Industry Canada Industrie Canada

SMALL *Business* QUARTERLY

SUMMER 1998

PERFORMANCE *Trends*

- Between the first quarter of 1997 and the first quarter of 1998, a total of 380 116 net new jobs were created in the Canadian economy. This represents a slight increase from the total of 333 721 posted in the previous year.
- The number of employer businesses increased by 23 111 from the fourth quarter of 1996 to the fourth quarter of 1997, which is significantly larger than the increase registered in 1995–96. As was the case in 1996–97, the western provinces experienced the highest rate of growth of employer businesses.
- Profit margins for large firms have been stable yet have reported consecutive declines for the last four quarters. Profit margins for medium-sized firms have displayed an upward trend.
- Manufacturers' optimism remains strong — both large and small manufacturers anticipated an increase in production in the second quarter of 1998; small firms, however, are more optimistic than are medium-sized and large manufacturers.
- Chartered bank loans to small and medium-sized enterprises (SMEs) reached a record $55.2 billion in the first quarter of 1998, an increase from $49.6 billion in the same quarter of 1997.
- The number of self-employed workers reached 2 461 600 at the end of the first quarter of 1998, representing about 17.4 percent of the employed work force.
- There were 2886 bankruptcies reported in the first quarter of 1998 compared with 3321 in the first quarter of 1997, representing a 13 percent decrease. Overall, the rate of business bankruptcies has been declining since the first quarter of 1996.

ABORIGINAL ENTREPRENEURS IN CANADA

Progress & Prospects

Text provided by Aboriginal Business Canada, based on joint research work with the Micro-Economic Policy Analysis Branch

Within Canada, a vibrant business sector of privately-owned Aboriginal businesses is emerging. Today, there are over 20 000 North American Indians, Métis and Inuit in Canada who have their own businesses. Well established in primary and traditional industries, Aboriginal entrepreneurs are also found increasingly in more knowledge-based endeavours. In many ways, they are leading their own way to a brighter economic future.

The 1996 Census shows that there were 20 195 self-employed Aboriginal people in Canada. This is an increase of 170 percent from 1981. The overall increase in self-employment among Canadians during the same time was only 65 percent. While self-employment has been rising quickly, so has the Aboriginal population. From 1981 to 1996, the Aboriginal population

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Canada

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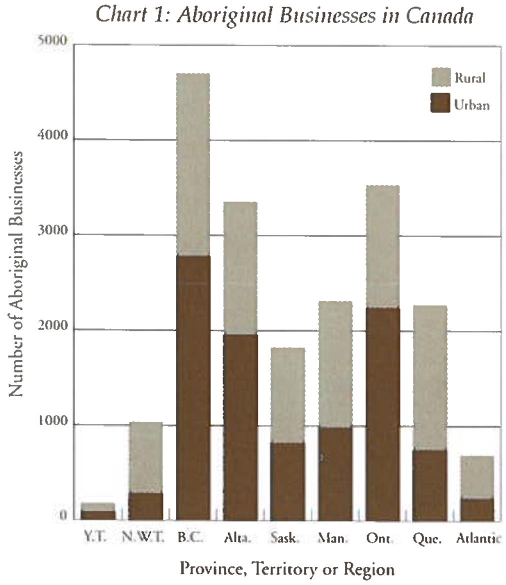
increased by 63 percent while the Canadian population increased by only 17 percent.

The business community reflects the location of population. Chart 1 shows the urban/rural split for Aboriginal businesses in Canada and the provinces and territories. Two out of every three Aboriginal firms are west of Ontario, and more than 50 percent are located in urban areas.

Despite the fast growth, the proportion of Aboriginal adults who are business owners must increase even more rapidly to approach the Canadian average. Currently 3.9 percent of all Aboriginal adults (age 15 and over) own a business versus the Canadian average of 7.9 percent. As well, gaps in the overall Aboriginal labour market exist. The 1996 unemployment rate for Aboriginal people, at 24 percent, was high above the Canadian rate of 10.1 percent. Nonetheless, the labour force participation rates, which in 1996 were roughly 90 percent of the Canadian participation rate of 65.5 percent, suggest strong interest among Aboriginal people in finding work.

Chart 1: Aboriginal Businesses in Canada



Notwithstanding the relatively small number of businesses, the Aboriginal business sector provides a high proportion of the jobs for Aboriginal people and also employs other Canadians. The 1996 Aboriginal Business Survey (ABS) conducted for Industry Canada by Statistics Canada illustrated remarkable similarities between Aboriginal and average Canadian businesses on a number of factors, including employment structure. For instance, 46 percent of Aboriginal businesses hire additional full-time, permanent workers, as compared with 40 percent of Canadian businesses. Based on the average employment structure for Aboriginal firms as suggested by the ABS, the formation of 12 710 additional Aboriginal businesses since 1981 could have generated 48 500 jobs for Aboriginal people and 18 000 jobs for other Canadians.

Aboriginal people living in rural and remote communities experience difficulties because of their geographic distance from markets and many services. These difficulties are being mitigated through the use of technologies which are reducing the costs of doing business from afar. The Internet, for example, is becoming a key tool in overcoming distance barriers and for accessing business information and contacts, allowing the fuller participation of Aboriginal people in the knowledge-based economy and society. However, only 6 percent of Aboriginal businesses are currently connected to the Internet, compared to about 31 percent of the general business community.

When surveyed for the ABS, top Aboriginal entrepreneurs identified their priorities for success in business as improving their:

- management skills (89 percent)
- productivity (88 percent)
- innovation (76 percent)
- financing (74 percent)
- employee training (67 percent) and
- expansion of markets (67 percent).

Productivity improvement and innovation efforts translate directly into success in Aboriginal firms. The ABS showed that 50 percent of the more successful Aboriginal businesses[1] have introduced new products or services in the last three years, compared to a third of all Aboriginal businesses. New processes have been introduced by 44 percent of these successful companies. While innovation is producing success, Aboriginal firms still lag in technology areas such as use of computers. The survey reported that only 35 percent of Aboriginal businesses had a computer, while the Canadian Federation of Independent Business reports that 84 percent of their members use computers. But for larger Aboriginal and non-Aboriginal businesses, employing at least five workers, computer use is similar.

Aboriginal entrepreneurs are active across a wide spectrum of business sectors, from primary activities to manufacturing and services (see Charts 2a and 2b). They are still most prevalent in "traditional" pursuits, such as fishing and trapping, farming, and the contracting trades, such as excavating and plumbing. However, Aboriginal entrepreneurs are also venturing into "new economy" areas that are highly knowledge-based. In fact, more knowledge-intensive sectors of Aboriginal business, such as business services, exhibited 9.2 percent annual growth rates from 1981 to 1996, compared to the 4.8 percent growth in primary industries.

Chart 2a: Aboriginal Industrial Breakdown

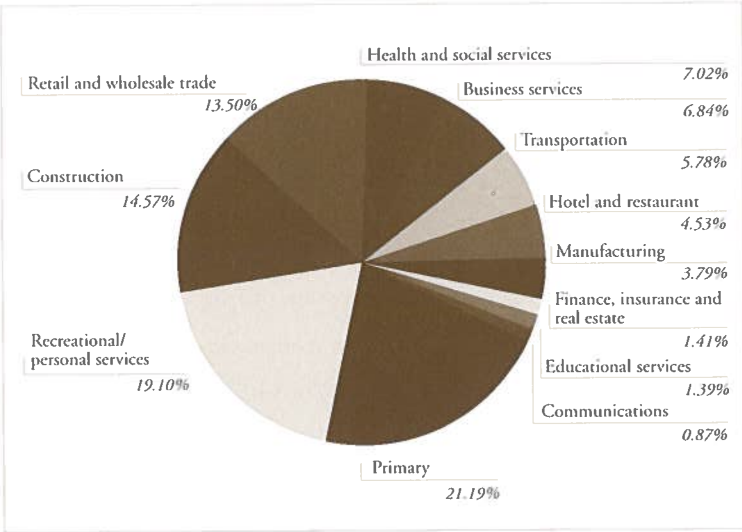
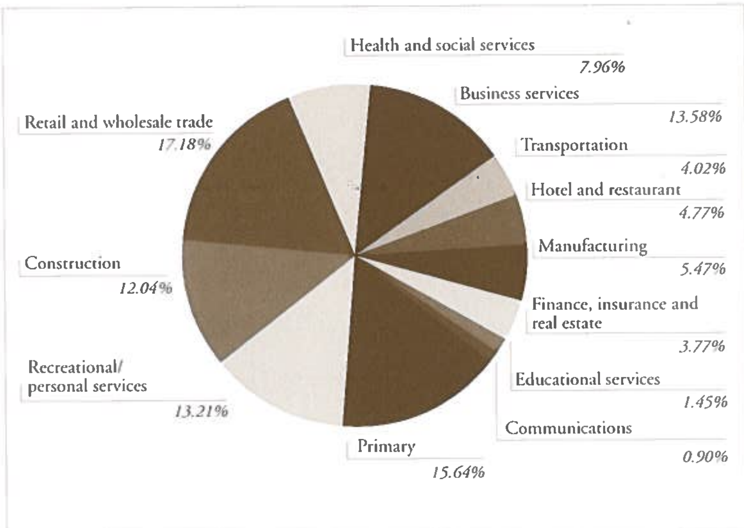


Chart 2b: Canadian Industrial Breakdown



A remarkable 19 percent of Aboriginal firms identified themselves as exporters. A full six percent of Aboriginal firms have exports as the main focus of their business. Aboriginal exports are from all sectors of the economy, including transportation, retail goods, services and primary goods. A limited survey of Aboriginal high knowledge firms by the Trent Aboriginal Education Council at Trent University found that 29 percent of them were involved in exporting.

Roughly half of Aboriginal entrepreneurs perceive that they have inadequate access to capital, and that includes both equity and debt financing. Equity financing was identified more often as a problem. This was not surprising given the lower income levels of Aboriginal people, who earned an average of $17 382 in 1995, compared to the Canadian average of $26 474. This lack of

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[1] Successful Aboriginal firms are those that were profitable in 1995, had increased sales from 1995 to 1996 and were expecting growing profits over the next two years.

JOB *Creation*

Between the first quarter of 1997 and the first quarter of 1998, a total of 380 116 net new jobs were created in the Canadian economy. This represents a slight increase from the total of 333 721 posted in the previous 12-month period.

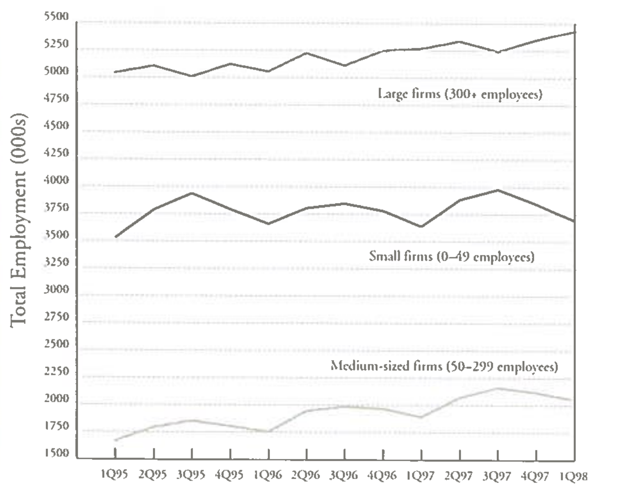
As Chart 3 indicates, small, medium-sized and large firms all posted net gains from the first quarter of 1997 to the first quarter of 1998. During this period, small firms (0–49 employees) created 56 516 net new jobs, medium-sized firms (50–299 employees) created 161 203 net new jobs and large firms (more than 300 employees) created 162 397 net new jobs.

The service sector accounted for the largest increase in new jobs in the first quarter of 1998 — 38 percent of new jobs. This sector was followed by manufacturing, at 23 percent, and trade, at 20 percent. SMEs accounted for the majority of new jobs in these high-growth sectors: 60.5 percent of new jobs in the service sector, 50 percent of new jobs in manufacturing and 62 percent of new jobs in the trade sector.

NET EMPLOYER *Businesses*

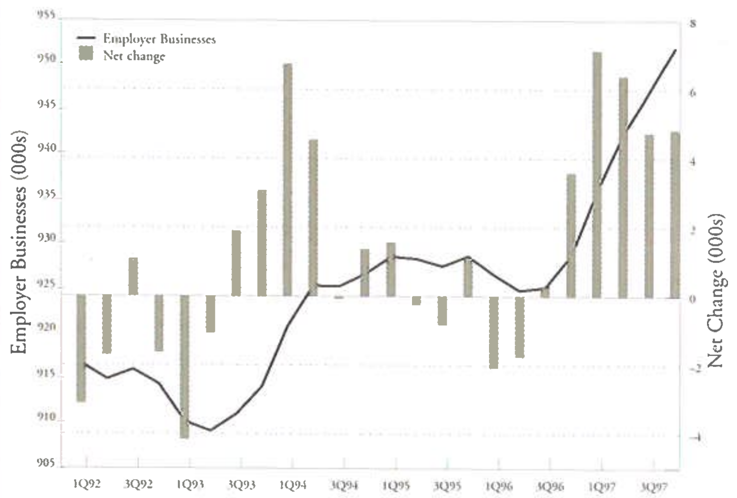
The number of employer businesses continued to rise, reaching close to 952 000 in the last quarter of 1997 (see Chart 4), up by 23 111 between the fourth quarter of 1996 and the fourth quarter of 1997 (see Table 1).

Chart 3: Payroll Employment in Canada by Firm Size, All Industries



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

Chart 4: Business Growth Trends, Canada, 1992–1997



Source: *Business Register*, Statistics Canada

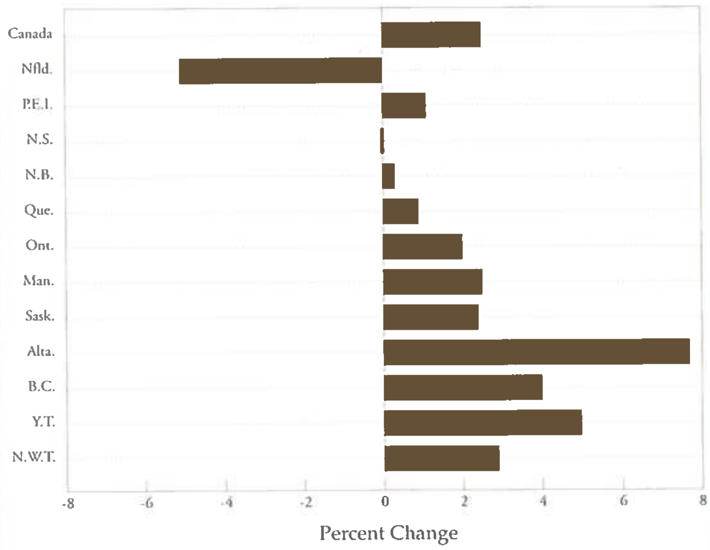
Table 1: Number of Employer Businesses by Quarter, 1993–1997

	Canada	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.	Y.T.	N.W.T.
93 quarterly average	911 141	21 025	6 439	28 863	24 863	224 260	300 729	32 153	36 784	96 555	134 341	1 344	1 614
94 quarterly average	924 584	20 647	6 618	29 434	25 512	226 729	301 938	32 657	36 658	99 871	139 103	1 350	1 680
1995 Q1	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
Q2	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
Q3	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
Q4	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 Q1	926 648	19 692	6 480	29 077	25 466	228 168	299 552	32 665	35 752	102 526	141 676	1 378	1 773
Q2	924 893	19 370	6 446	28 815	25 311	227 505	298 670	32 643	35 648	102 942	141 929	1 381	1 773
Q3	925 216	19 095	6 399	28 656	25 223	227 194	298 436	32 690	35 625	103 708	142 430	1 382	1 781
Q4	928 807	18 935	6 412	28 614	25 251	227 725	299 274	32 861	35 841	104 710	143 229	1 393	1 785
1997 Q1	935 944	18 863	6 420	28 655	25 292	228 619	301 520	33 037	36 140	106 273	144 738	1 415	1 805
Q2	942 340	18 872	6 445	28 835	25 410	229 465	303 537	33 210	36 406	107 866	145 846	1 427	1 825
Q3	947 086	18 867	6 483	29 050	25 526	229 986	304 860	33 342	36 533	109 186	146 636	1 431	1 833
Q4	951 918	18 893	6 529	29 278	25 662	230 705	306 578	33 494	36 680	110 327	147 470	1 440	1 831

Source: *Business Register*, Statistics Canada

As illustrated in Chart 5, growth in the number of employer businesses continued to follow geographical trends. Once again, Alberta enjoyed the biggest increase: 7.7 percent or 7857 additional businesses from the fourth quarter of 1995 to the fourth quarter of 1997. Over the same period Newfoundland was the only province or territory to post a net reduction in employer businesses (5.1 percent or 1018 businesses), while Nova Scotia's employer business growth was flat.

Chart 5: Net Change in Number of Employer Businesses by Region, 1995–1997

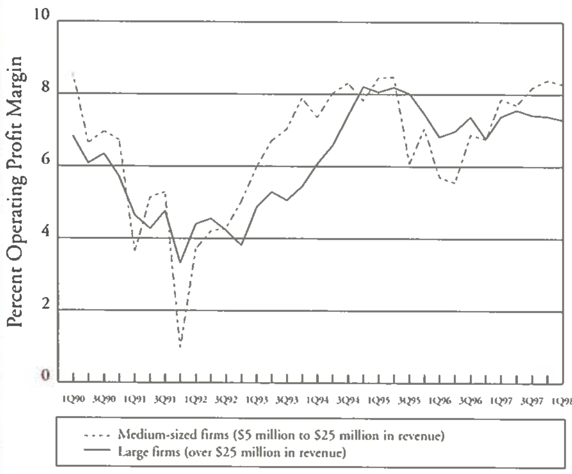


Source: *Business Register*, Statistics Canada

BUSINESS *Profitability*

Medium-sized firms ($5 million to $25 million in revenue) have posted higher profit margins than large firms since the first quarter of 1997. During this period, the profit margin was between 7.7 percent and 8.4 percent for medium-sized firms. As illustrated in Chart 6, profit margins for medium-sized enterprises have continued on an upward trend since the second quarter of 1996. Meanwhile, the profit margin for larger enterprises has shown consecutive, albeit minor, declines over the last four quarters (i.e., from 7.56 percent to 7.29 percent).

Chart 6: Business Profitability Trends (total non-financial industries)



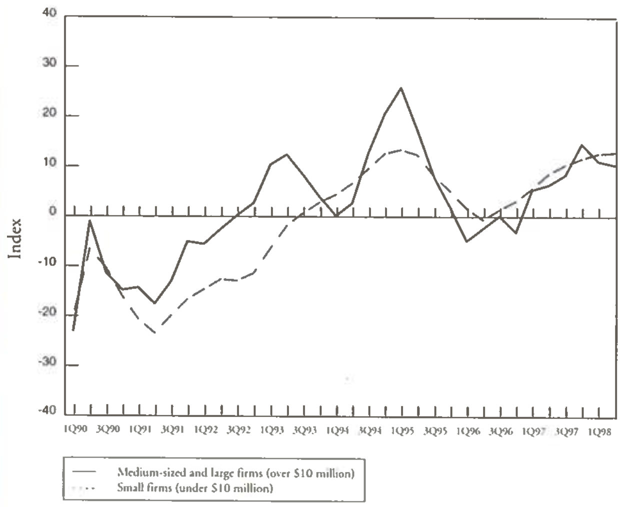
Source: Statistics Canada

BUSINESS *Conditions*

According to Statistics Canada's April 1998 *Business Conditions Survey*, manufacturers' optimism remains strong. Both large and small manufacturers are anticipating an increase in production in the second quarter of 1998. However, as Chart 7 illustrates, small firms are currently more optimistic about increases in production than are medium-sized and large manufacturers.

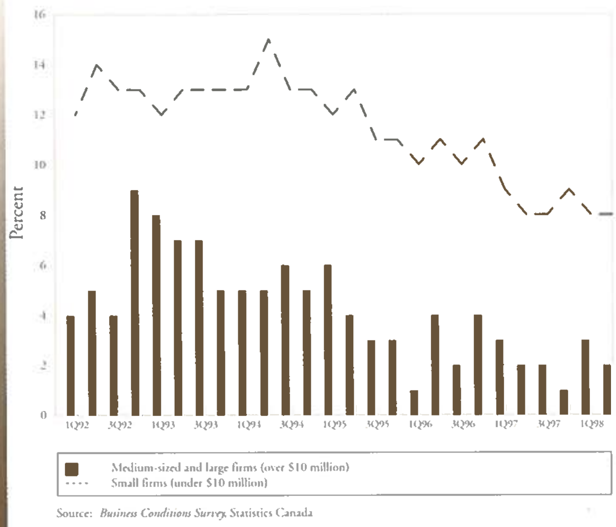
About 27 percent of the small manufacturers expected to increase employment in the second quarter of 1998, and 21 percent of the medium-sized and large manufacturers anticipated increasing their total employment. The April 1998 survey also reported that problems with working capital are a relatively low priority for all firms, although somewhat more difficult for smaller companies; for example, only 2 percent of the medium-sized and large manufacturers reported problems with working capital compared with 8 percent of small firms (see Chart 8).

Chart 7: Manufacturers' Optimism: Increases in the Next Quarter Production



Source: *Business Conditions Survey*, Statistics Canada

Chart 8: Working Capital Difficulties:
Small and Medium-sized and Large Manufacturers



BUSINESS *Loans*

The Bank of Canada reported that chartered bank loans to SMEs reached $55.2 billion in the first quarter of 1998, an increase from $49.6 billion in the same quarter of 1997. The increase was primarily attributable to small loans to businesses (see Chart 9) where borrowing increased by $3.3 billion to almost $25 billion, up from approximately $21.6 billion in the first quarter of 1997. The increase in medium-sized loans ($0.5 million to $5 million) to businesses over the same period totalled $2.35 billion (see Chart 10).

Chart 9: Chartered Bank Small Loans to Business*
(size of authorized loan (current dollars))

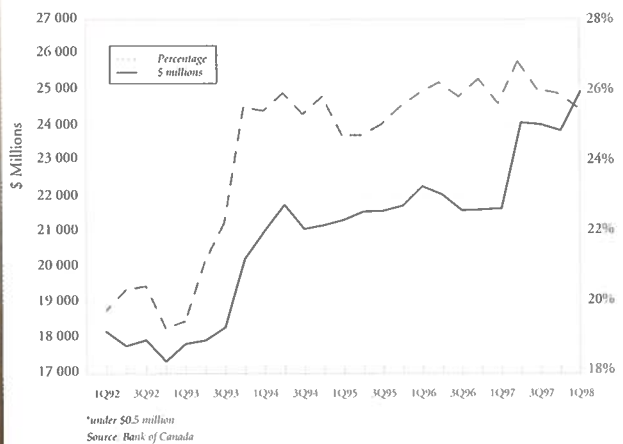
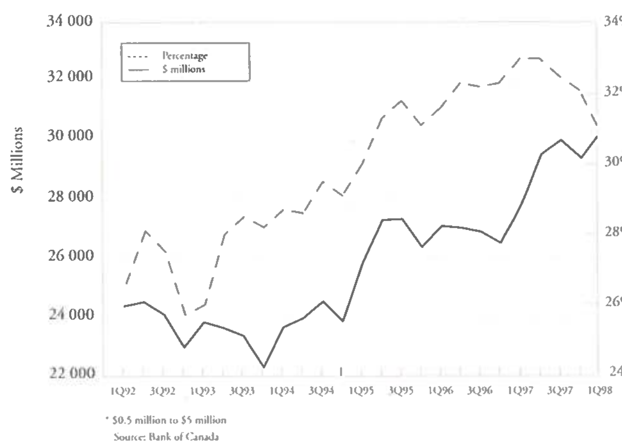


Chart 10: Chartered Bank Medium-sized Loans to Business*
(size of authorized loan (current dollars))



Data as of July 22, 1998

Real GDP... increased by 3.7 percent (annual rate) in the first quarter of 1998, the seventh consecutive quarter of strong growth. Growth was led by a sharp increase in net exports, which resulted in a significant reduction of Canada's deficit on the current account. Higher investment in non-residential construction and increased consumer spending also contributed to output growth.

The economy... is expected to grow briskly this year because of increased consumer demand and strong investment. The consensus of private sector forecasts calls for growth of 3.3 percent in 1998 and 2.8 percent in 1999.

International organizations... also predict strong growth. The International Monetary Fund (IMF) predicts that Canada will lead the G-7 countries with growth of 3.2 percent in 1998. According to the Organisation for Economic Co-operation and Development (OECD), Canada's economy is expected to experience the fastest growth of all G-7 countries over the next two years, with 3.3 percent growth in 1998 and 3 percent in 1999.

The unemployment rate... was 8.4 percent in June, holding steady at its lowest rate since August 1990.

Inflation...was 1 percent in June, excluding food and energy. This was at the bottom half of the 1 to 3 percent target range set jointly by the Bank of Canada and the Minister of Finance.

The Canadian dollar... fell to a record low in July because of the deterioration of economic conditions in Asia.

Short-term interest rates... have edged up slightly since the beginning of the year, but long-term interest rates are down.

Consumer confidence... was higher in the first quarter, as households were considerably more optimistic about the potential for job creation over the next six months.

The business conditions survey... shows that manufacturers expect production and employment to increase slightly in the second quarter of 1998.

Capacity utilization... rose by 0.3 percent to 86 percent in the first quarter, its ninth consecutive quarterly increase.

The outlook for housing... remains very good for 1998. According to the Canadian Mortgage and Housing Corporation (CMHC), strong demand for housing propelled by employment gains, continued low mortgage rates and improved consumer confidence will lead to increased residential construction in major centres for a third consecutive year.

The federal budget... was in balance for the last fiscal year (1997–98), the first time since 1969–70. A balanced budget will also be achieved this year and next.

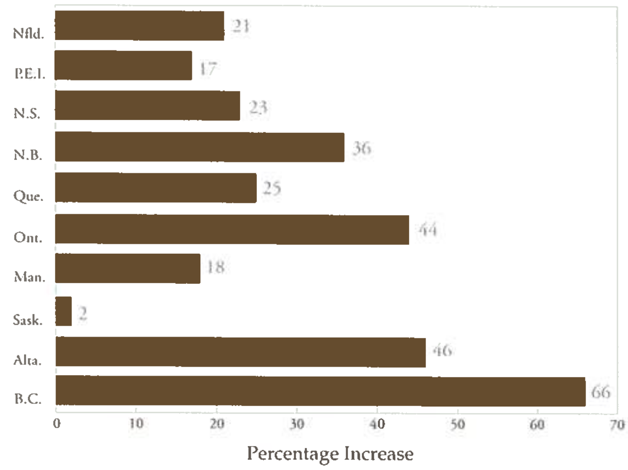
SELF-*Employment*

The number of self-employed workers (defined by Statistics Canada's seasonally adjusted *Labour Force Information — Catalogue # 71-001*) reached 2 461 600 at the end of the first quarter of 1998, representing about 17.4 percent of the employed labour force.

British Columbia leads the growth in self-employment, having experienced a 66 percent increase in the number of self-employed workers since 1989, followed by Alberta at 46 percent and Ontario at 44 percent (see Chart 11).

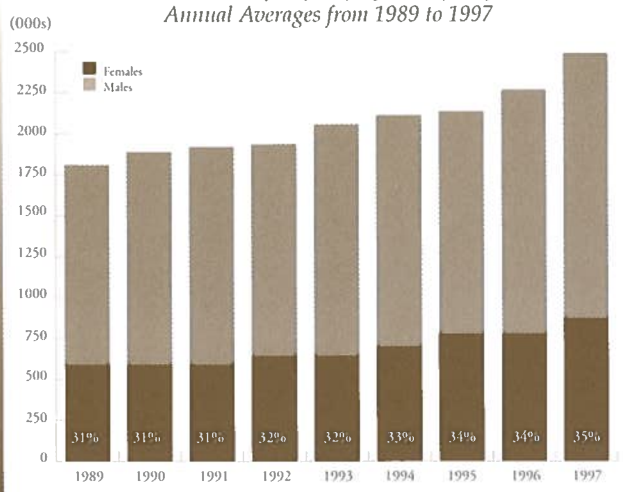
At the end of 1997, 1 615 500 or 65 percent of the total self-employed work force were male. It is worth noting, however, that the female share of the self-employed has been increasing at a steady pace since 1989 (at which time women constituted 560 500 or 31 percent of the self-employed — see Chart 12). There are now 846 100 self-employed women; 35 percent of the total self-employed population.

Chart 11: Percentage Increase in Self-employed People by Province, Annual Averages from 1989 to 1997



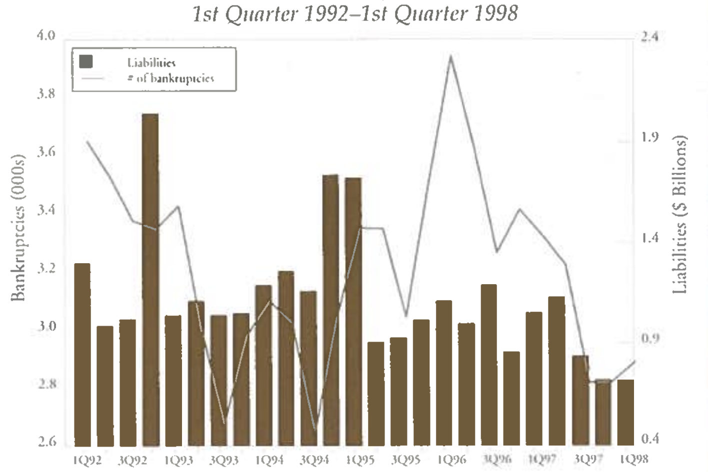
Source: *Labour Force Survey*, Statistics Canada

Chart 12: Number of Self-employed People by Gender, Annual Averages from 1989 to 1997



Source: *Labour Force Survey*, Statistics Canada

Chart 13: Business Bankruptcies and Liabilities, 1st Quarter 1992–1st Quarter 1998



Source: Office of the Superintendent of Bankruptcy, Industry Canada

BUSINESS *Bankruptcies*

There were 2886 bankruptcies reported in the first quarter of 1998 compared with 3321 in the first quarter of 1997, representing a 13 percent decrease. This is in accord with broader trends in business bankruptcies, which have been declining since the first quarter of 1996, as illustrated in Chart 13.

The transportation and storage industries showed the biggest improvement, registering a 32 percent drop in the number of bankruptcies for the one-year period from March 1997 to March 1998. This was followed by the health and social services, construction, and wholesale trade industries showing decreases of 21, 20 and 14 percent, respectively. By way of contrast to overall trends, several industries reported an increase in bankruptcies including educational services industries (45 percent), agriculture and related service industries (14 percent), and communications and other utility industries (9 percent).

RECENT *Tax Developments*

Provincial small business tax rates

The 1998 round of provincial and territorial budgets is now complete. Several of these budgets announced changes in the corporate tax rates that apply to the first $200 000 of active business income of Canadian-controlled private corporations (CCPCs), as follows:

British Columbia announced that the small business rate for CCPCs will be reduced to 8.5 percent from 9 percent, effective January 1, 1999. The rate will be further reduced to 8 percent on January 1, 2000.

The ***Ontario*** budget also announced phased decreases in the tax rates that apply to CCPCs. Effective May 5, 1998, the rate will fall from 9.5 percent to 9 percent, and further to 8.5 percent on January 1, 1999. The rate will then decrease by 0.5 percent annually, attaining 4.75 percent in 2006.

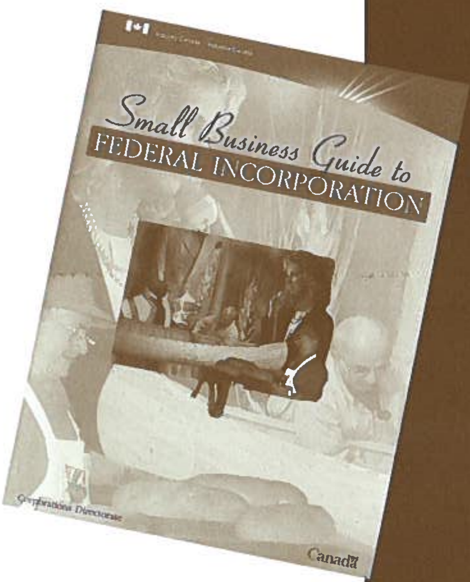
Quebec has proposed to eliminate the small business tax rate of 5.75 percent for CCPCs effective July 1, 1999. All corporations will then be subject to a single rate of 9.15 percent (with surtax) including the first $200 000 of active business income. The 16.25 percent rate that applies to

passive income will remain in place along with the five-year tax holiday on the first $200 000 of the active business income of new corporations.

In addition, the owners of unincorporated small businesses may also benefit from the reductions in personal tax rates that were also announced in most provincial budgets.

Tax relief for Year 2000 costs

On June 11, 1998, the federal government announced tax relief for SMEs to help address the Year 2000 computer compliance problem. The measure will provide an accelerated capital cost allowance (CCA) deduction of up to $50 000 for computer hardware and software acquired by SMEs between January 1, 1998, and June 30, 1999, to replace equipment that is not Year 2000 compliant. Additional information on this measure is contained in the Government of Canada News Release No. 98-057, dated June 11, 1998, available at the Department of Finance Web site **(http://www.fin.gc.ca)** or by contacting the Distribution Centre in Ottawa by telephone (613) 995-2855 or facsimile (613) 996-0518. This news release also contains background information on the tax treatment of Year 2000 expenditures.



RECENT *Developments*

NEW PUBLICATION: ***Small Business Guide to Federal Incorporation***

On February 28, 1998, the Corporations Directorate launched its *Small Business Guide to Federal Incorporation*. The guide, designed in consultation with the private sector, helps small business organizers to incorporate and operate in compliance with the key provisions of the *Canada Business Corporations Act* (CBCA) with minimal professional advice. It will help them maintain the appropriate records, thus reducing costs, and ensure that they have ready access to information about their rights and obligations under the law. The guide is an important tool to making CBCA incorporation more accessible to small and medium-sized businesses and is available on the *Strategis* Web site at: **http://strategis.ic.gc.ca/corporations**. A limited number of printed copies are also available from the Corporations Directorate Information and Publications Unit at (613) 941-9042 as well as Industry Canada Regional Offices and Canadian Business Service Centres (CBSCs).

(continued from page 3)

personal resources and of collateral combined with not having financial institutions in many Aboriginal communities, presents key barriers to accessing capital. Aboriginal entrepreneurs identified their principal source of debt capital as banks and trust companies (47 percent), as well as Aboriginal development corporations (24 percent) and the federal government (15 percent).

Education is becoming increasingly important as a determinant of business success, especially in emerging areas of the knowledge economy. Aboriginal people are making gains in educational attainment, with more in the 20–29 age group earning post-secondary degrees or diplomas. The proportion studying engineering and science, mathematics and commerce has also risen. Aboriginal youth are migrating towards education geared to the "new economy." While the Aboriginal youth are improving their educational levels, Aboriginal adults are improving their competencies: 44.7 percent of Aboriginal students enrolled in higher educational institutions are 25 years of age or over, compared with 14.3 percent for the general population.

The creation of viable business opportunities will be essential for the future prosperity of Aboriginal people and for improving employment prospects. Aboriginal entrepreneurs under 30 years of age make up almost 19 percent of all Aboriginal self-employed people, with 10 percent of all Canadian entrepreneurs in this age group. This shows a real entrepreneurial spirit among Aboriginal youth.

The ABS also showed that Aboriginal business owners identify the primary objectives of their business as stability, profitability and employment of self and family. These objectives were attractive to about three-quarters of Aboriginal business owners. By comparison, just over half of business owners stated that service to the community was a primary goal. While personal lifestyles and family factors come into play, these results suggest a practical and bottom-line approach is often applied in Aboriginal business.

Overall, Aboriginal business has grown immensely over the past 15 years. There are a number of reasons to be optimistic about future growth and while there are differences, new research is illustrating a wide range of areas where Aboriginal business owners and Canadian business owners share many of the same characteristics and opportunities for the future.

For additional information on Aboriginal business, you may wish to consult two additional sources produced by Industry Canada. The *Microeconomic Monitor* is a quarterly publication detailing quarterly economic conditions. The first quarter report contains a special feature entitled "Aboriginal Entrepreneurs in Canada: Progress & Prospects." Another source is "Aboriginal Businesses: Characteristics and Strategies for Growth,"a working paper in Industry Canada's Research Publications Program. Both of these Industry Canada sources can be obtained via the Industry Canada business Internet site at **http://strategis.ic.gc.ca**

Small Business Quarterly
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