

Performance TRENDS

- Over 300,000 net new jobs were created between the third quarter of 1995 and the third quarter of 1996, a pace of job creation slightly higher than that of the same period, 1994-95. Small and medium-sized firms accounted for 66% of this employment growth; by comparison, they created 100% of the job growth in the equivalent 1994-95 period. Large firms are now making a net positive contribution to job creation.
- Self-employment accounts for the largest share of SME job creation: 156,000 jobs, or 52% of the total. Some 133,000 of SME jobs came from medium-sized companies, those employing between 50 and 300 people. For the first time since recovery from the 1991-92 recession, firms in the 1-49 employee size group registered an employment decline—they suffered a net loss of almost 90,000 jobs.
- Manufacturers have become slightly more optimistic about their economic prospects for the upcoming three months, according to September's Business Conditions Survey, but are far from the record-high confidence levels reached in early 1995.
- Medium-sized business profit margins are beginning to recover from the weak performances recorded since mid-1995.
- Loans to small business by chartered banks were slightly lower in the second quarter of 1996—down by 1% over first quarter levels. However, they are still moderately higher (up 2%) than second quarter 1995 levels. A new survey of the venture capital industry shows rapid growth in this area. Young, technology-based companies are the core beneficiaries.
- In the third quarter of 1996, both the number of business bankruptcies and the amount of liabilities associated with these bankruptcies were down roughly 10% from the historically high levels reached earlier in the year. These numbers are, however, still above levels of a year ago.
- Despite marginal change in the third quarter of 1996 (down a seasonally adjusted 511, less than 1% from the preceding quarter), the number of businesses in Canada remains at a near record high of 927,319, up by almost 19,000 businesses since mid-1993.

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Job CREATION

Over 300,000 net new jobs were created between the third quarter of 1995 and the third quarter of 1996, a pace of job creation slightly higher than the 270,715 jobs recorded in the same period of 1994-95. Small and medium-sized firms accounted for 66% of this employment growth, while they had created 100% of the job growth occurring in the equivalent 1994-95 period. Large firms are now making a net positive contribution to job creation.

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

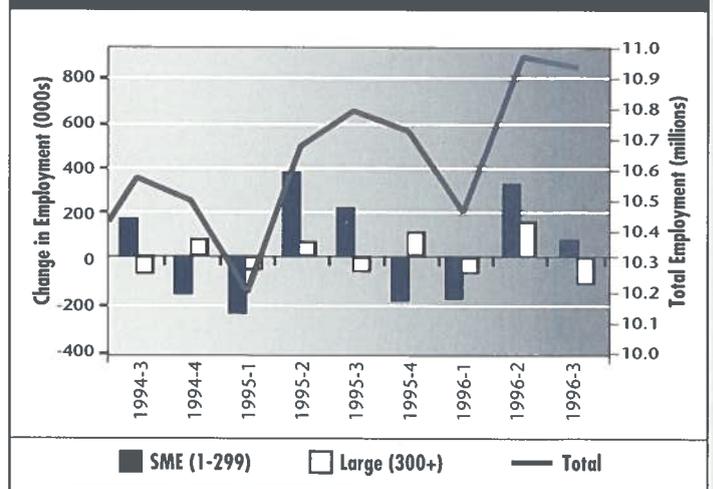
Some 133,000 of the new jobs created came from medium-sized companies (those employing

between 50 and 300 people). However, for the first time since the end of the 1991-92 recession, firms in the 1-49 employee size group registered a decline in jobs, a net loss of almost 90,000 positions. Most of the small firm job loss was suffered by small retailers encountering strong competition from the "big box" super stores—large scale retailers increased their employment by over 23,000 in this period.

An opposite trend is occurring in the finance and real estate sectors, where small real estate businesses are recording substantial growth (49,000 net new jobs) while large finance firms reduced staff by 63,000.

Figure 1: Employment by Firm Size

(All industries) — Source: Statistics Canada



Net Employer BUSINESS FORMATIONS

Figure 2: Business Formation Trend
1991-1996 — Source: Statistics Canada

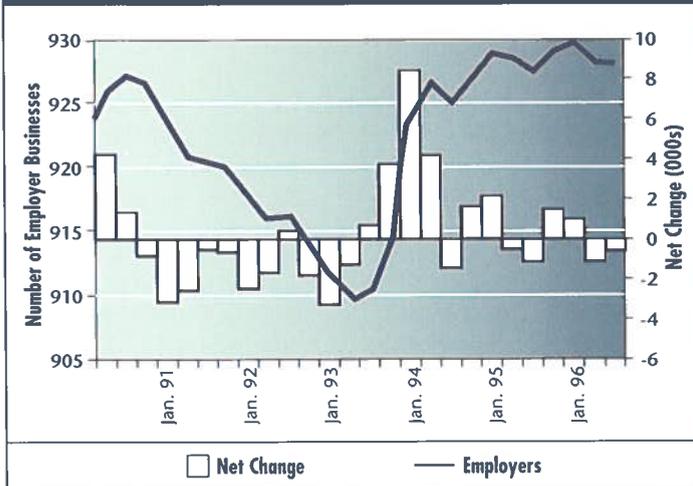
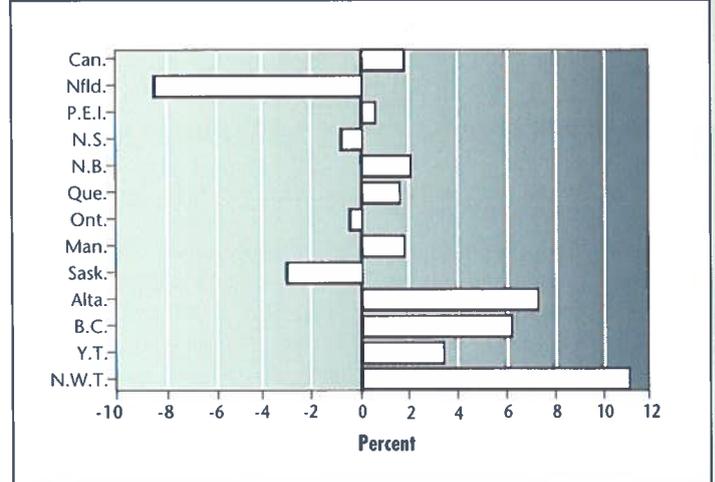


Figure 3: Employer Business Formations
by Region, 1993-1996 — Source: Statistics Canada



The number of businesses in Canada remains at a near record high of 927,319 (Figure 2). There was a marginal change in the third quarter of 1996 (down 511, seasonally adjusted, less than 1% from the preceding quarter), but since mid-1993 the total number is up by almost 19,000 businesses.

Employer business formations are occurring at an uneven rate across Canada, and figures vary significantly from region

to region (Figure 3). Western Canada, excluding Saskatchewan, enjoyed the largest increases. Three provinces in eastern Canada also experienced growth, albeit at a slower pace. Ontario, Newfoundland and Nova Scotia provided the exceptions to the overall trend, as they reported a decrease for the period covered. Table 1 lists total numbers of employer businesses, by province and territory, from the third quarter 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 - 3	916,037	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	25,629	227,130	301,915	32,685	36,289	100,783	140,251	1,364	1,705
1995 - 1	928,667	20,546	6,536	29,627	25,668	227,745	301,670	32,703	36,066	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	6,456	29,280	25,578	228,614	300,564	32,682	35,803	102,470	141,738	1,371	1,779
1996 - 1	928,872	19,810	6,494	29,147	25,521	228,717	300,158	32,687	35,761	102,695	141,884	1,381	1,774
- 2	927,983	19,587	6,518	28,925	25,448	228,616	299,555	32,667	35,714	102,964	142,257	1,391	1,778
- 3	927,319	19,375	6,469	28,795	25,347	228,001	298,856	32,688	35,644	103,696	142,750	1,388	1,787

Business PERFORMANCE

Medium-sized business profit margins are beginning to recover from the weak performances they have recorded since mid-1995, mainly because of stronger exports. Profit margins bottomed out

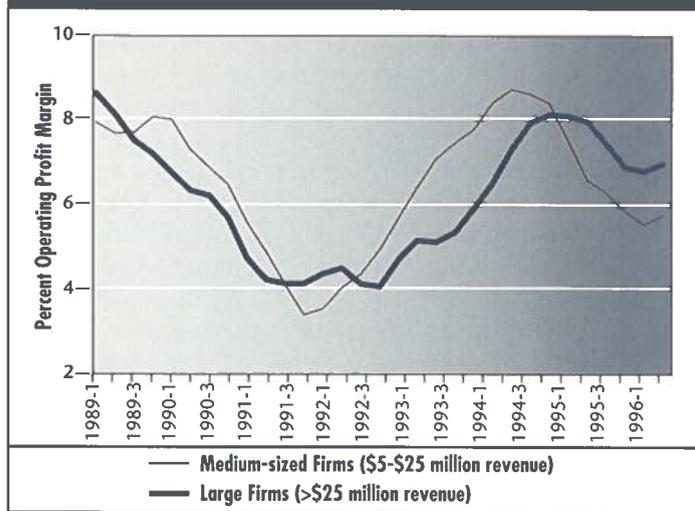
in the first quarter of 1992, then recovered until early 1995. At that point a decline lasted until this quarter. Figure 4 contrasts the profit margin position of medium-sized businesses (those with

\$5 million to \$25 million revenues) with those of large-sized firms (those with over \$25 million revenues), on a quarter by quarter basis, from 1989 to the third quarter of 1996.

It is important to note that Figure 4 is an all-industry aggregation, since variation by specific industry within the aggregate can be significant. For example, small sawmills,

wholesale beverage, and computer service firms had a median return on capital far above their large firm competitors (1993 Statistics Canada data). Unfortunately, industry-specific business performance information is not compiled on a quarterly basis. Future issues of the *Small Business Quarterly* will examine this variation in more detail.

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



Self-EMPLOYMENT

The Canadian trend towards more self-employment continued between the third quarter of 1995 and the third quarter of 1996. During that time, the number of self-employed in Canada grew by 156,000, and accounted for 52% of the period's total employment growth. Thus, the number of self-employed as a percentage of the total labour force continues to rise. It now stands at 16% of the labour force, as compared with the 12.3% it constituted in 1981. At present there are over 2.23 million self-employed persons in Canada.

The fastest-growing component of the self-employed

sector is the unincorporated business segment. Such businesses, which are often home-based, account for almost 70% of self-employment. The incorporated self-employed, on the other hand, tend to have larger businesses, work at locations outside of their homes, and be more likely to hire employees.

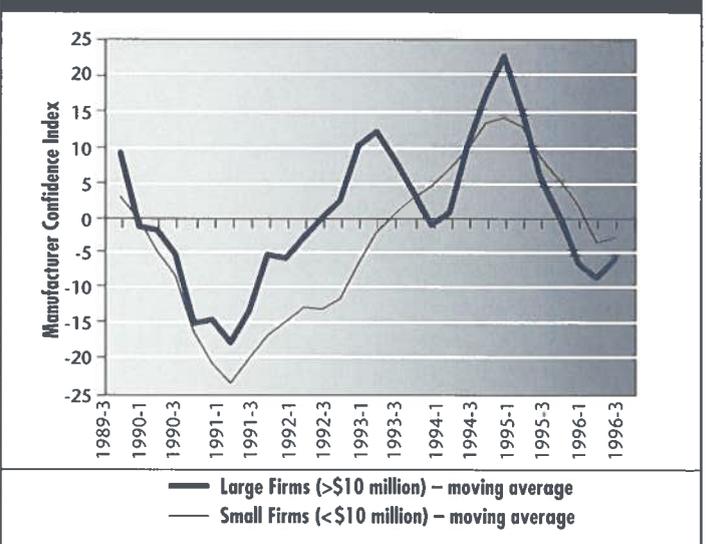
In the second quarter of 1996 one of every three self-employed persons was a woman, as compared with fewer than one in four in 1981. Women make up 36% of the unincorporated self-employed, and 20% of the incorporated self-employed.

Business CONDITIONS

Manufacturers have become slightly more optimistic about their economic prospects for the upcoming three months, according to September's Business Conditions Survey, but are far from the record-high levels reached in early 1995. On a four-quarter moving average basis, neither large nor small manufacturers expect to increase production in the next three months (Figure 5).

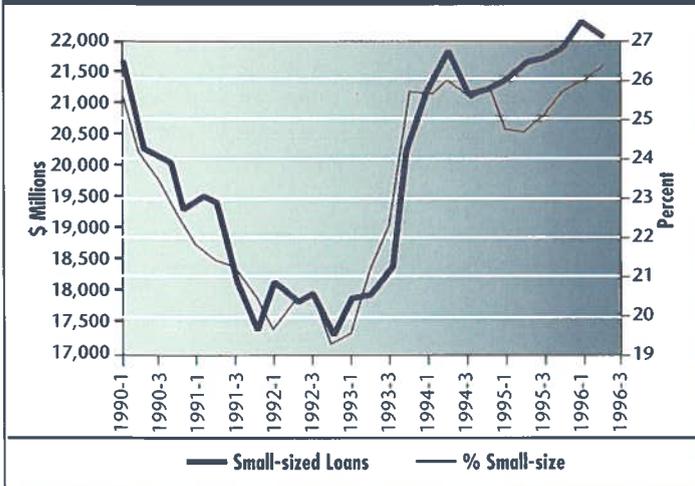
Small manufacturers are, however, slightly more optimistic than large manufacturers, and more of them plan to increase their staff levels than large manufacturers. The Survey also revealed that small manufacturers in some industries are having difficulty recruiting skilled labour. This problem is most evident in the transportation equipment, plastic product, and machinery industries.

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



Business LOANS

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



The number of loans that the chartered banks made to small business was slightly lower in the second quarter of 1996: down by 1% over the first quarter levels. However, this total is still moderately (2%) up from second quarter 1995 levels (Figure 6). Loans to small business have been slowly increasing since early 1994, and the small business share of all bank loans to business rose to more than 26% by the second quarter of 1996.

The fourth annual survey of the economic impact of venture capital, sponsored by the Business Development Bank of Canada and published in December 1996, reports that the amount of Canadian venture capital available to Canadian companies has grown by a factor of three

since 1991. This achievement — more than \$2 billion invested in almost 400 firms since that year — has noticeably improved Canada's ability to build successful high growth companies.

Two thirds of the companies receiving venture capital are less than five years old, yet grew at a compound rate of 24%, as measured by the number of new employees hired. This compares with an overall average Canadian growth rate of only 4% (rates are for the 1991-95 period). Full survey results are available from the Business Development Bank's Venture Capital Division [phone: (514) 283-1896].



Business BANKRUPTCIES

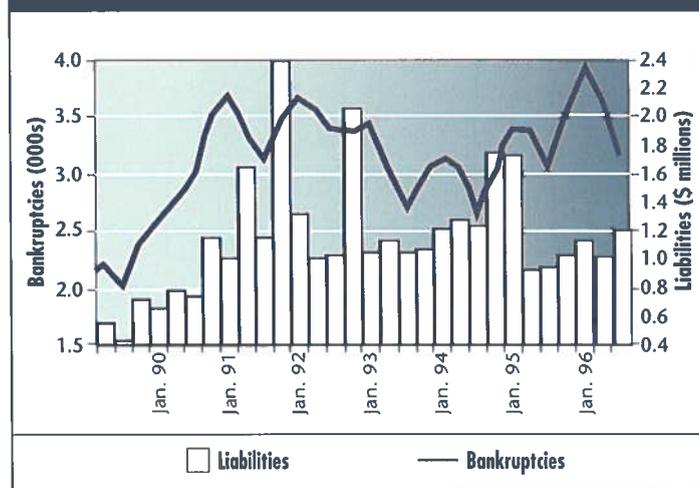
In the third quarter of 1996, both the number of business bankruptcies and the amount of liabilities associated with these bankruptcies were down roughly 10% from the historically high levels reached earlier in the year. These figures are, however, still above the year ago level (Figure 7).

The sectors bearing the brunt of bankruptcies continue to be wholesale and retail trade, with manufacturers reporting the fewest failures over the last four quarters. Small retailers are being particularly hard hit, and have recorded a four-fold increase in liabilities associated with bankruptcies. The finance and insurance sectors suffer the fewest bankruptcies, according to the "incidence of bankruptcy" rate (number of bankruptcies per thousand

businesses). Figures for these sectors stood at 7.8 and 9.5 bankruptcies per thousand, respectively. Sectors with the highest rates of bankruptcy

were transportation and communications and the retail sector, at 21.6 and 18.7 bankruptcies per thousand, respectively.

Figure 7: Business Bankruptcies and Liabilities
(2nd quarter 1989–3rd quarter 1996) — Source: Statistics Canada



SMALL BUSINESS QUARTERLY

ENTREPRENEURSHIP AND SMALL BUSINESS OFFICE

The *Small Business Quarterly* provides a quick and easy-to-read snapshot of the recent performance of Canada's small business sector. The editors of the *SBQ* want it to be the handiest and most useful product possible.

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