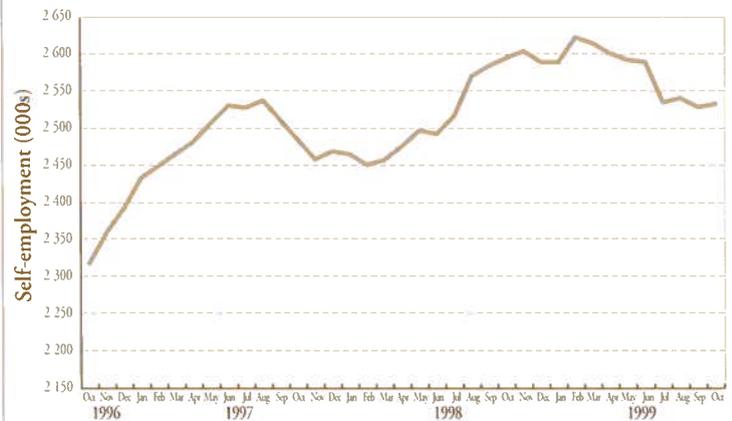
Corporate profits... rose 49.6 percent (annual rate) in the third quarter of 1999, following healthy increases in the previous three quarters, extending the recovery from the sharp losses suffered in the first half of 1998. The recent firming of commodity prices has provided some support to the profit outlook in resource-based industries.

SELF- Employment

The number of self-employed workers (as defined by Statistics Canada's seasonally adjusted *Labour Force Information*, Catalogue No. 71–001) reached 2 533 400 in October 1999, a 2.4 percent decline (62 000 fewer jobs) from the same period in 1998. The growth in self-employment has recently been stabilizing. Compared with the highest posted level of self-employed workers, which was recorded in February 1999, the October 1999 level shows a decline of 3.4 percent (89 500 fewer jobs).

Chart 3 shows that the growth trend of self-employed has stabilized for the last year.

Chart 3: Number of Self-employed in Canada, 1996 to 1999



Source: *Labour Force Survey*; Statistics Canada

BUSINESS Conditions

According to Statistics Canada's October 1999 *Business Conditions Survey*, manufacturers remain positive about production prospects for the next three months. As in the last two surveys, one in three manufacturers (34 percent) stated an intention to

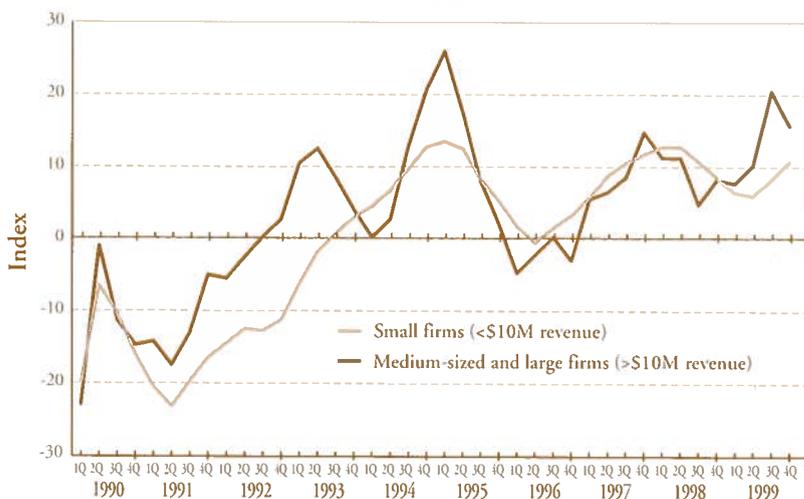
increase production in the coming quarter, and 68 percent said their work force would change little in the next three months, down slightly from the 70 percent reported in July 1999.

As Chart 4 illustrates, on a four-quarter moving average basis, for the fourth quarter of 1999, small manufacturers tended to be less optimistic about production capacity than medium-sized and large manufacturers. While there has been a general upward trend in manufacturers' optimism since 1991, the latest recorded levels still fall short of the high recorded in the first quarter of 1995.

A shortage of unskilled labour is a preoccupation for 2 percent of all manufacturers; a skilled labour shortage continues to be a concern for 7 percent.

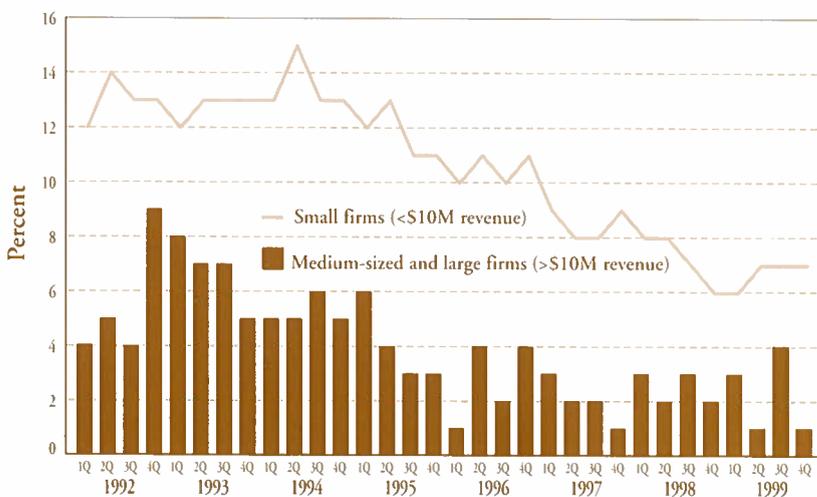
The October survey reported that while 7 percent of small manufacturers reported problems with working capital, only 1 percent of medium-sized and large manufacturers expressed a concern with working capital (see Chart 5).

*Chart 4: Manufacturers' Optimism:
Increases in the Next Quarter Production*



Source: *Business Conditions Survey*; Statistics Canada

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



Source: *Business Conditions Survey*; Statistics Canada





BUSINESS Loans

The Bank of Canada reported that chartered bank loans* to SMEs reached more than \$54 billion in the second quarter of 1999. Small loans accounted for 23 percent of the total (see Chart 6), medium-sized loans made up slightly more than 31 percent (see Chart 7) and large loans (more than \$5 million) represented 46 percent.

*Not including the following loans: non-residential mortgages, agricultural loans, customers' liability under acceptances and other business loans.

BUSINESS Bankruptcies

In the second quarter of 1999, the number of business bankruptcies was down by 7.2 percent (2564 total bankruptcies) from the first quarter of 1999, and down by 5.6 percent from the same period in 1998. The liabilities associated with these bankruptcies, however, increased by 5.7 percent between the first and second quarters of 1999 and by almost 30 percent between the second quarters of 1998 and 1999 (see Chart 8).

The industries showing the largest decline in bankruptcy rates between June 1998 and June 1999 were educational services (-54 percent), fishing and trapping (-52 percent), real estate operations and insurance agencies (-27 percent), and health and social services (-24 percent). In comparison, the mining, quarrying and oil exploration industries reported a 54 percent increase in the number of bankruptcies, followed by the transportation and storage industries (23 percent increase).

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

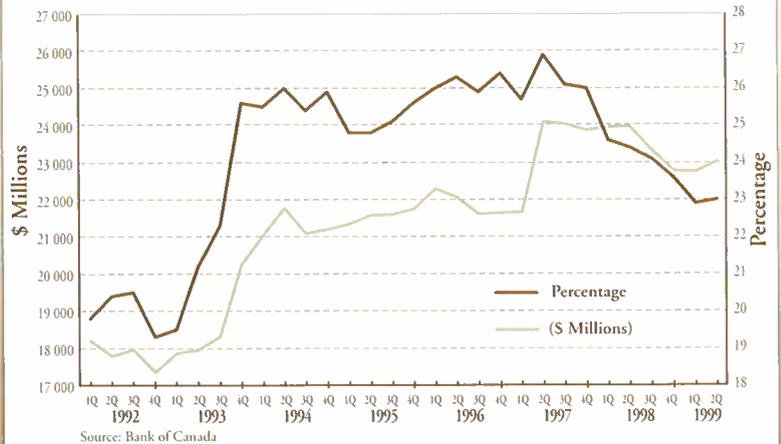


Chart 7: Chartered Bank Medium-sized Loans to Business (\$0.5 to \$5 million)

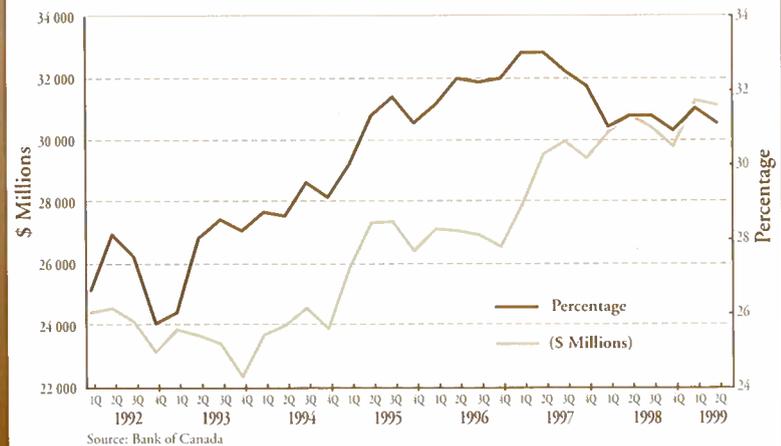
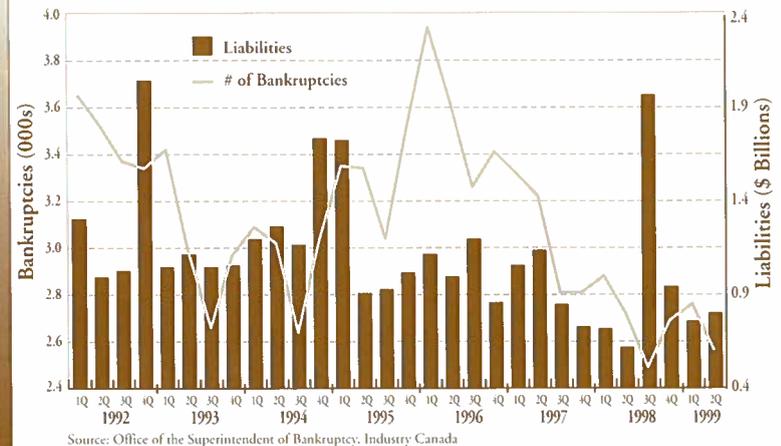


Chart 8: Business Bankruptcies and Liabilities, 1st Quarter 1992 – 2nd Quarter 1999



FINANCIAL PERFORMANCE

of Small Businesses in Canada

On November 15, 1999, Statistics Canada released its *Financial Performance Indicators for Canadian Business* for 1998. Small businesses in Canada continued to show relatively impressive performances in 1998. The 5.6 percent rate of return on assets for non-financial industries is a significant 1.4 percent increase from 1997. This increase is particularly noteworthy given the fact that small firms in Canada do not benefit from the economies of scale — and associated greater access to foreign markets — enjoyed by larger businesses.

Another positive sign is that all small firms in the industries studied recorded increases from the previous years. On closer examination, the data show that the three-year rate of return on assets for small businesses was highest in the mining (7.1 percent) and service (6.9 percent) industries; the retail trade industry showed a relatively low 2.7 percent.

For the purpose of this release, Statistics Canada defines large firms as those with annual revenues in excess of \$75 million, medium-sized firms as those with between \$5 million and \$75 million in annual revenues, and small firms as those with between \$50 000 and \$5 million in annual revenues.

There was a wider discrepancy between the goods-producing sectors. For example, manufacturers of wiring devices that do not carry a current (switch boxes, wall plates, etc.) were the most profitable from 1996 to 1998, with a three-year average annual return on assets of 15.7 percent. Biscuit manufacturing had the lowest three-year average annual return on assets (-0.7 percent). An even wider range of return on assets exists in the service sector — the top performer is “other social service practitioners” at 25.3 percent and the least successful sector is “other racetracks” at -0.8 percent.

(continued from page 1)

businesses are users. Likewise, the construction, hospitality and personnel services sectors were less likely to use the Internet.

The report reveals that selling over the Internet can present the largest hurdles, as it involves issues such as computer system and software costs, credit card usage, liability issues and employee skills development. Issues such as encryption, security and government standards are also considerations that SMEs must take into account when setting up e-commerce systems. However, the report notes that, fortunately, Internet providers and banks are increasingly giving SMEs support in these areas and encouraging SMEs to understand and eventually increase their business through this tool.

The complete report is available on the CFIB Web site at http://www.cfib.ca/research/reports/virtual_e.asp

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RECENT *Developments*

Highlights: International Small Business Congress (ISBC '99) Toronto, October 12–15, 1999

The Government of Canada, through Industry Canada, was pleased to join the Canadian Federation of Independent Business (CFIB) in hosting the 26th International Small Business Congress (ISBC '99), held recently in Toronto. The theme was *Small Business...Smart Business*.

ISBC '99 was a partnership event, largely funded by sponsors and registration fees, and endorsed by key small business groups from Canada and around the world. ISBC '99 attracted more than 900 participants from more than 50 countries.

Entrepreneurs, association leaders, academics, government officials and others who support and work with small business spent three days discussing and debating the essential elements of small business success in the knowledge-based economy of the 21st century.

Extra efforts to attract the owners and employees of Canadian small businesses included:

- a program designed by the private sector that featured practical sessions on topics ranging from innovative financing to electronic commerce, and that was structured to maximize discussion and participation;

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- a targeted half-day entrepreneurs' program where delegates heard practical advice from entrepreneurs who have achieved outstanding success;
- a business exposition showcasing Canada's smart business solutions;
- a matching program that used an Internet site with live e-mail links to delegates, on-site meeting rooms and a telephone help desk to connect delegates with similar interests; and
- special attendance rates.

Feedback from foreign and Canadian delegates indicates that ISBC '99 is an event Canada can be proud to have hosted.

Congress highlights, discussions and related events included the following:

- A keynote address from Canada's Don Tapscott, Chair of the Alliance for Converging Technologies, and world-renowned authority on the information age. Mr. Tapscott emphasized that small businesses have to use the Internet as a new way to connect with their customers and suppliers, government and each other.

- The Knowledge Café, where small groups of entrepreneurs and others had the chance to question leading Canadian experts on subjects such as angel investors, on-line networking and secure e-commerce.
- The release of an international study which revealed that, of the countries surveyed, Canadians have the highest level of respect for small businesses, although small business owners are also well respected in the other countries surveyed. Conducted by Goldfarb Consultants on behalf of the CFIB and Scotiabank, the study showed that Canadians see small business owners as motivated and innovative people who care about the communities in which they operate and understand customer needs. Small businesses are seen as major contributors to the economy around the world, and global willingness to work for a small business is strong. For example, 75 percent of American and 69 percent of Canadian respondents are either very likely or somewhat likely to work for a small business.
- Discussion about the Global Entrepreneurship Monitor (GEM) project, an international network of experts studying the relationship between entrepreneurship and economic growth. The level of entrepreneurial activity was positively correlated with recent gains in GDP for all 10 countries studied. Based on first-year results, the evidence is compelling that Canada has a high level of entrepreneurship. The study estimated that 6.8 percent of all adults in Canada are actively trying to start a business. This places Canada second, behind only the United States, among the 10 nations studied. The study identified access to capital as the single largest barrier to business start-ups and growth in Canada, with a financing gap for equity for amounts less than \$750 000 and a lending gap for loans less than \$100 000 from institutional lenders.
- The demonstration by Congress participants of a high level of interest in e-commerce. As well as hearing practical advice from Canadian e-commerce leaders, participants discussed a 21-country survey of the adoption and use of e-business by SMEs. Conducted by PricewaterhouseCoopers for the Asia-Pacific Economic Cooperation Telecommunications Working Group, the survey showed that the most important benefits of e-business for SMEs are perceived to be improvements in customer service, information exchange with customers and customer loyalty. Among other issues, the study discussed the levels of awareness of e-commerce, including the realization that e-commerce is more than having a Web site.

To find out more about the Congress, visit the CFIB Web site at http://www.cfib.ca/isbc/default_e.asp

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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