



SMALL *Business*

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Q U A R T E R L Y
<http://strategis.gc.ca/SMEquarterly>

PERFORMANCE

Trends

- Small businesses in Canada generated over 221 000 jobs, or 47 percent of the net number of new jobs created between the fourth quarter of 2001 and the fourth quarter of 2002.
- According to Statistics Canada's *Business Register*, the total number of business establishments¹ in Canada reached 2 204 782 in December 2002, an increase of 0.7 percent from the number recorded in December 2001.
- There were 2.39 million self-employed workers in the fourth quarter of 2002, an increase of 4.1 percent from the 2.30 million recorded in the same quarter of 2001. Year-over-year, there were approximately 36 000 more self-employed workers in 2002 than in 2001.
- Bankruptcies numbered 2152 in the last quarter of 2002, a decrease of 20.6 percent from the same quarter in 2001. Business liabilities involved in bankruptcies declined by 57.3 percent, to \$854 million in the fourth quarter of 2002 from the same quarter in 2001.
- Total business loans outstanding² from chartered banks amounted to \$93.4 billion in the fourth quarter of 2002, down 0.5 percent from the previous quarter. Small loans (for amounts below \$500 000) accounted for \$18.7 billion or 20 percent of total business loans in the last quarter of 2002.

¹ 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 include both indeterminate and employer businesses. Indeterminate businesses are incorporated or unincorporated businesses without employees and comprise about half of all business establishments in the *Business Register*.

² Not including non-residential mortgages, agriculture loans, customer's liability under acceptances and other business loans.

THE SELF-EMPLOYED INCREASINGLY LIVE OUTSIDE METROPOLITAN AREAS

New data from Statistics Canada's *Labour Force Survey* show the distribution of employees with different categories of self-employed workers¹ in metropolitan (metro) or non-metropolitan (non-metro) areas. (Statistics Canada defines a Census Metropolitan Area, or CMA, as an area with an urban core population of at least 100 000 with one or more adjacent municipalities that are highly integrated with the urban core, as measured by commuting flows.) Table 1 illustrates the distribution of workers in CMAs and workers outside CMAs for 1992 and 2002.²

Between 1992 and 2002, the average annual compound growth rate for self-employed workers was 2.0 percent, similar to the rate for employees at 1.9 percent. However, among employees the rate of growth in metro areas has been much higher (2.3 percent) than the rate outside metro areas (0.9 percent). In contrast, self-employment has grown at a faster rate outside metro areas (at 3.1 percent) than within metro areas (0.2 percent). In fact, the annual growth rate of self-employment in non-metro areas has outstripped growth in metro areas in 12 of the last 15 years.

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In both metro and non-metro areas, growth rates over the period 1992 to 2002 vary widely among the five categories of self-employed workers. For the fastest-growing category of self-employed workers — those whose businesses are incorporated and who work with no paid help — growth has been very high in both metro and non-metro areas (8.8 and 8.9 percent respectively). For unincorporated self-employed workers with no paid help, average annual growth is much higher outside metro areas (4.4 percent) than in metro areas (0.3 percent). For unincorporated self-employed workers with paid help, growth fell by 2.6 percent in metro areas but grew by 0.4 percent in non-metro areas. The number of unpaid family workers, while

very small, has declined precipitously in metro areas by 9.2 percent per annum compared with only a 0.1 percent drop in non-metro areas. The compound annual growth for incorporated self-employed workers with paid help has increased at a higher rate in metro areas (1.3 percent) than in non-metro areas (where it dropped by 0.1 percent).

Chart 1 shows that over the period 1992 to 2002, the majority of self-employed workers increasingly lived outside metro areas compared with employees; by 2002, 66 percent of self-employed workers lived outside metro areas compared with 28 percent of employees.

Table 1: Class of Worker by Metropolitan and Non-metropolitan Areas, 1992 and 2002 (thousands)

Class of Worker	Employees Total	Self-employed					
		Total	With Paid Help		Without Paid Help		Unpaid Family Workers
			Incorporated	Unincorporated	Incorporated	Unincorporated	
1992							
All areas	10 840.7	1 919.3	493.6	320.2	140.1	899.1	66.3
CMA	7 515.0	776.3	143.7	146.4	38.5	395.7	52.1
Non-CMA	3 325.8	1 143.0	349.9	173.8	101.6	503.5	14.2
Percentage non-CMA	31%	60%	71%	54%	73%	56%	21%
2002							
All areas	13 065.8	2 346.0	511.0	292.4	327.7	1 181.1	33.9
CMA	9 433.8	794.1	163.8	112.0	89.6	408.8	19.9
Non-CMA	3 632.0	1 551.9	347.2	180.4	238.1	772.3	14.0
Percentage non-CMA	28%	66%	68%	62%	73%	65%	41%
Growth 1992-2002							
All areas	1.9	2.0	0.3	-0.9	8.9	2.8	-6.5
CMA	2.3	0.2	1.3	-2.6	8.8	0.3	-9.2
Non-CMA	0.9	3.1	-0.1	0.4	8.9	4.4	-0.1

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

Notes: Growth rates shown are average annual compound growth rates from 1992 to 2002. CMA = Census Metropolitan Area.

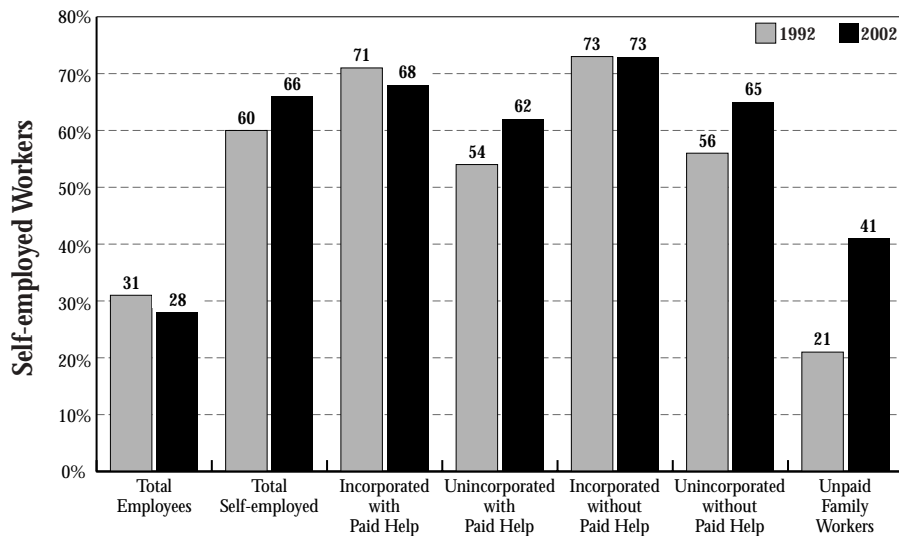
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That is not to imply that self-employment is a purely rural phenomenon, since many non-metro areas include centres of population like small towns. Nevertheless, the data clearly demonstrate that self-employment is, in terms of both absolute numbers and growth rates, principally a non-metro phenomenon and that self-employed workers increasingly concentrated outside metropolitan areas between 1992 and 2002.

¹ The *Labour Force Survey* distinguishes between five categories of self-employed workers: those who work with and without paid help and, within each category, those whose businesses are incorporated and those whose businesses are unincorporated; unpaid family workers make up the fifth category.

Chart 1: Self-employed Workers Living Outside Metropolitan Areas, by Class of Worker, 1992 and 2002



Source: Statistics Canada, *Labour Force Survey*, special run for Industry Canada, 1992 and 2002.

JOB Creation

Data from Statistics Canada's *Survey of Employment, Payrolls and Hours (SEPH)*¹ indicate that nearly 473 000 new payroll jobs were created between the fourth quarter of 2001 and the fourth quarter of 2002. As shown in Table 2, almost half of new jobs were in small firms (those with fewer than 100 employees).

However, the contribution of small firms to net new job creation has steadily declined since the fourth quarter of 2001.

Strong growth in the fourth quarter of 2002 raised the average number of new jobs created during the year to nearly 300 000.

Table 2: Year-over-year Quarterly Net Change in Payroll Employment by Firm Size, Canada, 2001 to 2002

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	446 733	10.1	1.0	8.1	6.0	25.2	10.9	3.5	14.4	60.4
Q2 2001	2.8	350 595	2.0	8.5	13.0	12.0	35.5	10.6	2.6	13.2	51.3
Q3 2001	1.8	224 453	31.0	1.2	17.0	15.7	64.9	-0.3	-0.8	-1.1	36.3
Q4 2001	1.0	125 105	34.2	35.3	34.3	13.7	117.5	-17.9	-37.8	-55.7	38.2
Q1 2002	0.9	115 078	-6.9	28.9	41.5	36.1	99.5	-7.1	-24.8	-31.9	32.4
Q2 2002	1.7	221 503	-0.7	4.3	36.4	37.5	77.5	13.9	-16.0	-2.1	24.6
Q3 2002	2.9	376 159	-0.9	1.5	23.7	25.2	49.5	16.5	-8.5	8.0	42.5
Q4 2002	3.7	472 965	-1.1	2.6	22.1	23.3	46.8	13.0	-2.0	11.0	42.2

Source: Statistics Canada, *Survey of Employment, Payrolls and Hours*, December 2002.

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Table 3 shows that the largest job gain occurred in small firms (with more than 20 but fewer than 99 employees) and in large firms (with more than 500 employees), which accounted for 55 percent and 38 percent of total job creation respectively. Very small firms (with fewer than 5 employees) and medium-sized firms (with 300 to 499 employees)

suffered job losses. Worst hit was the latter group, where more than 26 000 jobs disappeared.

This pattern of job creation was found in all industries except forestry, which lost jobs in almost all size categories. Four industries contributed more than 60 percent of total job creation. These were, in order

Table 3: Year-over-year Annual Net Change in Payroll Employment by Industry and Firm Size, 2001–2002

Industry	Total Net Change		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+
Forestry*	-18	-14 136	80	-3 327	-2 604	-1 846	-7 696	-2 297	—	—	—
Mining and oil and gas extraction	1	1 143	242	427	713	430	1 812	1 202	-2 325	-1 123	454
Utilities	1	1 261	-68	4	649	284	869	1 017	-379	638	-247
Construction	7	38 916	1 932	11 638	10 293	4 529	28 392	3 609	193	3 802	6 721
Manufacturing	1	14 108	-1 884	-2 165	4 804	5 262	6 017	4 258	-990	3 268	4 822
Wholesale trade	2	13 698	-641	195	7 762	4 332	11 648	6 344	-1 957	4 387	-2 336
Retail trade	4	61 224	-326	-3 624	14 099	19 611	29 759	19 179	-5 016	14 162	17 302
Transportation and warehousing	0	-887	-350	1 137	1 350	2 751	4 888	2 316	-3 468	-1 152	-4 623
Information and cultural industries	1	5 023	-161	-46	446	-607	-367	-4 187	-1 767	-5 954	11 344
Finance and insurance	2	13 197	-679	271	2 890	160	2 642	2 621	713	3 333	7 222
Real estate and rental and leasing	6	12 126	-976	1 371	2 661	3 050	6 107	1 242	-1 159	83	5 936
Professional, scientific and technical services	3	16 305	-366	6 372	7 798	2 668	16 472	-3 070	-64	-3 134	2 967
Management of companies and enterprises*	6	5 389	-100	-129	368	1 068	1 207	416	—	—	—
Administrative and support, waste management and remediation services	7	35 492	511	2 826	5 035	3 666	12 038	6 700	1 119	7 819	15 636
Educational services	1	10 181	316	293	1 159	452	2 219	-2 325	1 945	-380	8 343
Health care and social assistance	3	42 971	-139	5 847	11 785	5 936	23 430	-1 349	-4 407	-5 756	25 296
Arts, entertainment and recreation	4	9 404	84	55	1 843	3 138	5 119	-454	274	-181	4 465
Accommodation and food services	2	15 582	-211	-10 767	1 332	23 640	13 995	7 360	-3 941	3 419	-1 832
Other services (excluding public administration)	3	13 697	-1 618	4 472	8 119	4 045	15 018	-603	-2 767	-3 370	2 047
Public administration	0	1 738	-272	310	40	-198	-119	-5 507	-1 968	-7 475	9 332
Canada total	2	296 426	-4 621	15 160	80 540	82 369	173 449	36 471	-26 346	10 126	112 853

Source: Statistics Canada, *Survey of Employment, Payrolls and Hours*, December 2002.

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

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Data as of March 26, 2003

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of contribution, retail trade; health care and social assistance; construction; and administrative and support, waste management and remediation services. Three of the four top job-creating industries were also among the top five industries where small businesses were expanding (the exception was the administrative and support, waste management and remediation services industry.) Other major small business gains were in professional, scientific and technical services and in "other services."

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.

BUSINESS *Bankruptcies*

There were 2152 bankruptcies reported in Canada in the fourth quarter of 2002, essentially the same number reported in the previous quarter (2151). Year-over-year bankruptcies decreased 20.6 percent from the fourth quarter of 2001 to the same quarter in 2002.

The fourth quarter of 2002 saw the business liabilities involved in bankruptcies reach \$854 million, an increase of 4.1 percent from the previous quarter. Significant increases were evident in the logging and forestry, fishing and trapping, and manufacturing industries. However, decreased liabilities in communications, retail trade, finance, insurance and agriculture offset these increases.

The level of business liabilities in the fourth quarter of 2002 fell by 57.3 percent from the corresponding quarter in 2001.

Canada's real Gross Domestic Product (GDP) growth... moderated to a 1.6 percent annualized rate in the fourth quarter of 2002 from its 3.6 percent level in the third quarter. Despite the slowing of growth, real GDP advanced 3.4 percent in 2002 compared with 2.4 percent in the United States. Strong gains in domestic demand (3.8 percent) led by increases in consumer spending (4.4 percent) and residential investment (11.3 percent) supported growth in the fourth quarter. This was partly offset by declines in real exports (-8.0 percent) and business investment (-1.5 percent). Corporate profits rose 11.5 percent, up for a fourth consecutive quarter, and healthy job creation led to personal income growth climbing to 5.3 percent in the fourth quarter, up from 3.4 percent in the previous quarter.

Monthly GDP data... showed that the economy lost steam near the end of 2002, with real GDP edging up a modest 0.1 percent in December matching the pace set in November. This represented the 15th consecutive increase. Consumer demand and the mining, oil and gas industry were the main contributors to the growth. Output in the goods sector edged up 0.1 percent in December, after posting no growth in November. The service sector lost momentum toward the end of the quarter: monthly real GDP slowed from 0.4 percent in October to 0.1 percent in November and was unchanged in December.

The economic outlook... is affected by recent economic weakness associated with lingering concerns about the war with Iraq. Forecasters have revised down their growth outlook for both the United States and Canada. The *Consensus Forecast* survey revised the forecast of US GDP growth for 2003 to 2.4 percent and the Canadian to 2.9 percent, down 0.3 percentage points each from the forecasts of three months ago. Most analysts expect growth to strengthen, however, in the second half of 2003, with Canada continuing to lead the G-7 in output growth.

Consumer spending... increased by 4.4 percent in the fourth quarter, up from 1.6 percent in the third quarter. Consumer spending rose in all major goods and services categories. Spending on durables bounced back in the fourth quarter with demand for motor vehicles, household furniture and appliances leading the advance. Expenditures on transportation services also increased, as did energy expenditures because of relatively cold weather.

Housing investment... and housing activity continued to grow as residential investment rose by 11.3 percent in the fourth quarter after rising 16.3 percent in the third quarter. Housing starts climbed to their highest level since 1990.

Business investment in machinery and equipment (M&E)... fell 0.4 percent in the fourth quarter, the only quarterly decline in 2002, after increasing 4.6 percent in the third quarter. Lower spending on motor vehicles by businesses and a double-digit decline in telecommunications equipment investment more than offset gains in industrial machinery, computers and software. In 2002, M&E investment fell 2.4 percent, following a similar decline in 2001.

Corporate profits... rose by 11.5 percent in the fourth quarter, on the heels of a 10.4-percent increase in the third. Corporate profits posted a sharp recovery in the first half of the year and rose by 6.2 percent in 2002. Profits are now just 0.1 percent below the record level reached in the first quarter of 2001. Higher profits in the manufacturing, oil and gas, and retail sectors dominated the fourth quarter gains.

The current account... posted its 12th consecutive surplus (\$3.3 billion) in the fourth quarter of 2002, albeit \$0.9 billion lower than in the previous quarter. Exports decreased, lowering the merchandise trade surplus by \$0.5 billion to \$13.2 billion. The deficit on services edged down by \$0.3 billion to \$1.8 billion. The deficit on investment income increased by \$0.7 billion to \$8.4 billion, because of stable income receipts while the payment of dividends to foreign direct investors increased by \$0.6 billion. Current transfers

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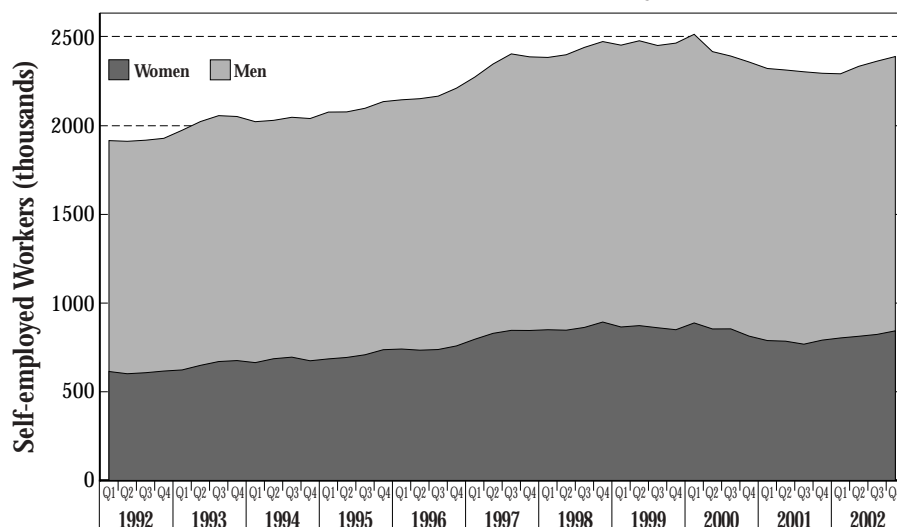
SELF-*Employment*

According to Statistics Canada's *Labour Force Survey*, self-employed workers numbered 2.39 million in the fourth quarter of 2002 (calculated from seasonally adjusted monthly averages). This marks an increase of 4.1 percent from the same quarter of 2001 and is the third consecutive quarter increase in self-employment.

Chart 2 shows the self-employment trends in Canada by sex from 1992 to 2002. Since 1992, the number of self-employed workers has risen gradually, reaching a peak of 2.52 million in the first quarter of 2000. This was a 30 percent increase from the first quarter of 1992. After this peak, self-employment began to decline steadily throughout 2000 and 2001, and did not begin to rise again until the start of 2002.

In the fourth quarter of 2002, self-employed males numbered 1.55 million or 65 percent of all self-employed workers; in the same quarter, self-employed females numbered 843 500. The share of female self-employment grew slowly during the last decade from 32 percent in the fourth quarter of 1992 to 35 percent in the fourth quarter of 1995. It peaked at 36 percent in the fourth quarter of 1998 and decreased slightly to 35 percent in the fourth quarter of 2002.

Chart 2: Number of Self-employed Workers, by Sex, Seasonally Adjusted, 1992–2002, Quarterly



Source: Statistics Canada, *Labour Force Survey*, special run for Industry Canada, 1992 and 2002.

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registered a surplus of \$285 million. In 2002, the current account surplus fell to \$17.3 billion from the record \$30.0 billion the previous year, as exports fell while imports rose and dividends received by Canadian direct investors on their foreign investments were \$2.3 billion lower.

The January Business Conditions Survey... indicated that manufacturers' outlook on production prospects for the first quarter improved slightly but remained guarded. Production was expected to remain the same or increase for 80 percent of producers. Eighty-five percent of producers stated that their work force would remain the same or increase. Producers were less satisfied with new and unfilled orders for the first quarter of 2003. Only 15 percent believed their inventories were too high.

Employment... posted strong gains in February. Employment surged by 55 000; about half were full-time jobs. So far in 2003, 53 000 jobs have been created, following 560 000 job gains in 2002. The unemployment rate remained unchanged at 7.4 percent in February, down only 0.6 of a percentage point from its peak of 8.0 percent in December 2001. Good economic conditions have encouraged more Canadians to enter the labour force, so that the unemployment rate did not drop by as much as would be expected because of the job gains. In February, Canada's labour force participation rate was at the highest level ever recorded.

The Consumer Price Index (CPI)... rose 4.6 percent in February, up slightly from 4.5 percent in January. "Core" inflation — the target for monetary policy — excludes the most volatile components of the overall CPI and indirect taxes. Core inflation fell from 3.3 percent in January to 3.1 percent in February, but remained above the official 1-3 percent target range.

The Bank of Canada... raised interest rates on March 6 for the first time since July 2002. Concerned about persistent high inflation, the Bank of Canada increased its target for the overnight rate by 25 basis points to 3.0 percent. In the United States, the Federal Reserve left the Federal Funds rate unchanged at 1.25 percent in March, taking a wait-and-see attitude in light of considerable economic uncertainty associated with the war with Iraq.

The Canadian dollar... which ended 2002 at US\$0.63, jumped to more than US\$0.68 in March, the highest since 2000. This recovery was prompted by the weakening of the US currency, more favourable economic conditions and higher interest rates in Canada than in the United States, as well as rising commodity prices.

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

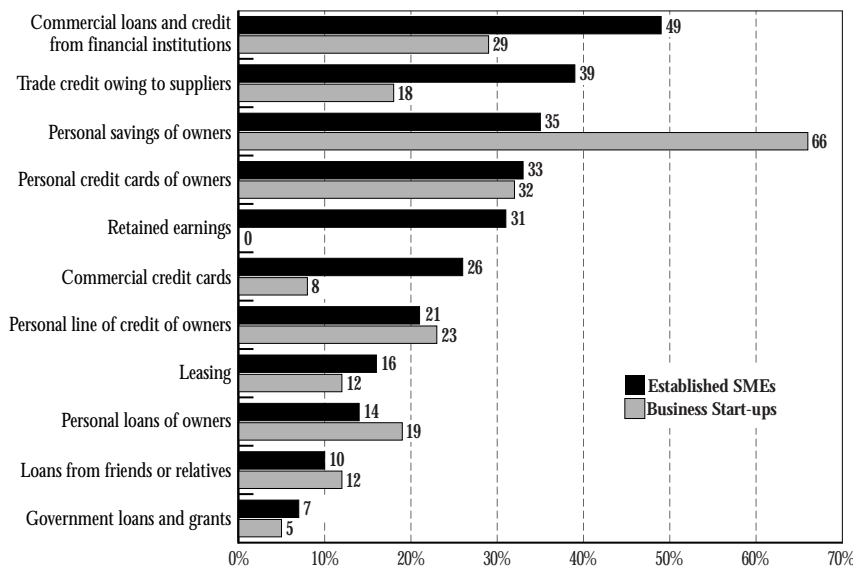
FINANCING

Sources of Financing Used by Established SMEs vs. Business Start-ups

Small and medium-sized enterprises (SMEs) select from a range of sources of financing at various stages of their development. Chart 3 illustrates the sources of financing used by business start-ups and established firms, using data derived from Statistics Canada's recent survey of more than 11 000 SMEs across Canada. The 2000 *Survey on Financing of Small and Medium-sized Enterprises* was conducted as part of the SME Financing Data Initiative, a joint data-gathering initiative of Statistics Canada, Industry Canada and Finance Canada.

Traditional sources of financing, such as borrowing from financial institutions and leasing companies and using trade credit, are most prevalent among established businesses. Almost half of mature SMEs hold a commercial loan from a financial institution and 39 percent use trade credit to finance their operations. However, personal sources of financing are still quite common among established firms. Over one third of all mature SMEs use personal

Chart 3: Sources of Financing Used by Established SMEs and Business Start-ups



Source: Statistics Canada, *Survey on Financing of Small and Medium-sized Enterprises*, 2000.

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savings (35 percent) and another third use personal credit cards (33 percent) as a source of financing.

The lack of an established credit history and insufficient assets to use as collateral put business start-ups at a disadvantage in terms of accessing traditional sources of financing. As a result, four of the five most commonly used sources of capital during the start-up stage are personal forms of financing. Chart 3 shows that personal savings (66 percent) are the most commonly used source among business start-ups, followed by personal credit cards (32 percent). The importance of the owners' personal savings in the start-up stage of a business is underscored by the fact that the use of personal savings is more than twice as common as commercial loans.

Personal sources of financing are also relied on beyond the start-up stage, whether through choice or necessity. It is unclear whether this reliance impedes the ability of owners to grow their businesses.

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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RECENT *Developments*

Key Small Business Statistics Update

The latest issue of *Key Small Business Statistics* is slated for release in early May. It includes statistics that help answer four questions on emerging topics: Do the self-employed work longer hours than employees? How many small business entrepreneurs are women? Do SMEs innovate as much as large firms? How many small businesses use e-business?

Launched in 2001 in response to demand, *Key Small Business Statistics* is updated twice a year. It can be found in the "Statistics" section of the Small Business Research and Policy Web site at <http://strategis.ic.gc.ca/sbstatistics>

Meeting of Small Business Officials

Federal, provincial and territorial government officials responsible for small business policy met in Toronto on April 3–4, 2003. In addition to following up on policy priorities identified at last year's meeting, participants reviewed and discussed a range of issues and initiatives relating to small businesses in Canada. Discussions were held under four themes: understanding firm growth, data development, improving the business environment, and entrepreneurship and small business development.

Participants found the exchange of information on research, policy developments and programs most useful. The meeting may lead to cooperation on issues such as data development and determinants of growth.

Editor's Note

This issue introduces two changes to the *Small Business Quarterly*. First, the publication will no longer contain a regular section on business loans. Reporting on this activity will now appear under the "Performance Trends" section on the front page. Second, the equity financing section has been renamed "Financing" and will cover developments in both debt and equity financing of small businesses.