



SMALL *Business*

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Q U A R T E R L Y
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PERFORMANCE

Trends

- Between the second quarter of 2003 and the second quarter of 2004, small businesses (businesses with fewer than 100 employees) lost nearly 1600 jobs, which is equivalent to 1.7 percent of net new jobs in the Canadian economy.
- Bankruptcies numbered 2048 in the second quarter of 2004, a decrease of approximately 11 percent from the same quarter of 2003.
- Total business loans outstanding¹ from chartered banks amounted to \$93.2 billion in the second quarter of 2004, an increase of 2.5 percent from the same quarter in 2003. Business loans below \$500 000 accounted for approximately 20 percent of the total.
- Total debt outstanding for small and medium-sized enterprises from domestic banks declined from \$48.2 billion in 1998 to \$45.0 billion in 2002, a decrease of approximately 6 percent.
- There were 2.5 million self-employed workers in the first quarter of 2004, an increase of 2.2 percent from the same quarter of 2003.

¹ Not including non-residential mortgages, agricultural loans, customer's liability under acceptances and other business loans.

SMALL BUSINESS EXPORTERS:

More Important than was Thought

A new report by Industry Canada's Small Business Policy Branch shows that small businesses contribute much more to exports than previously believed.

While exports are a vital part of the Canadian economy — accounting for 41 percent of Canada's Gross Domestic Product in 2002¹ — the contribution of small businesses to exports has usually been perceived as very low. Part of this perception is a result of the way export data have been reported. Before 2001, export data were reported by size of exports, not size of firm. Small exporters were defined as "firms that export less than \$1 million annually" and they contributed 1.6 percent to the value of total exports in 2001.

The new Industry Canada report has constructed exporter profiles by firm size, which presents a very different picture. The new exporter profiles in the report show that 85 percent of Canadian exporters are small businesses (businesses with fewer than 100 employees). More importantly, the report shows that in 2002 small businesses accounted for 20 percent of the total value of exports, much more than the 1.6 percent share of small exporters. Medium-sized businesses accounted for 16 percent of total export value and

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large businesses for 64 percent. The average value of a small firm's exports was \$2.3 million in 2002. Clearly, small firm does not equal small exporter.

Nevertheless, the proportion of small business exporters is less than their proportional share in the overall economy. The percentage of small businesses participating in exporting is 1.4 percent, compared with 37.7 percent for large firms. Consequently, there appears to be potential for increasing the number of small businesses that export and, thereby, their share of the total value of exports.

The report also showed that Canadian exporters are more active, on average, than their counterparts in the United States. In 2001, small Canadian businesses exported \$2.7 million (Canadian dollars) on average, while medium-sized and large businesses exported \$13 million and \$208 million. On average, American small businesses exported \$0.9 million² and medium-sized and large businesses exported \$4.5 million and \$90 million annually. These differences reflect, in part, the size of the domestic markets in which these businesses operate.

Chart 1 shows the distribution of the value of exports by firm size for different industries for 2002. In all industries other than the manufacturing and the mining, oil and gas extraction/utilities industries, small businesses made the largest contribution to exports of any firm size category. In contrast, small businesses contributed just 9 percent of manufacturing exports while large firms contributed 75 percent.

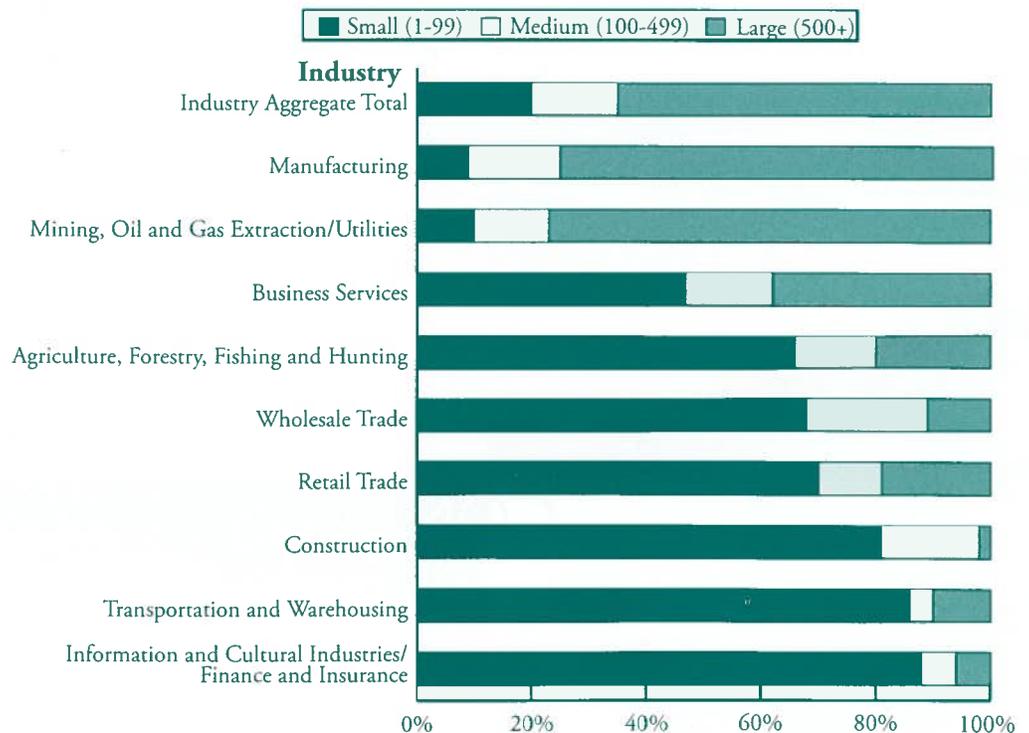
Perspectives on small business exports may need to be revised in light of the new exporter profiles by size of firm. Small businesses are now seen to make a much more significant contribution to the total value of exports. However, the participation rate of small businesses in exporting is still very low, which suggests that barriers continue to exist. Further research to explore the links between firms that export and firm growth is under consideration.

The report will be available shortly on the Small Business Research and Policy Web site at www.strategis.gc.ca/sbresearch.

¹ Statistics Canada, CANSIM, table 380-0002 and Catalogue No. 13-001-XIB.

² The values of exports for the United States have been converted into Canadian dollars using the 2001 exchange rate obtained from the Bank of Canada.

Chart 1: Distribution of Exports, by Firm Size, by Industry, 2002



Source: Statistics Canada, *Canadian Exporter Registry*, July 2004.

JOB Creation

Data from Statistics Canada's *Survey of Employment, Payrolls and Hours* (SEPH) indicate that nearly 94 000 net jobs (payroll jobs) were created between the second quarters of 2003 and 2004 (Table 1). That gain is much less than the gain of 295 000 jobs achieved between the second quarters of 2002 and 2003. Table 1 shows that the total job growth recorded between the second quarters of 2003 and 2004 came from large businesses (500 employees and more). Small and medium-sized businesses (fewer than 100 employees and from 100 to 499 employees respectively) showed declines of 1.7 percent and 9.9 percent in net job creation for that period.

Table 2 displays a breakdown of net changes in average payroll employment by industry and business size. Net change is the difference between the average level of employment in the four quarters ending the second quarter of 2004 and the average level in

the preceding four quarters. Almost 95 000 net jobs were created during that period. Fully 60 percent of the job gains occurred in large businesses compared with 31 percent in small businesses. Among small and medium-sized businesses, firms with 5 to 19 employees created the most jobs.

The largest job losses (54 087) occurred in manufacturing and represented 57 percent of the net total. In contrast, three industries created 104 percent of the Canadian net total: health care and social assistance (38 percent); retail trade (34 percent); and administrative and support, waste management and remediation services (32 percent). Among small businesses, the industries that contributed the most to the total net creation were construction (75 percent); health care and social assistance (32 percent); other services (17 percent); and administrative and support, waste management and remediation services (16 percent).

Table 1: Year-over-year Quarterly Net Change in Payroll Employment by Firm Size, Canada, Q1 2001 to Q2 2004

| Quarter | Total Net Change | | % Contribution to Total Net Change by Size of Firm (Number of Employees) | | | | | | | | |
|---------|------------------|-----------|--|-------|-------|-------|-------|---------|---------|---------|-------|
| | %, y/y | Jobs, y/y | 0-4 | 5-19 | 20-49 | 50-99 | 0-99 | 100-299 | 300-499 | 100-499 | 500+ |
| Q1 2001 | 3.7 | 445 716 | 10.2 | 1.3 | 8.2 | 6.1 | 25.8 | 11.4 | 3.6 | 15.0 | 59.2 |
| Q2 2001 | 2.8 | 344 534 | 2.0 | 8.8 | 13.3 | 12.1 | 36.2 | 11.0 | 2.7 | 13.7 | 50.1 |
| Q3 2001 | 1.8 | 220 349 | 30.4 | 2.6 | 17.3 | 15.8 | 66.1 | 0.1 | -1.0 | -0.9 | 34.8 |
| Q4 2001 | 0.9 | 118 891 | 33.4 | 39.9 | 36.0 | 13.9 | 123.2 | -18.7 | -39.8 | -58.5 | 35.3 |
| Q1 2002 | 0.9 | 109 548 | -10.5 | 32.4 | 43.3 | 37.1 | 102.3 | -8.6 | -26.8 | -35.4 | 33.1 |
| Q2 2002 | 1.7 | 219 942 | -2.2 | 5.4 | 36.9 | 37.7 | 77.8 | 14.1 | -16.4 | -2.3 | 24.5 |
| Q3 2002 | 2.9 | 371 463 | -0.5 | 1.0 | 24.1 | 25.5 | 50.1 | 16.7 | -8.7 | 8.0 | 41.9 |
| Q4 2002 | 3.7 | 468 364 | -1.0 | 2.0 | 22.3 | 23.7 | 47.0 | 13.1 | -1.9 | 11.1 | 41.9 |
| Q1 2003 | 3.3 | 417 855 | 1.6 | -0.2 | 17.6 | 19.7 | 38.7 | 13.1 | 2.8 | 15.9 | 45.4 |
| Q2 2003 | 2.3 | 295 447 | 4.5 | 0.3 | 9.6 | 9.5 | 23.9 | 12.4 | 4.5 | 16.9 | 59.2 |
| Q3 2003 | 1.0 | 133 500 | 9.0 | -5.9 | 14.3 | 15.7 | 33.1 | 16.6 | 11.4 | 28.0 | 38.9 |
| Q4 2003 | 0.7 | 88 971 | 7.3 | -15.3 | 18.5 | 29.4 | 39.9 | 17.6 | 13.8 | 31.4 | 28.7 |
| Q1 2004 | 0.5 | 63 120 | 1.3 | 19.9 | 15.9 | 25.8 | 62.9 | 0.6 | -37.4 | -36.8 | 73.9 |
| Q2 2004 | 0.7 | 93 736 | -20.0 | 92.5 | -28.9 | -45.4 | -1.7 | -31.3 | 21.3 | -9.9 | 111.7 |

Source: Statistics Canada, *Survey of Employment, Payrolls and Hours*, September 2004.

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(continued from page 3)

Table 2: Year-over-year Annual Net Change¹ in Payroll Employment² by Industry and Firm Size, Q3 2002 to Q2 2004

| Industry | Total Net Change | | Total Net Change by Size of Firm (Number of Employees) | | | | | | | | |
|---|------------------|------------------------|--|---------------|--------------|--------------|---------------|--------------|--------------|--------------|---------------|
| | %, y/y | Jobs, y/y ⁴ | 0-4 | 5-19 | 20-49 | 50-99 | 0-99 | 100-299 | 300-499 | 100-499 | 500+ |
| Forestry ³ | -9.8 | -5 852 | -544 | -169 | -78 | 676 | -115 | 1 029 | — | — | — |
| Mining and oil and gas extraction | 6.3 | 9 113 | 405 | -57 | 771 | 109 | 1 228 | 2 349 | 743 | 3 092 | 4 792 |
| Utilities | 3.2 | 3 682 | 37 | 167 | -326 | -173 | -295 | -1 124 | -381 | -1 504 | 5 481 |
| Construction | 4.3 | 27 264 | 5 325 | 5 364 | 6 967 | 4 385 | 22 040 | 4 257 | 2 090 | 6 347 | -1 123 |
| Manufacturing | -2.6 | -54 087 | -1 854 | -1 975 | -1 519 | -3 993 | -9 342 | -342 | 2 267 | 1 925 | -46 670 |
| Wholesale trade | -0.4 | -3 040 | -2 523 | 173 | -2 780 | 9 | -5 121 | -911 | 255 | -656 | 2 737 |
| Retail trade | 2.1 | 32 468 | -1 992 | 2 436 | -1 267 | 1 068 | 244 | -6 254 | -1 708 | -7 962 | 40 187 |
| Transportation and warehousing | -1.3 | -7 781 | -129 | 439 | 1 098 | 1 918 | 3 327 | -318 | 930 | 612 | -11 719 |
| Information and cultural industries | 1.9 | 6 312 | 110 | 48 | 645 | 1 843 | 2 646 | 2 376 | -2 447 | -71 | 3 737 |
| Finance and insurance | -0.1 | -310 | -1 263 | 904 | -197 | 1 232 | 676 | 3 136 | 155 | 3 291 | -4 277 |
| Real estate and rental and leasing | 0.4 | 937 | 1 629 | -861 | 30 | -1 110 | -312 | -1 640 | 322 | -1 318 | 2 566 |
| Professional, scientific and technical services | 0.1 | 533 | 1 999 | 1 735 | -1 513 | -1 039 | 1 182 | 600 | 2 204 | 2 804 | -3 453 |
| Management of companies and enterprises ³ | -1.5 | -1 327 | -161 | 218 | -453 | -509 | -906 | -530 | — | — | — |
| Administrative and support, waste management and remediation services | 5.2 | 30 172 | 385 | 1 097 | 659 | 2 582 | 4 723 | 4 523 | -1 791 | 2 732 | 22 718 |
| Educational services | -0.2 | -1 837 | 187 | 152 | 107 | 949 | 1 395 | -1 460 | 1 777 | 317 | -3 551 |
| Health care and social assistance | 2.7 | 36 015 | -73 | 5 475 | 2 657 | 1 230 | 9 289 | 501 | 3 346 | 3 847 | 22 880 |
| Arts, entertainment and recreation | 1.8 | 4 199 | 509 | 708 | -167 | -734 | 316 | 704 | 955 | 1 659 | 2 226 |
| Accommodation and food services | -2.0 | -15 755 | -618 | -1 296 | -1 770 | -3 723 | -7 406 | -8 568 | -2 027 | -10 595 | 2 245 |
| Other services (excluding public administration) | 1.8 | 8 796 | -1 217 | 4 892 | 2 010 | -739 | 4 945 | 1 878 | 444 | 2 322 | 1 529 |
| Public administration | 3.4 | 25 330 | -27 | -12 | -237 | 1 201 | 925 | 1 994 | -819 | 1 175 | 23 231 |
| Canada total⁴ | 0.7 | 94 832 | 185 | 19 436 | 4 637 | 5 182 | 29 439 | 2 199 | 6 000 | 8 199 | 57 194 |

Source: Statistics Canada, *Survey of Employment, Payrolls and Hours*, September 2004.

¹ The year-over-year change in net payroll employment is calculated as the difference between the average level of employment in the four quarters ending the second quarter of 2004 and the average level in the preceding four quarters.

² The 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 in defence services. The data breaking down employment by size of firm also exclude unclassified industries.

³ Data for firms with 300 or more employees are suppressed because of confidentiality restrictions but are included in the size category and industry totals.

⁴ Total net change in employment within each industry and by firm size may not add up because of rounding.

BUSINESS *Bankruptcies*

There were 2048 business bankruptcies in Canada in the second quarter of 2004,¹ a drop of just over 11 percent compared with the previous quarter (2308) and to the second quarter in 2003 (2312). Four industries made up half of the commercial bankruptcies: construction (318), retail trade (291), accommodation and food services (236), and transportation and warehousing (216).

Liabilities involved in bankruptcies in the second quarter of 2004 amounted to \$671 million, up 1.4 percent from \$662 million in

the previous quarter. The average liability was \$328 000 per bankrupt business — a 14-percent increase from the first quarter (\$287 000). The information and cultural industries, which represented only 1.8 percent of bankrupt businesses, accounted for a quarter of liabilities in the second quarter.

¹ Since the first quarter of 2004, the Office of the Superintendent of Bankruptcy has been providing data according to the codes of the North American Industry Classification System rather than the Standard Industrial Classification. This change in method may have affected the accuracy of the comparisons in this text.

SELF-Employment

Statistics Canada's *Labour Force Survey* distinguishes five categories of self-employed workers:

- workers with incorporated businesses that use paid help;
- workers with incorporated businesses that don't use paid help;
- workers with unincorporated businesses that use paid help;
- workers with unincorporated businesses that don't use paid help; and
- unpaid family workers.

Using special tables derived from the *Labour Force Survey*, Industry Canada's Small Business Policy Branch has created an occupational profile for the different categories of self-employed workers. Table 3 shows the distribution of both employees and the self-employed across 32 occupations at different levels of aggregation.

In 2003, four occupational groups represented 67 percent of self-employed workers. Most of them were professionals in management (20 percent of the self-employed) and in sales and service occupations (19 percent), followed by tradespeople and operators of transportation and equipment (16 percent), and self-employed workers performing primary industry duties (12 percent).

Just as in 2002, management professionals represented the majority of workers in incorporated businesses with paid help in 2003 (43 percent) and those in unincorporated businesses with paid help (27 percent). However, these figures have dropped by 3 percent and 2 percent, respectively, since 2002. The figures in the other trades generally remained unchanged from the previous year. For unpaid family workers, 44 percent were found in primary industry professions and 23 percent in business, finance and administrative occupations.

For employees, 60 percent were concentrated in three occupational groups. Sales and service occupations represented 27 percent of employees, followed by 19 percent in business, finance and administrative occupations, and 14 percent in trades, transportation and construction occupations.

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ECONOMIC Snapshot

Data as of September 30, 2004

Canada's real Gross Domestic Product (GDP)... increased by 4.3 percent (annualized) in the second quarter of 2004, following a 3.0 percent rise in the first quarter. Growth was fuelled by foreign demand, as real exports surged 21.6 percent, resulting in net exports adding 3.4 percentage points to GDP growth. Growth in final domestic demand moderated to 1.7 percent from 5.9 percent in the first quarter, as growth in consumer spending slowed. On the income side, corporate profits rose 28.6 percent, following a 35.8 percent increase in the first quarter. Personal disposable income rose 8.0 percent, after a 6.6-percent rise in the first quarter. The savings rate increased from 0.8 percent in the first quarter to 1.5 percent.

Monthly real GDP... edged up 0.1 percent in July, after rising by a strong 0.4 percent in June. This marks the fifth consecutive monthly increase in economic activity. Goods production rose 0.2 percent in July after growing 0.3 percent in June. This reflects increases in all components except construction. Construction output declined 0.3 percent in July — the fourth consecutive monthly decline — but was still 2.3 percent higher than a year earlier. Manufacturing rose 0.3 percent in July, following a 1.6-percent growth in June and growth through most of 2004; manufacturing output was 5.9 percent higher than a year earlier. Service output rose 0.1 percent in July and 0.5 percent in June. Higher sales of grain and building materials spurred wholesale trade (0.6 percent), while spending on big ticket items (e.g., cars, furniture and electronics) contributed to a 0.5-percent increase in retail sales. Losses were posted by the education and the transportation and warehousing sectors.

The economic outlook... remains encouraging, with the *Consensus Forecast* survey of September expecting real GDP growth in Canada to rise from 2.0 percent in 2003 to 2.9 percent in 2004 and 3.3 percent in 2005. Real GDP growth in the United States is projected to rise from 3.0 percent in 2003 to 4.3 percent in 2004 before moderating to 3.5 percent in 2005.

Consumer spending growth... declined from 6.4 percent in the first quarter to 1.3 percent in the second. Spending on semi-durables grew 2.3 percent, down from 15.7 percent in the first quarter, and durables grew 3.7 percent, down from 9.2 percent in the first quarter. Spending on non-durables fell 1.1 percent in the second quarter, after an increase of 5.3 percent in the first. Spending on services was up 1.7 percent, following a 4.9 percent increase in the first quarter.

Housing investment... and associated activity continued to rise in the second quarter, but at a slower pace. Residential investment increased 6.1 percent after rising 12.0 percent in the first quarter. This trend continued in the third quarter. Sales of existing homes decreased for a fourth consecutive month in July. The value of residential building permits fell 10.3 percent in July, following a 25.4-percent increase in June. Despite a recovery in August, housing starts in July and August were only slightly higher than their second-quarter levels.

Business investment in machinery and equipment... rose 4.5 percent in the second quarter after increasing 9.6 percent in the first quarter. In 2003, machinery and equipment investment — stimulated by lower prices associated with the appreciation of the Canadian dollar — increased 4.5 percent, following a decline of 1.2 percent in 2002.

Corporate profits... rose 28.6 percent (annualized) in the second quarter, following a 35.8-percent increase in the first quarter. With healthy profits by manufacturers, oil and gas producers, and retailers, corporate profits rose to 13.8 percent of GDP in the second quarter (compared with the historical average of 10 percent).

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Table 3: Employment Shares by Selected Occupations and Category of Worker, 2003

| Occupation | Employees % | Self-employed Workers | | | | | Unpaid Family Workers % |
|--|----------------|-----------------------|------------------------|----------------------|------------------------|----------------------|----------------------------------|
| | | Total % | Incorporated | | Unincorporated | | |
| | | | With Paid Help % | No Paid Help % | With Paid Help % | No Paid Help % | |
| Management occupations | 7 | 20 | 43 | 17 | 27 | 11 | — |
| Senior management occupations | 1 | 0.4 | 1 | — | — | — | — |
| Other management occupations | 6 | 20 | 42 | 17 | 27 | 10 | — |
| Business, finance and administrative occupations | 19 | 10 | 9 | 14 | 7 | 9 | 23 |
| Professional occupations in business and finance | 2 | 5 | 4 | 9 | 5 | 5 | 0.5 |
| Financial, secretarial and administrative occupations | 5 | 3 | 4 | 4 | 2 | 2 | 12 |
| Clerical occupations, including supervisors | 12 | 2 | 1 | 2 | 1 | 2 | 10 |
| Natural and applied sciences and related occupations | 7 | 6 | 4 | 12 | 2 | 5 | — |
| Health occupations | 6 | 5 | 5 | 2 | 12 | 4 | — |
| Professional occupations in health, nurse supervisors and registered nurses | 3 | 4 | 5 | 1 | 11 | 2 | — |
| Technical, assisting and related occupations in health | 3 | 1 | 0.4 | 0.3 | 0.3 | 1 | — |
| Occupations in social science, education, government service and religion | 8 | 4 | 2 | 3 | 6 | 4 | — |
| Teachers and professors | 4 | 1 | 0.1 | 0.3 | 0.4 | 1 | — |
| Other occupations in social science, government service and religion | 3 | 3 | 2 | 2 | 6 | 3 | — |
| Occupations in art, culture, recreation and sport | 2 | 7 | 2 | 7 | 2 | 10 | 1 |
| Sales and service occupations | 27 | 19 | 10 | 14 | 14 | 25 | 20 |
| Wholesale, technical, insurance, real estate sales specialists, and retail, wholesale and grain buyers | 3 | 6 | 6 | 9 | 4 | 6 | — |
| Retail salespersons, sales clerks, cashiers, including retail trade supervisors | 8 | 0.2 | — | — | — | — | 8 |
| Chefs and cooks, and occupations in food and beverage service, including supervisors | 4 | — | — | — | — | — | — |
| Occupation in protective services | 2 | 0.2 | 0.2 | 0.2 | — | — | — |
| Child care and home support workers | 2 | 5 | 0.2 | 1 | 2 | 9 | — |
| Sales and service occupations not elsewhere classified | 9 | 7 | 3 | 4 | 7 | 10 | 8 |
| Trades, transport and equipment operators and related occupations | 14 | 16 | 14 | 17 | 15 | 18 | 6 |
| Contractors and supervisors in trades and transportation | 1 | 5 | 12 | 2 | 10 | 1 | — |
| Construction trades | 2 | 4 | 1 | 3 | 2 | 6 | — |
| Transport and equipment operators | 4 | 4 | 1 | 7 | 1 | 6 | — |
| Trades helpers, construction, and transportation labourers and related occupations | 2 | 0.2 | — | — | — | 0.2 | — |
| Other trades occupations | 5 | 3 | 1 | 5 | 1 | 5 | 0.4 |
| Occupations unique to primary industry | 2 | 12 | 8 | 11 | 13 | 13 | 44 |
| Occupations unique to processing, manufacturing and utilities | 9 | 2 | 3 | 2 | 2 | 1 | — |
| Machine operators and assemblers in manufacturing, including supervisors | 8 | 2 | 3 | 2 | 2 | 1 | — |
| Labourer in processing, manufacturing and utilities | 2 | — | — | — | — | — | — |
| Total, all occupations¹ | 100 | 100 | 100 | 100 | 100 | 100 | 100 |

Source: Statistics Canada, *Labour Force Survey*, special tabulations, 2003.

¹ Totals may not add up because of suppressed values.

Data as of September 30, 2004

(continued from page 5)

The current account... rose to \$41.7 billion annualized in the second quarter, the second highest level ever, and the 20th consecutive surplus. The increase was led by the merchandise trade surplus, which reached \$80.2 billion as exports rose 10.1 percent compared with a 7.8-percent growth in imports. Automotive products, industrial goods and energy products led the increase in exports. The deficit in services decreased by \$0.3 billion to \$11.7 billion, while the deficit in investment income increased by \$5.8 billion to \$27.2 billion, as profits earned by foreign direct investors rose markedly.

The July Business Conditions Survey... indicated that manufacturers' outlook on prospects for the third quarter were more upbeat than in April. The balance of opinion for production prospects rose 3 points to +10 in July. This was mainly because of continued optimism by 16 of 21 manufacturing groups, led by the chemical and machinery and equipment industries. This suggests that manufacturing growth should continue in the third quarter. Sixty-three percent of manufacturers expected to keep their production unchanged and 23 percent expected to raise it. Eighty-eight percent of producers stated that their work force would remain the same or increase. Seventy-eight percent of manufacturers reported no production impediments (impediments include shortages of skilled labour and raw materials such as steel).

Employment... edged down by 7000 in August, following an increase of 9000 in July. The pause in employment growth in the past two months follows strong growth of 0.8 percent from April to June (130 000 jobs created). Since August 2003, employment has increased by 318 000 (2.0 percent); all of this increase is full-time positions. The unemployment rate remained at 7.2 percent in August after edging down from 7.3 percent in July. The unemployment rate is down from a recent peak of 8.0 percent in August 2003 but up from a low of 6.7 percent in June 2000.

The Consumer Price Index (CPI)... posted a year-over-year increase of 1.9 percent in August after a 2.3-percent increase in July. The moderation in inflation was primarily attributable to a slower increase in gasoline prices (7.8 percent in August versus 17.9 percent in July). "Core" inflation, which excludes the most volatile components of the overall CPI and indirect taxes, fell from 1.9 percent in July to 1.5 percent in August, still within the official 1-3 percent target range for monetary policy.

The Bank of Canada... raised the overnight rate by 25 basis points (bps) to 2.25 percent on September 8, indicating the Canadian economy grew faster in the first half of the year than the Bank had expected and the economy was now operating close to production capacity. The Bank is widely expected to raise the rate further in the coming months. In the United States, the Federal Reserve raised its federal funds rate 25 basis points to 1.75 percent on September 21, bringing total increases since July to 75 basis points. Consistent with these developments, the spread between the Canadian 90-day corporate paper rate and its U.S. counterpart has narrowed by about 40 bps since April to about 70 bps on September 28.

The Canadian dollar... closed at US\$0.793 on September 30, 2004, an 11-year high. The dollar has staged a recovery since mid-May, when it hit a recent low of US\$0.712. The loonie had appreciated by 16.4 percent from about US\$0.670 in early January 2003 to a 10-year high of about US\$0.780 in early January 2004. The recovery in the Canadian dollar reflects Canada's strong economic performance compared with the United States and continued strength in commodity prices. Moreover, renewed concern about the large budget and trade deficits in the United States have weighed against the U.S. dollar.

The "Economic Snapshot" is prepared by the Micro-Economic Policy Analysis Branch of Industry Canada. Please address comments to Joseph Macaluso at 613-954-3495 or at macaluso.joseph@ic.gc.ca

FINANCING

Changes in SME Demand for Debt

Financing for small and medium-sized enterprises (SMEs) continues to be a key focus for government. In fact, nearly half (49 percent) of SMEs used debt (defined as commercial loans and lines of credit) in 2000 to finance their business operations.

Data from the Canadian Bankers Association and the SME Financing Data Initiative, however, indicate a 7-percent decline in debt outstanding for SMEs — from \$48.2 billion in 1998 to \$45 billion in 2002 (see Table 4). SMEs are using less of the debt financing that banks have made available to them.

Table 4: Amounts Authorized and Outstanding to SMEs by Chartered Banks, 1995–2002

| Year | Amounts Authorized ¹ (\$ millions) | Amounts Outstanding ² (\$ millions) | Difference (\$ millions) |
|------|--|---|-----------------------------|
| 1995 | 66 465 | 46 082 | 20 383 |
| 1996 | 66 635 | 45 962 | 20 673 |
| 1997 | 69 821 | 47 337 | 22 484 |
| 1998 | 71 485 | 48 192 | 23 293 |
| 1999 | 71 498 | 47 911 | 23 587 |
| 2000 | 70 501 | 46 296 | 24 205 |
| 2001 | 70 179 | 45 681 | 24 498 |
| 2002 | 70 789 | 45 020 | 25 769 |

Source: Canadian Bankers Association (1995–1999); SME Financing Data Initiative — Statistics Canada, *Survey of Suppliers of Business Financing* (2000–2002).

¹ "Authorization of less than \$1 million" is a proxy definition of an SME.

² As of December 31 for each year, the amount outstanding on a line of credit or the total amount of any loans with debt outstanding.

According to the Conference Board of Canada,¹ this decline in the demand for debt is not necessarily a decline in the supply of capital to SMEs. While better economic conditions may explain this trend, it is also possible that other forms of financing have become more attractive to SMEs. For example, the Canadian venture capital (VC) market experienced solid growth between 1996 and 2002, with new capital raised increasing by 88 percent and the number of VC funds increasing by 117 percent.

The SME Financing Data Initiative — a partnership between Industry Canada, Statistics Canada and the Department of Finance (www.strategis.ic.gc.ca/fdi) — will continue to investigate this trend and the role of other sources of financing in the growth of Canadian SMEs.

¹ Shutt, Theresa, and Pierre Vanasse, *A Changing Demand for SME Debt Financing?* Conference Board of Canada, January 2001.

RECENT *Developments*

Growth Firms Workshop

Industry Canada's Small Business Policy Branch has been working with several partners — Statistics Canada's Science, Innovation and Electronic Information Division; the National Research Council's Industrial Research Assistance Program; and the Government of Ontario — on a project to analyze the growth of Canadian firms. The participants in this project held a workshop on September 29 to discuss their findings, lessons learned and next steps.

The workshop included both technical discussions and debate on the broad policy implications of this work. Much of the discussion was forward-looking and focussed on finding a common definition of growth, examining the role of management skills in growth, and shifting the focus from

employment growth to productivity. For more information on the workshop or the project, please contact David Halabisky at halabisky.david@ic.gc.ca.

APEC Small and Medium Enterprises Ministerial Meeting

Canada participated in the 11th Asia-Pacific Economic Cooperation Small and Medium Enterprises (APEC SME) Ministerial Meeting in Santiago, Chile, on October 6–7, 2004. The theme for the meeting was “entrepreneurship development” with the following sub-themes: regulation; innovation and technology; finance; and human resources. Further information may be obtained at <http://www.apec2004.cl>.

Taking Care of Business Report

Taking Care of Business explores government-to-business service delivery from the perspective of the business community. The study was published in April 2004 as a result of a collaborative effort between more than 20 public-sector organizations across Canada, including Industry Canada.

In recent years, governments across Canada have spent a significant amount of time improving service delivery to businesses. However, the public sector has lacked a feedback mechanism for hearing directly from businesses about their experiences, expectations and priorities for service improvement. Based on a representative sample of almost 6000 Canadian businesses in every province and territory, *Taking Care of Business* represents the latest collaborative effort to improve service to the business community, giving public-sector service managers across Canada a roadmap to service improvement. For more information, visit www.iccs-isac.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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