

Special Report

— Canada's Self-Employed ... On The Rise Again

October 27, 2004

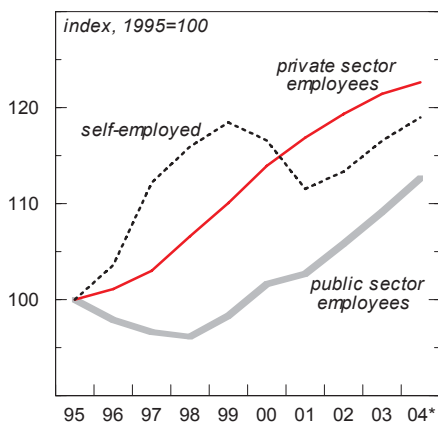
The expansion of Canada's entrepreneurial sector has resumed. Self-employment and hiring in the public sector have helped to sustain employment growth over the past year and a half as job creation among private sector employers cooled. During this period, self-employment accounted for one in five of the total new positions created. The contraction in self-employment witnessed in 2000 and 2001 has been reversed, and the number of self-employed (excluding unpaid family workers) now surpasses the prior cyclical peak in 1999.

Gains in self-employment should continue to outstrip growth in private sector paid positions through 2005. In the current volatile global economic environment, hiring by larger businesses is expected to remain cautious. Growth is forecast to moderate in U.S. and overseas markets, the stronger Canadian dollar favours increased capital investment, and the ramp-up in energy and other commodity prices is putting added pressure on profit margins. The cost of full-time employees is high, particularly in light of rising benefit expenses, and larger firms will probably continue to outsource increasing amounts of their operations.

In contrast, self-employment has broadened by industry, and the outlook is encouraging for entrepreneurs in a number of key sectors such as health care, business services and housing. Demographics are contributing to small business formation, most notably the increasing number of older workers and their use of self-employment.

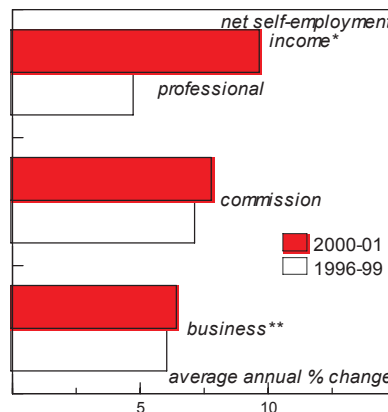
Self-employment in Canada continues to be dominated by one-person operations, with only one-third owning businesses with paid employees. Issues such

Self-employment rebounds ...



\*Quarters 1 through 3.

... and their income strengthens



\*Average net self-employment income per tax return; data only for returns with self-employment the major income source.

\*\*Business is primarily a residual category and excludes farming, fishing, professional, rental and commission income.

Source: Revenue Canada.

as the provision of benefits are ongoing, but earnings among several categories of self-employed have been trending higher. For individuals who count self-employment as their major source of income, Revenue Canada reports healthy growth for self-employed professional, commission and business net earnings during the half decade to 2001 (the latest year for which data are available), even though growth in the number of self-employed weakened during the latter two years. The expansion of self-employment in higher salary areas, such as construction and professional and technical services, suggests further income gains for the self-employed.

**Industry detail encouraging**

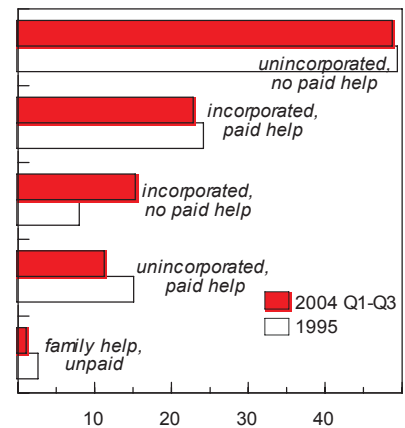
A number of factors support a further increase in self-employment across a range of industries. In mining, forestry, manufacturing and construction, the number of self-employed has climbed more than 10% since 2002 while paid employment has advanced by only 1%. In the manufacturing sector, self-employment declined in 2003, but has since revived. Looking forward, micro manufacturing enterprises should be buffered from the strengthening Canadian dollar by their greater focus on domestic markets, often in specific niches where there is less competition from low-cost overseas imports.

Self-employment in forestry and mining has climbed by roughly 15% since 2002, and buoyant commodity prices should sustain activity over the next year. In construction, self employment has witnessed a similar 15% jump, boosted by the surge in residential construction. Housing demand is forecast to ease as interest rates rise through 2005, but home-building is expected to remain in high gear for at least another year.

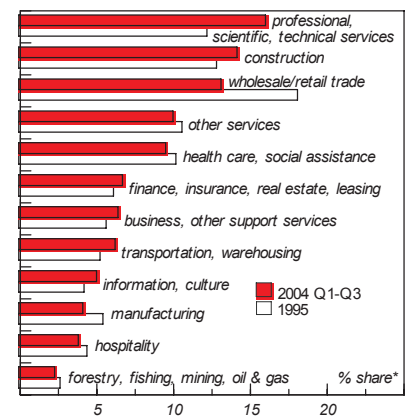
In the services sector, opportunities for self-employment are expanding in some areas, such as professional and technical services, finance, real estate and health care, but contracting in others, notably retail and wholesale trade. With the exception of agriculture, retail and wholesale trade previously attracted the largest number of self-employed, but several trends, such as the popularity of big box retailers, have resulted in declines. Professional, scientific and technical services is now the largest non-farm category of self-employment. Operating a small business in knowledge-based industries has become increasingly feasible with advances in Internet and other communications technology. Going forward, micro-business expansion in fields such as engineering, design and IT should help to boost both innovation and commercialization.

Considerable opportunity for self-employment is anticipated in health care, given Canada's aging population and the public's focus on this area. The pace of change in today's post-industrial economy is also spurring increased attention to education and training. In other services, such as transportation, self-employment is positioned to benefit from North America's further economic expansion.

**Composition of Self-Employment**



**Self-Employment by Industry**



\*% share of self-employed excluding agriculture sector.

### Regional shifts

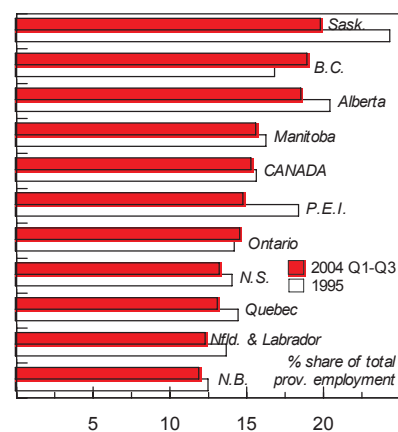
Developments in self-employment vary widely across the provinces. Since 2001, only two provinces have not witnessed some gain in self-employment, but only in Alberta, Ontario and British Columbia has the rebound been sufficiently strong to surpass their previous cyclical peaks four to six years ago. In each of the four largest provinces last year, the expanding area of professional and technical services accounted for at least 14% of self-employment, compared with an average of 8% across the other provinces. In Newfoundland and Labrador, P.E.I. and New Brunswick, 42% of the self-employed in 2003 owned firms with paid employees, followed by Quebec and Nova Scotia with 36%.

Self-employment outside of the agriculture sector is most prominent in British Columbia, accounting for 18% of the province's work force compared with the other provinces' 13% share. B.C.'s high share partially reflects the large number of one-man operations on the West Coast. The number of self-employed in B.C. has rebounded from an 8% drop during 2000 and 2001 and further gains are anticipated as the province prepares for the 2010 Winter Olympics. In addition to the encouraging outlook for industries such as tourism and recreation, self-employment has been rising in several other areas such as transportation/warehousing as commerce with the Pacific Rim and the Western U.S. states continues to expand.

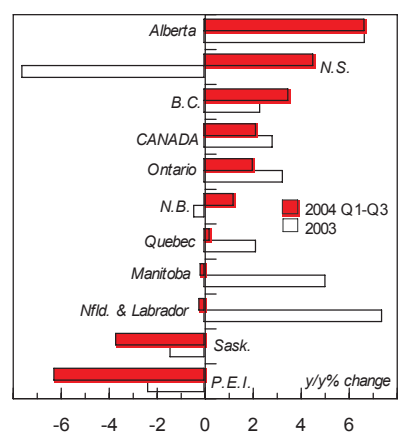
In the three Prairie provinces, self-employment in the prominent agriculture sector has dropped by more than 20% over the past four years, but prospects for small business are more encouraging in the other sectors. The outlook for non-farm self-employment is particularly bright in Alberta with the energy sector in high gear and a range of services expanding to meet its needs. Yet, the gains in Alberta's self-employment will likely be capped over the next few years by large corporations' hiring in the province's tight labour market. In Manitoba, self-employment is expanding in several service industries such as transportation, education and business services, while health care has recently attracted new entrepreneurs in Saskatchewan.

In Ontario, the downturn in self-employment earlier this decade was less steep than the national correction and the subsequent recovery has been fueled by professional/technical services, finance and real estate and the housing boom. Among the provinces, Ontario has the largest concentration of self employment in professional/technical services and finance and real estate, 17% and 7% respectively. Self-employment in professional, scientific and technical services is supported by Toronto's broad-based economy as well as a number of other high-tech clusters across Ontario. Self-employment is also advancing in the province's diverse hospitality industry and its information, culture and recreation services. In the province's large manufacturing sector, the number of self-employed is almost unchanged from a decade ago.

Self-Employment by Province



Growth in Self-Employment by Province



Self-employment in Quebec remains about 5% below the cyclical peak in 1999, but notable advances have occurred in several service industries including professional/technical services and information, culture and recreation. Almost four-fifths of Quebec's self-employed are in the services sector, the highest share among the provinces. The latest tax return data available, 2000 and 2001, indicate significant gains in Quebec in net self-employment commission, professional and other business income. In construction, the positive impact of Quebec's housing boom for self-employment has been limited by its relatively low share of total construction employment.

Atlantic Canada has the highest percentage of self-employed in forestry, fishing and mining among the regions, and the largest share of self-employed with paid employees, but its share of total self-employment is the lowest. Following a sharp downturn from 1999 to 2001, the number of self-employed has surged in Newfoundland and Labrador and climbed significantly in New Brunswick and Nova Scotia. While new micro businesses surfaced in forestry, fishing and mining in Newfoundland and Labrador and Nova Scotia during the last two years, much of the advance in East Coast self-employment originated in the services sector.

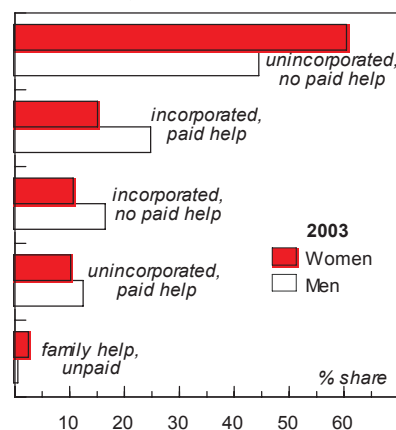
**Demographic drivers**

Women represent a third of the self-employed, versus their share of more than 45% of the total work force. In 2001, the drop in self-employment was steeper among women than men. The subsequent recovery was largely in the services sector, which accounts for 86% of self-employed women. Since the mid-1990s, female self-employment has trended steadily upward in professional, technical and scientific services, business services and information, cultural and recreational activities. About 60% of self-employed women work alone on an unincorporated basis and only 15% are incorporated with paid staff. Nevertheless, over the past eight years the number of incorporated female small business owners with paid employees has advanced by 2% annually, whereas the number of comparable male business owners has paused.

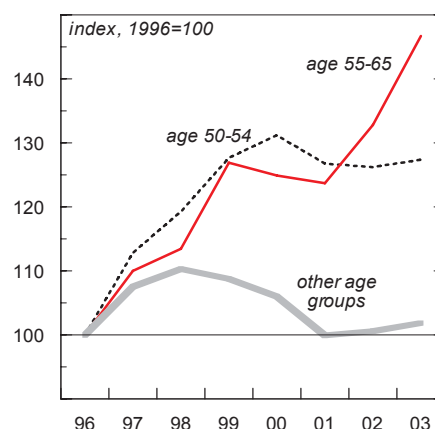
Looking forward, the surge in self-employment among older workers points to further gains with the aging of Canada's large baby boom generation. Individuals 55-65 now represent almost 20% of self-employed workers and their numbers have been ratcheting up at a 5½% annual pace from 1997 to 2003. Self-employment among individuals age 50-54 is also on the rise. In both age groups, the advances in self-employment have been faster among women. While some of the shift to self-employment among older workers may relate to corporate and public sector restructuring, the trend should help to keep experienced labour more available as skills shortages intensify in a number of industries this decade.

*Assistance provided by Sarah Hughes.*

**Composition of Female and Male Self-Employment**



**Self-Employment by Age Group**



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**Scotia Economics**

Scotia Plaza 40 King Street West, 63rd Floor  
 Toronto, Ontario Canada M5H 1H1  
 Tel: (416) 866-6253 Fax: (416) 866-2829  
 Email: scotia\_economics@scotiacapital.com