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INSIGHTS ON...

Frequently-asked Questions on Small Business

Vol. 4, No. 1

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Introduction

This report contains some basic answers to recurring questions that Statistics Canada receives on small business. It is also a reference to other Statistics Canada data sources and analytical products where more detailed information can be found.[1]

How many small businesses are there?

The answer depends on what is meant by a "business" and on how "small" a business should be in order to be considered a "small business". There is no standard for defining either, and Statistics Canada makes available different data sources for different needs.

If the data user deems that an entity should have employees to be considered a "business", the *Employment Dynamics* is an appropriate source. *Dynamics* measures the number of employers registered on Revenue Canada's payroll deduction accounts, regardless of whether they are incorporated or unincorporated. It also includes any self-employed individuals or partnerships that use payroll deduction accounts to pay themselves. On the other hand, it does not include those self-employed people who do not have employees and do not draw a salary from their business for themselves.

There were some 955,800 active employers in 1997. Of these, about 718,300 had fewer than 5 employees, 888,300 had fewer than twenty, 930,900 had fewer than fifty, and 944,300 had fewer than 100 employees. Any one of these figures could potentially be used as an estimate of the number of small businesses.

Exclusive of employers included in *Dynamics*, there are many individuals who are in business for themselves with no paid help. The Labour Force Survey (LFS) estimated there were some 1,469,200 such self-employed persons working on "own account" in 1997, but 253,600 of these are incorporated and would be eligible to pay themselves as owner-employees through the payroll deduction system. Consequently, the total number of self-employed individuals estimated by the LFS that would not be included in the *Dynamics* as employer businesses is anywhere between 1,215,600 and 1,469,200. Moreover, an undetermined number of these individuals would have formed partnerships with other self-employed individuals. It should therefore be considered a count of entrepreneurs rather than a count of business entities.

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[1] For further information, please contact Jamie Brunet, Small Business and Special Surveys Division, Statistics Canada (Phone: 613 951-6684 Fax:: 613 951-1572 : jamie.brunet@statcan.ca

INSIGHTS ON...

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In This Issue...

June 2000

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Canada

Table 1. Number of Employer Businesses (1997)[2]

Firm size (# of employees)	Canada	NF	PEI	NS	NB	QC	ON	MN	SK	AB	BC
All sizes	955,796	20,648	7,672	32,428	27,859	231,114	313,519	36,562	42,052	121,982	155,676
1 to 4	718,282	16,086	5,445	23,210	20,096	169,148	225,875	24,735	31,157	89,392	114,192
5 to 19	170,033	2,651	1,219	5,192	4,616	41,676	58,954	6,724	6,560	20,825	27,686
20 to 49	42,580	693	368	1,574	1,226	11,786	16,287	2,147	1,863	5,967	7,401
50 to 99	13,358	302	160	731	543	3,933	5,987	895	721	2,281	2,688
100 to 499	9,221	433	221	1,005	780	3,316	4,866	1,244	1,054	2,432	2,606
500 +	2,322	483	259	716	598	1,255	1,550	817	697	1,085	1,103

Source: Employment Dynamics

Table 2. Number of Self-employed entrepreneurs working on "own account" (1997)

Type	Number of Entrepreneurs
Self-employed working on "own account"	1,496,200
Unincorporated	1,215,600
Incorporated	253,600

Source: Labour Force Survey

What is small businesses' contribution to employment and employment change?

Compared to their larger counterparts, small businesses tend to represent lower proportions of total paid employment, but higher shares of employment change (job creation and loss), in any given year.

For example, in 1997, employers with fewer than 50 employees accounted for 57% of the gross increase in employment despite representing only 32% of total paid employment.[2]

In particular, businesses with fewer than five employees accounted for 26% of the gross increase, while representing just under 9% of total employment.

However, businesses with fewer than 50 employees also contributed disproportionately to employment loss, accounting for 48% of the gross employment decrease.

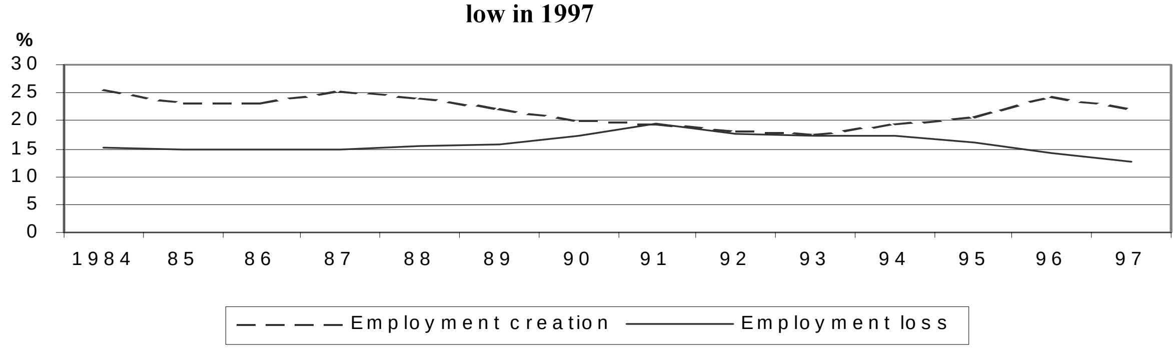
In recent years, small firms have increased the rates at which they create jobs, while at the same time decreasing the rates at which they loose jobs.

Gross job creation by firms with fewer than 50 employees began a steady climb at the outset of the 1990s, rising from 731,200 jobs in 1991 to 851,200 jobs in 1996. It then fell off only slightly to 835,500 in 1997. (Data for 1998 are not yet available.)

Meanwhile, gross job loss among businesses of this size continued a pattern of decline, falling from 727,100 jobs in 1991 to 500,700 in 1996.

The net result of these patterns is that smaller firms have played an important role in net job creation. For example, small firms created 353,000 more jobs than they lost in 1997. This amounted to more than three-quarters of the net employment increase observed across employers of all sizes for the year.

Figure1: Rate of employment loss by small business reached new low in 1997



Source: Employment Dynamics

[2] If an employer operates in more than one province, it is counted as a business in each province it operates and as one business at the Canada level. Therefore the sum of the provincial business counts will not equal Canada business counts.

Although the small business sector has been a significant source of net job gains , its relative importance in the labour market has remained steady since data were first collected in 1983. Between 1983 and 1997, employers with fewer than five employees accounted for an average of 8.3% to 8.8% of all paid employees. Firms with between 5 and 50 employees have accounted for an average of between 21.3% and 23.5%. The share of total employment represented by smaller firms has not changed substantially over time.

This is in part because the small firms that create jobs tend to grow to the point where they are eventually considered medium or large businesses. Also, the small business sector is constantly in flux, with firms entering and leaving the employer sector as well as increasing and decreasing their employment.

In 1997, there were some 478,800 businesses that increased their employment over 1996. These firms created some 641,100 jobs. Additionally, about 146,600 new businesses started up operations during the year, accounting for a further 194,200 new jobs. In contrast, there were 306,500 businesses (with fewer than 50 employees) that contributed towards employment loss in 1997 by reducing the number of paid employees they had over 1996. These firms accounted for 328,500 lost jobs. A further 125,900 firms went out of business, taking with them another 153,800 paid jobs.

Table 3. Employment growth and loss by firm size in 1997

Firm size (# employees)	Employment share 1996 (%)	Employment growth (000's)	Employment loss (000's)	Net employment (000's)
All sizes	100.0	1460.4	1008.4	451.9
1 to 4	8.6	379.6	188.4	191.3
5 to 19	13.1	289.1	166.9	122.1
20 to 49	10.5	166.6	127.0	39.6
50 to 99	7.4	110.0	86.4	23.5
100 to 499	14.9	206.5	169.6	36.9
500 +	45.5	308.7	270.0	38.7

Source: Employment Dynamics

How many businesses appear and disappear each year?

In 1997, there were roughly 147,000 new employer businesses , accounting for 15.4% of the total employer business population. This was up slightly from 145,900 firms the previous year and marked its highest level since 1990. Of the new entrants in 1997, 139,400 had fewer than five employees and 7,200 entrants had between 5 and 50 employees. In contrast, there were roughly 126,300 businesses that went out of business in 1996, a significant drop from 1995, when 143,000 firms ceased operations. The 1996 figure includes 120,100 businesses that had fewer than 5 employees and a further 5,700 exits that had between five and 50 employees.

Table 4. Employer business entries and exits

	1 to 4 employees		5 to 19 employees		20 to 49 employees	
Year	Entrants	Exits	Entrants	Exits	Entrants	Exits
1984	141,606	117,434	5,073	4,185	734	680
1985	145,231	118,017	5,456	4,489	801	747
1986	142,461	117,747	5,785	4,934	845	872
1987	147,585	123,525	6,284	5,211	928	830
1988	146,021	127,280	6,675	5,664	959	877
1989	144,958	134,686	6,766	6,431	1,032	1,011
1990	144,473	140,716	6,731	7,485	1,036	1,238
1991	131,835	127,685	6,754	5,985	940	1,073
1992	129,371	126,417	5,521	5,634	840	1,097
1993	129,695	125,059	5,377	5,439	863	979
1994	133,364	130,088	5,459	5,243	848	1,038
1995	135,474	136,262	5,432	5,380	900	863
1996	138,412	120,135	5,938	4,996	1,111	737
1997	139,389	-	6,364	-	837	-

Source: Employment Dynamics

How long do small businesses survive?

For a new-born business, the odds of living a long life are not promising. Based upon recent trends, there is a one-in-three chance that a start-up business will survive beyond its fifth year. In fact, only about 3 in 4 new businesses survive past their first year of operation. On average, a new business can expect to survive only six years. The odds are slightly less favourable to smaller entrants than large. A new business that is born smaller than the average new business in its industry has a 72% chance of surviving its first year. This compares to 83% for a larger-than-average start-up. The relationship between firm survival and firm size – as well as a other variables such as industry and region of operation – is explored in detail in the recent study, "Failure Rates for New Canadian Firms: New Perspectives on Entry and Exit."[3]

Table 5. Survival and hazard rates for all new employer businesses (1984 to 1994)

Age of business (years)	Survival Rate	Hazard Rate (Probability of failure in a given year)
1	0.77	0.23
2	0.61	0.22
3	0.50	0.18
4	0.42	0.16
5	0.36	0.14
6	0.31	0.13
7	0.27	0.12
8	0.24	0.11
9	0.22	0.10
10	0.20	0.10
11	0.18	0.10

Source: Employment Dynamics

[3] "Failure Rates for New Canadian Firms: New Perspectives on Entry and Exit" Catalogue No. 61-526-XPE. Ottawa: Statistics Canada.

How profitable are small businesses?

According to Statistics Canada's *Small Business Profiles,* about 71% of all businesses (incorporated and unincorporated) with between $30 thousand and $5 million in revenues for tax year 1997 made a profit. This proportion was unchanged from 1995 and was only slightly higher than the 1993 level of 69%.

Small business net profit margins were $18,500, or 5.0% of gross revenue in 1997. This was unchanged from 1995, but an improvement from 1993, when profits represented 3.9% of gross revenue.

Small firms in the business service industry and those in the health and social service industry had the highest profit margins for 1997, each averaging a net profit of 13% of gross revenue. Real estate operators followed with a profit of just over 9% of gross revenue. In contrast, small firms in the accommodation, food and beverage service industry had the lowest profit margins, with an average net profit of 0.4% of gross revenue. In addition, they also had the lowest proportion of profitable businesses, with only 55% reporting a net profit.

How many home-based businesses are there?

Over half (53%) of all self-employed entrepreneurs operated their business from home in November 1995.[4] This amounted to 1,126,000 entrepreneurs.

Most of these home-based operations are small. In 1995, 82% of all home-based, self-employed persons had no employees and only 3% had five or more employees.

Home-based entrepreneurs were more likely found in the service industry – which accounted for 57% of the total number of home-based operations — than the goods producing industry (43%). Specifically, 23% of home-based entrepreneurs worked in the agriculture industry, 14% in construction, 12% in trade and 11% in business services.

How many women and aboriginal business owners are there?

The number of self-employed women has been increasing at a faster rate than the number of men.[5] In 1996, women made up 34 percent of all self-employed individuals, up from 24 percent in 1976.

[4] Pérusse, D. 1998. "Home-based entrepreneurs" Perspectives Autumn 1998 p31-34. Catalogue No. 75-001-XPE. Ottawa: Statistics Canada.

[5] "Labour Force Update: The Self-employed (autumn 1997)"Catalogue no. 71-005 XPB Ottawa: Statistics Canada

About 4 in 5 (81.6%) self-employed women worked in the service-producing sector. This compares to about three in 5 self-employed men. About three-quarters (74%) of all self-employed women also tend to work alone with no paid help.

Where can I get more information?

Employment Dynamics provide annual data on employment, payroll and the number of businesses with employees for Canada, the provinces and territories. The data are presented by size and life status of business at the 1 and 2-digit level of the Standard Industrial Classification (SIC). For 1996-97 data, the 3-digit SIC level is available at the Canada level.

Data are available for 1983 to 1997. Product No. 61F0020XCB. Ottawa: Statistics Canada. ***Small Business Profiles*** provide financial and employment data for an average small business, defined as having annual gross operating revenue between $30,000 and $5 million. The 1997 Profiles are available for unincorporated and incorporated

businesses in about 680 industries, excluding the financial sector. Profiles are available for each province and territory. Product No. 61F0015XCB.Ottawa: Statistics Canada.

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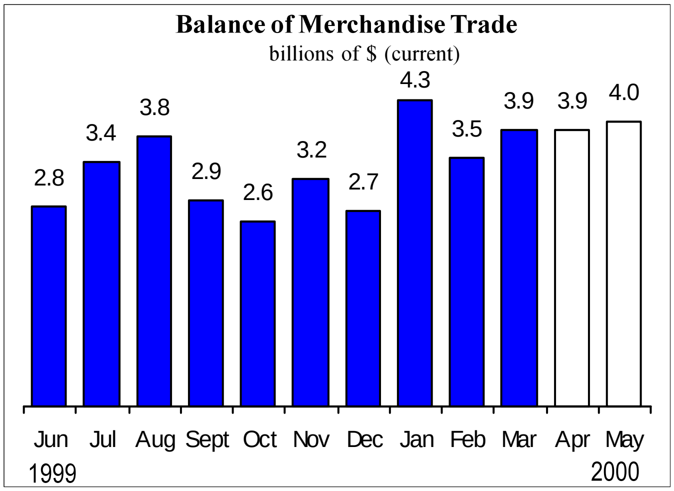
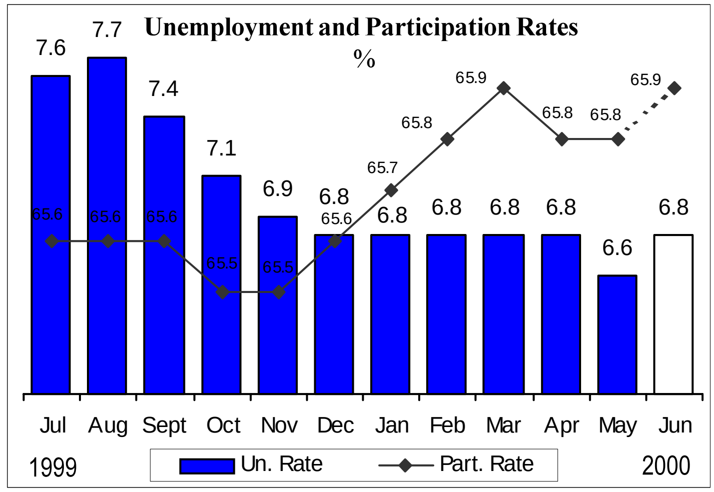
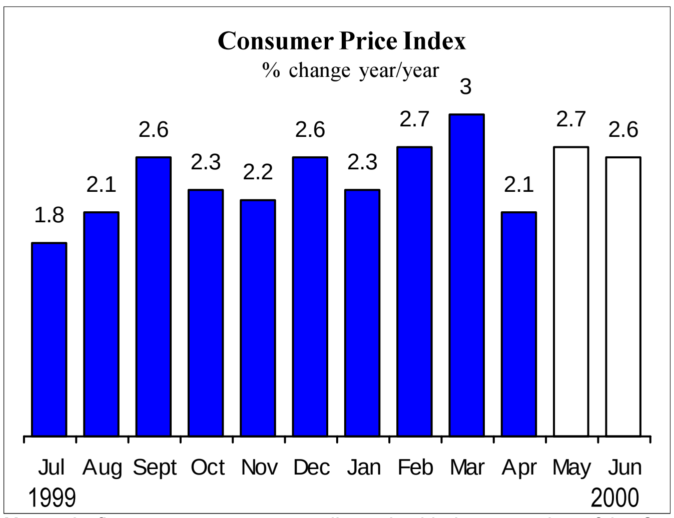
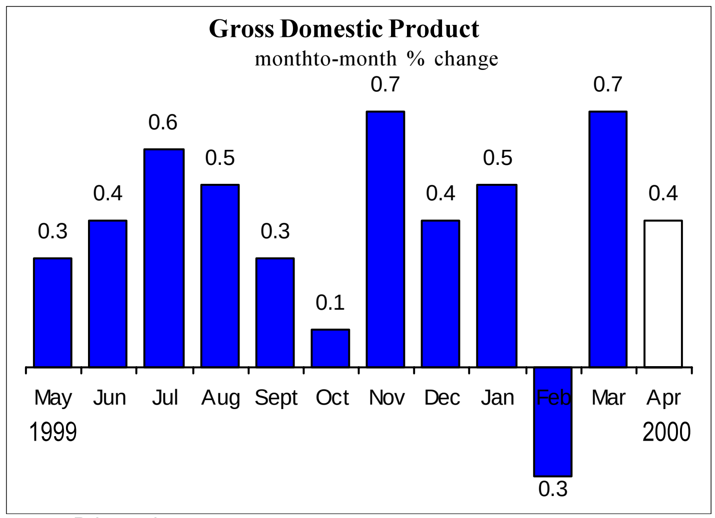
Economic Indicators









Note: All figures are seasonally adjusted, with the exception of the Consumer Price Index

Average forcaste   Actual

Short Term Expectations Survey

The *Short Term Expectations Survey* is a quarterly survey conducted with a group of economic analysts from across the provinces to get a representative view of the Canadian economy.

The analysts forecast the year-over-year changes in the consumer price index (CPI), the unemployment and participation rates of the labour force, the level of merchandise exports and imports, and the monthly change in gross domestic product (GDP). They provide their forecasts for key economic indicators for the following months.

Questionnaires are prepared and faxed on a quarterly basis to each of the analysts across the country. They have approximately one week to return their forecasts. Answers are then compiled and compared to actual data. An analysis is produced from the results and published in *The Daily* the following week.

The following graphs show the actual historical data with the average forecasted data for the four key economic indicators included in the survey.

Watch fot the results of the *STES* which are published during the first week of each quarter in *The Daily*. Visit our web site to see a new issue of *The Daily* every working day at: www.statcan.ca

For any information on the *Short Term Expectations Survey*, please contact:

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WHAT'S NEW?

Lumber shipments
1999 annual and December 1999

Note to readers

This release replaces regular monthly releases on sawmills and planing mills, construction-type plywood and particleboard, oriented strandboard and fibreboard.

- Lumber shipments from Canadian sawmills rebounded in 1999, the result of stronger demand in both domestic and international markets. Sawmills and planing mills shipped 68.9 million cubic metres of lumber last year, up 4.9% over 1998, following a 2.0% decline the year before.

Lumber shipments from Canadian sawmills rebounded in 1999, the result of stronger demand in both domestic and international markets.

Sawmills and planing mills shipped 68.9 million cubic metres of lumber last year, up 4.9% over 1998. This increase followed a 2.0% decline in 1998, which was the first decrease in seven years.

A sustained increase in housing starts in both Canada and the United States, and the recovery in Asian markets both contributed to the higher demand for Canadian lumber.

Robust economic growth in both Canada and the United States stimulated the construction industry on both sides of the border last year. In Canada, housing starts reached 149,600 units, an 8.2% increase over 1998. South of the border, housing starts reached almost 1.7 million units, up 3.2% from 1998.

Lumber exports to the United States rose 14.2% in 1999, and 14.9% to Japan. In contrast, exports to Japan in 1998 had plunged 37% from the previous year in the wake of the Asian financial crisis.

Lumber prices were almost 9% higher in 1999 than in 1998. Despite the softer prices in the second half of the year, the benchmark price for lumber shipped in the Great Lakes region remained above the trigger price used in the Canada-U.S. Softwood Lumber Agreement for the allocation of bonus exports. Although quantities of lumber exported to the United States under the agreement increased in 1999, access to the booming construction sector in the United-States remained limited.

The term "lumber" includes all first-stage wood products sawn from logs by sawmills, such as two-by-fours and wood chips. These products are then transformed into second-stage wood products used in construction, such as particleboard, plywood and trusses.

Lumber Shipments

(Thousand cubic metres)

	1998	1999	%
Atlantic	5,029.5	5,052.3	0.5%
Québec	16,929.1	17,831.4	5.3%
Ontario	6,797.3	6,654.9	-2.1%
Prairies	6,914.9	7,585.7	9.7%
B.C.	30,026.0	31,792.1	5.9%
Canada	65,696.8	68,916.4	4.9%

Asian recovery benefited B.C. most

British Columbia, which supplies just under half (46%) of the country's lumber shipments, benefited more than any province in 1999 from the strengthening housing construction sector and the economic recovery in Asia.

Shipments increased 5.9% in British Columbia, led by a 9.4% increase in the province's Coastal region. This contrasted with a decrease of more than 5% for this province in 1998.

Alberta also posted a strong performance with an 8.0% increase in its shipments compared to 1998. Shipments increased 5.3% in Quebec, which accounted for 26% of the total, the second largest volume.

The only province to record a decline was Ontario, where shipments fell 2.1% from 1998.

Shipments

(Thousand cubic metres)

	1998	1999	%
Lumber	65,697	68,917	4.9%
Plywood	1,763	1,939	10.0%
Waferboard - OSB	6,274	7,640	21.8%

Waferboard and oriented strandboard shipments up

Shipments of waferboard and oriented strandboard rose 21.8% to 7.6 million cubic metres on the heels of a 26.9% increase in exports, mainly to the United States.

As with lumber, shipments were stimulated by the strength of the construction sector in the United States. Waferboard and oriented strandboard are not subject to the limits imposed by the Canada-U.S. softwood lumber agreement.

Owing to strong demand, the prices of waferboard and oriented strandboard continued to strengthen in the first half of 1999, surpassing the peak reached in the summer of 1998. Because of the growing demand for these products, several manufacturers expanded their facilities to increase production capacity. The strong growth of this sector, combined with a more favourable exchange rate, has prompted large-scale American producers to buy up smaller Canadian firms, increasing the concentration in this industry.

Increase in shipments of construction-type plywood

Shipments of other wood products were also up in 1999. The volume of shipments of construction-type plywood rose 10.0%, to 1.9 million cubic metres, as exports rose 5.7%. British Columbia produces the vast majority, about 80%, of construction-type plywood in Canada.

December 1999: sawmill production up

Sawmills in Canada produced 5,056.7 million cubic metres of lumber and ties in December 1999, a 3.5% increase over a revised 4,884.4 million cubic metres produced in December 1998.

Canadian plywood manufacturers produced 156,170 cubic metres of construction-type plywood in December 1999, up 7.9% over the 144,689 cubic metres produced in December 1998.

Oriented strandboard production in December reached 626,211 cubic metres, up 13.1% over a revised 553,438 cubic metres produced in December 1998.

Particleboard production totalled 197,556 cubic metres, up 9.0% from a revised 181,297 cubic metres in December 1998. Fibreboard production rose to 81,748 cubic metres, up 10.5% from 73,997 cubic metres.

Selected series are available in CANSIM matrices 31, 53 and 122.

The December 1999 issues of *Sawmills and planing mills* (35-003-XIB, $9/$86), *Particleboard, oriented strandboard and fibreboard* (36-003-XIB, $5/$47) and *Construction type plywood* (35-001-XIB, $5/$47) are now available on the Internet. See *How to order publications.*

For further information or to enquire about the concepts, methods and data quality of this release, contact Gilles Simard (613-951-3516, Internet: *simales@statcan.ca*), Manufacturing, Construction and Energy Division.