



Industry
Canada

Industrie
Canada

SMALL *Business*

VOL. 3, NO. 2, September 2001

Q U A R T E R L Y

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

PERFORMANCE

Trends

- The number of business establishments in Canada reached 2 056 948 in June 2000, an increase of 4.2 percent since September 1999.
- There were 2.32 million self-employed workers during the second quarter of 2001, down 4 percent from 2.42 million recorded for the same quarter in 2000.
- Bankruptcies numbered 2788 in the first quarter of 2001, an increase of 3.6 percent from the 2691 reported for the same quarter in 2000. Business liabilities involved in bankruptcies also showed an upward trend, reaching \$1.13 billion in the first quarter of 2001, an increase of 38.7 percent from \$815 million reported for the same quarter in 2000.
- Total business loans outstanding from chartered banks amounted to \$102.2 billion in the first quarter of 2001. Of these, 21.3 percent or \$21.8 billion were small loans (less than \$500 000). Both the absolute value of small loans and their share of total business loans outstanding have been declining since 1997.

PROFILE OF CANADIAN EXPORTERS

1993-99

The December 2000 issue of *Small Business Quarterly* featured the first issue of Statistics Canada's Exporter Registry,* a new database on Canadian exporters and on the value of exports by industry, size of exporter, province of residence and destination. Statistics Canada has just released the second issue of *A Profile of Canadian Exporters 1993-99*. As before, a business establishment that has exports exceeding \$30 000 annually is used as the statistical unit of measure.

As shown in Table 1, in 1998 and 1999 the distribution of business among exporters was similar to the pattern in previous years. Of nearly 30 000 exporters, a small number (about 1500 or 5 percent) of the largest exporters (with over \$25 million worth of goods and services) accounted for over 80 percent of the value of all exports. Small exporters (under \$1 million) comprised almost two thirds of the total number of establishments but contributed less than 2 percent of the total value of exports.

General trends continued in the direction shown in previous years. While the total number of exporters has been fairly stable since 1995, growing only

(continued on page 2)

CONTENTS

<i>Business Establishments</i>	3
<i>Self-Employment</i>	4
<i>Business Bankruptcies</i>	5
<i>Economic Snapshot</i>	5
<i>Business Loans</i>	6
<i>Equity Financing</i>	6
<i>Recent Developments</i>	7



(continued from page 1)

1.3 percent per year, the value of exports has grown 7.4 percent per year on average. The percentage of the smallest exporters (under \$100 000) has continued to decline, to 21 percent in 1999, while the proportion of those in the \$100 000 to \$1 million range has remained stable at around 42 percent of total numbers. The next size of exporters (\$1 to \$5 million) has continued to gain ground, standing at 21 percent of all exporters in 1999, up from 18 percent in 1995; however, its share of export value has remained under 5 percent. Similarly, while the second-largest size (\$5 to \$25 million) showed significant increases in numbers and reached 11 percent of all exporters in 1999, its share of export value overall remained under 12 percent.

As expected, the number of new exporters in any year is small; however, the size of new exporters has been gradually increasing. In 1999, new exporters with

exports under \$100 000 accounted for 47 percent of all new exporters, down from 54 to 58 percent recorded from 1994 to 1997. In contrast, new exporters in the next size range (from \$100 000 to \$1 million) accounted for 43 percent of all new exporters, up from an annual average of 38 percent from 1994 to 1997. The increase in size is explained by an increase in the volume of exports, an increase in prices or a combination of both factors.

The full report (Catalogue No. 65-506-XIE, July 2001) may be purchased for \$25 on the Statistics Canada Web site (www.statcan.ca).

* Statistics Canada Catalogue No. 65-506-XIE, September 2001. The registry includes domestic exports (goods grown, extracted or manufactured in Canada) and goods of foreign origin that have been materially transformed in Canada. It excludes establishments with annual domestic exports under \$30 000, groceries, duty-free shop exports and goods of U.S. origin returning to the United States.

Table 1: Number of Exporters and Value of Exports (millions of current Canadian dollars), 1993–99

Exporter Size	1993		1994		1995		1996		1997		1998		1999	
	Number	Value												
\$30 000–\$99 999	6 674	391	7 080	413	7 569	445	7 556	446	7 655	452	6 380	384	6 128	367
% share	28.9	0.2	27.8	0.2	27.2	0.2	26.2	0.2	25.5	0.2	21.4	0.1	21.0	0.1
\$100 000–\$999 999	9 777	3 401	10 898	3 885	11 778	4 191	12 103	4 412	12 492	4 589	12 812	4 702	12 138	4 603
% share	42.3	1.9	42.8	1.8	42.4	1.7	41.9	1.7	41.6	1.6	43.1	1.6	41.5	1.4
\$1 000 000–\$4 999 999	3 927	9 098	4 298	10 025	4 909	11 622	5 258	12 322	5 649	13 362	6 012	14 329	6 199	14 880
% share	17.0	5.2	16.9	4.7	17.7	4.8	18.2	4.8	18.8	4.8	20.2	4.9	21.2	4.6
\$5 000 000–\$24 999 999	1 853	20 803	2 167	24 565	2 389	27 490	2 666	30 195	2 909	33 180	3 057	34 563	3 238	37 004
% share	8.0	11.8	8.5	11.6	8.6	11.3	9.2	11.7	9.7	11.9	10.3	11.8	11.1	11.4
\$25 000 000 and over	899	142 659	1 032	172 180	1 156	200 485	1 277	209 703	1 340	227 294	1 492	239 817	1 540	268 349
% share	3.9	80.9	4.1	81.6	4.2	82.1	4.4	81.6	4.5	81.5	5.0	81.6	5.3	82.5
Total	23 130	\$176 352	25 475	\$211 068	27 801	\$244 233	28 860	\$257 078	30 045	\$278 876	29 753	\$293 794	29 243	\$325 203

Source: Statistics Canada, Exporter Registry, July 2001.

BUSINESS *Establishments*



According to Statistics Canada's Business Register, the total number of business establishments* reached 2 056 948 in June 2000. As shown in Table 2, almost half had no employees. Of the remainder, almost 58 percent had fewer than 5 employees. Establishments with one or more but fewer than 10 employees made up 75 percent of the balance, while those with fewer than 50 accounted for 95 percent and those with fewer than 100 employees made up 98 percent of business establishments with at least one employee.

Nearly 34.5 percent of business establishments were located in Ontario, with 23.5 percent in Quebec, 35 percent in the Western provinces and 6.3 percent in the Maritime provinces.

* Business establishments are businesses that have at least one paid employee, have annual sales revenue of at least \$30 000, or are incorporated and have filed a federal corporate income tax at least once in the past three years.

Table 2: Business Establishments by Employment Categories and Province or Territory, June 2000

Province or Territory	Employer Businesses										
	Grand Total	Indeterminate*	Total	Number of Employees							
				1-4	5-9	10-19	20-49	50-99	100-199	200-499	500+
British Columbia	297 044	140 448	156 596	89 787	27 823	19 597	13 251	3 759	1 532	610	237
Alberta	264 489	135 091	129 398	74 251	22 605	16 065	10 840	3 446	1 427	550	214
Saskatchewan	93 972	52 684	41 288	24 633	7 592	4 982	2 802	721	337	157	64
Manitoba	73 702	37 662	36 040	19 929	6 094	4 779	3 328	1 164	433	208	105
Ontario	709 038	370 998	338 040	182 125	59 137	43 969	33 252	11 361	5 173	2 088	935
Quebec	482 868	238 137	244 731	153 344	38 521	24 902	17 830	5 979	2 453	1 115	587
New Brunswick	43 876	15 768	28 108	16 636	4 932	3 213	2 239	631	293	118	46
Nova Scotia	49 945	18 159	31 786	18 149	5 628	3 935	2 736	776	358	133	71
Prince Edward Island	10 354	3 209	7 145	4 332	1 335	812	455	116	60	27	8
Newfoundland	25 561	7 794	17 767	10 884	3 130	1 928	1 210	337	150	79	49
Nunavut	674	155	519	165	143	98	76	26	7	4	0
Northwest Territories	2 614	822	1 792	757	462	303	171	53	33	11	2
Yukon Territory	2 811	1 110	1 701	875	363	252	149	38	13	9	2
Canada	2 056 948	1 022 037	1 034 911	595 867	177 765	124 835	88 339	28 407	12 269	5 109	2 320

Source: Statistics Canada, Business Register, June 2000.

*The Indeterminate category consists of incorporated or unincorporated businesses without employees.



SELF-*Employment*

According to Statistics Canada's *Labour Force Survey*, 2.32 million Canadians, or approximately 14.3 percent of the total labour force, were self-employed in the second quarter of 2001 (calculated from seasonally adjusted monthly data). This represents a 4 percent decline from the same quarter in 2000.

Chart 1 shows trends in self-employment since 1990. In the second quarter of 2001, self-employed males numbered 1 529 900 or 66 percent of total employment, while self-employed females numbered 788 100. The share of self-employment by females grew slowly during the last decade, from 31 percent of the total in the first quarter of 1990 to a peak of 36.1 percent in the fourth quarter of 1998, decreasing to 34 percent in the second quarter of 2001.



Chart 1: Self-employed Persons by Gender, 1990–2001



Source: Statistics Canada, *Labour Force Survey*, calculated from seasonally adjusted monthly data.

Data as of August 2, 2001

BUSINESS *Bankruptcies*

The number of bankruptcies in Canada increased by 3.6 percent in the first quarter of 2001, to 2788 from 2691 for the same quarter in 2000 (see Chart 2). This is the second consecutive quarterly increase since the third quarter of 2000.

Business liabilities involved in bankruptcies also continued an upward trend. They increased by 38.7 percent in the first quarter of 2001, to \$1.13 billion from \$815 million for the same quarter in 2000.

The Canadian economy... rose at an annualized rate of 2.5 percent in the first quarter of 2001, up from a revised 1.6 percent in the previous quarter. New housing construction and consumer spending on goods and services recorded gains, offsetting declines in investment and export of machinery and equipment.

The economic outlook... calls for growth to slow from the strong pace of the previous two years. The consensus of private-sector forecasts in July 2001 calls for growth of 2.3 percent in 2001, followed by 3.2 percent in 2002.

The July Business Conditions Survey... states that manufacturers remain concerned about the potential for production slowdowns in the coming months, although they are somewhat less pessimistic than before. Overall, 72 percent of manufacturers stated an intention to maintain or increase production in the coming quarter, up from 68 percent in April. Those most concerned about production prospects in the coming months were producers in the transportation equipment, wood and paper industries. Employment prospects remained uncertain, and more manufacturers were concerned about current levels of orders and inventories.

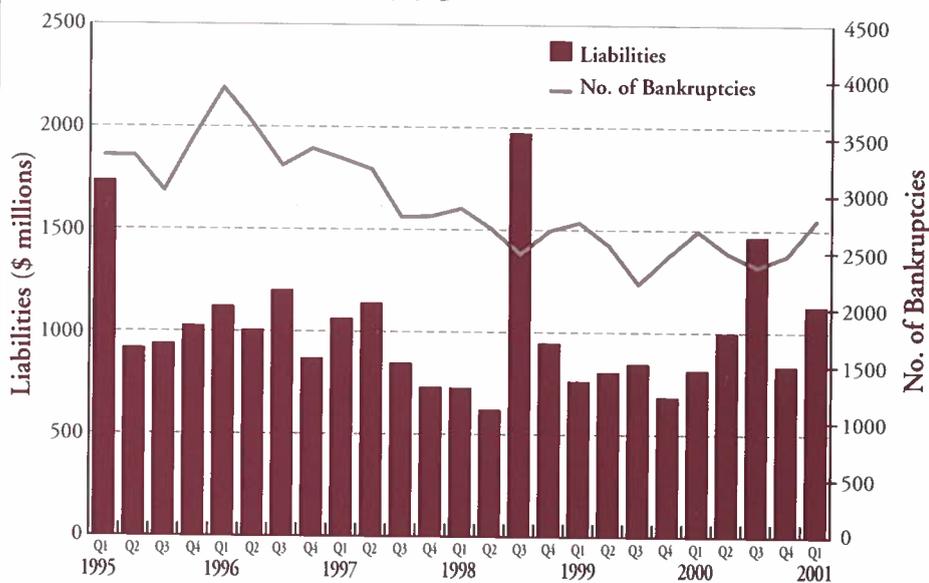
The national unemployment

rate... in June was unchanged at 7.0 percent for the fourth consecutive month. Employment growth was only 0.2 percent in the first six months of 2001, in contrast to the 1.2 percent gain recorded in the second half of 2000.

Inflation... slowed to 3.3 percent in June, down from 3.9 percent in May. Higher energy prices continue to drive inflation up and accounted for more than one quarter of the rate in June. However, "core" inflation was 2.0 percent, still within the Bank of Canada's official target range of 1 to 3 percent (the "core" rate excludes the volatile food and energy components as well as the impact of indirect taxes).

(continued on page 7)

Chart 2: Business Bankruptcies and Liabilities, 1995–2001



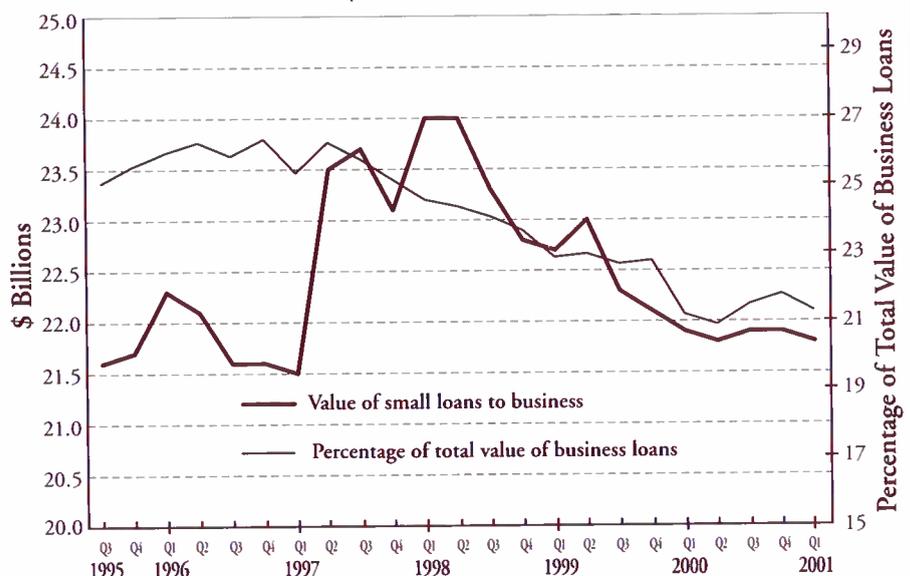
Source: Industry Canada, Office of the Superintendent of Bankruptcy.

BUSINESS Loans

Small loans to business (less than \$500 000) outstanding from chartered banks amounted to \$21.8 billion in the first quarter of 2001, accounting for 21.3 percent of total business loans outstanding. Although both the value of small loans and their percentage share decreased from the previous quarter, the declines were insignificant compared to earlier years.

Chart 3 illustrates that small loans, as a percentage of total chartered bank loans, have continued to decrease over the past four years. From the peak of the second quarter of 1997, the share of small loans to total loans has decreased by 5 percentage points and the absolute value has decreased by \$1.8 billion.

Chart 3: Chartered Bank Small Loans to Business (less than \$0.5 million)



Source: Bank of Canada.

EQUITY Financing

A relatively unknown way of obtaining equity financing is through informal investors or business “angels.” These individuals, often former entrepreneurs, want to invest their money in small companies in return for a percentage of ownership. In addition to financing, these investors usually offer other non-financial services such as market and business intelligence. Table 3 lists typical characteristics and non-financial contributions of informal investors.

Informal investors tend to focus on industries in which they have had previous success as entrepreneurs. They also tend to invest in local firms within approximately 100 kilometres.

A report prepared for Industry Canada notes that informal investors annually invest an amount between \$1 billion and \$20 billion in Canada. The full report, *Informal Equity Capital for SMEs: A review of literature*, by Equinox Management Consultants Ltd., may be acquired by contacting parker.andrew@ic.gc.ca.

Table 3: Profile of Informal Investors

Typical Characteristics of Informal Investors	Common Non-financial Contributions
<ul style="list-style-type: none"> • self-made, high-income • well-educated • middle-aged • predominantly male • prefer investing within their localities • have entrepreneurial experience 	<ul style="list-style-type: none"> • advice • contacts • hands-on assistance • market and business intelligence • board involvement • credibility

RECENT *Developments*

Entrepreneurship Education, Training and Development in Canada: Combining Academic and Field Experience

Laval University is pleased to be hosting the 18th Annual Conference of the Canadian Council for Small Business and Entrepreneurship (CCSBE)/Conférence annuelle du Conseil Canadien de la PME et de l'entrepreneuriat (CCPME). The conference will run from Thursday, October 11 through Sunday, October 14, 2001, giving participants an opportunity to enjoy the spectacular display of fall leaves. The event will take place at the Plaza Hotel in Sainte-Foy, not far from the airport or the bus station, and convenient to the campus of Laval University, large shopping malls and Québec City.

More information on the conference is available at:
<http://www.fsa.ulaval.ca/evenements/ccpme/Default.asp?la=en>.

Canadian Chamber of Commerce to Assist SMEs in Adopting E-Business Strategies

The Canadian Chamber of Commerce recently announced that it is developing an e-business toolkit designed to help SMEs overcome barriers impeding their use of e-business. The announcement was made as part of the launch of *ebiz.enable*, Industry Canada's new online, business-to-business, information source (http://strategis.gc.ca/sc_indps/ebiz/engdoc/homepage.php). The toolkit will be made available on the Web site.

(continued on page 8)

ECONOMIC *Snapshot*

Data as of August 2, 2001

(continued from page 5)

The bank rate... was lowered 25 basis points by the Bank of Canada on July 17. The Bank has lowered interest rates by a cumulative 1½ percentage points since January 2001.

The Canadian dollar... has strengthened in recent months. It reached a high of US\$0.662 in early July before retreating to US\$0.652 by the end of the month.

Merchandise exports... decreased 5.7 percent in real terms in the first quarter of 2001, reflecting the weak U.S. economy. Major contributors to the decline were lower auto exports and the largest drop in machinery and equipment exports in a decade. At the same time, imports fell 11.0 percent in the same period, their largest retreat since 1984. As a result, Canada's real trade surplus recorded an all-time high of \$12.7 billion for the first quarter of 2001.

Housing investment... surged in the first quarter of 2001, helped by a large increase in new housing construction. Moreover, in June, a large gain in housing starts offset a decline in the previous month, raising the second-quarter average 0.9 percent above that for the first quarter. Canada Mortgage and Housing Corporation (CMHC) predicts strong demand in the housing market for 2001 and 2002, fueled by lower mortgage rates and strong income gains.

Retail sales... rose 0.2 percent in May to \$24.3 billion. May's retail activity was bolstered by higher sales in stores classified as "other retail," as well as in drugstores and food stores. Consumer spending showed an annualized 3.6 percent in the first quarter of 2001, rallying from a weak increase in the previous quarter. Consumer spending was spurred by sales of big-ticket items such as furniture and appliances, supported by the active housing market, as well as by auto sales.

Corporate profits... rose 16.2 percent (annual rate) in the first three months of the year. Profits were lower in the manufacturing sector, but higher prices boosted results in the oil patch. Energy rebates for businesses in the west also contributed to the overall increase.

(continued from page 7)

Business Development Bank of Canada Mandate Review and Annual Report

The Honourable Brian Tobin, Minister of Industry, recently tabled a review of the provisions and operations of the Business Development Bank of Canada (BDC). It fulfils the commitment in the enabling legislation of 1995 to conduct a review in five years and to report within one year. *Supporting Small Business Innovation: Review of the Business Development Bank of Canada* is available at <http://www.ic.gc.ca/cmb/Welcomeic.nsf/ICPages/SpecialReports>.

Two supporting research reports are available online at <http://www.bdc.ca>. One is *Financing Services to Canadian Small and Medium-Sized Enterprises* by Angus Reid and the other is *Recent Developments in SME Debt Financing: The Supply Side* by SECOR.

The BDC also tabled its annual report. As at March 31, 2001, the Bank authorized over \$1.5 billion in new lending to support small business projects across the country. Consistent with the Bank's focus on small businesses, 75 percent of loans were for \$250 000 or less.

New, User-friendly Steps to Growth Capital Web Site Launched

A new online version of *Steps to Growth Capital: the Canadian entrepreneurs' guide to securing risk capital* has been launched at <http://growth.ic.gc.ca>. Much easier to use than the previous version, it features an investor readiness self-assessment test as well as Fast Track to Growth Capital, an overview to orient users or provide a speedy refresher course.

Steps to Growth Capital was created to help growth-oriented SMEs become "investor-ready." It comes complete with practical tools, valuable links and resources. In nine steps, it shows entrepreneurs how to identify their financial needs; know their financing options; show their investment potential; demonstrate their management capabilities; build an investment proposal; identify potential investors; meet potential investors; negotiate the deal; and close the deal. It is a must for all growth-oriented SMEs seeking equity financing.

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 editor:

Prichya Sethchindapong
E-mail: sethchindapong.prichya@ic.gc.ca

Small Business Policy Branch
Industry Canada
235 Queen Street
Ottawa ON K1A 0H5
Tel.: (613) 954-5494
Fax: (613) 954-5492

Permission to Reproduce. Except as otherwise specifically noted, the information in this publication may be reproduced, in part or in whole and by any means, without charge or further permission from Industry Canada, provided that due diligence is exercised in ensuring the accuracy of the information reproduced; that Industry Canada is identified as the source institution; and that the reproduction is not represented as an official version of the information reproduced, nor as having been made in affiliation with, or with the endorsement of, Industry Canada.

For permission to reproduce the information in this publication for commercial redistribution, please e-mail: Copyright.Droitsdauteur@pwgsc.gc.ca

ISSN 1205-9099
53453B



10% recycled material

