

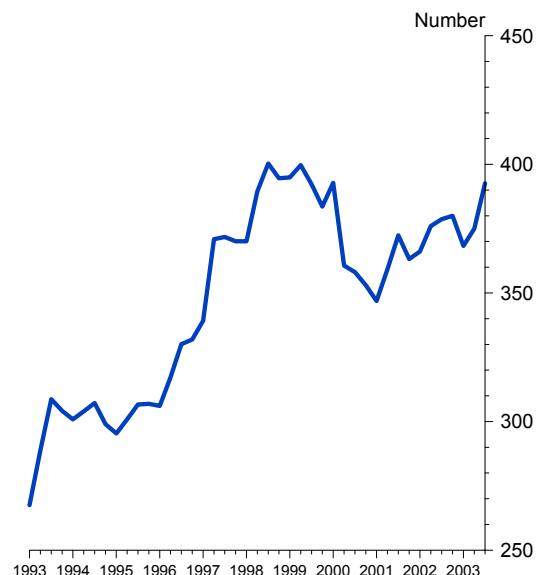
## Small Business Quarterly ♦ 3<sup>rd</sup> Quarter 2003

- The number of self-employed in BC experienced significant growth in the third quarter (+3.7%). Both self-employed with (+3.0%) and without (+4.4%) paid help increased, such that the total number of self-employed (392,600) was at its highest point since the first quarter of 2000.
- The number of small businesses in BC (excluding self-employed persons) increased in the second quarter (+1.2%) compared to the same period in 2002. Robust growth in businesses with 5-49 employees (+2.9%) offset a 0.8% drop in businesses with fewer than five employees.
- 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%).
- For the sixth consecutive quarter, the number of new business incorporations expanded, jumping 7.5% over the third quarter of 2002.
- The number of business bankruptcies continued to fall, dropping 4.2% from the same period a year earlier. Consumer bankruptcies followed suit, dipping 4.9%.
- The value of commercial building permits issued in BC climbed by a third (33.1%) in the third quarter. Meanwhile industrial building permits declined 4.7%. A sharp drop in permits issued in Vancouver (-40.2%) was the main contributor to the

drop in the value of industrial permits. Conversely, in Victoria industrial permits soared, rising 445.6% on the basis of over \$10 million in permits issued in July. 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 remained virtually unchanged in the third quarter compared to the same period in 2002 (-0.1%). However, loans valued at less than \$200,000 plunged 15.1%, while those valued between \$200,000 and \$500,000 fell 7.7%. Larger denomination loans (over \$500,000) increased 3.8% to offset most of the decline in smaller loans.

The number of self-employed in BC jumped significantly in the 3<sup>rd</sup> quarter, reaching its highest point in over three years



## Cost of Insurance is the Top Concern for Small Business in BC

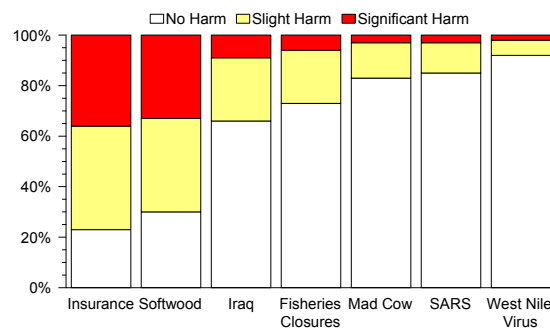
Small businesses in British Columbia have had to face a number of challenges in 2003.

- The softwood lumber dispute with the United States continues to be a concern for the BC forest sector, but particularly for the smaller players like independent sawmills and remanufacturers.
- The discovery of bovine spongiform encephalopathy (more commonly known as “mad cow” disease) was a big blow to the cattle industry and although some restrictions have been lifted, there are still export bans on many cuts of meat and certain live animals.
- The war in Iraq also affected small businesses, partly due to reluctance of people to travel away from home and partly due to American reaction to Canada’s refusal to participate. Some businesses were unable to sell their wares south of the border because their customers disagreed with Canada’s position on the war.
- The SARS epidemic affected the number of tourists coming to BC and may have resulted in reduced revenues for businesses catering to tourists.
- The rash of forest fires in BC’s interior affected business in a couple of ways. Potential customers, be they tourists or locals, were prevented from accessing some businesses. Also, some businesses suffered fire damage that in some cases caused the closure of that business.
- The Canadian dollar has experienced rapid appreciation, which has hurt some businesses dependent on

exports, including the tourism sector. However, there are also businesses that have benefited from the higher dollar. According to a survey performed by the Canadian Federation of Independent Business (CFIB) in December, 35% of BC small businesses said a higher dollar would hurt their business, while 30% said it would help, with the remainder saying it either had no impact or they did not know.<sup>1</sup>

Despite all these unexpected events, the issue that concerns small businesses in BC the most is rising insurance costs. According to a June CFIB survey, in BC, the cost and availability of insurance caused significant harm to 36% of respondents’ businesses and slightly harmed a further 41%.<sup>2</sup> By comparison, the softwood lumber dispute was reported to have significantly harmed 33% of businesses and slightly harmed 37%. The situation in Iraq was the next most significant concern, with 9% reporting significant harm and 25% suffering slight harm.

Insurance cost and availability caused more harm to BC small businesses than any other issue



Source: Canadian Federation of Independent Business

<sup>1</sup> Mallett, Ted. *Quarterly Business Barometer*, 2003 No. 4, Canadian Federation of Independent Business (December 2003).

<sup>2</sup> Mallett, Ted. *Quarterly Business Barometer*, 2003 No. 2, Canadian Federation of Independent Business (June 2003).

In a separate survey by the Council of Tourism Associations of British Columbia (COTA), the result was the same: the most significant factor harming respondents' businesses was reported to be the cost and availability of insurance. Over half of tourism businesses surveyed reported a problem with insurance. The COTA survey found that of the 453 businesses surveyed, 12% could not access any kind of insurance at all.<sup>3</sup>

Starting with the events of September 11, 2001 and continuing with a spate of natural disasters such as hurricanes on the east coast, droughts in the prairies and the fires sweeping through Western Canada and some western states, insurance companies have had to pay out far more than usual in the last few years, and this has resulted in substantial price inflation. Insurance companies are being far more reticent about selling policies to high-risk clients, or at least, what they perceive as high-risk.

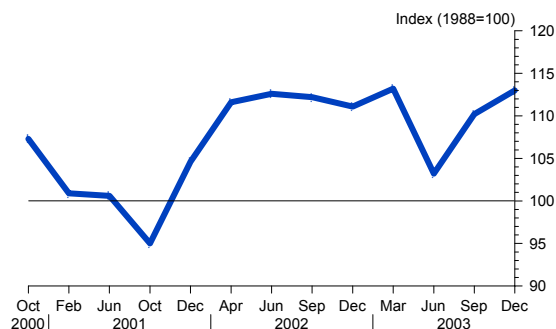
Premiums have increased on virtually every type of commercial insurance, including automobile, property, business interruption, etc. With the small operating margins of many small businesses, this dramatic increase in cost could turn a business' balance sheet from a position of profit to one of loss. Considering that about 98% of businesses in BC are classified as a small business (i.e., employing less than 50 people), this could prove to be a serious challenge to the provincial economy.

Across Canada, according to the CFIB survey, the industries with the greatest incidence of harm (either significantly or

slightly) due to insurance costs and availability are the transportation services (86%), financial services (83%) and construction (82%) industries. Business services (66%), social services (67%) and the hospitality sector (67%) were the industries least harmed, although two-thirds of the businesses in these industries had problems with insurance.

Despite all the difficulties experienced by small businesses in BC over the last year, on balance, their expectations for the next 12 months are positive. According to the CFIB Quarterly Business Barometer Index, after hitting its lowest point since the aftermath of September 11<sup>th</sup> in June, business confidence rebounded in September and again in December.<sup>4</sup> Expectations in BC have recovered to the point where they were in March.

After slumping in the second quarter, business confidence in BC rebounded in the third quarter



Source: Canadian Federation of Independent Business

The fact that BC businesses are regaining confidence is a good sign that the impact of the external events of the last couple of years should prove to be temporary; however, the threat of reduced access to insurance and soaring rates could prove to be a more long-term problem and could have a sustained impact, potentially affecting profitability for years to come.

<sup>3</sup> "B.C. Symposium on the Trail of Tourism's Insurance and Financing Challenges," *Tourism News*, Issue 14, Volume 2, Council of Tourism Associations of British Columbia (Oct. 29, 2003).

<sup>4</sup> See note 1.

## Recent Feature Articles Listed by Issue Number

- 03-3:** *'Cost of Insurance is the Top Concern for Small Business in BC'*  
(released Dec 2003)
- 03-2:** *'Chartered Bank Business Loans Continue to Decline'*  
(released Sep 2003)
- 03-1:** *'Moonlighting in British Columbia'*  
(released Jun 2003)
- 02-4:** *'Stay-at-Home Workers'*  
(released Mar 2003)
- 02-3:** *'Profile of Women Entrepreneurs'*  
(released Jan 2003)
- 02-2:** *'A Comparison of Small Business Size, 1993 and 2001'* (released Sep 2002)
- 02-1:** *'Will Retiring Boomers Lead to Labour Bust?'* (released Jun 2002)
- 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 Sep 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 Jul 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 Dec 1998)
- 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)