

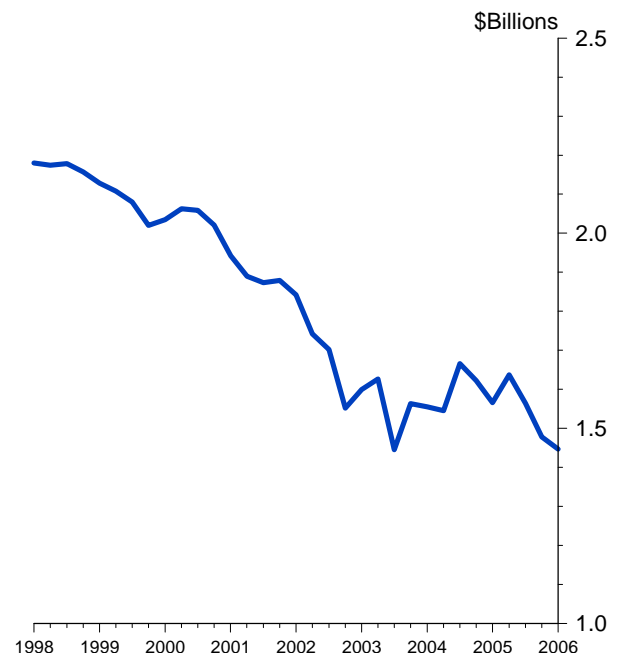
Small Business Quarterly ♦ 1st Quarter 2006

- There was a 4.5% jump in the number of small businesses in BC (excluding self-employed persons without paid help) in the first quarter of 2006 compared to the January to March period of 2005. Micro-businesses with fewer than five employees continued to supply the bulk of the growth, recording an increase of 7.0%.
- The number of self-employed workers in the province edged up 0.6% in the first quarter of 2006 compared to the same period a year earlier. The increase was entirely due to growth in the number of self-employed without paid help (+3.0%) as the count of self-employed with paid help slumped 3.8%.
- Employment in small businesses climbed 3.3% in the first quarter. The fastest growth was in the number of jobs in businesses with 20-49 employees (+4.7%), although employment growth in businesses with fewer than 20 employees was also fairly strong, at 2.7%.
- Both business and consumer bankruptcies dropped in the first quarter. Business bankruptcies were down 3.6%, while consumer bankruptcies fell 11.9%. A relatively strong economy and historically low interest rates are contributing to the reduction in business and consumer insolvencies.
- The number of new BC business incorporations jumped 16.8% in the first quarter. The count of 7,958 new incorporations in the quarter was the highest recorded since the first quarter of 1994.
- The value industrial building permits in BC climbed 4.6% in the first quarter de-

spite a 17.4% plunge in the value of permits issued in Vancouver. Meanwhile, the value of commercial building permits in BC fell 6.3%, driven largely by an 8.2% slump in permits issued in Vancouver.

- Interest rates are starting to head back up, but so far this has not had much affect on demand for new housing. Urban housing starts in BC were 27.2% higher in the first quarter of 2006 compared to a year earlier.
- In the first quarter, there was a 7.6% decline in the total value of chartered bank business loans worth less than \$200,000 (the size most likely to be pursued by small business). This drop continues a long-term trend, which likely indicates that small businesses are looking elsewhere for financing.

Chartered bank business loans valued at less than \$200,000 have been falling steadily



Now Hiring: BC's Labour Well Running Dry

By Jade Norton

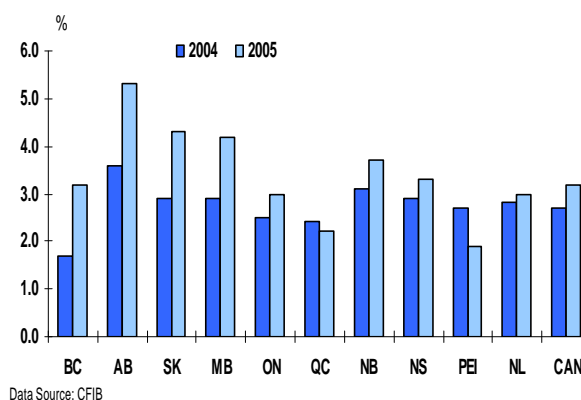
Labour shortage in BC has been a burning topic in recent months. Almost every news broadcast, newspaper and other media are buzzing about BC's hot economy and the province's parched labour pool.

It is not uncommon for the wax and wane of the business cycle to put pressure on labour supply. In the boom era of the 1980s, for example, there was imminent concern over the drying up of the province's labour pool; however, this quickly diminished with the economic recession of the early 1990s. Nonetheless, with the 2010 Olympic Games fast approaching, concerns over whether the province can meet its expectations have returned and intensified. Employers in small, medium, and large enterprises are having more difficulty finding and retaining qualified employees to fill ever increasing numbers of job vacancies.

Surveys conducted by the Canadian Federation of Independent Business (CFIB) have shown that labour shortage has been a constant and growing concern of small- and medium-sized businesses (SMEs) in BC and across Canada.¹ According to the most recent CFIB survey (July-December 2005), 52% of SMEs in Canada consider shortage of qualified labour to be a pertinent issue. In BC, over 60% of businesses state this as a major concern, up almost ten percentage points from the 51% who voiced the same worry six months prior (January-June 2005).

According to CFIB, until 2005, BC had remained well below the Canadian average in terms of its rate of job vacancies. However, according to their latest release,² BC's long-term vacancy rates jumped from 1.7% in 2004 to 3.2% in 2005, bringing it on par with the Canadian average (3.2%). This amounts to an 88.2% increase of long-term job vacancies between 2004 and 2005, the biggest among the provinces. It is estimated that there were 23,000 jobs left vacant for four or more months last year in BC and that 30% of BC businesses had at least one long-term vacancy.

Long term vacancy rates increased substantially in Western Canada between 2004 and 2005



BC is by no means the only province to be affected by long-term vacancy rates. Between 2004 and 2005, SMEs in every province, with the exception of PEI and Quebec, saw increases in vacancy rates.

Almost a quarter of a million Canadian jobs went unfilled for months at a time in 2005, as businesses experienced difficulty recruiting new workers. The vacancy rate was highest for small businesses. Although most Canadian business sectors are challenged by long-term

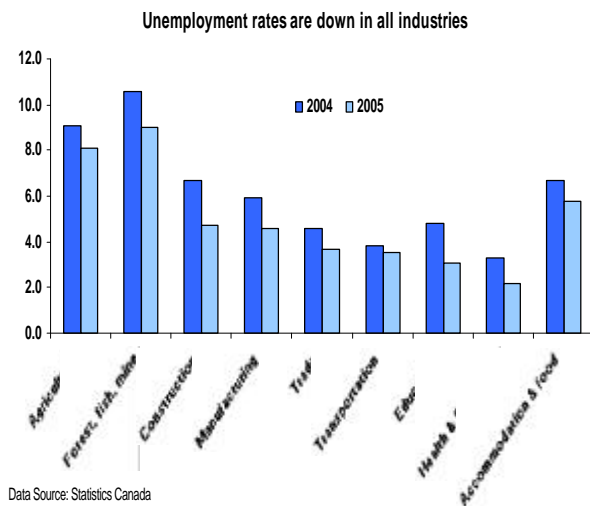
¹ CFIB Our Members' Opinions Surveys No.47-57 2000-2005

² CFIB Help Wanted: Long-term vacancies a major small business challenge. April, 2006

vacancies, some are particularly hard-hit with hiring difficulties. The sector identified by CFIB as being the most heavily impacted across the country is the construction industry which had a long-term vacancy rate of 4.7% in 2005. Other sectors affected include agriculture (3.9% long-term vacancy rate) retail (3.7%) and transportation (3.5%).

Although overall labour force participation rates have remained relatively unchanged between 2004 and 2005, they have increased among those aged 15-24 (+1.5 pp)³ and among those aged 45-64 (+0.8 pp). Participation among those in the youngest work-age cohort (15-19 years of age) increased the most between 2004 and 2005 (+2.2 pp) while participation rates in the age cohort that comprises most of BC's labour force (those aged 25-44) slipped (-1.0 pp) over the same period.

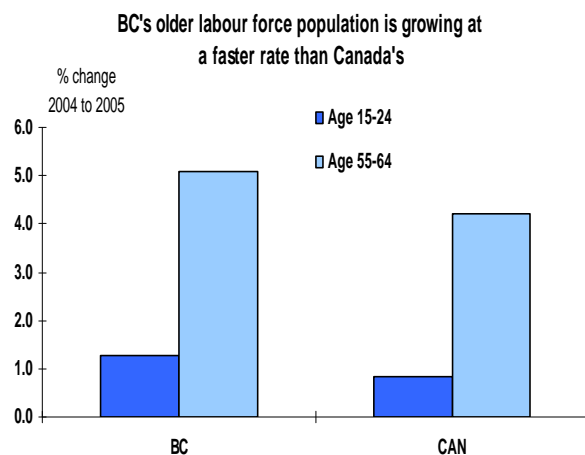
BC's unemployment rate has fallen from over 8.0% in 2003 to about 4.9% as of May of this year. Unemployment rates dropped significantly between 2004 and 2005 in virtually all major sector classifications, most notably in health care (down 1.7 pp to 2.2%) and education (down 1.7 pp to 3.1%) both of which began to recover from major slips in recent years. Construction remains the sector that has seen the most considerable declines in unemployment rates over the past few years falling from 8.8% in 2003 to 6.7% in 2004 and dropping further to 4.7% in 2005. Agriculture has also seen noteworthy drops in the past few years falling 2.5 percentage points from 2003 to 2004 and a further percentage point in 2005.



Though, generally, issues of labour supply resulting from the economic cycle tend to be self-correcting, problems arising from other areas can involve more of an effort in terms of intervention and prevention on behalf of government, business, and communities alike. The current concern over labour shortage in BC and Canada as a whole involves obvious components outside the economic cycle. Canadian employment grew for the 13th year in a row in 2005, the longest stretch of gains since the increases of the 60's and 70's when more and more women were entering the work-force. Now it is arguably the ageing population that will affect future numbers.

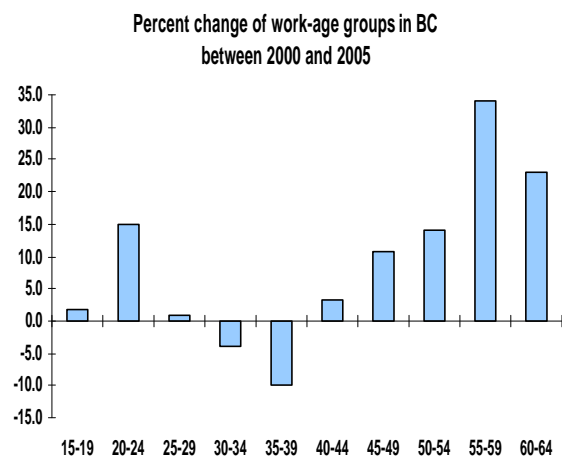
Indeed, the biggest issue with regard to BC's shortage of workers is the province's ageing population and lack of young potential workers to fill the shoes of retirees. As the baby boomer cohort begins retiring, a record number of job vacancies will be left behind. BC has an older demographic makeup than the Canadian average, which indicates that the province may be hit harder than some other regions of the country.

³ Note: pp denotes percentage points.



Data Source: Statistics Canada and BC Stats

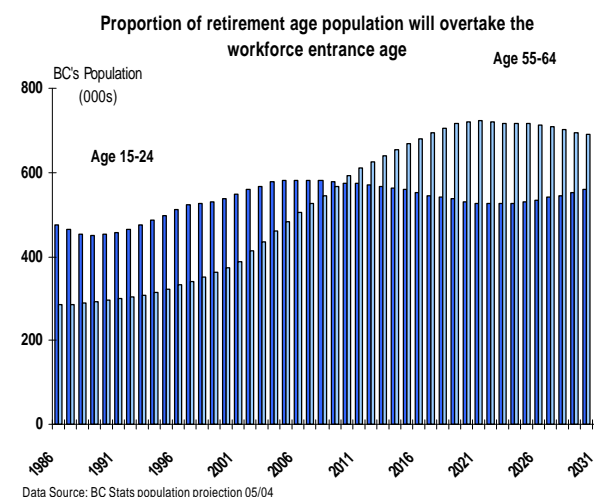
Between 2004 and 2005, for example, BC's total population increased by 1.3%. Over the same period, the number of people aged 15-24 increased at the same rate (+1.3%), while the population of British Columbians between the ages of 55 and 64 increased at more than four times the pace (+5.1%).



Data Source: Statistics Canada and BC Stats

Over the same period, Canada's population of 55 to 64-year-olds (+4.2%) rose at a slower pace. Historically, the potential new entrants to the workforce (those aged 15-24) have far exceeded the retiring population, though this is no longer the case: the size of BC's young population has levelled off while the older working aged population has begun to skyrocket. The gap will continue to widen as more and more boomers reach

retirement age, especially given that the number of people in the youngest of workforce age groups is also declining. In 2005, approximately 14% of the province's population was between the ages of 15 to 24, while about the same share of the population was 65 or over. According to BC Stats population projections by 2010, 13% of the population will be in the younger group and 15% will be 65 and over. Though it may seem far away, by 2031 these proportions are predicted to be at approximately 10% and 24% respectively.



Data Source: BC Stats population projection 05/04

As the ageing population is inevitable, other issues have come to the forefront in addressing BC's waning labour pool. Immigration of skilled workers remains important and many are calling for a revamp of immigrant selection criteria in hopes of bringing more immigrants to BC to fill more jobs.

However, although immigration of skilled workers is an important component in addressing the labour shortage, it will not be sufficient to solve the problem. The proportion of BC's population who are over the age of 65 will continue to grow.

Domestic inter-provincial migration is also a factor as both one of the causes

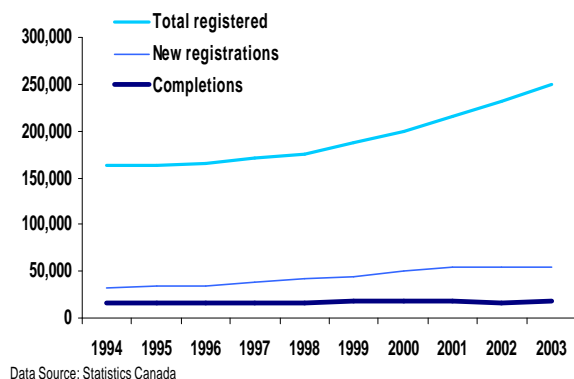
and one of the proposed solutions to BC's diminishing labour pool. Alberta's booming economy and resulting job opportunities have contributed to a net out-migration from BC over the past few years, which has also contributed to the reduced number of skilled workers in BC. Though recruiting migrants from other parts of the country may help with the shortage, BC would face fierce competition from its neighbouring province as well as other regions of Canada who are looking to tap the same resource.

It is argued by some that impediments to recruiting and training of new employees have also contributed to an overall skills shortage. The BC Chamber of Commerce⁴ identifies the effectiveness of apprenticeship and training programmes as a concern in labour issues. Many industries, particularly construction, have voiced concern over the infeasibility and expense of proper training processes that are difficult for smaller businesses to institute and maintain. There has also been talk of lack of cohesion between industries and the education system both at the secondary and post-secondary level. There have been growing concerns that the education system no longer encourages young people to view trades as viable career choices and that training completion rates are slowing as programmes are taking longer to complete.

A recent Statistics Canada overview of apprenticeship training in Canada⁵ examined trends in Canada and its regions between 1991 and 2003. According to the data, in 2003, the average age of ap-

prentices was 30 years, up from 29 in 1993. Numbers of registered apprentices have been increasing steadily since 1995 and reached 249,000 in 2003. The largest number of registrants was in building construction. Trends in apprenticeship completion have also been on the rise, though not nearly to the same extent. In the building construction trades, for instance, completions in registered apprenticeship training dropped significantly between 1993 and 2003 (from 3,097 to 2,520), despite the increase in new registrants and total number of registered apprentices in this trade group over the same period.

Trades apprenticeship registration levels have increased faster than completions over the last decade of data



There are, of course, many factors that can affect such trends, though the results do seem to add fuel to an argument that many trades groups are making. These issues merit further exploring.

Cost is another difficulty faced by employers in terms of training and recruiting skilled workers; not only do employers face paying for training, but they are also met with reduced productivity while training occurs. Perhaps more pertinent is the fear of lost investment. Many SMEs have complained of providing skill-training and development for their current employees only to

⁴ October 2005 news release from the BC Chamber of Commerce:

<http://www.bcchamber.org>

⁵ Statistics Canada: *Trends in Registered Apprenticeship Training in Canada*. Cat. # 81-004-XIE/2006002, Released June 26, 2006.

have these employees recruited by other companies.

Wage increases have also been suggested as a partial solution to the shortage of workers in the province. If wages were to increase substantially, it is likely that more people would be drawn back into the workforce. However, production and capacity utilization rates would also need to go up.

The BC Chamber of Commerce, among other organizations, has made recommendations that community and government leaders lobby to make it a priority to develop partnerships and strategies to recruit and develop human resources from non-traditional sources of workers such as Aboriginals, immigrants, visible minorities and people with disabilities.

In BC's 2006 budget,⁶ the government committed to spend \$90 million over the next three years towards new tax credits for training and also increased support of programmes encouraging the participation of First Nations, women and disadvantaged youth. Also welcomed by business advocates such as the BC Chamber of Commerce, were additional measures focused on enhancing skills in a number of sectors with an increase of \$39 million for the Industry Training Authority. The degree to which these measures will address the problem remains to be seen.

Early retirement will likely become less and less common and it has been suggested that the mandatory retirement age be extended or lifted altogether, making it possible for older workers to continue working if they so wish. Indeed, many retirees have voiced feeling

“forced” into retirement before they feel ready and have expressed eagerness to continue working into much later years.

Analysts⁷ expect that the retirement of the baby-boom generation in Canada will prompt cultural and institutional changes. The baby-boomer generation also encompasses the first cohort of women to face retirement after having worked for most of their adult lives.

Talk of labour shortages have been around for a long while, especially since the wake of the terrorist attacks on the US in 2001 when concerns of fewer immigrants coming to North America fuelled already strong fears of labour shortages resulting from the retiring boomers.

BC's ageing population is combining with the hot economy to cause major labour shortage problems. Suggested solutions, such as putting an end to mandatory retirement, more cohesion among the trades and the education system, and a shift in immigration policies would all take time. BC's labour shortage, on the other hand, is no longer looming; it has arrived, such that it is likely no longer an option to just expect that the normal market adjustments will rectify the situation.

⁶ October 2005 news release from the BC Chamber of Commerce: www.bcchamber.org

⁷ Statistics Canada study, *New Frontiers of Research on Retirement*. March 27, 2006. Cat.#75-511-X

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