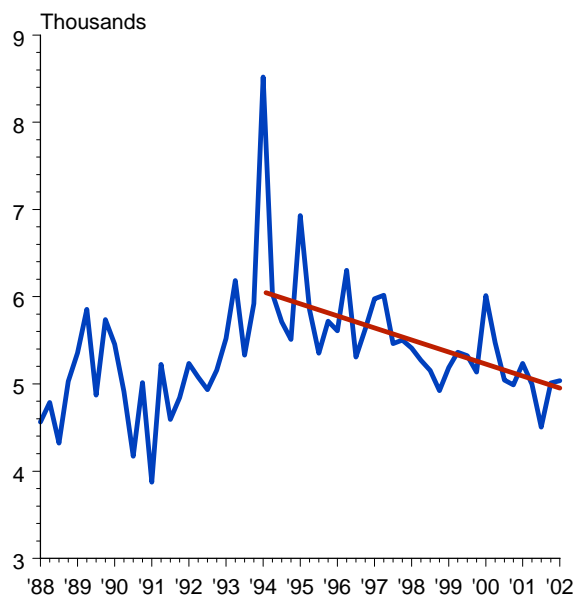


Small Business Quarterly ♦ First Quarter 2002

- The number of self-employed in British Columbia rose once again in the first quarter of 2002, up 5.5% from the first quarter of 2001. The increase was due entirely to a jump in self-employed without paid help (+11.4% year-over-year) as the number with paid help actually declined (-5.5%).
- The number of small businesses in British Columbia (excluding self-employed persons) fell slightly (-0.2%) in the first quarter 2002 compared to the same period a year earlier. Micro-businesses (i.e., those employing less than 5 people) increased 1.9%, 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 4.3%. The largest decline was in the 20 to 49 employee category, which was down 5.3%.
- The number of employees of small businesses increased slightly (+0.2%) in the fourth quarter of 2001 compared to the same period in 2000. All the growth occurred in businesses with between 20-49 employees (+1.2%), as employment in businesses with fewer than 20 workers dropped for the third consecutive quarter (-0.3%).
- New business incorporations were down 3.8% in the first quarter of 2002, compared to the same quarter a year earlier. The 5,035 new incorporations were the lowest first quarter total since 1991.
- Business bankruptcies continued to rise in the first quarter with a year-over-year increase of 19.5%. The largest jumps were in manufacturing, construction and 'other services' industries. Conversely, consumer bankruptcies were down 1.4% compared to the first quarter of 2001.
- The number of commercial (-29.4% year-over-year) and industrial (-60.4%) building permits issued in BC continued to drop in the first quarter. However, urban housing starts were up 24.2%. Most of that increase occurred outside Vancouver, where starts were up only 6.3%.
- Interest rates bottomed out in the first quarter of 2002, with the prime rate hitting a low of 3.75% before starting to edge back up in April.
- Chartered bank business loans continued to decline in the first quarter, experiencing a 3.2% drop from first quarter 2001. The total value of loans has been falling since the beginning of 1999.

New Business Incorporations have continued to trend down after peaking in 1994



Will Retiring Boomers Lead to Labour Bust?

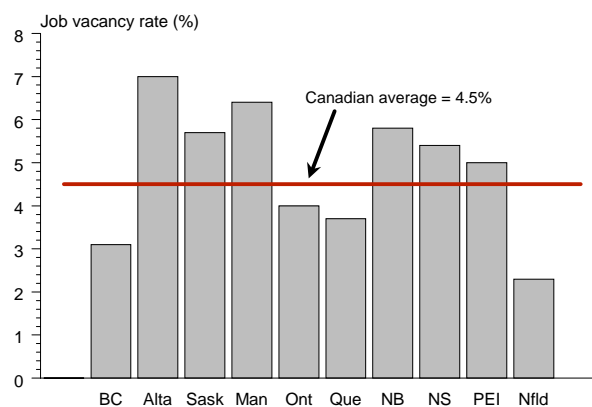
Concern over the issue of labour shortages tends to ebb and flow with the business cycle. In boom times, employers, particularly those in small and medium-sized enterprises (SMEs), tend to have problems finding qualified employees to fill job vacancies, while in times of economic recession, there is far less difficulty in this area. However, change in the economic cycle is just one of the causes of labour shortages. Structural factors such as changes to the demographics of the labour force, the introduction of new technology, the implementation of new regulations and so on, can also affect the supply of labour. While the labour supply issues resulting from the business cycle are generally self-correcting, the problems arising because of structural changes may be more serious and could require some kind of intervention on the part of both government and business.

Surveys conducted by the Canadian Federation of Independent Business (CFIB) show that labour shortages have been a steady concern for SMEs across the country for at least the last decade.¹ A BC Chamber of Commerce survey carried out in August 2001 corroborated the CFIB surveys, finding that small and medium-sized businesses in BC are having problems locating qualified workers to fill vacancies and have concerns about the issue of labour shortages.²

Although British Columbia is well below the Canadian average in terms of the rate of job vacancies according to the latest CFIB survey (January to March 2002), the CFIB estimates that there are currently 17,000 jobs available, of which approximately 13,000 have been vacant for more than four

months.³ The fact that there are this many jobs left unfilled at a time when the provincial economy has been struggling is an indication that these vacancies are more likely due to longer-term structural difficulties rather than short-term cyclical effects.

BC has a lower job vacancy rate than the Canadian average



Source: Canadian Federation of Independent Business

The sector identified as experiencing the most severe labour shortages across the country is the construction industry, with a vacancy rate of 7.2%, although rates are significant across most industries. Those in the construction and manufacturing sectors suggest that flaws in the education system are contributing to the lack of qualified labour, that the schools are not offering the trades as a viable career option. The BC Chamber of Commerce study identifies problems with the apprenticeship system that puts up barriers to SMEs through rigid regulations that make it unaffordable for these smaller businesses to institute training programs.

As society continues to evolve technologically, employers will likely demand a greater level of skill and there will be a larger number of occupations requiring advanced training. In addition, increased globalisation will mean that there will be more competition

¹ CFIB, "Help Wanted: Results of CFIB Surveys on the Shortage of Qualified Labour," February 2001; and CFIB, "Help Wanted: Update: Labour Shortages Persist in the SME Sector," April 2002.

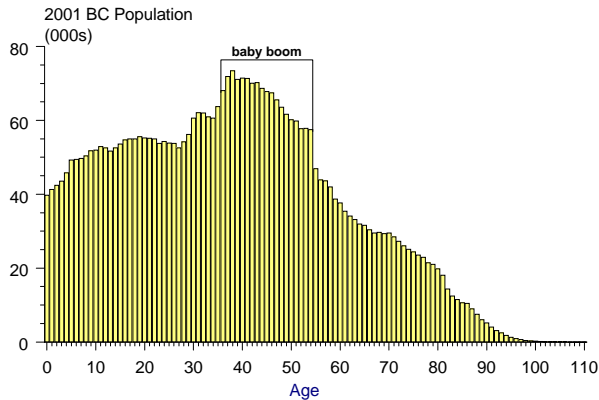
² British Columbia Chamber of Commerce, "Closing the Skills Gap," April 2002.

³ CFIB, "Help Wanted: Update: Labour Shortages Persist in the SME Sector," April 2002.

for these highly skilled people. This suggests that more flexibility in regulations and a greater emphasis on education and training will be essential if labour shortages in some industries are to be avoided. These shortages could prove damaging to the economy if they should occur. According to the CFIB study, "Two-thirds of the firms that hired during the last year (67 per cent) stated that their firm's *long-term growth* is harmed by a lack of labour with the right skills."⁴

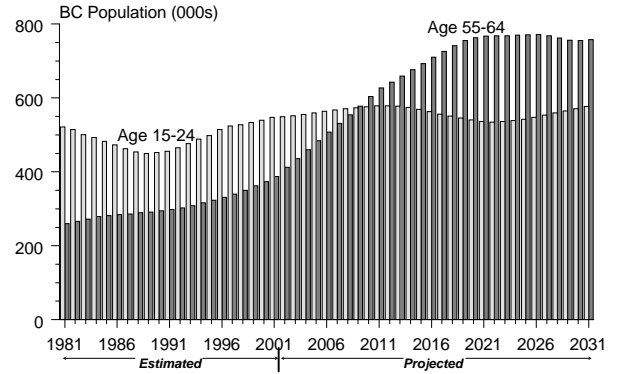
In addition to skills shortages, BC and the rest of Canada are also facing a shortage of workers regardless of skill level. The leading edge of the population bulge known as the baby boom is nearing retirement. This means that over the next five to ten years record numbers of people will be retiring leaving a significant number of job openings.

The baby boom cohort is inching toward retirement



The problem arises from the fact that with the retirement of the baby boomers, the labour pool available to replace them will be shrinking. Historically, the number of potential new entrants into the workforce (aged 15 to 24) has been well in excess of the number of people readying for retirement. The chart below shows that within the next 10 years this will no longer be the case.

The proportion of people entering retirement age will soon overtake the proportion of potential entrants into the workforce

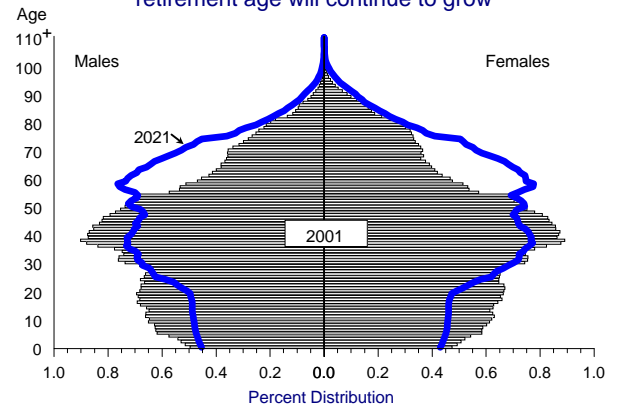


Source: BC Stats Population Projection 02/05

The number of 55 to 64 year olds is about to take off as baby boomers enter this age group. At the same time, the number of 15 to 24 year olds will remain fairly flat, meaning not only will the number of potential retirees exceed the number of new entrants into the labour force, but the gap will continue to widen for several years.

While immigration of skilled workers is an important component in addressing the impending labour shortage, it will be insufficient to solve the problem. Even with immigration, the number of people over 65 will continue to grow as a proportion of the population.

Even with immigration, the proportion of the BC population of retirement age will continue to grow



Source: BC Stats Population Projection 02/05

The ageing population will have a serious effect on labour force participation. Accord-

⁴ CFIB, "Help Wanted: Results of CFIB Surveys on the Shortage of Qualified Labour," February 2001, p.6.

ing to a forecast developed by BC Stats,⁵ even if participation rates remain unchanged from their present levels, labour force participation in BC will decline substantially. This is because there tends to be far less labour force participation among older age groups.

It may seem that based on today's labour force structure, British Columbia could be doomed to suffer severe labour shortages; however, this does not have to be the case. The labour force will evolve over time as it has in the past. Forty years ago there was relatively little female participation in the labour force and retiring before the age of 65 was virtually unheard of. Now women are an integral part of the workforce and early retirement is reasonably common.

In the future, it is likely that there will be far more flexibility in employment. Employers will recruit labour from groups that have to this point been under-represented in the labour force, such as people with disabilities and the elderly. Early retirement will probably be less of an option and perhaps a mandatory retirement age will be a thing of the past, allowing older workers who wish to continue working to do so. There will likely be more opportunities for part-time work as well as other flexible work arrangements, such as working from home. Increases in productivity through investment in capital may also help alleviate some of the labour shortage.

This should not be construed as supporting a "don't worry, be happy" approach, however. These kinds of labour force adjustments take time. Also, as the demographic make-up of the province changes, the kinds of goods and services needed also change. An ageing population will undoubtedly put pressure on the health care system, which will result in an increased demand for health care professionals. The increasing techno-

logical requirements of many types of employment will probably lead to a greater demand for educators. Highly skilled professions like these require substantial lead-time for training, not to mention a significant commitment on the part of government and business to provide that training.

The combination of demographic ageing, an increasingly technological society and the shift toward globalisation will result in a far different labour situation than has been experienced in the past. Consequently, it is no longer an option to turn a blind eye to the problem and expect the normal market adjustments to work things out. However, with some innovative approaches and cooperation among government, business and labour, the doomsayers' predictions of massive labour shortages should be avoidable.

⁵ Dan Schrier, "British Columbia Labour Force Participation Rate Model," Population Section, BC Stats, June 2000.

Feature Articles Listed by Issue Number

- 01-4:** *'Expectations of Manufacturers Showing Signs of Improvement'* (released Mar.2002)
- 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)