

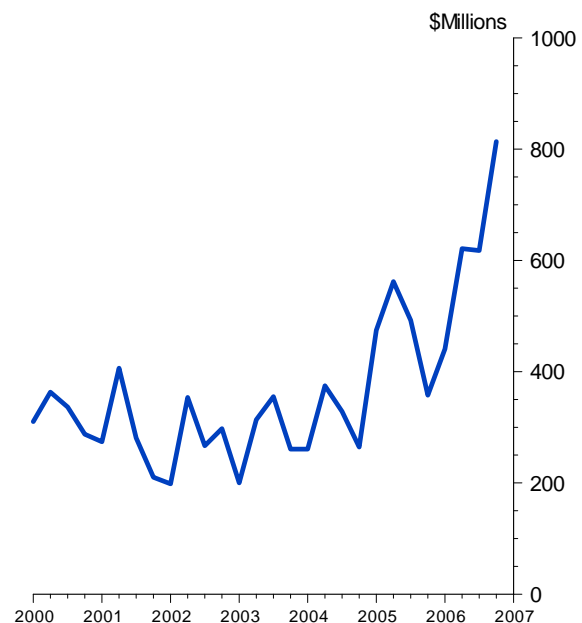
Small Business Quarterly ♦ 4th Quarter 2006

- In the fourth quarter, employment in small businesses (excluding self-employed) climbed 3.9% over the same quarter of 2005. The fastest growth was in the number of jobs in businesses with 20-49 employees (+6.5%) as employment growth in businesses with fewer than 20 employees was only 2.7%. Small business employment in the province rose 4.5% in 2006, compared to 4.8% for overall employment.
- There was a slight decline in the number of self-employed in BC in the fourth quarter (-0.7% year-over-year). The decrease was due to a slip in the number of self-employed without paid help (-2.0%), as those with paid help climbed 1.3%. Over the course of 2006, the number of self-employed inched down (-0.5%). Falling numbers of both self-employed with (-1.8%) and without (-0.4%) paid help were responsible for the annual decrease. One possible explanation for the decline in self employment is that, given BC's tight economy and recent labour shortages, some self-employed workers are making a move into the employee workforce.
- The number of small businesses in BC (excluding self-employed persons without paid help) climbed 3.8% in the third quarter of 2006 compared to the same period a year earlier. The increase was most significant among businesses with one to four employees (+5.7%).
- Business bankruptcies continued to experience double-digit declines in the fourth quarter, dropping 35.5% compared to the same period a year earlier. Consumer bankruptcies (-15.9%) were also down sub-

stantially. Over the entire year, both business (-25.3%) and consumer (-14.1%) bankruptcies fell markedly.

- The number of new business incorporations grew 7.3% in 2006. However, a flat fourth quarter (+0.1% compared to the same quarter in 2005) did not contribute much to the annual growth.
- The value of commercial building permits issued in BC continued its upward climb in the fourth quarter, soaring 127.5% to end the year 32.2% over the value of those issued in 2005. Meanwhile, industrial building permits grew 3.7% in 2006 despite a slip in the fourth quarter (-11.9%).
- Compared to 2005, mortgage rates were higher in 2006 (+0.67 percentage points). Interest rates also continued to head back up, reaching levels comparable to those of 2001.

The value of commercial building permits issued in BC continue to soar



Head Offices in BC

A business's head office is devoted to the management and administration of the company and its function. Head offices are sought after by provinces and communities value them as providers of a considerable number of high-paying jobs for a highly-skilled workforce. They are credited with offering employment both directly and indirectly in the creation of demand for services that support their operations.¹ Such headquarters are usually located in an urban centre, while the actual activity of the company is often located elsewhere.

Recently, concern has grown over a decline in head office employment in British Columbia. The apprehension lies in the migration of head office jobs to other provinces and that many of the jobs and businesses that support such headquarter-operations, such as those in law, engineering, accounting and financial services might also be threatened.²

Pressure has been placed on local and provincial governments to investigate why the province is witnessing a reduction of head office jobs while simultaneously boasting one of the strongest economies in the country.

While it is difficult to measure head office units and employment, there are a few common sources. The Financial Post 500 (FP500) compiles an annual list of Canada's *top 500* companies together with the *next 300*, for a total of 800 companies. The companies are ranked ac-

ording to annual revenues and the list specifies in which city each company is based. Included in the FP500 are both privately held and publicly traded enterprises as well as government-owned Crown corporations.³ Alternatively, Statistics Canada provides data that does not use a revenue-based definition, but instead uses data from its Business Register (BR), which tracks the nation's companies, their production units and employment levels.⁴

How many top Canadian companies make their home in BC?

According to the latest FP500, BC was home to 53 of Canada's top 500 companies in 2005, down from 58 in 2004.⁵ When moving beyond the first 500, BC fared much better, accounting for 101 (13%) of the 800 biggest enterprises in the country, notably more than in 2004 (89 companies or 11% of the nation's top 800). The overall increase in BC's share of Canada's top 800 companies, was a result of an addition of 17 firms in the *next 300* level, which offset the decline in top 500 companies. So although the

³ Since the FP500 list only includes the top Canadian companies by revenue, it does not count many medium- and smaller-sized companies, which can provide equal benefits to a local economy.

⁴ The Business Register does not recognize a head office if it exists in the same physical location from other production units of the same enterprise and does not include Crown corporations. Also, because it does not use a revenue-based model, it is not a solely a measure of exclusively large corporations.

⁵ The FP500 for 2005 had originally listed BC as being home to 54 companies. However, one company (Westcoast Energy) was erroneously reported as a BC-based head office and as such, has been removed.

¹ June, 2006. *Head Offices in Canada* Release from Statistics Canada www.statcan.ca

² October, 2002 Policy Perspectives, *Is BC Losing Head Offices -- and Should we Care?* Release from the Business Council of British Columbia: www.bcbc.com

province has lost ground in terms of the largest Canadian companies, it shows signs of remaining fairly competitive as a home for more moderately-sized enterprises.

Despite some signs of growth among Canada's mid-sized enterprises, BC trails Alberta in the number of both top 500 and top 800 Canadian companies. Of the four main provinces that are home to head offices (Ontario, Quebec, Alberta and BC), Alberta has gained the most ground in recent years. In 2005, it was the only province to increase its holding of Canada's top 500 companies, boasting 82, up (+17.1%) from 70 in 2004. Of the biggest 800 Canadian enterprises, Alberta housed 122 – again, a substantial increase (+17.3%) from the previous year (104). Although BC lags Alberta among the top 500 (53 versus 82 companies), it does manage to outperform Alberta in the number of *next 300* head offices (48 versus 40). Of course, Ontario, with 220 of the top 500, remains the preferred location for Canadian head offices, ahead of second-place Quebec (90) by almost three-fold. Between 2004 and 2005, Ontario and Quebec each saw losses in the number of both top 500 companies and in the *next 300*.

**Financial Post's top revenue companies in
Canada by province, 2005⁶**

	ONT	QC	AB	BC	Other
Top 500	220	90	82	53	54
Next 300	125	52	40	48	35
Top 800	345	142	122	101	89
% of Largest 800	43	18	15	13	11

Source: 2006 edition of the Financial Post's FP500

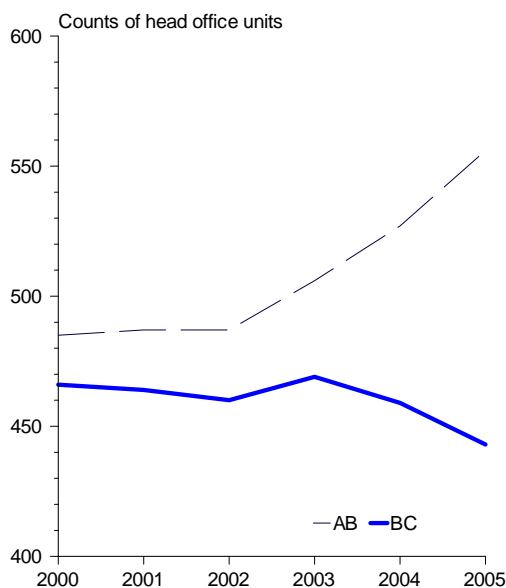
Another indicator of the province's overall status as a home for head offices is the mobility of BC companies in the ranking of Canada's top enterprises. For example, approximately 30% of the province's companies that also made Canada's top 500 list in 2004, had managed to move up in standing by 2005. However, a much larger proportion of these companies (62%) had lost ground. More promising is the fact that of the 48 companies listed in the *next 300* section of the FP500 in 2005, 42% were not ranked in 2004, meaning that they experienced substantial growth over the period of a year. Of those in the *next 300* that were ranked in both 2004 and 2005, 25% improved their positions, while 75% slipped.

How many head offices are located in BC?

According to Statistics Canada, there were 3,784 head offices in Canada in 2005, up (+5.6%) from 3,583 five years prior. At the same time, BC saw its count slip nearly five percent between 2000 and 2005 (from 466 to 443). Quebec also saw numbers decline (-6.6%), but Ontario (+12.2%) and Alberta (+14.6%) both experienced double digit growth.

⁶ FP500, 2006 edition ranking list and overview.
www.canada.com/nationalpost/financialpost

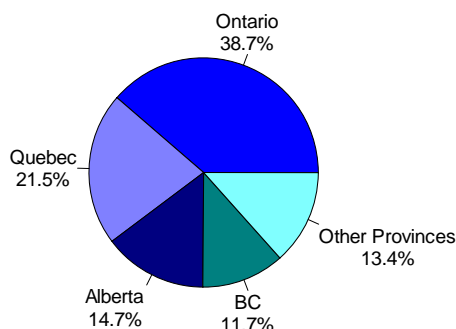
Head offices in BC showed signs of recovery in 2003, but lost more ground in 2004 and 2005



Data Source: Statistics Canada, 2006

The province's share of the nation's business headquarters has also been slipping since 2000. BC was home to 12% of Canada's business headquarters in 2005, down from 13% in 2000. As of 2005, Ontario continued to lead the way as a head office location (39% of the total), followed by Quebec (22%), Alberta (15%), and then BC (12%).

Provincial shares of Canada's head office units, 2005



Data Source: Statistics Canada, 2006

How does the province fare in head-office employment?

Of equal importance is the province's trend in head office employment. Between 2000 and 2005, BC lost a significant number of head office jobs (-16.7%), dropping from over 16,000 to approximately 13,400. Over the same period, Alberta experienced a hefty surge (+36.3%), while Ontario (+19.0%) and Quebec (+6.7%) also enjoyed an increase in head office jobs.

Provincial head office counts, employment and average size, 2000 to 2005 (business sector)

	2000	2001	2002	2003	2004	2005
Head Office Count						
QC	873	862	872	869	852	815
ON	1,305	1,311	1,350	1,399	1,428	1,464
MB	134	142	147	156	153	155
SK	106	108	111	118	119	117
AB	485	487	487	506	527	556
BC	466	464	460	469	459	443
CAN	3,583	3,604	3,657	3,747	3,775	3,784

	2000	2001	2002	2003	2004	2005
Head Office Employment						
QC	40,571	38,620	40,044	41,684	41,734	43,291
ON	63,309	68,454	69,325	72,224	70,989	75,335
MB	7,942	8,111	6,908	6,938	7,435	7,169
SK	2,544	2,372	2,467	2,652	3,432	3,744
AB	17,378	18,040	19,788	20,917	22,293	23,682
BC	16,128	15,820	15,655	15,102	14,311	13,441
CAN	154,412	157,775	161,611	167,141	168,436	174,882

	2000	2001	2002	2003	2004	2005
Average employment per head office unit						
QC	46	45	46	48	49	53
ON	49	52	51	52	50	51
MB	59	57	47	44	49	46
SK	24	22	22	22	29	32
AB	36	37	41	41	42	43
BC	35	34	34	32	31	30
CAN	43	44	44	45	45	46

Source: Statistics Canada, 2006

Of Canada's 174,882 head office employees in 2005, over two-thirds worked in Quebec and Ontario. Between 2000 and 2005, Ontario expanded its share of head office jobs from 41% to 43%. Despite a slight slip in Quebec's share over the five year period, its proportion has remained relatively stable. In 2005, 25%

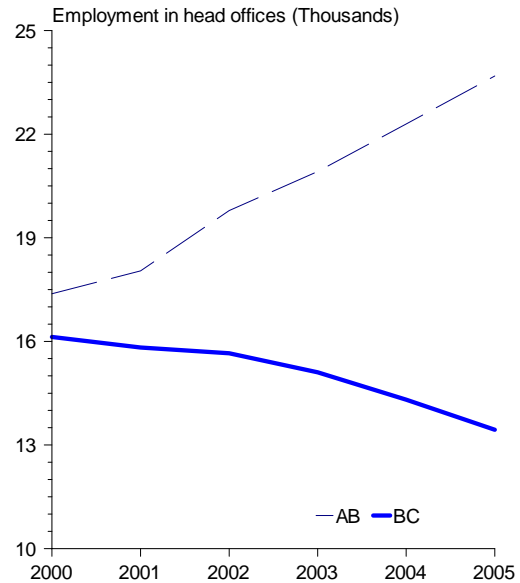
of the country's head office jobs were in Quebec, compared to 26% in 2000.



Data Source: Statistics Canada, 2006

In the West, on the other hand, a striking shift has occurred. At the end of the last decade, British Columbia had the most head office workers in Western Canada, (approximately 19,000 or 12% of the national total), while Alberta employed 15,700 (10% of Canada's head office jobs). 2000 marked the beginning of a steady decline for BC, mirroring substantive escalation in Alberta. By 2005, Alberta's employment count had soared to nearly 24,000, while BC's had shrunk to fewer than 13,500. This indicates that not only has Alberta replaced BC as Western Canada's leading head office centre, but that, as of 2005, it possessed almost double the number of head office jobs.

Head office employment in BC mirrors Alberta's



Data Source: Statistics Canada

How does Vancouver measure up?

Canada's head office employment is concentrated in four major metropolitan centres - Toronto, Montréal, Calgary and Vancouver. As the province's biggest metropolitan area, the vast majority of BC's head offices are located in the Vancouver region. In fact, of the province's 443 head offices reported by Statistics Canada in 2005, 335 (76%) were located in the Vancouver region.

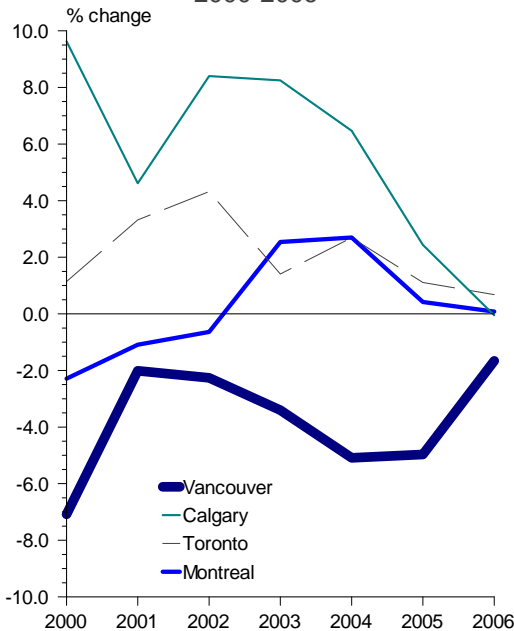
Similarly, among the Financial Post top 500 companies housed in British Columbia in 2005, nearly 90% (47 of the 53 companies) were located in the Greater Vancouver Regional District (GVRD). The remaining six head offices made their home in other parts of the province.

Between 2000 and 2006, Vancouver (-5.8% to 328) and Montreal (-8.6% to 531) saw their number of head office units decline. Meanwhile, Calgary (+11.1% to 310) and Toronto (+11.4% to

910) experienced notable jumps in overall counts.

A comparable picture is painted when looking at head office employment in the metropolitan centres. Over the six year period, there was a decrease in the number of head office employees in the Vancouver region. As of last year, Vancouver, which accounts for approximately 90% of all head office jobs in BC, employed 11,850 head office workers (-17.9%), a substantial decline from 14,440 employees in 2000. At the same time, Montreal (+4.0% to 36,310) and Toronto (+14.3% to 57,820) saw steady job increases, while head office employment in Calgary surged 33.8% to 18,880.

City trends in head office employment growth 2000-2006

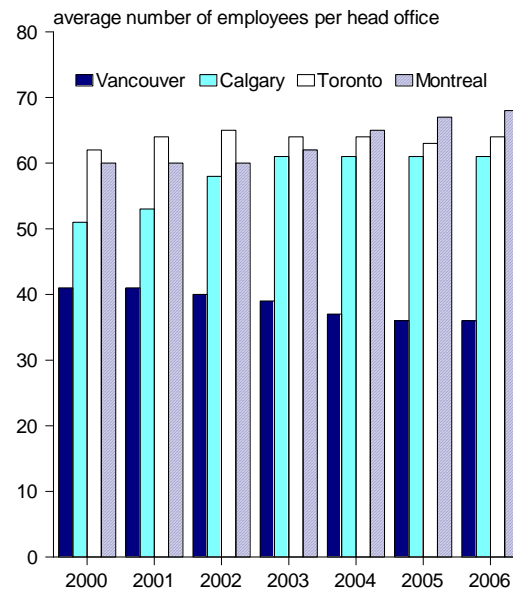


Data Source: Statistics Canada, 2007

Over this period, the GVRD also saw a slip in the average number of individuals working at each head office (down from 41 to 36). On average, Vancouver businesses employ considerably fewer employees per head office than do the other three major metropolitan head-

quarters. Last year, the highest average employment size for head offices among cities was found in the Montreal region (68) and Toronto's (64) and Calgary's (61) average employment also exceeded that of Vancouver.

Vancouver continues to have the lowest average employment per head office unit



Data Source: Statistics Canada, 2007

That being said, it is not uncommon for the majority of a company's employees to be located elsewhere, as many companies have larger numbers of workers in offices that are not head offices. Indeed, only one percent of all jobs in the GVRD are in head offices.

In what industries are Vancouver's head offices concentrated?

The fate of the head-office sector can potentially vary across industries. Using the North American Industry Classification System (NAICS), we can determine that the leading industry sectors for Vancouver head offices in 2006 were retail trade (accounting for 24% of Vancouver's business headquarters) followed by wholesale trade (16%) and

manufacturing (14%). Rounding out the list were firms in a number of other industries, including accommodation & food services (9%), finance & insurance (7%) and transportation & warehousing (6%).

Employment in head offices differs widely by industry. Retail trade accounted for over 21% of all head office jobs in Vancouver last year. Information & cultural industries (16%) followed, while manufacturing and finance & insurance each accounted for approximately 15% of head office jobs in the GVRD. Among these larger head office employers, finance & insurance saw the biggest employment decline (-25.5%) between 2000 and 2006, dropping from 2,430 to 1,810 workers. Of the top head office industries in Vancouver, the only industry not recording a decline in head office employment or head office count between 2000 and 2006 was wholesale trade.

Why is the province losing head offices?

To speak of causal factors behind BC's decline in head offices would be to speculate. There are numerous dynamics that can contribute to a drop in a region's head office count. Among others, a decline can be attributable to mergers and acquisitions, or a company moving their headquarters to another location (the latter being far less common). According to the Business Council of British Columbia, likely causes for BC's poor showing in recent years include corporate consolidation in the forest sector, the rising cost of land, higher costs for office space and housing, along with

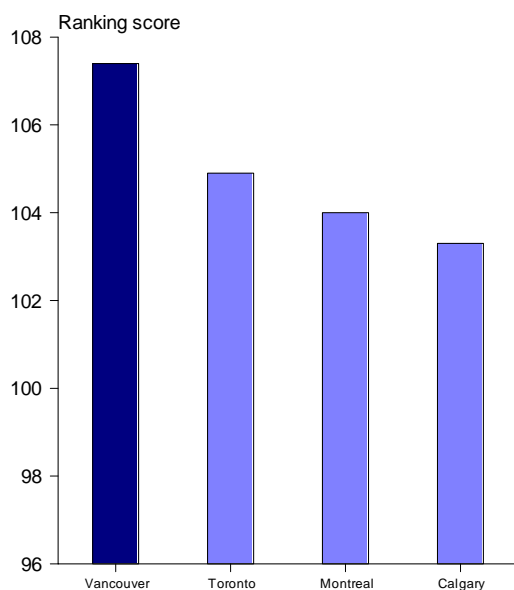
a lack of effective regional marketing to attract and retain new businesses.⁷

As a business centre, BC is far less populous than Ontario and Quebec and carries the disadvantage of being geographically distanced from the eastern US markets. However, Alberta is also at a similar disadvantage, yet with its comparatively affordable living costs, relatively inexpensive land for development and low tax rates, it has managed to attract, retain and grow head offices. Alberta's booming economy and expanding population has pushed up head office employment among numerous industries—construction, wholesale and retail trade, and mining & oil & gas extraction, to name a few.

BC boasts its own unique set of advantages that have historically appealed to many of the country's business headquarters. The province offers a mild climate, world-renowned quality of life, and excellent proximity to Asia-Pacific markets.

⁷ December 2006 update on *Corporate Head Office Employment in British Columbia*, release from the Business Council of British Columbia: www.bcbc.com

Vancouver ranked highest in quality of life indicators in 2006



Data Source: Mercer Human Resource Consulting

Losses and entries of head offices are by no means uncommon. Indeed, as of 2005, more than one-third of Canada's head offices did not exist just six years earlier (1999).⁸ However, it is clear that if BC is to re-establish itself as the leading business centre in Western Canada for corporate headquarters, some changes may be necessary.

How can BC attract and retain head offices?

The BC Business Council suggests that the province work on retaining large businesses that already make their homes in BC, develop strategies to nurture the growth of successful mid-sized BC companies, and possibly assess further changes in the tax policy.

Also suggested is a region-wide program to market Greater Vancouver as an appealing destination for businesses

to make their home. Other factors that influence the decision of where to locate, such as the cost of living, office space and land, are more difficult to address.

Whatever the reason, there is little doubt that BC has experienced a net loss of corporate head offices and head office jobs in the past decade or so. Despite legitimate concerns about the number of large company headquarters and head office employment in BC, it is important to remember the dynamic nature of business and the economy as a whole. A strong and growing head office sector is only one of a myriad of components that can contribute to economic buoyancy. Of equal importance, is the need to recognize that many of the province's companies continue to thrive, especially those that are smaller or mid-sized. Over time, some of these may very well find themselves on Canada's top 500 list.

⁸ July, 2006. *Head Office Employment in Canada, 1999 to 2005*. Release from Statistics Canada www.statcan.ca

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