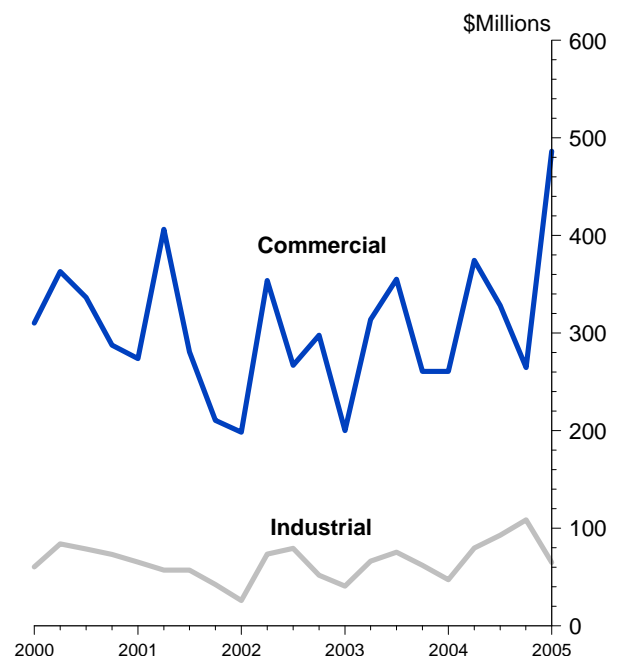


Small Business Quarterly ♦ 1st Quarter 2005

- The number of small businesses in BC (excluding self-employed persons without paid help) fell slightly (-0.5%) in the first quarter of 2005 compared to the same period a year earlier. The number of small businesses with employees has remained fairly stable over the last few years and growth in small business in the province continues to be driven mainly by the swelling ranks of self-employed.
- There has been a year-over-year increase in self-employed workers in BC in each quarter since the first quarter of 2001. In the first quarter of 2005, the number of self-employed in BC jumped 9.4%. Most of the growth was for those with paid help, which climbed 23.1%, while those without paid help increased 2.9%.
- Small business employment edged up 0.6% in the first quarter of 2005, lagging behind the 2.2% rate of change in overall employment. Businesses with 1 to 19 employees increased employment by 1.7%, but those with between 20 to 49 employees cut back employment 1.9%.
- The number of new business incorporations in BC continued to climb in the first quarter, rising 10.3%. There has been an increase in new incorporations in each quarter over the last three years (i.e., starting in the second quarter of 2002).
- Business bankruptcies dropped sharply in the first quarter (-18.0%), more than wiping out the 8.1% year-over-year gain in the fourth quarter of 2004. Consumer bankruptcies continued their downward trend, slipping 4.1% in the first quarter.
- The growth in housing starts in the province slowed to 2.6% in the first quarter, the lowest rate of increase in four years. It is likely that residential construction in the province is nearing its upper limit as a result of labour shortages and an already extremely high demand.
- BC's boom in construction activity should continue as the value of both commercial (+86.6%) and industrial (+37.4%) building permits soared in the first quarter compared to the same period in 2004. Much of the growth is taking place in Vancouver where commercial building permits jumped 82.0% and industrial permits almost tripled (+195.3%). However, Victoria was no slouch either, as commercial permits grew 38.9% and industrial permits rose 66.0%.

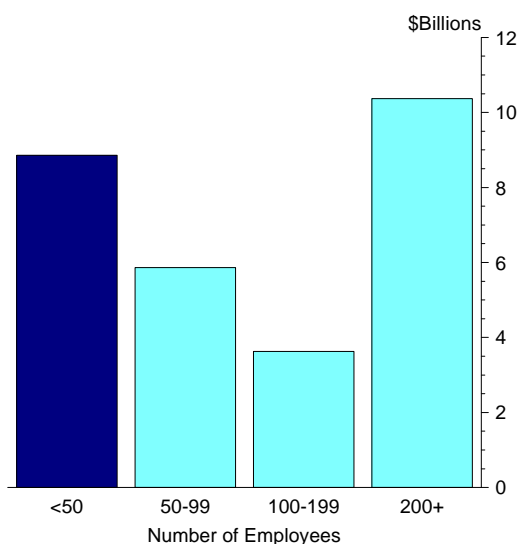
The value of building permits issued in BC soared in the first quarter



Small Businesses that Export

Although small businesses in BC are less likely to export than larger businesses, those that do are a significant presence on the export scene. Small businesses that export comprise only 1.4% of all small businesses in BC, yet they shipped about 31% of the total value of merchandise exports from the province in 2003.¹

Small businesses shipped approximately 31% of the total value of exports from BC* in 2003



*Includes data for the Territories

Source: Statistics Canada, *Exporter Registry*

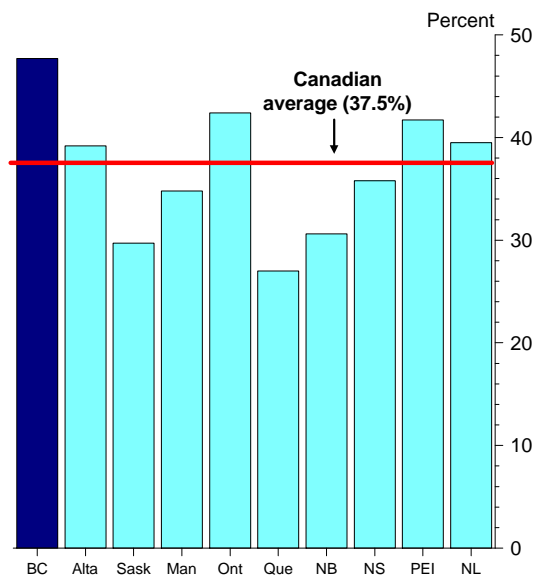
A couple of reasons why there are few small businesses that export are the high start-up costs and the fact that, in order to compete internationally, businesses need to achieve economies of scale that may not be attainable for most businesses with fewer than 50 employees. A survey of their members by the Canadian Federation of Independent Business (CFIB) confirms that market rea-

¹ Export data are from Statistics Canada's *Exporter Registry* and are confined to international exports of goods of greater than \$30,000. Data for the three northern territories are included with BC to meet confidentiality requirements. It is likely that this inclusion inflates the BC figures for small businesses by around 0.5%.

sons and high costs, including infrastructure, insurance and packaging, are among the barriers to having small and medium-sized firms participate in international trade, on both the export and import side.² Another major obstacle is global financial risk, particularly related to the fluctuation of the exchange rate.

One area where small businesses may be able to compete with larger firms on a global scale is in niche markets. Small businesses are often better suited to produce specialized items for these smaller markets, but the problem is getting the word out to customers around the world. This is where the continuing development of e-commerce may help small businesses find an export market. According to the CFIB survey, 47.7% of small and medium-sized businesses in BC have their own web site. This is well above the Canadian average of 37.5% and is the highest ratio in the country.

Small and medium-sized businesses in BC are more likely to have a web site than those in other provinces

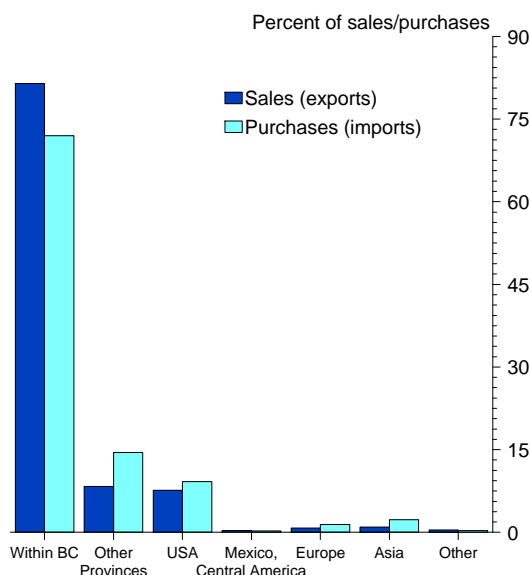


Source: Canadian Federation of Independent Business

² Canadian Federation of Independent Business, "Report on Trade" (Oct. 2004).

However, data from the CFIB survey corroborate the Statistics Canada figures with regard to the fact that, currently, only a small percentage of small and medium-sized firms engage in international trade. Over four-fifths (81%) of the firms surveyed in BC sold exclusively within the province, while a slightly smaller portion (72%) made all business purchases within BC. Another 8% sold to other provinces, and 14% made interprovincial purchases, with the remainder of sales and purchases attributed to international exports and imports.

Small and medium-sized firms in BC do most of their business within the province



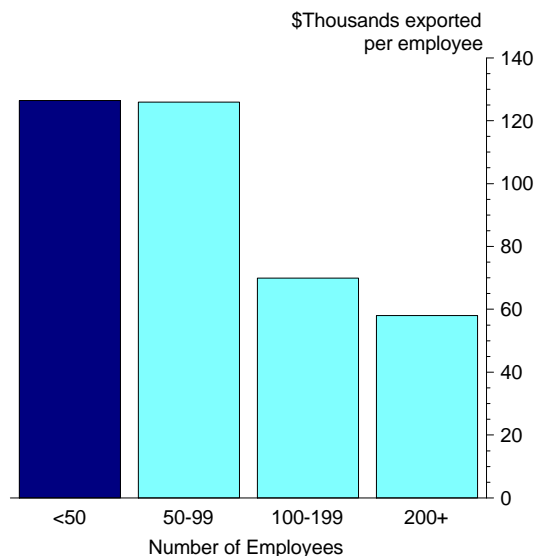
Source: Canadian Federation of Independent Business

On the other hand, the data from Statistics Canada indicate that 80% of all exporters in BC are small businesses. The fact that four-fifths of exporters have fewer than 50 employees, but export only 31% of the value of total BC exports indicates that small businesses that export tend to ship less to international destinations compared to larger businesses. Looking at the average value of exports per exporter by employee size confirms this as the average

value of exports rises with the size of firm. Small businesses averaged exports of \$1.7 million in 2003, compared to \$40.5 million for businesses with 200 or more employees.

Nevertheless, it is interesting to note that 22% of small businesses that exported were large exporters (i.e., they shipped \$1 million or more worth of goods), while 58% of exporting businesses with 200 or more employees were small exporters (shipping less than \$1 million). Also, the average value of exports per employee of a small business far exceeds that of a large business. For businesses with fewer than 50 employees, the average value of exports per worker was \$126,400 in 2003, compared to \$58,000 for firms with 200 or more employees (those with 50 to 99 employees averaged \$125,900 and those with 100 to 199 workers averaged \$69,900).

In 2003, the average value of exports per employee of smaller businesses in BC* exceeded that of larger businesses



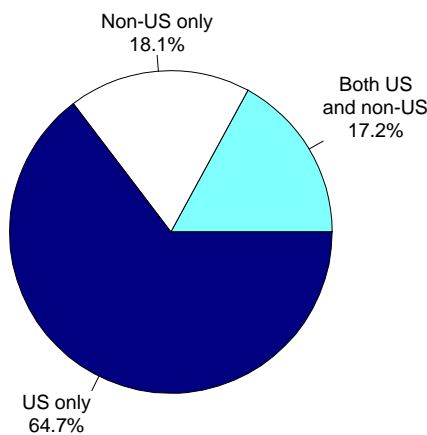
*Includes data for the Territories

Source: Statistics Canada, Exporter Registry

The main foreign destination for exported goods is the United States. This is true regardless of the size of the ex-

porter. In 2003, 82% of exporting firms with fewer than 50 employees shipped at least some of their goods to the United States. For almost two-thirds (65%) of small business exporters, the United States was the only country to which they shipped goods. Only 18% of small businesses that exported did not ship any goods at all to the United States.

BC* small businesses that exported in 2003 shipped mainly to the United States



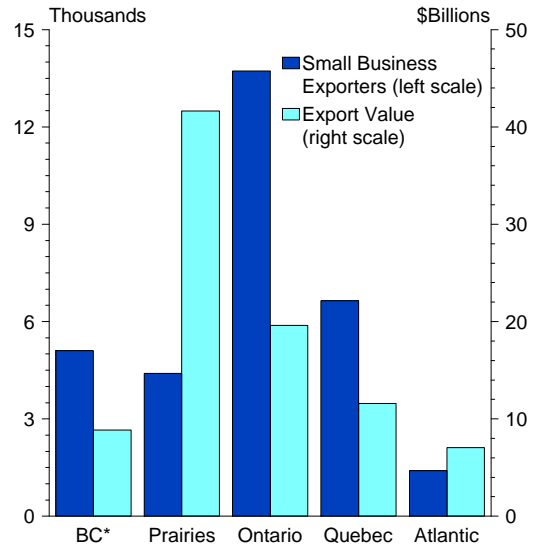
*Includes data for the Territories

Source: Statistics Canada, *Exporter Registry*

There is significant variation by region within Canada in terms of the export intensity of small businesses. In other words, in some regions, small businesses export far more by value, on average, compared to other regions. For example, while central Canada had comparable export intensity with BC – Quebec small businesses averaged \$1.7 million and Ontario firms averaged \$1.4 million compared to BC’s \$1.7 million – the numbers were considerably higher in the Prairies and the Atlantic provinces. Small businesses in the Atlantic region averaged exports of \$5.0 million, while firms in the Prairies averaged \$9.5 million. The regional differences in terms of the number of small businesses exporters and export intensity are likely

driven by the provincial variation in industry composition.

Export intensity for small businesses varies widely by region



*Includes data for the Territories

Source: Statistics Canada, *Exporter Registry*

A study by Industry Canada suggests that the relatively large export intensity of small businesses in the Prairies could be due to the oil and gas sector in Alberta. It is possible that Alberta oil and gas producers hire small firms in the finance and insurance sector to deal with exporting their product.³

Regardless of regional differences, the changing nature of the global marketplace is making exports increasingly important and evolving information technology, particularly related to electronic commerce, should help level the playing field for small businesses that wish to expand their markets and export their wares.

³ Parsley, Chris, “More Important Than Was Thought: A Profile of Canadian Small Business Exporters,” Small Business Policy Branch, Industry Canada (Dec. 2004).

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