

Small Business Quarterly ♦ Third Quarter 2001

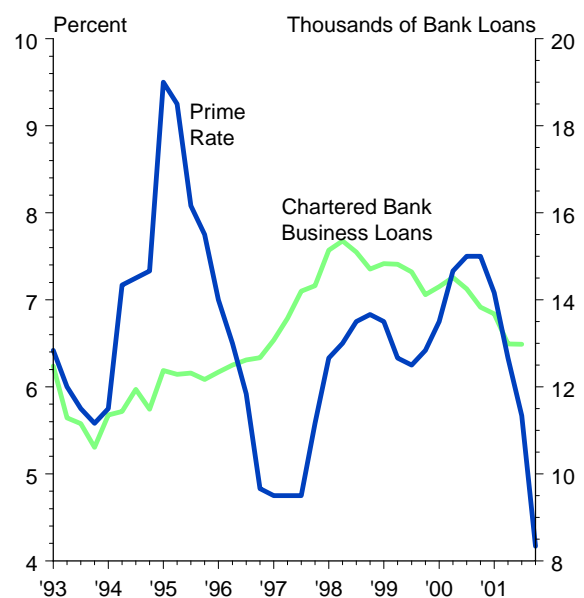
This issue introduces a slight redesign of the tables. In an effort to make release of this publication more timely, from this issue forward the Small Business Quarterly will be released on a regular schedule when the majority of data is available for the quarter. Also, all available current data will be displayed rather than just the data up to the quarter of the release.

- The number of employees of small businesses was up slightly (+0.4%) in the second quarter 2001 compared to the same period in 2000. All the growth occurred in businesses employing between 20-49 employees (+2.9%), as businesses with fewer than 20 employees experienced a slight decline (-0.7%) in employment.
- The number of self-employed in British Columbia continued to rise in the fourth quarter of 2001, up 2.9% from the fourth quarter of 2000. Both self-employed with (+1.7%) and without (+2.9%) paid help showed year-over-year increases.
- The number of small businesses in British Columbia (excluding self-employed persons) slipped slightly (-0.2%) from third quarter 2000 to third quarter 2001. Micro-businesses (i.e., those employing less than 5 people) increased 1.3%, but all other size categories experienced some decline. Businesses with 5 to 9 employees fell 1.7% and the number of businesses with 10 to 19 employees dropped 5.7%. The largest decline was in the 20 to 49 employee category, which was down 6.7%.
- New business incorporations continued to decline, dropping 10.7% year-over-year from the third quarter 2000 to 2001.
- Business bankruptcies fell significantly in the third quarter with a year-over-year decline of 6.0%. However, there was a

significant jump in October and November, which indicates that business bankruptcies in the fourth quarter may have been significantly higher compared to 2000. The increase may be the a combination of a Canada-wide recession, fallout from the September 11th terrorist attacks and the effects of heavy duties in the softwood lumber sector that are driving small operators out of business.

- The prime rate plunged in 2001, dropping over three points from where it stood at the end of 2000. Despite the lower cost of borrowing, chartered bank business loans in British Columbia have continued to shrink, dropping 9.0% over the last year.

Despite a big drop in the Prime, chartered bank business loans continue to fall



Business and Consumer Bankruptcies are on the rise in BC

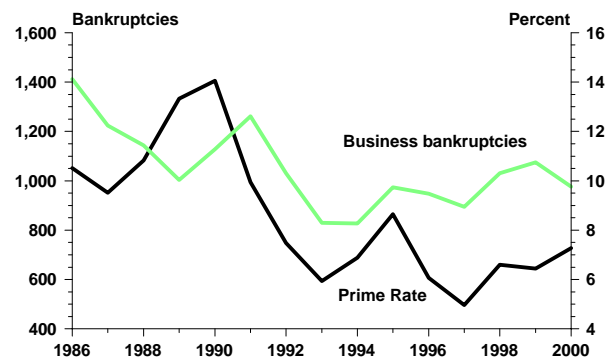
Business and consumer bankruptcies have been on divergent paths over the last decade. While business bankruptcies have fallen somewhat from the number experienced in the early nineties, consumer bankruptcies climbed throughout the decade and were still rising in 2001.

A bankruptcy is attributed to a business, rather than an individual, when over 50 percent of the liabilities incurred are related to a commercial venture or business. This includes corporations, but is more often an individual operating a business as an individual proprietorship or in partnership with other individuals. Business bankruptcies have fallen from 1,262 in 1991 to 976 in 2000, although it appears they will be significantly higher once the numbers for 2001 are in.

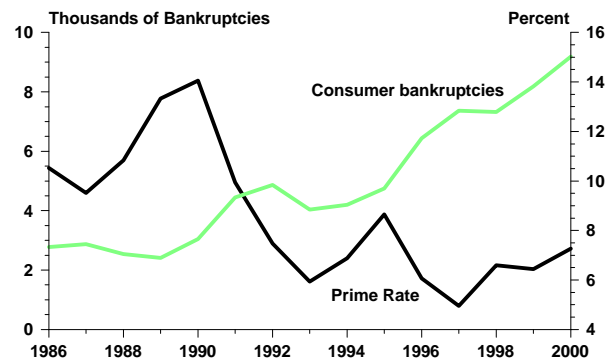
Generally, the number of business bankruptcies has trended fairly closely with the direction of the Prime Rate. In other words, when the Prime fell, the number of bankruptcies for businesses fell, and when the Prime went up, so too did business bankruptcies. This makes sense because with a lower Prime Rate the cost of borrowing for a business is less, which means the burden of interest payments is not as significant. With less of the revenue of a business going toward loan payments, there is more left for profit.

One might think this relationship would hold for consumer bankruptcies as well, but in fact, it appears that over the last several years the opposite has been true. The Prime Rate fell dramatically in the early nineties, spiked up briefly in 1995, then dropped again, settling between 6 and 7½ percent. In 2001, the rate underwent a significant decline dropping 3.25 points from January to December and ending up at 4.0%. By contrast, the number of consumer bankruptcies has been steadily increasing since 1990.

The number of business bankruptcies tends to follow the Prime Rate...



...while consumer bankruptcies tend to trend opposite the Prime Rate



Even with the historically low Prime Rate, the number of consumer bankruptcies has been consistently higher year-over-year compared to 2000. One possible explanation for this is that the Prime Rate is usually lowered in response to a poor-performing economy. When the economy is struggling there is usually an increase in unemployment, which in turn could lead to rising personal debt. This eventually gives rise to increased consumer bankruptcy.

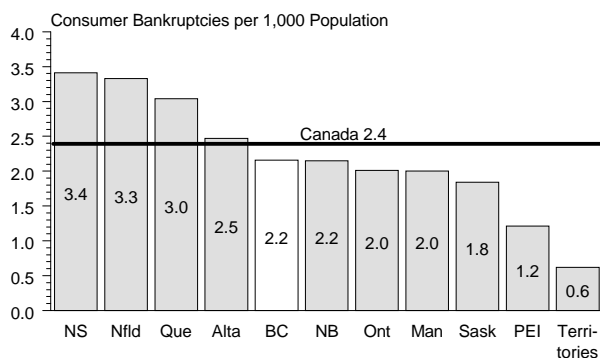
An alternative explanation is that the upward trend in consumer bankruptcies is due to factors unrelated to either interest rates or the economy, such as increased use of credit cards and the proliferation of “buy now, pay later” schemes.

Since 1990, the number of consumer bankruptcies in British Columbia has tripled.

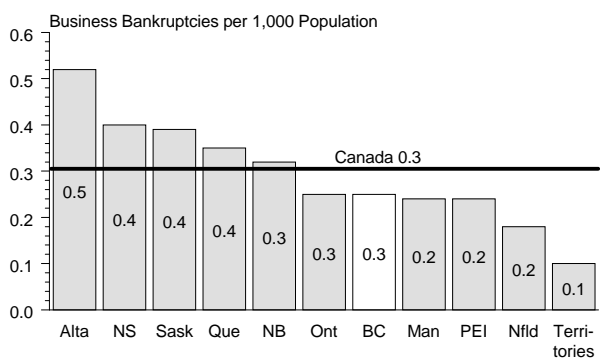
During the same period, the number for Canada also increased significantly, rising 75% from 1990 to 2000.

Despite the rapid growth in consumer bankruptcies in BC, the province still has fewer per 1,000 population (2.2) than the Canadian average (2.4), ranking fifth in the country year-to-date to November 2001. British Columbia fares even better with business bankruptcies, ranking seventh at 0.3 bankruptcies per 1,000 people. It should be noted that some of the discrepancy between provinces might be due more to the regulations governing bankruptcy that may make it easier or more difficult to declare bankruptcy, rather than the relative strength of the provincial economies.

Year-to-date to November 2001, BC has fewer consumer bankruptcies per 1,000 population than the Canadian average...



...and the same can be said for business bankruptcies



In the last quarter of 2001 business bankruptcies in BC and across the country have undergone a significant hike. In October and November 2001 there were a total of 226 business bankruptcies in BC, compared to 232 for the entire fourth quarter 2000. There

were similar increases in the numbers across the country, likely reflecting the slide of the Canadian economy into recession. The terrorist attacks of September 11th and the softwood lumber trade dispute with the United States may also be partially responsible for the sudden jump in bankruptcies.

The largest increase in the number of business bankruptcies from September to October 2001 was in “other service industries,” which includes travel services. In the wake of the terrorist hijackings, there has been a reluctance to fly on the part of many travelers. This has taken its toll not only on the airlines, but also travel agents and other industries serving tourists.

Another industry group with a large increase in bankruptcies in BC was manufacturing. Quebec also had a major rise in bankruptcies in manufacturing industries, which lends support to the idea that the softwood lumber dispute may also be having an effect, since Quebec and BC are the provinces affected the most by the duties that have been imposed on softwood lumber. It is likely that smaller sawmills could not keep running under the financial burden of the punishing duties.

In general, the industries that are most prone to bankruptcy in British Columbia are those in construction, retail trade, other services and accommodation, food and beverage. One of the reasons for this is simply due to numbers—there tend to be more of these types of industries, and therefore, there are naturally more that will fail. Another reason is that these kinds of industries are often small operations with a small margin for success or failure.

As Canada attempts to shake itself out of the economic doldrums, it is likely that the Prime Rate will remain at historically low levels and may drop even further. This should help stem the rise in business bankruptcies and, through an improvement in the economy, may even halt the disturbing rising trend in consumer bankruptcies.

Feature Articles Listed by Issue Number

01-2: *'The Benefits and Costs of a Higher Minimum Wage'* (released Nov.2001)

01-1: *'Small Business On-Line: Internet Use Among SMEs'* (released Sept. 2001)

00-4: *'Co-operatives Grew Steadily Throughout the 1990s'* (released May 2001)

00-3: *'Profile of Self-Employed in British Columbia'* (released Mar. 2001)

00-2: *'Latest Small Business Employment Numbers Show Three Year Changes'* (released Jan. 2001)

00-1: *'Some Distinctive Features of The Small Business Workplace'* (released Oct. 2000)

99-4: *'Transfers of Corporate Charters to Other Provinces Suggest Business Migration From British Columbia'* (released July 2000)

99-3: *'755 Thousand British Columbians Rely On Small Businesses For Jobs'* (released Mar 00)

99-2: *'A Quarter of All Employees In British Columbia Work For Small Employers'* (released Nov 99)

99-1: *'Self-Employment In British Columbia Takes On New Profile'* (released Sep 99)

98-4: *'Co-Operative Movement Grows Through the 1990s'* (released Apr 99)

98-3: *'The Long and the Short of Working Hours For Self-Employed'* (released Dec98)

98-2: *'People Trying Self-Employment As A Second Job'* (released Aug 98)

98-1: *'British Columbians Still Making Their Own Jobs'* (released May 98)

97-4: *'Business Bankruptcies Ease With Low Interest Rates, But Consumer Bankruptcies Continue to Climb'* (released Mar 98)

97-3: *'Co-operative Movement Grows Steadily In British Columbia'* (released Jan 98)

97-2: *'Doing Our Thing In Lotusland – The New Self-Employed In British Columbia'* (released Sep 97)

97-1: *'Immigrants Boost Self-Employment In British Columbia'* (released Aug 97)

96-3: *'Changes in Business Confidence Expressed In Numbers of New Incorporations'* (released Mar 97)

96-2: *'Bankruptcies Rise With Self-Employment and Mounting Consumer Debt Loads'* (released Oct 96)

96-1: *'Counting the Business Community in British Columbia'* (released Jul 96)