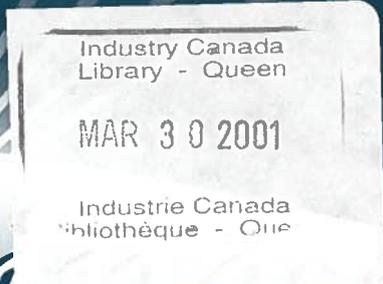




Industry  
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# SMALL Business

VOL. 2, NO. 3, March 2001

Q U A R T E R L Y

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

## PERFORMANCE

### *Trends*

■ **Small businesses in Canada generated 60 355 jobs, or 14 percent of the 433 035 net new jobs created between the third quarter of 1999 and the third quarter of 2000. This is a significant improvement over the previous year, when 17 358 net small-business jobs had been lost. The relative contribution of small business to job creation has varied widely over the years.**

■ **The number of self-employed workers in Canada reached 2.36 million during the fourth quarter of 2000, a drop of 4 percent from 2.46 million in the fourth quarter of 1999.**

■ **There were 2374 bankruptcies reported in Canada in the third quarter of 2000, marking an increase of 6.7 percent between the third quarter of 1999 and the third quarter of 2000.**

■ **Total chartered bank loans to businesses reached \$104.5 billion in the second quarter of 2000, of which 21 percent, or \$21.8 billion, were small loans (less than \$500 000). The percentage that small loans make up of total loans has generally declined since the beginning of 1997.**

## THE REGULATION OF ENTRY

**A**lthough Canadian entrepreneurs generally believe they face an overly cumbersome bureaucracy as well as costly procedures when starting up new businesses, a recent survey has found that Canadian entrepreneurs are much better off than many of their counterparts around the world — at least when it comes to starting a business.

According to the study *The Regulation of Entry*, Canada ranked first for its relatively low level of red tape for entrepreneurs starting new businesses. The World Bank–Harvard University joint study examined the regulation of entry of start-up firms in 75 developed and developing countries. The study found that, on average, start-up involves approximately 10 entry procedures and takes 63 days; fees range from less than 1 percent to 263 percent of the country's GDP per capita to meet the official entry requirements. This is in stark contrast with Canadian regulation. Canadian entrepreneurs typically face two procedural steps that take regulators about two days to process, at a cost (for small start-ups) of approximately US\$280 in application fees (about 1.4 percent of GDP per capita).

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The study found a tendency for countries with more democratic and transparent governments to have fewer entry regulations. At least when it comes to starting a new business, the study found that entrepreneurs are better off in Canada than any other country in the world.

The complete study can be found at:  
<http://post.economics.harvard.edu/hier/2000papers/HIER1904.pdf>

### Rankings of the Top 10 Countries, the G-8 Countries and the Bottom 5 Countries

Rank	Country	Number of procedures	Time	Fees in terms of GDP per capita
1	Canada*	2	2 days	1.4 percent
2	Australia	3	3 days	2.1 percent
3	New Zealand	3	17 days	0.4 percent
4	United States*	4	7 days	1.0 percent
5	Sweden	4	17 days	2.5 percent
6	Ireland	4	25 days	11.5 percent
7	Finland	4	32 days	1.2 percent
8	Denmark	5	21 days	1.4 percent
9	Israel	5	32 days	20.2 percent
10	Norway	6	24 days	2.5 percent
14	United Kingdom*	7	11 days	0.6 percent
19	Germany*	7	90 days	8.5 percent
40	Japan*	11	50 days	11.4 percent
46	Italy*	11	121 days	24.7 percent
71	France*	16	66 days	19.7 percent
72	Russia*	16	69 days	37.8 percent
73	Colombia	17	55 days	12.4 percent
74	Mozambique	17	174 days	116 percent
75	Bolivia	20	82 days	263 percent

\*G-8 countries

## JOB Creation

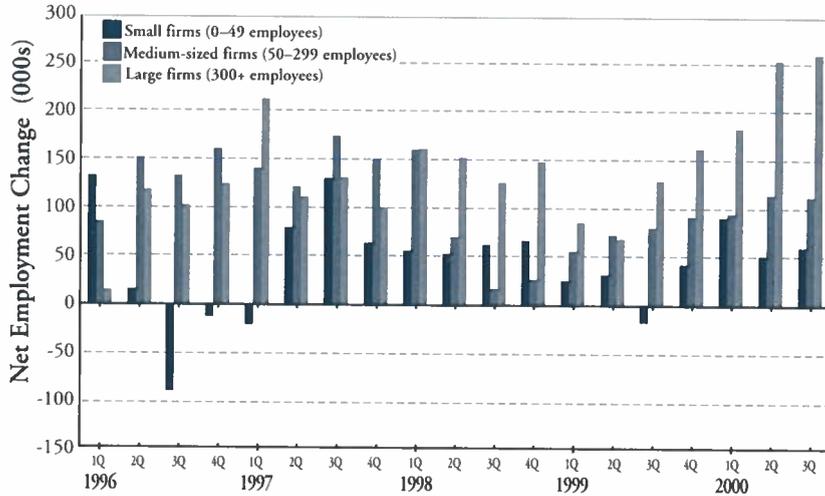


Payroll data indicate that small businesses created 60 355 jobs, or 14 percent of the 433 035 net new jobs created between the third quarter of 1999 and the third quarter of 2000 (see Table 1). This is a significant change from a year earlier: 17 358 small-business jobs were lost between the third quarters of 1998 and 1999. However, the rate of job growth in small businesses (firms employing fewer than 50 people) since the third quarter of 1999 was only 1.5 percent. This is much lower than the rate of job creation in medium-sized and large firms, which was 5 percent and 4.7 percent respectively. Chart 1 illustrates the net year-over-year variation in employment by quarter and size of firm since 1996. The most recent data show that large firms (300 or more employees) continue to outpace smaller firms in net job creation. With 47 percent of the jobs in the third quarter of 1999, large businesses added 260 000 jobs, or 60 percent of the total net gain. Table 2 displays the employment shares by firm size and sector in the third quarter of 1999.

The most recent year-over-year results show that most new small-business jobs were created in the trade and services sectors, with gains of more than 19 000 and 35 000 respectively. A close third was construction, with a net gain of nearly 15 000 new jobs among firms with fewer than 50 employees. It is interesting to note that nearly 72 percent of construction jobs are in this segment and that small firms here generated almost as many jobs as the larger segments combined, yet the rate of job growth in the larger construction firms far outpaces that of small companies. Small manufacturing firms lost more than 8000 jobs, in sharp contrast to larger manufacturing firms, where nearly 100 000 jobs were created.

(continued on page 3)

**Chart 1: Net Change in Number of Employees, by Firm Size, Year Over Year by Quarter, 1996–2000**



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

(continued from page 2)

Reports in the *Small Business Quarterly* on small-business contributions to job creation are based on special runs from Statistics Canada's monthly *Survey of Employment, Payroll and Hours* (SEPH). The SEPH includes payroll employment only, and excludes certain categories that are included in the *Labour Force Survey* (LFS), such as the self-employed not on a payroll and unpaid family workers. For further information on the SEPH's methodology and how it differs from the LFS, refer to Statistics Canada's *Data Quality Statements* at: <http://www.statcan.ca/english/concepts/quality/2612.pdf>

**Table 1: Net Change in Number of Employees Between the Third Quarter of 1999 and the Third Quarter of 2000, by Size and Industry, and Rate of Growth**

	All Industries	Logging	Mining	Manufacturing	Construction	Transportation and Communication	Trade	Finance and Real Estate	Services	Public Administration
<b>Size of Firm by Number of Employees</b>										
0-49	60 355	776	53	-8 394	14 727	689	19 134	680	35 473	-2 782
Rate of growth (%)	1.5	2.0	0.2	-1.8	3.5	0.4	1.9	0.3	2.2	-5.7
50-299	112 677	1 350	-9	19 986	11 232	416	23 817	2 465	54 434	-1 014
Rate of growth (%)	5.0	11.1	0.0	3.9	10.7	0.4	5.4	2.5	6.2	-1.3
300+	260 003	1 004	3 064	79 802	9 177	23 064	26 574	7 823	103 493	6 002
Rate of growth (%)	4.7	3.8	3.5	8.2	15.4	3.9	3.5	1.9	5.2	1.1
<b>Total</b>	<b>433 035</b>	<b>3 130</b>	<b>3 108</b>	<b>91 394</b>	<b>35 136</b>	<b>24 169</b>	<b>69 525</b>	<b>10 968</b>	<b>193 400</b>	<b>2 206</b>
Rate of growth (%)	3.7	4.1	2.2	4.7	6.0	2.7	3.1	1.5	4.3	0.3

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

**Table 2: Percentage Share of Total Employment, by Firm Size and Industry, Third Quarter of 1999**

	All Industries	Logging	Mining	Manufacturing	Construction	Transportation and Communication	Trade	Finance and Real Estate	Services	Public Administration
<b>Size of Firm by Number of Employees</b>										
0-49	34.2	50.3	20.8	23.5	71.9	20.2	45.6	29.4	36.0	7.1
50-299	19.2	15.7	16.5	26.4	18.0	12.4	19.8	13.4	19.4	11.6
300+	46.7	33.9	62.7	50.1	10.2	67.4	34.6	57.2	44.6	81.2
<b>Share of Total Employment</b>	<b>100</b>	<b>0.7</b>	<b>1.2</b>	<b>16.5</b>	<b>5.0</b>	<b>7.5</b>	<b>18.9</b>	<b>6.2</b>	<b>38.2</b>	<b>5.9</b>

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



## SELF-*Employment*

**S**elf-employed workers in Canada numbered 2.36 million in the fourth quarter of 2000, according to Statistics Canada's *Labour Force Survey*. (The data are calculated from seasonally adjusted averages). This is a drop of 4 percent from 2.46 million for the same quarter in 1999. It is the third consecutive quarter decrease in self-employment since the 2.52-million peak reached in the first quarter of 2000.

Benjamin Tal, CIBC's senior economist and the author of *Self-Employment in Canada — Trends and Prospects* (December 2000), offers an explanation for the decline in self-employment. Tal describes the phenomenon as typical of the late stages of the economic cycle where "some self-employed, who in recent years were forced into self-employment due to lack of alternatives, are now able to find more suitable paid-employment jobs." Tal adds that most of the formerly self-employed people who have taken on paid employment are young and less educated.

Chart 2 shows the dramatic rise in the number of self-employed workers in Canada between 1990 and 2000. In fact, self-employment increased by approximately 40 percent between the first quarter of 1990 and the first quarter of 2000. Tal predicts that while self-employment will continue to decline in 2001, over the next decade it will become even more dominant in the Canadian labour market.

Tal's report can be found at: [http://www.cibc.com/english/business\\_services/economics/21\\_ANALYSIS/index.html](http://www.cibc.com/english/business_services/economics/21_ANALYSIS/index.html)

*Chart 2: Number of Self-Employed Workers Seasonally Adjusted, 1990–2000, Based on Monthly Averages*



Source: *Labour Force Survey*, Statistics Canada.

Data as of January 29, 2001

## BUSINESS Bankruptcies

**T**here were 2374 bankruptcies reported in Canada in the third quarter of 2000. This is fewer than in the previous two quarters but is 6.7 percent higher than in the third quarter of 1999 (see Chart 3). Given the seasonal pattern of reported bankruptcies, it is more meaningful to look at year-over-year comparisons than at quarter-to-quarter developments.

Business liabilities involved in bankruptcies in the third quarter of 2000 were up significantly compared with the third quarter of 1999: \$1.47 billion compared with \$845 million, or an increase of 74 percent. Total liabilities involved in bankruptcies increased faster than the number of bankruptcies, which suggests that the average size of firms going bankrupt has increased.

Taking the longer view, Chart 3 also shows that, since 1996, the number of bankruptcies has declined while business liabilities have remained relatively stable, with the exception of a peak in the third quarter of 1998. This too suggests that the average size of firms going bankrupt is increasing.

**The Canadian economy...** grew 4.8 percent (annual rate) in the third quarter of 2000, putting the economy on track for estimated growth of 5 percent for 2000 overall. While export growth stalled as the U.S. economy slowed down, demand was supported by increases in consumer spending and housing, and continued strong business investment. Available data suggest that growth slowed in the final quarter of 2000, dragged down by weakness in the manufacturing sector.

**The economic outlook...** calls for growth to slow from the strong pace of the previous two years. The January 2001 consensus of private sector forecasts calls for solid growth of 3.3 percent in 2001, followed by 3.4 percent in 2002.

**The national unemployment rate...** dipped 0.1 percentage points to 6.8 percent in December 2000, ending the year where it began. Employment rose 31 000 in December 2000, the fifth consecutive monthly increase, bringing gains over the year to 319 000 (+2.2 percent). This follows the creation of 427 000 jobs in 1999.

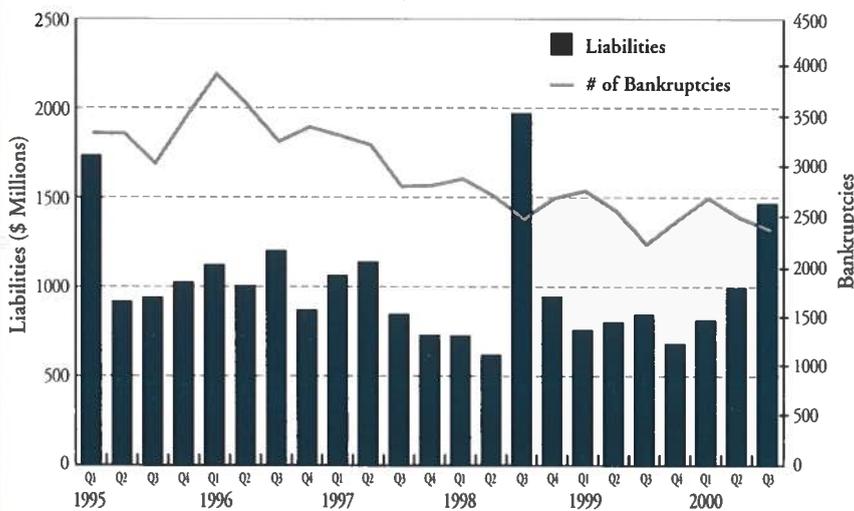
**Inflation...** remains in check, averaging 2.7 percent for 2000, despite sharply higher energy prices. The year-over-year core rate of CPI inflation stood at 1.9 percent in December 2000, near the mid-point of the Bank of Canada's official target range of 1–3 percent. The core rate excludes the volatile food and energy components.

**The bank rate...** was lowered 25 basis points by the Bank of Canada on January 23, 2001, after remaining unchanged since May 2000. The move followed cuts in the U.S. federal funds rate in response to a slowing U.S. economy.

**The Canadian dollar...** strengthened against the U.S. dollar late in the year. After reaching a two-year low of US\$0.642 on November 17, 2000, the dollar appreciated somewhat in December, reaching US\$0.667 at the end of

(continued on page 7)

Chart 3: Business Bankruptcies and Liabilities, 1995–2000



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



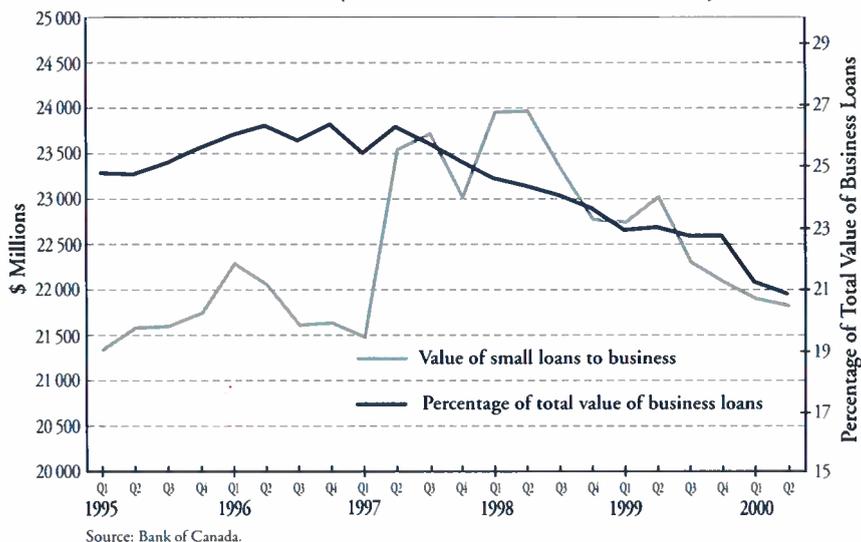
# BUSINESS Loans

Total chartered bank loans to businesses reached \$104.5 billion in the second quarter of 2000. Of this total, 21 percent, or \$21.8 billion, accounted for small loans (less than \$500 000), and 30 percent or \$31.3 billion accounted for medium-sized loans (between \$500 000 and \$5 million).

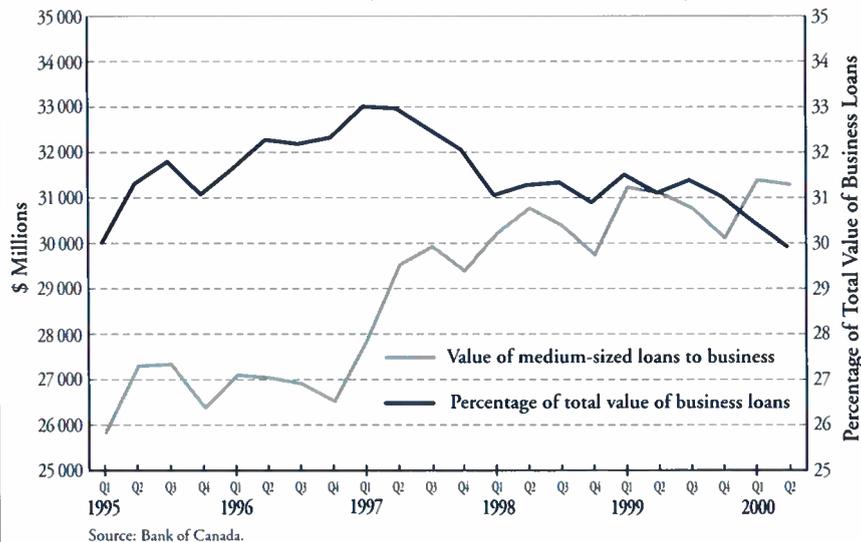
Charts 4 and 5 show that, as a percentage of the total dollar value of chartered bank loans to businesses, both small and medium-sized loans have lost ground since early 1997.

Between the second quarter of 1997 and the second quarter of 2000, the decline in share for small loans was 5.4 percentage points; the share for medium-sized loans declined 3.1 percentage points. The absolute value of small loans declined as well over that period, from \$23.5 billion to \$21.8 billion. However, the absolute value of medium-sized loans continues to increase over time.

*Chart 4: Chartered Bank Small Loans to Business (less than \$0.5 million)*



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



# RECENT *Developments*

## *Single-Window Access to Information on Financing for SMEs*

**T**he Financing sub-portal is one of 10 sub-portals recently launched under BusinessGateway.ca.

The Financing sub-portal provides small and medium-sized enterprises (SMEs) with single-window access to comprehensive information on financing and sources of financing. The sub-portal will be further developed by improving and expanding its content, functionality and design. The sub-portal will help SMEs stay up-to-date on debt and equity financing services and programs offered by public and private sector organizations. Visit the Financing sub-portal today, and please provide your comments by completing the on-line feedback questionnaire.

## *Business Management Skills*

**T**he Small Business Policy Branch has commissioned a research study on the business management skills required at various stages of a firm's growth, the success factors that contribute to this growth, and the best practices of firms that have effectively implemented business skills development strategies. The study will review the barriers SMEs face in acquiring management skills and how successful firms have overcome these barriers. The draft report of the study will include forward-looking policy considerations for the Small Business Policy Branch. Look for highlights of the study in a future issue.

## *Industry Canada Conference to Share Innovative Approaches to SME Equity Financing*

**A** *Bridging the Investment Gap* conference will bring together economic development professionals from communities across Canada with representatives of the international Organisation for Economic Co-operation and Development. The conference will be held in Montréal on June 13 and 14, 2001.

*(continued on page 8)*

# ECONOMIC *Snapshot*

*Data as of January 29, 2001*

*(continued from page 5)*

January 2001. The Canadian dollar has performed well against other international currencies over the year, including the yen and the euro.

**Merchandise exports...** edged down 0.5 percent (annual rate) in the third quarter of 2000 in constant dollars, the first decline in four years. Export growth has slowed considerably since June 2000, reflecting weaker demand in the United States, particularly in the automotive sector. Still, the merchandise trade surplus for the first 11 months of 2000 stands at \$47.5 billion, an increase of more than \$16 billion over the same period in 1999, owing in large part to higher energy prices.

**Housing investment...** strengthened in the third quarter of 2000, with gains registered in new housing construction, renovations and resale activity. However, resale activity faltered in December, erasing the gains of the previous month, and housing starts have displayed a downward trend since October.

**Retail sales...** rose 0.4 percent in November 2000 to \$23.4 billion, based on a partial rebound in the automotive sector. Sales have weakened since the summer, as consumer confidence has been affected by stock market volatility and the weakening U.S. economy.

**Corporate profits...** continue to rise, increasing 4.2 percent (annual rate) in the third quarter of 2000. Increases in 2000 build on a solid 24 percent gain in 1999.

**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. The government has announced that it will pay down a minimum of \$10 billion in debt in fiscal year 2000–01.

**Total government surplus — federal, provincial and local...** reached \$4.1 billion in fiscal year 1999–2000, measured on a Financial Management System basis.

(continued from page 7)

In what has been described as a “shirt sleeve” conference, delegates will hear what the Canada Community Investment Plan (CCIP) demonstration projects have accomplished in improving the investment culture in communities outside Canada’s main financial centres. Delegates will form small groups for what is expected to be a lively exchange of ideas. They will also have a chance to discuss alternative methods of helping entrepreneurs with growth potential, and learn more about “angel investors” and new developments in business incubators and accelerators.

More information on the conference and the CCIP is available at: <http://ccip.ic.gc.ca>

### *New Research and Policy Web Site*

**I**ndustry Canada’s Small Business Policy Branch will launch a new, comprehensive small-business research and policy Web site in the spring of 2001. The site will provide SME researchers and policy makers with a database of SME

research, small-business financing information, databases of Canadian small-business researchers and policy development offices across Canada, and small-business statistics. The site will also improve communication between SME researchers and policy makers through an on-line network with consultation capabilities. A link to the site will be available on the home page of *Strategis*, Canada’s business and consumer site (<http://strategis.gc.ca>).

### *Results of the Small Business Quarterly Evaluation*

**I**n the fall of 2000, the Small Business Policy Branch evaluated the *Small Business Quarterly* (SBQ). The publication has been in circulation since 1996 and currently has approximately 5000 subscribers, including members of Parliament, provincial and municipal governments, the media and owners of Canadian businesses. The publication provides a summary of statistics and research on Canada’s small-business sector and articles on the issues it faces.

The Small Business Policy Branch hired a consultant to get feedback from readers and to recommend future directions for the SBQ. Here is what readers said:

- The publication provides a useful package of “snapshot” economic information that is suited to small-business sector researchers and policy makers, but that is not particularly suited to small businesses themselves.
- Many data charts would be even more useful if accompanied by qualitative analyses of “what the numbers mean.”
- Subscribers liked the quarterly frequency, but thought we should get the publication out on time more often.
- The format is professional and well laid out, but chart titles should more clearly reflect the data presented in the charts.

We appreciate your feedback. Our goal is to produce a publication that contains more qualitative content aimed at a more focussed readership. We will continue to work with the small-business sector research community to make the SBQ useful and relevant.

### *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.

Please send your comments to the editors:

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