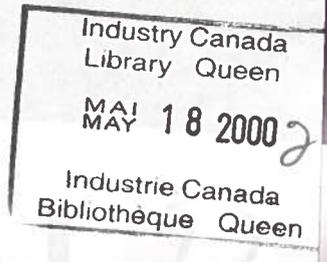




Industry
Canada

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SMALL BUSINESS

VOL. 2, NO. 1, April 2000

QUARTERLY
<http://strategis.gc.ca/SMEquarterly>

PERFORMANCE

Trends

- More than 192 000 net new jobs were created in employer businesses in Canada between the third quarter of 1998 and the third quarter of 1999, a slightly lower base of job creation than the 208 000 jobs recorded during the same period in 1997-98.
- According to the Business Register Division of Statistics Canada, the number of employer businesses in Canada continued to rise, and reached 1 970 099 in September 1999.
- The number of self-employed workers grew by 2.7 percent from January 1999 to January 2000.
- The overwhelming majority of manufacturers indicated that they planned to increase production in the next three months.
- Chartered bank loans to small and medium-sized enterprises (SMEs) amounted to \$53 billion in the third quarter of 1999.
- The number of business bankruptcies declined by 13.2 percent to 2225 in the third quarter of 1999 from 2564 in the second quarter of 1999.

HISTORICAL TREND ANALYSIS *of Self-employment in Canada*

Statistics Canada categorizes self-employed workers as follows:

- incorporated self-employed workers with paid help;
- incorporated self-employed workers without paid help;
- unincorporated self-employed workers with paid help;
- unincorporated self-employed workers without paid help; and
- workers who work in family businesses without pay.

Since 1976, the total number of self-employed workers in Canada has risen 106.4 percent. Total increases have accelerated between 1990 and 1999, during which time the number of self-employed workers increased almost 34 percent.

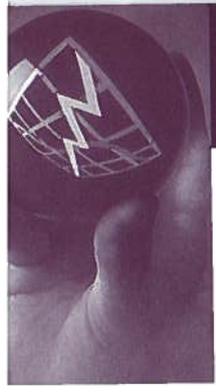
Statistics Canada data show that the number of self-employed workers has grown over time in all categories, with the exception of self-employed workers in family businesses who work without pay. This category has consistently declined over the last couple of decades. In 1976, there were 135 300 of these workers; by 1999, the number had dropped to 46 500 (see Chart A on page 2).

(continued on page 2)

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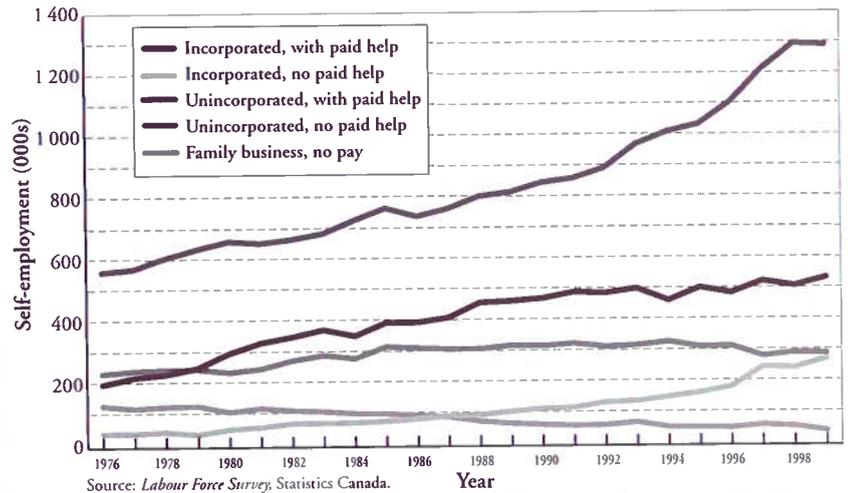
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When comparing incorporated versus unincorporated self-employed workers, the data show that although both categories have continued to grow consistently, the rate of growth of the incorporated self-employed workers has been higher since 1985 (see Chart B).

In 1999, the total number of unincorporated self-employed workers was approximately 1.6 million (1 594 800) while the number of incorporated self-employed workers was 821 000.

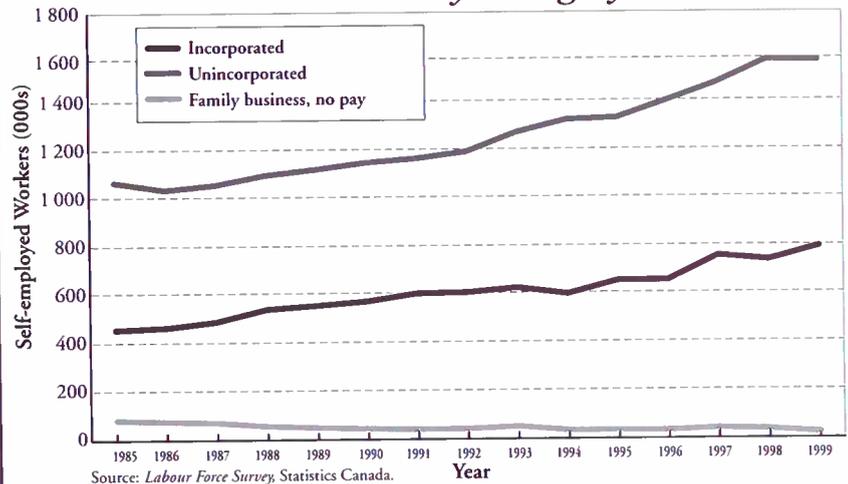
Table A presents the total number of self-employed workers in Canada by category of worker from 1985 to 1999.

Chart A: Self-employment in Canada by Category



Source: Labour Force Survey, Statistics Canada.

Chart B: Number of Self-employed Workers in Canada by Category



Source: Labour Force Survey, Statistics Canada.

Table A: Total Self-employment¹ in Canada, All Industries, 1985 to 1999

Year	TOTAL ¹	Incorporated, with paid help	Incorporated, no paid help	Unincorporated, with paid help	Unincorporated, no paid help	Family business, no pay
1985	1685.1	401.2	81.9	323.8	771.8	106.4
1986	1656.0	401.9	89.4	318.9	745.4	100.5
1987	1695.6	416.9	98.6	315.1	769.6	95.4
1988	1772.2	465.1	101.5	315.3	809.4	80.9
1989	1803.4	469.7	112.0	325.8	822.5	73.5
1990	1842.7	477.7	120.5	323.5	852.5	68.5
1991	1887.4	497.5	132.6	331.1	861.1	65.0
1992	1919.3	493.6	140.1	320.2	899.1	66.3
1993	2027.1	508.4	144.0	324.5	975.1	75.0
1994	2036.3	469.2	157.4	335.9	1015.6	58.0
1995	2097.8	510.5	170.5	319.3	1039.6	57.9
1996	2169.4	493.0	189.8	320.9	1109.4	56.3
1997	2353.7	530.9	253.6	288.4	1215.6	65.2
1998	2425.2	515.4	250.4	299.4	1299.4	60.6
1999	2462.9	541.9	279.6	296.8	1298.0	46.5

1. In thousands.

* Totals may be slightly off as a result of rounding.

Source: Statistics Canada.



JOB Creation

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

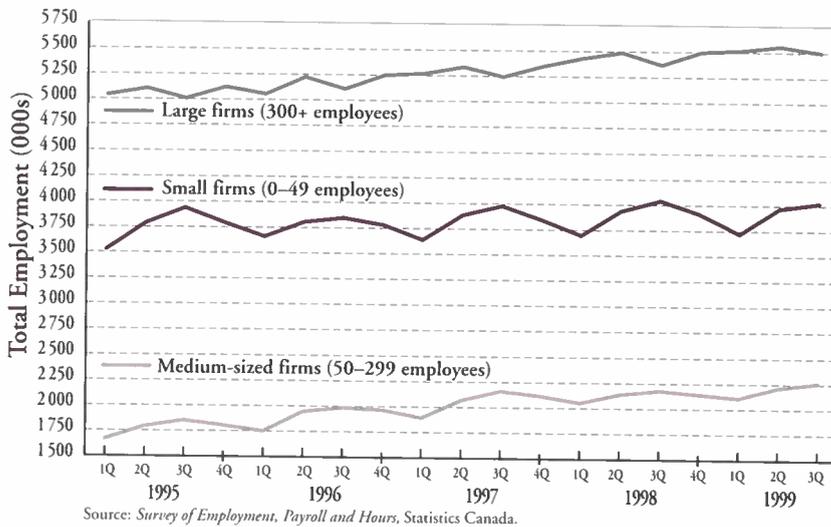
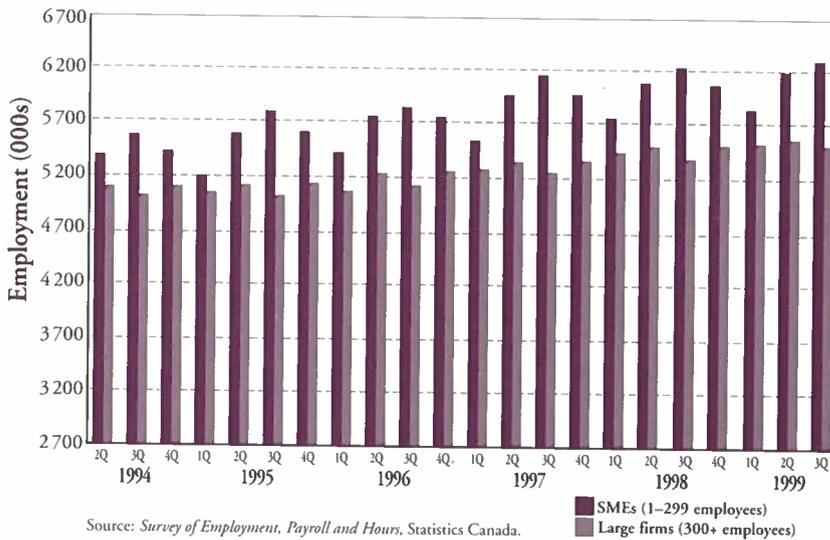


Chart 2: Payroll Employment by SMEs and Large Firms



More than 192 000 net new jobs were created in employer businesses in Canada between the third quarter of 1998 and the third quarter of 1999, a slightly lower base of job creation than the 208 000 jobs recorded during the same period in 1997-98. Most of the employment growth from the third quarter of 1998 to the third quarter of 1999 was in large firms, but SMEs as a whole accounted for 33 percent of this increase (excluding self-employment). However, small firms (those with fewer than 50 employees) actually recorded a net employment loss of 17 358.

Most of the jobs created in the third quarter of 1999 were added by the service sector (33.5 percent of all jobs created in this quarter), followed by trade (26.4 percent), the manufacturing sector (19.7 percent) and the construction industry (11.4 percent). SMEs accounted for the greatest employment growth in the construction and trade industries, accounting for 85 and 50 percent of all new jobs respectively. However, large firms accounted for 87 percent of new jobs in the manufacturing sector and 86 percent of new jobs in the service sector.

Chart 1 illustrates the quarter-by-quarter variation in employment by size of firm (excluding self-employment). It shows that between the second quarter of 1999 and the third quarter of 1999, both small (fewer than 50 employees) and medium-sized firms (50-299 employees) posted net employment gains. Chart 2 illustrates that SMEs continue to contribute the greater share of employment compared with large firms.

NET EMPLOYER *Businesses*

The number of employer businesses in Canada continued to rise, according to the Business Register Division of Statistics Canada, reaching 1 970 099* in September 1999 (excluding unincorporated businesses with less than \$30 000 in estimated annual sales revenue). Table 1 indicates that 87.6 percent of established businesses in Canada have fewer than 10 employees, 93.5 percent have fewer than 20 employees and 99.0 percent have fewer than 100 employees.

Table 1: Establishments by Employment Categories and Province or Territory, September 1999

Province or Territory	Total	Indeterminate*	Number of Employees							
			1-4	5-9	10-19	20-49	50-99	100-199	200-499	500+
Newfoundland	24 656	6 785	11 164	3 168	1 815	1 127	327	145	77	48
Prince Edward Island	9 998	2 925	4 386	1 296	759	425	117	56	27	7
Nova Scotia	47 889	16 405	18 582	5 392	3 774	2 495	691	348	130	72
New Brunswick	42 075	14 159	17 084	4 667	3 025	2 111	582	277	120	50
Quebec	462 194	219 759	154 375	37 519	23 753	17 022	5 672	2 395	1 110	589
Ontario	677 505	346 638	186 326	55 968	39 686	30 659	10 364	4 892	2 035	937
Manitoba	71 327	35 475	20 258	6 081	4 564	3 145	1 079	422	200	103
Saskatchewan	91 671	50 539	25 063	7 417	4 759	2 646	704	324	154	65
Alberta	251 622	125 641	73 374	21 786	15 245	10 327	3 164	1 324	548	213
British Columbia	285 223	129 976	92 553	26 698	18 189	12 066	3 449	1 450	607	235
Yukon Territory	2 740	1 046	902	368	223	138	38	12	11	2
Northwest Territories	2 545	782	770	426	293	170	59	30	14	1
Nunavut	654	140	177	130	101	71	25	7	3	0
Canada	1 970 099	950 270	605 014	170 916	116 186	82 402	26 271	11 682	5 036	2 322

* Establishments that do not have employee payroll.
Source: Business Register Division, Statistics Canada.

Table 2 presents the number of businesses in Canada by province or territory and by industry. Of all established Canadian businesses, 34.4 percent are located in Ontario, 23.5 percent in Quebec, 14.5 percent in British Columbia, 12.8 percent in Alberta, 2.4 percent in Nova Scotia and 2.1 percent in New Brunswick.

The Business Register includes all incorporated employer businesses and incorporated non-employer businesses with either estimated gross business income or GST sales greater than \$1.00. In October 1998, the Business Register added an additional set of incorporated non-employer businesses that have no GST accounts. For unincorporated businesses, the Business Register includes all employer businesses with gross business income greater than \$1.00, and non-employer businesses with GST sales greater than \$30 000 (the Business Register will not include unincorporated businesses with GST less than \$30 000).

Table 2: Establishments by Province or Territory and Industry, September 1999

Industry	Alta.	B.C.	Man.	N.B.	Nfld.	N.W.T.	N.S.	Nun.	Ont.	P.E.I.	Que.	Sask.	Y.T.	Canada
Agricultural and Related Service Industries	33 952	8 551	15 557	1 697	376	12	1 818		35 393	1 339	25 800	37 801	30	162 326
Fishing and Trapping Industries	58	1 747	131	1 812	593	15	2 537	6	266	931	952	28	5	9 081
Logging and Forestry Industries	1 238	6 688	262	1 498	261	12	978	1	2 754	74	6 496	369	21	20 652
Mining (Including Milling), Quarrying and Oil Wells	8 380	1 744	190	105	95	37	128	1	1 500	7	916	1 227	114	14 444
Manufacturing Industries	10 216	14 219	3 265	2 139	1 169	56	2 695	14	39 878	491	31 096	3 092	80	108 410
Construction Industries	30 419	40 755	6 666	4 887	2 651	343	5 545	92	78 409	988	44 826	6 038	406	222 025
Transportation and Storage Industries	13 353	13 518	3 821	3 032	1 363	202	2 184	34	26 326	437	21 556	3 730	147	89 703
Communication and Other														
Utility Industries	1 912	2 116	506	382	242	47	460	17	4 478	67	3 730	500	30	14 487
Wholesale Trade Industries	13 973	19 247	4 260	2 480	1 516	115	3 252	24	47 959	465	33 372	4 035	103	130 801
Retail Trade Industries	23 455	31 921	7 956	6 182	4 471	245	7 132	81	86 365	1 248	67 595	8 039	288	244 978
Finance and Insurance Industries	15 421	21 929	4 992	2 226	1 045	176	2 933	31	57 331	569	34 841	4 674	223	146 391
Real Estate Operator and Insurance Agent Industries	14 812	24 654	4 079	2 046	1 197	153	2 678	60	52 910	455	29 566	3 578	133	136 321
Business Service Industries	37 540	37 217	5 273	3 132	1 745	314	4 088	66	103 495	511	58 763	4 284	302	256 730
Government Service Industries	619	856	426	355	458	119	257	31	1 346	133	2 101	1 097	108	7 906
Educational Service Industries	1 897	2 252	621	405	298	39	457	13	5 021	118	3 107	556	41	14 825
Health and Social Service Industries	10 137	14 827	3 282	2 494	2 505	165	2 708	71	30 384	503	20 523	2 841	142	90 582
Accommodation, Food and Beverage Service Industries	10 335	15 399	3 291	2 577	1 808	154	2 822	49	36 627	607	28 226	3 403	226	105 524
Other Service Industries	23 905	27 583	6 749	4 626	2 863	341	5 217	63	67 063	1 055	48 728	6 379	341	194 913
Total	251 622	285 223	71 327	42 075	24 656	2 545	47 889	654	677 505	9 998	462 194	91 671	2 740	1 970 099

Source: Business Register Division, Statistics Canada.

Chart 3: Number of Self-employed Workers in Canada, 1996 to 2000

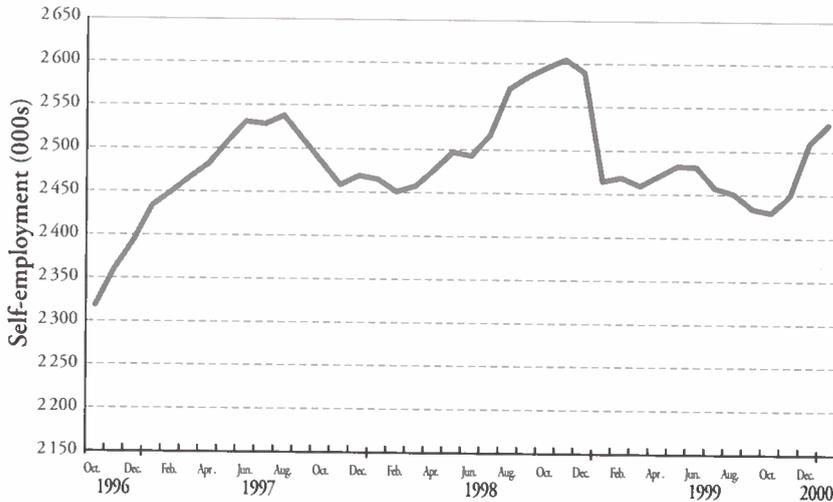
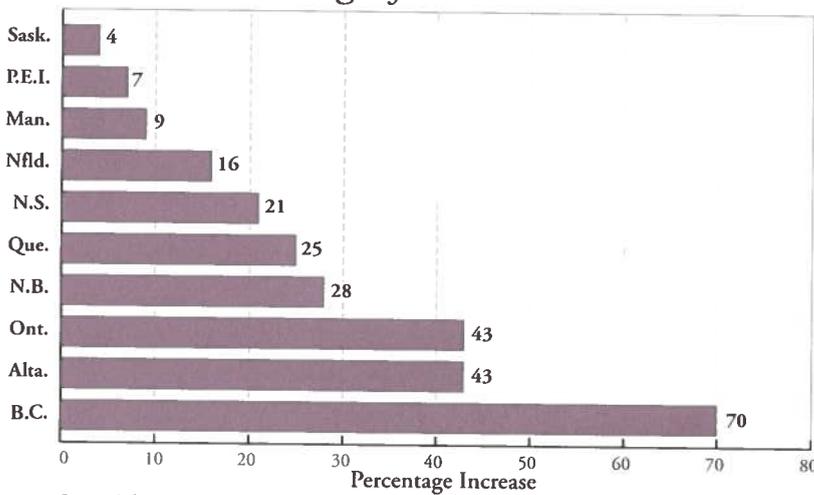


Chart 4: Percentage Increase in Self-employed by Province, Annual Averages from 1989 to 1999

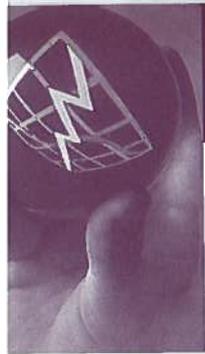


SELF- Employment

The number of self-employed workers (as defined by Statistics Canada's seasonally adjusted *Labour Force Information*, Catalogue No. 71-001) grew by 2.7 percent between January 1999 and January 2000, reversing the decline reported last quarter. Chart 3 shows the growth in the number of self-employed workers over the past four years.

British Columbia leads the growth in self-employment, with a 70-percent increase in the number of self-employed workers since 1989, followed by Alberta and Ontario at 43 percent, New Brunswick at 28 percent and Quebec at 25 percent (see Chart 4).





BUSINESS Conditions

According to Statistics Canada's January 2000 *Business Conditions Survey*, manufacturers are very optimistic about production prospects in the coming three months. The overwhelming majority of manufacturers indicated that they planned to increase production during this period.

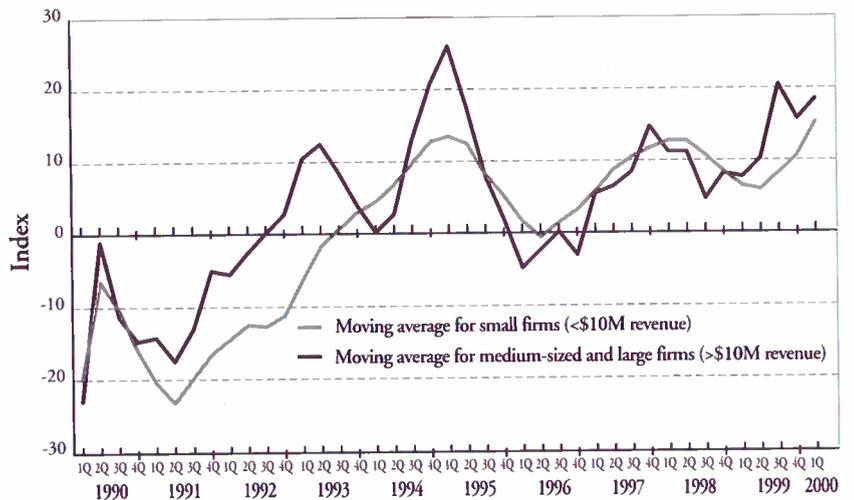
The majority of small and large manufacturers stated that they were satisfied with the new orders received.

Chart 5 illustrates that on a four-quarter moving average basis, both small manufacturers and medium-sized and large manufacturers stated that they were optimistic about production capacity for the first quarter of 2000.

Seventy-two percent of all manufacturers indicated that they would maintain their current work force level in the coming three months. This figure is up slightly from the 68 percent reported in the October 1999 survey.

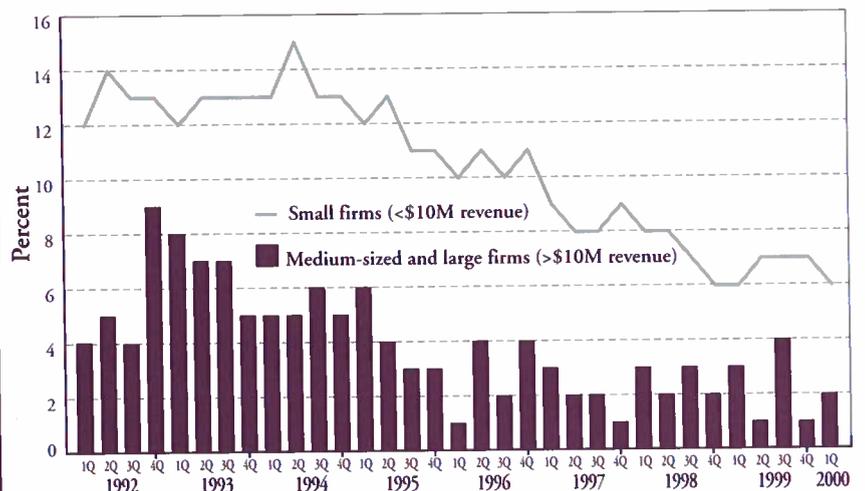
According to the January survey, working capital continued to be a low priority for small manufacturers, with only 6 percent reporting a problem with working capital (see Chart 6).

Chart 5: Manufacturers' Optimism: Increases in the Next Quarter Production



Source: *Business Conditions Survey*, Statistics Canada.

Chart 6: Working Capital Difficulties: Small and Medium-sized and Large Manufacturers



Source: *Business Conditions Survey*, Statistics Canada.



Data as of February 28, 2000

BUSINESS Loans

Chartered bank loans (not including non-residential mortgages, agricultural loans, customers' liability under acceptances and other business loans) to SMEs amounted to \$53 billion in the third quarter of 1999. The percentage of small loans was 22.7 percent, or \$22.3 billion (see Chart 7), and medium-sized loans represented 31.4 percent of the total, or \$30.7 billion (see Chart 8).

The Canadian economy... expanded a strong 4.6 percent (annual rate) in the fourth quarter of 1999, marking the 18th consecutive quarter in economic growth, the longest string since the 1960s. Growth was led by an increase in business investment and housing construction. Consumer spending achieved its fourth consecutive period of solid growth. For 1999 as a whole, the economy grew 4.2 percent, up from 3.1 percent in 1998.

The economic outlook... has improved considerably in recent months. The January consensus of private sector forecasts calls for real GDP growth of 3.4 percent in 2000 and 2.8 percent in 2001.

The national unemployment rate... stood at 6.8 percent in January, its lowest level since April 1976. Employment rose by 427 000 in 1999, up 3.0 percent from the previous year. Employment rose again by an estimated 44 000 in January 2000.

Inflation... remains in check. The headline rate of inflation fell to 2.3 percent in January, down from 2.6 percent in December. The year-over-year core rate of CPI inflation stood at 1.4 percent in January, well within the Bank of Canada's official target range of 1-3 percent. The core rate excludes the volatile food and energy components.

The prime rate... rose 25 basis points to 6.75 percent on February 9, following an increase in the Bank of Canada's bank rate. The prime rate is the benchmark for many consumer and commercial loans.

The January Business Conditions Survey... reveals that manufacturers remain optimistic about production prospects in the coming quarter. Nearly 9 in 10 manufacturers intend to increase or maintain production.

The Canadian dollar... continues to hold steady against the U.S. dollar and other major foreign currencies, supported by strong economic fundamentals at home, and a global rebound in commodity prices. These upward pressures on the dollar continue to be moderated by concerns of higher interest rates in the United States.

(continued on page 9)

Chart 7: Chartered Bank Small Loans to Business (less than \$0.5 million)

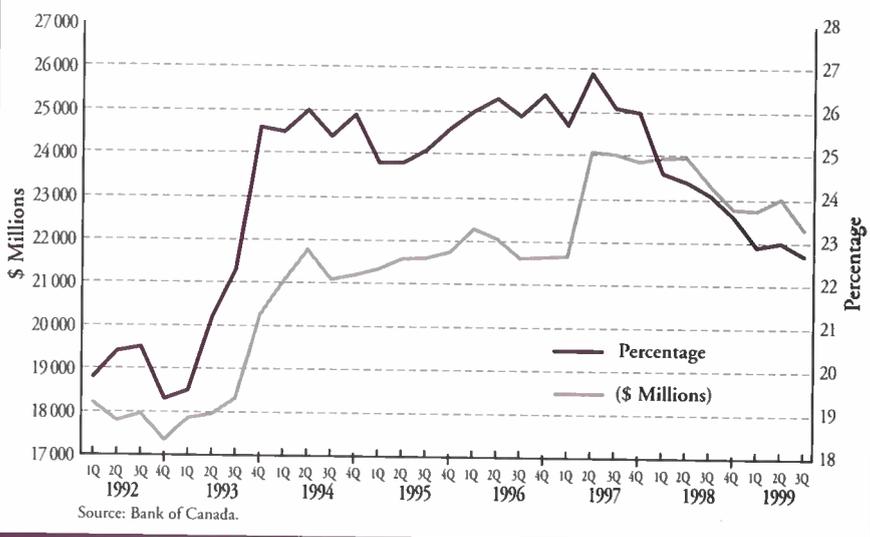
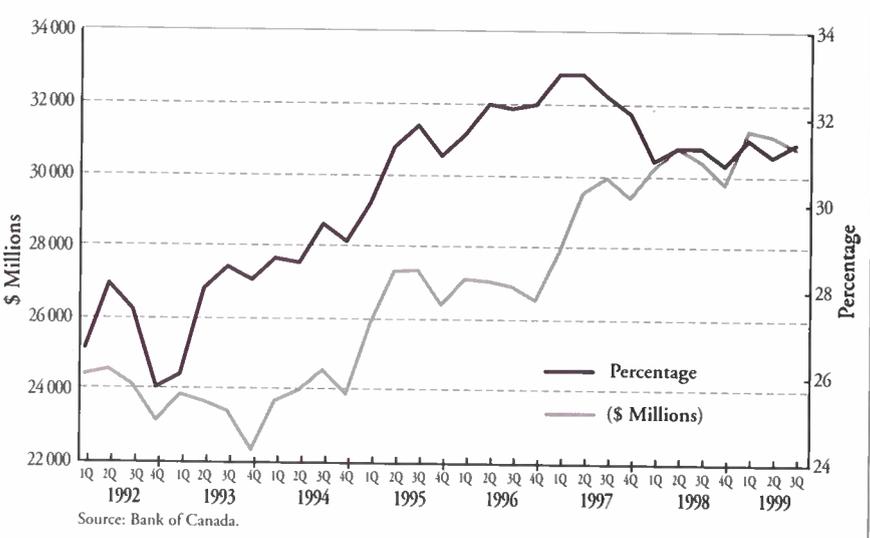
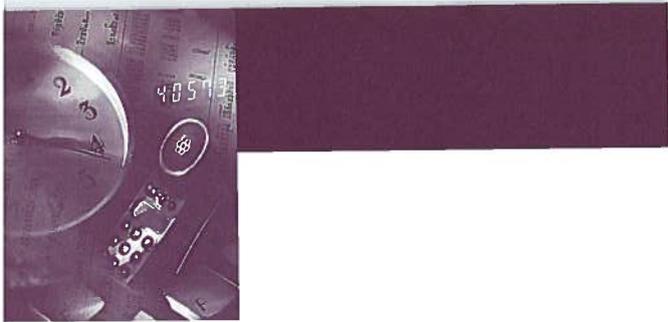


Chart 8: Chartered Bank Medium-sized Loans to Business (\$0.5 to \$5 million)





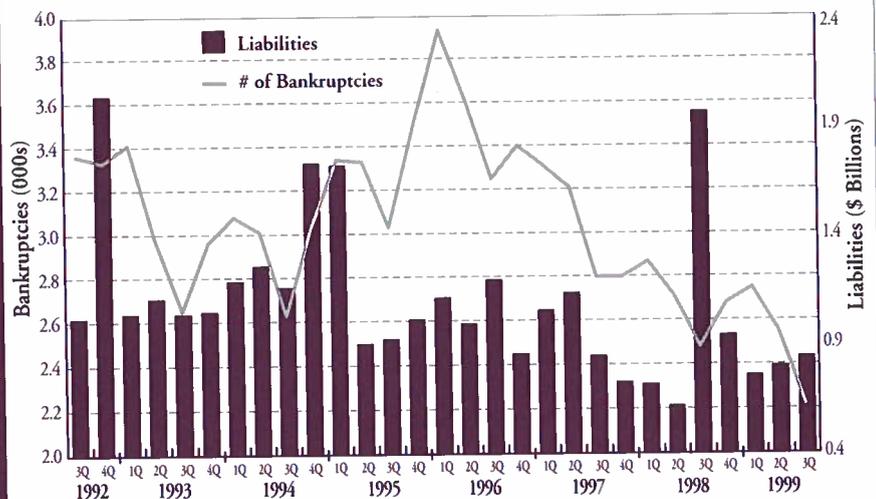
BUSINESS *Bankruptcies*

The number of business bankruptcies declined by 13.2 percent from 2564 in the second quarter of 1999 to 2225 in the third quarter of 1999. This is a further decline from the 2764 bankruptcies reported in the first quarter of the same year.

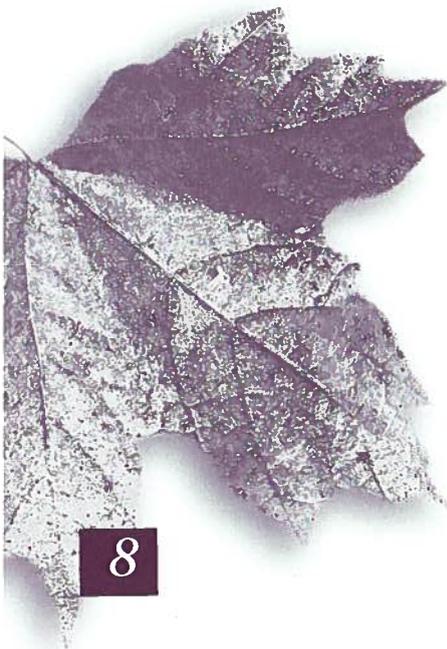
However, the liabilities associated with these bankruptcies were up by 4.8 percent from the second to the third quarter of 1999, and up almost 10 percent since the first quarter of 1999 (see Chart 9).

The industries showing the most dramatic decline in bankruptcy rates between September 1998 and September 1999 were educational services, with a 62-percent decline, and fishing and trapping, with a 57-percent decline. In comparison, the mining, quarrying and oil exploration industries reported an increase of 62.5-percent in the number of bankruptcies, followed by transportation and storage industries with a 20-percent rise, and the agriculture and related service industries with a 15.4-percent increase.

Chart 9: Business Bankruptcies and Liabilities, 3rd Quarter 1992 – 3rd Quarter 1999



Source: Office of the Superintendent of Bankruptcy, Industry Canada.



RECENT *Developments*

Community Storefronts: Report

Launched in June 1998 to support the Government of Canada's objective of making Canada a leader in e-commerce, the Community Storefronts pilot project provided small businesses and non-profit organizations with a full-service, low-cost electronic commerce package.

Community Storefronts was a partnership between Industry Canada and four private sector sponsors — Strategic Profits Inc., TouchNet Canada, GE Capital Information Technology Solutions and the Royal Bank of Canada. One hundred and eighty small businesses and non-profit organizations participated across the country and 130 Web sites enabled with e-commerce were built. The Community Storefronts Web site served as a portal, with access to the individual Web sites arranged by area and region.

The pilot was successful as a launch point. Almost all of the surveyed participants met their goal of learning more about e-commerce and most indicated that they will continue to sell on-line. The pilot also influenced sponsor Royal Bank to make it easier for small businesses to open a merchant account for e-commerce.

Despite the high quality and low cost of the service package offered, recruitment targets were not met. Possible barriers to participation include a lack of time (potential participants were too busy running their current business) and the belief of small firms that their customers were not ready for e-commerce. Regardless of the time spent in promoting their Web site, only 6 percent of the survey respondents said they achieved their sales objectives and 63 percent reported no sales at all. No one reason was given for the poor sales results, although the amount of time required to build an on-line presence, a lack of awareness about e-commerce in 1998 and security concerns may all have played a role.

On the positive side, 14 percent of the respondents reported that on-line sales accounted for more than 30 percent of their total sales. Furthermore, most survey respondents plan to continue with their on-line presence and intensify their marketing efforts.

The Community Storefronts pilot illustrates that the primary barriers to successful small business-to-consumer e-commerce are not technical, but business related. Valuable lessons were learned about the factors affecting the success of a small business Web site, including a substantial time commitment, ongoing training, technical support and maintenance, and sustained marketing.

The full report can be found on-line (<http://strategis.gc.ca/cs>).

Data as of February 28, 2000

(continued from page 7)

Merchandise exports... rose 1.8 percent to \$94.3 billion in the fourth quarter, marking the seventh consecutive quarterly increase. As imports rose at a much faster pace, however, Canada's merchandise trade surplus decreased by \$1.6 billion to \$8.5 billion in the fourth quarter. For 1999 as a whole, Canada exported \$360.6 billion in goods, up 11.9 percent from the previous year. The merchandise trade surplus with the rest of the world reached almost \$34 billion in 1999, its highest level since 1996.

Housing investment... grew by 8.1 percent in the fourth quarter, following a weaker third quarter. High levels of consumer confidence, historically low interest rates and fourth quarter gains in new housing construction and renovation activity all point to a sustained recovery from the slump in 1998.

Non-residential construction... advanced 9.3 percent (annual rate) in the fourth quarter, marking the fourth consecutive quarter of solid growth after five periods of decline.

Retail sales... advanced 2.0 percent in December, bringing the total for 1999 to \$260.4 billion, 5.8 percent higher than that in 1998.

Corporate profits... continue to accelerate, surging 35.1 percent (annual rate) in the fourth quarter, and 25.2 percent for the year as a whole, a sharp reversal from the losses suffered in 1998. The recovery in commodity prices has provided support to the profit outlook in resource-based industries.

The federal budget... will be balanced or better in fiscal year 1999–2000, marking three consecutive years in which the federal books have been in the black, the first time this has happened since 1951–52. By the accounting standards used in most other countries, Canada will post a financial surplus of \$8.0 billion in fiscal year 1999–2000.

SMEs May Find Help at Home

Communities outside Canada's main financial centres will soon have new tools to help their small and medium-sized enterprises (SMEs) search for risk capital. These new tools are a spin-off of Industry Canada's Canada Community Investment Plan (CCIP).

CCIP, which was established in 1996, funded demonstration projects in 22 communities across Canada. These communities are responsible for identifying ways to encourage private investors to invest risk capital in local SMEs. The objective was to keep fast-growth businesses in the community, create jobs and increase the tax base. The latest quarterly reports from the demonstration projects show that more than 150 SMEs have been helped through this program, creating approximately 1800 jobs with more than \$90 million in risk capital.

While there is no direct funding for further communities, they will benefit from the best practices and lessons learned from the demonstration projects, and the powerful investment facilitation tools created especially for them. These will soon be available to any community interested in expanding its economic development to include investment facilitation services for its SMEs.

More information can be obtained from the CCIP Web site (<http://ccip.ic.gc.ca>) or from the CCIP Secretariat by e-mailing secretariat@ic.gc.ca

Budget 2000: Supporting Small Business

Beginning in January 2001, small businesses currently paying tax at the general 28-percent rate will benefit from the new 21-percent corporate tax rate on business incomes between \$200 000 and \$300 000.

Other new tax measures will help small businesses gain access to the capital they need to expand and prosper. These include:

- reducing the income inclusion rate of capital gains from three quarters to two thirds; and
- allowing a tax-free rollover of capital gains on qualified small business investments where they are reinvested in another small business.

The 2000 budget also enhances support for small and medium-sized businesses through non-tax measures such as:

- an \$80-million injection into the Business Development Bank of Canada to support its financing activities for knowledge-based, export-oriented small businesses; and
- an additional \$54 million over three years for the Community Futures Program, which delivers economic support to small and rural communities across Canada in the form of mentoring services, business counselling, training and loans.

Source: Department of Finance, Budget 2000

Small Business Quarterly Entrepreneurship and Small Business Office

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

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