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PERFORMANCE

Trends

- The number of business establishments in Canada reached 2 190 278 in December 2001, an increase of 8.2 percent from December 2000.
- Job creation by small businesses accounted for more than the net number of new jobs in the economy as a whole. Between the fourth quarter of 2000 and the fourth quarter of 2001, the overall job gain was more than 127 000, but businesses with fewer than 100 employees created more than 149 000 net jobs. The overall year-over-year rate of job creation, however, decreased considerably from the almost 450 000 jobs created in the first quarter of 2001.
- The average number of self-employed workers in Canada stood at 2.3 million during the first quarter of 2002, a decline of 1.3 percent from the same quarter in 2001.
- There were 2660 bankruptcies reported in the first quarter of 2002, marking a slight decrease from the 2709 reported in the fourth quarter of 2001.
- Total business loans outstanding from chartered banks amounted to \$49.9 billion in the fourth quarter of 2001. Of these, 21 percent were small loans of less than \$500 000.
- Venture capital investments in Canada amounted to close to \$4.9 billion in 2001, marking a decrease of 27 percent from the \$6.6 billion recorded in 2000.

SURVEY OF INNOVATION

Statistics Canada's *Survey of Innovation 1999* examined the characteristics of close to 6000 Canadian firms in the manufacturing sector¹ that employed at least 20 people and grossed more than \$250 000 annually. The survey is the latest in a series of innovation surveys conducted by Statistics Canada since 1993. Data by size of firm were tabulated specifically for Industry Canada.

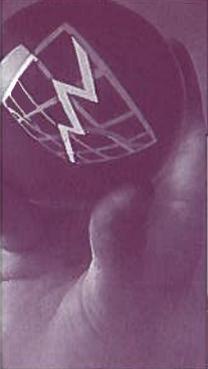
The survey found that small, medium-sized and large firms that were considered successful innovators — firms that “offered a new or significantly improved product or a production/manufacturing process during the past three years (1997–1999)” — shared similar characteristics. However, both the proportion of successful innovators and the number of innovative activities among small firms lag somewhat behind those among larger firms.² Small firms were defined as those with fewer than 50 employees, medium-sized firms as those with more than 49 but fewer than 250, and large firms as those with more than 249 employees.

Table 1 shows that 75 percent of small firms in manufacturing were successful innovators. However, a larger proportion of medium-sized firms (82 percent) and large firms (88 percent) innovated successfully. Innovative small firms also trailed medium-sized and large firms in terms of the number of innovation activities performed. On average, small firms performed

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3.42 innovation activities, whereas medium-sized and large firms performed 3.9 and 4.29 innovation activities respectively.

Firms innovate to improve product quality and production capacity as well as to extend product range. The most common sources of information for innovation are management and production staff, trade fairs and exhibitions, and clients and suppliers. Federal/provincial agencies and research laboratories, and universities and colleges, are among the sources used least often.

The survey cites the following four major barriers to innovation: the inability to devote staff to projects on an ongoing basis; the high cost of development; lack of

skilled personnel; and lack of financing. Government regulation is relatively low on the list of impediments to innovation.

The Innovation Policy Branch of Industry Canada is currently preparing a research paper, slated for publication in fall 2002, in which the survey data will be analyzed in greater detail.

¹ Selected natural resources industries were also surveyed but the results are not presented here. More details on the survey can be found in Schaan and Anderson (2001), *Innovation in Canadian Manufacturing: National Estimates*, Cat. No. 88F0006XIE01010, Statistics Canada.

² Innovation activities are R&D; acquisition of machinery, equipment or other technology; industrial engineering and industrial design; tooling up and production start-up; and training.

Table 1: The Incidence and Frequency of Innovation Activities by Firm Size, Canada

	Small (20–49 Employees)		Medium (50–249 Employees)		Large (250+ Employees)	
	Incidence (%)	Frequency	Incidence (%)	Frequency	Incidence (%)	Frequency
Successful Innovators	75	3.42	82	3.9	88	4.29
Unsuccessful Innovators	8	2.3	7	2.32	6	N/A*
Non-innovators	17	—	11	—	7	—

Source: Statistics Canada, *Survey of Innovation 1999*, special tabulation for Industry Canada.

*Estimates with poor reliability because of high sampling errors were suppressed.

Note: The percentages may not add up to one hundred because of rounding.

JOB Creation

Data from Statistics Canada's *Survey of Employment, Payrolls and Hours (SEPH)*³ indicate that more than 127 000 net new jobs were created between the fourth quarter of 2000 and the fourth quarter of 2001. This marks a significant decline from the almost 450 000 new jobs created in the first quarter of 2001. Table 2 shows that small businesses (firms with up to 99 employees) created 117 percent of the net new jobs, compensating for the job losses incurred by medium-sized businesses (100 to 499 employees). Small businesses'

share of net job creation increased rapidly from 25 percent in the first quarter to 117 percent in the fourth quarter; over the same period, the contribution to the total net change by medium-sized and large businesses decreased from 14 percent to -55 percent and 60 percent to 38 percent respectively.⁴

Looking at the data on a year-over-year basis, nearly 290 000 net jobs were created in 2001 (see Table 3). Three-quarters of these jobs were created in Ontario, Alberta and Quebec, but the fastest rate of net job growth was found in Prince Edward Island, the

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Northwest Territories and Nunavut, and Alberta at 6.6 percent, 6.1 percent and 5.0 percent respectively.

Overall, 47 percent of the jobs were created by firms with fewer than 100 employees. Across provinces, however, the pattern varied considerably. The small business contribution to job creation ranged from -15 percent in Nova Scotia to 62 percent in Newfoundland. Conversely, large businesses (more than 500 employees) shrank their employment by 11 percent in Newfoundland while making up 96 percent of net job growth in Nova Scotia.

Please refer to the Economic Snapshot section for an update on the overall labour market in the first four months of 2002.

³ SEPH data exclude self-employed workers who are not on a payroll and employees in the following industries: agriculture, fishing and trapping, private household services, religious organizations, and military personnel of defence services. The data breaking down employment by size of firm also exclude unclassified industries.

⁴ Statistics Canada cautions that these data may be somewhat volatile, especially with respect to the smallest size categories and when relating 2001 data to 2000.

Table 2: Year-over-year Quarterly Net Change in Payroll Employment by Firm Size, Canada, 2001

Quarter	Total Net Change		% Contribution to Total Net Change by Size of Firm (Number of Employees)								
	%	Jobs	0-4	5-19	20-49	50-99	0-99	100-299	300-499	100-499	500+
Q1	3.7	449 435	10.0	1.4	8.1	5.9	25.4	10.8	3.6	14.4	60.1
Q2	2.8	353 334	2.2	8.7	13.0	11.9	35.8	10.5	2.5	13.0	51.1
Q3	1.8	226 792	29.8	2.8	16.9	15.6	65.1	-0.4	-1.0	-1.4	36.3
Q4	1.0	127 451	32.4	37.2	33.8	13.6	117.0	-17.7	-37.7	-55.4	38.3

Source: Statistics Canada, *Survey of Employment, Payrolls and Hours (SEPH)*, January 2002.

Table 3: Year-over-year Annual Net Change in Payroll Employment by Province/Territory and Firm Size, 2001

Province	Total Net Change		% Contribution to Total Net Change by Size of Firm (Number of Employees)								
	%	Jobs	0-4	5-19	20-49	50-99	0-99	100-299	300-499	100-499	500+
Newfoundland	3.9	6 605	11.4	16.9	15.9	17.8	62.0	22.8	26.0	48.8	-10.8
Prince Edward Island	6.6	3 523	-2.4	3.0	12.4	21.9	34.9	3.1	-1.1	2.0	63.0
Nova Scotia	2.3	7 841	3.3	-24.3	5.7	0.3	-15.0	21.2	-1.9	19.3	95.7
New Brunswick	3.4	9 640	4.6	8.4	10.8	8.6	32.4	1.1	14.8	15.9	51.7
Quebec	1.8	53 769	17.6	6.2	12.6	12.6	49.0	7.5	-9.3	-1.8	52.7
Ontario	2.0	98 823	20.6	12.7	16.8	10.0	60.1	-4.0	-5.8	-9.8	49.7
Manitoba	3.6	17 499	3.1	-3.2	2.3	13.7	15.9	19.0	11.6	30.6	53.5
Saskatchewan	1.2	4 268	17.6	-31.9	34.4	-3.7	16.4	5.7	-6.4	-0.7	84.2
Alberta	5.0	64 786	10.6	12.7	10.9	4.3	38.5	4.7	1.6	6.3	55.1
British Columbia	1.3	20 631	4.1	-1.9	21.2	29.1	52.5	28.0	-9.7	18.3	29.1
Yukon	1.3	193	22.8	50.3	200.5	13.0	286.6	-375.6	—	—	—
Northwest Territories and Nunavut	6.1	1 675	13.5	46.3	54.6	-11.9	102.5	23.5	—	—	—
Canada Total	2.3	289 253	14.0	7.9	14.2	10.5	46.6	5.4	-2.2	3.2	50.3

Source: Statistics Canada, *Survey of Employment, Payrolls and Hours (SEPH)*, January 2002.

Note 1: SEPH data exclude self-employed workers who are not on a payroll and employees in the following industries: agriculture, fishing and trapping, private household services, religious organizations, and military personnel of defence services. The data breaking down employment by size of firm also exclude unclassified industries.

Note 2: Data for firms in the territories with 300 or more employees are suppressed because of confidentiality restrictions but are included in the size category and territorial totals.

SELF-*Employment*

According to Statistics Canada's *Labour Force Survey*, 2.3 million Canadians were self-employed in the first quarter of 2002 (calculated from monthly data), a 1.3 percent decline from the same quarter in 2001.

Chart 1 shows the evolution of self-employed workers in Canada by age from 1987 to 2001. Over the past 15 years, the number of young self-employed workers (those between 15 and 29 years of age) has shown a downward trend that has accelerated since 1998.

The number of self-employed workers between 30 and 54 years of age, however, increased steadily before beginning to decline after 2000. The number of older self-employed workers (those older than 55) also increased since 1987 before declining in more recent years.

Overall, the 30–54 and 55–64 age groups have exhibited the strongest growth over the 15-year period, at an average rate of 3.0 percent per year, closely followed by the 65+ group, which grew 2.5 percent per year (see Table 4).

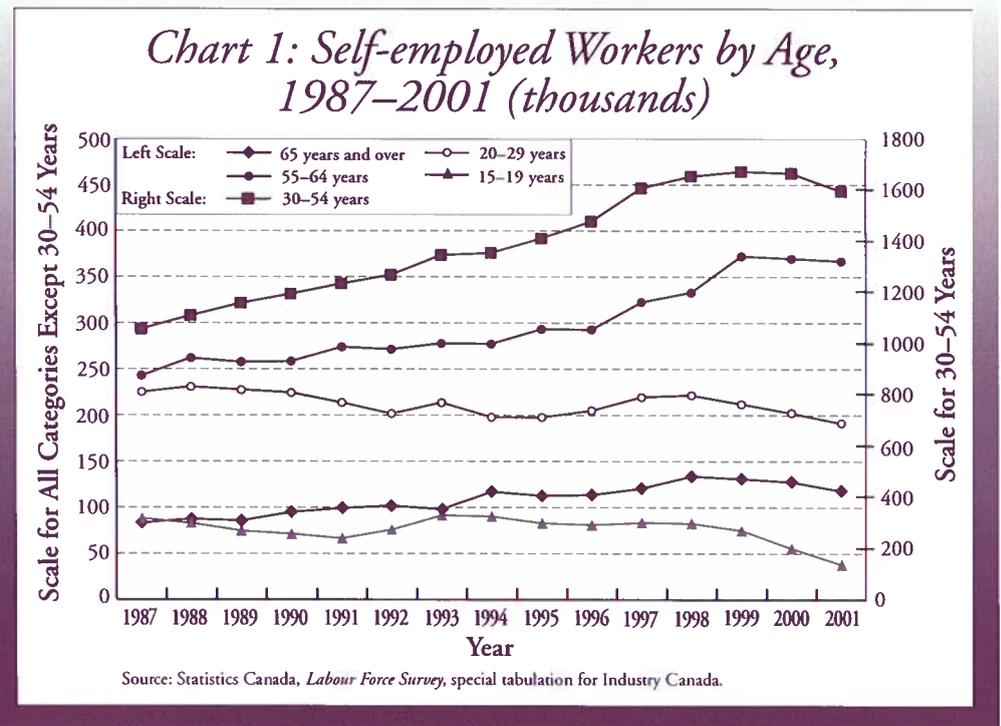


Table 4: Growth in the Number of Self-employed Persons by Age Categories, 1987–2001

	15–19 Years	20–29 Years	30–54 Years	55–64 Years	65 Years and Over
Compound Growth Rate (%)	-1.2	-5.8	3.0	3.0	2.5

Source: Statistics Canada, *Labour Force Survey*, special tabulation for Industry Canada.

Data as of May 31, 2002

BUSINESS *Establishments*

According to Statistics Canada's *Business Register*, the total number of business establishments⁵ reached 2 190 278 in December 2001, marking an increase of 165 770 businesses or 8.2 percent from December 2000 (see Table 5). More than 97 percent of this increase come from indeterminate businesses, which saw a net growth of 161 104.

Employer businesses also saw significant growth, with a net total of 4666 businesses created over the period. Employer businesses with 1 to 4 employees increased by 10 859. Most other size categories shrank by a total of more than 6300 businesses, but the 200 to 499 employees category saw small growth. Employer businesses producing goods, with the exception of those with 50 to 99 or 200 to 499 employees, saw a shrinkage in the number of business establishments, with a net loss of 1234 businesses. Employer businesses producing services also decreased in all size categories, except for those with 1 to 4 or 200 to 499 employees. The large growth in the 1 to 4 employees category (with almost 11 000 net new businesses) resulted in a net increase of 5900 service-producing employer businesses.

⁵ 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 return at least once in the past three years. Business establishments comprise indeterminate and employer businesses. Indeterminate businesses are incorporated or unincorporated businesses without employees.

Table 5: Net Change in Number of Establishments by Goods- and Service-producing Sectors and Firm Size, December 2000 to December 2001

	Total	Goods-producing Sector	Service-producing Sector
Indeterminate	161 104	41 107	119 997
Employer Businesses	4 666	-1 234	5 900
1-4	10 859	-61	10 920
5-9	-1 510	-396	-1 114
10-19	-2 644	-395	-2 249
20-49	-2 022	-433	-1 589
50-99	-157	14	-171
100-199	-39	-17	-22
200-499	186	55	131
500+	-7	-1	-6
Total	165 770	39 873	125 897

Source: Statistics Canada, *Business Register*, December 2001.

The Canadian real GDP... rose 6.0 percent (annual rate) in the first quarter of 2002, more than twice the 2.9 percent growth in the fourth quarter in 2001, and the best performance since the fourth quarter of 1999. Final domestic demand was stronger, led by increased residential construction and consumer spending on durable and semi-durable goods. On the income side, corporate profits increased; profit gains were widespread and particularly strong in manufacturing and construction. Real GDP at basic prices edged up 0.1 percent in March, following gains of 0.7 percent and 0.5 percent in the first two months of the year. This was the sixth consecutive monthly gain.

The economic outlook... has improved in recent months, with most analysts expecting economic conditions to continue to strengthen as the year progresses. The May 2002 consensus of private-sector forecasts calls for growth of 3.0 percent in 2002, followed by 3.7 percent in 2003. This is significantly better than the February forecasts, which called for growth of 1.3 percent in 2002 and 3.8 percent in 2003.

The April Business Conditions Survey... showed encouraging signs of recovery in the manufacturing sector. The balance of opinion for production prospects rose sharply by 18 points to 6 in April — the first positive production balance since October 2000. Twenty-five percent of manufacturers expected to increase production in the second quarter, while 56 percent of manufacturers stated that their production levels would remain unchanged. In April, 16 percent of manufacturers were concerned with declining orders, a 20-point improvement from the 36 percent in January, and 82 percent of producers indicated that inventories were under control.

The national unemployment rate... decreased from a high of 8.0 percent in December to 7.6 percent in April as a result of job gains in the first four months of 2002. In line with improving economic conditions, the pace of job creation strengthened in the first four months of 2002, with employment rising by 207 000 (1.4 percent) from December 2001 to April 2002. This was the strongest growth for a four-month period since the four-month period ending August 1997.

CPI inflation... was 1.7 percent in April, down from 1.8 percent in March. The "core" CPI inflation, on a year-over-year basis, was 2.2 percent in April, up from 2.1 percent in March but still well within the Bank of Canada's official target range of 1 to 3 percent. The "core" rate excludes the volatile food and energy components. Annual average inflation was 2.6 percent in 2001, a rise comparable to inflation rates recorded between 1999 and 2000.

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EQUITY *Financing*

Venture Capital Activity in Canada in 2001

The Canadian venture capital industry had investments totalling close to \$4.9 billion in 2001, a decrease of 27 percent from the \$6.6 billion recorded in 2000. The bulk of this \$4.9 billion investment came from foreign groups (chiefly U.S.-based), which invested \$1.6 billion (34 percent), up from 24 percent in 2000 and 19 percent in 1999.

As shown in Table 6, over the last three years venture capitalists have increasingly focussed their financing activities on early-stage firms, with the share of capital invested increasing from 32 percent of the aggregate in 1999 to 46 percent in 2000 and 60 percent in 2001. This emphasis on early-stage investments differs markedly from the investment activities of U.S. venture capitalists, who focus on firms in the “expansion” stage.

Table 6: Venture Capital Investments in Canada by Stage of Development, by Year (thousands)

	1996	1997	1998	1999	2000	2001
Early Stage	344 279	660 502	647 453	953 474	3 058 412	2 916 130
Later Stage	744 484	1 113 003	1 103 368	2 032 679	3 570 854	1 957 974
Expansion	568 922	904 890	894 159	1 641 667	3 131 303	1 552 966
Acquisition/Buyout	97 773	95 330	91 216	223 608	218 295	267 555
Turnaround	62 532	35 804	21 689	14 438	78 522	34 291
Other Stages	15 257	76 979	96 304	152 966	142 734	103 162
Total (All Stages)	1 088 763	1 773 505	1 750 821	2 986 153	6 629 266	4 874 104

Source: MacDonald and Associates Limited, *Venture Capital Activity, 2001*.

(continued from page 5)

The bank rate... was raised by 25 basis points to 2.5 percent on April 16, the first increase since May 17, 2000, when the rate was raised by 50 basis points to 6.0 percent. The rise reflected improving economic conditions and prospects in Canada and the United States. Prior to this move, the Bank had lowered the bank rate by a cumulative 375 basis points since January 2001.

The Canadian dollar... has recovered in recent months, closing at 65.18 cents (U.S.) on May 30, up from a low of 62.02 cents (U.S.) on January 18. The recovery of the Canadian dollar reflects improving economic conditions, rising commodity prices, and a widening of the spread between Canadian and U.S. interest rates.

Exports of goods and services... advanced 1.4 percent in the first quarter to end four quarters of contraction. This growth was led by exports of energy and industrial and consumer goods; exports of machinery and equipment continued to decrease. Imports rose 1.3 percent to end a five-quarter slump. Imports of industrial materials and goods, forestry and wood products, and consumer goods were up, following decreases in the fourth quarter. Imports of machinery and equipment continued to drop.

Housing investment... stimulated by demand and low interest rates, surged (10.5 percent) to an all-time high in the first quarter, breaking the record set during the late 1980s housing boom. Urban housing starts were up in all economic regions except Atlantic Canada.

Retail sales... declined slightly in February (-0.1 percent) and March (-0.2 percent) to \$25.2 billion, following four months of strong growth. Nonetheless, a gain of 2.6 percent was posted for the first quarter and retail sales advanced by at least 2.0 percent in most provinces for a second consecutive quarter. The quarterly gains were led by drug and patent medicine stores, as well as the automotive and furniture sectors.

Corporate profits... rebounded 13.8 percent in the first quarter, recovering nearly half of the decreases posted in 2001. The leaders in this recovery were manufacturing and construction, and the higher profits were partially the result of inventories being cleared at higher prices (e.g., refined petroleum, wood products and primary metals).

BUSINESS *Bankruptcies*

The number of business bankruptcies increased 26 percent between the third and fourth quarters of 2001, from 2148 to 2709, before declining slightly to 2660 in the first quarter of 2002. Bankruptcies increased 9.4 percent between the fourth quarter of 2000 and the fourth quarter of 2001 and declined 4.6 percent from the first quarter of 2001 to the first quarter of 2002.

The fourth quarter of 2001 saw the level of business liabilities reach \$2 billion, an increase of 167 percent from the third quarter. This is the highest level of liabilities since 1992. The recent quarter-to-quarter volatility in business liabilities appears to have subsided in the last six months. From the fourth quarter of 2001 to the first quarter of 2002, there was a modest 7.8 percent decline to \$1.8 billion. However, year-over-year changes remain large, with a 140 percent increase between the fourth quarters of 2000 and 2001 and a 64 percent increase between the first quarters of 2001 and 2002.

BUSINESS *Loans*

The value of small and medium-sized chartered bank loans outstanding⁶ fell 3 percent, from \$51.5 billion in the third quarter of 2001 to \$49.9 billion in the fourth quarter. Small loans are less than \$500 000, while medium-sized loans are between \$0.5 and \$5 million. This is the first time since 1997 that small and medium-sized chartered bank loans have fallen below \$50 billion. Despite this decline, the relative weight of small and medium-sized loans in the total value of chartered bank loans increased slightly in the fourth quarter. The proportion of small loans increased from 21.1 percent to 21.2 percent, while medium-sized loans accounted for 32 percent in the fourth quarter of 2001, up from 31 percent in the third quarter.

⁶ Nor including non-residential mortgages, agricultural loans, customers' liability under acceptances and other business loans.

RECENT *Developments*

Canada Small Business Financing Act: *Success Stories*

In December 2001, Industry Canada's Small Business Policy Branch commissioned a study of the experiences of borrowers in the *Canada Small Business Financing Act* (CSBFA) program. The small businesses interviewed for the study reported that the CSBFA program fills a crucial gap. By borrowing under the CSBFA, several of these small businesses were able to start up, hire full complements of staff and set off on the road to profitability. In other cases, CSBFA loans contributed to significant business growth.

The CSBFA, which replaced the *Small Business Loans Act* in April 1999, is the federal government's single most important program to help small and medium-sized enterprises obtain financing. It's delivered by a nationwide network of private-sector lenders who are responsible for credit decisions and administering the loans.

The study report, a compendium of twenty-two stories, is entitled *Lending a Hand: The Role of the Canada Small Business Financing Act in Fostering Entrepreneurial Success*. The report is available on Industry Canada's Small Business Research and Policy Web site at <http://strategis.ic.gc.ca/SSG/rd00471e.html>

Canada First to Deliver Small Business Counsellor Program

On May 23 and 24, 2002, the first session of a new international training and certification program for small business counsellors was delivered in Truro, Nova Scotia. This APEC-IBIZ (Asia-Pacific Economic Cooperation's International Business Network of Small Business Counsellors) program is based on a set of competencies. It comprises modules in the functional areas of business as well as in client assessment, counselling and interpersonal relations. Developed for APEC by an international group of experts, the program prepares participants to provide clients with the full range of small business counselling services. On successful completion of the program, graduates will receive a nationally and internationally recognized certificate.

This first session was about a code of ethics and standards of professional behaviour and delivered Module 1 of the ten-module program. The first module explains the foundation and philosophical underpinnings of small business counselling and its importance in the economic development of Canada and other participating APEC members.

The Acadia Centre for Small Business and Entrepreneurship (ACSBE), an affiliate of Acadia University, is responsible for implementing the program in Canada. ACSBE is supported by a delivery network that includes Laval University, the Canadian Resource Business Centre (affiliated with Centennial College in Toronto) and the Saskatchewan Institute of Applied Science and Technology.

Details of the APEC-IBIZ program can be found on the ACSBE Web site at <http://www.apec-ibiz.org>

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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