Industry Canada Industrie Canada

SMALL BUSINESS QUARTERLY

Small Business
CREATING JOBS AND GROWTH
Fall 1997

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A REQUEST TO OUR READERS

We need your guidance to ensure that the Small Business Quarterly evolves to meet your needs.

Our objective in publishing the Quarterly is to provide readers with a quick overview of key small business statistics, trends, and recent developments. Your opinions about the content, format, and other aspects of the Small Business Quarterly will allow us to fine-tune and to improve our publication. Please forward your input via e-mail to **abdullahi.rizak@ic.gc.ca**

Thank you for your advice and we hope you will continue to find this publication useful.

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Canada

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Performance TRENDS

- Almost 580,000 net new jobs were created between the second quarter of 1996 and the second quarter of 1997, a more rapid rate of job creation than that of the same period in 1995-96, when 400,000 net new jobs were created. SMEs accounted for 81 per cent of the 1996-97 job growth, as compared to 70 per cent in 1995-96.
- Self-employment accounts for the largest component of SME job creation, i.e., a 262,400 net increase, or 46 per cent of total growth. In 1995-96, self-employment accounted for 29 per cent of net job growth.
- New business formation in 1996-97 is up by almost 12,600, as compared to the small decrease registered in 1995-96. The largest increases occurred in western Canada.
- Optimism among manufacturers has been positive since the first quarter of 1996, according to Statistics Canada's June 1997 Business Conditions Survey. On a four-quarter moving average basis, both large and small manufactures expect to increase production in the next three months. Overall, small manufacturers tend to be more optimistic about their production capacities than are large manufacturers.
- While in the second quarter 1997, profit margins of medium-sized businesses were down slightly from the first quarter 1997 level, they remain higher than those of the first quarter of 1996, when medium-sized firms' profit margins were below 6 per cent.
- The number of business bankruptcies in the second quarter of 1997 was down by almost 3 per cent from the first quarter of 1997. Business bankruptcies have continued a downward trend since the second quarter of 1996.
- SMEs exported $21 billion worth of goods and services in 1995, accounting for 8.5 per cent of total Canadian exports.

Job CREATION

Almost 580,000 net new jobs were created between the second quarter of 1996 and the second quarter of 1997, a more rapid rate of job creation than that of the same period in 1995-96, when 400,000 net new jobs were created. SME accounted for 81 per cent of this 1996-97 job growth, compared to 70 per cent in 1995-96.

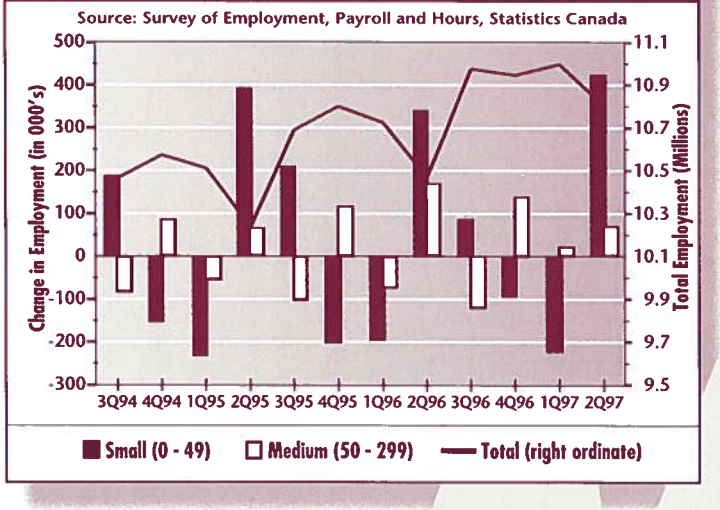
Chart 1 illustrates the quarter-by-quarter variation in total employment by size of firm (excluding self-employment).

Small employers (fewer than 50 employees) created 80,000 of the net new jobs; self-employer firms accounted for a further 262,000.

Medium-sized firms grew by 122,000, while larger employers (over 300 employees) added 112,400 positions.

Most of the job creation took place in the services sector (44 per cent), followed by trade (22 per cent) and manufacturing (20 per cent). In the services sector, the job growth was equally distributed among small, medium and large firms. In the trade sector, on the other hand, most of the growth occurred with large employers, followed by medium-sized firms. Small firms in the trade sector registered a net decline in employment of 5,000.

Chart 1: Employment by Firm Size Canada, All Industries



Self-EMPLOYMENT

The number of self-employed workers (defined by Statistics Canada's seasonally adjusted Labour Force Information Cat. # 71-001) reached 2,525,400 by the end of the second quarter of 1997, an increase of 262,400, or 12 per cent, from the second quarter of 1996.

Self-employment growth accounted for 46 per cent all net new jobs from the second quarter of 1996 to the second quarter of 1997.

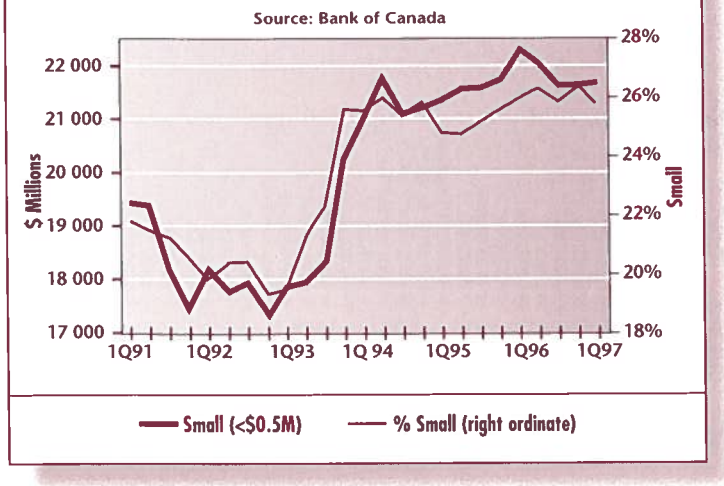
In 1995-96, self-employment grew by only 116,000 or 5.4 per cent. Self-employment comprised 29 per cent of total job creation in that period. It is evident that self-employment is becoming an important component of the economy.

A recent study by Ekos and Associates (1997) traces the incidence and profile of the self-employed in the 1985-1995 period. The study indicates that entry into self-employment was fairly insensitive to business conditions in this period. The incidence of self-employment was higher among married men and increased with age. The educational composition of the self-employed was found to be fairly similar with that of paid employees. Though the self-employed earn about two-thirds of what paid employees earn, the gap between the two has narrowed since 1985. Furthermore, the income disparity between males and females is less among self-employed than among paid workers. With respect to hours worked the study indicated that self-employed are more likely to work on a part-time basis than paid workers; they are also three times as likely to work more than 50 hours a week.

Business LOANS

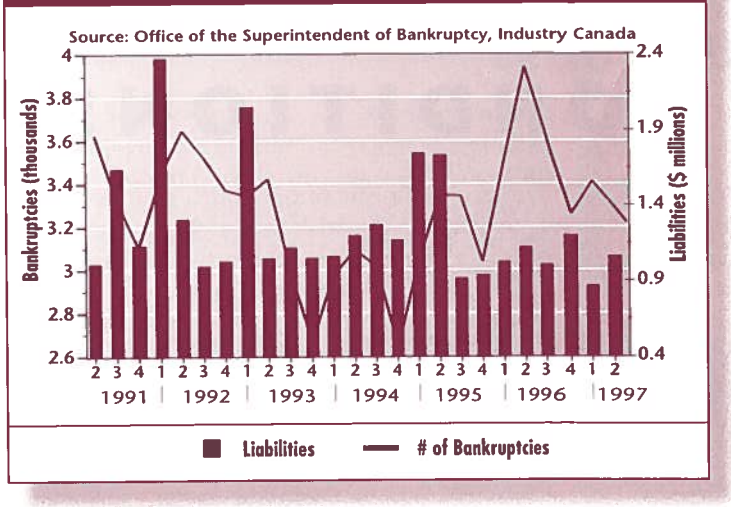
The Bank of Canada reports that chartered bank loans to SMEs reached almost $50 billion in the first quarter of 1997, up slightly from year ago levels. The largest increase was in the medium-sized business loan category i.e., from $500,000 to $5 million authorized credit limit. The volume of smaller loans on the other hand (less than $500,000 authorized credit limit) did not keep pace (see Chart 7).

Chart 7: Chartered Bank Loans to Business
Size of Authorized Loan (current $)



Business BANKRUPTCIES

Chart 8: Business Bankruptcies & Liabilities
2nd Quarter 1991 - 2nd Quarter 1997



The number of business bankruptcies in the second quarter of 1997 was down by almost 3 per cent from first quarter of 1997. Business bankruptcies have been on a slightly downward trend since the second quarter of 1996 (see Chart 8).

The industry showing the biggest improvement is real estate and insurance agencies, which experienced a 43 per cent drop in the number of bankruptcies and an impressive 81 per cent drop in the value of the liabilities associated with these bankruptcies.

The retail trade, business services and construction industries were next in showing improvement, with decreases of 22 per cent, 21 per cent and 13 per cent, respectively. The only industries reporting increased number of bankruptcies were logging & forestry (94 per cent increase), and transportation & storage with a 30 per cent increase.

At the provincial level, the most significant improvements occurred in Alberta -- 32 per cent decrease -- and in Quebec -- 21 per cent decrease.

SME EXPORTS

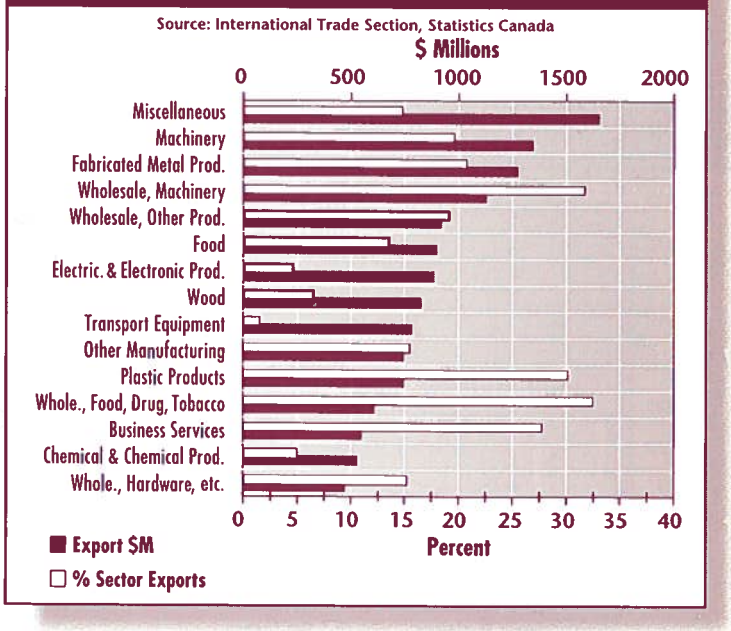
SMEs exported $21 billion worth of goods and services in 1995, accounting for 8.5 per cent of total Canadian exports. However, SMEs output is also often indirectly exported as components of, or support services in, the exports of larger companies.

86,000 SMEs were engaged in trade in export markets, nearly 97 per cent of the total number of exporters in Canada. These opportunity-taking exporters often pursue a niche-filling role in the international market place.

The top SME export industries are illustrated in Chart 9. The largest single category is the miscellaneous industry sector (i.e., companies which produce a wide variety of goods and services), with $1.6 billion in export volume. This volume accounts for 15 per cent of total miscellaneous exports.

In general, SME exporters account for only a small fraction of the exports in any given industry (e.g., 1.2 per cent of transport equipment exports). One exception is the wholesale food, drug and tobacco sector, where SMEs account for 33 per cent of total sector exports, followed by wholesale machinery (31 per cent) and plastic products (30 per cent).

Chart 9: Top SME Export Industries Canada, 1995



SMALL BUSINESS QUARTERLY

ENTREPRENEURSHIP AND SMALL BUSINESS OFFICE

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The *Small Business Quarterly* provides a quick and easy-to-read snapshot of the recent performance of Canada's small business sector. The S.B.Q. is published quarterly by the Entrepreneurship and Small Business Office of Industry Canada.

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RECENT DEVELOPMENTS

APEC SME WEEK

The acronym for Asia Pacific Economic Cooperation (APEC) has taken on a new meaning following comments from an Australian delegate who summed up the week-long series of events last month as "Another perfect event by Canada". APEC SME Week was an excellent example of public-private sector collaboration. The Ministerial meeting, chaired by Canada's Minister of Industry John Manley, resulted in a framework of activities designed to benefit small businesses. The Business Forum attracted over 1000 delegates, more than doubling the goal. Of these, over 350 delegates were from outside Canada, primarily from Asia. The exposition sold out. More than 190 booths were set up, showcasing some of the most innovative businesses throughout APEC economies. A series of highly constructive meetings involving young entrepreneurs, the Women Leaders' Network and APEC business associations, as well as site visits for visiting delegates, helped round out the week. As Minister Manley noted, "The results have exceeded our highest expectations."

SME WEEK

SME week, October 20-24, is an opportune time to check out some of the Industry Canada information products found on *Strategis* that are designed to assist SMEs. *Steps to Growth Capital* provides step-by-step help to entrepreneurs looking for risk capital to grow their businesses. *Sources of Financing* allows SMEs to access information on traditional and alternative sources of financing. *Contact!* provides a catalogue of educational information, management tools, and a directory of organizations to SMEs searching for advice. Finally, *Steps to Competitiveness* provides a unique self-assessment tool to help entrepreneurs evaluate their firm's performance and identify areas of concern.

ISBC 1999

Watch this space. Canada will be hosting the International Small Business Council Congress in 1999 in Toronto. Details will follow in future issues of the Small Business Quarterly.

For details, visit our website at:
http://strategis.ic.gc.ca/contact