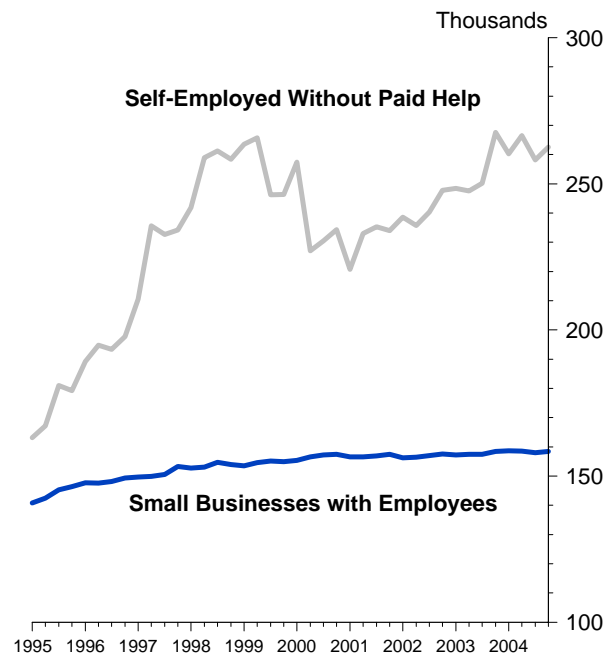


## Small Business Quarterly ♦ 4<sup>th</sup> Quarter 2004

- There was a slight drop (-0.2%) in the number of small businesses in BC (excluding self-employed persons) in the fourth quarter of 2004 compared to the same period a year earlier. However, the decline was not enough to offset growth earlier in the year, as the small business count edged up 0.5% in 2004.
- The number of self-employed in BC also increased in 2004, rising 4.7%. Most of the growth was for those with paid help, which climbed 9.5%, while those without paid help increased 3.3%. In the fourth quarter, there was a 2.3% jump in total self-employed compared to the same quarter in 2003. For the first time in three years, the number of self-employed without paid help fell, dropping 1.9% in the fourth quarter.
- Year-over-year growth in small business employment was 2.3% in the *third* quarter, only slightly higher than the 2.2% change in overall employment. Businesses with 1 to 19 employees recorded the strongest increase in employment, at 3.0%.
- The number of new business incorporations in BC surged 9.4% in 2004. The 8.4% jump in the fourth quarter marked the 11<sup>th</sup> consecutive quarter in which there has been an increase in new incorporations.
- Both business and consumer bankruptcies fell sharply in 2004. Business bankruptcies dropped 8.1% over the year, despite an identical movement in the other direction (i.e., an 8.1% rise) in the fourth quarter. A 12.2% dip in consumer bankruptcies in the fourth quarter contributed to a double-digit decline of 10.7% over the entire year.
- Mortgage rates remained low throughout 2004, as is reflected in housing starts in BC, which soared 24.9% to their highest level in a decade.
- Both commercial (+8.7%) and industrial (+34.4%) building permits increased significantly in 2004. A significant portion of the jump in industrial permits occurred in the fourth quarter as there was a 75.3% rise in permits issued compared to the same quarter in 2003. A 165.4% boost in permits issued in Vancouver was responsible for the growth.
- Chartered bank business loans under \$200,000 increased in 2004 (+2.5%), after six years of declines.

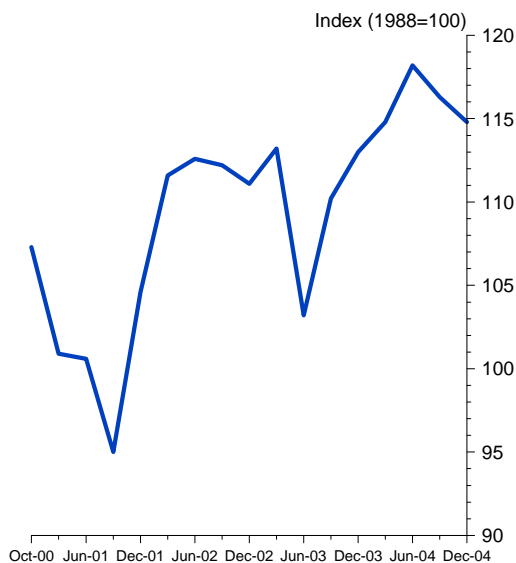
Both small businesses with employees and self-employed without paid help increased in 2004



## Small Business Outlook

On balance, small businesses in British Columbia have a fairly positive outlook for the success of their enterprises in 2005; however, there are areas of concern. According to the Canadian Federation of Independent Business (CFIB) quarterly business barometer, the confidence of BC small and medium enterprises waned slightly in December, although BC business owners are still among the most positive in the country.<sup>1</sup>

The outlook of BC businesses has weakened, but they remain among the most upbeat in the country



Source: Canadian Federation of Independent Business

The level of optimism expressed by businesses depends largely on the type of industry in which they operate. The rapid rise in the value of the Canadian dollar relative to its American counterpart has had a strong influence on the profitability of many enterprises. For some of these, particularly those involved in exporting goods or services to the United States, the effect has been negative, while for others, the higher

dollar has had a positive influence. Accordingly, sectors that are identified in the CFIB survey as being the least optimistic include hotels and motels, which are heavily dependent on tourists and therefore are vulnerable to exchange rate effects, while those that are most optimistic include service providers that generally cater to domestic patrons, such as barbershops and beauty salons.

Although BC's economy is largely export-oriented, only a small percentage of BC small businesses are exporters. According to Statistics Canada's *Exporter Registry*, less than two percent of BC small businesses export goods to international destinations. Unfortunately, there is no hard data on what proportion export services, but for those businesses that are mainly involved in retailing or in manufacturing goods for consumption within Canada, the higher dollar may actually be a blessing. The appreciation of the dollar has made it cheaper to import equipment and supplies from the United States, which may reduce the cost of doing business for these enterprises by allowing them to boost productivity through capital improvements or to increase demand for their products through reduced prices.

### Expectations of manufacturers

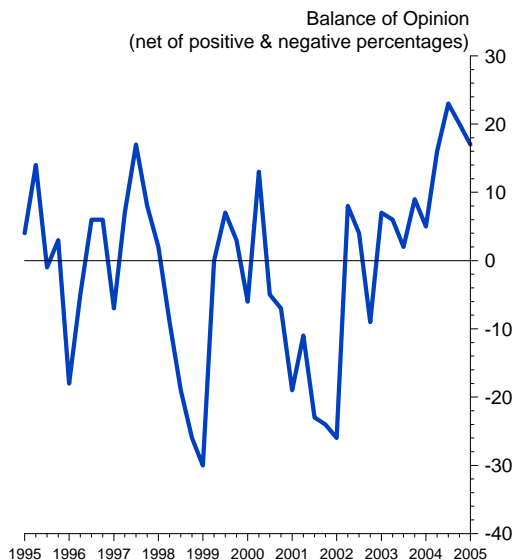
Statistics Canada surveys Canadian manufacturers for their opinions regarding current business conditions at the beginning of every quarter. According to the latest *Business Conditions Survey* done in January, small manufacturers in BC (those with annual shipments of less than \$10 million) have fairly good expectations with regard to the level of production they expect to see in the coming months. This is in stark contrast

<sup>1</sup> Mallett, Ted. Quarterly Business Barometer, 2004 No. 4, Canadian Federation of Independent Business (December 2004).

with larger manufacturers, who have flipped their expectations from a more positive outlook for the fourth quarter of 2004, to a very negative expectation for the first quarter of 2005. In other words, a far larger percentage of large producers (27%) had expectations that production volumes would be too low, compared to only 12% that thought volumes would be too high, for a net balance of opinion of -15 (i.e., the percentage point difference in the two extremes). Small manufacturers, on the other hand, had a balance of opinion of +12.

The same was true for the expected number of new orders. While, on balance, small producers expect an increase in new orders (+17), larger manufacturers have gone from positive expectations of +13 for the fourth quarter of 2004 to a slightly negative outlook of -3 for the first quarter of 2005.

The expectation of small BC manufacturers is for an increase in orders for their products



Source: Statistics Canada, Business Conditions Survey

Inventory levels are another indication of the split between large and small producers. While, on balance, inventories are just about where they should be

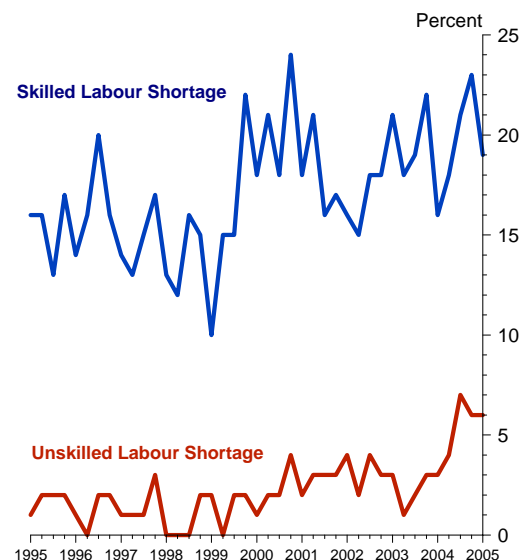
for small manufacturers, larger producers tend to have more of a problem with excess inventories.

The variation in expectations between large and small producers may be related to the value of the dollar and the likelihood that larger manufacturers are probably more apt to export their goods than are smaller enterprises.

### Production difficulties

Both large and small manufacturers report production difficulties to some degree, but this is one area where the smaller producers seem to have more trouble, particularly when it comes to attracting labour. This is especially true of skilled labour, where, on average, about a fifth of small producers report difficulties with shortages. This has been a reasonably consistent problem, but seems to have worsened in the last few years. Shortages of unskilled labour have not usually been a problem, but in the last year more small producers are reporting difficulties in recruiting unskilled workers.

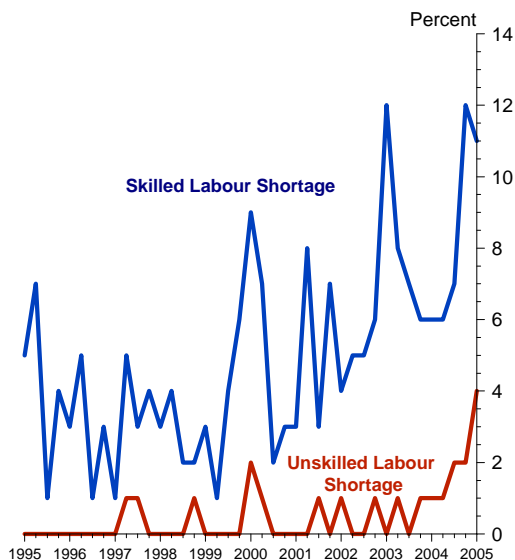
Small BC manufacturers are reporting increasing difficulty in finding both skilled and unskilled labour



Source: Statistics Canada, Business Conditions Survey

Although larger manufacturers seem to have fewer problems with regard to labour shortages, they have been experiencing increased difficulty in this area in the last couple of years. Skilled labour shortages are far more common now than they were just a few years ago and shortages of unskilled labour have gone from virtually nil to becoming a problem for 4% of large producers.

Larger manufacturers are also experiencing problems recruiting workers



Source: Statistics Canada, *Business Conditions Survey*

As the leading edge of the baby boom generation starts to retire in large numbers in the next few years, the problem with labour shortages could be exacerbated. These firms will either have to find new ways to attract and retain workers, or improve the productivity of the employees they already have. Perhaps the lower cost of imports resulting from the higher exchange rate will be helpful in this regard, as firms can now buy machinery and equipment from the US at significantly reduced prices compared to just a couple of years ago.

## Conclusion

The results of the CFIB survey of its members and Statistics Canada's *Business Conditions Survey* seem to indicate that the majority of small businesses in BC, including small manufacturers, are fairly upbeat about their prospects in the coming months. While production difficulties such as labour shortages are definitely a long-term concern, the outlook seems positive for the short-term, at least. The exception may be for businesses that are affected by the upward movement of the exchange rate, such as tourism-related enterprises and exporters.

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