Industry Canada Industrie Canada

SMALL BUSINESS QUARTERLY

ENTREPRENEURSHIP AND SMALL BUSINESS OFFICE

Performance TRENDS

- Business formations in the first quarter of 1996 increased for the second consecutive quarter, with 919 new businesses.
- Seven of 10 provinces experienced a net increase in the number of new businesses formed in the first quarter of 1996.
- High business bankruptcy rates continue to hamper growth; the first quarter of 1996 saw a six-year high of 3,941 bankruptcies.
- Manufacturer confidence continues to be low for both large and small firms; however, the second quarter of 1996 shows an upturn of large manufacturer confidence, providing some cause for optimism.
- Profit margins for both large and medium-sized firms are well above recessionary levels, although uncertainty as to future performance remains high.
- Loans to small business by chartered banks rose marginally, continuing a trend first observed in 1994. An April 1996 Canadian Bankers Association report states that some 79 percent of small and medium-sized businesses had their loan requests met, in whole or in part, in 1995.
- Small and medium-sized firms continue to be the engine for growth and jobs in the economy. Manufacturing continues to underperform in terms of job creation as jobs shift to the service and information economy.
- Self-employment continues to become a realistic alternative to traditional employment as an additional 100,000 persons joined the ranks of the self-employed in 1995.

Contents

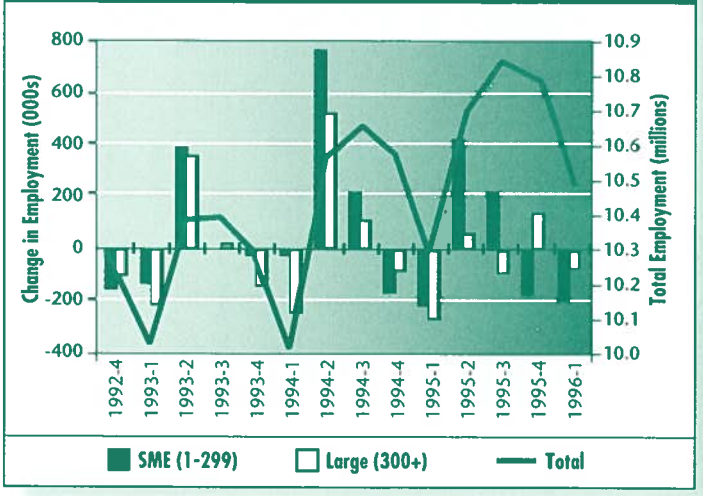
Job CREATION

Almost 317,000 net new jobs were created between the first quarter of 1995 and the first quarter of 1996. Virtually all employment growth originated in firms with fewer than 300 employees, and of the total figure, 100,000 jobs fell into the self-employment category. Firms employing fewer than 50 persons created 276,964 positions and firms with 50 to 300 employees created 51,623 new jobs.

Larger firms, with over 300 employees, recorded a net decrease of 11,605 jobs during this period. Figure 1 illustrates the quarter-by-quarter variation in total employment by size of firm (excluding self-employment).

In manufacturing, both small and large manufacturers report negative future hiring intentions, with one in five expecting to lay off workers and only one in eight planning to hire. In total, employment in manufacturing at the end of the first quarter of 1996 was just over 2 million, down nearly 50,000 from six months earlier.

Figure 1: Employment by Firm Size
(All industries) — Source: Statistics Canada



Net Employer BUSINESS FORMATIONS

Figure 2: Business Formation Trend

1989-1996 — Source: Statistics Canada

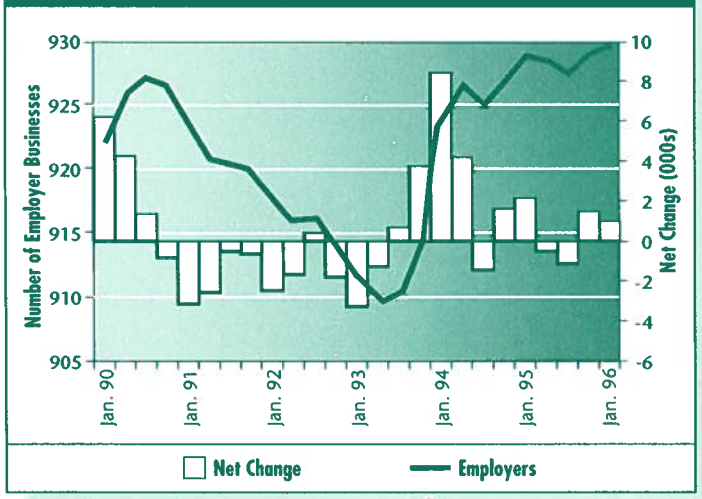
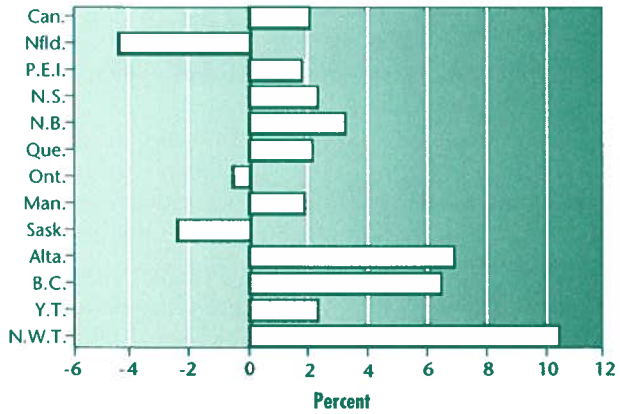


Figure 3: Employer Business Formations

by Region, 1993-1996 — Source: Statistics Canada



In the first quarter of 1996, net employer business formations (excluding self-employment businesses) were up by 919 over the preceding quarter on a seasonally adjusted basis. Figure 2 shows the business formation trend from the end of 1989 to date.

Regionally, there is significant variation in employer business formations (Figure 3). The largest increases are occurring in western Canada, excluding Saskatchewan. Most of eastern Canada, including Quebec, is also experiencing growth, although at a slower pace. Table 1 lists total numbers of employer businesses, by province, from the start of 1992.

Table 1 : Number of Employer Businesses by Province and Territory

by Quarter, 1992-1996 — Source: Statistics Canada

	CANADA	NFLD.	P.E.I.	N.S.	N.B.	QUE.	ONT.	MAN.	SASK.	ALTA.	B.C.	Y.T.	N.W.T.
1992 - 1	916,672	21,093	6,566	28,480	24,778	226,999	307,980	32,353	37,315	95,655	131,059	1,298	1,633
- 2	914,962	21,130	6,534	28,556	24,831	226,392	306,002	32,298	37,266	95,744	131,733	1,309	1,627
- 3	918,037	21,191	6,548	28,710	24,980	226,317	305,041	32,311	37,297	96,169	132,272	1,322	1,621
- 4	914,395	21,085	6,510	28,706	24,965	225,575	303,945	32,265	37,099	96,268	132,873	1,337	1,611
1993 - 1	910,231	20,848	6,410	28,599	24,805	224,327	302,117	32,148	36,839	96,048	133,261	1,350	1,611
- 2	909,158	20,859	6,394	28,730	24,761	223,801	300,716	32,065	36,733	96,135	133,822	1,352	1,607
- 3	911,052	21,167	6,443	28,992	24,857	224,126	300,044	32,110	36,743	96,630	134,600	1,342	1,609
- 4	914,123	21,224	6,509	29,132	25,028	224,784	300,037	32,290	36,819	97,406	135,679	1,333	1,629
1994 - 1	920,869	20,948	6,618	29,254	25,326	226,084	301,371	32,577	36,990	98,756	137,531	1,333	1,652
- 2	925,416	20,701	6,655	29,411	25,521	226,887	302,326	32,696	36,850	99,737	138,949	1,345	1,674
- 3	925,338	20,509	6,614	29,499	25,570	226,815	302,140	32,671	36,503	100,207	139,681	1,358	1,690
- 4	926,712	20,428	6,584	29,571	25,829	227,130	301,915	32,685	36,289	100,783	140,251	1,364	1,705
1995 - 1	928,667	20,546	6,538	29,627	25,888	227,745	301,870	32,703	36,068	101,403	140,661	1,362	1,732
- 2	928,422	20,397	6,472	29,519	25,640	227,945	301,188	32,683	35,857	101,902	141,088	1,363	1,758
- 3	927,601	20,039	6,437	29,351	25,593	228,100	300,744	32,638	35,750	102,189	141,482	1,366	1,773
- 4	928,726	19,911	6,458	29,280	25,578	228,614	300,564	32,682	35,803	102,470	141,738	1,371	1,779
1996 - 1	929,645	19,928	6,524	29,254	25,600	228,936	300,159	32,765	35,924	102,711	141,835	1,381	1,777

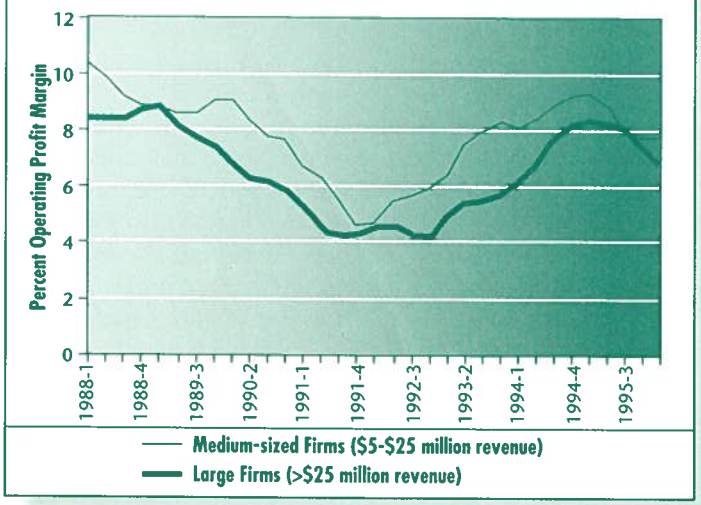
Business PERFORMANCE

Industry Canada, working with Statistics Canada, has created a new indicator to track the comparative performance of medium-sized and large firms. Figure 4, Business Performance Trends, shows, quarter-by-quarter from 1988 to the first quarter of 1996, how each group has performed relative to the other. For both medium-sized and large firms, profit margins bottomed out in the first quarter of 1992.

Both groups recovered strongly from that point and more than doubled their profit margins by the first quarter of 1995. In the first quarter of 1995, however, profit margins of medium-sized firms began to decline and profit margins for large firms remained flat. By the third quarter of 1995, large firms were experiencing a delayed downturn in profit margins, whereas medium-sized firms were experiencing a modest upturn.

Future editions of *Small Business Quarterly* will examine comparative trends for revenues and for rate of return on equity. Preliminary data indicate that there appears to be no significant overall difference in the seasonal performance of medium-sized and large firms; however, medium-sized firms are more volatile with respect to business cycle trends.

Figure 4: Business Performance Trends
(Total non-financial industries) — Source: Statistics Canada

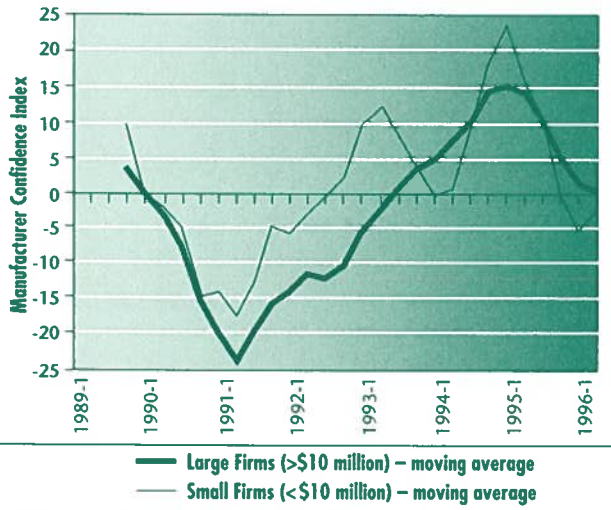


Business CONDITIONS

According to Statistics Canada's March 1996 Survey of Business Conditions, trends regarding business confidence are mixed. For example, for the second quarter of 1996, large manufacturer confidence regarding production volumes is up, whereas small manufacturer confidence is down. On a four-quarter moving average basis, however, small manufacturers appear to be more confident than large manufacturers (Figure 5). This may be due to a steep decline in the confidence of large manufacturers in the second quarter of 1995.

The survey also revealed that, on the whole, fewer manufacturers are reporting production difficulties. For instance, fewer than 2 percent of large manufacturers reported difficulties in attracting skilled labour. The situation was different for small manufacturers, however, with 10 percent reporting problems in recruiting skilled labour. Small manufacturers also reported that availability of working capital continues to be a problem, with 11 percent suggesting that it is a significant problem.

Figure 5: Manufacturer Confidence
(Balance of opinion on production) — Source: Statistics Canada



Self-EMPLOYMENT

From the first quarter of 1995 to the first quarter of 1996, the number of self-employed in Canada grew by 100,000 compared with an increase of 141,000 in 1994–95. This figure of 100,000 represents almost half of all employment growth for the period; furthermore, the number of self-employed as a proportion of the total labour force continues to rise. In 1981, for instance, only 12.3 percent of the labour force was self-employed; by the end of the first quarter of 1996 this percentage had grown to 15.5. Currently, there are almost 2 million self-employed persons in Canada.

Self-employment grew fastest in services industries, and in the finance, insurance and real estate, and construction sectors. Alberta, British Columbia, Quebec and Manitoba had the largest increases.

As of the first quarter of 1996, approximately one in three self-employed persons were women (32 percent) compared with fewer than one in four in 1981 (24 percent). Women make up about 36 percent of the unincorporated self-employed and 20 percent of the incorporated self-employed. However, the number of women establishing incorporated firms is increasing. The incorporated self-employed are more likely to hire employees than the unincorporated.

Business LOANS

Figure 6: Chartered Bank Loans to Business
by Size of Authorized Loan (current $) — Source: Bank of Canada

The Bank of Canada reports that the volume of chartered bank loans to small business (under the $500,000 authorized limit) in the fourth quarter of 1995 is up slightly over third quarter levels (Figure 6). Loans to small business have been slowly increasing since early 1994, with the small business share of all bank loans to business rising to more than 25 percent in the fourth quarter of 1995. This is due, in part, to the rebound of the smallest loans category (those under the $200,000 authorized limit), which is now almost back to last year's level.

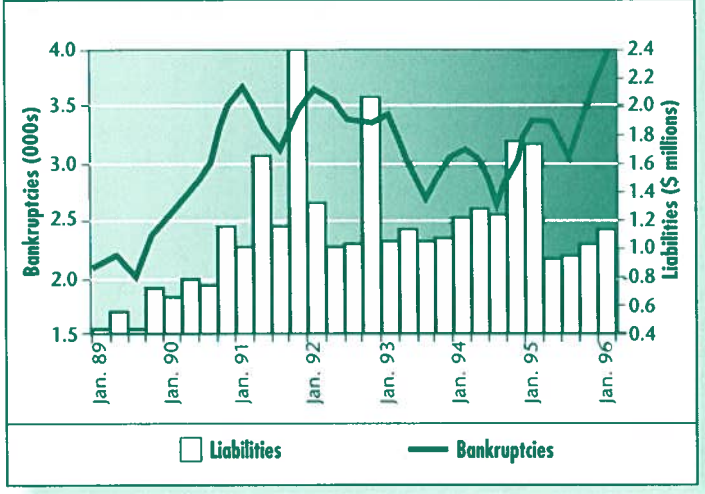
In April 1996, the Canadian Bankers Association (CBA) released a special report on lending to small business. The CBA report states that, in 1995, 79 percent of the small and medium-sized enterprises that requested financing from one of Canada's seven major banks had their applications approved in full or in part. Credit worthiness of the business owner was found to be the major factor affecting loan approval; gender and region were found to have no effect. The banks have indicated their willingness to continue to work with government to develop small business lending benchmarks, and to continue to develop improved lending.

Business BANKRUPTCIES

In the first quarter of 1996, business bankruptcies were at their highest level in six years. The total of 3,941 was up 17 percent from a year ago. Associated liabilities ($1.12 billion) were up only slightly from the preceding quarter, but were down by more than 35 percent from the first quarter of 1995 (Figure 7).

The wholesale and retail trade sectors continue to be the hardest hit, while manufacturers report the fewest failures in the last four quarters. According to the "incidence of bankruptcy" rate (i.e., the number of bankruptcies per thousand businesses), the finance and insurance sectors have the lowest incidence of bankruptcy (7.8 and 9.5 per thousand respectively) whereas the transportation and communication sector and the retail sector have the highest (21.6 and 18.7 per thousand respectively).

Figure 7: Business Bankruptcies and Liabilities
(1st quarter 1989–1st quarter 1996) — Source: Statistics Canada



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To serve you better, the *Small Business Quarterly* is taking on a new appearance. We welcome your comments or suggestions for improvement. We also encourage readers to advise us regarding subjects that you would like to see discussed in the *Quarterly*.

Please send your comments to:

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