

**Global Economic Research**

**Special Report**

**Small Businesses and Jobs —**

**Building on Canada's Construction Boom**

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*A diversified Canadian economy weathers challenging times*

For many Canadians, the new millennium has ushered in a period of improved well-being. Historically low borrowing costs have helped finance a national boom in housing activity, and along with continuing job gains, have lifted personal spending into the fast lane of growth. The resource-rich provinces, especially those in the west, have benefited from soaring demand and sharply higher prices for many commodities, energy and minerals in particular.

However, the first half of this new decade has also been characterized by recurring challenges. Canada's large and export-sensitive manufacturing sector has been hard hit by intensifying competition from lower-cost overseas producers and the most rapid appreciation of the Canadian dollar on record. This double whammy has triggered adjustments to boost efficiencies and lower costs, ranging from new investments to mergers & acquisitions and cutbacks in employment. Coincidentally, a string of unforeseen events at home and abroad, including terrorist strikes, wars, energy price spikes, disease outbreaks and devastating natural disasters, have added to the undercurrent of uncertainty.

Throughout this highly volatile time, however, Canada has kept its economic head above the turbulence. Output growth has averaged a respectable 2½% annually between 2000 and 2004, a trajectory slightly above the trend in the United States. But by recent standards, this is a sub-par performance, with the growth rate only about one-half the yearly gain experienced during the prior four years in the late 1990s, a relative boom period for expanded north-south trade.

From a regional perspective, the energy-dominated commodity boom, primarily in western Canada but in the Atlantic provinces as well, has provided an increasing contribution to national growth. So has the continuing and broad-based strength in construction and service-sector activity throughout the country, and accelerated spending by all levels of government. The weak link in the overall performance remains the slower pace of manufacturing activity that has constrained growth in Ontario and Quebec.

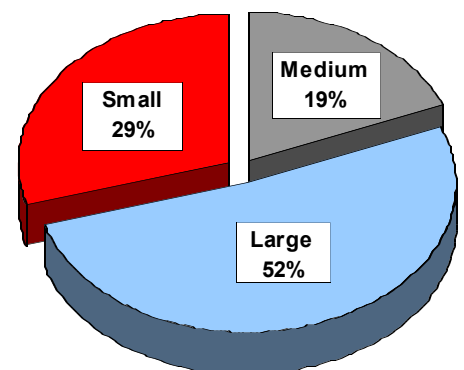
**Small businesses and jobs**

Job conditions in Canada have largely mirrored these developing economic trends in three areas.

First, according to enterprise data compiled in Statistics Canada's *Survey of Employment, Payrolls and Hours (SEPH)*, employment growth averaged a good, but not great 1.8% annually between 2000 and 2004, very much in line with Canada's more moderate pace of overall economic activity. For comparison, the more timely monthly *Labour Force* data reported a 2% average yearly gain over the same time frame, a result that trailed the stronger 2½% annualized gain in the prior four-year period when the Canadian economy grew at an average annual rate of 4¾%.

Canada's Employment Distribution —  
... By Number of Employees

Share of Net Job Gains, 2000-04



**Number of Employees**

- Small - 1-49
- Medium - 50-499
- Large - 500 +

Second, there has been a rebalancing of employment by size of firm. Small- and medium-sized firms have remained consistent generators of jobs throughout Canada in the new millennium. Combined, they have accounted for 48% (or 447,000) of the almost 927,000 new jobs added by Canadian companies between 2000 and 2004.

But a closer look at small- and medium-sized firms reveals that small businesses (less than 50 employees) were responsible for 29% of the increase in the number of jobs nationwide (roughly 273,000), a solid performance that is a shade under this segment's 32% share of employment. Small businesses employing 5-49 workers accounted for the bulk of the new hires, a sizeable 90% (246,000 employees). 'Micro' firms of up to 4 people chipped in the remaining 10% (27,000 employees).

In contrast, medium-sized enterprises (50 to 499 employees) contributed to a comparatively smaller 19% of the increase in jobs during this time (174,000 employees), a result below the segment's 24% share of total employment. The only segment that outperformed was large firms (500 or more employees), where 52% of new jobs created (480,000 employees) was well above the 44% share of overall employment in 2004.

Not surprisingly, the changing competitive landscape is reshaping domestic employment conditions, with the escalating number of lower-cost producers overseas, primarily manufacturers, helping to trigger the shift to larger firms. This 'big is better' route is the result of an industry-wide consolidation required to generate the 'economies of size' and efficiencies needed to lower operational costs and compete more effectively internationally. But at the same time, the increasing propensity to outsource work caused by the downloading of selected corporate and government responsibilities, the enhanced mobility afforded by advanced technology and telecommunication channels, and the expanded opportunities for female, immigrant, as well as senior workers, have helped support the 'small is smart' segment of the job market.

And third, there has been significant compositional shift in Canadian employment conditions towards domestically orientated jobs, and away from internationally sensitive, non-energy export positions. According to the *SEPH* data, the five largest hiring gains nationally — accounting for seven out of every ten jobs added from 2000 through 2004 — have been in retailing, health care & social assistance, construction, business support services and public administration. Not surprisingly, manufacturing has incurred the largest employment losses, followed by the forestry sector that has downsized in response to challenges from a stronger currency and the lingering U.S. softwood lumber tariff dispute, in addition to insect infestations and forest fires.

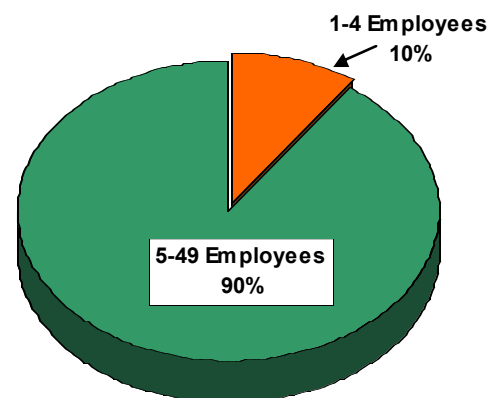
***Transiting to domestically generated growth and construction jobs***

Among small businesses, construction jobs have been building significant momentum. Over the four-year period ending in 2004, small businesses accounted for a whopping 64% of the overall increase in construction employment. (In contrast, medium-sized firms added another 30% of construction jobs, followed by only 6% for large enterprises.)

The construction sector was responsible for a hefty 30% (almost 82,000) of the job gains added nationally relative to the total number of jobs created by small businesses. To put this tally into perspective, small businesses essentially created five new construction jobs for every manufacturing job lost between 2000 and 2004. Construction's share of small business employment rose by over a per-

Canada's Employment Distribution — ... By Small Businesses

Share of Net Job Gains, 2000-04



centage point to 10½% in 2004 (roughly 449,000 workers), while the manufacturing share of small business employment fell by just over a percentage point to 10% (about 433,000 employees).

Relative to the jobs created by small businesses, the employment gain in construction (82,000 workers representing 30% of the cumulative four-year increase in small business employment) dwarfed the other sectors by a significant margin. Health care & social assistance accounted for 16% to the total (43,000 workers), retail trade and professional, scientific & technical services each tallied roughly 13% (36,000 and 35,000 workers respectively), while other business services chipped in 11% (29,000 workers). Combined, these five sectors represented about four out of every five jobs created by small businesses between 2000 and 2004.

Across every province, the construction sector has emerged as a bellwether employment generator among small businesses. Construction has been the largest contributor to the number of new positions created by small businesses over the past four years in Ontario, Alberta, B.C., Nova Scotia and New Brunswick, the second biggest contributor to jobs in Quebec, Manitoba and Newfoundland/Labrador, and the fourth largest jobs generator in Saskatchewan and P.E.I.

Ontario, by its size, has accounted for the bulk of the increase in construction employment among small businesses at almost 40% (roughly 32,000 employees). The multi-year boom in housing and renovation activity is being reinforced by the accelerated pace of public sector building, substantial infrastructure upgrades, and a renewed pick-up in business non-residential construction. The strength of construction activity from both an output and employment perspective has been an important stabilizing factor, helping to compensate for the multi-year competitive restructuring and downsizing under way in the province’s dominant manufacturing sector.

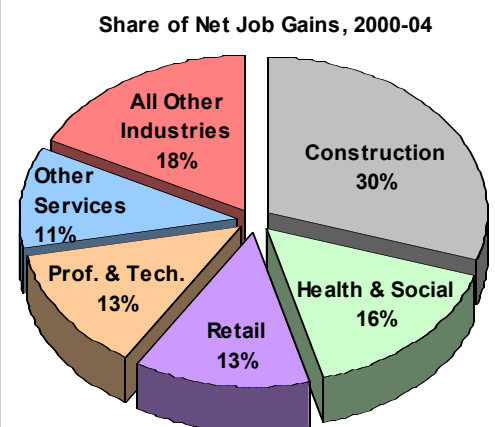
Alberta, by the dynamics of its energy-driven economy, has accounted for the largest increase in the share of small business jobs created in the buoyant construction sector (+1.8 percentage points), with the province’s share of small business construction jobs rising to 12.7% in 2004. This trend is likely to persist in view of the above-average growth potential in the province triggered by increasing global demand and high prices for energy products.

***Construction backlogs should help buffer against any consumer pullback***

Canadian small businesses continue to make an important contribution to the nation’s overall economic performance. During a period of recurring headwinds, small businesses have been a stabilizing factor by adding to the nation’s payrolls and output growth. The emergence of the construction sector as the country’s hiring magnet reflects its broad-based strength, from both a sectoral (residential, non-residential and government) and a regional perspective.

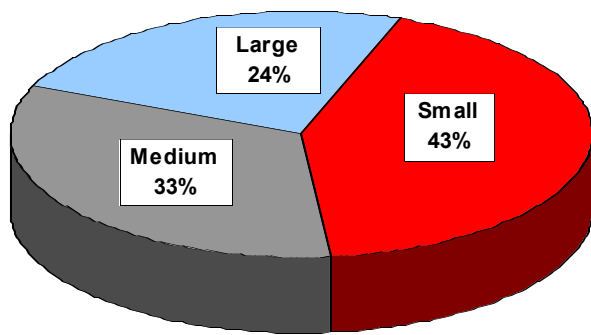
Looking ahead, the favourable momentum in homebuilding and hiring is expected to slow as households begin to rein in spending in response to sharply higher energy costs, the upward trend in short-term borrowing costs, and the general softening in overall economic conditions expected in the United States and abroad. Nevertheless, there is a sufficient backlog of construction projects (eg. energy-related business spending and infrastructure-related government expenditures) to keep this sector at or close to the top of the economy’s performance ladder. In this environment, small businesses should continue to provide support, particularly in the faster growing centres throughout western Canada.

Canada’s Employment Distribution — ... By Sector

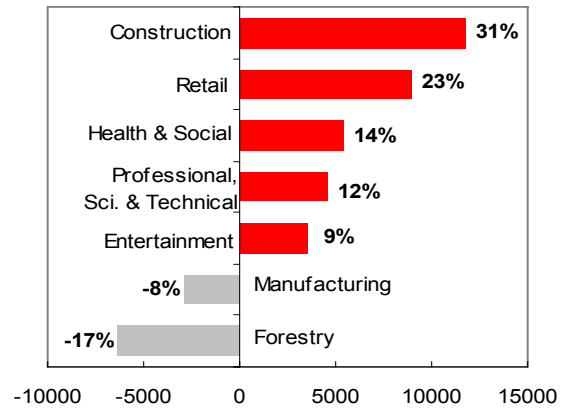


British Columbia

Share of Total Jobs Created, 2000-04



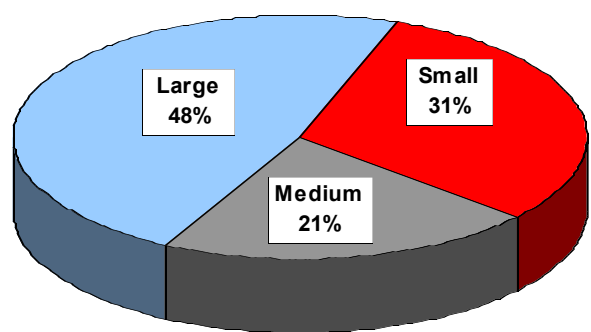
Cumulative Small Business Job Gains, 2000-04



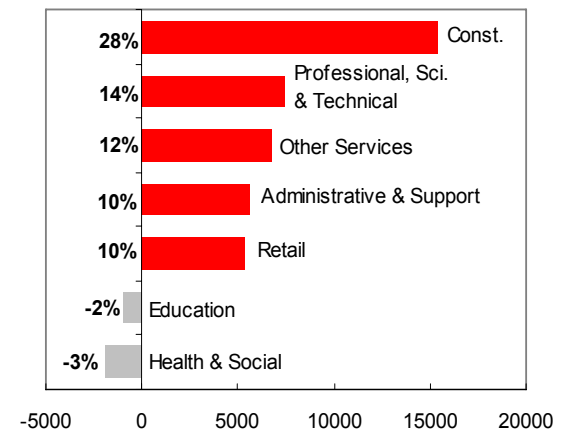
B.C. posted job growth averaging 1.4% annually between 2000 and 2004, compared with the national rate of 1.8%. Over 89,000 positions were created, with small businesses accounting for 43% of the gain. Medium-sized firms added 33% of the jobs, while large enterprises contributed 24% to the total. The employment generated by B.C.’s small businesses is essentially in line with their 38% share of overall provincial employment in 2004. However, contrary to the national trend, the province witnessed a shift in job creation towards medium-sized firms, and away from large enterprises. From an industry perspective, four of every five small business jobs in B.C. were added in five industries, with construction alone accounting for 31% of the total. Hefty increases in the number of jobs in the retail and health & social assistance sectors more than offset the decline in the province’s manufacturing and forestry sectors. Forestry shed the most small business jobs over the four years, highlighting the competitive adjustments in this industry.

Alberta

Share of Total Jobs Created, 2000-04



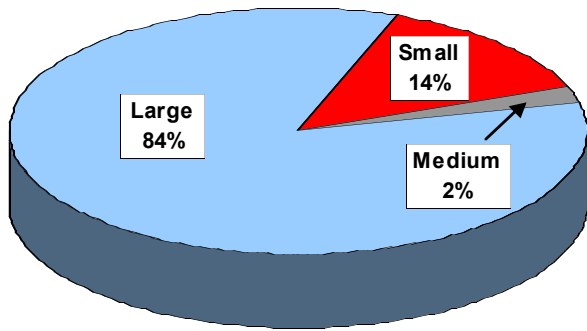
Cumulative Small Business Job Gains, 2000-04



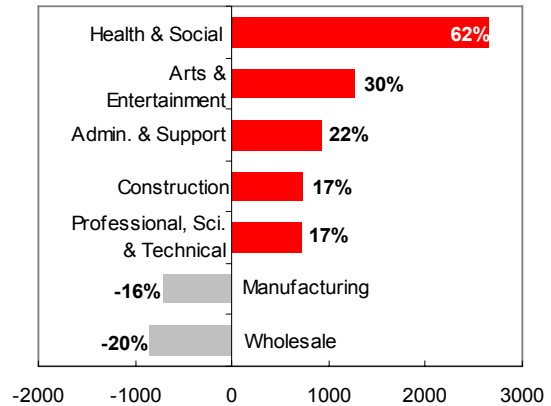
Alberta’s employment advanced at a very solid 3.3% average annual rate between 2000 and 2004, almost double the national average. Hiring has been strong across all firm sizes, reflecting the increasingly broad-based strength of the resource-driven Albertan economy, though the rate of employment creation is stronger among larger firms. Small businesses accounted for 31% of the roughly 178,000 net jobs added provincially, while medium-sized firms generated 21%, and large firms contributed the remaining 48%. Four of every five small business jobs were created in the top five industries, led by construction and scientific & technical services, offsetting losses in health & social assistance and education. From an industry perspective, the construction sector has dominated small business hiring, contributing 28% of the employment gains over the four years. The oil & gas extraction sector added over 4,300 jobs during the four-year period — placing seventh on the performance ladder — and accounting for 8% of jobs created by small businesses.

Saskatchewan

Share of Total Jobs Created, 2000-04



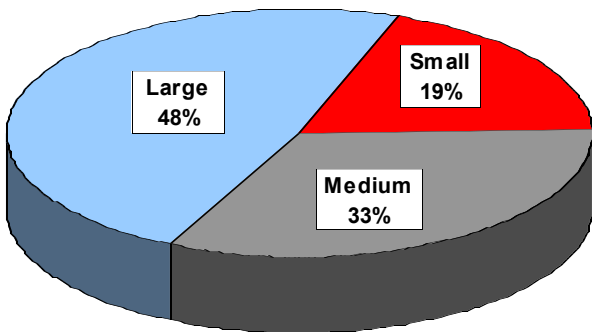
Cumulative Small Business Job Gains, 2000-04



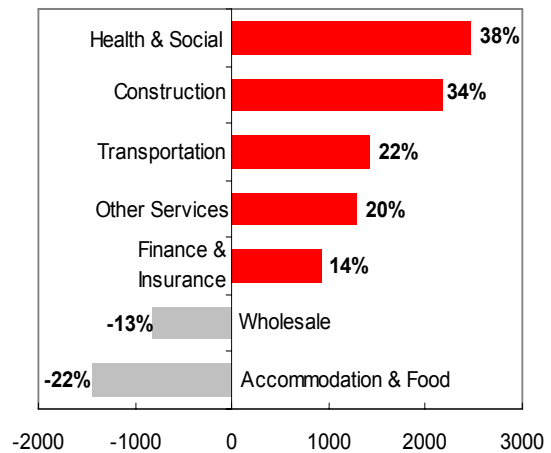
Job growth in Saskatchewan posted a 2.1% average annual increase between 2000 and 2004, slightly above the average national gain of 1.8%. Of the roughly 32,000 total jobs created, small business accounted for only 14%, while medium firms contributed just 2%. The majority of new hires in the province were added by large enterprises, supplying 84% of net new jobs. Although the small business sector represented one-third of overall employment in 2004, there has been a clear shift toward large firms, as their share of total employment increased three percentage points to 45%. From an industry perspective, Saskatchewan is extremely reliant on health care & social assistance for small business jobs, as the industry contributed 62% of the sector’s net jobs over the four-year period. Similarly, all net job gains were added by the top five industries — with the construction sector chipping in 17% — making up for employment cuts in wholesale and manufacturing.

Manitoba

Share of Total Jobs Created, 2000-04



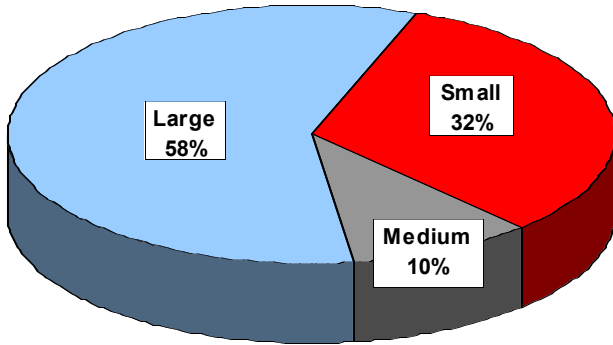
Cumulative Small Business Job Gains, 2000-04



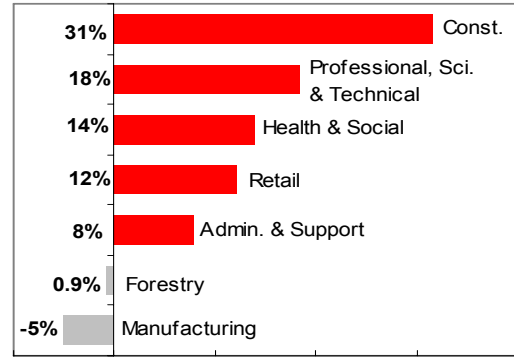
Net employment gains in Manitoba averaged 1.7% annually between 2000 and 2004, mirroring the hiring pace nationally. Of the roughly 34,000 net positions created, small business accounted for 19% of the new hires, medium-sized firms added a further 33%, with large firms responsible for the remaining 48%. The province’s small business sector added almost 6,500 jobs in the four-year period, 38% of which were in health care & social assistance, with construction accounting for another 34%. The top five industries were responsible for all of the net gains in small business employment, compensating for losses incurred in the accommodation & food service and wholesale sectors. Over the four years, the province’s medium-sized firms were the only segment to gain market share, largely because of net job losses among small businesses employing less than four people.

Ontario

Share of Total Jobs Created, 2000-04



Cumulative Small Business Job Gains, 2000-04

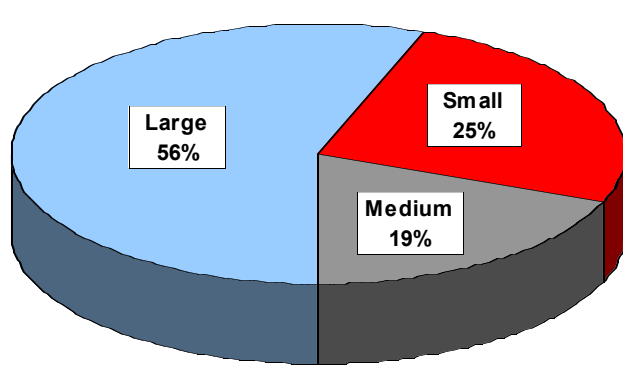


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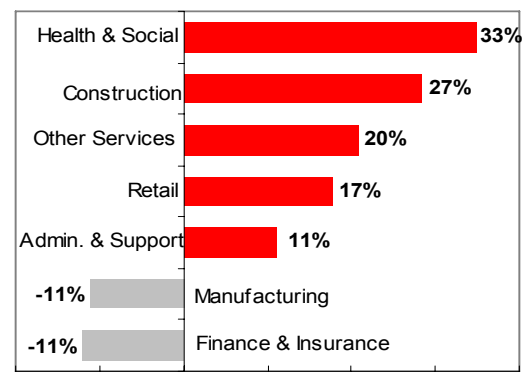
Employment growth in Ontario averaged 1.6% annually between 2000 and 2004, slightly below the national average of 1.8%. Small business jobs were responsible for 32% or about 103,000 of the roughly 317,000 jobs created in the period, a performance slightly above this segment’s 29% share of employment in 2004. Large firms recorded 58% of the new hires, with the remaining 10% added by medium-sized enterprises. While small businesses have remained in a hiring mood — employment growth averaged 1.8% annually during the four years — larger firms have gained employment share at the expense of medium-sized firms. These trends reflect the rapidly changing competitive landscape that has resulted in a significant amount of corporate restructuring to lower operational costs and improve productivity — developments that have resulted in sharp losses in manufacturing employment across all business segments. Four out of every five jobs created by small businesses in Ontario were in sectors that were supportive of domestic demand and largely unencumbered by the heightened level of export sensitivity. Construction was the top small business employer, accounting for 31% or almost 32,000 of the jobs added in the province. Scientific and technical-related business services added another 18%, followed by a 14% increase in health & social assistance hiring, a sector that has benefited from sharply higher spending by all levels of government.

Quebec

Share of Total Jobs Created, 2000-04



Cumulative Small Business Job Gains, 2000-04

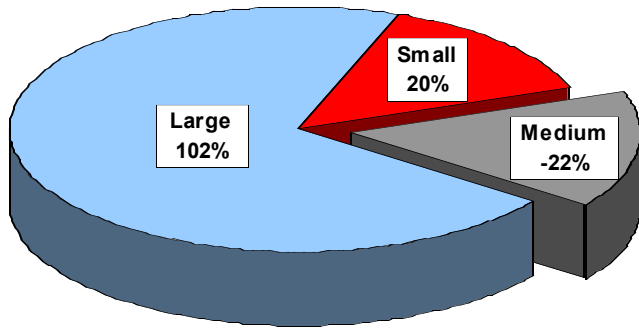


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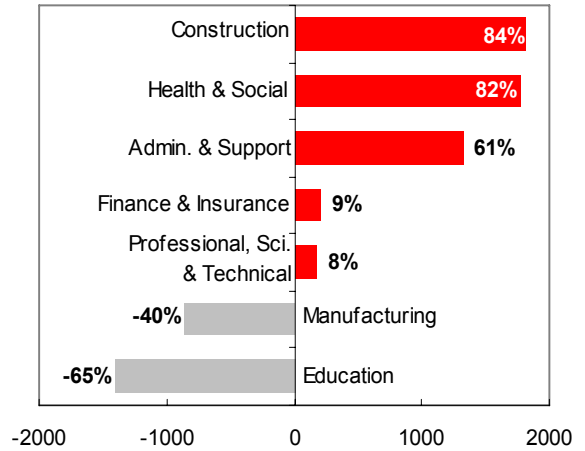
Quebec created over 204,000 jobs between 2000 and 2004, posting an average annual growth rate of 1.7% that was essentially in line with the national performance. Small businesses were responsible for just over 25% of the jobs created, while medium-sized enterprises accounted for a further 19% of the employment gains. Large firms added the majority of jobs over the four-year period, with their 56% share roughly 15 percentage points higher than the sector’s overall slice of employment in 2004. The underperformance of the small business sector reflects the changing composition of employment growth, away from the ‘micro’ enterprises employing four persons or less, to firms with 5-49 employees. Large firms have been more aggressive hirers, a reflection of the competitive forces affecting activity in manufacturing. On an industry basis, health care & social assistance accounted for 33% of all small business jobs created, closely followed by the construction sector that contributed 27%. Overall, all net small business employment gains occurred in the top five industries, offsetting losses in manufacturing and finance & insurance.

New Brunswick

Share of Total Jobs Created, 2000-04



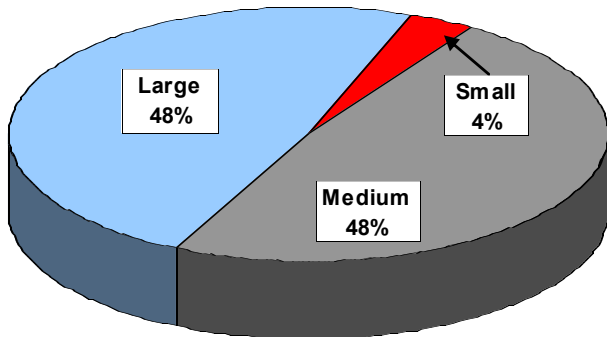
Cumulative Small Business Job Gains, 2000-04



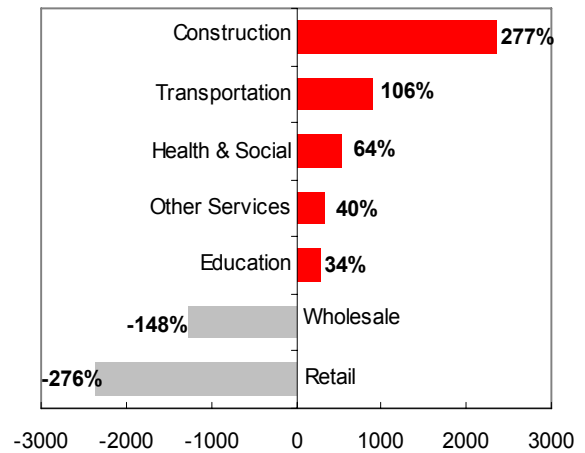
Employment growth in New Brunswick averaged a modest 0.9% annually between 2000 and 2004, only one-half the pace of growth nationally. Of the roughly 10,700 jobs created, small businesses accounted for 20% of the gains, not quite offsetting the loss of jobs in medium-sized firms. Accordingly, large firms were responsible for all of the net jobs added over the four-year period. On an industry basis, the province is extremely reliant on a select few industries for small business jobs, with construction alone creating four of every five jobs in the sector. Moreover, the top five industries accounted for all of the roughly 2,100 net small business jobs over the four years ending 2004, offsetting weakness in manufacturing and education hiring.

Nova Scotia

Share of Total Jobs Created, 2000-04



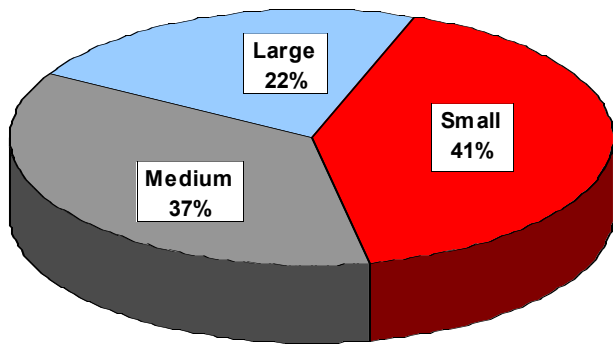
Cumulative Small Business Job Gains, 2000-04



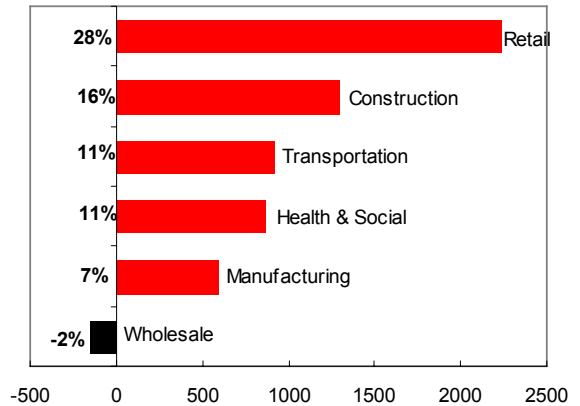
Nova Scotia’s overall employment growth between 2000 and 2004 was largely in line with the national average, advancing at an average rate of 1.7% annually. Of the 24,000 jobs created, both medium-sized and large firms each added 11,600 employees, a sizeable 96% share of the total. In contrast, small businesses chipped in a mere 4% of the net new jobs created over the four-year period. The big winner has been the medium-sized firms that have gained employment share at the expense of small businesses. From a small business perspective, the construction sector contributed almost 2,400 jobs — nearly three times the net increase for the overall small business sector during the four years to 2004. This sector, along with the transportation & warehousing and health care & social assistance sectors, offset all the job losses in retail and wholesale trade.

Newfoundland & Labrador

Share of Total Jobs Created, 2000-04



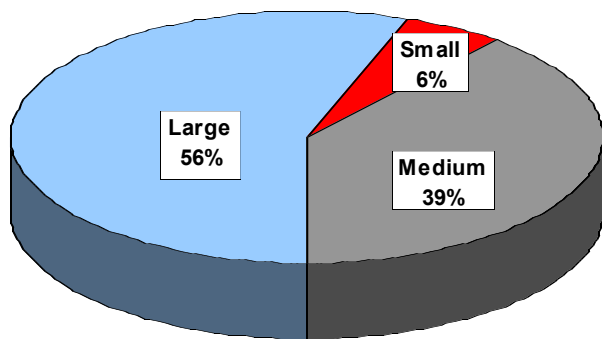
Cumulative Small Business Job Gains, 2000-04



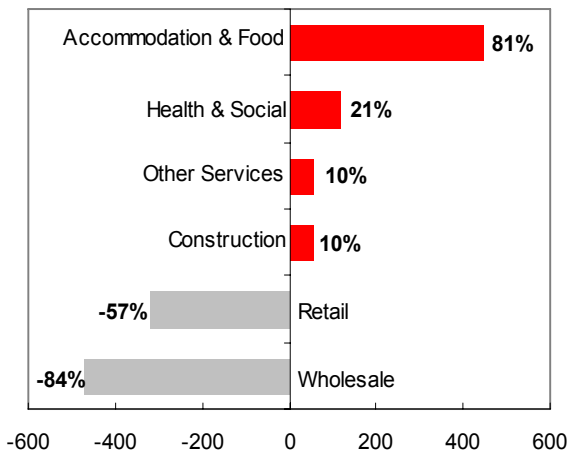
Newfoundland & Labrador posted annual average job growth of 2.8% between 2000 and 2004 — a full percentage point above the national average. Of the 19,600 jobs added, 41% were in the small business sector, which is notably higher than the 33% share of the province’s small business employment in 2004. Medium-sized firms were responsible for 37% of the increase in jobs generated, while large firms accounted for 22% of the overall gains. A shift toward employment in small- and medium-sized firms and away from large enterprises has occurred in the province — contrary to the national trend. On an industry basis, nearly four of every five small business jobs were created in the top five industries over the four years. Newfoundland represents the only province where manufacturing recorded net job gains, as the sector accounted for 7% of small business jobs created. Retail and construction together generated almost half of the net small business employment, offsetting losses in wholesale trade.

Prince Edward Island

Share of Total Jobs Created, 2000-04



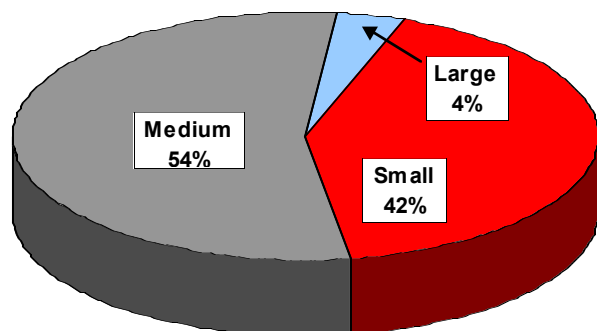
Cumulative Small Business Job Gains, 2000-04



P.E.I. posted job growth averaging 4.4% annually between 2000 and 2004, a strong performance about 2½ times faster than the national advance. Over 9,800 positions were created, though only 6% of jobs were generated by small businesses. Medium-sized firms added 39% of the jobs, while large enterprises contributed the majority, or 56%. The net employment gains from the province’s small business sector during the four-year period significantly underperformed compared to the sector’s 33% share of overall jobs in 2004. Consequently, P.E.I. has witnessed a shift in job creation away from small businesses and towards medium- and large-sized firms. From an industry perspective, accommodation & food services led the way, contributing just over 80% of net small business jobs, with construction adding another 10%. Both segments helped to compensate for the weakness in retail and wholesale sectors.

## Territories

Share of Total Jobs Created, 2000-04



The Territories (including Yukon, Northwest Territories and Nunavut), experienced average annual job growth of 3.8% between 2000 and 2004. Overall, the Territories were responsible for generating just over 6,800 jobs, with 42% created by small businesses. Medium-sized firms added 54%, while large enterprises contributed a mere 4% to the total. This region as a whole has witnessed a significant shift towards hiring in small and medium enterprises and away from large firms, as the share of employment at large-sized firms decreased 5% over the four-year period, to 34% of the total in 2004.

## CANADIAN EMPLOYMENT BY SECTOR AND BY SIZE OF FIRM\*

Cumulative Net Job Gains (2000-2004) Ranked by Small Business Performance

Size of Firm - by Number of Employees

Sector	Size of Firm - by Number of Employees					TOTAL
	Small Business (1-4)	Medium (5-49)	Total (1-49)	Large (50-499)	(500+)	
Construction	10692	71128	81820	38306	6862	126988
Health Care & Social Assistance	1159	42298	43457	5321	92415	141193
Retail Trade	2233	33551	35784	25926	139025	200735
Professional, Scientific & Technical Services	12166	22892	35058	2769	1582	39410
Other Services	-1349	30333	28984	9757	8178	46918
Administrative & Support Services	4640	20090	24730	24486	73513	122729
Arts, Entertainment & Recreation	2143	15322	17465	19898	-6018	31344
Transportation & Warehousing	1399	12371	13770	18417	-19793	12396
Information & Cultural Industries	1303	5464	6767	-648	18292	24411
Real Estate & Rental & Leasing	-1325	7177	5852	160	12844	18855
Accommodation & Food Services	2131	3696	5827	10546	18671	35046
Mining & Oil & Gas Extraction	1273	2110	3383	4073	11362	18819
Management of Companies & Enterprises	418	750	1168	-	-	15333
Wholesale Trade	-684	1708	1024	11060	18405	30487
Utilities	-81	376	295	-2878	12973	10388
Educational Services	630	-571	59	781	30489	31328
Finance & Insurance	-3095	417	-2678	15174	23264	35759
Public Administration	528	-5409	-4881	-19266	85825	61679
Forestry, Logging & Support	-2841	-5620	-8461	-	-	-25961
Manufacturing	-4599	-11926	-16525	9816	-44635	-51343
<b>TOTAL</b>	<b>26741</b>	<b>246160</b>	<b>272901</b>	<b>174112</b>	<b>479497</b>	<b>926512</b>

**Technical Notes**

(1) \*Survey of Employment, Payrolls and Hours (SEPH), Statistics Canada.

Industry breakdowns are based on the North American Industry Classification System (NAICS), 2002.

Excludes self-employed workers not on a payroll, and employees in agriculture, fishing &amp; trapping.

(2) Industries may not add to total due to rounding.

(3) Data limitation for select industries prevents the data from being published, however, all sectors are included in the industrial aggregate.

**Key Shortforms:**

Const. = Construction

Admin. &amp; Support = Administration &amp; Support Services

Professional, Sci. &amp; Technical = Professional, Scientific &amp; Technical Services

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