

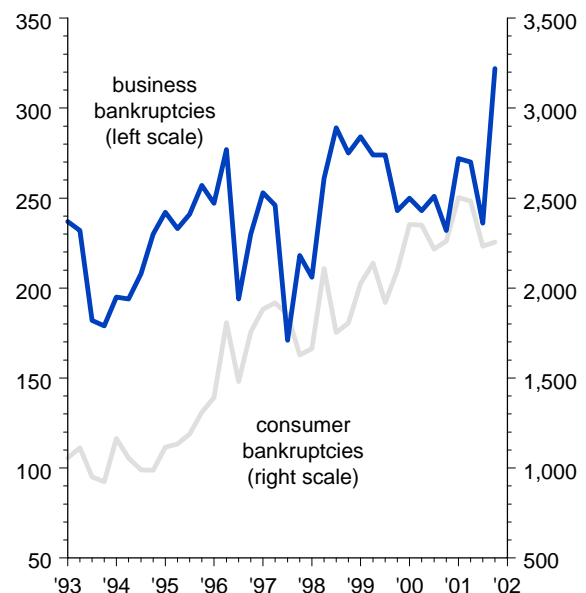
Small Business Quarterly ♦ Fourth Quarter 2001

- The number of employees of small businesses experienced a modest increase (+0.5%) in the third quarter of 2001 compared to the same period in 2000. All the growth occurred in businesses employing between 20-49 employees (+2.0%), as employment in businesses with fewer than 20 employees dropped 1.0%.
- 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) was unchanged from fourth quarter 2000 to fourth quarter 2001. Micro-businesses (i.e., those employing less than 5 people) increased 2.2%, but all other size categories experienced some decline. Businesses with 5 to 9 employees fell 1.0% and the number of businesses with 10 to 19 employees dropped 4.3%. The largest decline was in the 20 to 49 employee category, which was down 5.7%. Annually, the pattern was similar, with only 0.1% growth from 2000 to 2001 overall, but 1.1% growth in micro-businesses and declines in all other size categories.
- After five consecutive quarters of declines, new business incorporations rose slightly year-over-year in the fourth quarter of 2001. However, the annual average for 2001 was substantially off the pace in 2000 (-8.2%).
- Business bankruptcies were way up in the fourth quarter with a year-over-year

increase of 38.8%. The increase may be a combination of 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. Annually, business bankruptcies were 12.7% higher than in 2000. Consumer bankruptcies were also up (3.2%) compared to the previous year.

- The number of commercial building permits issued in BC dropped 9.7% in 2001. Industrial business permits experienced an even greater decrease, falling 25.1%. However, Victoria bucked the trend, with annual increases in both commercial (+12.9%) and industrial (+48.0%) permits.
- Urban housing starts were up 27.0% in BC in 2001, with much of that increase occurring in Vancouver (+32.4%).

Business bankruptcies increased significantly in 2001 and consumer bankruptcies continue to trend up



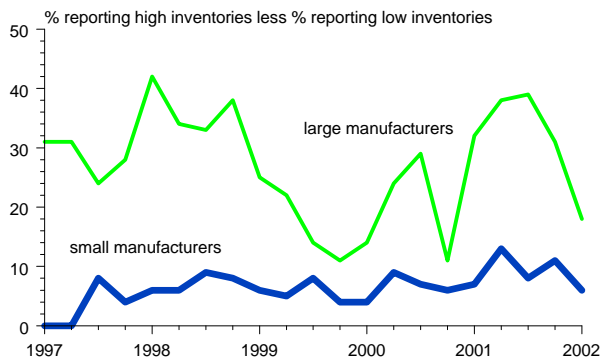
Expectations of Manufacturers Showing Signs of Improvement

At the beginning of every quarter, Statistics Canada surveys Canadian manufacturers for their opinions regarding current business conditions. The results of the most recent *Business Conditions Survey* done in January suggest that manufacturers in British Columbia are somewhat more optimistic compared to the bleak expectations for 2001. However, many manufacturers still report problems.

Inventories

On balance, manufacturers in BC feel that inventories are too high.¹ Although the percentage of producers reporting high inventories has fallen from the 35 to 40 percent range reported during 2001, there are still 24% of manufacturers that feel inventories need to be brought down.

The balance of opinion is that inventories are too high, particularly for large manufacturers



Larger manufacturers (with annual shipments of \$10 million or more) are far more likely to carry excess inventories than are smaller producers. Most of the improvement in satisfaction with inventory levels was with the larger manufacturers, with the percentage of those feeling inventories were too high dropping from 41% in the fourth quarter

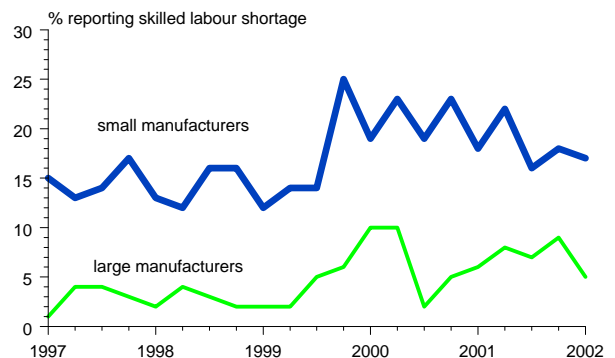
¹ Note that all figures quoted in this article are seasonally adjusted except for sources of production difficulties.

of 2001 to 25% in the first quarter of 2002. The balance of opinion of larger manufacturers (i.e., the percentage point difference between those feeling inventories are too high and those feeling inventories are too low) fell from 31 to 18.

Production difficulties

There was a slight improvement in the incidence of production impediments, with 64% of all BC manufacturers surveyed reporting no production difficulties, up from 62% in the previous quarter. Reported difficulties included working capital shortage (9% of all manufacturers), raw material shortage (9%), labour shortage (6% skilled, 1% unskilled) and other problems (17%). Once again there is a significant difference between the problems experienced by larger and smaller manufacturers. Labour shortages, particularly skilled labour, are more prone to affect smaller producers, with 21% reporting a shortage of labour (17% skilled, 4% unskilled), compared to only 6% of larger manufacturers (5% skilled, 1% unskilled). This is likely due to the fact that the larger producers can afford to pay higher wages and therefore tend to attract a greater portion of the available skilled workers.

Small manufacturers are more likely to experience a shortage of skilled labour



Despite the fact that a significant portion of manufacturers report labour shortages, only

5% of the companies surveyed suggested that they were looking to increase employment, and all of these were firms with less than 300 employees. In fact, the balance of opinion was that employment would contract, with 20% reporting that they were looking to reduce their workforce.

Orders

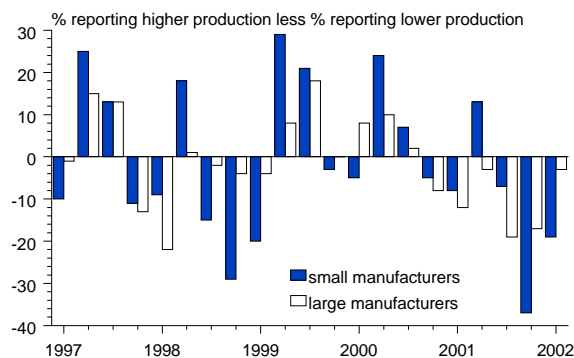
Although on balance more manufacturers expected the number of new orders to fall than to rise, far fewer companies were predicting a decline in new orders compared to the previous quarter and more firms thought orders would increase. In the fourth quarter of 2001, 49% of manufacturers were concerned about falling orders, and 10% believed the number of new orders was rising for a difference of 39 percentage points. In the first quarter of 2002, only 24% reported falling orders and 17% suggested orders were increasing, for a net difference of only 7 percentage points. Most of the improvement occurred for the larger manufacturers whose balance of opinion changed from -39 (percent of orders rising minus falling) to -5. In fact, for smaller manufacturers, the balance of opinion dropped to -30 from -28.

There was also some improvement in the percentage of producers reporting a backlog of unfilled orders. The balance of opinion increased 18 points from -48 to -30.

Production Volume

There were still more manufacturers planning to cut production (20%) than those expecting to increase production (16%), although the balance of opinion (-4) was significantly improved from that in the fourth quarter of 2001 (-19).

The balance of opinion for expected volume of production varies depending on the size of the manufacturer



Smaller producers tended to be more pessimistic on the whole with regard to anticipated production levels. Compared to larger firms where only 18% expected to reduce production, 38% of smaller firms reported that inclination, a difference of 20 percentage points. The balance of opinion varied from -19 for smaller manufacturers to -3 for the larger producers.

Outlook

Although the balance of opinion for manufacturers in British Columbia is that inventories are too high, new orders are declining and production levels will fall, the outlook is far better than it was three months earlier. More producers are reporting a rise in the number of new orders and an anticipation of ramping up production compared to the previous quarter. This may be an indication that the economy is starting to work its way out of a recession and toward recovery.

Feature Articles Listed by Issue Number

01-3: *'Business and Consumer Bankruptcies are on the Rise in BC'* (released Jan.2002)

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 2000)

99-2: *'A Quarter of All Employees In British Columbia Work For Small Employers'* (released Nov 1999)

99-1: *'Self-Employment In British Columbia Takes On New Profile'* (released Sep 1999)

98-4: *'Co-Operative Movement Grows Through the 1990s'* (released Apr 1999)

98-3: *'The Long and the Short of Working Hours For Self-Employed'* (released Dec1998)

98-2: *'People Trying Self-Employment As A Second Job'* (released Aug 1998)

98-1: *'British Columbians Still Making Their Own Jobs'* (released May 1998)

97-4: *'Business Bankruptcies Ease With Low Interest Rates, But Consumer Bankruptcies Continue to Climb'* (released Mar 1998)

97-3: *'Co-operative Movement Grows Steadily In British Columbia'* (released Jan 1998)

97-2: *'Doing Our Thing In Lotusland – The New Self-Employed In British Columbia'* (released Sep 1997)

97-1: *'Immigrants Boost Self-Employment In British Columbia'* (released Aug 1997)

96-4: *'More British Columbia Companies Shift Corporate Charters to Alberta and Ontario'* (released Apr 1997)

96-3: *'Changes in Business Confidence Expressed In Numbers of New Incorporations'* (released Mar 1997)

96-2: *'Bankruptcies Rise With Self-Employment and Mounting Consumer Debt Loads'* (released Oct 1996)

96-1: *'Counting the Business Community in British Columbia'* (released Jul 1996)