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SMALL

Business

WINTER 1999

Q U A R T E R L Y

PERFORMANCE *Trends*

- Almost 277 000 net new jobs were created in Canada between the second quarter of 1997 and the second quarter of 1998, down from the same period in 1996-97 when more than 314 000 net new jobs were created.
- Profit margins for large firms continued their decline in the second quarter of 1997; profit margins for medium-sized firms also declined in the second quarter, reversing their upward trend.
- Medium-sized and large manufacturers are more optimistic about their economic prospects for the fourth quarter of 1998, while the level of optimism expressed by small firms for the fourth quarter is on the decline.
- Medium-sized loans (\$500 000 to \$5 million) did not see much fluctuation during the second quarter of 1998; however, small loans (below \$500 000) to businesses declined by 4 percent from the previous quarter.
- The number of self-employed workers rose by 16 000 in October 1998, the sixth increase in the last seven months, bringing the total net gains since April to 116 000. As of October 1998, there were 2 592 900 self-employed workers in Canada.
- In the second quarter of 1998, business bankruptcies were down by almost 6 percent (i.e. from 2886 to 2715) from the first quarter of 1998; the number has declined by 16 percent when compared with the figures from the previous year.

SHATTERING THE GLASS BOX *Women Entrepreneurs and the Knowledge-based Economy*

This analysis is based on 1991 and 1996 census data. It should be noted that census-based self-employment figures are lower than those reported on the Labour Force Survey.

One of the driving forces on the Canadian entrepreneurial scene in recent years has been the increase in the number of self-employed women. These female entrepreneurs tend to be younger, better educated and pursuing business opportunities in the knowledge-based economy more aggressively than they have in the past.

Essentially, more women are choosing self-employment over other employment options. According to census data, between 1991 and 1996 the number of self-employed women grew 44.3 percent (as opposed to a 20.0 percent increase of self-employed men). This translated into a net increase of 190 780 new self-employed women (versus 211 265 new self-employed males during the same period). Self-employed women and men together numbered 2 266 600 in 1996. This growth occurred in all provinces across Canada, particularly in Saskatchewan, Manitoba, Quebec

(continued on page 2)

CONTENTS

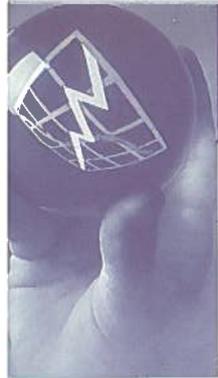
<i>Job Creation</i>	3
<i>Business Profitability</i>	3
<i>Business Conditions</i>	4
<i>Business Loans</i>	5
<i>Self-Employment</i>	5
<i>Business Bankruptcies</i>	6
<i>Recent Developments</i>	6
<i>Economic Snapshot</i>	7
<i>Electronic Commerce: Countless Opportunities for Small Business</i>	8

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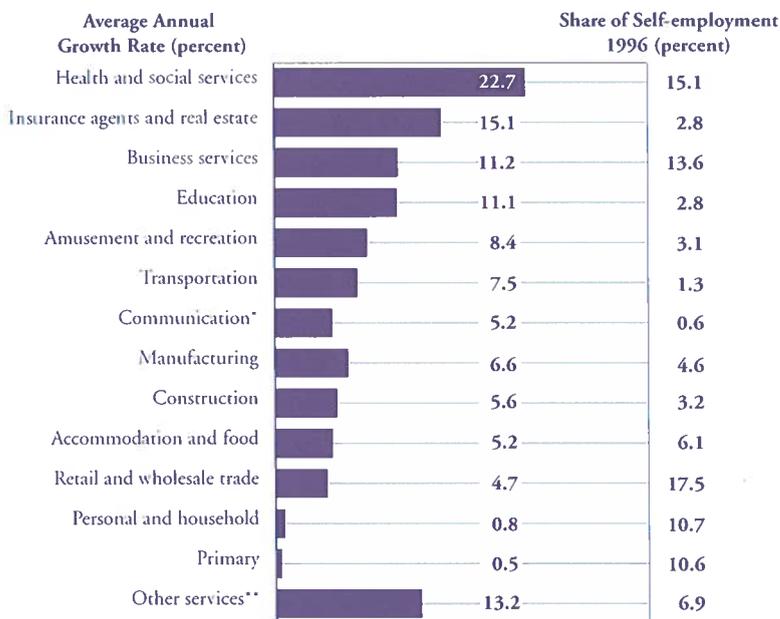
and the Atlantic provinces where more women than men became self-employed during the 1991–1996 period. Internationally, Canada is ahead of all other OECD (Organisation for Economic Co-operation and Development) countries, including the United States, Great Britain, Norway and Sweden, in the percentage of the unincorporated self-employed work force made up by women.

Women's entrepreneurship activities, aided by the opportunities presented by the knowledge-based economy, have expanded into industries in which, traditionally, women have not heavily participated.

These include business services (e.g. architecture, engineering, law, accounting), transportation, manufacturing and construction (see Chart A). The health and social services industry has also seen increasing numbers of women participating as health practitioners (e.g. optometrists, doctors, dentists).

The reasons why women are increasingly attracted to self-employment do not differ greatly from those of men. The most common reasons given by both sexes are independence and the prior existence of a family business; unavailability of other employment was also a common reason. However, the options of more flexible schedules and working from home were reasons more often put forward by women. New technologies have given women the opportunity to work from home in a number of areas including knowledge-intensive services. This, combined with the fact that less expensive computers and related technology has cut the cost of running a home-based business, has contributed to a sharp increase in the share of self-employed women working at home (up 40.9 percent between 1991 and 1996 for all women, while the percentage of men working at home during the same period declined by 1.0 percent).

Chart A: Self-employed Women by Industry, 1991–1996



* Includes utilities.
 ** Includes machinery and equipment rental and leasing, photographers, building services, and travel.

Source: 1991 and 1996 Census of Canada. Statistics Canada

Immigrants account for a significant number of businesswomen; immigrant businesswomen increased by 42.6 percent from 1991 to 1996, keeping pace with the overall increase in female entrepreneurs (44.3 percent over the same period).

The profile of female entrepreneurs is also changing. The incidence of university education among businesswomen has increased 70.0 percent from 1991 to 1996 (far exceeding the 33.9 percent increase in university-educated male entrepreneurs). This can partly be attributed to the source of much of the growth in female business owners: young women under the age of 30. In fact, between 1991 and 1996, four out of five people under 30 who became self-employed were women.

For a copy of the complete report *Shattering the Glass Box*, please contact the Micro-Economic Policy Analysis Branch, Industry Canada, Ottawa, at (613) 954-3487.

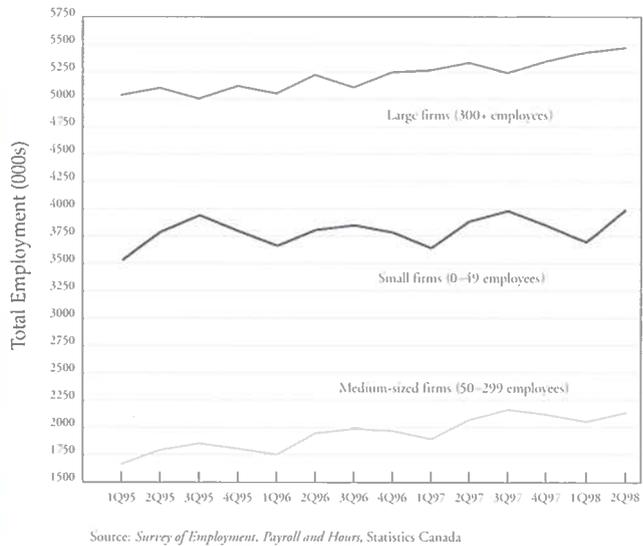
JOB Creation

Almost 277 000 net new jobs were created in Canada between the second quarter of 1997 and the second quarter of 1998, representing less job creation than that of the same period in 1996–97 when more than 314 000 net new jobs were created. Large firms, which have been responsible for a growing share of job gains over the last year, accounted for 55 percent of total employment created in the second quarter (152 739 net new jobs).

Chart 1 illustrates the quarter-by-quarter variation in total employment by size of firm (excluding self-employment). It indicates that all sizes of businesses posted net gains from the first quarter of 1997 to the second quarter of 1998. Of the new jobs created, 53 557 (19.3 percent) originated in small firms (fewer than 50 employees). Medium-sized firms (between 50 and 300 employees) increased their paid employment by 70 700 jobs (25.5 percent), while large firms (more than 300 employees) added 152 739 (55.1 percent) net new jobs.

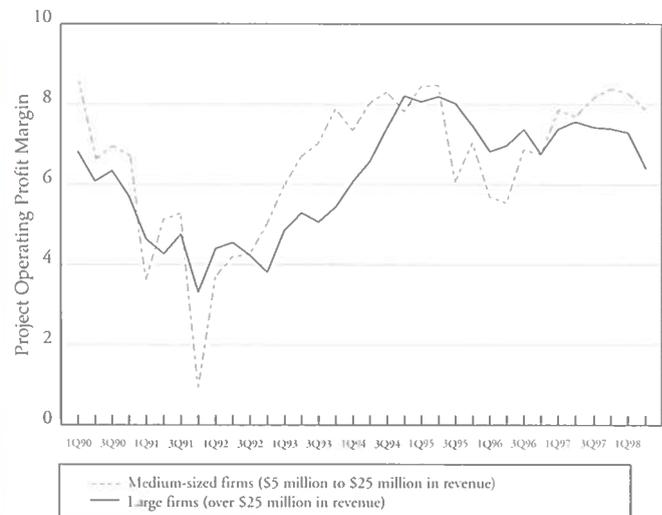
Most of the jobs created in the second quarter of 1998 were added by the service sector (39.0 percent), followed by manufacturing (27.5 percent), the construction industry (11.4 percent) and trade (11.3 percent). In the service sector, large firms accounted for the greatest increase in job growth (65.6 percent), with small and medium-sized enterprises (SMEs) accounting for the balance. In the manufacturing sector, SMEs accounted for 48 percent of employment growth, while in the construction industry, SMEs accounted for the majority of new jobs (72.2 percent).

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



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

Chart 2: Business Profitability Trends (total non-financial industries)



Source: Statistics Canada

BUSINESS Profitability

The profit margins for large enterprises (those with more than \$25 million in annual revenue) continued their decline, which had begun in the second quarter

of 1997. In the second quarter of 1998, profit margins of medium-sized businesses (those with between \$5 million and \$25 million in annual revenue) were also down slightly from the first quarter of 1998 (i.e. from 8.4 to 7.9 percent), their first drop in more than a year.

Chart 2 contrasts the profit margins of medium-sized businesses with those of large firms on a quarterly basis since 1990.



BUSINESS Conditions

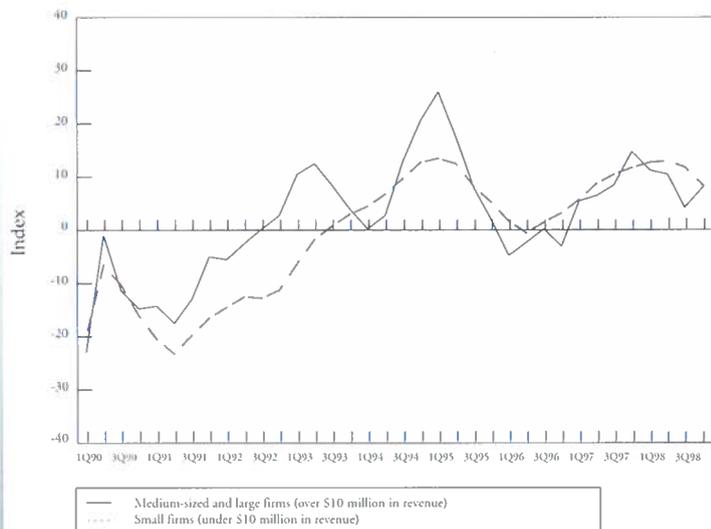
According to Statistics Canada's October 1998 *Business Conditions Survey*, medium-sized and large manufacturers are increasingly optimistic about their economic prospects for the fourth quarter of 1998. In contrast, small firms expressed less optimism, reversing two years of continuous rising optimism (see Chart 3).

On a four-quarter moving average basis, medium-sized and large manufacturers are expected to increase production over the next three months. Both categories of firms are also expected to increase their employment during this time.

The survey also revealed that 6 percent of small manufacturers reported that the unavailability of working capital continues to be a problem, while 2 percent of medium-sized and large manufacturers reported problems with working capital (see Chart 4).

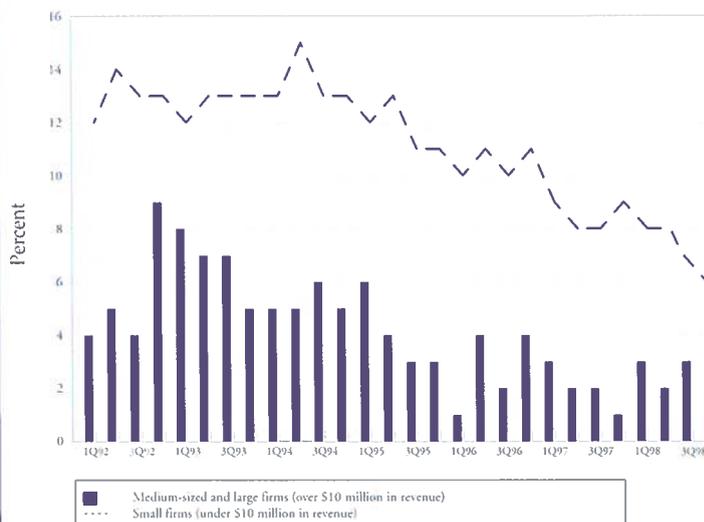


Chart 3: Manufacturers' Optimism:
Increases in the Next Quarter Production



Source: *Business Conditions Survey*, Statistics Canada

Chart 4: Working Capital Difficulties:
Small and Medium-sized and Large Manufacturers



Source: *Business Conditions Survey*, Statistics Canada

BUSINESS Loans

The proportion of small loans (below a \$500 000 authorized limit) that the chartered banks made to businesses declined by 4 percent in the second quarter of 1998 (see Chart 5). Medium-sized loans (\$500 000 to \$5 million) did not fluctuate much during the same period (see Chart 6).

Chart 5: Chartered Bank Small Loans* to Business (size of authorized loan (current dollars))

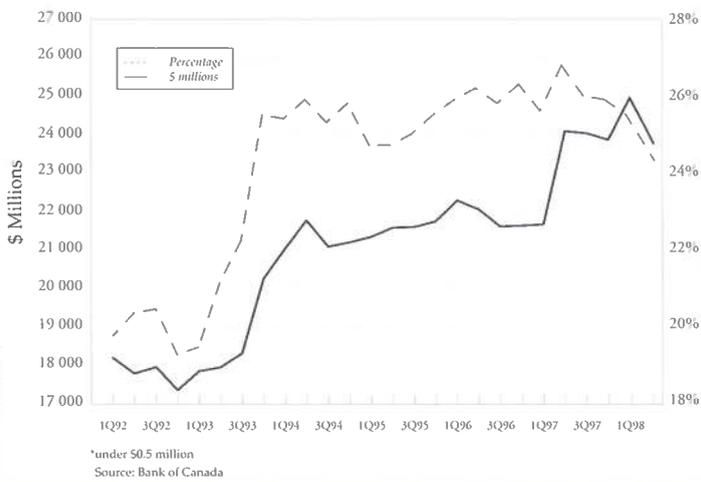
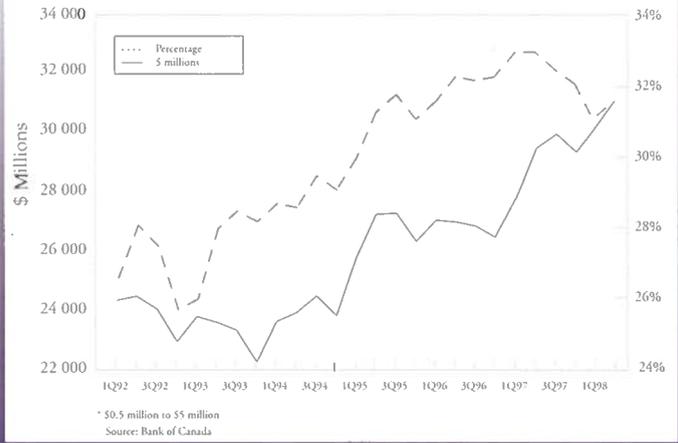


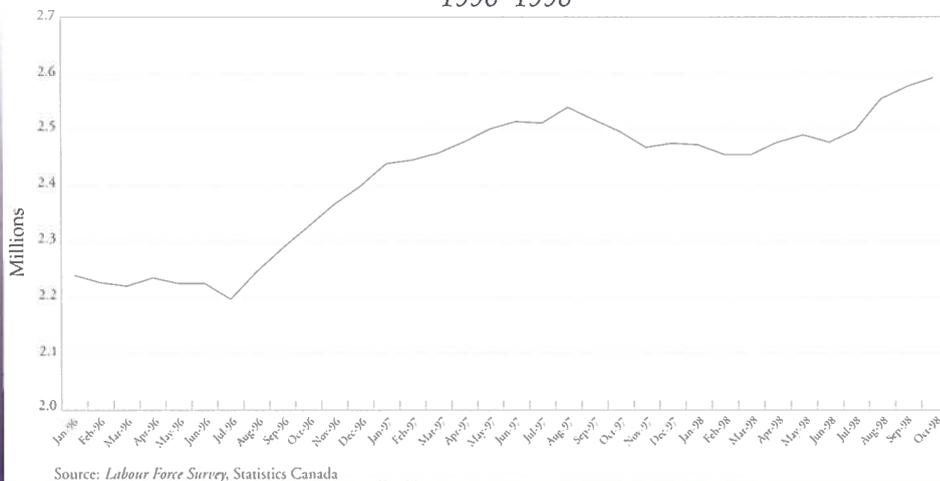
Chart 6: Chartered Bank Medium-sized Loans* to Business (size of authorized loan (current dollars))

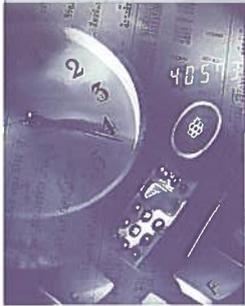


SELF- Employment

After the sharp gains between late 1996 and August 1997, growth in self-employment weakened until April 1998. Self-employment rose by 16 000 in October 1998, the sixth increase in the last seven months, bringing the total net gains since April to 116 000. As of October 1998, Canada had 2 592 900 self-employed workers, about 18 percent of its total employment (see Chart 7).

Chart 7: Number of Self-employed in Canada, 1996-1998





RECENT *Developments*

BUSINESS *Bankruptcies*

In the second quarter of 1998, business bankruptcies dropped by almost 6 percent (i.e. from 2886 to 2715) relative to the first quarter of 1998; when compared with the previous year, bankruptcies are down 16 percent. The amount of liabilities associated with these bankruptcies also declined significantly (15 percent) from the first to the second quarter of 1998 (see Chart 8).

The transportation and storage industries showed the biggest improvement over the last year, with a decrease in bankruptcies of 34 percent, followed by the health and social services industries (31 percent), fishing and trapping (30 percent), and the logging and forestry and the construction industries (19 percent each). By way of contrast, the mining, quarrying and oil exploration industries reported an almost 31 percent increase in the number of bankruptcies.

Industry Canada and the Canadian Federation of Independent Business extend an official invitation to attend the 26th International Small Business Congress (ISBC) in Toronto, October 12-15, 1999.

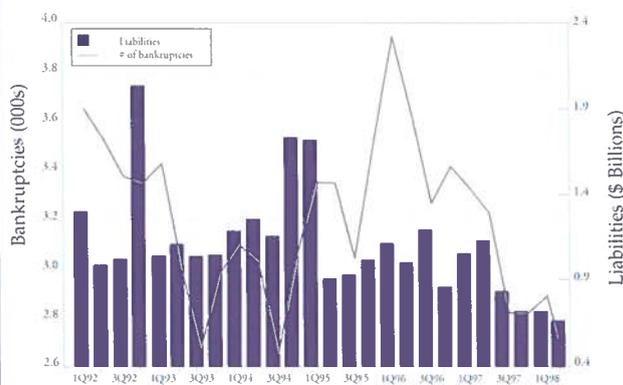
On behalf of the Government of Canada, the Canadian Ambassador to Brazil, Mr. Richard Kohler, issued an official invitation to more than 1400 delegates at the ISBC in São Paulo, Brazil, October 14, 1998, to come to Toronto for the 1999 event. More than 1000 delegates from as many as 50 countries are expected to assemble at the Metro Toronto Convention Centre for October 12–15, 1999, to focus on the theme “Small Business ... Smart Business.” Delegates will include government officials, business and industry associations, educators, management consultancy firms, banks, economic development agents, entrepreneurs, and many others interested in exchanging information and experience, creating partnerships, or developing trade relationships. Twenty plenary and concurrent panel sessions will feature provocative speakers on preparing small and medium-sized enterprises (SMEs) for the 21st century management challenges of going global, riding the technology wave, developing a skilled labour force, and creating an entrepreneurial environment.

Plenary and panel sessions will be highly participative and practical. There are plans for a business matching element, which will encourage delegations of SMEs to attend the Congress to follow up on business opportunities initiated through an Internet-based program. This program can also be used by governments and business support agencies to identify delegates with whom they are able to do “information trading” before and during the Congress.

The 26th ISBC will be hosted by Industry Canada and the Canadian Federation of Independent Business. By the end of November 1998, major sponsorship support had been secured from the Business Development Bank of Canada, the Certified General Accountants Association of Canada, Canadian Airlines, and the provinces of Nova Scotia, New Brunswick, Ontario, Saskatchewan and British Columbia. Several other corporations and governments are expected to join this list of SME supporters over the next few months.

For more information, contact the ISBC by E-mail at: isbc1999@ic.gc.ca or visit the Web site at: <http://strategis.ic.gc.ca/isbc>

Chart 8: Business Bankruptcies and Liabilities, 1st Quarter 1992-2nd Quarter 1998



Electronic Commerce Demonstration Project

Community Storefronts, Industry Canada's electronic commerce demonstration project, has a number of small businesses and non-profit organizations doing business using secure Internet commerce tools. One business is even earning more on-line than through its street front store. More than 200 participating small businesses and non-profit organizations, largely in rural communities, are learning to operate successful Internet sites, and will share a public testimonial on their strategies, lessons learned and results in May 1999. There is still limited room to join the project, which is being promoted by Industry Canada and its corporate sponsors.

Visit <http://www.communitystorefronts.com>

Sources of Financing Internet Site Relunched Fall 1998

Sources of Financing <http://strategis.ic.gc.ca/sources> is an Internet-based information product designed to help small business conveniently locate key information on traditional and alternative sources of financing across Canada.

Sources of Financing is one of the most popular products on Industry Canada's *Strategis* Web site and has been relunched with a refurbished look and feel. The new *Sources of Financing* has also benefited from the small business financing expertise of Barbara Orser and Allan Riding by incorporating advice from their book *Beyond the Banks* into its content and design.

Sources of Financing offers considerable search capabilities: users can access the extensive *Sources* database of Canadian financial providers and get results that respond to their particular financing needs. By entering criteria such as region, industry, and amount and purpose of financing, users benefit from highly tailored results.

Two new calculators round out the major new additions to the product. The Lease or Buy Calculator helps in deciding the best way to acquire business equipment, and the Financial Service Charges Calculator (to be launched on *Sources of Financing* in the spring of 1999) will help small businesses compare the costs of financial service charges among Canadian financial institutions.



ECONOMIC Snapshot

Data as of November 2, 1998

Real GDP...

increased by 1.8 percent (annual rate) in the second quarter of 1998, down from an increase of 3.4 percent in the previous period. This represents the slowest quarterly growth rate in two years.

The economy...

is still expected to experience good growth this year because of increased consumer demand and strong investment. Private sector forecasts call for growth of 3.0 percent in 1998 and 2.2 percent in 1999.

Employment...

rose by 73 000 in September, bringing total gains over the past 12 months to 349 000, or 264 000 since the beginning of the year. Self-employment has accounted for 38.3 percent of total job gains since the beginning of the year.

The unemployment rate...

was 8.3 percent in September, holding steady at its lowest rate since August 1990.

Inflation...

was 0.7 percent in September, the lowest so far this year. Inflation excluding food and energy was 1.4 percent in September, within the bottom half of the 1 percent to 3 percent target range set jointly by the Bank of Canada and the Minister of Finance.

Mortgage rates...

declined significantly in September and October. The five-year mortgage rate, at 6.75 percent, is near a 20-year low.

The Business Conditions Survey...

shows that manufacturers expect to increase production in the fourth quarter of 1998, while adding marginally to their work force.

Capacity utilization...

is up five full percentage points from the beginning of 1996. Utilization rates have risen even though firms added significantly to productive capacity by investing heavily in plants and equipment.

The Canadian dollar...

fell to a record low of just above US\$0.63 in August because of the deteriorating economic conditions in Asia, but has strengthened somewhat in recent months.

The merchandise trade surplus...

rose to its highest level in more than a year in August, buoyed by surging exports to the United States.

The federal budget...

recorded a surplus of \$8.0 billion in the first five months of the 1998-99 fiscal year. This surplus is on the heels of the \$3.5 billion surplus for all of last year, the first since 1969.



ELECTRONIC COMMERCE:

Countless Opportunities for Small Business

Canada's small and medium-sized enterprises (SMEs) are quickly embracing electronic commerce and using it to its full potential for new business opportunities. By setting up a virtual storefront on the Internet, SMEs can stay open for business 24 hours a day, seven days a week. A presence on the World Wide Web, whether for promotional purposes or selling goods and services, is increasingly a must for businesses looking to develop or expand their markets.

Jenny's Floral Studio in Sarnia, Ontario, launched its Virtual Flowers Web site in early 1996, and the company's gross sales doubled in its first year on-line and tripled in its second.

"When we decided to expand our business, we asked our-

selves, "What do people want?" recalls Tanya Wolff-Molson, president of the company. "The Internet seemed a logical choice for our type of business."

The Government of Canada is working closely with private industry to create the right environment for electronic commerce and make Canada a world leader in the development and use of electronic commerce products and services by 2000.

Canada recently hosted the Organisation for Economic Co-operation and Development (OECD) Ministerial Conference entitled *A Borderless World: Realising the Potential of Global Electronic Commerce*, held in Ottawa October 7-9, which attracted 900 representatives from more than 41 countries to discuss some of the important policy issues surrounding electronic commerce on a global scale.

Canada's business leaders were well represented on the Canadian delegation to the conference, which also included representatives from government, non-governmental organizations, and labour and consumer groups. "This conference demonstrated the effectiveness of cooperation and collaboration in creating an environment in which electronic commerce can flourish," said Industry Minister John Manley, host and chair of the conference.

The conference also showcased electronic commerce innovations and applications. Companies from around the world demonstrated the latest developments in electronic commerce technology.

Discussions at the conference set the international stage for the continued growth of electronic commerce. Participants agreed on a common vision for global electronic commerce, outlined priorities and made commitments to implement the vision. Here at home, Canada is taking a number of steps to ensure it remains a world leader in this burgeoning field. "We will put the conclusions of the Ottawa conference to work in our domestic policy," said Minister Manley. "Canada has one of the most advanced strategies for electronic commerce. We want to remain at the leading edge in creating and using technology that will bring enormous and economic benefits in the century to come."

The OECD prepared a number of background reports to serve as the basis for discussions at the conference. One of the reports, *SMEs and Electronic Commerce*, is available on the OECD Web site at <http://www.oecd.org/dsti/it/ec/prod/sme18e.pdf>

To find out more about the Government of Canada's Electronic Commerce Strategy or the OECD conference, please visit the following Web sites:

- <http://e-com.ic.gc.ca>
- <http://www.ottawaoecdconference.org>

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