BRITISH COLUMBIA

BC STATS

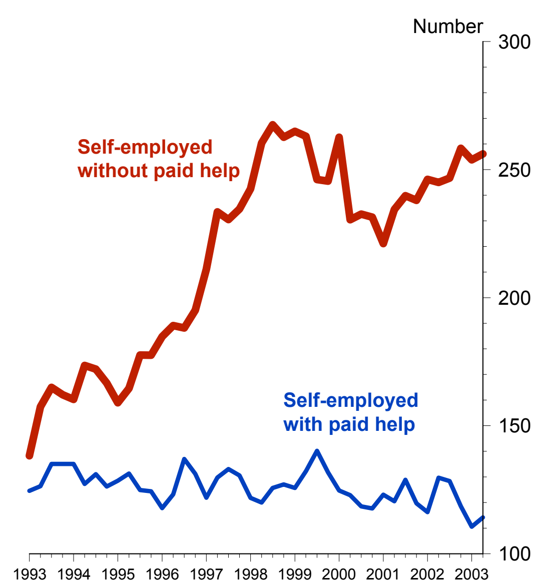
Ministry of
Management Services

Dan Schrier
(250) 387-0376
Dan.Schrier@gems3.gov.bc.ca
September 2003
Issue: 03-2

Small Business Quarterly ◆ 2nd Quarter 2003

- Employment in all British Columbia businesses climbed 2.4% in the second quarter compared to the same period in 2002. At 2.0%, small business employment grew at a slightly slower rate than that of larger businesses (+2.7%). The strongest growth was in businesses employing between 20 and 49 people (+2.9%).
- The number of self-employed in BC declined marginally (-0.3%) in the second quarter. Strong growth of 4.5% in the number of self-employed without paid help was offset by a sharp drop of 11.9% in self-employed with paid employees.
- The number of small businesses in BC (excluding self-employed persons) increased marginally in the first quarter (+0.6%) compared to the same period in 2002. Robust growth in businesses with 5-49 employees (+3.1%) offset a 1.1% drop in businesses with fewer than five employees.
- New business incorporations continued to expand, jumping 4.1% compared to the second quarter of 2002. This is the fifth straight quarter of year-over-year growth.
- The number of business bankruptcies fell substantially in the second quarter, dropping 15.4% from the same period a year earlier. Consumer bankruptcies also edged down (-0.4%).
- The value of both commercial (-11.4%) and industrial (-10.0%) building permits issued in BC declined in the second quarter. Sharp drops in permits issued in Vancouver were a big part of the decline with commercial permits falling 40.8% and industrial permits plunging 61.8%. In Victoria, commercial permits were up 4.7%, but like Vancouver, industrial permits experienced a substantial decline, falling 56.5%. However, the outlook for the third quarter is for a substantial leap in the value of industrial permits in Victoria as the value of permits issued in July skyrocketed to over $10 million, a 381.9% increase over July 2002. The reason for the jump was a $9.8 million permit for a utility building in Langford.
- The number of chartered bank business loans in BC continued to decline, dropping 2.5% in the second quarter compared to the same quarter in 2002. Loans of smaller denominations experienced the largest declines. Those valued at less than $200,000 dropped 6.7%, while those valued between $200,000 and $500,000 fell 7.8%.

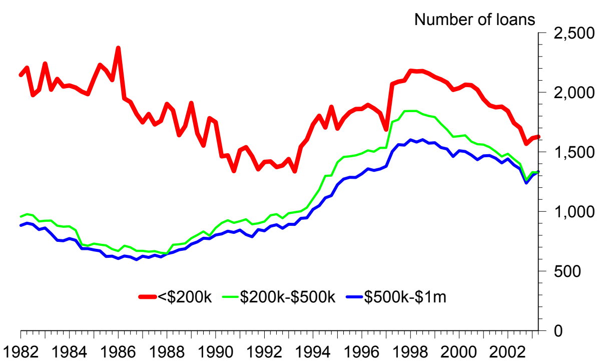
Most of the increase in self-employment over the past decade had been among those working without paid help



Chartered Bank Business Loans Continue to Decline

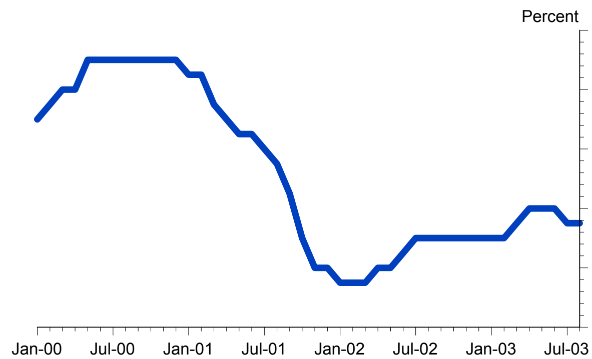
Chartered bank business loans in British Columbia have been on the decline since 1998, particularly for loans valued at less than a million dollars, which is generally the size range for loans to small and medium-sized enterprises (SMEs). Even with the relatively low prime lending rates experienced over the last couple of years, the number of loans to SMEs has been falling. There are a couple of possible reasons for this: either the chartered banks are approving fewer loans or the SMEs are not requesting as many.

Chartered bank business loans in BC have been falling since 1998



Based on the results of different surveys of SMEs, the answer may be a combination of both these possibilities. According to a survey by the Canadian Federation of Independent Business (CFIB), there has been a steady decline in the number of small businesses seeking financing across the country in the last decade.[1] The study suggests that the trend has been unrelated to the business cycle and could be due to businesses seeking other forms of financing.

The prime lending rate has remained relatively low over the last couple of years



According to the report, the highest demand for financing derives from younger firms, but at the same time, these firms are the most likely to have their requests for loans denied. There is also a strong correlation between employee size and loan rejection. Businesses with fewer than five employees are over three times more likely to have their application for a loan denied than those with between 50 and 99 employees, and more than five times more likely than businesses with over 100 employees.

As a result, small, young, high-performing businesses are the most underfinanced type of business. In British Columbia, businesses fitting this description would include those in the high technology sector, which is often heralded as a growing, vital part of the provincial economy. The difficulty in securing loans is exacerbated further for these types of businesses by the fact that the British Columbia/Yukon region has the lowest debt approval rate in the country.[2] This problem underscores the need for other types of financing such as, for example, venture capital.

[1] Bruce, Doug. *Banking on Entrepreneurship: Results of CFIB Banking Survey*, Canadian Federation of Independent Business, March 2001.

[2] *Small and Medium-Sized Enterprise (SME) Financing in Canada*, Government of Canada, 2002.

According to a federal government study on SME financing, only 2.4% of reporting SMEs in the country made a request for risk capital in 2000.[3] However, even this number may be inflated due to the way the survey was worded and the fact that government grants were grouped together with venture capital.

The same study suggests that while loans from chartered banks are still one of the main sources of debt for small businesses, there is a waning demand for them. Some of the reasons for the decline in demand for chartered bank business loans include an increase in the use of equity financing, a rise in lease financing (for things like automobiles, machinery and equipment, computers and other office equipment), more reliance on loans from family and friends and a movement toward other financial institutions like credit unions where approval rates for loan requests are higher. For smaller firms, another option that is often employed is the use of short-term debt instruments like credit cards.

Small businesses are not only moving to credit unions for loans, but also for financial services in general. The CFIB survey asked businesses to rank financial institutions in several areas, including level of financing, lending terms, service charges and so on, and in most cases the big banks ranked below credit unions and trust companies. The one area where the big banks were given top marks was with regard to on-line banking services; however, two-thirds of the survey's respondents did not consider on-line banking to be a substitute for branch banking, preferring face-to-face contact. SMEs complained about poor service, unfair service charges and lack of available credit as reasons for moving away from the chartered banks to credit unions.

There is a certain irony in all this in that there seems to be a movement by the large Canadian banks away from lending to large corporations to concentrating their services on those corporations that do other business with them.[4] If larger corporations share the opinion of the SMEs, this does not bode well for this strategy.

The combination of the banks' reluctance to give loans to firms with which they do not do other business and the movement of small businesses toward other financing alternatives may be a signal that chartered bank business loans may not experience a rebound anytime soon.

[3] Ibid, p. 11.

[4] Freedman, Charles and Walter Engert. *Financial Developments in Canada: Past Trends and Future Challenges,* Bank of Canada Review, Summer 2003.

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