



# **Canadian Small Business — Back In High Gear**

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## A Note from CIBC Small Business Banking



Rob Paterson, Senior Vice President,  
CIBC Small Business Banking

As the number of self-employed Canadians approaches 2.5 million, the small business sector is becoming increasingly vital to Canada's economic health. In fact, two years ago, CIBC predicted that one out of every five Canadians will be working for themselves by the end of the decade. We are seeing strong indicators that this growth is materializing. Since 2002, this country has gained more than 200,000 entrepreneurs. In the next two years, we expect another 150,000 to 200,000 to make the same decision. This pace is likely to accelerate in the second half of the decade.

To reach our goal of being the number one bank for small business in Canada, CIBC needs to be ahead of the curve in our understanding of entrepreneurs and the factors at work in their lives. For this reason, CIBC Small Business Banking is proud to commission our annual CIBC World Markets Small Business report, which explores the current state of Canadian small business and the prospects for the sector in the next 12 to 24 months. The outlook is promising, with small business growth expected to continue to outpace growth in the Canadian economy as a whole. The report also takes an in-depth look at the changing nature of small business, including the predominance of micro businesses with fewer than five employees and the increasing number of entrepreneurs over the age of 55.

CIBC is committed to helping these entrepreneurs succeed – by providing both timely and relevant information regarding the small business sector and innovative product solutions. We also believe in encouraging the growth of an entrepreneurial culture, particularly among young people. As the ranks of the self-employed grow, we will be there to support them. The success of our nearly 470,000 small business clients is our priority. CIBC has more than 1,300 small business advisers across the country who are dedicated professionals, working alongside entrepreneurs to help them address the financial priorities of their businesses.

I hope you find the information in this report as interesting as I did. If you would like to find out more about CIBC Small Business Banking, please visit [www.cibc.com/smallbusiness](http://www.cibc.com/smallbusiness).

Regards,



**Rob Paterson,**  
**Senior Vice President,**  
**CIBC Small Business Banking**

# EXECUTIVE SUMMARY

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- Following a two-year slump which began in 2000, small business activity in Canada is back in high gear. Since 2002, self-employment has risen by 200,000, or 9 percent — more than double the pace of growth seen among private sector salaried employees.
- Self-employment growth has occurred within the context of relatively healthy labour market conditions, implying that many of these new entrepreneurs were not pushed into starting a business, but rather chose to do so. The exception here may be older Canadians, who are more likely to have been forced into entrepreneurship after a negative change in their employment situation.
- Business conditions among existing firms are improving, with a growing number of small firms in the manufacturing sector reporting increased new orders and reduced difficulties with working capital.
- Business bankruptcies continue to decline, albeit at a slowing pace. The improvement is broadly-based, both geographically and by sector.
- Interest rates on both sides of the border are likely to rise in the coming twelve months, but the increases are projected to be gradual and moderate. This will limit the impact on small firms, which, in general, are more sensitive to higher interest rates due to their reliance on credit and their dependency on household spending.
- Overall, the CIBC World Markets Small Business Economic Activity Index is well on its way to registering 4.3 percent growth in 2004, well above the projected growth for the economy as a whole. We expect the number of self-employed Canadians to grow by 150,000 to 200,000 over the next two years.

## EXECUTIVE SUMMARY, CONTINUED

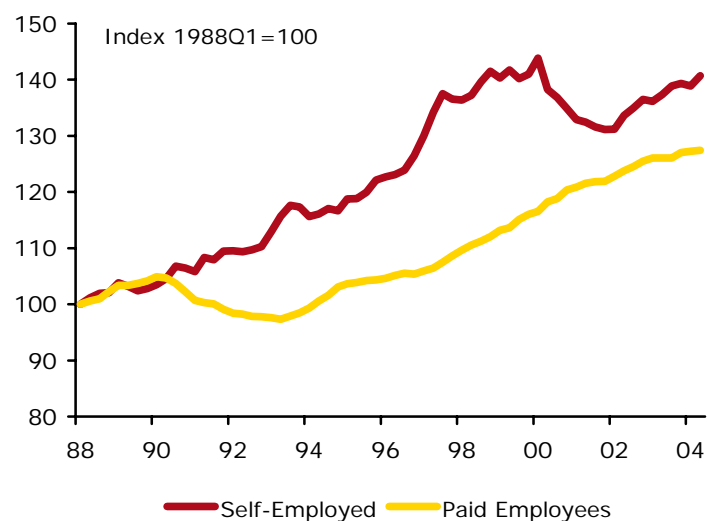
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- While Canadian small businesses are multiplying, they are also getting smaller. In 2003, all of the growth in business formation was concentrated among micro businesses (operations with fewer than five employees).
- Despite the recent improvement in small business economic activity, small business credit has not risen materially in recent years. The main factor here is the notable decline in the average size of loans, which, in turn, reflects the growing proportion of micro businesses in the small business sector. Usage of personal credit for business purposes continues to play a role here.
- One of the most striking developments in the small business sector in recent years has been the rapid growth in the number of entrepreneurs age 55 and over. Since early 2001, the number of firms run by older Canadians has risen by 140,000 (30 percent) — by far the fastest growing segment in the small business sector. These “seniorpreneurs” currently account for one in four self-employed individuals in Canada and constitute more than 30 percent of the total workforce over the age of 55.
- Long-term demographic trends suggest that older entrepreneurs will play an even more important part of economic activity in Canada, as the population ages and the traditional workforce age cohort declines.
- Ontario is leading the way in terms of small business formation, with most of the growth occurring in large urban centres. Western Canada is also performing well, with strong housing market activity, a booming oil sector and healthy business investment providing small firms in both Alberta and British Columbia with ample growth opportunities. Small firms in Quebec are recovering from a challenging 2003, with prospects for 2004 and 2005 looking much brighter.

# RENEWED MOMENTUM

Quietly, below the radar screen, small business activity in Canada is turning a corner. Following a two-year slump which began in 2000, the number of self-employed has risen by a dazzling 200,000 since early 2002. This represents a growth rate of close to 9 percent — a mile above the gain seen among private sector salaried employees. As of July 2004, the ranks of the self-employed in Canada grew to just under 2.5 million. What is more, as opposed to the situation in the early 1990s, the current surge in self-employment occurs in an environment of relatively healthy labour market conditions. The economy has generated, on average, a respectable 25,000 new jobs per month over the past two years. This trend is significant because it implies that a growing number of new entrepreneurs have chosen self-employment, rather than being forced to open up shop due to a lack of other opportunities. Not surprisingly, fewer than three in ten entrepreneurs who started up over the past two years pointed to difficult labour market conditions as a factor in their decision to go solo.

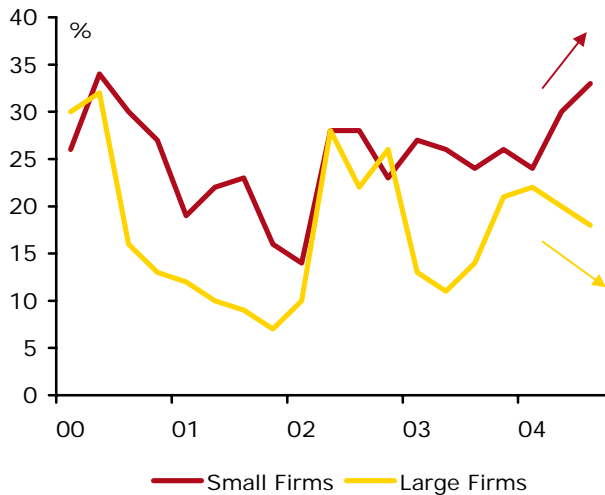
**CHART 1**  
**Self-Employment — On the Rise Again**



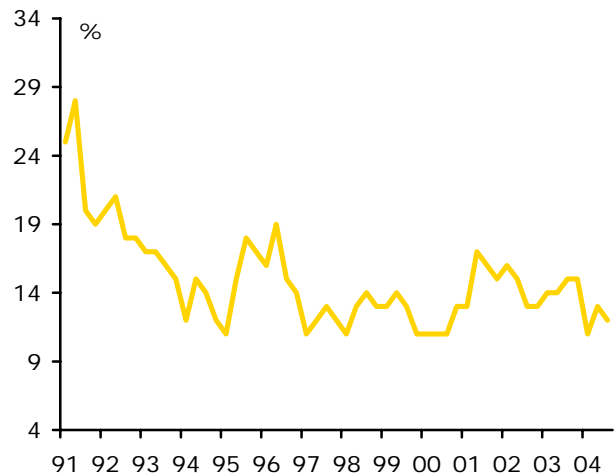
The rebound in activity is reflected not only in the creation of new businesses, but also in improved business conditions among existing firms. Based on Statistics Canada data, the number of small firms in the manufacturing sector

that reported rising orders in the third quarter of 2004 rose to 33 percent — the highest level in more than four years, and almost 10 points above the level seen earlier in the year. This improvement was not shared by large firms, which have seen a notable softening in new orders this year. The local focus of the vast majority of small firms and their relatively low vulnerability to the strong Canadian dollar probably played a role here. Other positive signals include a notable improvement in their inventory positions and a substantial drop in the number of small firms that are hurt by the level of their working capital.

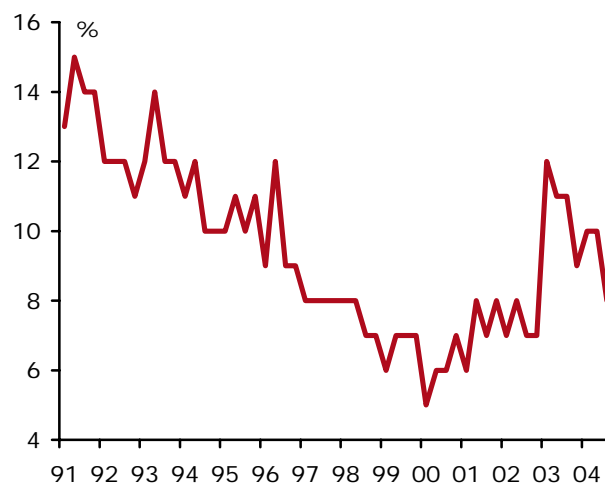
**CHART 2**  
**Small Firms Reporting Rising Orders**  
**(Manufacturing Sector)**



**CHART 3**  
**Small Firms Reporting High Level of Inventory**  
**(Manufacturing Sector)**

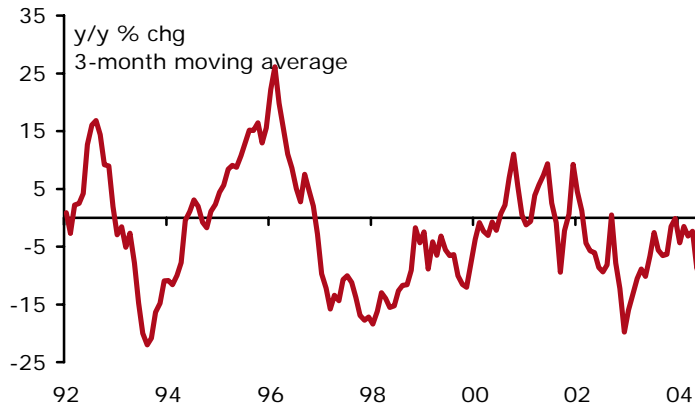


**CHART 4**  
**Small Firms Reporting Working Capital Shortage**  
**(Manufacturing Sector)**



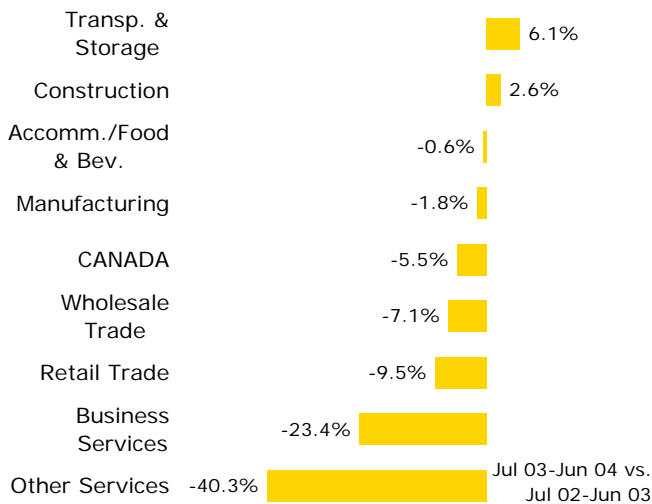
Another sign of small business strength is the continued decline in the number of firms that file for bankruptcy. During the year ending June 2004, the cumulative number of business bankruptcies fell by 5.5 percent compared to the same period in the previous year. The improvement is broadly-based, with the majority of sectors witnessing falling bankruptcies. The increase in bankruptcies in the transportation as well as accommodation and food sectors should not come as a surprise given that those sectors are negatively impacted by the strong Canadian dollar. The rising bankruptcies in the construction sector are somewhat surprising given the current boom in the real-estate market. This probably reflects the recent strong start-up activity in this sector, which may have led some individuals to over-estimate the likelihood of success — not an uncommon phenomenon during boom years.

**CHART 5  
Business Bankruptcies**

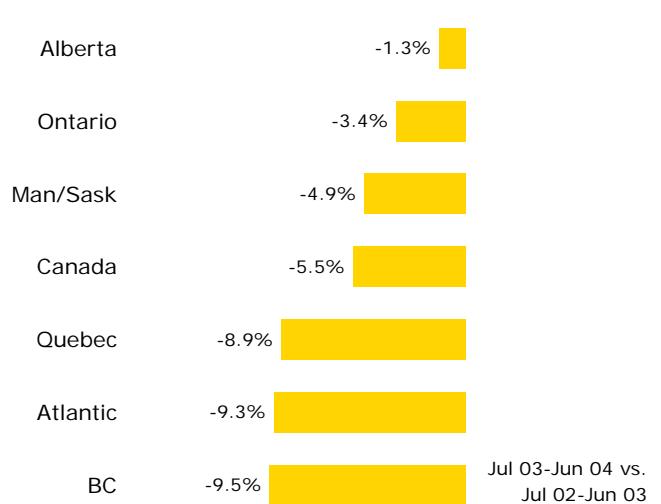


Source: Industry Canada

**CHART 6  
Growth in Business Bankruptcies  
By Industry**



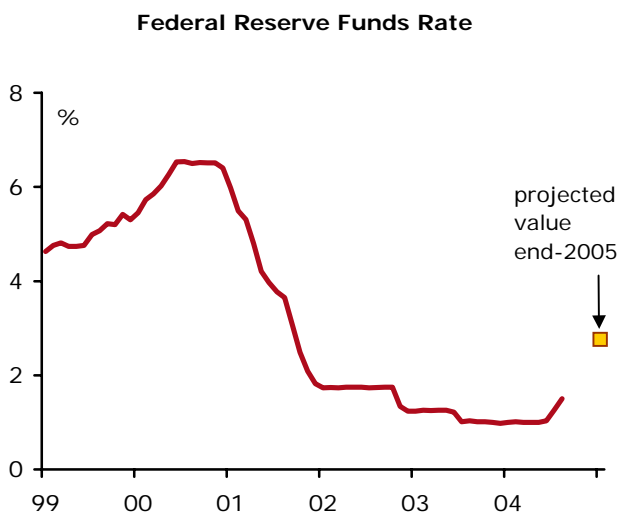
**CHART 7  
Growth in Business Bankruptcies  
By Province**



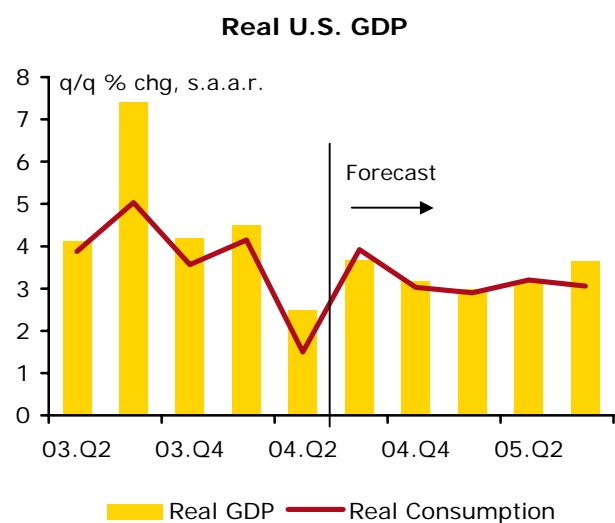
# THE MACRO ECONOMIC ENVIRONMENT

Developments south of the border will play, by far, the largest role in determining the shape of the Canadian economy in the coming twelve months. Clearly, we are at a turning point in the U.S. market. Interest rates have started an upward trajectory, inflation is on the rise and the U.S. labour market is starting to move in the right direction following the worst job-drought in generations. Given this environment, the U.S. Federal Reserve is expected to continue to raise interest rates in the coming year, but at a very gradual pace.

**CHART 8**  
**U.S. Interest Rates To Rise Slowly**



**CHART 9**  
**Slowing, But Choppy U.S. Growth**

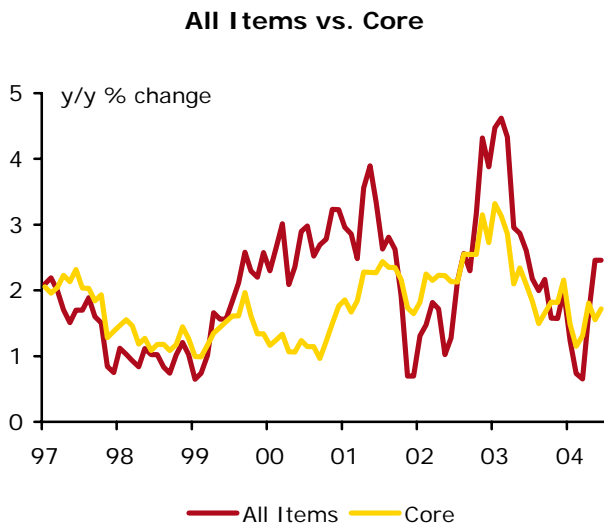


While a 4.0 to 4.5 percent U.S. fed funds rate is “normal” in historic terms, there are many reasons to believe that due to excessive consumer borrowing in the past few years, what was normal in the past might not be normal in the context of today’s economy. Furthermore, the U.S. economy still has considerable slack. The recent jump in consumer prices is largely based on past events rather than a generalized increase in inflation. Note, for example, that payroll employment only recently reached its recession-end level and is still more than one million jobs below the level seen in early 2001. Not

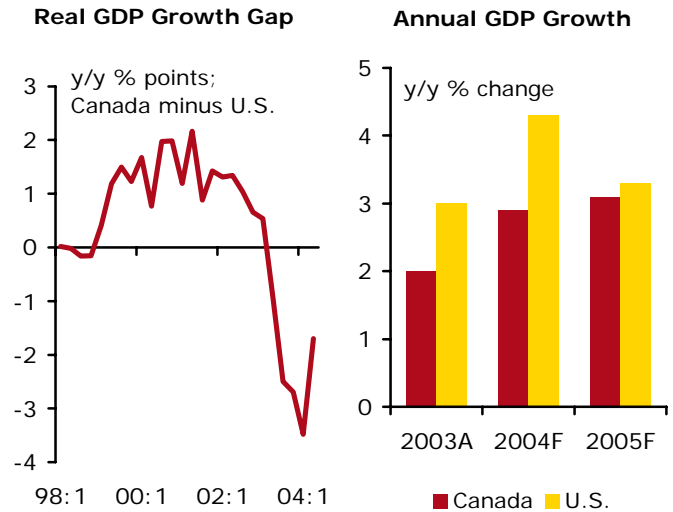
surprisingly, U.S. workers have very little bargaining power, given that real wages are still falling on a year-over-year basis — hardly an inflationary threat. Moderate inflation rates later this year and into 2005 will lead to a much slower tightening trajectory compared to previous cycles. Accordingly, we expect the Fed to raise their key lending rate to the 2.5 to 3.0 percent range by December 2005.

With U.S. rates on the rise, the pressure is on the Bank of Canada to follow. But David Dodge, the Bank's governor, has already demonstrated that he is willing and able to act independently of the Fed. In addition, the Bank of Canada has many good reasons to proceed cautiously. The Canadian economy is clearly improving from a weak 2003, but it is still operating below potential. Inflation in Canada is still much lower than in the U.S. and the impact of the appreciation of the Canadian dollar over the past 18 months has yet to be fully felt. Accordingly, we believe that the Bank of Canada will raise rates by 25 to 50 basis points by the end of the year.

**CHART 10**  
**Canadian Inflation is Under Control**

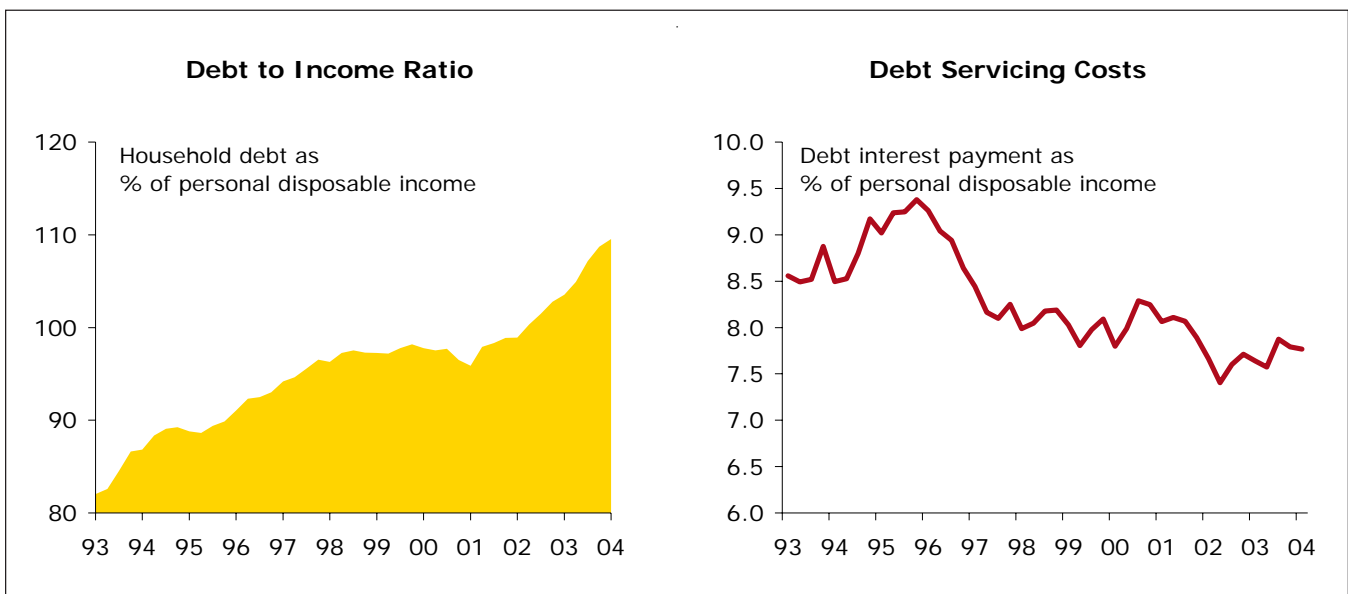


**CHART 11**  
**Canada is Catching Up to U.S. Growth**



Even beyond 2004, we expect the Bank of Canada to move very slowly, in part due to the increased level of household debt in the economy. Total household credit is currently rising by close to 9 percent annually — roughly double the pace of growth in personal income. Accordingly, the ratio of personal net income to debt is now at a record-high level. While inexpensive credit enabled Canadians to borrow at such pace, it also means that increasingly, consumers will become more sensitive to the risk of higher rates — another reason to believe that the Bank of Canada will likely avoid sharply raising rates.

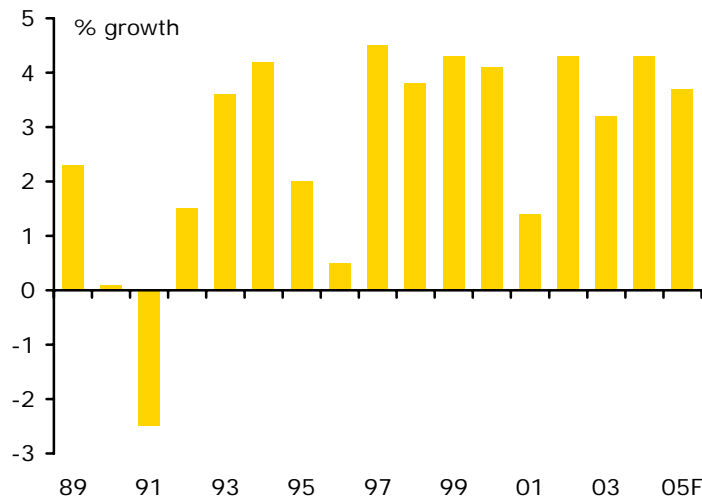
**CHART 12**  
**Record-High Personal Debt**



In the final analysis, we expect overall Canadian economic activity to expand by just over 3 percent in 2005 following 2.9 percent growth in 2004, while short-term interest rates are projected to rise by roughly 75 to 100 basis points by the end of 2005. The general weakness of the U.S. dollar will be offset by the disappearance of Canada-U.S. interest rate spread, likely resulting in the Canadian dollar hovering around the 75 cent level in the coming twelve to eighteen months.

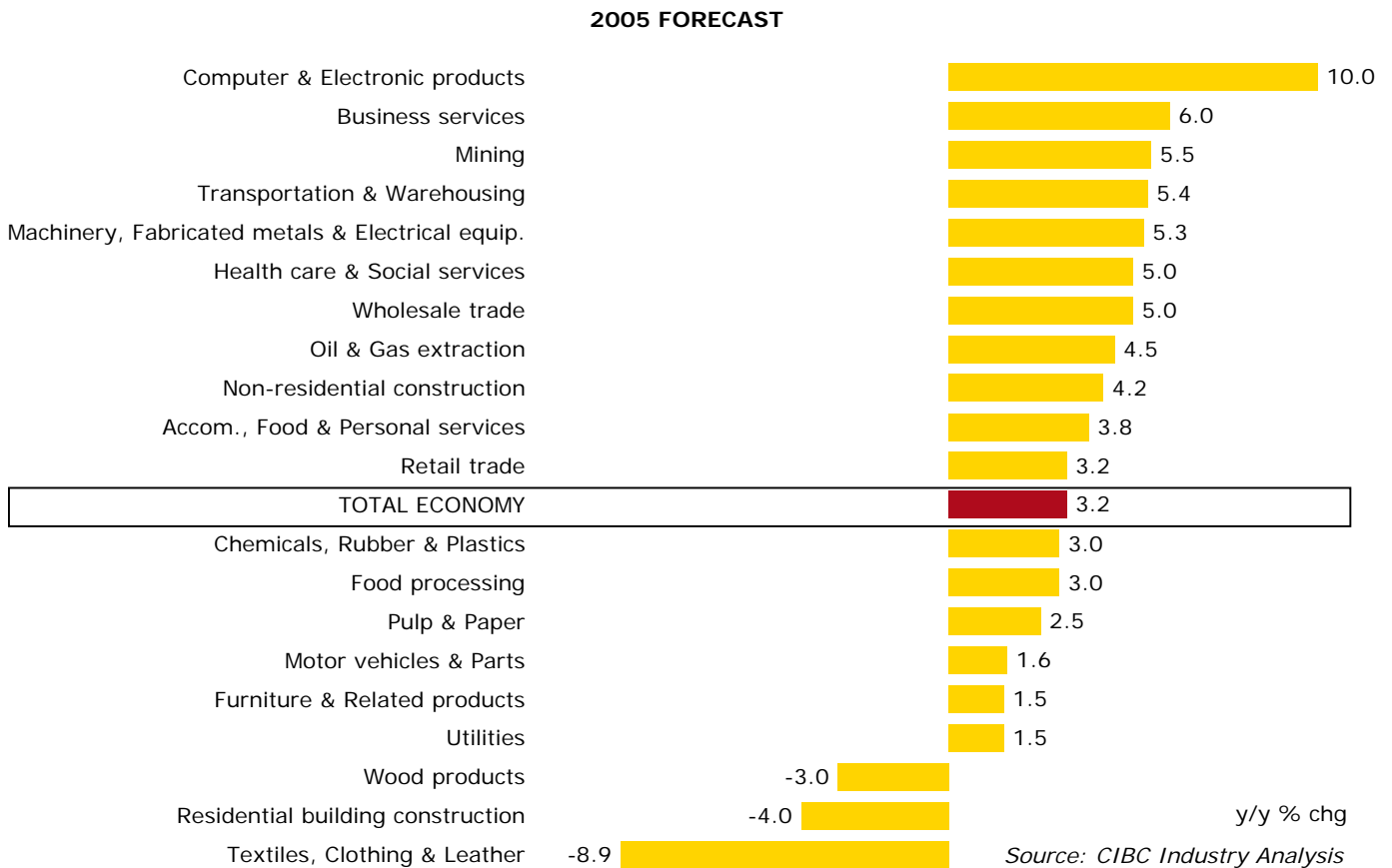
These economic conditions should provide Canadian small firms with the right environment to build on their current momentum. Following 3.5 percent growth in 2003, our Small Business Economic Activity Index is well on its way to advance by 4.3 percent in 2004 — well above the projected growth for the economy as a whole. As for 2005, with the economy reaching the maturity stage of the cycle, we expect small business activity to continue to outperform the economy as a whole and grow by 3.7 percent, with the number of self-employed Canadians expected to rise by 150,000 to 200,000 in the coming 48 months.

**CHART 13**  
**CIBC World Markets Small Business Economic Activity Index**



The role of low interest rates is key to small businesses performance in the near-term. As opposed to large firms, Canadian small enterprises are highly sensitive to changes in interest rates. And with small businesses becoming smaller and increasingly dependent on consumer spending, they become even more responsive to changes in interest rates. As mentioned in last year's report, *Canadian Small Business: A Growing Force*, the correlation between small business activity and consumer spending is at an all-time high. Any notable and lasting softening in consumer spending will lead to a material slowing in small business economic activity. Accordingly, as consumers become more vulnerable to the risk of higher rates, due to their highly

**CHART 14**  
**Growth in GDP by Industry, at 1997 Prices**



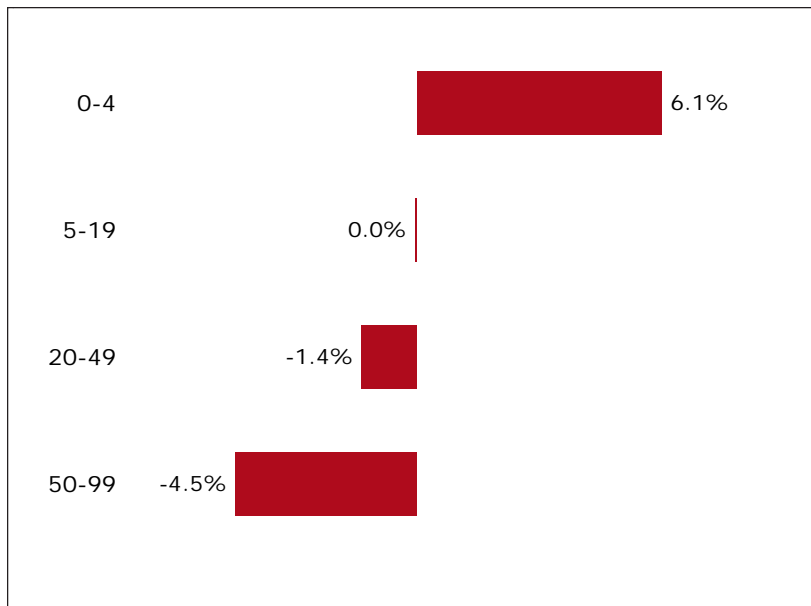
leveraged position, so do small businesses. The projected increase in interest rates in the coming twelve months will no doubt lessen consumers' enthusiasm, directly via higher debt service payments, and indirectly via slowing housing market activity. But our assessment that the Bank of Canada will raise rates gradually and moderately implies that the damage will be minimal, allowing small businesses to continue to expand.

# SMALL BUSINESSES ARE GETTING SMALLER

The term “small business” is used by many on a regular basis, but the reality is that it means different things to different people. While it is difficult to define a small business, it is clear that the economics of an enterprise with five employees is completely different than those of a firm with 50 employees. Yet, both are considered by many as small businesses.

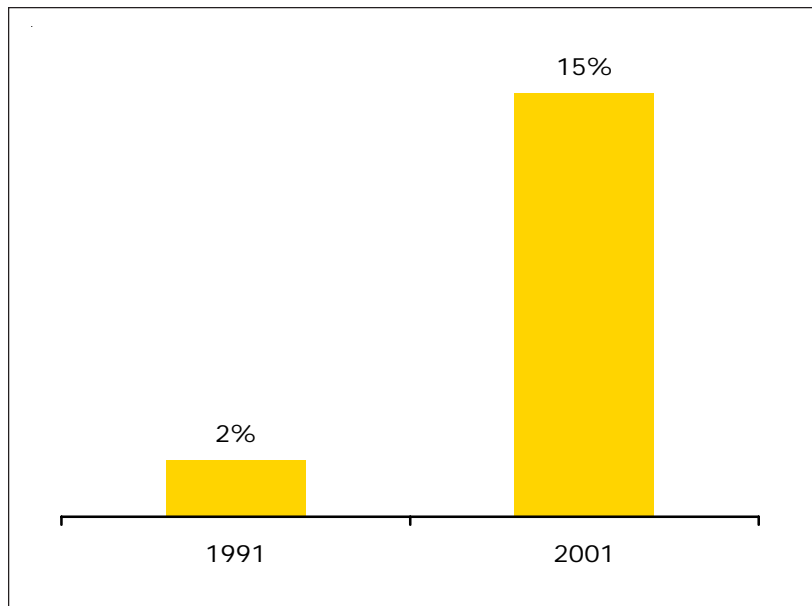
Moreover, in recent years, we have seen an unmistakable trend in which small businesses are getting smaller. All of the growth in small business formation during 2003 has been concentrated among enterprises with fewer than five employees. The number of “larger” small businesses is, in fact, declining. Taking a longer-term perspective reveals a similar picture, with business formation of very small firms outpacing growth in other segments of small business by a ratio of five to one.

**CHART 15**  
**Growth in Business Formation By Number of Employees**  
**2003**



The dominance of micro businesses is not surprising if one considers that establishing and running a small business now is significantly cheaper and easier than in the past. New and rapidly changing technologies, the Internet and the power of e-commerce are emerging as important forces that impact the very decision to become self-employed and allow micro enterprises to level the playing field with larger firms. Internet usage also means increased connectivity between entrepreneurs and other entities, limiting the advantage of economies of scale and scope. A growing number of self-employed are becoming virtual entities, stopping and starting on a project-by-project basis. This implies that small firms are becoming not only smaller, but also more diverse and heterogeneous. Not surprisingly, the highest concentration of micro businesses is in the professional, scientific and technical services sector. With 15 percent of micro business owners indicating that they have no usual place of work, up from only 2 percent a decade ago, this group is also highly mobile.

**CHART 16**  
**No Usual Place of Work**  
**Micro Businesses**



**TABLE 1**  
**Distribution of Micro Businesses By Sector and By Province**  
 December 2003

**< 5 Employees**

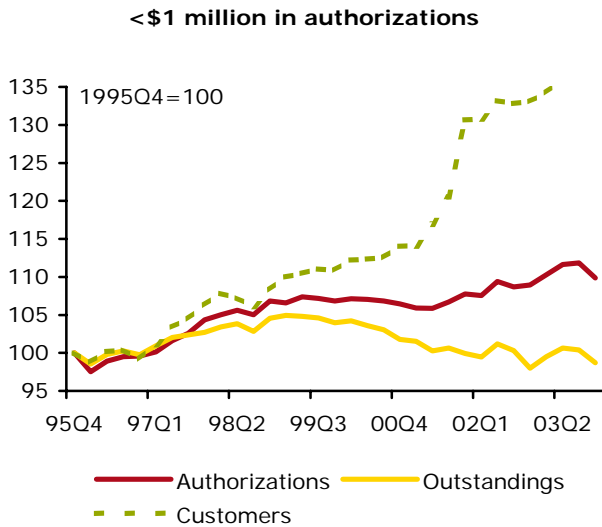
	CANADA	NFLD & Labrador	PEI	NS	NB	QUE	ONT	MAN	SASK	AB	BC
	(Percentage)										
Agri., Forestry, Fishing & Hunting	9.7	6.2	24.9	10.8	12.7	7.4	5.2	25.2	46.6	14.3	5.7
Mining and Oil & Gas Extraction	0.7	0.4	0.1	0.2	0.2	0.1	0.1	0.2	1.4	3.3	0.5
Utilities	0.1	0.1	0.1	0.1	0.0	0.1	0.1	0.1	0.0	0.1	0.1
Construction	11.9	11.7	11.0	12.9	12.4	9.7	12.6	10.3	6.8	13.2	14.3
Manufacturing	3.7	3.4	3.5	4.0	3.8	4.9	3.8	2.8	1.9	2.5	3.7
Wholesale Trade	4.9	4.2	3.0	4.9	4.4	5.7	5.2	4.2	2.6	3.6	5.2
Retail Trade	8.1	13.3	7.8	10.0	9.6	9.6	8.4	6.9	5.0	5.5	7.4
Transportation & Warehousing	5.2	6.5	5.0	5.1	7.5	5.5	4.6	5.9	4.4	5.8	5.1
Information & Cultural Industries	1.4	1.1	0.8	1.4	1.0	1.6	1.5	1.0	0.6	0.8	1.7
Finance & Insurance	4.9	2.6	4.2	4.6	3.6	5.3	5.6	4.7	2.7	4.0	4.8
Real Estate & Rental & Leasing	8.4	7.3	7.2	7.2	6.7	7.9	9.2	6.7	4.5	7.4	10.4
Professional, Scientific & Tech. Serv.	14.8	7.8	5.8	10.2	8.4	13.1	17.5	8.4	5.2	17.4	15.0
Mgm't of Companies & Enterprises	4.3	3.1	3.7	4.9	4.3	4.3	4.6	4.0	3.7	3.3	4.6
Admin., Support & Waste Mgm't	4.7	3.7	3.2	3.9	3.7	5.5	4.8	3.5	2.1	4.2	4.9
Educational Services	0.8	0.8	1.1	0.8	1.0	0.7	0.9	0.7	0.5	0.8	1.0
Health Care & Social Assistance	3.3	9.3	3.4	4.2	4.3	3.4	3.2	3.1	1.9	2.6	3.4
Arts, Entertainment & Recreation	1.9	2.1	2.2	1.8	2.0	2.1	1.9	1.7	1.1	1.4	1.9
Accomm. & Food Services	3.7	6.1	4.1	3.9	4.4	4.6	3.8	2.8	2.4	2.5	3.6
Other Services (ex. Public Admin.)	7.3	9.2	8.3	8.8	9.8	8.4	6.9	7.6	5.8	7.1	6.6
Public Administration	0.1	1.2	0.5	0.1	0.2	0.2	0.0	0.2	0.6	0.1	0.1
	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

## SMALL BUSINESS CREDIT: MORE ARE BORROWING LESS

The rising share of micro businesses also works to change the nature of the small business credit market. Small businesses are, in general, undercapitalized. Personal resources are the major source of funds, followed by bank financing. Financial and regulatory barriers imposed by primary and secondary money and capital markets limit the ability of small firms to raise funds from other sources. While small businesses generally have relatively high debt-to-equity ratios, a significant portion of small business debt comes in the form of loans from the owner's personal savings and, in reality, is indistinguishable from equity.

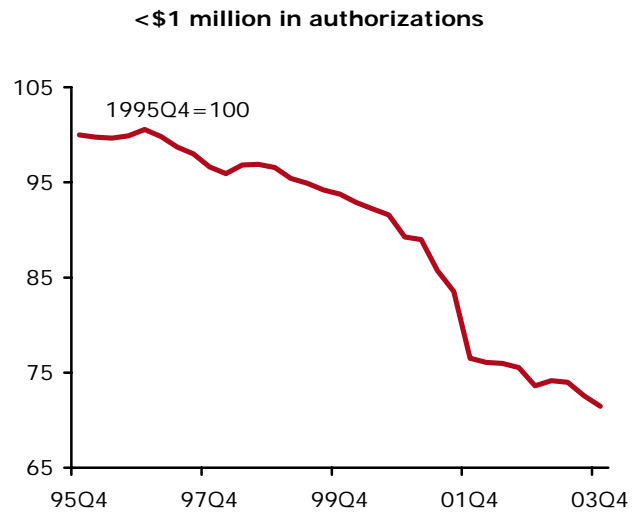
Close to one in four small firms requests debt financing in a given year. The main providers are banks (two-thirds), followed by credit unions. The most popular debt instruments are lines of credit followed by term loans.

**CHART 17**  
**Small Business Credit**



Source: Canadian Bankers Association

**CHART 18**  
**Average Loan Size**



Source: Canadian Bankers Association

Despite extremely low interest rates and the new wave of small business activity since 2002, overall small business credit fell moderately over the past few years. Note that the decline was not accompanied by a similar decline in authorized credit, which, in fact, rose by more than 3 percent since 2002.

What is behind the reduced demand for credit among Canadian small firms? One obvious answer is that as small businesses becoming even smaller, their need for financing is also more limited. In fact, since 1995, the number of borrowing firms rose by more than 15 percent, but the average loan size fell by more than 30 percent. In other words, more firms are borrowing less money. Furthermore, many small firms, most notably micro businesses, tend to use personal credit in order to finance their business activity. We estimate that between 10 percent and 15 percent of personal credit provided in Canada last year was used to finance business activities. The most popular instruments here are credit cards and unsecured lines of credit. Overall, small firms in primary industries and professionals tend to use small business loans as a way to finance their operations. At the same time, small business owners in the service and consulting fields are more inclined to use personal loans to finance their business needs.

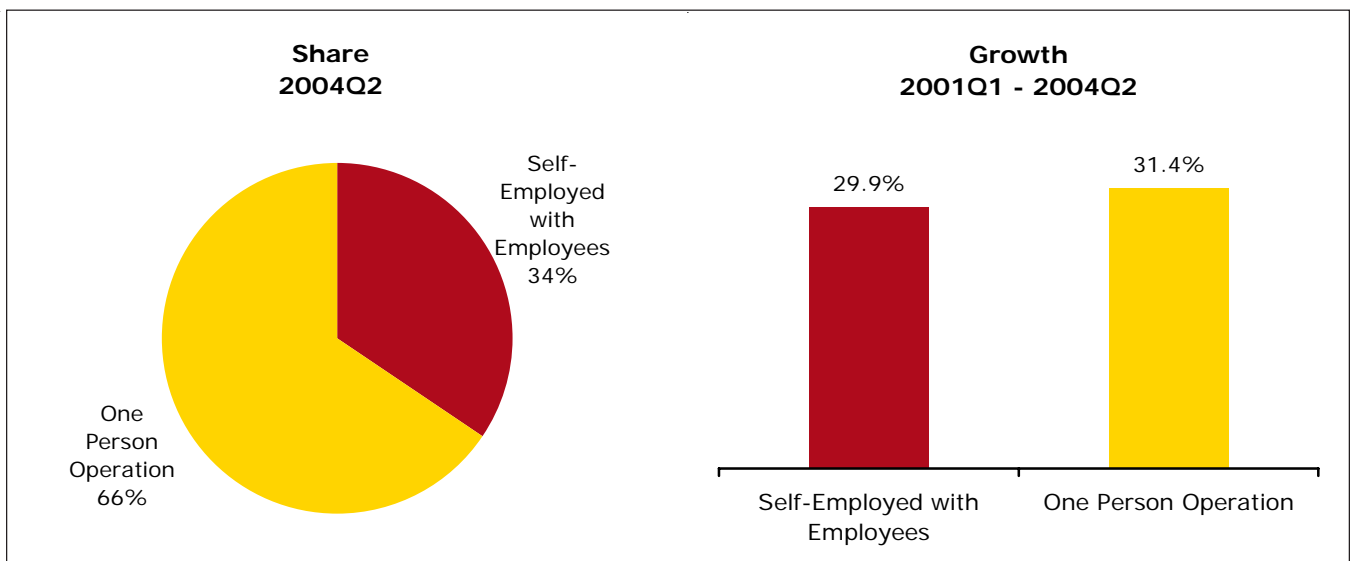
# THE GREYING ENTREPRENEURS

The adage that “you are never too old” seems to apply increasingly to people setting up their own businesses. One of the most striking trends in the Canadian self-employment landscape in recent years has been the meteoric ascent in the number of entrepreneurs age 55 and over. Since early 2001, small enterprises run by older Canadians rose by 140,000, or an impressive 30 percent, — by far the fastest growing segment in the small business sector. These “seniorpreneurs” currently account for one in four self-employed individuals in Canada and constitute more than 30 percent of the total workforce over the age of 55.

**CHART 19**  
**The Rise of the Seniorpreneurs**

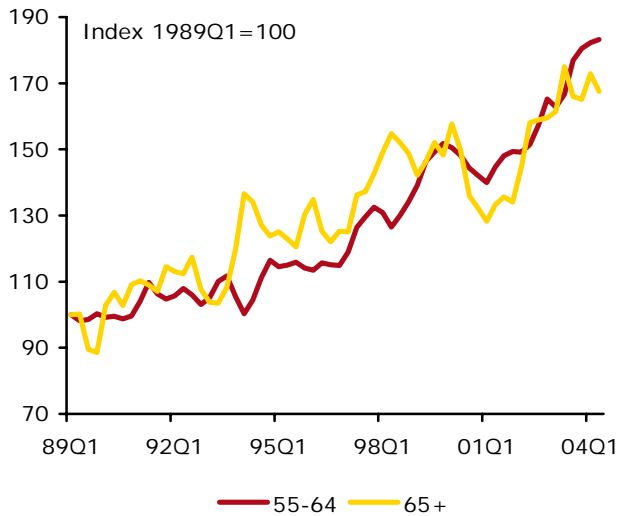


**CHART 20**  
**Share and Growth of Self-Employed Ages 55+**

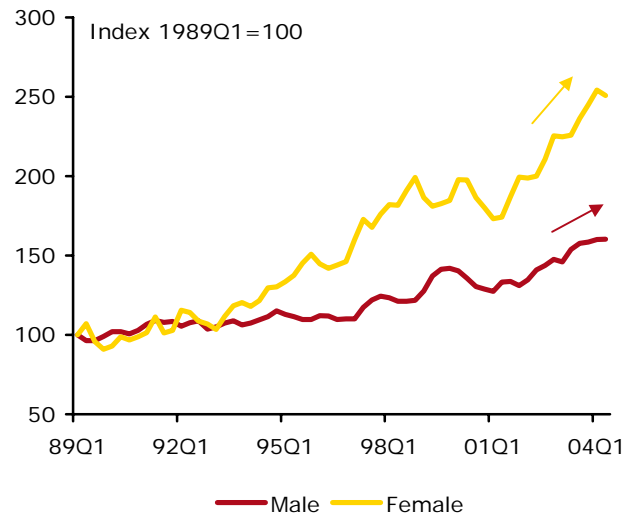


Two-thirds of older entrepreneurs are sole proprietors with no paid help. However, in recent years, we have seen a significant acceleration in the number of business owners over the age of 55 who also employ other people. This segment has grown by a hefty 30 percent since 2001 and has created an estimated 250,000 salaried jobs. Interestingly, the pace of growth among “second career entrepreneurs” (those between the ages of 55 and 64) has been roughly the same as among those over the age of 65. Also note that since the early 1990s, self-employment among older women outpaced growth among older men, with the gap widening significantly in recent years. Regionally, the fastest increase in business creation among the greying entrepreneurs was in Western Canada, with British Columbia leading the way, closely followed by Alberta.

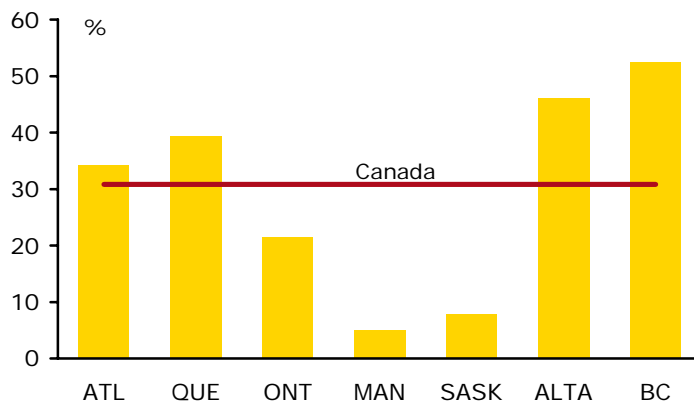
**CHART 21**  
**Growth of Self-Employment (Ages 55+)**



**CHART 22**  
**Growth of Self-Employment (Ages 55+) By Gender**

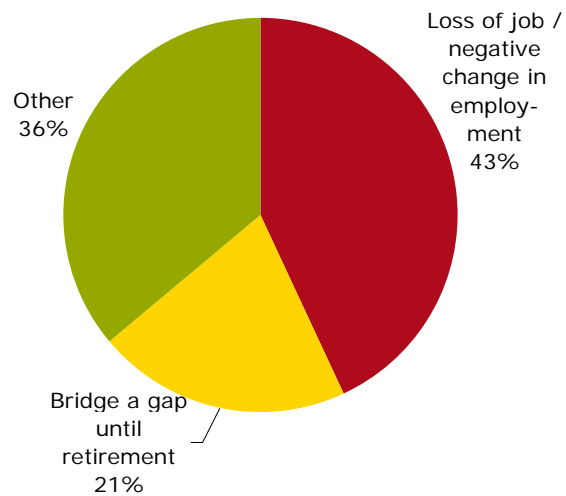


**CHART 23**  
**Growth of Self-Employment (Ages 55+) By Province**  
 2001Q1-2004Q2



How should we interpret this trend? Does it reflect a natural consequence of an aging population, or simply a rising entrepreneurial spirit among older Canadians? Alternatively, to what extent does it mirror increased economic difficulties among older Canadians, which, in turn, forced many of them into self-employment due to a lack of other employment alternatives?

**CHART 24**  
**Underlying Financial Reasons For Opening a Business**  
**Age 55+**



Overall, there has been a trend towards self-employment as a career choice, but almost one-half of the seniorpreneurs did not choose this career path. Rather, they indicated that a loss of job or other employment difficulties played a key role in their decision to open up shop. Yet, the evidence also suggests that those older Canadians who were forced into self-employment are performing comparatively well, reporting roughly the same increase in revenues as those who elected to become self-employed.

Long-term demographic trends suggest that older entrepreneurs will play an even more important part of economic activity in Canada, as the population ages and the traditional workforce age cohort declines. Unfortunately, the role of older business operators has been largely ignored in contemporary small business research.

One resource that most greying entrepreneurs possess in greater quantities than their younger counterparts is experience — the cumulative body of

knowledge, skill, practice and learning that is acquired over an extended period of time. This advantage, however, is partly offset by their relatively lower level of formal post-secondary education and the rapid change in technology, which works to accelerate the cycle of knowledge accumulation and obsolescence. In fact, only three in ten small business owners ages 55 to 64, and almost 45 percent of those over the age of 65, do not use the Web at all.

Adequate capital to support start-up expenses and growth is a clear advantage possessed by older entrepreneurs, as it is usually acquired during earlier employment and asset appreciation. Personal networks also play an important role in the likelihood of success among older self-employed. Formal and informal networks often help to develop business prospects and reduce the need for (and expense of) paid advertising. Extensive management experience may also be useful, since it allows the older entrepreneurs to avoid many mistakes made by people unfamiliar with the task of organizing and managing a new or a growing firm. Prior industry experience presents a mixed blessing, as it assists in identifying potential gaps in the current business offering, but at the same time, may limit the entrepreneurs' vision of fresh perspectives or new opportunities.

The potential for lost productivity and the lower energy level associated with growing old is probably the most common concern regarding older entrepreneurs. In fact, personal health is an important reason cited by many people who choose to retire from working life, or who decline to seek paid-employment. Having said that, it is likely that the advantage of greater experience and knowledge can, in many cases, offset or balance these concerns.

Any discussion regarding older entrepreneurs should not ignore the broader social context within which they operate. To the extent that society, in general, values seniors and believes that the greater wisdom and experience of older individuals are definite assets, older entrepreneurs are more likely to succeed. While this is a complex issue, our research finding that two-thirds of older Canadian business owners say their age works to their benefit, is definitely a positive sign.

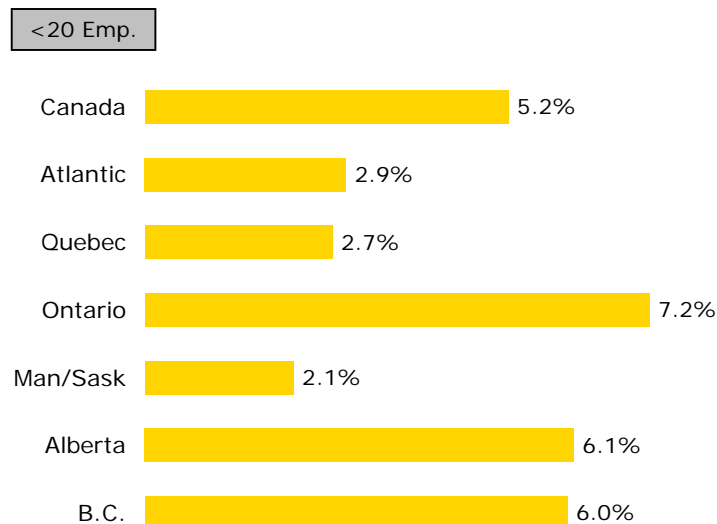
# A REGIONAL PERSPECTIVE: ONTARIO LEADS THE WAY

By region, **Ontario** has seen the fastest pace of small business formation in 2003, with the number of enterprises with less than 20 employees rising by an impressive 7.2 percent, or more than 50,000. This strong growth in business formation occurred despite weak general economic conditions in the province, which was hurt by the strong dollar, high energy prices and stiff competition from low-cost foreign producers such as China.

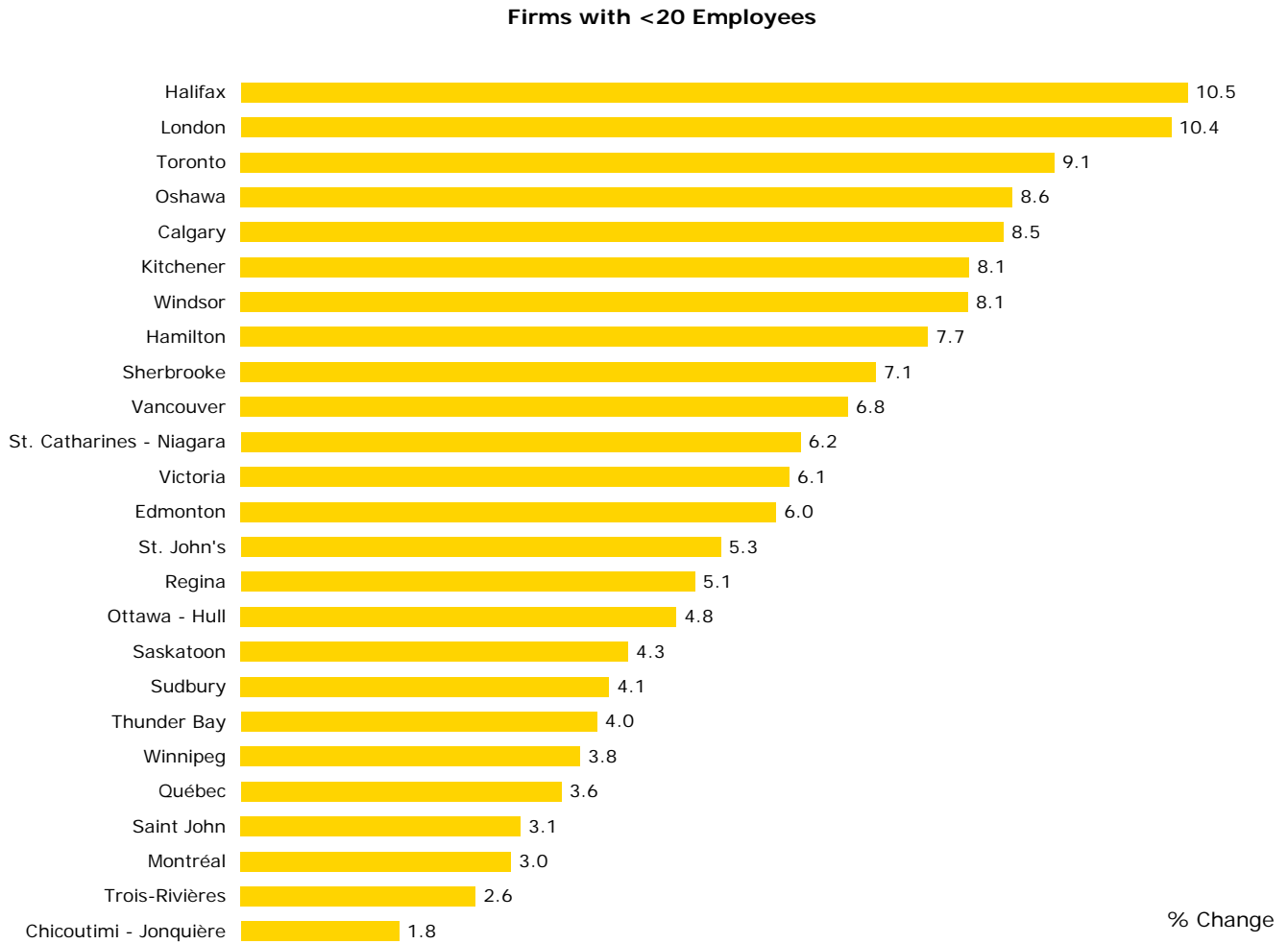
The likelihood is that Ontario's small firms will continue to lead the way in both 2004 and 2005, with small business formation in the province projected to expand by 6.0 percent in both years. That pace of growth implies the birth of more than 90,000 new small businesses in the province during that period.

The ability of small firms in Ontario to persevere reflects, in part, the broad and growing diversification of the Southern Ontario economy, increased outsourcing activity and the heavy reliance of small businesses on consumer spending and personal services, which continued to show impressive strength.

**CHART 25**  
**Growth in Business Formation by Province**  
**2003**



**CHART 26**  
**Growth in Business Formation By Major City**  
**2003**



The main winners in 2005 will be small firms that are highly responsive to increased business investment, and Ontario is well-positioned to capitalize on this trend. The elevated level of the Canadian dollar, a strong profit environment and pressure on businesses to expand their productive capabilities are working to stimulate business investment in Ontario. Traditionally, this environment provided small firms with significant growth opportunities due to increases in outsourcing activity and positive spin-offs in the business services sector. Accordingly, small business formation in Ontario's business services sector is projected to grow by more than 10 percent in both 2004 and 2005, or roughly 30,000 new businesses. The vast majority of this increase will be concentrated among micro businesses, which dominate small business activity in that sector.

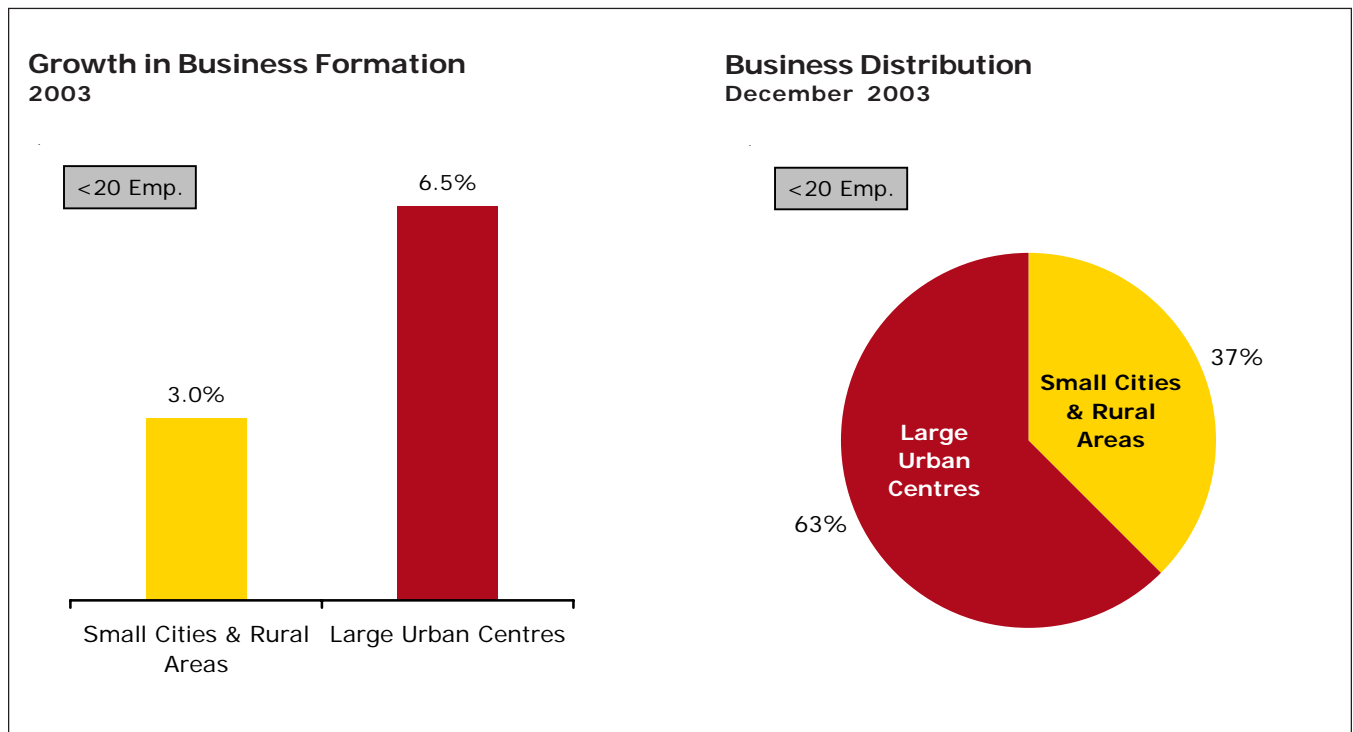
With almost one in five small firms directly linked to the retail and wholesale trade sectors, the mood of consumers will continue to determine the economic health of many small enterprises in Ontario. On this front, higher oil prices will work as a clear drag due to their negative impact on consumer spending. This, however, should be offset, at least in part, by the limited increase in interest rates and a relatively healthy labour market. Look for the retail and wholesale sectors in the province to give birth to more than 10,000 new small businesses in 2004 and 2005.

Even in the manufacturing sector, small firms in Ontario appear to be weathering the storm, with the number of small firms reporting a rising level of new orders reaching 29 percent in the third quarter, the strongest showing in two years. Despite the damaging impact of high energy prices and a relatively strong dollar, we still expect small businesses in the manufacturing sector to register a net increase in business formation of more than 3 percent in both 2004 and 2005, largely reflecting increased outsourcing opportunities. On the losing side of the manufacturing sector are small firms in industries undergoing a structural decline for the past several years, as they face increasing competition from rising volumes of low cost imports. In particular, textiles, clothing and leather-related businesses will find it increasingly more difficult to remain profitable. As a whole, we expect these sectors to underperform relative to the overall economy — a fact that will force small firms to focus on niche markets in order to survive.

Following a very strong performance in 2003 and 2004, small business activity in the Ontario construction sector will, in all likelihood, slow in 2005. During the past two years house prices in Ontario rose by 15.1 percent, with the level of housing starts reaching levels not seen in more than 15 years. With interest rates creeping up and pent-up demand mostly utilized, we expect overall housing market activity in Ontario to stabilize in 2005, leading to some moderation in small business formation in that sector in 2005.

Small business activity in large cities will continue to outperform activity in rural Ontario. In fact, out of the ten cities with the highest rates of business formation in 2003, six are in Ontario.

**CHART 27**  
**Large Urban Centres vs. Small Cities & Rural Areas**



**TABLE 2**  
**Business Formation**  
**By Province**

<b>&lt; 20 Employees</b>				
<b>2003</b>	<b>Growth</b>		<b>December 2003</b>	
	Large Urban Centres	Small Cities & Rural Areas	Large Urban Centres	Small Cities & Rural Areas
<b>CANADA</b>	<b>6.5%</b>	<b>3.0%</b>	<b>62.5%</b>	<b>37.5%</b>
ATLANTIC	7.8%	1.0%	28.3%	71.7%
QUEBEC	3.2%	1.8%	62.6%	37.4%
ONTARIO	8.2%	4.0%	75.5%	24.5%
MANITOBA	3.8%	0.8%	50.2%	49.8%
SASKATCHEWAN	4.6%	1.0%	29.3%	70.7%
ALBERTA	7.4%	4.3%	59.0%	41.0%
BRITISH COLUMBIA	6.7%	5.0%	60.7%	39.3%

**Alberta** continued to build on strong momentum, seeing the number of small businesses rising by just over 6 percent in 2003. The positive spin-offs from the booming oil sector, along with an influx of non-energy investment and increased diversification in Calgary, were important factors here. This trend is likely to continue, with Alberta's small business sector seeing the creation of an additional cumulative 30,000 new enterprises in 2004 and 2005 — a relative performance which is second only to Ontario.

The limited supply of oil and rising Asian demand suggests that oil prices will remain high in the near to medium-term. With oil prices likely to average between \$40 and \$43 in 2005, Alberta's economy will remain strong, providing small firms with ample growth opportunities. While only 4 percent of small businesses in the province are directly involved in the oil sector, the ripple effect from the projected 10 percent increase in business investment in the province in 2005 will act as the main catalyst for small business formation in the business services sector. Growth in this sector follows closely behind Ontario in its relative and absolute size.

Only 8.2 percent of small businesses in Alberta are in the retail sector. That is almost 3 percentage points below the national average. Given the growing diversification of the province in general, and Calgary in particular, the role played by small firms in the retail sector is likely to rise rapidly in the coming few years. Within five years, we believe that Alberta will be able to close that gap by creating more than 10,000 new retail-related small businesses.

The construction sector will remain a strong base for small firms in Alberta. More than 13 percent of small businesses in the province are in that sector. Despite higher interest rates and reduced pent-up demand, we expect housing starts in the province to continue to average approximately 30,000 in 2005, down from 33,000 in 2004, but more than 30 percent above their long-term average. Accordingly, we expect small business formation in Alberta's construction sector to continue to perform well, leading to the creation of more than 6,000 new small firms in 2004 and 2005.

**TABLE 3**  
**Small Business Distribution**  
**December 2003**

**< 20 Employees**

	CANADA	NFLD & Labrador	PEI	NS	NB	QUE	ONT	MAN	SASK	AB	BC
	(Percentage)										
Agricultural and Related Services	7.8	1.5	13.1	3.9	4.1	5.5	4.8	22.2	41.7	12.6	3.0
Fishing and Trapping	0.4	3.3	10.0	5.3	4.3	0.2	0.0	0.2	0.0	0.0	0.6
Logging and Forestry	1.0	0.9	0.7	2.2	3.6	1.3	0.4	0.4	0.4	0.4	2.1
Mining, Quarrying and Oil Wells	0.7	0.4	0.1	0.2	0.2	0.1	0.1	0.2	1.4	3.2	0.5
Manufacturing	4.3	3.7	3.8	4.5	4.1	5.5	4.4	3.3	2.2	3.0	4.1
Construction	12.0	11.6	10.9	12.7	12.1	9.9	12.7	10.1	7.0	13.1	14.1
Transportation and Storage	4.6	5.5	4.2	4.3	6.7	5.0	4.0	5.2	4.1	5.4	4.7
Communications and Other Utilities	0.7	1.0	0.7	0.8	0.8	0.8	0.6	0.7	0.5	0.7	0.7
Wholesale Trade	6.1	5.7	4.0	6.2	5.7	6.9	6.3	5.4	4.1	5.0	6.3
Retail Trade	11.1	16.5	11.6	13.4	13.7	13.0	11.5	10.3	8.1	8.2	10.2
Finance and Insurance	8.1	4.9	6.6	7.9	6.6	8.4	8.9	7.6	5.9	6.5	8.4
Real Estate Operator and Insurance	7.4	5.8	6.1	6.3	5.9	7.0	8.1	6.0	4.2	6.3	8.9
Business Services	15.7	8.1	5.9	10.4	8.7	14.8	18.4	9.0	5.6	17.9	15.7
Government Services	0.2	1.5	0.8	0.2	0.5	0.3	0.1	0.5	1.1	0.2	0.2
Educational Services	0.7	0.9	1.2	0.8	0.9	0.6	0.7	0.8	0.5	0.7	0.8
Health and Social Services	4.2	10.0	4.7	5.4	5.8	4.1	4.0	4.4	2.9	3.6	4.7
Accommodation, Food and Beverage	4.6	7.0	5.1	4.8	5.4	5.5	4.5	3.7	3.2	3.3	4.5
Other Services	10.3	11.7	10.3	10.8	10.8	11.0	10.3	9.9	7.2	9.8	10.5
	<b>100%</b>	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Real activity in Alberta's manufacturing sector will grow by close to 5 percent in both 2004 and 2005, with manufacturers of machinery, computers and electronics, as well as petroleum and coal products leading the way. Furthermore, animal slaughtering and processing exports are showing promising signs of recovery. While only 8 percent of small firms in Alberta are in the manufacturing sector, this renewed growth should be a positive force, leading to a more than 3 percent increase in small business formation in that sector in both 2004 and 2005.

Building on a decade long trend, small business formation in urban centres in Alberta rose by 7.4 percent in 2003, well above the pace seen in rural areas. Business creation in Calgary was up a strong 8.5 percent, a pace that is likely to accelerate given the rapidly growing services sector in the city and increased immigration. In fact, when it comes to small business formation, we expect Calgary to outpace all other major cities over the next five years with the creation of no less than 40,000 new firms.

Growth in small business formation in **British Columbia** was also strong in 2003, rising by 6 percent — only slightly behind Alberta's performance. The growth factors here include the shift to positive net inter-provincial immigration, continued growth in the natural gas industry and renewed growth in the high-tech industry. The momentum is clearly building. Residential real estate activity in 2004 and 2005 will remain the highlight, with housing starts likely to outpace any other province in 2004. With close to 30 percent of small firms in the province in the construction and real estate sector (the highest concentration in the nation), small businesses stand to benefit from this growth. Improved tourism and heightened construction activity will also help to keep British Columbia's labour market among the strongest in the country this year and next. Accordingly, strong income growth will boost consumer spending, which, in turn, will provide small firms in this sector with an extra boost. Another emerging growth engine for small firms in the province is the energy sector. Aided by a provincial development strategy, drilling is projected to build significantly on already heady 2003 levels. And with oil prices averaging more than \$40 a barrel in 2005, look for small firms in that sector and in business services to perform well. Overall, we expect small business formation in British Columbia to rise by a cumulative 10 percent in 2004 and 2005, adding 30,000 new firms to an already dynamic small business sector.

Small business economic activity in **Quebec** in 2003 was nothing to write home about, with business formation rising by less than 3 percent — well below the national average. Times, however, are changing. With economic shocks fading from view, domestic demand conditions still sturdy, and capital spending firm, the province is enjoying an increase in activity this year, and is likely to do even better in 2005. Overall, we project that the number of Quebec's small firms with less than 20 employees will rise by a cumulative 9 percent (45,000) in 2004 and 2005.

Quebec's sizeable manufacturing sector has dealt with the fallout from the rising Canadian dollar reasonably well, aided by generally robust global industrial demand. This is particularly positive for small firms in the province given their above average concentration in this sector and their high

propensity to receive outsourced work. Almost two-thirds of small businesses in Quebec act as sub-contractors for other companies — well above the national average.

The housing market remains Quebec's pillar of strength, with relatively tight supply conditions leading to a 24 percent increase in housing starts since the beginning of the year — almost four times faster than the national average. This means further growth opportunities for the 17 percent of small firms in the province that are directly linked to the construction and real estate sectors. Furthermore, with each housing sale generating an estimated \$20,000 in additional consumer spending, the real estate boom is likely to contribute more than 25 percent to the increase in non-automotive consumer spending in both 2004 and 2005. This, along with personal income growth which has surpassed the national average for the past three years, suggests that the shopping spree will continue, with consumer spending projected to rise by 3 percent in both 2004 and 2005. Like their counterparts elsewhere, Quebec's small firms are highly sensitive to changes in consumer spending and with 13 percent of them concentrated in the retail trade sector, robust consumer spending is expected to translate into an accelerated rate of business formation.

The end of a two-year drought led to a significant improvement in **Saskatchewan's** GDP growth in 2003, but that has yet to deliver a notable improvement in small business activity. But with this year's crop harvest currently 5 to 10 percent above expectations, look for overall GDP to expand by a healthy 3.5 percent in 2004, with growth moderating to roughly 2 percent in 2005. The return to a more normal level of harvest is crucial for small firms in the province given that more than 40 percent of them are directly linked to the agricultural sector. This is, by far, the highest concentration ratio in the nation. Beyond the agricultural sector, higher oil prices are helping to spur increased crude oil production in the province and keep drilling activity at elevated levels. But the impact on small business so far has been marginal, given that only 3 percent of small firms are linked to that sector.

During the 12 months ending July 2004, housing starts in **Manitoba** were up by 25 percent, suggesting that housing activity may very well surpass 2003's 14-year high. Not surprisingly, small business formation in the construction and real estate sectors rose by more than 4 percent in 2003 and is set to rise by 5 percent in both 2004 and 2005. Outside of Central Canada, no province has more of its output tied to capital goods exported to the U.S. Notwithstanding the lagging impact of loonie appreciation, an anticipated strengthening in American machinery and equipment spending in 2005 should benefit Manitoba. Given the relatively low export-orientation among Manitoba's small firms, the direct impact on the small business sector will be limited. However, the indirect impact via increased demand for business services is likely to be significant and was already evident in the 6 percent growth in small business formation in that sector in 2003.

Small business economic activity in **Atlantic Canada** will trail behind the rest of the country in 2004 and 2005, reflecting below average economic growth, an unenviable sectoral mix and weak demographic balance. Within the region, look for small firms in New Brunswick to perform comparatively better, largely due to the positive spin offs from the ongoing improvement in manufacturing exports. The provincial government's belt-tightening and difficult agriculture conditions will severely compromise the ability of small firms in Prince Edward Island to grow in the coming few years.

# SMALL BUSINESS STATISTICS

## EMPLOYMENT

'000	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004 (avg. Jan-Jun)
<b>Total Employment</b>	13111.8	13356.9	13462.6	13774.5	14140.4	14531.2	14909.7	15076.8	15411.8	15746.0	15836.3
<b>Self-Employment</b>	1978.2	2039.9	2113.2	2288.5	2364.6	2416.4	2378.1	2275.1	2312.2	2377.1	2406.3

## EMPLOYMENT BY AGE

'000	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004 (avg. Jan-Jun)
<b>Total Employment</b>	13111.8	13356.9	13462.6	13774.5	14140.4	14531.2	14909.7	15076.8	15411.8	15746.0	15836.3
<b>15+</b>	13111.8	13356.9	13462.6	13774.5	14140.4	14531.2	14909.7	15076.8	15411.8	15746.0	15836.3
<b>15-24</b>	2099.9	2107.6	2073.6	2043.1	2101.9	2206.3	2289.2	2313.5	2367.1	2406.9	2336.0
<b>25-34</b>	3544.9	3543.7	3509.5	3496.9	3488.1	3446.6	3449.4	3437.2	3433.0	3468.5	3481.5
<b>35-54</b>	6194.8	6438.6	6594.8	6893.5	7149.5	7400.3	7615.5	7719.4	7838.3	7907.2	7977.4
<b>55-64</b>	1069.5	1070.9	1088.4	1134.0	1183.1	1264.3	1343.7	1393.4	1533.2	1696.3	1768.4
<b>65+</b>	202.8	196.2	196.4	207.0	217.9	213.7	212.0	213.3	240.4	267.1	273.1
<b>Self-Employment</b>	1978.2	2039.9	2113.2	2288.5	2364.6	2416.4	2378.1	2275.1	2312.2	2377.1	2406.3
<b>15+</b>	1978.2	2039.9	2113.2	2288.5	2364.6	2416.4	2378.1	2275.1	2312.2	2377.1	2406.3
<b>15-24</b>	133.8	125.3	129.8	129.2	128.0	125.6	103.5	82.5	92.3	96.4	87.0
<b>25-34</b>	384.7	387.2	401.9	416.8	408.8	396.9	389.5	360.6	352.6	360.0	350.1
<b>35-54</b>	1077.2	1132.8	1185.2	1308.8	1371.6	1400.6	1395.6	1354.1	1344.1	1347.7	1365.9
<b>55-64</b>	269.6	286.5	286.3	316.4	325.2	365.7	364.8	362.9	388.6	428.3	455.8
<b>65+</b>	113.0	108.1	110.0	117.3	131.1	127.7	124.8	115.2	134.6	144.7	147.6

## EMPLOYMENT BY PROVINCE

'000	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004 (avg. Jan-Jun)
<b>Total Employment</b>	192.2	194.3	187.1	189.3	194.3	204.9	204.6	211.3	213.9	217.8	214.0
<b>Newfoundland</b>	55.5	57.3	59.0	59.2	60.4	61.3	64.6	65.9	67.1	68.9	66.6
<b>Prince Edward Island</b>	373.3	377.2	378.1	384.3	398.9	408.7	419.6	423.3	428.4	435.5	437.8
<b>Nova Scotia</b>	300.2	309.9	306.2	310.7	317.9	328.4	334.5	334.5	345.6	345.0	342.2
<b>New Brunswick</b>	3100.6	3147.6	3145.9	3195.1	3281.5	3357.4	3437.8	3474.5	3592.7	3649.9	3665.5
<b>Quebec</b>	5039.2	5130.6	5180.8	5313.4	5490.0	5688.1	5872.1	5962.7	6068.0	6228.5	6274.0
<b>Ontario</b>	509.5	519.0	518.6	525.6	535.7	542.7	554.4	557.9	567.0	568.7	570.9
<b>Manitoba</b>	455.7	459.5	457.5	470.1	476.3	480.1	485.0	472.4	482.0	486.8	485.5
<b>Saskatchewan</b>	1331.6	1369.4	1408.4	1457.9	1515.4	1553.3	1588.3	1632.1	1673.8	1721.7	1740.0
<b>Alberta</b>	1754.0	1792.3	1821.2	1869.0	1870.2	1906.4	1949.1	1942.4	1973.4	2023.3	2040.0
<b>British Columbia</b>											
<b>Self-Employment</b>	27.4	26.3	24.3	25.3	28.8	26.6	25.9	22.4	25.2	27.1	26.7
<b>Newfoundland</b>	10.1	10.3	10.2	10.1	11.3	11.5	11.2	10.7	10.9	10.7	10.0
<b>Prince Edward Island</b>	49.7	52.1	55.6	58.4	59.1	59.5	57.8	55.0	60.5	56.0	58.0
<b>Nova Scotia</b>	36.2	38.1	40.9	44.4	43.7	42.4	40.7	39.6	41.8	41.3	41.8
<b>New Brunswick</b>	407.7	443.5	459.3	473.4	495.2	506.5	502.3	462.2	468.8	477.4	481.2
<b>Quebec</b>	716.5	716.2	743.1	825.3	841.7	879.5	899.6	872.2	870.0	899.0	906.6
<b>Ontario</b>	82.8	81.6	81.9	89.8	89.5	91.4	89.0	81.7	83.4	87.5	86.3
<b>Manitoba</b>	105.1	105.1	108.2	110.4	115.9	114.9	107.7	97.8	98.0	97.4	93.3
<b>Saskatchewan</b>	244.8	269.9	273.2	296.5	297.3	296.8	283.7	277.4	281.6	301.1	317.0
<b>Alberta</b>	298.1	296.9	316.6	354.9	381.9	387.4	360.2	356.4	372.1	379.8	385.5
<b>British Columbia</b>											

## Business Formation By Size Of Firm December 2003

### BY PROVINCE

	Number of Employees							
	0-4	5-9	10-19	20-49	50-99	100-199	200-499	500+
Newfoundland and Labrador	19,994	3,035	1,695	1,189	389	187	96	59
Prince Edward Island	7,464	1,355	901	591	159	60	31	10
Nova Scotia	39,865	5,355	3,977	2,744	891	443	167	84
New Brunswick	34,322	4,705	3,122	2,170	711	304	146	59
Quebec	422,765	38,150	22,905	16,206	5,794	2,774	1,366	637
Ontario	680,048	60,607	44,306	33,298	12,167	5,899	2,853	1,099
Manitoba	60,386	6,452	5,026	3,550	1,219	506	277	109
Saskatchewan	80,680	7,400	4,851	3,037	916	378	228	62
Alberta	247,972	23,998	16,748	11,356	3,904	1,814	752	284
British Columbia	266,778	27,678	18,595	12,270	4,111	1,811	845	330
Yukon Territory	2,167	319	224	157	47	21	10	2
Northwest Territories	1,747	371	312	237	71	35	18	2
Nunavut	431	149	123	113	41	14	4	1
<b>Canada</b>	<b>1,864,619</b>	<b>179,574</b>	<b>122,785</b>	<b>86,918</b>	<b>30,420</b>	<b>14,246</b>	<b>6,793</b>	<b>2,738</b>

Source: Statistics Canada

## Business Formation : Urban vs. Rural December 2003

### BY PROVINCE & CATEGORY

	Number of Employees			
	0-4	5-9	10-19	20-49
<b>CANADA</b>	1,864,619	179,574	122,785	86,918
Large Cities	1,166,141	109,569	78,874	59,081
Small Cities	698,478	70,005	43,911	27,837
<b>ATLANTIC</b>	101,645	14,450	9,695	6,694
Large Cities	28,758	3,994	2,885	2,242
Small Cities	72,887	10,456	6,810	4,452
<b>QUEBEC</b>	422,765	38,150	22,905	16,206
Large Cities	264,128	23,423	15,175	11,211
Small Cities	158,637	14,727	7,730	4,995
<b>ONTARIO</b>	680,048	60,607	44,306	33,298
Large Cities	514,637	44,577	33,467	26,182
Small Cities	165,411	16,030	10,839	7,116
<b>MANITOBA</b>	60,386	6,452	5,026	3,550
Large Cities	29,257	3,716	3,109	2,324
Small Cities	31,129	2,736	1,917	1,226
<b>SASKATCHEWAN</b>	80,680	7,400	4,851	3,037
Large Cities	21,855	3,038	2,296	1,603
Small Cities	58,825	4,362	2,555	1,434
<b>ALBERTA</b>	247,972	23,998	16,748	11,356
Large Cities	144,681	14,823	10,790	7,745
Small Cities	103,291	9,175	5,958	3,611
<b>BRITISH COLUMBIA</b>	266,778	27,678	18,595	12,270
Large Cities	162,825	15,998	11,152	7,774
Small Cities	103,953	11,680	7,443	4,496

Source: Statistics Canada

## Business Formation By Size Of Firm December 2003

### BY MAJOR CITY

	Number of Employees							
	0-4	5-9	10-19	20-49	50-99	100-199	200-499	500+
Calgary	83,042	7,544	5,656	4,053	1,479	712	319	110
Chicoutimi - Jonquière	6,336	757	417	328	110	46	28	17
Edmonton	61,639	7,279	5,134	3,692	1,301	619	257	98
Greater Sudbury	6,331	740	552	433	132	38	27	15
Halifax	16,440	2,065	1,593	1,329	442	222	87	53
Hamilton	31,480	3,217	2,290	1,714	614	287	146	49
Kitchener	21,490	2,252	1,625	1,297	481	240	120	45
London	21,921	2,267	1,599	1,249	435	182	84	36
Montréal	208,050	17,655	11,557	8,505	3,242	1,564	771	344
Oshawa	11,397	1,044	717	507	181	96	29	24
Ottawa - Hull	56,498	5,194	3,746	2,815	955	453	222	136
Québec	34,509	3,512	2,294	1,696	600	256	135	90
Regina	9,339	1,336	1,044	745	237	110	57	37
Saint John	4,645	726	492	350	132	58	31	16
Saskatoon	12,516	1,702	1,252	858	271	107	59	14
Sherbrooke	8,716	804	506	363	104	40	32	10
St. Catharines - Niagara	17,109	1,922	1,369	1,000	349	167	83	29
St. John's	7,673	1,203	800	563	209	111	50	36
Thunder Bay	5,080	743	525	355	115	52	24	17
Toronto	330,535	25,770	19,940	15,897	6,257	3,062	1,484	549
Trois-Rivières	6,517	695	401	319	97	43	11	15
Vancouver	143,823	13,876	9,623	6,796	2,451	1,081	510	189
Victoria	19,002	2,122	1,529	978	313	149	82	38
Windsor	12,796	1,428	1,104	915	330	159	78	29
Winnipeg	29,257	3,716	3,109	2,324	886	389	204	83

Source: Statistics Canada

## Business Formation By Revenue December 2002

### BY PROVINCE

	Total	Revenue Ranges					
		0-99k	100k-499k	500k-1.9m	2m-9.9m	10m-49.9m	> 50m
Newfoundland and Labrador	25,172	14,235	6,607	2,887	1,114	266	63
Prince Edward Island	10,136	5,587	2,722	1,280	435	90	22
Nova Scotia	49,069	26,155	13,853	5,852	2,447	645	117
New Brunswick	43,005	23,245	12,112	5,093	2,000	455	100
Quebec	477,770	279,735	124,692	47,125	19,731	5,413	1,074
Ontario	701,915	364,433	204,114	84,218	35,750	10,997	2,403
Manitoba	72,045	38,380	21,452	8,036	3,135	848	194
Saskatchewan	91,597	50,752	28,383	8,560	3,131	624	147
Alberta	258,077	137,773	77,930	27,909	10,809	2,979	677
British Columbia	289,832	157,832	83,148	32,647	12,286	3,238	681
Yukon Territory	2,695	1,272	815	423	141	38	6
Northwest Territories	2,516	938	731	528	250	52	17
Nunavut	678	195	187	152	118	24	2
<b>Canada</b>	<b>2,024,507</b>	<b>1,100,532</b>	<b>576,746</b>	<b>224,710</b>	<b>91,347</b>	<b>25,669</b>	<b>5,503</b>

Source: Statistics Canada

Unless indicated otherwise, data sources used in this study are Statistics Canada, Industry Canada, CIBC World Markets and the 2004 CIBC/Decima Small Business Poll. As well, unless indicated otherwise, small businesses in this study are defined as firms with less than 20 employees.

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