Industry Canada / Industrie Canada

SMALL Business QUARTERLY

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http://strategis.gc.ca/SMEquarterly

PERFORMANCE Trends

- Small businesses created 12.3 percent of the 418 873 net new jobs created between the second quarter of 1999 and the second quarter of 2000, compared with 18.4 percent of the 175 044 jobs recorded during the same period in 1998–99.
- After strong growth in self-employment for the past couple of years, the number of self-employed workers declined between August 1999 and August 2000 for an overall decline of 2.6 percent.
- There were 2498 bankruptcies reported in the second quarter of 2000 compared with 2564 in the second quarter of 1999, representing a 2.6 percent decline.
- The majority of small, medium-sized and large manufacturers stated that they were satisfied with their inventories.
- Small and medium-sized chartered bank loans reached $53.2 billion in the first quarter of 2000, slightly less than the $54 billion reached in the same quarter in 1999.

PROFILE OF CANADIAN EXPORTERS: 1993 to 1997

Table 1 on page 2 provides data from the recently released *Canadian Exporter Registry,*[1] a database on Canadian exporter trends that is compiled by Statistics Canada every two years. The data include the number of establishments with exports exceeding $30 000; domestic exports classified by industry grouping, size, and province or territory; and destination groupings, arranged by country or U.S. region. The database's purpose is to determine trends among Canadian exporters.

(continued on page 2)

[1] The data included domestic exports (goods grown, extracted or manufactured in Canada) and goods of foreign origin that have been materially transformed in Canada. The data excluded low-value export transactions (establishments whose annual domestic exports are less than $30 000); groceries; duty-free shop exports; and goods of U.S. origin returning to the United States.

CONTENTS

Canada

(continued from page 1)

Table 1: Number of Exporters and Value of Exports (millions of Canadian dollars), 1993 to 1997

Exporter Size	1993 Number of Exporters	1993 Value of Exports	1994 Number of Exporters	1994 Value of Exports	1995 Number of Exporters	1995 Value of Exports	1996 Number of Exporters	1996 Value of Exports	1997 Number of Exporters	1997 Value of Exports
$30 000–$999 999	17 242	$3 778	18 271	$4 274	19 685	$4 616	20 090	$4 853	20 911	$5 104
% share	72.2	2.1	71.0	2.0	69.7	1.9	68.6	1.9	68.0	1.8
$ 1 000 000–$4 999 999	3 926	$9 038	4 278	$10 009	5 029	$11 775	5 253	$12 270	5 620	$13 251
% share	16.4	5.1	16.6	4.7	17.8	4.8	17.9	4.8	18.3	4.8
$5 000 000–$24 999 999	1 845	$21 026	2 160	$24 521	2 414	$27 740	2 681	$30 756	2 890	$33 153
% share	7.7	11.9	8.4	11.6	8.5	11.4	9.2	12.0	9.4	11.9
$25 000 000 and over	879	$142 506	1 022	$172 256	1 137	$200 093	1 247	$209 192	1 317	$227 350
% share	3.7	80.8	4.0	81.6	4.0	81.9	4.3	81.4	4.3	81.5
Total	**23 892**	**$176 348**	**25 731**	**$211 060**	**28 265**	**$244 224**	**29 271**	**$257 071**	**30 738**	**$278 858**

Source: *Canadian Exporter Registry.*

While there was a 21 percent increase in the number of small Canadian exporting firms (less than $1 million in exports) from 1993 to 1997, their share as a percentage of the total number of exporting firms declined from 72.2 percent in 1993 to 68.0 percent in 1997. In addition, while the total value of their exports increased during this period by 34.2 percent (from $3.8 billion to $5.1 billion), their share of total exports dropped from 2.1 percent of the total value of exports to 1.8 percent.

The data also show that a select group of large establishments accounts for most Canadian domestic exports. In 1997, 4.3 percent of Canadian exporting firms accounted for 81.5 percent of the total export value, with each firm exporting at least $25 million worth of products. The motor vehicle industry, including parts, represented a major part of this concentration. In that same year, 86.3 percent of all Canadian exporting firms exported less than $5 million.

In addition, the data show an exporting company's first year is critical. Approximately 50 percent of the exporters that were new in 1994 and 1995 were exporting in every year up to 1997. However, 30 percent of the exporters that were new in 1994 and 1995 became inactive within the first year, and continued to remain so at least until 1997. There is a strong assumption that a large percentage of these inactive companies are in the small and medium-sized firm categories.

Furthermore, the number of these firms exporting only to the U.S. market increased by 17 percent between 1993 and 1997, while the number of exporters to both U.S. and non-U.S. markets expanded by 52 percent over the same period.

JOB *Creation*

Small businesses created 12.3 percent of the 418 873 net new jobs created between the second quarter of 1999 and the second quarter of 2000, compared with 18.4 percent of the 175 044 jobs recorded during the same period in 1998–99. Most new small business jobs were created in the service sector (23 985) and the manufacturing sector (17 032).

Chart 1 illustrates net variation in employment by size of firm (excluding self-employment). Between the second quarter of 1999 and the second quarter of 2000, small businesses created 51 456 net new jobs, medium-sized businesses added 114 925 net new jobs and large firms increased their net payroll employment by 252 493.

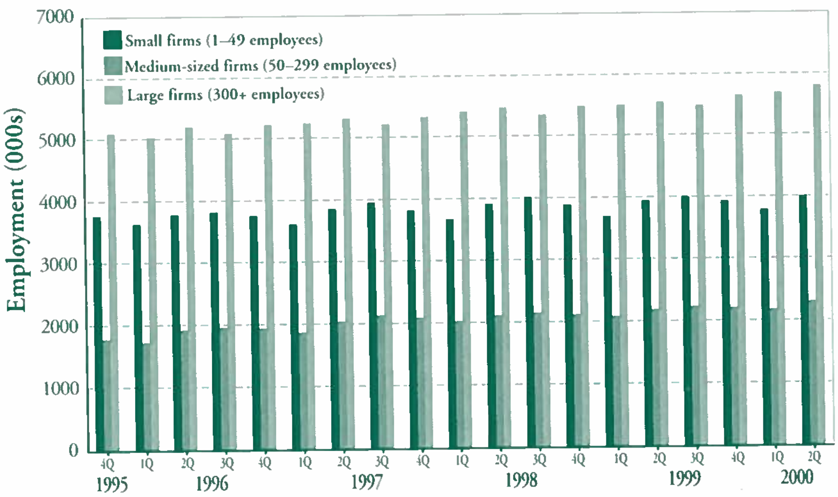
Even though they represent only 19 percent of total employment, medium-sized firms created approximately 28 percent of net new jobs, the largest growth rate during the same period (5.2 percent). Small businesses, with a growth rate of 1.3 percent between the second quarter of 1999 and the second quarter of 2000, have a slower growth rate than other categories.

Chart 2 compares the payroll employment share of small, medium-sized and large firms. It indicates that small and medium-sized enterprises (SMEs) continue to contribute a greater share of employment compared with larger firms. For the second quarter of 2000, SMEs represented 52.2 percent of total payroll employment, which was slightly lower than the 52.6 percent recorded for the second quarter of 1999.

Chart 1: Net Employment Increase (Decrease) in Canada, Year over Year by Quarter

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

Chart 2: Payroll Employment by SMEs and Large Firms



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

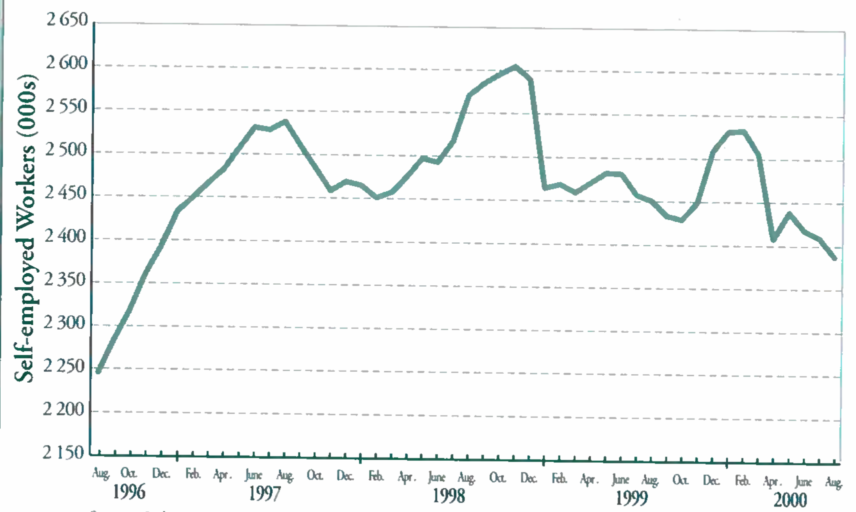
SELF-*Employment*

The number of self-employed workers (as defined by Statistics Canada's seasonally adjusted *Labour Force Survey*) declined by 2.6 percent between August 1999 and August 2000. In fact, the number of self-employed workers declined by 5.7 percent from February to August 2000.

This is contrary to the trend of the past few years, and in marked contrast to the record set in November 1998, when the number of self-employed workers peaked at 2 604 400.

Chart 3 shows the trends in self-employment over the past four years.

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



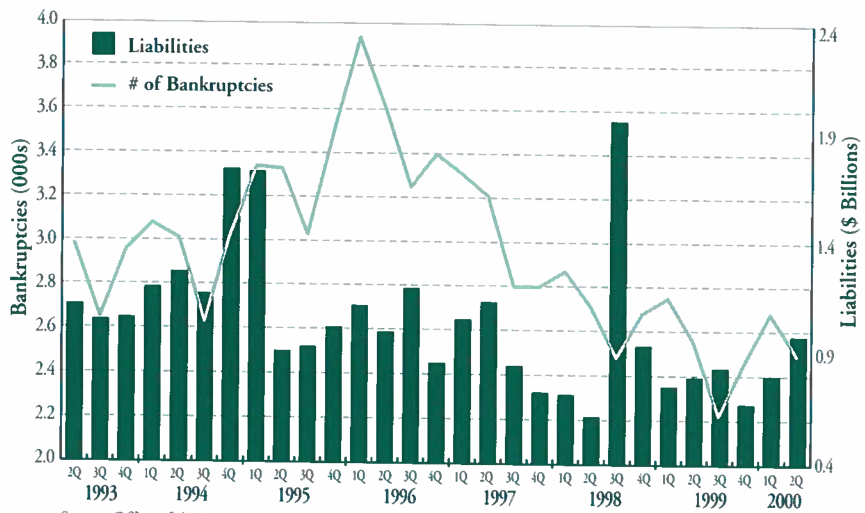
Source: *Labour Force Survey*, Statistics Canada.

BUSINESS *Bankruptcies*

There were 2498 bankruptcies reported in the second quarter of 2000 compared with 2564 in the second quarter of 1999, representing a substantial 2.6 percent decline for the number of business bankruptcies during this period.

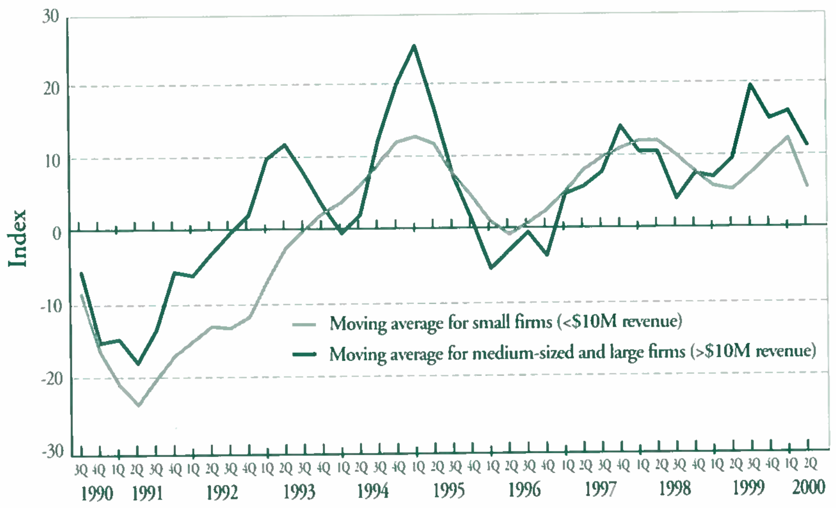
Despite the drop in the number of business bankruptcies, business liabilities linked to these bankruptcies increased by 24 percent from the second quarter of 1999 compared with the second quarter of 2000 (see Chart 4). Furthermore, compared with the second quarter of 1998, business liabilities are up by 60 percent in the second quarter of 2000.

Chart 4: Business Bankruptcies and Liabilities, 2nd Quarter 1993 – 2nd Quarter 2000



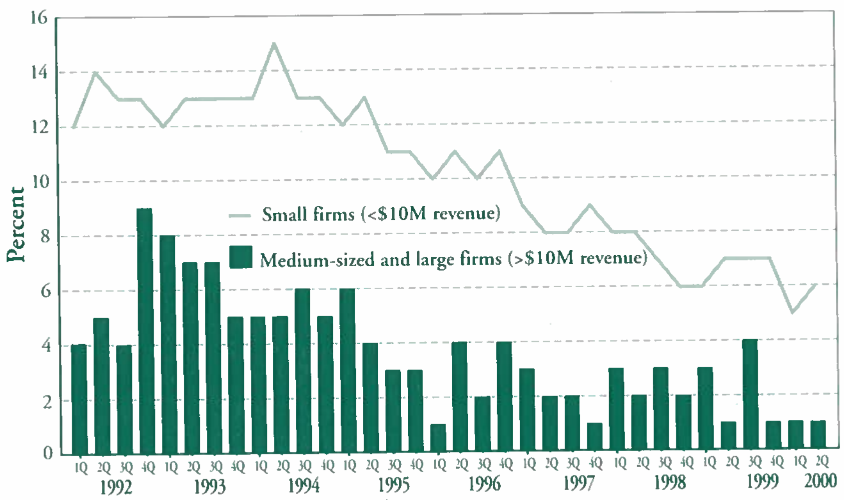
Source: Office of the Superintendent of Bankruptcy, Industry Canada.

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.

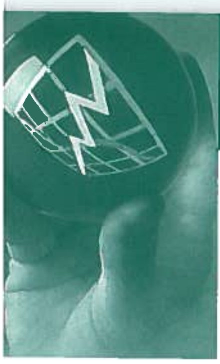
BUSINESS *Conditions*

Most manufacturers, regardless of their size, stated that they were satisfied with their inventories.

Most manufacturers are satisfied with their labour force, while 20 percent predicted that their employment would increase during the next quarter.

Chart 5 illustrates that on a four-quarter moving average basis, small manufacturers tended to be less optimistic about production expectations for the second quarter of 2000 than were medium-sized and large manufacturers.

Chart 6 illustrates that working capital continued to be a low priority for manufacturers. Only 1 percent of medium-sized and large manufacturers and 6 percent of small manufacturers reported problems with working capital in the second quarter of 2000. Since the 15 percent peak in 1994, the working capital problem seems to have become a less important issue for small manufacturers.

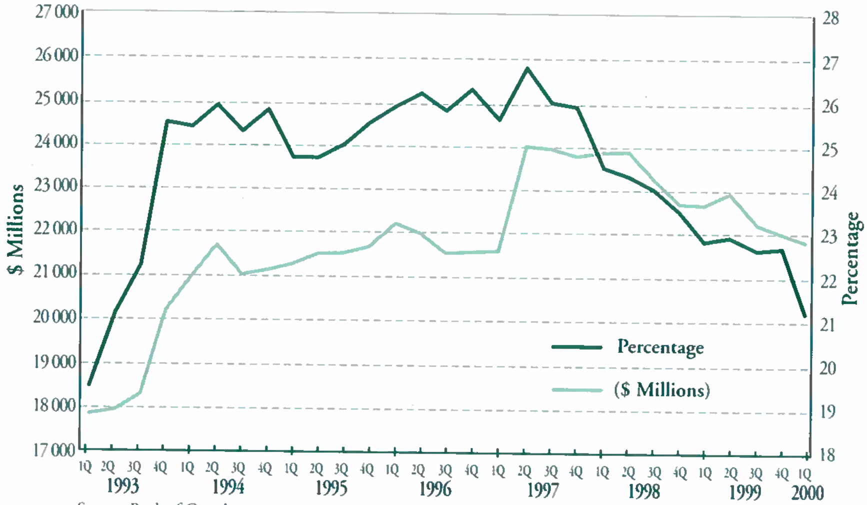


BUSINESS *Loans*

Small and medium-sized chartered bank loans* reached $53.2 billion in the first quarter of 2000, down from $54 billion in the same quarter in 1999. Small loans accounted for 21.2 percent, or $21.9 billion (see Chart 7), and medium-sized loans represented 30.4 percent, or $31.4 billion (see Chart 8), of total loans. Since the peak in 1997, the percentage of small and medium-sized loans as a percentage of total loans has decreased over time. This decrease accounted for 4.5 percentage points between the first quarter of 1997 and the first quarter of 2000.

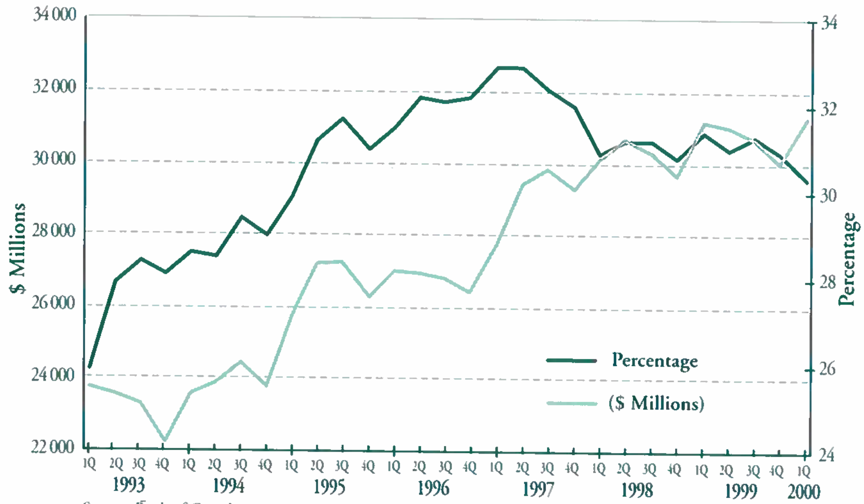
*Not including the following loans: non-residential mortgages, agricultural loans, customers' liability under acceptances and other business loans.

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



Source: Bank of Canada.

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



Source: Bank of Canada.

Data as of September 28, 2000

The Canadian economy... expanded by a stronger-than-expected 4.7 percent (annual rate) in the second quarter of 2000. The high-tech sector was a major source of strength for the economy, accounting for roughly half of the total increase in output. Domestic demand was boosted by strong growth in investment, particularly for high-tech equipment. Consumer spending also expanded at a healthy pace.

The economic outlook... continues to be bright. The September 2000 consensus of private sector forecasts calls for real GDP growth of 4.7 percent in 2000 and 3.4 percent in 2001.

The national unemployment rate... edged up to 7.1 percent in August, largely owing to an increase in the labour force. Employment was up by 153 000 in the first eight months of 2000, following the creation of 427 000 jobs in 1999.

Inflation... remains in check, fluctuating within a two- to three-percent range over the first eight months of 2000 despite a sharp increase in energy prices. The year-over-year core rate of CPI inflation stood at 1.5 percent in August, 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... has held steady since May. While the Canadian and U.S. economies are both relatively strong, there are some signs of a moderate slowdown and little evidence of inflation picking up. Canadian short-term and long-term interest rates are still below comparable U.S. rates.

The July *Business Conditions Survey*... reveals that manufacturers remain optimistic about production prospects in the coming quarter, albeit a little less so than in the previous quarter. Nearly 9 in 10 manufacturers intend to increase or maintain production.

The Canadian dollar... traded below US$0.68 for most of the summer. However, the Canadian dollar has been performing well against international currencies other than the U.S. dollar, particularly since June.

Merchandise exports... were up 16.3 percent to $237.4 billion (seasonally adjusted) in the first seven months of 2000, compared with the same period in 1999. This strong performance was reflected in Canada's merchandise trade surplus, which reached a record high $5.1 billion in June before easing back to $4.2 billion in July.

Housing investment... weakened in the first half of 2000, including a decline of 12.1 percent (annual rate) in the second quarter. While this was partially the result of strikes in Ontario and skilled labour shortages, this weakening was not solely in Ontario. New housing, renovations and resale activity have all slowed so far this year. Despite this weakness, the strength in the value of building permits issued points to a resumption of growth in the coming months.

Corporate profits... continue to strengthen, increasing by 11.3 percent (annual rate) in the second quarter of 2000. The recovery in commodity prices and strong demand for manufactured products have supported the profit outlook.

The federal budget... posted a surplus of $12.3 billion 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. Along with the federal government, seven provinces and one territory are expected to post balanced budgets or better in 1999–2000.

RECENT *Developments*

Bridging the Investment Gap Conference

Obtaining risk capital to finance a small business's growth can be difficult. Securing equity in amounts of less than $1 million can be especially challenging, and the problem is compounded for companies located outside main financial centres.

Industry Canada addresses this "investment gap" through the Canada Community Investment Plan, or CCIP (**http://ccip.ic.gc.ca**), which helps local organizations create investment facilitation services aimed at bringing together entrepreneurs and private sector investors.

Valuable lessons learned and best practices emerging from the CCIP's pilot projects in 22 communities across Canada will be shared at a national conference, Bridging the Investment Gap, to be held in Montréal on June 13–14, 2001.

- Learn how 22 CCIP pilot projects used a variety of grass-roots approaches and instructional tools to help their growth-oriented small businesses get better access to equity financing.
- Discover options for growth, from love money to corporate alliances.
- Gain insight into angel investors and how they differ from traditional venture capitalists.
- Find out about new developments in business incubators and accelerators.

To receive upcoming conference details, you can contact the conference secretariat by calling (613) 238-2304 or via the conference link on the CCIP Web site (**http://ccip.ic.gc.ca**).

Small Business Counsellor Program

The Small Business Policy Branch of Industry Canada has prepared a document titled *An Invitation to be the APEC Economy Institute – Canada* (available at **http://strategis.gc.ca/contact**). This document sets out the details of an Asia-Pacific Economic Cooperation (APEC) initiative for a training and certification program for small business counsellors. The Small Business Policy Branch is aiming to identify organizations that would be interested in delivering the Small Business Counsellor Program within Canada. The closing date for proposal submissions is January 26, 2001.

KEEP AN EYE OUT ...

The next issue of the *Small Business Quarterly* will have new editors, a revamped design and fresh content. We're excited about it, and hope you will be too. After you've had a look, please let us know if you'd like to continue receiving the *Small Business Quarterly* by filling out and returning the form that will be attached to your upcoming copy.

Small Business Quarterly
Small Business Policy Branch

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 Small Business Policy Branch of Industry Canada.

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