

Perspective

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SPECIAL ON SMALL BUSINESS

Is the backbone of Québec's economy
collapsing?

When demographics and the "invisible hand"
work together...



Desjardins
Economic Studies



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NOTE TO READERS: In this text, the symbols **M** and **B** are used respectively to refer to millions and billions of dollars.

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CONTENTS

EDITORIAL

Small business: beware of mirages

3

THE SITUATION IN QUÉBEC

Québec's economy is vulnerable to the American economy's slower pace

4

THE SITUATION IN ONTARIO

Ontario is hardest hit by the problems in the United States

6

REPORT: SMALL BUSINESS

Is the backbone of Québec's economy collapsing?

7

REPORT: SMALL BUSINESS

When demographics and the "invisible hand" work together..

13

INTERPROVINCIAL SHOWCASE

Where is Canada's small business heartland?

19

FORECAST TABLES

Canada - Québec - Ontario - Regions

21

EDITORIAL

Small business: beware of mirages

In Québec, 70% of businesses have between 1 and 4 employees, while 99% have fewer than 200. We cannot deny that small business is one of the pillars of our economy. As the population ages, there is more and more concern about who will replace the entrepreneurs. Some have gone so far as to predict that 30% of small businesses will close by the end of the decade. Parallel to that, the number of corporations and small businesses crested between 2000 and 2007. Is Québec in the process of losing its grip?

There are many reasons for the peak and drop in the number of businesses since the decade began: demographics, mergers and acquisitions, the arrival of business mammoths and tighter economic conditions are among them. However, the media hype surrounding the issue of the next generation of entrepreneurs hints that Québec is on the road to ruin and will soon slide into poverty if it doesn't find competent people who want to take over the reins from those who are going into retirement over the next five to ten years. We should not give so much credit to the apocalypse criers.

An analysis of the economic data shows that the loss of businesses has not caused the number of jobs to decline. On the contrary, the number of workers has been growing constantly in recent years. In fact, clearly, entrepreneurs are getting older, as are workers. Workers, both employers and employees, have been extending their stays on the job market since the end of the 90s. This is a Canada-wide phenomenon, with Alberta leading all of the other provinces. The longer working life means we can palliate the catastrophic vision of those who expect 40% to 50% of Québec businesses to close within the next 10 years. However, we cannot deny that we have to get the next generation prepared, in a context in which they will have the freedom to choose among the many positions left open by retiring baby boomers.

Beyond the issue of entrepreneurial succession in existing businesses, the rate at which businesses are created is down across Canada. The emergence of new small businesses is, in a way, an antidote to atrophy, a "combat reserve" that will help us deal with foreign competitors. We thus have to encourage initiatives in this area. Parallel to that, we need to modernize the production capability of existing businesses and support innovation, as well as research and development. We need to work toward increasing productivity through workforce training and investment. Governments can take action by renewing public infrastructures, getting rid of the tax on capital in all sectors, encouraging business-based workforce training and further enhancing exchanges between business people and the next generation.

The economic collapse scenario is a mirage. On the other hand, the prospect that a lack of preparation will lead to future difficulties is a very real one. There is no shortage of tools—government bodies and the private sector, including financial institutions, are on the job. Let there be no misunderstanding: the number of Québec businesses is already in decline. This trend is underway and should continue over the coming years, given the existing demographic trends. Is the backbone of Québec's economy collapsing? It would be fairer to say that it is evolving.

François Dupuis
Vice-President and Chief Economist

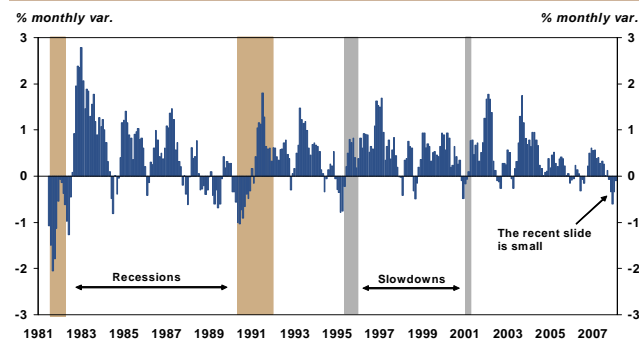
THE SITUATION IN QUÉBEC

Québec's economy is vulnerable to the American economy's slower pace

The Desjardins Leading Index (DLI), which detects trends in Québec's economy three to six months ahead of time, dipped for a fourth straight month in January (0.3%). The downward trend is now well entrenched, confirming that the slowdown will pick up speed in the first half of 2008. Given the unfavourable economic outlook in North America, the year promises to be tougher for Québec's economy, especially in the foreign trade sector. Our forecasts have therefore been revised downward. Real GDP growth will only be 1.2% this year, and 1.9% next year. These more mixed projections go with an increased risk of a recession in Québec. Since last fall, the probability for 2008 has gone from 25% to 40%. The province should be spared this time, however, as the DLI's latest drop was small and, in particular, nowhere near the kind of drop that preceded the last two recessions.

GST cut (equal to \$1.3 billion in Québec) will stimulate consumer spending. For business, the measures to support investment contained in Budget 2008—2009 will boost real GDP growth slightly. Finally, the Québec Infrastructure Plan, which calls for \$30 billion in investment by 2012, including \$7.6 billion in 2008, will also have a positive impact on economic growth this year.

Graph 1 – The Desjardins Leading Index indicates that the economic slowdown will continue



Source: Desjardins, Economic Studies

WHY WOULD QUÉBEC BE SPARED A RECESSION?

Even though a recession is looming over the United States, Québec's economy has a number of assets that will help lessen the repercussions here. Foreign trade, already in poor condition, will of course be hit by the American economy's drop in pace. Domestic demand, on the other hand, should stay strong due to the substantial tax relief granted to individuals and massive investments in public infrastructure. The Charest government's \$950 million in tax cuts, and the \$900 million cut the federal government has given Québec households will give consumers a nice boost. For a second year in a row, the

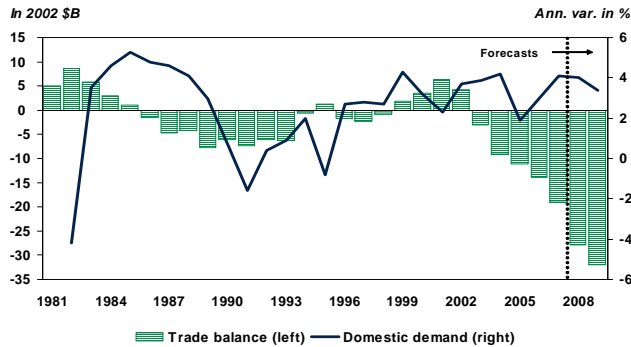
Graph 2 – Governments will contribute to Québec's economic growth in 2008

2008's major tax cuts will stimulate economic growth:	Contribution to economic growth (%)
. \$950M in Québec tax cuts to households	0.3%
. 1 point decrease in the GST (equals \$1.3B in Québec)	0.4%
. \$900M in federal tax cuts to Québec households	0.3%
Québec Infrastructure Plan (\$30B over five years)	0.2%
Measures for supporting business investment in the 2008-2009 budget	0.1%
TOTAL	+1.3% in 2008

Source: Ministère des Finances du Québec

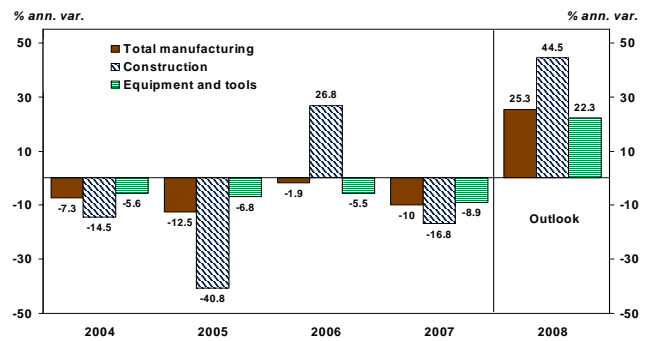
According to Québec Ministère des Finances calculations, these measures will, on their own, boost real GDP growth by 1.3% in 2008. This is a major contribution to economic growth, much greater than the boost associated with 2007's pay equity settlement (+0.25%). While Québec is not completely safe from a recession, the contribution from the government assistance plan in 2008 should help stave the recession off. Québec should even come close to the national average for economic growth, as it did last year. In fact, the province achieved real GDP growth of 2.4% in 2007, compared with 2.7% for Canada as a whole. This year, Québec will be even closer to the nation as a whole, with growth of 1.2% and 1.3%, respectively.

Graph 3 – The trade balance will keep reining the economy in, but domestic demand will continue strong



Sources: Institut de la statistique du Québec and Desjardins, Economic Studies

Graph 4 – At last, a turnaround by manufacturing investment in 2008



Sources: Statistics Canada and Desjardins, Economic Studies

BIGGEST DROP BY EXPORTS TO THE UNITED STATES IN TWENTY YEARS

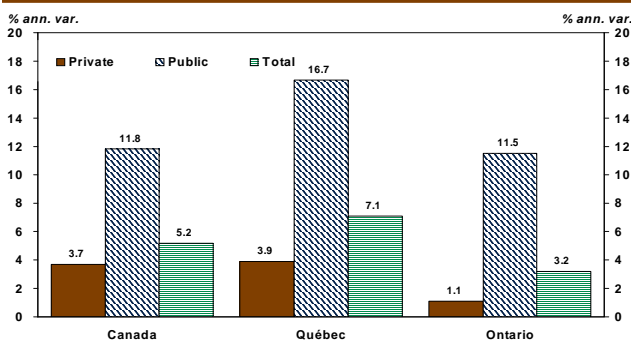
Domestic demand’s vitality will be in the foreground in 2008, as it will help cushion the shock associated with foreign trade’s brutal deterioration. The trade deficit, already more than \$20 billion in real terms, will slowly close in on the \$30 billion mark over the course of 2008. This deterioration will weigh heavily on economic growth, as it will trim about 2.5 percentage points from real GDP growth this year. The pullback by exports will intensify, as the context promises to be even tougher for business. The U.S. economy is on the verge of a recession, perhaps even contracting at this point, while the impacts of the Canadian dollar’s appreciation to around parity and intensifying international competition should continue to be felt. The value of Québec’s exports to the United States fell 8.1% in 2007, the biggest drop in about twenty years. The pullback by exports to the U.S. will be bigger this year, between 10% and 15%. As the risk of a recession south of the border is high, foreign trade could deteriorate more than expected.

OUTLOOK FOR INVESTMENT IS UP

According to Statistics Canada’s annual survey, investment intentions in Québec are positive in 2008. The public sector’s contribution dominates, with an expected gain of 16.7%, the country’s highest growth. The Québec government’s program to rehabilitate its infrastructures is helping the province stand out. The outlook is also positive for the private sector, where investments should grow by 3.9% this year.

Also, the manufacturing sector’s expected rebound (+25.3%) should be spotlighted. It is primarily based on large-scale projects in the oil and aluminum processing sectors. This year’s forecast increase is not general to all sectors; it is based on a few major sites. Despite the loonie’s ascent over the last few years, manufacturers have not increased their investment in machinery and equipment. In this context, the turnaround forecast for 2008 is a step in the right direction, though it is not enough to close the gap that has built up over the last few years. That said, let’s hope that intentions to invest more to modernize facilities will materialize in 2008.

Graph 5 – The Québec Infrastructure Plan will stimulate investment in Québec in 2008



Sources: Statistics Canada and Desjardins, Economic Studies

Detailed forecasts are on page 21.

Hélène Bégin
Senior Economist

THE SITUATION IN ONTARIO

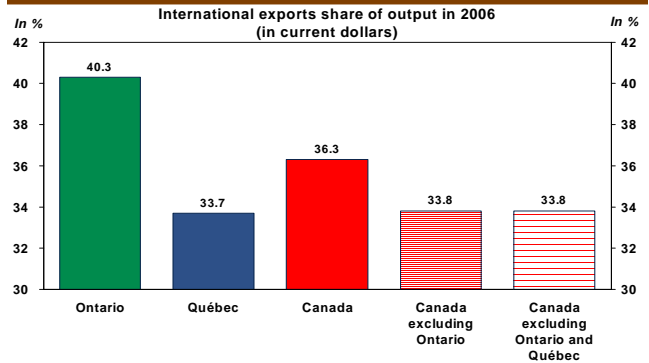
Ontario is hardest hit by the problems in the United States

Ontario's quarterly real GDP growth has, in general, been below that of Canada as a whole in recent years. The gap is due to the province's industrial structure, which is more dependent on manufacturing and trade with the United States. For example, international exports of goods and services constituted close to 40% of Ontario's total nominal output in 2006. It was only about 34% for the nine other Canadian provinces during the same period.

The Ontario economy's close ties to exports is especially problematic in this context. Ontario's foreign trade sector has been grappling with the adverse impacts of the loonie's sharp appreciation and the restructuring of North America's automotive industry for several years now. The sector's problems can only worsen in response to the sharp drop in American demand predicted for the next few quarters. As a result, Ontario is the province that has been the most affected by the deteriorating economic situation south of the border.

Like the rest of Canada, Ontario can count on lively domestic demand to at least partially offset the impact of the deterioration in its foreign trade. The jobless rate is staying fairly low, so that wages are advancing quickly. Growth in consumer spending should therefore maintain its cruising speed. As for government spending, the plan announced last December calls for \$3B to be injected over the next three years, which should help maintain relatively fast growth by this component in 2008 and 2009. However, this government plan is much less focused than the one developed by the Québec government.

Graph 7 – Ontario is especially sensitive to international trade

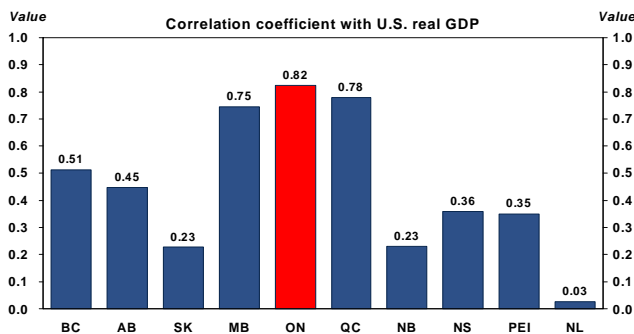


Sources: Institut de la Statistique du Québec, Ontario Ministry of Finance, Statistics Canada and Desjardins, Economic Studies

It contains a number of measures involving smaller amounts, suggesting that it will have a smaller impact on the real economy than in the *Belle Province*.

The Ontario economy's substantial exposure to foreign trade overshadows the province's outlook for growth. Our economic scenario forecasts that Canada's real GDP could be in slightly negative territory in the first quarter of 2008. Under the circumstances, the outlook for Ontario is even more pessimistic. In fact, the consequences of the economic problems south of the border could plunge Ontario's economy into a slight recession, with two consecutive pullbacks by real GDP in the first half of 2008.

Graph 6 – Ontario is the most dependent on the American economic cycle



Sources: Statistics Canada and Desjardins, Economic Studies

Graph 8 – Consumer spending is still growing fairly quickly in Ontario



Sources: Statistics Canada and Desjardins, Economic Studies

Benoit P. Durocher
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Detailed forecasts are on page 21.

REPORT: SMALL BUSINESS

Is the backbone of Québec's economy collapsing?

When we consider that 99% of Québec businesses have less than 200 employees, it would be tempting to believe that, in a way, small and mid-size businesses form the backbone of Québec's economy. When concerns about the population's aging raise fears about the next generation of leaders for these businesses, many wonder whether the Québec economy's foundation is crumbling. What is the truth? Where should we begin in terms of our thinking on the issue? Here are some of the questions Perspective has tried to answer.

SMALL BUSINESS: AS MANY DEFINITIONS AS THERE ARE AGENCIES

What is a small business? The definition varies according to a wide variety of parameters. Size is sometimes determined based on the number of employees, or the value of its assets or, in some cases, the value of its export sales. Many definitions have been developed, depending on the criteria of the organizations that manage the assistance programs or grant loans.

Usually, businesses with one to four employees are called "microenterprises (or microbusinesses)." At Industry Canada, small businesses have 5 to 99 employees, while businesses with 100 to 499 employees are medium-sized, and those with 500 or more employees are classified as "large" businesses. Québec's Ministère du Développement économique, de l'Innovation et de l'Exportation (the MDEIE, the department of economic development, innovation and exports) uses different nomenclature. Aside from microbusinesses, small companies have from 5 to 19 employees. Mid-sized businesses have 20 to 199 employees. Large companies have workforces of 200 to 499 employees. Those with over 500 employees are characterized as very large businesses. We will use the MDEIE's definition for comparison purposes.

HOW MANY BUSINESSES ARE THERE IN QUÉBEC?

According to Statistics Canada's Business Register,¹ Québec had 467,740 businesses in June of 2007. Among them, we must distinguish between "Employer Businesses" (which have employees) and "Indeterminate" businesses² (in other words, businesses that are unclassifiable). There were thus 220,708 businesses that had employees.

Table 1 provides an overview of the number of businesses on June 30, 2007. If we retain only businesses that have employees, it is clear that close to 70% of them have fewer than five employees. Over 80% have fewer than ten employees. If we look deeper, more than 90% have fewer than 20 employees. When we add the 20 to 49 employee segment, the proportion is over 96%. This means that 98.5% of Québec businesses have fewer than 100 employees. This proportion does not change much over time. Table 1 compares the relative size of each group from June 2000 to June 2007. The composition has primarily changed for businesses with 10 to 19 employees, and those with 20 to 49 employees, which have dwindled both in terms of numbers and relative size in relation to the other groups since the decade began.

Table 1
Number of businesses in Québec

Number of employees	1-4	5-9	10-19	20-49	50-99	100-199	Total SME	200-499	500+	Total Lg. Ent.	TOTAL
2000	150,278	34,826	22,328	15,600	5,125	1,911	230,068	870	612	1,482	231,550
2001	152,655	33,023	20,382	14,023	5,148	2,277	227,518	1,057	664	1,721	229,239
2002	150,149	33,215	20,301	13,900	5,129	2,219	224,913	1,003	657	1,660	226,573
2003	146,807	35,281	20,808	14,318	5,002	2,226	224,442	1,020	643	1,663	226,105
2004	144,614	34,031	19,715	13,913	4,756	2,168	219,197	997	650	1,647	220,844
2005	144,919	33,554	20,312	14,254	4,884	2,210	220,133	1,011	648	1,659	221,792
2006	149,565	32,256	19,400	12,956	4,491	1,991	220,659	926	628	1,554	222,213
2007	153,558	29,643	18,043	11,905	4,151	1,907	219,207	863	638	1,501	220,708

Note: All data are as at June of each year

Sources: Statistics Canada, Business Register and Desjardins, Economic Studies

RELATIVE IMPORTANCE OF SMALL BUSINESS IN QUÉBEC'S GDP

We already know that the small businesses that make up 99% of businesses are responsible for 40% of Québec's exports and account for one third of Québec's spending on research and development. However, it is hard to assess their share of the total economy. Opinions in this regard differ, and neither Statistics Canada or the Institut de la statistique du Québec (ISQ, Québec's statistics agency) has issued data on the topic.

However, a few organizations have made attempts. In a document titled *Business Transition* published in May 2004, the Canadian Federation of Independent Business (CFIB) estimated that the contribution to Canada's GDP by SMEs was in the area of 40% to 45%. British Columbia's Stats service developed a calculation method with which it is possible to estimate the share of small businesses (fewer than 50 employees or operated by a self-employed person without paid help). The exercise was done for all provinces for 1993 to 2005 and revealed that, on average, in Québec, small business' share is only 25% of total GDP for the 13 years under consideration. For Ontario, the average is 22%, which is below the Canadian average of 24%.

Although they do not give us an exact figure, these calculations help to provide an idea of small business' relative weight in the economy. They are indicators that challenge the received idea that Québec's economy relies mainly on small businesses.

QUÉBEC BUSINESSES' SURVIVAL RATE: WHAT'S NEW?

In the early 1990s, the MDEIE became interested in the appearance and disappearance of businesses. An investigation into Québec businesses' survival rate was published in the 1990s. Another study was done in 2007, with eloquent results.

The business creation rate is correlated to demographics. Around the 1980s, when the population was growing faster than in the 1990s, the business creation rate recorded was 20%. This means that, during the 1980s, one out of five businesses was less than one year old. This rate shifted to 12% in the 1990s.

Moreover, the business disappearance rate was highly correlated to the creation rate. As fewer businesses were created each year during the 1990s, fewer businesses closed.

In the 2007 study, it was noted that microbusinesses (1 to 4 employees) have the lowest survival rate; the rate is comparable for the two decades studied. Here, Québec ranks with the Canadian average. However, for businesses with five or more employees, the survival rate declined substantially between the two studies. The transition from the first to the

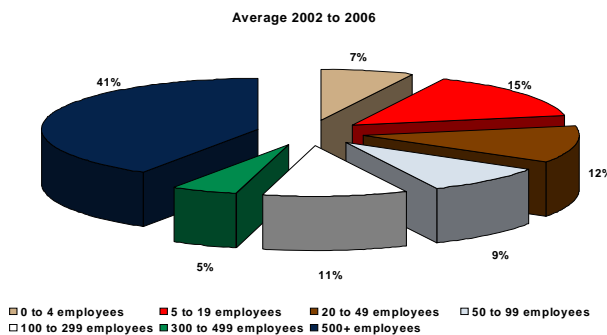
second year seems to be a concern. It is the group of new businesses with 20 or more employees that have the most trouble, requiring more support from public bodies, particularly as the survival rate for Québec businesses in this category is below the Canadian average.

IS SMALL AND MID-SIZED BUSINESS THE CHAMPION FOR JOB CREATION?

The data in the Business Register and in Statistics Canada's Survey of Employment, Payrolls and Hours (SEPH) do not line up perfectly. However, the latter gives us an overview of the breakdown of employees (not total employment) according to business size.

Graph 9 shows the breakdown of employees by business size for the period from 2000 to 2006 (average). While microbusinesses accounted for almost 70% of Québec businesses, they only hire about 7% of employees. Also, 43% of employees are hired by businesses with fewer than 100 employees. For its part, the MDEIE estimates the proportion of small and mid-sized businesses (199 employees or less) to be about 54%. Businesses with more than 500 employees, which only represent 0.3% of Québec businesses, employ more than 40% of wage-earners. In short, small businesses account for just over 50% of Québec wage-earners.

Graph 9 – One third of wage-earning jobs are in businesses with fewer than 50 employees



Sources: Statistics Canada, SEPH and Desjardins, Economic Studies

Québec has seen the number of wage-earners rise in the last few years. It is worth asking what is responsible for the job creation. There are various ways to look at the question.

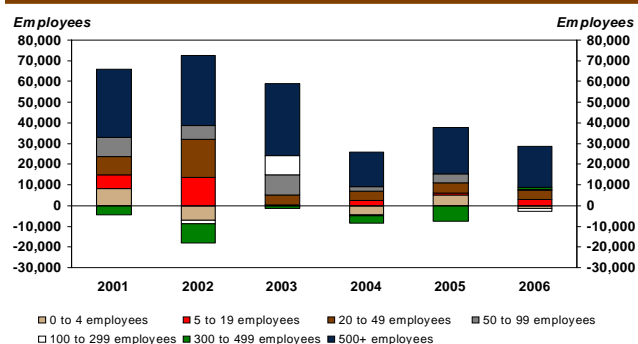
First, we can try to measure the difference between the number of workers in 2000 and in 2006 (see Table 2). This is a little like comparing two snapshots to measure the passage of time. There is a net gain (creations minus losses) of about 247,000 paid jobs. Almost all categories of business generated employment. It is clear that businesses with 500 or more employees did the lion's share (160,000). The biggest number of new wage-earners is in this group. The second biggest

generator of paid jobs is the 20 to 49 employee category, followed by the 50 to 99 employee category. If we total businesses with 1 to 99 employees, we get over 100,000 wage-earners. In short, small business has a role to play in job creation, but the champion in terms of net job creation is very large business. Note that businesses with 300 to 499 employees lost jobs during this period.

Another way to look at the creation of wage-earning employment during this time is to measure the gains for each year and see where increases and losses can be measured. Graph 10 illustrates the dynamic over the last few years. At first glance, we can see that not all categories of business are recruiting every year. What's more, the front-runner remains the very large business category, year after year.

We cannot overlook a third evaluation method, which is more dynamic: It measures gross employment gains and losses. If the comparison of two years (2000 and 2006) seems to be like comparing two snapshots, with the "dynamic" method, we can look at how events unfold, as if it were a film. The MDEIE evaluated the creation and loss of jobs based on the birth, growth, decline and closure of businesses. The latest analysis covers the 1996—1997 to 2000—2001 period.³ It shows that, during these years, small and mid-sized businesses (new and growing) were responsible for creating 72.6% of Québec's new wage-earning positions. However, small and mid-sized businesses (declining and those who shut up shop) were also responsible for 67.7% of lost wage-earning positions.

Graph 10 – Creation of wage-earning positions per year, according to business size, according to the SEPH



Sources: Statistics Canada, SEPH and Desjardins, Economic Studies

Regardless of which calculation method is used, it is clear that small business plays a big role in job creation. However, the myth of the SME as "Québec's only employment generator" does not hold up.

Table 2 – Total of new employees between 2000 and 2006

Business size according to number of employees	Gains between 2000 and 2006
0 to 4	1,010
5 to 19	26,824
20 to 49	45,356
50 to 99	32,295
100 to 299	6,212
300 to 499	-25,229
500 and up	160,494
Total new wage-earning positions between 2000 et 2006	246,962

Sources: Statistics Canada, SEPH and Desjardins, Economic Studies

PROFILE OF QUÉBEC ENTREPRENEURS

It is hard to identify "Homo Entreprenus," as it is difficult to get recent data on entrepreneurs. Statistics Canada's 2004 Survey on Financing of Small and Medium Enterprises provides a glimpse. The majority of Québec entrepreneurs are men (71%), although women make up 19% of the group, with the remaining 11% made up of mixed partnerships. The under 30 group accounts for less than 3% of entrepreneurs.

Data from Statistics Canada's Labour Force Survey may tell us more; these data deal with entrepreneurs with paid employees.

Table 3 provides an overview of the breakdown of entrepreneurs according to age group. It shows that over 85% of entrepreneurs are 35 years old or older: This percentage did not change much from 2002 to 2007. It is also clear that the 35 to 54 year old category has tended to decline since 2002 and, in exchange, the 55 and up group is growing. The latter represented about 20% of Québec entrepreneurs in 2002 while, in 2007, this figure was up to almost 27%. Demographics leaves its mark here, as well.

The aging of the population and of entrepreneurs has raised a lot of questions and concern since the early part of this decade. Many have wondered whether the Canadian and Québec economies were heading for a catastrophe. Several renowned organizations took the pulses of entrepreneurs, to find out their intentions: Did they have solid retirement plans? Had they identified their successors? In short, there were questions about businesses' sustainability and about the economy's soundness.

DEBATABLE FIGURES ABOUT SMALL BUSINESS' VULNERABILITY

In recent years, many statistics have floated around about small and mid-sized businesses' vulnerability to population aging. These figures, most of which appear in Table 4, have been repeated so many times that they now seem like they are carved in stone. However, we can well wonder.

Among the most frequently quoted figures are the ones published by Deloitte and Touche in 1999. They reported that 75% of family business owners planned to retire within 15 years, by 2014 or 2015. In 2003, the results of a U.S. survey carried out by the Mass Mutual/Raymond Family Business Institute made a lot of noise. It announced that 40% of business owners (family) anticipated that their businesses would change hands in the next five years. The survey was done in 2002, with a horizon of 2007 or 2008. Among those who wanted to retire, 42% had not chosen a successor. To add to the dramatic nature of these observations, they mentioned that 30% of family businesses did not survive through the second generation, and only 30% of businesses were still around in the third generation. These kinds of observations, applied to an economy like ours, which is 99% small and mid-sized businesses, the vast majority of which are family-owned, sent shivers down many spines.

At first glance, the data on the number of businesses shows that there was no apocalypse in Québec between 2002 and 2007. The total number of businesses went from 226,573 in June of 2002 to 220,708 in June of 2007 (-2.6%). The number of SMEs went from 224,913 to 219,207 during that time, a decline of only 2.5%. There is always a risk of interpreting survey data too literally. Retirement intentions are only one part of the equation. The analysis of the evolution of SMEs reveals that we are simultaneously seeing businesses close and new businesses being created. This is what studies of business survival rates show, among others. Moreover, it is true that the loss of wealth that has been built up over time, with a lot of effort, cannot be fully accounted for in statistics. We must also consider that the drop in the number of businesses

may also be the result of a merger or acquisition, in which case we cannot refer to disappearances. Mergers are not the sole prerogative of large businesses

QUÉBEC HITS A WALL...

Population aging inevitably brings on the question of business sustainability, and the next generation of entrepreneurs. "Québec will hit a wall," is a remark we've heard many times. Have we actually hit the wall?

According to the figures from the Mass Mutual/Raymond Family Business Institute survey, 40% of businesses were to change hands between 2002 and 2007. If we calculate that this involved 40% of the SMEs that were around in 2002 (89,965 of the 224,913 Québec small businesses), that means almost 90,000 entities were on the block. Of them, the study asserted that 42% had not named a successor. The risk was thus a loss of 37,785 businesses (42% of 89,965). In fact, during this time, the net loss (balance of businesses created and businesses that disappeared) is 5,708 businesses. This is 6.6 times less than the U.S. survey's results suggested, results that were widely broadcast from all sides.

Moreover, if the Mass Mutual/Raymond Family Business Institute data is applied *only* to the category of entrepreneurs who were 55 or older in 2002, the result is even smaller. Québec had 34,700 entrepreneurs aged 55 or older in 2002. If 40% of them were thinking about handing the business reins over to someone else in the next five years, this means a potential 13,880 entities to be transferred (40% of 34,700), if we assume there was one business per entrepreneur. If we apply the rate of 42%, the proportion that had not found a successor, this means 5,830 entrepreneurs who, in the worst case scenario, were unable to "pass the torch along." This is much closer to the actual 5,708 lost businesses recorded from 2002 to 2007.

However, we have to state some reservations about how the data is used. Note that the losses cannot all be attributed to the lack of a successor. They occurred in the context of the

Table 3
Number of self-employed with employees, Québec

% resp.	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
15 years and up	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
15—34 years	18.7	17.4	15.2	16.6	15.7	13.9	14.7	14.5	13.0	13.2	13.7
35—44 years	32.4	33.7	34.6	32.1	31.7	34.3	28.9	29.3	27.6	29.1	29.0
45—54 years	30.8	30.2	31.0	31.5	32.6	31.4	32.3	31.3	35.2	33.3	30.4
55—64 years	14.3	14.0	16.1	16.5	16.6	16.2	18.2	20.2	19.3	20.1	20.6
65 years and up	3.7	4.7	3.2	3.3	3.4	4.2	5.8	4.7	5.0	4.4	6.3

Note: The total of percentages does not always equal 100 due to rounding
 Sources: Statistics Canada, LFS, special request and Desjardins, Economic Studies

Canadian dollar’s skyrocketing surge. The loonie was, on average, around US\$0.64 in 2002, whereas it was US\$0.93 in 2007, up by more than 45%. During the same period, oil prices went from US\$26 to US\$72/barrel on average, annually. Among the complaints of business in those years were the increase in insurance premiums and shortage of skilled labour, not to mention the intensification of foreign competition. All of these are factors that can undermine Québec SMEs’ competitive position.

Another simulation can be done with the Canadian Federation of Independent Business (CFIB) data. According to a 2004 survey, 31% of Québec entrepreneurs planned to retire in the next five years, representing from 65,000 to 70,000 entrepreneurs from 2004 to 2009 (five years). The MDEIE carried out a highly interesting exercise to test these hypotheses. First, it issued a few warnings:

- The age of survey respondents was older than that of Canadian business owners
- There is always a gap between intentions and action
- In 2004, the percentage of entrepreneurs aged 55 and up was closer to 20—25% than 31%

The MDEIE⁴ hypothesized that existing small business owners would adopt the same retirement behaviour as they had during the last 10 to 15 years. It applied these departure rates to the recent population of small business owners. The conclusions are as follows: “about 30,000 small business owners will retire within five years. Over 60,000 will retire within 10 years.” This is a much less critical picture.

Have we really “hit a wall,” as the saying goes? Entrepreneurs who could not find a successor were in fact disappointed, but, collectively, the losses did not make the Québec economy collapse: 246,962 wage-earning jobs⁵ were still created from 2000 to 2006 in Québec.

HEADING FOR A SECOND WAVE?

Can we anticipate a catastrophe when the 45—54 year old entrepreneur group, which numbered about 56,500 people in 2007, will want to take a well-earned retirement in 5 to 10 years (for the older ones) and 10 to 20 years, if they are younger? There is legitimate reason for concern. Are all of these businesses slated for disappearance? Of course not, especially since concern about the transition is getting more and more media attention and financial institutions, governments, and experts in tax, legal and human resources issues are more and more well equipped. Moreover, if Québec’s economy has not broken down in the last few years, it is because phenomena besides demographics have come into play.

Table 4 – The main statistics on the retirement of SME owners – Who’s right?

<i>Source</i>	<i>Main observations</i>	<i>Succession plan</i>	<i>Other factors</i>
1999 Deloitte, Touche	75% of family business owners were planning to retire within 15 years (2014 horizon)	2/3 of those who want to retire have no firm succession plan	1/3 of family businesses thought the business should stay in the family
2003 Mass Mutual / Raymond Family Business Institute (United States)	40% of business owners (family) expected their firm to change hands in the next 5 years	42% of those who wanted to retire had not chosen a successor	Over 30% of family businesses do not survive the 2nd generation and only 30% survive into the 3rd
2004 CFIB - Succession Survey (Canada)	41% of Canada’s SME owners say they intend to leave their businesses within 5 years (2009 horizon) 31% of Québec SMEs think likewise 71% of Canada’s SME owners say they intend to leave their businesses within 10 years (2014 horizon)	1/3 of businesses have a succession plan: Most of these plans are informal	Retirement is the main reason for departure (reason cited by 82%)

Sources: Mass Mutual/Raymond Family Business Institute, Survey of American Business Owners, 2003, CFIB, 2004 and Desjardins, Economic Studies

Since the end of the 1990s, there has been a significant increase in participation and employment rates among those aged 55 and up, in both Québec and Canada as a whole. Since then, the employment rate has come close to 1976 levels, while the participation rate has matched it. The employment rate was 27.5% in 2007 among those aged 55 and up, while the participation rate was 29.3% for the same year.

Among those aged 55 to 59, both rates went up starting in 1999. The employment rate went from 48.5% in 1998 to 62.7% in 2007. For the 60 to 64 age group, the employment rate bottomed out in the mid-1990s (around 23%) and then began to increase, reaching the 1976 level, 35%. For the 65 to 69 age group, the rate declined until 2000 to under 6%, then bounced back to 13.6% in 2007, the mid-1970s level. The employment rate rising trend can also be detected in the over 70 age group, which went from a low of 2% in the early part of this decade to 3.5% in 2007.

Specialists estimate that it takes almost 10 years to prepare for the transition. By acting now, we prevent a disappointing future. What's more, the MDEIE is working on the question, and even included it as a line of action in its 2005—2008 strategic planning, calling it “renewal of the entrepreneurial base.” Here, many tools have been developed that can be accessed over the Internet with ease. Investissement Québec also runs the Relève PME program for SME transition, which allows potential buyers to finance up to 50% of the cost of acquiring a majority position in the desired business. The assistance takes the form of loan guarantees or direct loans.

In the meantime, all of the specialists that hover around businesses are forced to play back-seat driver and remind entrepreneurs that they have to plan for the succession. The need to act is especially crying as we are less and less able to rely on the emergence of new businesses to take over. The business creation rate has declined substantially since the 1980s. Currently, the cohorts of young people arriving on the job market are smaller than the ones that preceded them.

Yes, we can expect the number of businesses in Québec to decline in the years to come. The backbone of Québec's economy is not collapsing: it is evolving. This does not necessarily mean a nosedive by employment, as some would suggest. We cannot deny that the effect of demographics will be conclusive. However, we must avoid enshrining disaster

scenarios or, what's worse, applying them willy-nilly. We know that, for businesses with 20 or more employees, the transition from the first to second year of existence is critical. We also know that, when it is accompanied by an increase in employment, the decline in the number of businesses slowly leads to larger businesses. Bigger businesses have more strength for challenging the competition. Work must be done there, as well. Many other factors must be considered: There have been changes to the rules for international trade, the value of our currency, the health of North America's economy, commodities prices, etc. This is what *Perspective's* second article will focus on.

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¹ Enterprises that are kept on the Business Register “must meet one of the following criteria: It must have at least one paid employee (with payroll deductions remitted to the Canada Revenue Agency)” (formerly Revenue Canada), “it must have annual sales revenues of \$30,000, or it must be incorporated and have filed a federal corporate income tax return at least once in the previous three years.” (Industry Canada, Key Small Business Statistics, 2008).

² The “indeterminate” category includes establishments that may or may not belong to incorporated companies, and do not have a payroll deductions account with the Canada Revenue Agency. Their staff may be made up of contract workers, owners, or family members.

³ MDEIE, “Quelle est la contribution des PME à la création d'emplois?” (What do SMEs contribute to job creation?), June 2006, document available on request.

⁴ MDEIE, “Combien de dirigeants de PME prendront leur retraite d'ici cinq ou dix ans?” (How many SME leaders will retire within five or ten years?), October 2006. Document available on request.

⁵ According to Statistics Canada's Survey of Employment, Payrolls and Hours (SEPH).

REPORT: SMALL BUSINESS

When demographics and the “invisible hand” work together...

The number of Québec businesses identified in the Business Register has declined since the beginning of 2000. An aging population, mergers and acquisitions, the Canadian dollar's rapid appreciation, and the rise of China as a serious trading partner have all, in turn, shaken the foundations of Québec's corporations and small and mid-sized businesses. What is left, once the losses and gains have been counted? Which sectors have been affected? Have the resource regions lost the most? Can we predict what lies ahead, starting now?

MICROBUSINESS IS LARGELY DOMINANT IN SIX MAJOR SECTORS

In Québec, in 2007, 99% of businesses had fewer than 200 employees, according to the Business Register. This means that the economy's backbone is made up of SMEs. Microbusinesses are businesses that have from one to four employees. They account for 70% of all Québec businesses. Note that this proportion was 65% in 2000. Between 2000 and 2007, the number of businesses fell in every category of business size (see Table 1 in the previous article), except microbusiness.

There are six major economic sectors in which the weight of microbusinesses is above Québec's average (70%). In the lead are agricultural, forestry, hunting and fishing enterprises, with a share of 90% (see Table 5). In second, transportation and warehousing businesses account for close to 79% of microbusinesses, tied with professional, scientific and technical services and other services (personal services, repair services, etc.). Next are construction (75%), and real estate and rental and leasing services, at 73%.

The sectors with the lowest percentages of microbusinesses are public administration (47.2%), utilities (49.3%) and mining and oil and gas extraction (50.8%).

RETAIL TRADE, CHAMPION FOR THE NUMBER OF BUSINESSES

Unsurprisingly, retail trade ranks first for the total number of small and mid-sized businesses (1 to 199 employees), with over 26,000 businesses recorded in 2007 (see Table 6). It is followed by construction (almost 26,000), and “other services” (22,425). Professional, scientific and technical services (21,563) is in fourth place, followed by accommodation (17,472) in fifth place. Together, these five sectors account for over 50% of all Québec SMEs.

WHEN CONDITIONS ARE MORE PROPITIOUS

In seven sectors out of the twenty or so sectors in Québec's economy, the number of SMEs increased between 2000 and 2007. Table 6 sets out the number of sectors whose ranks swelled, and those in which the numbers declined. It's a snapshot: It does not show the attempts at start-ups during this time.

The housing sector frenzy did not only translate into housing starts and strong activity in resales. Construction SMEs increased their ranks with 1,578 new entities, up 6.5%. Housing construction peaked in 2004, so the number of SMEs should decline over the next few years. The spending frenzy in the renovation sector will lose speed as this pullback emerges. Moreover, note that the real estate and rental and leasing services sector also benefited from the housing market boom: It gained 97 SMEs, for an increase of 1.3%. The resale market is still very lively in 2008 in Québec and it could take several years before any tangible decline is recorded.

Table 5 – Relative importance of Québec microbusinesses*

Sectors	In %	
	In 2000	In 2007
Agri., fores., hunting and fishing	86.4	90.0
Transportation and warehousing	77.8	78.7
Prof., sci. and tech. services	74.6	78.7
Other services	74.4	78.6
Construction	68.0	75.0
Real estate and rental services	70.6	72.8
Adm., support and waste mgt serv.	67.4	68.7
Healthcare and soc. assistance	65.9	69.1
Arts, entertainment and recreation	65.1	63.7
Business management	63.8	67.7
Information industry	61.5	68.9
Average all sectors	64.9	69.6

* Businesses with 1 to 4 employees with a percentage of all businesses in their sector that is higher than 60%

Sources: Statistics Canada, Business Register, June 2007 and Desjardins, Economic Studies

This activity generated a demand for professional, scientific and technical services (+731 SMEs), which is up by 3.5%. This category, which covers the services of architects, lawyers, notaries, accountants and advertising services, benefited from the strength of the housing market. Aside from the push provided by housing activity, the research and development efforts deployed by research centres (optics, telecommunications, pharmaceuticals, neutraceuticals, biotechnology, etc.) also helped to create new businesses. Added to these is the proliferation of applications associated with information technology and the development of the video gaming industry. This sector is slated to expand and is proffering opportunities for development in the years to come.

There has been an increase in administrative and support, waste management and remediation services, which has 456 SMEs more than in the early part of the decade, for a gain of 4.5%. This broad category covers services as wide-ranging as employee placement, call centres, travel agencies, investigation and security services, landscaping, waste collection and recovery, to name just a few. The very strong job market probably inflated demand for placement agencies and recruiting of additional personnel. The growing concern for security probably helped security system and guard services. The rapid increase in housing starts benefited landscapers. During the same time, there was an increase of 284 SMEs in the arts, entertainment and recreation category, which rose 6.6%.

The aging population is a big factor in Québec's economic dynamic. An estimated 215 health care and social assistance SMEs were added between 2000 and 2007, for an increase of 1.3%. We could have expected more, but this figure does not take into account the failed attempts that were made from 2000 to 2007. Nonetheless, this sector could expand over the next few years, given the government's oft-repeated intention of focusing on keeping the elderly at home.

WHEN MARKET CONDITIONS SHIFT AGAINST US ...

If, on one hand, an increase in the number of businesses can be noted, on the other, the losses will be felt. The deployment of trade giants in Québec (like Wal-Mart, Home Depot, Leon's, Bureau en Gros, Rona-Réno, Archambault, Renaud-Bray, etc.), and the proliferation of power centres along major downtown streets have turned the retail world on its head. From 2000 to 2007, the balance of SMEs lost and created is negative. There are almost 3,200 fewer businesses with 1 to 199 employees, even though a plethora of new stores of all stripes have popped up. This is a non-trivial 10.8% of the retail SMEs that existed in 2000.

The Canadian dollar's appreciation, rising energy prices, intensified competition and tightening of trade rules (to name but a few factors) have seriously shaken the manufacturing sector, which lost 2,630 SMEs (2,641 businesses in all) from 2000 to 2007. In fact, this net loss of 15.5% of SMEs in the manufacturing sector shows how big the bloodbath has been: that's almost one out of six businesses.

It did not take the problem of aging entrepreneurs and a shortage of successors for the clothing and textile sectors to see a frightening number of SMEs forced to close their doors (230 SMEs disappeared in the textile sector, and over 900 SMEs in the clothing sector went under between 2000 and 2007).

Sawmills did not have to focus on the problem of replacing an aging staff, either. The declining market, trade wars and public opprobrium about the condition of the forest worked faster than demographics. Added to all stumbling blocks is intensified competition, which is nibbling away at Québec businesses' market share in Québec and in export markets. A look at Table 7 provides a glimpse of China's gains south of the border at the expense of Québec businesses. "Competitiveness losses" really hurt.

Table 6 – Balance of business creation and losses in Québec

Sectors	2000	2007	Variation
Retail	29 855	26 637	-3 218
Construction	24 285	25 863	1 578
Other services	24 318	22 425	-1 893
Prof., sci. and tech. services	20 832	21 563	731
Accommodation and food ser.	18 609	17 472	-1 137
Manufacturing	16 943	14 313	-2 630
Healthcare and soc. assist.	16 202	16 417	215
Agri., fores., hunting and fish.	14 449	13 011	-1 438
Wholesale	14 101	12 784	-1 317
Transp. and warehousing	12 518	12 031	-487
Adm., support and waste mgt.	10 091	10 547	456
Real estate serv.	7 758	7 855	97
Finance and insurance	6 121	5 286	-835
Arts, entertainment and recr.	4 320	4 604	284
Information industry	2 973	2 731	-242
Management	2 448	1 757	-691
Teaching services	2 038	2 100	62
Public adm.	1 672	1 411	-261
Mining and oil extrac.	398	293	-105
Utilities	137	107	-30

Sources: Statistics Canada, Business Register, June 2007 and Desjardins, Economic Studies

The restructuring of agricultural production into a more industrial style has reduced the number of farms. According to Business Register criteria, there were 13,011 SMEs in 2007, 1,438 fewer than in 2000. However, according to Statistics Canada’s Census of Agriculture, there were almost 30,000 farms in Québec in 2006. While the estimated number of operations can double depending on the source, in both databases, the trend noted is clear. The decline in the number of operations is real, at about 300 a year since the decade began. Of course, acquisitions are among the factors influencing the reduction in farm businesses, but the lack of a succession, the difficulty in recruiting workers, and tough conditions associated with certain kinds of production (like pork and beef) have incited many to throw in the towel.

Wholesaling has also lost players. The reorganization of distribution in several sectors (especially furniture), and the arrival of mega chains have disrupted this sector, which went from 14,101 to 12,784 SMEs between 2000 and 2007.

The soaring loonie did not just affect the manufacturing sector. The accommodation and food services sector has also been hurt. In addition to having to fight our strong dollar, it has had to deal with losing foreign tourists. After the events of September 11, 2001, Americans stayed home for a few years. Added to that are the short American recession in 2001, which limited business travel, and Toronto’s 2003 SARS episode, which sent negative ripples into all Canadian destinations. The number of accommodation and food services SMEs went from 18,609 at the start of the decade to 17,526 in 2007: a net loss of 1,137 SMEs. Food services has a high bankruptcy rate, and the figures shown here do not express the high business creation activity and business disappearances that characterize this sector. To the above mentioned problems add the problems with recruiting labour. The schedules, pay and working

conditions scare many off. Potential candidates are being courted by many employers right now. The aging workforce and deployment of new fast-food chains (Taco Bell, Scores, Boston Pizza, etc.) will shake up the sector in the next few years.

On the face of it, business disappearances cannot only be chalked up to aging entrepreneurs and the problems in management succession, even if this does account for much of the equation. We should also note that just over 50% of new businesses disappear within the first five years and, of the survivors, another 20% disappear in the five following years. If these businesses are created under tougher economic conditions, like in the early part of the decade, this percentage can be higher. What’s more, the increasing overlapping of economies creates business opportunities, but it also creates competition. In short, the “invisible hand” referred to by Adam Smith, a famous British economist or, if we take a less romantic vision, market forces, have been working full out since the decade began. We have recorded gains and losses since 2000. The balance is negative and will remain that way given current conditions and the existing demographic trends. To act, we need to know where business gains and losses are happening in Québec.

WHERE THE PEOPLE GO, SMALL BUSINESS GOES?

A review of the regional data reveals major disparities. The data for Québec’s regions are available until 2006. They were compiled by the Institut de la statistique du Québec (ISQ, Québec’s statistics agency) from Statistics Canada’s Business Register. Of Québec’s 17 administrative regions, the ones around Montréal saw the number of businesses in their territories increase between 2000 and 2006. Note that Québec as a whole saw the total number of businesses decrease during this period (see Table 8).

Table 7 – Main products for which Québec recorded competitiveness losses with the United States between 1991 and 2004

<i>Products according to the Standard International Trade Classification (SITC) (in thousands of \$)</i>	<i>Competitiveness gains or losses compared to all nations</i>	<i>Main competitiveness losses to China</i>
Electrical machinery and equipment	-5,870,115	-1,449,673
Paper, paperboard and articles thereof	-2,511,487	-564,441
Telecommunications equipment	-325,828	-305,449
Furniture	317,276	-301,728
Office machines and automatic data-processing machines	-361,022	-260,427
Manufactured metal goods	275,428	-243,612
Special transactions	-2,918,082	-213,101
Miscellaneous manufactured articles	519,636	-207,473
Nonferrous metal	-826,092	-128,800
Coal, coke and charcoal	-384,299	-127,049
Total of the 15 main products	-10,960,036	-4,140,092
Total	-3,592,519	-4,235,113

Sources: MDEIE, OECD, Statistics Canada and Institut de la statistique du Québec

The ranks of small and mid-sized business (1 to 199 employees) were decimated throughout the province, except in Lanaudière and the Laurentians. During the 2000—2006 period, Québec's population grew 4%, whereas, in Lanaudière, demographic growth was 10.6%, and 11.8% in the Laurentians. Where the people go, small business goes? It's tempting to believe it... but it's not the only criteria that matters. As evidence, the Montréal administrative region (the territory of the Island of Montréal) saw its population grow 2.2% during that period. Simultaneously, the number of SMEs fell by 9.2%. Despite the population increase, there were about 5,400 fewer businesses in the city between 2000 and 2006.

Table 8
Evolution in the number of SMEs*

Adm. regions	Businesses		Evolution
	2000	2006	2000-2006
	Number	Number	Number
Bas-Saint-Laurent	8,545	7,622	-923
Saguenay– Lac-Saint-Jean	8,986	7,787	-1,199
Capitale-Nationale	18,831	17,710	-1,121
Mauricie	8,232	7,342	-890
Estrie	9,701	9,061	-640
Montréal	59,213	53,790	-5,423
Outaouais	6,685	6,566	-119
Abitibi-Témiscamingue	5,316	4,532	-784
Côte-Nord	3,105	2,630	-475
Nord-du-Québec	768	761	-7
Gaspésie– Îles-de-la-Madeleine	4,315	3,803	-512
Chaudière-Appalache	14,223	13,119	-1,104
Laval	9,727	9,726	-1
Lanaudière	11,820	12,104	284
Laurentides	14,209	15,143	934
Montérégie	38,696	37,843	-853
Centre-du-Québec	8,765	8,135	-630
All of Québec	231,137	218,427**	-12,710
Resource regions	39,267	34,477	-4,790
Central regions	39,374	36,881	-2,493
Capitale-Nationale	18,831	17,710	-1,121
Montréal	59,213	53,790	-5,423
Around Montréal	74,452	74,816	364

* 1 to 199 jobs

** The total is higher than the sum of its parts because some businesses are not in all regions.

Note: The data are as at December 2000 and December 2006.

Sources: Statistics Canada, Institut de la statistique du Québec and Desjardins, Economic Studies

It would, in fact, be more accurate to say “when the population grows quickly, SMEs have a chance to emerge.” By extension, when the population declines, companies pull up stakes: this has been noted many times. This is exactly what happened between 2000 and 2006, especially in resource regions, which lost just over 12% of their SMEs (from 4,700 to 4,800 businesses with 1 to 199 employees) (see Table 8). However, it would be overly simplistic to chalk up the decrease in the

number of SMEs only to the demographic issue in the resource regions. This would restrict analysis to just one dimension. We know that forestry and lumber companies are almost all located in these regions, and their problems are responsible for many closures. Agriculture is also present, though not exclusively, in these regions. In-shore and estuary fishing, also practiced in the resource regions, is not what it was, which is gradually making businesses disappear. These events tend to accentuate the depopulation of the regions, making local businesses leave.

In the central regions¹ and the Outaouais, the balance from 2000 to 2006 is negative. There are almost 2,500 fewer SMEs, a decline of 6.3%. The agriculture and manufacturing sectors have lost players, but the losses are heaviest in the services. During this time, population growth was just above the Québec average (4.4% and 4.0% respectively). If we compare the growth of the central regions (Chaudière-Appalaches, Estrie and Centre-du-Québec) and the Outaouais, the first group's population increase was 3.4%, while the Outaouais' was 8.7%.

MANUFACTURING SECTOR: THE HEAVIEST LOSSES ARE IN MONTRÉAL

From 2000 to 2007, the relative size of Québec manufacturing SMEs located in the Montréal administrative region (Island of Montréal) went from 32.2% to 28.3%. The island also had the biggest concentration of clothing manufacturing businesses, a sector that was hard hit when the borders opened and tariff protections were dropped this decade. In fact, the balance for Montréal manufacturing SME creations and losses is as follows: a loss of 23.2% of the manufacturing businesses that Montréal had in 2000. This is a much darker picture than the Québec average, which was around 13%.

Yet Montréal is not alone when it comes to lost manufacturing SMEs. The Montérégie and Capitale-Nationale regions also absorbed declines (with -212, or 7.2% of SMEs, and -112 or 9.8% of SMEs respectively during the same period). All Québec regions have lost SMEs except for the Laurentians, which has the same level in 2000 and 2006.

SME losses were recorded in the primary sector in all Québec regions from 2000 to 2006. The agricultural sector is being redefined, changing the way things are done on the farm, as well as in Québec as a whole. Montérégie, Chaudière-Appalaches and Centre-du-Québec have the largest number of agricultural operations, and are not resource regions. Alone, they had 40% of the primary sector's SME losses. Added to this are the losses in Bas-St-Laurent and Saguenay-Lac-St-Jean, respectively estimated at 10.6% and 15.5% of regional SMEs in the primary sector. In both regions, we include forestry SMEs that had to deal with a drop in demand, collapsing prices, and a cut to forestry potential.

Except for the Laval and Laurentians regions, the number of SMEs in the service sector declined across Québec from 2000 to 2006. This does not surprise anyone, given the sizeable population increase in Montréal's northern crown, especially in these two regions. For its part, the construction sector made the biggest gains in areas with the most frenzied housing activity. The three winners are the Laurentians, with over 600 new construction SMEs, Montérégie (over 500) and Lanaudière (over 400).

All in all, there was growth in the number of SMEs in the region surrounding Montréal, particularly the Laurentians and the Lanaudière region. This does not rule out business creation elsewhere in Québec but, in the other administrative regions, the number of closures (mergers, in some cases) won out over the creation of new businesses. Montréal leads the way here, followed by Saguenay-Lac-Saint-Jean, Capitale-Nationale, Chaudière-Appalaches, Bas-Saint-Laurent, Mauricie and Abitibi-Témiscamingue. Note that the number of wage-earning positions rose rather than fell during this time.

WHAT SHOULD WE BE WORRIED ABOUT?

Is the decline in the number of SMEs a disaster for Québec's economy? Not in the short run, if we look at the job market, especially the substantial job creation in Québec since the decade opened. We are seeing a real "changing of the guard." Jobs in the primary and secondary sectors are declining, to the benefit of jobs in the tertiary sector.

Still, we must be vigilant. Although demographics has served us well to date, it could play tricks in the near future: here's how. The replacement rate is declining, that is, the number of people old enough to enter the job market (20 to 29 year olds) divided by the number of people likely to leave the job market (55 to 64 year olds). It could be under 100, equilibrium, around 2010 to 2012. However, we have to be careful in interpreting the data. With the increase in life expectancy and the substantial increase in the participation rate by those aged 55 and up (see the previous article), the outlook has changed somewhat. The imminence of the disaster that some analysts have been expecting tends to become somewhat less dramatic. It is still worrisome, however.

Some sectors are in more jeopardy because they need a big investment of time and money: in a way, these are barriers to entry. The agricultural sector is one of them. The issues in agriculture are well documented and under a close focus. This does not mean that all of the obstacles have been removed, however. Along with the monetary constraints comes a very special work schedule that is not for everyone. Other sectors are more exposed because of harsh working conditions: work

in the forests and mines falls into this category. Frequently, the demands go beyond the work itself: The work means being far away from urban settings, and abnormal work schedules. Recruiting problems are real, and will remain so.

In another capacity, the food services sector also faces a labour shortage. Irregular hours, the required pace and compensation are among the complaints of industry workers.

AS YOUNG WORKERS WILL BE VERY MUCH IN DEMAND, THEY WILL BE HIGHLY COURTED...

Labour is likely to be less available and less interested in creating new businesses. The population aging phenomenon was already noted in the 1990s, when the business creation rate was lower than it had been in the 1980s (at 12% and 20% respectively). The rate will be even lower as the number of available positions will be high because of retiring baby boomers. According to Emploi-Québec's estimates, 440,000 jobs will open between 2006 and 2010 as people retire. Will these plans be scaled back due to the 55 and up age group's greater participation in the job market? Possibly.

Table 9 – Evolution in the number of microbusinesses*

<i>Adm. regions</i>	<i>Microbusinesses</i>		<i>Evolution</i>
	<i>2000</i>	<i>2006</i>	<i>2000-2006</i>
	<i>Number</i>	<i>Number</i>	<i>Number</i>
Bas-Saint-Laurent	6,325	5,723	-602
Saguenay– Lac-Saint-Jean	6,095	5,439	-656
Capitale-Nationale	12,047	11,487	-560
Mauricie	5,782	5,245	-537
Estrie	6,782	6,477	-305
Montréal	34,419	34,210	-209
Outaouais	4,520	4,566	46
Abitibi-Témiscamingue	3,720	3,223	-497
Côte-Nord	2,039	1,778	-261
Nord-du-Québec	448	485	37
Gaspésie– Îles-de-la-Madeleine	3,141	2,941	-200
Chaudière-Appalaches	10,251	9,638	-613
Laval	6,251	6,543	292
Lanaudière	8,438	8,874	436
Laurentides	9,744	10,764	1,020
Montérégie	26,310	26,737	427
Centre-du-Québec	6,186	5,944	-242
All of Québec	152,498	150,633	-1,865

* 1 to 4 jobs

Note: The data are as at December 2000 and December 2006.

Sources: Statistics Canada, Institut de la statistique du Québec and Desjardins, Economic Studies

Some analysts think that Québécois create businesses out of economic necessity.² Insofar as there is a proliferation of job opportunities, they will be less tempted to start their own businesses. This argument can be seen as a bar to entrepreneurship. Nonetheless, there will always be people who want to run their own projects, and others who want to be their own bosses. We can guess, however, that this factor will have more weight where the population is aging more quickly, as the business start-up rate is much higher among those under the age of 35.

SOLUTIONS?

There are ways to combat the loss of SMEs and the allied jobs. These means are known, and must be used in combination. They are not a panacea, but the advantage is that they can be put to work quickly.

People must be kept in the workforce longer. This way, they do their work and can pass on their knowledge to the younger people in businesses: in fact, they train the next generation. Another approach lies in the hands of the many actors (governments, financial institutions, universities, notaries, lawyers, human resources consultants, job market analysts, etc.) who must spread the word about the next generation of entrepreneurs and develop support tools. Many tools are already in place but the message still does not seem to be getting across. It's true that it may not be very nice to remind somebody that, one day, he will have to let someone else take over, but we cannot let go of the reins. Québec needs businesses—both large and small—to ensure its prosperity. Big companies were small ones at first, and grew to be mid-sized businesses. To give them the opportunity to become medium-sized or large, we have to make sure we pass on the torch in senior management. Here, a work group on SME governance in Québec, led by Michel Audet, a former Québec finance minister, was set up in December of 2007. Made up of about fifteen experts, the group is to table its report at the end of April 2008.

Putting young people into a context where they can learn entrepreneurship is another way to encourage entrepreneurial vocations. Doing more to encourage exchanges between successful business people and the coming generation, who want to build and grow businesses, is one of the strategies to promote.

Nor can we overlook existing businesses that are fighting for survival. Entrepreneurs and governments must both promote productivity gains. These occur through workplace training and increased investment. In this capacity, government should make sure it provides accessible, quality education while encouraging businesses to give their employees ongoing training. The training of laid-off employees is among the arsenal of tools to deploy.

Support for business also occurs through an adequate network of quality, public infrastructures. It also lies in abolishing the tax on capital for businesses in all sectors of the economy.

Businesses that are faced with an eventual departure by the business owner should be coached through the transition to a new generation of entrepreneur. Simultaneously, we need to take steps to encourage the development of new firms. A declining business creation rate restricts our ability to renew and innovate through the play of competition. It results in the creation of fewer businesses. This is even more important in the context of the globalization of trade, in which we are trying to stand out in order to hang onto our market shares and, in the end, our jobs.

Joëlle Noreau
Senior Economist

with the collaboration of Louis Gagnon
Economist

¹ Central regions: Mauricie, Estrie and Chaudière-Appalaches

² Nathaly Riverain, of the Global Entrepreneurship Monitor, Interview in Jobboom Magazine, June 2004 issue.

INTERPROVINCIAL SHOWCASE

Where is Canada's small business heartland?

Canada has about a million small businesses, and the vast majority of them are located in four provinces. Québec has already been touted as Canada's small business heartland; in light of the information available on other provinces, some could dispute the title, for a variety of reasons.

SMALL BUSINESS' FOUR STARS

Four Canadian provinces have over 80% of Canada's small businesses and corporations. Ontario has 33%, Québec has about 23%, and British Columbia and Alberta have about 14% each. With the boom in the oil sector, Alberta's share tends to increase. Opportunities for getting into business are plentiful out west.

It is hard to compare the contributions that small businesses make to each province's GDP. However, British Columbia's Stats service¹ has created a measurement for small businesses with fewer than 50 employees or operated by someone who is self-employed and has no paid employees (see Table 10). The average established for 1993 to 2005 shows that, in Canada, small business has a share of 23.9%. In British Columbia, the average is 28.6%, a rate that has come down substantially, from 32% in 1993 to 26% in 2004 and 2005. The lowest rates were recorded in Newfoundland, Ontario and Manitoba. While the rates in Québec, Ontario, Nova Scotia, New Brunswick and Manitoba were fairly stable or only edged down from 1993 to 2003, they declined everywhere else, and went down substantially in Newfoundland, British Columbia and Alberta.

Table 10 – Contribution to GDP by small business (<50 employees)

Average 1993 to 2005	In %
Province	
Newfoundland and Labrador	18.0
Prince Edward Island	28.4
Nova Scotia	24.1
New Brunswick	23.9
Québec	25.0
Ontario	22.0
Manitoba	22.5
Saskatchewan	25.1
Alberta	23.9
British Columbia	28.6
Canada	23.9

Note: Businesses with less than 50 employees or run by a self-employed person with no paid employees.

Source: British Columbia Stats service, extract from Industry Canada's Key Small Business Statistics, January 2008 edition

DIFFERENCES IN THE 55 AND UP AGE GROUP

In Canada, the proportion of entrepreneurs aged 55 and up tended to increase from 2002 to 2007. It went from 22.7% to 26.6%, shrinking the 25 to 54. The proportion of 45 to 64 year olds went from just below 50% to just over 50% during that time, almost nationwide. Québec, Ontario and Alberta are part of this trend.

Looking at those aged 55 and up, the proportion of this category of entrepreneurs in Ontario's total did not really increase from 2002 to 2007: it stayed around 25% to 26%. It went from 20.5% to 26.9% in Québec and, in Alberta, went from 19.9% to around 24% in 2007. However, Alberta stands out for the contribution from the 15 to 24 year old group, which constituted only 0.1% of entrepreneurs in 2002 but 1.5% in 2007. The boom associated with oil and gas operations has created new opportunities.

In all provinces, the participation and employment rates of workers aged 55 and up have increased, especially since the end of the 1990s (see Table 11). This is in line with the increase in ranks of entrepreneurs aged 55 and up. Despite the influx of young workers due to interprovincial migration, those aged 55 and up are very present in the Alberta job market. While Canada's average participation and employment rates were around 33% and 31.7% in 2007, in Alberta, they

Table 11 – 55 years and over: participation and employment rates

In 2007	Particip. rate	Employ. rate
Province		
Newfoundland and Labrador	26.8	23.0
Prince Edward Island	36.1	32.2
Nova Scotia	28.7	26.8
New Brunswick	29.5	27.5
Québec	29.3	27.5
Ontario	34.4	32.8
Manitoba	35.0	33.8
Saskatchewan	36.7	35.6
Alberta	43.5	41.4
British Columbia	33.2	32.0
Canada	33.3	31.7

Sources: Statistics Canada, LFS and Desjardins, Economic Studies

were 43.5% and 41.4%, respectively. Since 1976, Alberta has always recorded rates that are above the national average. However, since the end of the 1990s, the difference from the average has tended to grow substantially.

THE WEST: BUSINESS CREATION CHAMPION?

Using the data published by Statistics Canada on Business Dynamics,² we can calculate the creation rate and disappearance rates for businesses. The organization divided businesses into four categories (Table 12). Clearly, small business is the most dynamic. Regardless of the period being considered, this rate is much higher than that of all other categories. Alberta and British Columbia have the highest rates, while Québec is being beaten in almost all categories.

Simultaneously, we can calculate the rate of disappearance. As data are only available until 2003, the five-year average is calculated as of 1999 (Table 13). There, too, Alberta and British Columbia outstrip Québec and Ontario (0 to 19 employees). In other words, places where business creation is most intense also have the highest business mortality rates. More numerous attempts result in more failures. The mortality rate is correlated to the creation rate.

Also, the difference between the creation and mortality rates in various categories of business is lower in Québec than in Ontario, Alberta and British Columbia. For the 1999 to 2003 period, for instance, for businesses with 0 to 19 employees, the difference between the creation and mortality rate is 0.4% in Québec, while it is 2.0% in Ontario, 2.8% in Alberta, and 1.5% in British Columbia.

Table 12
Business creation rate

Average over 5 years 2000-2004 - In %
Business size according to number of employees

	0-19	20-99	100-499	500+
Québec	12.4	1.6	0.8	0.4
Ontario	14.8	2.2	1.2	0.4
Alberta	15.9	2.0	0.9	0.3
British Columbia	15.2	1.9	0.8	0.3
Canada	14.6	2.1	1.1	0.6

Sources: Statistics Canada, Business Dynamics and Desjardins, Economic Studies

Table 13
Business disappearance rate

Average over 5 years 1999-2003 - In %
Business size according to number of employees

	0-19	20-99	100-499	500+
Québec	12.0	2.1	1.7	0.6
Ontario	12.8	2.2	1.3	0.6
Alberta	13.1	2.0	1.1	0.3
British Columbia	13.7	1.8	1.0	0.7
Canada	13.1	2.1	1.5	0.7

Sources: Statistics Canada, Business Dynamics and Desjardins, Economic Studies

Interestingly, population growth from 2001 to 2006 was 4.3% in Québec, 6.6% in Ontario, 10.6% in Alberta and 5.3% in British Columbia. Stronger demographic growth, combined with a better economic situation, has certainly played in favour of business growth in western Canada.

A glance at manufacturing sector data shows that, across Canada, the creation rate for manufacturing businesses fell during the 1995—1999 and 2000—2004 periods. Ontario has the lowest rate for the second period, with a rate of 7.8% (8.4% for Québec, 9.2% in Alberta and 9.6% in British Columbia). The disappearance rate also declined, and is also lowest in Ontario. However, the difference between these two rates is negative in all four provinces, which is a clear illustration of the problems the manufacturing sector is having across the country.

In short, the small business boom is not Québec's exclusive prerogative. In recent years, the West has stood out for its dynamic economy and population, and a proliferation of small businesses. The increase in crude oil prices will support exploration activity and the operation of oil reserves. However, the economy's growth will not be as spectacular as it has been in recent years. Also, population growth will be slower. As long as Québec and Ontario are faced with restrictive economic conditions (high dollar, intense competition, strong dependence on exports to the United States) and energy prices remain high, Alberta will remain Canada's business creation champion.

Joëlle Noreau
 Senior Economist

¹ Industry Canada, Key Small Business Statistics, January 2008, p. 27
² Statistics Canada, Business Dynamics in Canada, 2003, published in 2006, Catalogue no. 61-534-XIE.

FORECAST TABLES

Table 14
Canada: Major economic indicators

	2005	2006	2007	2008 ^f	2009 ^f
Annual average in % (except if indicated)					
Real gross domestic product*	3.1	2.8	2.7	1.3	2.1
Personal consumption expenditures	3.8	4.2	4.7	5.2	4.6
Residential construction	3.5	2.1	3.2	3.2	1.2
Business fixed investment	10.8	9.9	4.4	5.6	5.4
Inventory change (\$B)	13.5	10.2	10.8	16.4	11.4
Public expenditures	3.2	3.9	3.7	5.4	3.6
Exports	2.2	0.7	0.9	-4.7	-0.1
Imports	7.5	5.0	5.7	7.6	5.0
Final domestic demand	4.5	4.7	4.3	5.0	4.0
Other indicators					
Real disposable personal income	2.6	4.9	4.0	4.6	3.5
Weekly earnings	3.2	3.0	3.2	3.3	2.6
Employment	1.4	1.9	2.3	1.7	1.3
Unemployment rate (in %)	6.8	6.3	6.0	6.0	5.9
Housing starts (in thousands)	225.5	227.4	228.3	216.5	197.0
Corporate profits** (1)	11.9	5.0	5.8	1.2	4.1
Personal savings rate (in %)	1.6	2.3	1.5	0.9	0.2
Total inflation rate (1)	2.2	2.0	2.2	1.9	1.3
Core inflation rate*** (1)	1.6	1.9	2.1	1.3	1.1
Federal gov't balance (\$B) (2)	2.0	8.5	10.6	7.0	10.8
Current account balance (\$B)	27.9	23.6	14.2	-21.3	-36.0

f: forecasts

* 2002 \$ ** Before taxes *** Excluding food and energy (1) Annual change (2) National accounts

Sources: Statistics Canada, Canada Mortgage and Housing Corporation and Desjardins, Economic Studies

Table 15
Québec and Ontario: National accounts

	2005	2006	2007 ^f	2008 ^f	2009 ^f
Annual average in % (except if indicated)					
Québec					
Real gross domestic product	2.0	1.7	2.4	1.2	1.9
Personal consumption expenditures	3.1	3.0	3.7	3.2	3.4
Residential construction	-0.8	-1.1	6.5	2.2	-0.1
Business fixed investment	-3.0	7.6	7.1	7.4	4.8
Inventory change (\$B)	2.9	1.5	1.0	1.6	0.9
Public expenditures	2.0	2.8	4.1	5.1	3.7
Exports	3.0	1.7	-1.5	-2.7	0.9
Imports	4.4	3.2	1.7	3.0	3.1
Final domestic demand	1.9	3.0	4.1	4.0	3.4
Ontario					
Real gross domestic product	2.9	2.1	2.1	0.5	1.5
Personal consumption expenditures	3.6	3.5	3.7	4.6	4.1
Residential construction	1.8	1.1	0.7	0.4	-0.3
Business fixed investment	7.8	11.0	7.7	6.7	4.7
Inventory change (\$B)	3.6	3.3	7.1	12.0	10.0
Public expenditures	3.1	3.7	2.5	3.6	3.1
Exports	2.2	-0.2	1.1	-2.6	0.6
Imports	3.9	2.7	4.2	4.7	3.3
Final domestic demand	3.7	4.1	3.6	4.4	3.7

f: forecasts

Sources: Statistics Canada and Desjardins, Economic Studies

Table 16
The regions: GDP growth in current dollars

	2005	2006	2007f	2008f	2009f
Annual average in %					
Bas-Saint-Laurent	2.4	3.6	3.8	2.6	2.6
Saguenay—Lac-Saint-Jean	2.2	4.1	5.0	3.3	2.1
Capitale-Nationale	4.8	4.2	4.8	3.5	2.6
Mauricie	4.3	3.4	2.2	2.0	2.0
Estrie	2.8	3.4	3.1	3.7	2.5
Montréal	3.3	4.6	3.4	3.4	3.8
Outaouais	3.9	4.5	3.5	2.6	3.1
Abitibi-Témiscamingue	6.8	2.6	7.1	8.5	3.9
Côte-Nord	9.2	2.8	0.4	2.6	2.3
Nord-du-Québec	6.8	2.5	18.3	4.5	4.3
Gaspésie—Îles-de-la-Madeleine	1.1	3.4	3.9	5.4	2.2
Chaudière-Appalaches	3.4	3.3	5.0	2.3	2.1
Laval	4.8	4.7	4.0	2.8	3.6
Lanaudière	6.1	4.1	3.9	4.3	4.1
Laurentides	6.0	4.7	4.1	3.4	3.0
Montérégie	3.9	4.4	5.1	4.4	3.6
Centre-du-Québec	5.0	3.7	4.2	2.6	2.8
Total Québec	4.0	4.2	4.1	3.5	3.3

f: forecasts

Sources: Institut de la statistique du Québec and Desjardins, Economic Studies

Table 17
Canada: Major financial indicators

End of period in %	2007				2008				2009			
	Q1	Q2	Q3	Q4	Q1	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
Key rates												
Overnight funds	4.25	4.25	4.50	4.25	3.50	2.75	2.50	2.75	3.25	3.50	3.50	4.00
Prime rate	6.00	6.00	6.25	6.00	5.25	4.50	4.25	4.50	5.00	5.25	5.25	5.75
Mortgage rates												
1-year	6.40	6.80	6.95	7.25	7.00	6.15	6.10	6.10	6.15	6.20	6.15	6.20
5-year	6.50	7.25	7.15	7.55	7.15	6.75	6.70	6.80	6.85	6.75	6.75	6.90
Treasury bills												
3-month	4.18	4.43	3.98	3.83	1.88	2.20	2.65	3.10	3.35	3.55	3.75	4.15
Federal bonds												
5-year	4.01	4.56	4.21	3.87	2.91	3.15	3.30	3.60	3.85	4.00	4.20	4.50
10-year	4.11	4.55	4.34	3.99	3.43	3.55	3.70	3.90	4.05	4.15	4.40	4.70
Canadian dollar												
American dollar (CAD/USD)	0.8669	0.9389	1.0056	1.0021	0.9748	0.9700	1.0000	1.0250	1.0000	0.9800	1.0200	1.0500
Canada												
S&P/TSX index	Result: 13,833 (+7.2%)				Target: 14,250 (+3.0%) (range: from 12,550 to 14,750)				Target: 15,675 (+10.0%) (range: from 14,175 to 16,675)			

f: forecasts

Sources: Datastream and Desjardins, Economic Studies

Table 18
Canada: Major economic indicators by provinces

	2005	2006	2007	2008f	2009f
Annual average in % (except if indicated)					
Real GDP growth*	3.1	2.8	2.7	1.3	2.1
Atlantic	1.0	2.2	2.0	1.0	2.0
Québec	2.0	1.7	2.4	1.2	1.9
Ontario	2.9	2.1	2.1	0.5	1.5
Manitoba	2.7	3.2	3.0	1.7	2.0
Saskatchewan	3.5	-0.4	3.5	2.5	2.5
Alberta	5.3	6.6	4.5	3.0	3.5
British Columbia	4.5	3.3	3.0	2.0	3.0
Inflation rate*	2.2	2.0	2.2	1.9	1.3
Atlantic	2.6	1.9	1.8	1.5	1.0
Québec	2.3	1.7	1.6	1.9	1.5
Ontario	2.2	1.8	1.8	1.6	1.0
Manitoba	2.7	2.0	2.0	1.8	1.4
Saskatchewan	2.2	2.1	2.8	2.5	2.0
Alberta	2.1	3.9	5.0	3.0	2.5
British Columbia	2.0	1.7	1.8	1.8	1.5
Employment growth*	1.4	1.9	2.3	1.7	1.3
Atlantic	0.2	0.5	1.4	0.5	0.3
Québec	1.0	1.3	2.3	1.4	1.7
Ontario	1.3	1.5	1.6	1.2	0.7
Manitoba	0.6	1.2	1.6	1.5	1.0
Saskatchewan	0.8	1.7	2.1	3.0	2.0
Alberta	1.5	4.8	4.7	3.5	2.5
British Columbia	3.3	3.1	3.2	2.0	2.0
Unemployment rate*	6.8	6.3	6.0	6.0	5.9
Atlantic	10.3	9.8	9.1	9.0	9.1
Québec	8.3	8.0	7.2	7.0	6.7
Ontario	6.6	6.3	6.4	6.6	6.9
Manitoba	4.8	4.3	4.4	4.2	4.1
Saskatchewan	5.1	4.7	4.2	4.0	3.7
Alberta	3.9	3.4	3.5	3.5	3.3
British Columbia	5.9	4.8	4.2	4.0	3.8
Retail sales growth*	5.6	6.4	5.8	5.2	6.4
Atlantic	2.8	5.6	6.2	4.8	5.0
Québec	5.1	5.1	4.3	3.4	5.3
Ontario	4.8	4.1	4.0	4.6	5.9
Manitoba	5.9	4.5	9.4	6.5	6.5
Saskatchewan	5.2	6.5	12.9	9.5	8.0
Alberta	11.8	15.6	9.0	8.0	9.0
British Columbia	4.4	6.8	7.1	5.5	6.5
Housing starts* (thousands of units)	225.5	227.4	228.3	216.5	197.0
Atlantic	12.1	12.0	12.4	10.9	9.9
Québec	50.9	47.9	48.6	45.0	41.0
Ontario	78.8	73.4	68.1	67.6	59.4
Manitoba	4.7	5.0	5.7	5.3	4.5
Saskatchewan	3.4	3.7	6.0	5.5	5.0
Alberta	40.8	49.0	48.3	45.0	42.0
British Columbia	34.7	36.4	39.2	37.3	35.3

f: forecasts

* Data for Canada.

Sources: Statistics Canada, Canada Mortgage and Housing Corporation and Desjardins, Economic Studies



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