



SMALL Business

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Q U A R T E R L Y

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

PERFORMANCE

Trends

- The number of business establishments in Canada dropped to 2 024 508 in December 2000, a decline of approximately 1.6 percent from the 2 056 948 establishments recorded in June 2000.
- Self-employed workers in Canada numbered 2.31 million in the third quarter of 2001, down 3.3 percent from the same quarter in 2000.
- There were 2726 bankruptcies reported in the second quarter of 2001, marking an increase of 9.1 percent from the same quarter in 2000. Business liabilities involved in bankruptcies also showed an upward trend, reaching \$1.92 billion in the second quarter of 2001, an increase of 92.9 percent from the same quarter in 2000.
- Total business loans outstanding from chartered banks amounted to \$100.2 billion in the second quarter of 2001, down from \$102.2 billion from the previous quarter.
- In the venture capital market, \$2.5 billion was disbursed in 521 rounds of financing in the first six months of 2001, up from the \$2.4 billion disbursed in 680 rounds over the same period in 2000.

NEW DATA ON PAID EMPLOYMENT IN CANADIAN SMALL BUSINESS SECTOR EXPECTED SOON

Statistics Canada's monthly Survey of Employment, Payrolls and Hours (SEPH) is designed to provide monthly estimates of payroll employment, paid hours and earnings at detailed industry levels for all of Canada, as well as for each province and territory. SEPH data were first published for the April 1983 reference month and were based on a monthly sample size of 70 000 establishments. Over the past several years, this survey program has undergone major developments to improve data quality and reduce the cost of obtaining the information.

In a three-phase redesign, implemented in March 1994, May 1996 and May 1998, survey questionnaires were gradually replaced by administrative data. The administrative sample used to derive employment and monthly payroll data was supplemented with a Business Payrolls Survey (BPS) of

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establishments. It enabled the SEPH monthly sample size to be reduced to the 10 000 establishments sample size of the BPS.*

The *Small Business Quarterly*, in circulation since 1996, has published quarterly data from the SEPH. These data were broken down into three employment sizes, in addition to the enterprise level, based on a special tabulation for Industry Canada. In January 2001, SEPH migrated from the Standard Industrial Classification (SIC) to the new North American Industry Classification System (NAICS). During this process, SEPH data by size of business have not been available.

When SEPH data by size of business become available again, the breakdown by employment size will be in seven categories:

0-4* 5-19 20-49 50-99 100-299 300-499 500+

*Companies without employees are not included in the survey.

The industry breakdown will be as shown in Table 1. Some data may be suppressed because of confidentiality restrictions. Revised survey data will restate the four quarters of the year 2000, as well as provide current estimates on a quarterly basis. The data are expected to be available by the end of this year in PDF format under Statistics Canada Catalogue Number 72-002XIB, *Employment Earnings and Hours*.

* Agriculture, fishing and trapping, private household services, religious organizations and defence services continue to be excluded from the survey.

Table 1: Industry Classification (NAICS)

11	Forestry
21	Mining and oil and gas extraction
22	Utilities
23	Construction
31-33	Manufacturing
41	Wholesale trade
44-45	Retail trade
48-49	Transportation and warehousing
51	Information and cultural industries
52	Finance and insurance
53	Real estate and rental and leasing
54	Professional, scientific and technical services
55	Management of companies and enterprises
56	Administration, support, waste management and remediation services
61	Educational services
62	Health care and social assistance
71	Arts, entertainment and recreation
72	Accommodation and food services
81	Other services (excluding public administration)
91	Public administration

BUSINESS Establishments

According to Statistics Canada's Business Register, the total number of business establishments* in Canada declined during the last six months of 2000 by approximately 1.6 percent, from the 2 056 948 recorded in June 2000 to 2 024 508 in December 2000. The number of businesses in the indeterminate category (businesses without employees) declined by 3.9 percent over the last half of 2000, while employer businesses increased by 0.7 percent.

Table 2 provides a breakdown of business establishments in Canada by size and industry. Approximately one third of all businesses are either in professional, scientific and technical services, in construction or in retail trade, which are the three most populated industries. Among businesses without employees, the largest concentrations are, again, in professional, scientific and technical services, in forestry, in construction, and in real estate and rental and leasing.

While almost 95 percent of Canadian employer business establishments have fewer than 50 employees, the highest concentrations of the smallest firms (1 to 4 employees) are found in professional, scientific and technical services, as well as in construction, in other services and in retail trade. The retail trade industry is strongly represented in all size classes up to 200 employees. In size classes above 50 employees, manufacturing firms become increasingly prominent.

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

Table 2: Business Establishments by Size of Employment and Industry, December 2000

Industry	Grand Total	Indeterminate*	Total	Employer Businesses							
				Number of Employees							
				1-4	5-9	10-19	20-49	50-99	100-199	200-499	500+
Forestry	190 252	125 950	64 302	50 576	7 061	3 858	2 027	524	192	58	6
Mining and oil and gas extraction	14 047	6 265	7 782	4 592	996	853	689	314	168	120	50
Utilities	1 978	625	1 353	549	270	174	168	69	46	45	32
Construction	218 746	110 146	108 600	70 875	16 681	10 621	7 047	2 195	859	268	54
Manufacturing	100 617	33 439	67 178	29 269	10 071	8 733	9 165	4 870	3 016	1 580	474
Wholesale trade	115 663	49 055	66 608	32 628	12 615	9 989	7 578	2 471	978	288	61
Retail trade	205 529	74 280	131 249	61 908	30 189	20 508	11 750	4 212	1 936	604	140
Transportation and warehousing	96 626	50 254	46 372	31 541	5 703	3 941	3 103	1 172	542	236	134
Information and cultural industries	26 013	11 895	14 118	6 975	2 192	1 865	1 759	733	355	165	74
Finance and insurance	103 273	68 193	35 080	17 793	5 835	4 635	4 795	1 122	507	244	149
Real estate and rental and leasing	150 408	110 827	39 581	25 691	6 039	3 860	2 661	873	307	116	34
Professional, scientific and technical services	237 128	129 604	107 524	74 501	14 594	9 145	6 113	1 895	862	310	104
Management of companies and enterprises	68 526	51 342	17 184	9 816	2 825	1 953	1 582	637	283	58	30
Administration, support, waste management and remediation services	88 107	43 000	45 107	26 927	7 356	4 862	3 578	1 270	667	340	107
Educational services	16 579	5 697	10 882	5 783	1 638	1 190	959	397	250	228	437
Health care and social assistance	88 114	8 966	79 148	46 101	14 981	9 096	4 790	1 791	1 208	771	410
Arts, entertainment and recreation	34 724	16 919	17 805	9 981	2 975	2 179	1 635	582	263	132	58
Accommodation and food services	106 128	29 585	76 543	29 408	14 947	14 056	12 165	4 370	1 199	341	57
Other services	154 231	56 204	98 027	67 203	16 451	8 708	4 063	1 005	400	155	42
Public administration	7 819	58	7 761	2 328	1 721	1 041	1 028	577	429	337	300
Total all industries	2 024 508	982 304	1 042 204	604 445	175 140	121 267	86 655	31 079	14 467	6 396	2 753

Source: Statistics Canada, Business Register, December 2000.

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



SELF-*Employment*

According to Statistics Canada's *Labour Force Survey*, 2.31 million persons were self-employed in the third quarter of 2001, down 3.3 percent from the 2.39 million recorded in the same quarter of 2000.

The *Labour Force Survey* distinguishes five categories of self-employed workers: those who work with paid help and those without paid help, and, in each, whether their business is incorporated or unincorporated; unpaid family workers make up the fifth category. Table 3 provides some statistics for each of the categories, showing that between 1995 and 2000, most of the increase in self-employment consisted of self-employed persons working without employees. Incorporated and unincorporated combined, these types of workers expanded by 27 percent over that period. Unpaid family workers declined by 25 percent while self-employed workers with paid help increased their ranks by only one percent during the same period. Total self-employment increased by 15 percent over the five years.

Looking at the changes by industry, most increases are to be found in the service-producing industries,* though self-employed construction workers also increased their numbers substantially (by 19 percent). The single largest increase in self-employment was in the management of companies and administrative and other support services industry, which grew by 56 percent. Other large increases were in professional, scientific and technical services (47 percent) and in educational services (34 percent).

* By conventional Statistics Canada definition, the goods-producing sector consists of the agriculture, forestry, fishing, mining, oil and gas, construction and manufacturing industries. The rest of the industries constitute the service-producing sector.

Table 3: Number of Self-employed Workers in Canada by Category and Industry, 1995 and 2000 (000s)

Industry	Total		With Paid Help				Without Paid Help				Unpaid Family Workers	
			Incorporated		Unincorporated		Incorporated		Unincorporated			
	1995	2000	1995	2000	1995	2000	1995	2000	1995	2000	1995	2000
Agriculture	288.4	249.0	26.2	26.7	45.5	28.4	13.8	24.3	173.7	147.8	29.3	21.8
Forestry, fishing, mining, oil and gas	48.6	48.7	12.9	11.9	13.0	8.2	3.2	6.3	18.4	21.5	0.0	0.0
Construction	232.9	277.3	69.4	66.2	38.8	34.5	23.1	38.1	97.8	135.2	3.8	3.2
Manufacturing	99.1	92.7	50.3	48.6	13.9	10.7	7.8	7.3	25.0	24.7	2.2	0.0
Retail and wholesale trade	328.4	317.3	123.3	121.7	46.9	42.7	31.5	40.7	118.0	107.8	8.7	4.4
Transportation and warehousing	95.7	141.7	18.7	25.3	13.1	12.4	9.6	23.8	53.2	79.1	0.0	0.0
Finance, insurance, real estate and leasing	111.6	130.9	28.4	27.1	10.2	11.0	12.1	21.6	60.0	70.0	0.0	0.0
Professional, scientific and technical services	221.5	326.7	50.8	63.9	36.1	36.9	30.0	69.9	103.2	154.6	1.5	0.0
Management of companies and administrative and other support services	103.0	160.4	22.8	21.9	12.9	19.0	7.3	15.6	58.0	101.9	1.9	2.0
Educational services	33.9	45.4	3.3	4.2	2.9	1.8	2.6	2.9	25.0	36.2	0.0	0.0
Health care and social assistance	184.9	199.6	22.5	27.4	35.3	43.5	6.7	7.0	119.7	121.1	0.0	0.0
Information, culture and recreation	76.8	96.0	12.4	13.2	4.9	4.9	6.0	13.1	53.1	64.6	0.0	0.0
Accommodation and food services	80.4	98.0	39.8	44.7	21.7	26.3	2.9	5.6	12.7	18.5	3.4	2.9
Other services	190.2	237.6	29.4	31.9	23.9	24.6	13.5	20.8	120.8	157.8	2.6	2.5
Public administration	2.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total all industries	2097.8	2421.4	510.5	534.9	319.3	305.1	170.5	297.0	1039.6	1241.1	57.9	43.3

Source: Statistics Canada, *Labour Force Survey*.

Note: Labour Force Survey suppresses data if the size of an estimate is below their release criteria level. Therefore, the industrial data may not add up to the national total.

Bankruptcies

There were 2726 bankruptcies reported in Canada in the second quarter of 2001. This is down slightly from the 2788 reported in the first quarter (see Chart 1), but up 9.1 percent compared with the second quarter of 2000. This is the fourth consecutive quarter of year-over-year increases, which suggests that, after a four-year decline, there is now an upward trend in the number of bankruptcies.

Despite the drop in business bankruptcies, business liabilities involved in bankruptcies increased by 70.5 percent to \$1.92 billion between the first and second quarters of 2001. Compared with the second quarter of 2000, the increase is even higher, at 92.9 percent. Business liabilities have been relatively stable in the late 1990s but the most recent four quarters have been volatile, and year-over-year liabilities have been on the increase for the last six quarters.

The Canadian economy... grew 0.4 percent (annual rate) in the second quarter of 2001. This is down significantly from the first quarter's growth of 2.0 percent, and represents the weakest advance in nearly six years. Domestic demand softened, with markedly slower growth in consumer spending and housing, and exports fell for a third straight quarter. However, business investment in machinery and equipment rebounded, as spending on automobiles and software recorded gains.

The economic outlook... has worsened. There are clear signs of slowing activity and a deteriorating outlook for the U.S. economy, especially since the events of September 11th. The October 2001 consensus of private-sector forecasts calls for growth of 1.4 percent in 2001, followed by 1.7 percent in 2002.

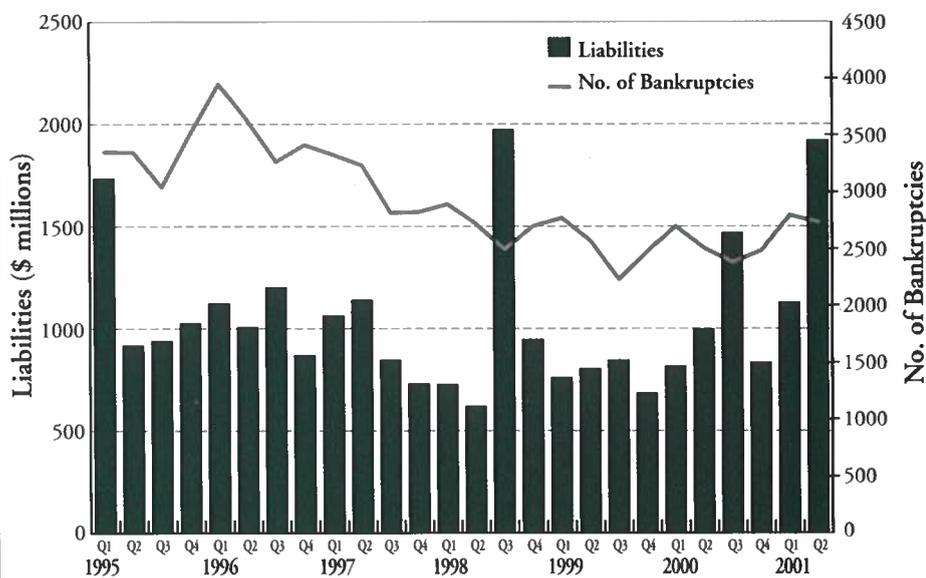
The October Business Conditions Survey...

revealed that manufacturers were increasingly concerned about the potential for production slowdowns and employment prospects for the fourth quarter. Overall, about 33 percent of manufacturers stated they planned to reduce production in the coming months, up from 28 percent in July. Producers in the transportation equipment and primary metals industries were most likely to expect production cutbacks. Dissatisfaction with the current level of orders increased to its highest rate since March 1991, but most reported being satisfied with finished-product inventories. Many respondents replied that it was difficult to assess prospects for the fourth quarter given the uncertainty caused by the September 11th terrorist attacks in the United States.

The national unemployment rate...

edged up to 7.3 percent in October, largely owing to an increase in the size of the labour force. Employment changed little over the month, still down 13 000 since May.

Chart 1: Business Bankruptcies and Liabilities, 1995–2001



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

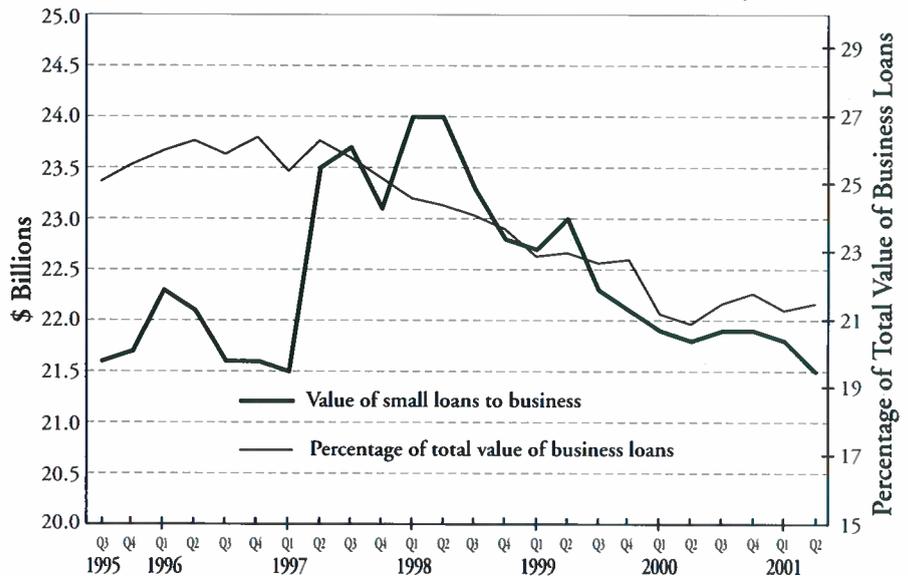
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BUSINESS Loans

The value of chartered bank small loans (less than \$500 000) continued its downward trend in the second quarter of 2001. Small loans to businesses amounted to \$21.5 billion, a \$0.3-billion or 1-percent decline from the same quarter in 2000. Chart 2 illustrates that despite a decrease in the value of small loans, their percentage share increased slightly (up 0.2 percent). This is the result of a decrease in total chartered bank loans, from \$102.2 billion in the first quarter to \$100.2 billion in the second quarter of 2001.

Despite the Bank of Canada's effort to boost confidence by lowering interest rates by 300 basis points so far this year, the ongoing general weakness in the economy will likely cause the total chartered bank loans to remain sluggish through the rest of the year.

Chart 2: Chartered Bank Small Loans to Business (less than \$0.5 million)



Source: Bank of Canada.

EQUITY Financing

The venture capital market remained strong for the first six months of 2001. During this period, \$2.5 billion was disbursed in 521 rounds of financing (Table 4), compared with the \$2.4 billion disbursed in 680 rounds over the same period in 2000. The United States faced a 58-percent decline in disbursements, from US\$53.7 billion during the first half of 2000 to US\$22.8 billion in the first half of 2001.

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Table 4: Regional Distribution of Venture Capital Financing and Percentage Share of Industry Disbursements, First Six Months of 2001

	Number of Financing Rounds	Amount Invested (\$ Millions)	Percentage Share of Industry Disbursements
British Columbia	52	255	10
Prairies	59	93	4
Ontario	153	1200	49
Quebec	188	504	20
Atlantic	15	38	2
To Foreign Firms	54	375	15
Total	521	2465	

Source: Macdonald & Associates Limited, *The Venture Capital Industry in the First Half of 2001*.

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The bulk of investments continued to be located in Ontario over the first six months of 2001. Table 4 shows the regional distribution of venture capital financing (by number and amount invested) and percentage share of industry disbursements. Ontario captured \$1.2 billion of disbursements, up slightly from the previous year. Ottawa-area companies accounted for 53 percent of these disbursements. Quebec-based companies remained on par with last year, attracting \$504 million. British Columbia firms captured \$255 million, up 20 percent from the previous year. Atlantic Canada's share also grew; this region attracted \$38 million in capital investment, a 41-percent increase. The Prairies (Alberta, Manitoba and Saskatchewan) captured \$93 million of disbursements, down from \$132 million in the first six months of 2000, with most of this decline in Alberta.

RECENT *Developments*

SME E-Business Information Toolkit

The September 2001 issue of the *Small Business Quarterly* announced the development of the SME E-Business Information Toolkit by the Canadian E-Business Opportunities Roundtable, in partnership with the Canadian Chamber of Commerce. The toolkit is designed to give small and medium-sized enterprises the information and know-how to implement business-to-business activities. It is now available on Industry Canada's e-business portal ebiz.enable (www.strategis.ic.gc.ca/ebizenable).

The SME E-Business Information Toolkit was launched as part of Small Business Week, which ran from October 21–27, 2001.

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ECONOMIC *Snapshot*

Data as of November 2, 2001

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Inflation... was 2.6 percent in September, down from 2.8 percent in August, as energy prices recorded a weaker year-over-year increase. Higher food prices pushed overall inflation up, accounting for almost one third of the rise. The year-over-year CPI core inflation rate (which excludes the volatile food and energy components) was 2.3 percent in September, still well within the Bank of Canada's official target range of 1 to 3 percent.

The bank rate... was lowered 75 basis points by the Bank of Canada on October 23. The Bank of Canada has lowered interest rates by 3 full percentage points since January 2001.

The Canadian dollar... lost ground in recent months, sliding to US\$0.6266 on November 1, its lowest level ever.

Merchandise exports... fell 3.1 percent (annual rate) in the second quarter in real terms. A boom in automotive exports, driven by a stronger demand in the U.S. market, was not sufficient to offset lower demand for telecommunications equipment, natural gas and electricity. Imports rose 2.1 percent, rebounding from their first quarter drop as demand for motor vehicles strengthened. Consequently, Canada's *real* trade surplus was \$9.9 billion in the second quarter, down from the first quarter but nonetheless the second highest level ever recorded.

Housing investment... cooled in the second quarter with spending on residential construction edging up a modest 0.4 percent and new-housing construction falling. Housing starts were highly volatile in recent months, rising sharply in June, falling back in July and then posting solid growth in August. The Canada Mortgage and Housing Corporation expects that even with the slowing North American economy, residential construction will still benefit from favourable mortgage rates, strong employment and income gains over the past two years, tax cuts and rising migration.

Retail sales... edged up 0.3 percent in August to \$24.3 billion, sustained by higher sales in the automotive and clothing industries. Retail activity has been relatively flat since April, reflecting the economic uncertainty. Consumer spending advanced 1.1 percent in the second quarter, down from a solid 3.4-percent growth in the previous quarter. Mild weather resulted in lower expenditures on natural gas and other fuels, and spending was little changed across a broad range of goods and services.

Corporate profits... fell 6.4 percent (annual rate) in the second quarter. Continued weakness in export-oriented manufacturing industries and lower energy prices were key factors in the overall drop in corporate profits.

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The Canadian Equity Markets

The Small Business Policy Branch has commissioned three specialized studies on Canadian formal and informal equity markets. These studies into informal (angel) investment, venture capital and the IPO markets have been undertaken as part of the SME Financing Data Initiative. They will help compose a comprehensive portrait of the Canadian equity markets.

Two papers were prepared by Equinox Management Consultants. They were "Practices and Patterns of Informal Investments" and "Value Added by Informal Investors." A third was prepared by E. Wayne Clendenning & Associates, entitled "Issues Surrounding Venture Capital, Initial Public Offering (IPO) and Post-IPO Equity Financing for Canadian Small and Medium-Sized Businesses (SMEs)."

For further details on the reports, please send an e-mail to: prg-sbpb@ic.gc.ca.

Trends in Small Business

The CIBC has released "Trends in Small Business as of October 2001," the latest edition of this trends series by CIBC's senior economist, Benjamin Tal. The report reviews some of the issues affecting the small business community in today's economy.

Among his findings, Tal reports the number of self-employed workers in the Canadian economy has stabilized in recent months after falling by more than 200 000 between the beginning of 2000 and May 2001. He explains the drop is typical during the late stages of an economic boom where people who had been forced into self-employment by job loss were able to find more suitable paid-employment jobs. Tal predicts that, as the economy continues to slow, this trend will reverse itself and that self-employment will grow in the coming months.

The full report is available at www.cibc.com/english/business_services/economics/21_ANALYSIS/index.html.

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:

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