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SMALL BUSINESS IN CANADA

Trends & Prospects

Benjamin Tal

EXECUTIVE SUMMARY

- ❑ Small business activity is highly cyclical, usually outpacing the overall economy during periods of an economic recovery, and under-performing the economy during periods of economic weakness. The economic expansion of the past few years was accompanied by an impressive rebound in small business activity, which in 2005 grew by 3.7% (annualized) — notably higher than the rate for the economy as a whole.
- ❑ The out-performance of small business in recent years also reflects the fact that small firms were less damaged by the rise in the Canadian dollar when compared to large companies.
- ❑ Recent months have seen a noticeable decline in the number of self-employed, with their number falling by 3% since the beginning of the year. Ironically, this should be seen as a positive development since a larger proportion of the self-employed are now in business by choice rather than necessity.
- ❑ Self-employment is rising the fastest amongst young Canadians (age 15-24) and older Canadians (age 55+). These “seniorpreneurs” currently account for a record high one-in-four self-employed individuals in Canada, and constitute more than 30% of the total workforce over the age of 55.
- ❑ Long-term demographic trends suggest that older entrepreneurs will play an even more important role in the economic landscape, 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 of the most important implications of this ongoing change in the nature of the small business sector in Canada is that we are witnessing a reduction in the growth orientation of many small firms. Many of these seniorpreneur-based businesses start small and would like to stay small. In fact, almost 60% of all small business owners in Canada consider themselves as “lifestylers” that use their business as a means of generating income, while balancing other commitments or lifestyle choices. This, in part, explains why Canadian small businesses do not grow in size as fast as their American counterparts. From a policy perspective, one has to realize that a blanket policy aimed at “helping small business to grow” must first consider the fact that the majority of small firms in Canada do not wish to grow.

- ❑ Not surprisingly, the West led the country in terms of growth in small business formation in recent years, while Atlantic Canada and Ontario lagged behind.
- ❑ By city, the fastest pace of small business formation between 2003 and 2005 was in Vancouver, followed by St. John's, Victoria and Calgary. Note that all the growth in small business formation between 2003 and 2005 was concentrated in large urban centers, while the number of small business in rural areas, actually declined. As of December 2005, more than 60% of all small businesses in the country were in large urban centers.
- ❑ The recent softening in small business borrowing was largely due to reduced demand for small business credit as opposed to reduced supply of credit. The main factors behind this reduced demand are: the nature of the recent cycle; increased alternative sources of funding for small business; and increased business usage of personal credit.
- ❑ Business bankruptcies continued their downward trend over the past few months, with the cumulative number of bankruptcies falling by 10.5% during the year ending June 2006. Looking ahead, we expect more of the same. The number of business bankruptcies will probably decline by 13% in 2006 and will be little changed in 2007.
- ❑ Rapid change is the small business theme of the future. Some of these changes will be "external" to the firm, beyond the control of any single small business owner.
- ❑ The export orientation of small business is likely to rise in the next decade due to globalization; increased usage of the internet; and increased immigration.
- ❑ The internet will increasingly shape the decision to become self-employed, and increased connectivity will lead to the continued emergence of the virtual enterprise.
- ❑ Demographic forces in general and the aging baby boom in particular, will support small business activity in the coming decade. These forces include: increased propensity for self-employment given the aging labour force; rising immigration; and growing demand for personalized skills.
- ❑ Chronic lack of skilled labour will become even more important in limiting the ability of the small business sector to grow to its full potential

Note: Unless indicated otherwise, all data used in this report are based on Statistics Canada (published and unpublished reports) and CIBC World Markets calculations.

DEFINING SMALL BUSINESS IS NOT STRAIGHTFORWARD

The common understanding is that a small business is a firm that is independently owned and managed by its owner or part owner in a personalized fashion, often resulting in greater dependence on outside sources for guidance, and which makes little distinction between business and personal financial goals. Statistics Canada often defines a small business as a firm with less than 50 full-time equivalent employees and, in some statistical publications, refers to small businesses as those having annual sales of less than \$2 million. None of these quantitative definitions are universally satisfactory. The available statistics in some cases are only rough approximations, while some overlap with the criteria for mid-size businesses cannot be avoided entirely. Furthermore, these aggregate statistics failed to include the underground economy, which has been growing in recent years.

Another problem of measuring small business activity is the fact that, although legally independent, many small businesses (particularly in the manufacturing sector) depend on one or a few clients/suppliers for the major part of their sales/production.

Nevertheless, recently there has been a notable improvement in the collection, analysis and distribution of information related to small business activity. Statistics Canada and Industry Canada have stepped up their efforts to improve our understanding of the economic behavior of this sector. While more work needs to be done, as the current information on small business is still not commensurate with the sector's importance, we are now better-positioned to evaluate the dynamics behind small business economic behavior.

THE ECONOMICS OF SMALL BUSINESS

Small businesses are most economically viable when:

- The burden of fixed assets and capital requirements is relatively light.
- Products or services must be designed for a particular need or require specialized skill.
- The introduction of new technology is either neutral with respect to economies of scale or makes economies of scale less relevant.
- The marketplace requires higher flexibility and speed to meet demand.

At the same time, to varying degrees, most small businesses face the following weaknesses:

- Unsound or insufficient analysis in choosing an initial field of business.
- Poor management skills.
- Lack of economies of scales.
- Inadequate capitalization.

These weaknesses are inter-linked and largely explain the high level of failure or deaths among small businesses. The lack of economies of scale means, in many cases, that the cost structure facing small business owners prevents them from maintaining a sufficient level of profitability. This, along with inadequate capitalization, limits retained earnings growth and productivity improvements. In addition, the lack of sufficient market knowledge or management skills usually leads to a situation where a particular business is set up based on ease of entry into the field rather than on sound economic grounds.

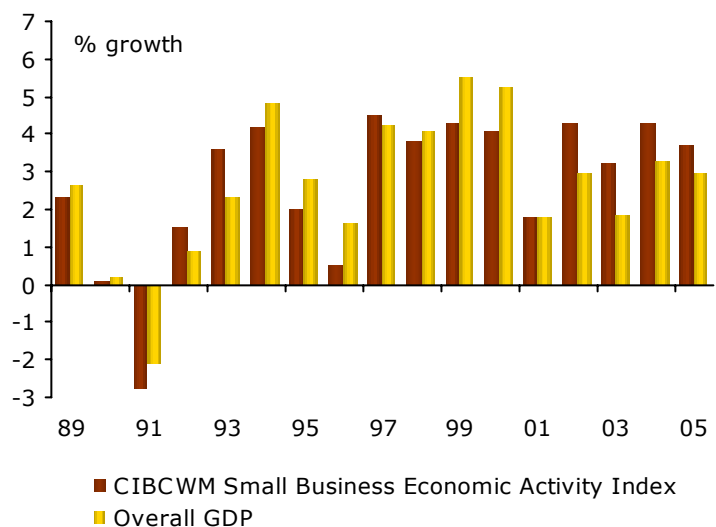
While the total number of small businesses increases by 1%-2% in a typical year, this represents just the tip of the iceberg of changes in the small business population. In a typical year, close to 150,000 small businesses start operation and 130,000 close.

Furthermore, many of those businesses increasingly change their primary activity or their ownership — a process that will only accelerate. Today's competitive advantage will become tomorrow's common knowledge, forcing small firms to reinvent their business more frequently. These relatively high rates of turnover and transformation, which often are not captured by the popular statistics, are an important source of dynamism and flexibility in the economy as a whole.

HIGHLY CYCLICAL BUSINESS

Small business activity is highly cyclical, usually outpacing the overall economy during periods of an economic recovery, and under-performing the economy during periods of economic weakness. Note that our Small Business Economic Activity Index* softened significantly in 1991 and 1996 but outperformed the economy during the recovery years. However, the softening in the Small Business Index during the economic slowdown of 2001 was not as severe as in previous cycles. This was largely due to the fact that in 2001, consumer spending (a major driver of small business activity) remained relatively strong. For a similar reason, the economic expansion of the past few years was accompanied by an impressive rebound in small business activity, which in 2005 grew by 3.7% (annualized) —notably higher than the rate for the economy as a whole.

Small Business Activity is Cyclical in Nature



* The Index is based on real GDP growth (basic prices in 1997 dollars) modified by allocating different weights to different industries in a way that reflects small business activity more accurately.

OUT-PERFORMANCE DUE TO LIMITED VULNERABILITY TO THE STRONG DOLLAR

The out-performance of small business in recent years also reflects the fact that small firms were less damaged by the rise in the Canadian dollar when compared to large companies. They are less exposed to foreign markets than large firms and are flexible enough to cut expenses and quickly divert production to offset currency-related costs. One in four small firms in Canada is in a sector directly impacted by a strong dollar. Entrepreneurs in Ontario are the most sensitive to movements in the dollar, while Newfoundland & Labrador business owners are the least impacted.

Distribution of Small Business Based On Vulnerability to Higher C\$

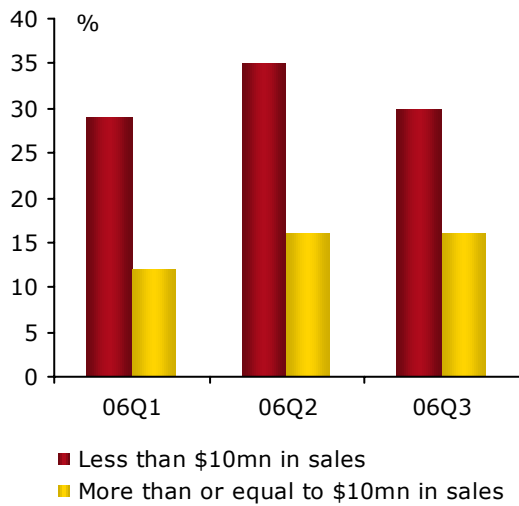
<p>1) Vulnerability Due To Both High Share of Exports and High Rate of Import Penetration 26 - Furniture and Fixture Industries 33 - Electrical and Electronic Products Industries</p>	} 1.7% of All Small Business
<p>2) Vulnerability Due To High Share of Exports 04 - Logging Industry 05 - Forestry Services Industry 06 - Mining Industries 25 - Wood Industries 27 - Paper and Allied Products Industries 29 - Primary Metal Industries 31 - Machinery Industries (Except Electrical Machinery) 32 - Transportation Equipment Industries 37 - Chemical and Chemical Products Industries 39 - Other Manufacturing Industries 45 - Transportation Industries 55 - Motor Vehicle, Parts and Accessories Industries, Wholesale 56 - Metals, Hardware, Plumbing, Heating and Building Materials Industries, Wholesale 57 - Machinery, Equipment and Supplies Industries, Wholesale</p>	} 11.3% of All Small Business
<p>3) Vulnerability Due To Increased Import Penetration 10 - Food Industries 11 - Beverage Industries 12 - Tobacco Products Industries 18 - Primary Textile Industries 24 - Clothing Industries 28 - Printing, Publishing and Allied Industries 30 - Fabricated Metal Products Industries (Except Machinery and Transp. Equip. Industries)</p>	} 2.6% of All Small Business
<p>4) Vulnerability Due To Reduced Tourism 91 - Accommodation Service Industries 92 - Food and Beverage Service Industries 96 - Amusement and Recreational Service Industries</p>	} 9.0% of All Small Business
<p>5) Limited Vulnerability</p>	} 75.4% of All Small Business

Vulnerability of Small Business to Higher Dollar — By Province

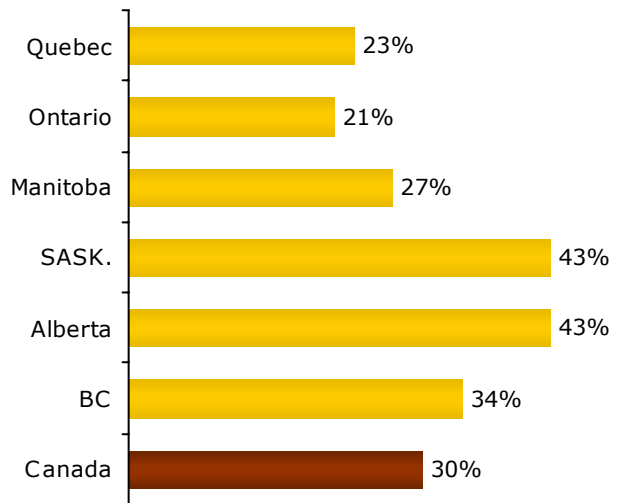
Province	Ranking by Higher Vulnerability
Ontario	1
British Columbia	2
Quebec	3
New Brunswick	4
Manitoba	5
Prince Edward Island	5
Nova Scotia	6
Alberta	7
Saskatchewan	8
Newfoundland & Labrador	8

This reality is reflected very clearly in the manufacturing sector where currently no less than 30% of small firms report rising orders — double the rate seen among large firms. Furthermore, more than 20% of small and mid size manufacturing firms still plan to increase hiring — again almost double the rate seen among large companies. Interestingly, note that high-energy prices impact small firms roughly to the same extent as large firms, so from this perspective, small firms did not have any notable advantage.

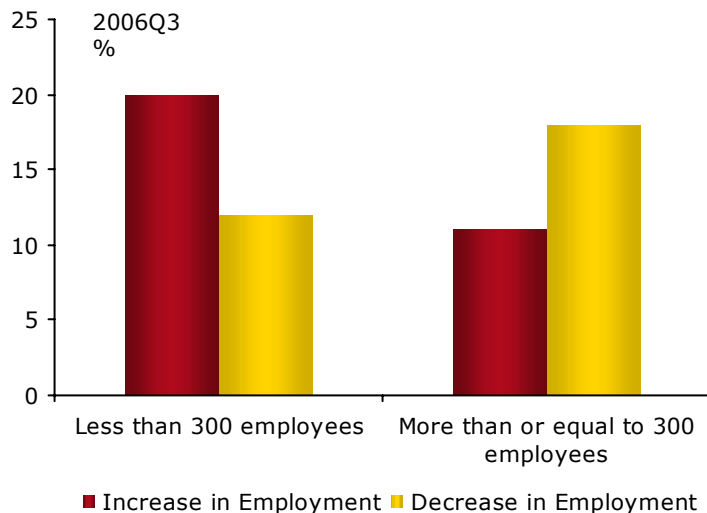
Firms Reporting Rising Orders



Small Firms Reporting Rising Orders (2006Q3)



Firms Reporting Employment Prospects



FALLING NUMBER OF SELF-EMPLOYED: GOOD NEWS?

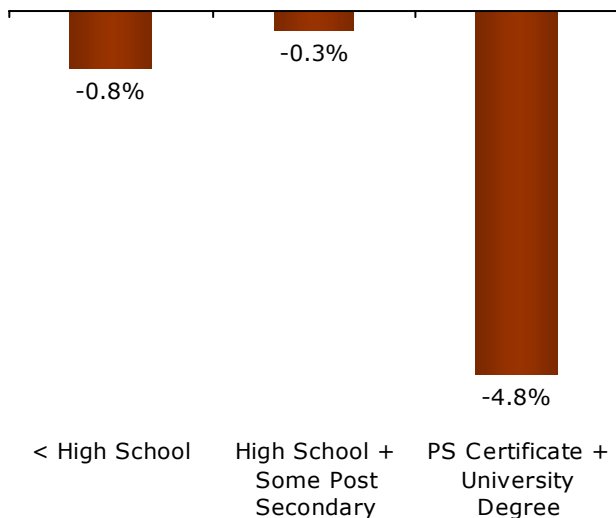
Another dimension of the cyclical behavior of small business is the change in the number of self-employed in the labour market. Recent months have seen a noticeable decline in the number of self-employed with their number falling by 3% since the beginning of the year. Ironically, this should be seen as a positive development. The strong labour market performance of recent years has allowed those self-employed who were forced into self-employment (due to lack of alternatives) to find more suitable paid-employment jobs. This was mainly the case for those with a relatively high level of education. The implication of this trend is that the existing pool of self-employed is of a higher “quality”, since a larger proportion of the self-employed are in business by choice rather than necessity.

Also note that self-employment is rising fastest amongst the very young Canadians (age 15-24) and older Canadians (age 55+). The acceleration in growth in self-employment among the young is not a new phenomenon. But one should not read too much into it given the high exit rate among young entrepreneurs. That is, young Canadians tend to exit self-employment almost as fast as they enter self-employment, leaving the net number of businesses that survive for a long duration relatively small.

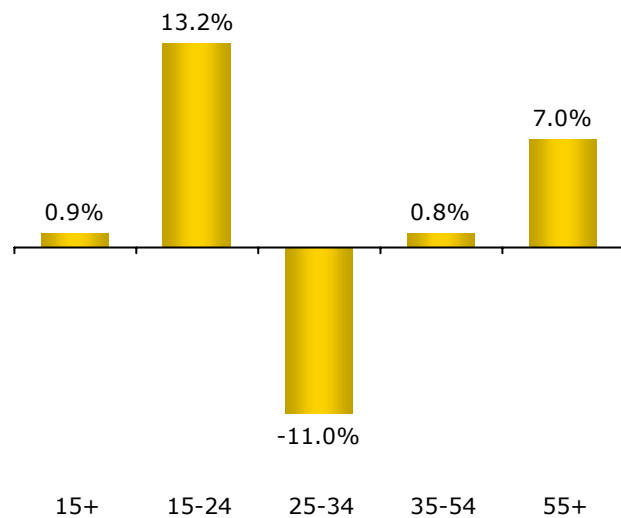
Self-Employment Has Softened Recently



Growth in Self-Employment — By Education (Jan 2006 — Jun 2006)



Growth in Self-Employment — By Age (Jun 2004 — Jun 2006)



OLDER & LIFESTYLER ENTREPRENEURS

The more interesting observation is the continued strong growth among older self-employed. Since early 2001, the number of small enterprises run by older Canadians has risen by an impressive 35% — by far the fastest growing segment in the small business sector. These “seniorpreneurs” currently account for a record-high of one-in-four self-employed individuals in Canada and constitute more than 30% of the total workforce over the age of 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 35% since 2001 and has created an estimated 270,000 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, growth in 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.

Long-term demographic trends suggest that older entrepreneurs will play an even more important role in the 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 of the most important implications of this ongoing change in the nature of the small business sector in Canada is that we are witnessing a reduction in the growth orientation of a many small firms. Many of these seniorpreneur-based businesses start small and would like to stay small. In fact, almost 60% of all small business owners in Canada consider themselves as “lifestylers” that use their business as a means of generating income, while balancing other commitments or lifestyle choices. This, in part, explains the fact that Canadian small businesses do not grow in size as fast as their American counterparts. From a policy perspective, one has to realize that a blanket policy aimed at “helping small business to grow” must first consider the fact that the majority of small firms in Canada do not wish to grow.

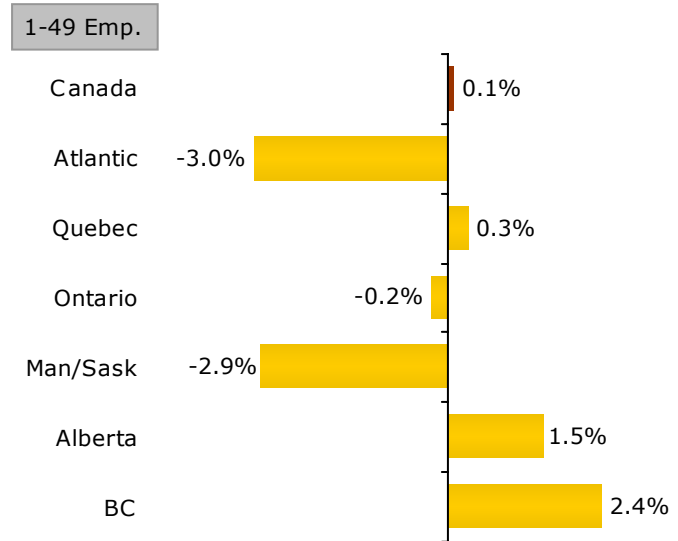
Seniorpreneurs



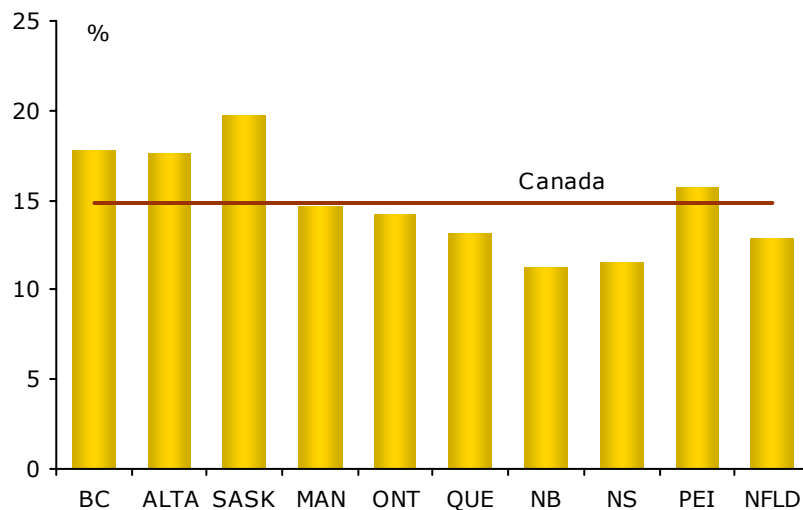
PROVINCIAL PERFORMANCE

Not surprisingly, the West led the country in terms of growth in small business formation in recent years, while Atlantic Canada and Ontario lagged behind. The highest proportion of small firms is in Saskatchewan, where over 20% of workers are self-employed. However, when the agriculture sector is excluded, the share of self-employed in Saskatchewan falls to below 15%, somewhat lower than the national average. The share of self-employment in British Columbia and Alberta is higher than the national average, reflecting these provinces strong growth in self-employment in recent years. The incidence of self-employment in Ontario is in line with the national average, while New Brunswick has the lowest incidence of self-employment.

**Growth in Business Formation — By Province
(Dec 2003 - Dec 2005)**

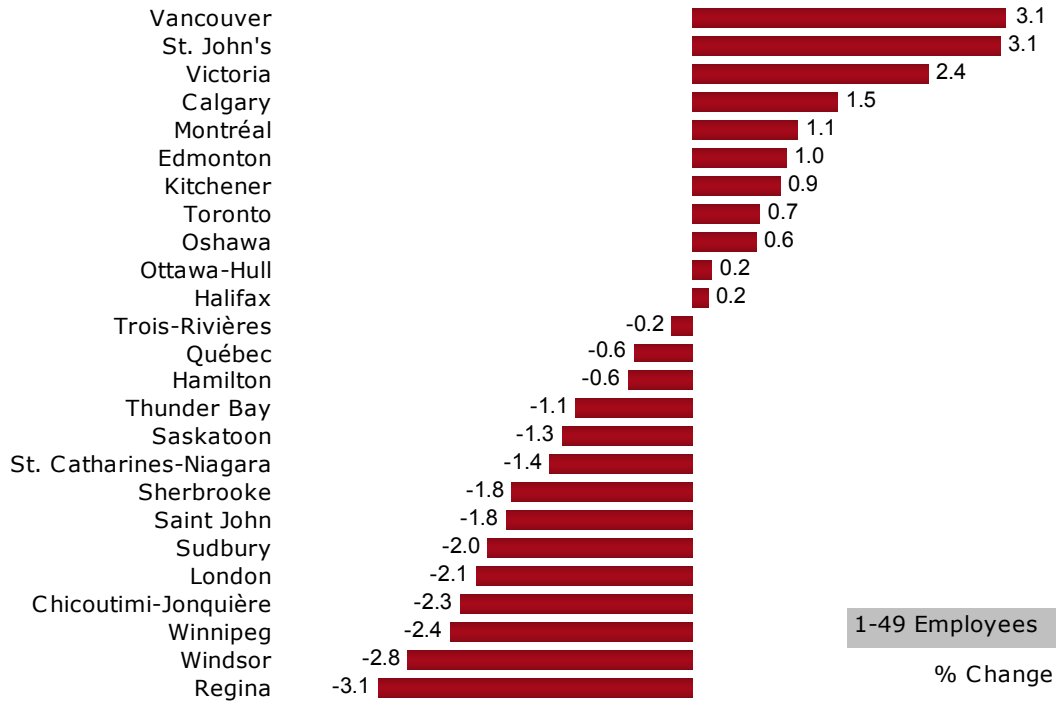


**Self-Employment as a Share of Total Employment
— By Province (2006Q2)**

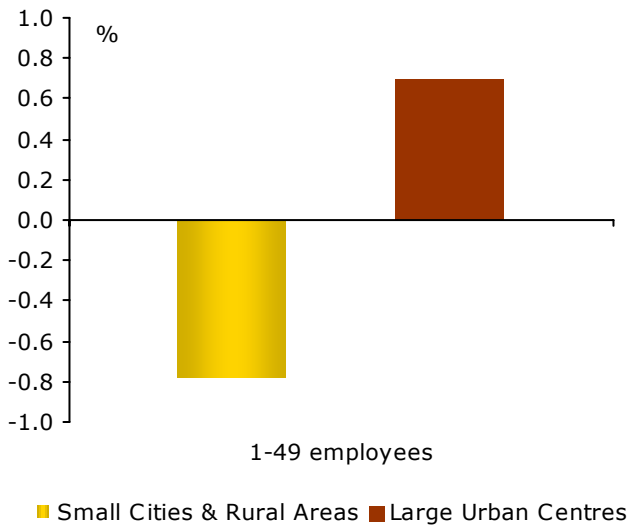


By city, the fastest pace of small business formation between 2003 and 2005 was in Vancouver, followed by St. John's, Victoria and Calgary. Note that all the growth in small business formation between 2003 and 2005 concentrated in large urban centers while the number of small business in rural areas, in fact, declined. As of December 2005, more than 60% of all small businesses in the country were in large urban centers.

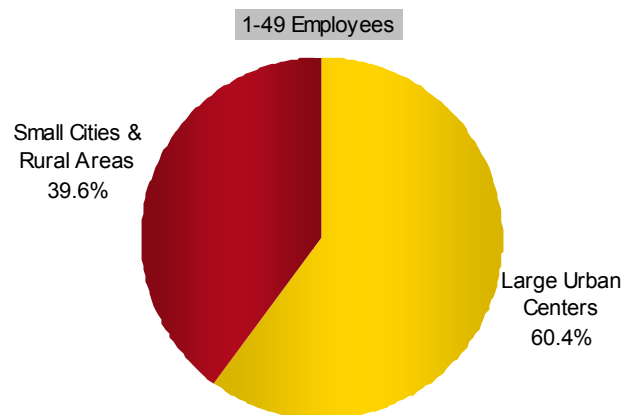
Growth in Business Formation — By Major Cities (Dec 2003 - Dec 2005)



Growth of Business Formation: Urban vs. Rural (Dec 2003 — Dec 2005)



Business Distribution: Urban vs. Rural (December 2005)



SMALL BUSINESS BORROWING IS SOFTENING

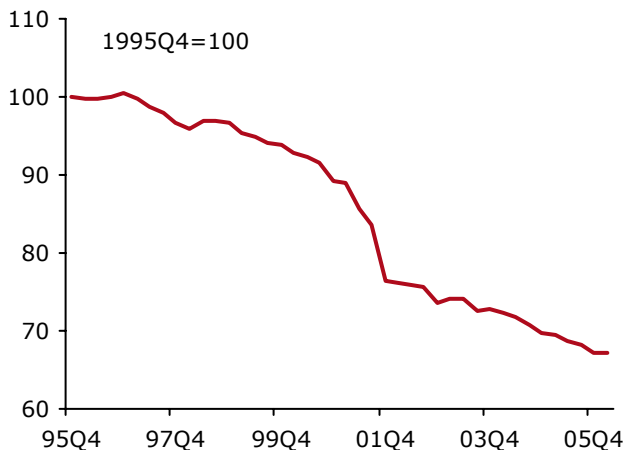
Small businesses, in general, are undercapitalized. Personal resources are their major source of funds, followed by bank financing. Financial and regulatory barriers imposed by primary and secondary money and capital markets limit the ability of small firms to raise funds from other sources. In general, small businesses have a lower proportion of assets relative to liabilities compared with big firms. It is said that small firms have relatively high debt-to-equity ratios. This, to some extent, is a misleading statement as 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 businesses request debt financing in a given year. The main providers here are banks (66%), followed by Credit Unions. The most popular debt instruments are term loans, followed closely by lines of credit.

Small business borrowing is cyclical in nature. But in recent years, we have seen some deviation from this trend as overall credit outstanding was hardly changed despite a strong economy. Small business borrowing's weak showing in recent years was not accompanied by a similar softness in authorized credit. This suggests that reduced demand for credit (as opposed to reduced supply of credit) was the more important factor driving the recent decline in small business borrowing. In fact, our estimate is that reduced demand for credit accounted for 82% of the total decline in small business borrowing since the beginning of the decade, while reduced supply accounted for the remaining 18%.

Average Loan Size

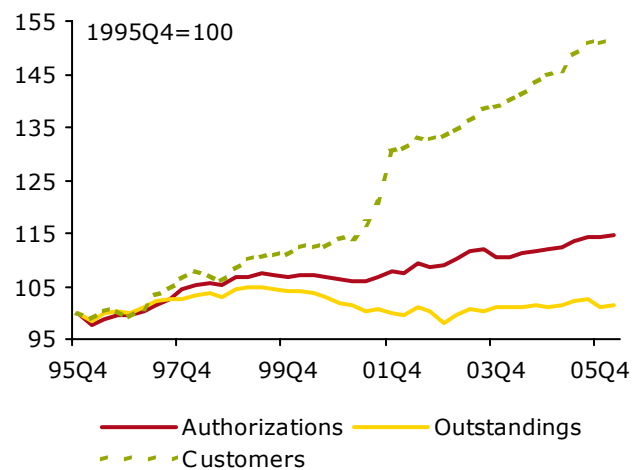
<\$1 million in authorizations



Source: Canadian Bankers Association

Small Business Credit

<\$1 million in authorizations



Source: Canadian Bankers Association

Furthermore, the reduced demand for credit was not due to a decline in the number of borrowing firms. In fact, the number of borrowing firms has increased by 36% since early 2000. The combination of falling credit outstanding and the rising number of borrowing firms has resulted in a significant drop in the average size of small business loans. Since 2000, the average size of small business loans fell by 28%.

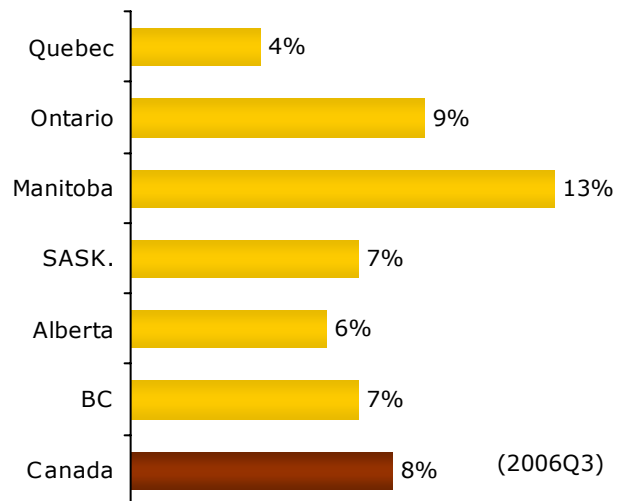
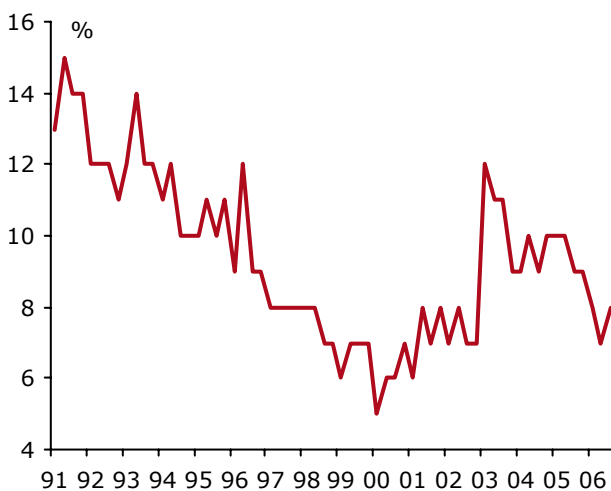
WHAT IS BEHIND THE REDUCED DEMAND FOR SMALL BUSINESS CREDIT?

Strong consumer spending in recent years has enabled many small firms to maintain a healthy level of profitability and reduced their need for borrowing. This reality is reflected in the fact that the percentage of small businesses (in the manufacturing sector) that are currently reporting working capital problems is still much lower than the levels seen earlier in the decade.

Increased alternative sources of funding might be another reason for the recent decline in debt financing provided by Canadian major banks. Currently, banks account for close to 66% of all small business debt financing. There are some indications that banks have been losing market share to alternative sources such as credit unions.

Business usage of personal credit is another explanation for the decline in the reported small business credit. With more and more small business owners using their personal savings accounts to finance business operations, the amount of business borrowing by small business (as reported by official sources) is understated. We estimate that more than 10% of personal credit provided in Canada last year went to finance business activities. The most popular instruments here are credit cards and unsecured lines of credit. Overall, small business owners in primary industries, as well as 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.

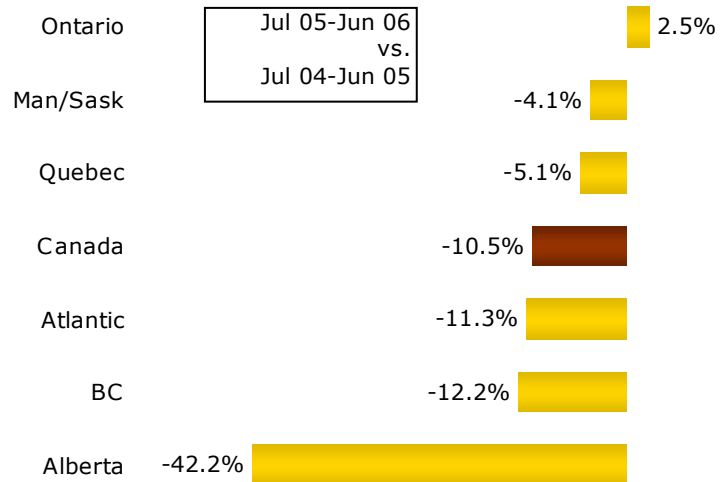
**Small Firms Reporting Working Capital Shortage
(Manufacturing Sector)**



BUSINESS BANKRUPTCIES — TRENDING DOWNWARD

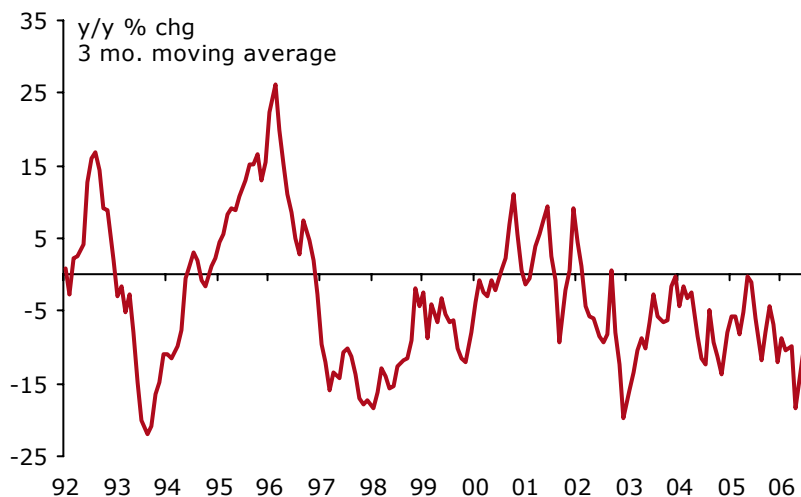
Business bankruptcies continued their downward trend over the past few months, with the cumulative number of bankruptcies falling by 10.5% during the year ending June 2006. On a three-month moving average basis, business bankruptcies are now falling by 10.4% (year-over-year). Note that the largest decline in business bankruptcies was in Alberta where the number of bankruptcy filings fell by 42.2% during the year ending June 2006. Ontario was the only province that saw an increase in the number of business bankruptcies during the same period. This, to a large extent, reflects the difficulties in the manufacturing sector, which incidentally was the only sector that has seen an increase in business bankruptcy filings during that period.

Growth in Business Bankruptcies
— By Province



Looking ahead, we expect more of the same. The number of business bankruptcies will probably decline by 13% in 2006 and will be little changed in 2007. At the same time, we expect the regional divergence to widen with bankruptcies in the manufacturing sector in Ontario and Quebec continuing to rise, reflecting the impact of a strong dollar and some softening in demand from south of the border.

Business Bankruptcies



Source: Industry Canada

SMALL BUSINESS: THE FUTURE

Rapid change is the small business theme of the future. Some of these changes will be external to the firm, beyond the control of any single small business owner. The following discusses some of the major forces that are likely to shape the nature of the small business sector in the coming decade.

For many small business owners, exporting is not a major strategic objective. The propensity of businesses to export is directly correlated to the size of the operation. For example, less than 10% of self-employed with no paid help export their products. This ratio rises to 15% for firms with 5-19 employees and to 30% for firms with 20-99 employees. To a large extent, this relatively low rate of export orientation among smaller businesses reflects the fact that many operate in sectors in which export is not a major market activity (retail, professional services).

There are many reasons to believe, however, that small business export orientation will rise over the next decade and beyond.

- **Globalization**, the growing impetus to think and act on a global scale, will continue to modify the environment for small business. Increasingly, small businesses, including many start-ups, are identifying foreign markets and foreign sources of supply as important parts of their strategies for growth and success.
- **The internet** will continue to play an important role in increasing the motivation and ability of small businesses to export their products. There are clear signs that companies that are using the internet as a business tool have a much higher propensity to export than companies that are off-line. Given the strong likelihood that the internet adoption rate among small firms will rise, this means that the export orientation of the small business sector as a whole should rise as well.
- **Immigration** is another factor that will work to increase the export orientation of small business. Currently, close to 18% of self-employed are immigrants. This is almost double the rate observed in 1980. This trend is widely expected to accelerate. Given that more than two-thirds of these immigrants arrived in Canada as adults, this suggests that they still have some potential business connections with their countries of origin.

All of the above factors — globalization, the internet and immigration — will no doubt support small business propensity to export. However, these same forces will also work to increase foreign competition in the products and services small firms both provide and purchase. This type of competition will put increasing pressure on small business in terms of price, quality, cost and control, efficiency, marketing expertise, customer satisfaction and innovation. Moreover, the globalization of the economy means that more and more new firms must export from their inception in order to be competitive. The implication is that in order to profit from globalization, these small firms will have to be able to penetrate new markets. This, in turn, is achievable only if these firms succeed in identifying niche markets.

Increased export and import orientation also points to increased complexity in doing business. Small business will have to be increasingly aware of trade, tax and other regulations in the countries with which they trade. Foreign exchange risk is another important factor to consider. It is not clear that small businesses in Canada are totally prepared to fully deal with the impact of globalization.

Many firms are already electronically connected with their customers and vendors, while on-line searches of international databases are routine. There is little doubt that this kind of connectivity will continue to expand. This environment has significant implications for the future of small business in Canada:

- **Cluster of Competencies:** Increased connectivity will bring a higher level of cooperation between small business, self employed, and larger firms. The theme here is that each participant provides a specific expertise as it relates to a specific project. This kind of cluster of competencies and strategic alliances will be temporary in nature and, at the end of a particular project, dissolve and may or may not cooperate again.
- **The Virtual Enterprise:** The same forces will increasingly lead to the evolution of a new type of operation — the virtual enterprise — in which clusters can be created quickly, work intensely on a given project, and upon completion can be dissolved and cease to exist. As long as the project is alive, the self-employed and small organizations included in these strategic alliances can, for a time, perform almost like a traditional business. This means that in the future it will be even more difficult to identify what exactly is a small business.
- It is also likely that domestic home-based firms will increase their partnership with non-home-based firms to collaborate on individual projects. More small businesses in Canada will become virtual corporations, stopping and starting on a project-by-project basis.
- **Increased Speed of Response:** Increased connectivity will, both, allow and require small businesses to be more responsive to their customers' particular needs. The development and design of new customized products will give small firms an advantage and, at the same time, put pressure on them to produce customized products with greater speed than ever before. Small businesses must diversify to a greater extent to maximize their ability to respond rapidly to new demands for products and services.

Over the next decade, the large baby boom generation will be moving into their 50s and 60s. The average age of the workforce will rise. The labour force will be more experienced and productive. An aging workforce may also mean more part-time workers, more job-sharing, and greater work turnover. Replacements for the retiring baby boom generation will be hard to find as labour force growth slows to below 2% annually. This environment will be largely positive for small business economic activity, but it will also introduce some challenges.

Propensity To Become Self-Employed Rises with Age



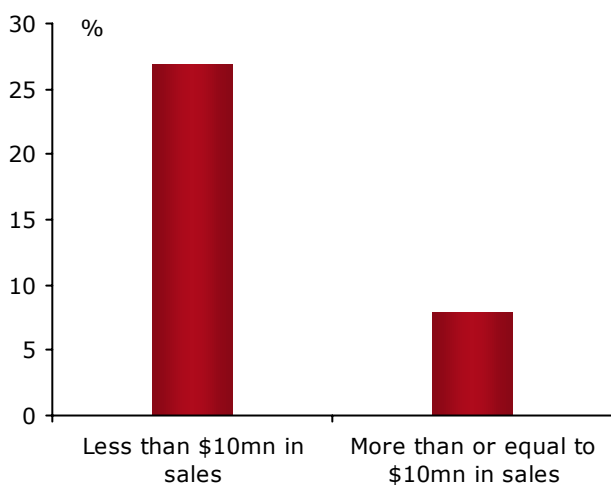
Aging Baby Boomers: The aging of the Canadian population has direct implications for self-employment as the propensity for self-employment rises with age. For the first time in recent history, the age group 45-65 years will be the fastest growing segment of the population. But this is also the age group with the highest propensity to become self-employed. On average, a small business owner had over 13 years of related practical industry experience before launching his/her business. This demographic trend is consistent with acceleration in the pace of small business formation in the coming decade.

Immigration: The pace of growth in self-employment among immigrants has risen dramatically over the past two decades. Currently, close to 20% of self-employed are immigrants, more than double the rate observed in the 1980s. Given that immigration will become an even more significant source of labour market growth, this trend is likely to support small business formation.

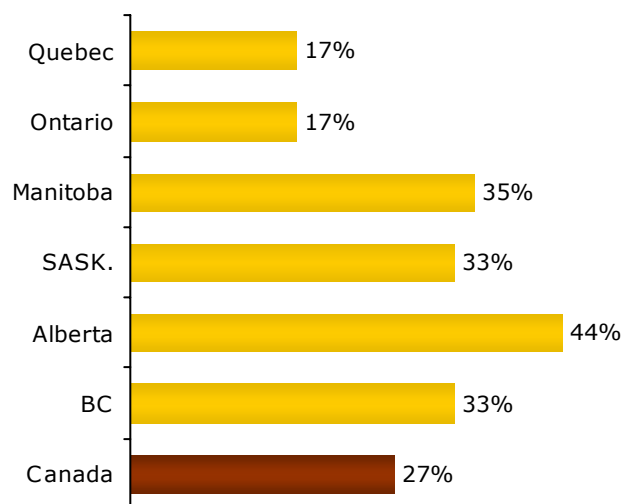
Increased Demand for Personalized Products: The changing age profile of the population also implies growing sophistication and rapid pace of change in consumer tastes. This is positive for self-employment. By their nature, small-scale operations are flexible enough to support the increased demand for personalized services given their ability to focus on niche markets.

Shortage of Skilled Labour: The shrinking labour force means that small firms will face increased difficulties finding qualified labour. The increased demand for qualified labour was demonstrated over the past year as many small companies capitalized on the increased supply of labour stemming from the downsizing process in large firms. However, despite some recent improvements, small business still faces a labour shortage of around 200,000-300,000 workers. This lack of suitable help can potentially become the chief factor limiting small business growth in the next decade. To overcome this potential difficulty, small firms will have to step up the level of training of their existing labour force to retain employees with technical proficiencies, hire a greater number of older workers and create more family oriented work policies for married employees. In fact, in some cases, smaller firms will be better equipped to meet the greater need for flexibility in managing this new workforce. The main disadvantage facing small firms on this front is the lack of economies of scale that larger firms enjoy when managing their own training programs. Note that, as of the third quarter of 2006, more than 25% of small and mid-size firms in the manufacturing sector reported a skill labour shortage — that is three times higher than the figure reported by large firms.

Firms Reporting Skilled Labour Shortage — By Sales Volume (2006Q3)



Small Firms Reporting Skilled Labour Shortage — By Province (2006Q3)



Balancing Life and Work—Time Constraints: Given that for many self-employed the dividing line between work and leisure is not well defined, it is not surprising that self-employed spend much more time at work than paid employees. This is mainly the case for self-employed with employees. These individuals work on average 48 hours per week compared to 39 hours for self-employed with no paid help and 36 hours for paid employees. While many self-employed see their business as an integral part of their life and will reject the use of the term “time at work”, the fact remains that time constraints will increasingly become a factor that will impact their business. The increase in the average age of self-employed will mean more non-business-related demands on their time. Approximately 10% of self-employed women spend five hours or more per week taking care of elderly parents. Among men, this rate is under 5%. While this rate is still relatively low, there is little doubt that in the coming years this factor will become much more significant. The lack of time will make it even more difficult for small business owners to upgrade their skills, engage in networking activity and join professional associations. This problem is largely external to the business where the owner’s means to control it is limited. Accordingly, governments and the private sector should step up their efforts to reduce unnecessary demands on small business owners’ time. Reduced red tape, more flexible and accessible training options, and quicker and more efficient banking options are just a few examples of possible remedies.

The internet bubble has burst but the information revolution has just begun. The PC and the internet favor smaller firms by allowing them to match big-business efficiencies. Whether small firms will prosper on the internet or come to view it as another fixed cost necessary to maintain their present client base is a key question that will determine the very nature of small business in Canada in the coming decade.

To date, E-commerce among small business is still in its infancy. While more than two-thirds of small firms have an internet connection, a much smaller proportion use the internet as a serious businesses tool. For example, only one in four small businesses have a web site while only 6% sell their goods and services via the Net. This is a significantly lower adoption rate when compared with mid-size and large companies. However, the attitude among small business owners toward technology is changing on a daily basis. Currently, almost half of micro-business owners claim they enjoy learning about new technology while 40% admit that new technology is important to the success of their business. It is safe to predict that technology and internet usage by small firms will accelerate and the gap with larger firms will narrow.

A side effect of these technological advances is that in order to compete effectively in the rapidly changing economic environment, big businesses are now having to subdivide their internal functions into what are essentially self-contained units that function in many ways like small business.

SMALL BUSINESS STATISTICS

EMPLOYMENT

'000	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006 (avg. Jan-Jun)
Total Employment	13422.2	13706.1	14046.6	14409.3	14764.8	14945.3	15310.2	15671.5	15949.0	16169.0	16417.7
Self-Employment	2171.5	2349.1	2405.7	2433.2	2373.7	2276.1	2314.1	2401.4	2453.4	2511.4	2513.8

EMPLOYMENT BY PROVINCE

'000	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006 (avg. Jan-Jun)
Total Employment											
NFLD and Labrador	187.8	188.1	192.1	200.8	198.2	203.9	207.5	212.1	214.2	214.1	213.6
Prince Edward Island	58.9	58.7	59.6	60.2	62.7	63.6	64.7	66.0	66.9	68.2	68.9
Nova Scotia	377.0	382.0	395.3	404.0	411.4	415.1	422.8	431.3	442.3	443.0	443.0
New Brunswick	305.5	309.0	315.2	325.6	331.3	330.3	343.2	343.1	350.2	350.5	359.4
Quebec	3129.9	3172.5	3257.0	3328.9	3402.9	3440.2	3570.0	3628.1	3681.2	3717.3	3750.8
Ontario	5167.2	5291.5	5453.6	5637.5	5817.4	5926.0	6031.3	6213.4	6317.0	6397.4	6478.9
Manitoba	517.4	525.7	534.2	541.4	552.4	554.2	567.2	570.3	576.7	580.3	586.6
Saskatchewan	456.7	466.1	470.7	471.7	473.6	460.4	468.3	476.1	479.8	483.5	485.2
Alberta	1405.3	1451.7	1510.2	1544.5	1583.8	1630.5	1670.7	1716.5	1757.9	1784.3	1846.2
British Columbia	1816.5	1860.7	1858.6	1894.7	1931.2	1921.3	1964.6	2014.5	2062.8	2130.4	2185.0
Self-Employment											
NFLD and Labrador	25.8	26.3	28.7	26.9	25.7	22.4	24.7	25.9	26.1	26.9	28.1
Prince Edward Island	10.4	10.4	11.3	11.5	11.1	10.6	10.9	10.7	10.2	10.5	11.0
Nova Scotia	56.4	58.9	58.8	58.8	57.1	53.5	61.4	56.8	59.6	60.5	53.6
New Brunswick	41.7	45.3	44.8	43.6	40.9	39.5	42.3	42.9	43.3	41.3	41.3
Quebec	477.6	494.0	497.7	506.5	498.0	466.9	465.8	482.9	484.0	503.8	498.3
Ontario	749.3	844.6	866.5	891.0	893.8	872.5	878.2	913.9	931.9	927.8	959.3
Manitoba	86.8	96.1	93.2	94.0	89.5	81.2	86.1	88.1	87.6	89.3	88.1
Saskatchewan	114.9	117.4	120.9	117.7	112.0	100.1	98.8	98.9	96.5	98.0	96.1
Alberta	281.7	296.0	300.1	301.9	289.2	278.1	282.8	305.2	323.0	337.7	332.9
British Columbia	326.9	360.1	383.8	381.4	356.6	351.4	363.3	376.3	391.5	415.8	405.0

Source: Statistics Canada

Business Formation By Size Of Firm

December 2005

BY MAJOR CITY

	Number of Employees							
	0-4	5-9	10-19	20-49	50-99	100-199	200-499	500+
Calgary	82,581	7,770	5,659	4,203	1,559	839	434	152
Chicoutimi-Jonquière	5,284	737	468	295	98	38	29	15
Edmonton	60,643	7,501	5,404	3,869	1,425	706	338	127
Greater Sudbury	5,936	743	576	465	160	47	28	16
Halifax	16,601	2,088	1,630	1,351	480	233	106	53
Hamilton	32,070	3,137	2,337	1,781	622	278	160	54
Kitchener	21,808	2,290	1,678	1,375	540	269	140	43
London	21,389	2,221	1,597	1,284	464	200	100	41
Montréal	186,692	17,359	11,731	8,604	3,174	1,586	793	350
Oshawa	11,782	1,069	755	520	190	93	40	21
Ottawa-Hull	56,821	5,107	3,736	2,879	1,025	505	221	134
Québec	30,737	3,523	2,400	1,743	625	273	139	88
Regina	9,145	1,281	1,015	783	239	120	54	38
Saint John	4,251	721	481	342	129	64	25	14
Saskatoon	12,189	1,656	1,271	890	287	98	67	23
Sherbrooke	7,928	818	551	356	102	44	23	12
St. Catharines-Niagara	17,152	1,930	1,412	1,029	370	173	83	30
St. John's	7,531	1,201	805	632	207	101	55	38
Thunder Bay	4,888	692	548	351	129	53	22	19
Toronto	337,302	25,590	19,959	16,376	6,496	3,254	1,763	699
Trois-Rivières	5,891	697	421	324	94	40	14	16
Vancouver	149,446	14,115	9,907	7,084	2,664	1,173	585	218
Victoria	19,746	2,169	1,513	1,046	365	156	92	47
Windsor	12,871	1,359	1,079	925	363	152	85	32
Winnipeg	27,554	3,669	3,009	2,361	892	393	214	79

Source: Statistics Canada

Business Formation By Size Of Firm

December 2005

BY PROVINCE

	Number of Employees							
	0-4	5-9	10-19	20-49	50-99	100-199	200-499	500+
NFLD and Labrador	18,887	3,056	1,786	1,242	375	182	100	56
Prince Edward Island	7,499	1,120	767	546	168	69	43	13
Nova Scotia	39,504	5,422	3,812	2,675	909	462	184	85
New Brunswick	31,426	4,489	3,026	2,123	666	319	137	58
Quebec	384,539	37,475	23,575	16,348	5,778	2,752	1,378	630
Ontario	687,732	59,883	44,846	34,733	12,851	6,208	3,245	1,280
Manitoba	58,271	6,239	4,902	3,467	1,211	527	290	108
Saskatchewan	78,823	7,059	4,771	3,190	952	388	206	75
Alberta	246,678	24,572	17,215	12,203	4,267	2,120	1,009	369
British Columbia	277,243	28,003	19,140	13,076	4,487	1,962	950	366
Yukon Territory	2,070	315	202	180	44	14	11	2
Northwest Territories	1,698	348	308	267	78	37	16	4
Nunavut	448	151	136	110	33	12	7	1
Canada	1,834,818	178,132	124,486	90,160	31,819	15,052	7,576	3,047

Source: Statistics Canada

Business Formation : Urban vs. Rural

December 2005

BY PROVINCE & CATEGORY

	Number of Employees			
	0-4	5-9	10-19	20-49
CANADA	1,834,818	178,132	124,486	90,160
Large Cities	1,148,238	109,443	79,942	60,868
Small Cities	686,580	68,689	44,544	29,292
ATLANTIC	97,316	14,087	9,391	6,586
Large Cities	28,383	4,010	2,916	2,325
Small Cities	68,933	10,077	6,475	4,261
QUEBEC	384,539	37,475	23,575	16,348
Large Cities	236,532	23,134	15,571	11,322
Small Cities	148,007	14,341	8,004	5,026
ONTARIO	687,732	59,883	44,846	34,733
Large Cities	522,019	44,138	33,677	26,985
Small Cities	165,713	15,745	11,169	7,748
MANITOBA	58,271	6,239	4,902	3,467
Large Cities	27,554	3,669	3,009	2,361
Small Cities	30,717	2,570	1,893	1,106
SASKATCHEWAN	78,823	7,059	4,771	3,190
Large Cities	21,334	2,937	2,286	1,673
Small Cities	57,489	4,122	2,485	1,517
ALBERTA	246,678	24,572	17,215	12,203
Large Cities	143,224	15,271	11,063	8,072
Small Cities	103,454	9,301	6,152	4,131
BRITISH COLUMBIA	277,243	28,003	19,140	13,076
Large Cities	169,192	16,284	11,420	8,130
Small Cities	108,051	11,719	7,720	4,946

Source: Statistics Canada

Sources:

CIBC World Markets

Statistics Canada

2005 CIBC Small Business Outlook Poll, conducted by The Strategic Counsel

The Self-Employment Study, conducted by Maritz Research

The 2005 CIBC Small Business Outlook Poll was conducted by The Strategic Counsel between July 18th and August 1st, 2005 and was based on a sample of 1,400 Canadian small business owners (defined as those businesses having between one and fifteen employees including the owner and having revenues under \$5 million for the year 2004). With a sample of this size, the results are considered accurate to within ± 2.6 percentage points, 19 times out of 20, of what they would have been had the entire Canadian population of businesses with 1-15 employees been polled. The margin of error will be larger within regions and for other sub-groupings of the survey population. The sample of respondents is representative of the region, CMA and employee size of Canada's small businesses according to the December 2004 Business Register data produced by Statistics Canada.

The Self-Employment Study was conducted by Maritz Research amongst a nationally representative sample of 2,000 Canadian adults between July 14th and 19th, 2005. With a sample of this size, the results are considered accurate to within ± 2.19 percentage points, 19 times out of 20, of what they would have been had the entire Canadian adult population been polled. The margin of error will be larger within regions, Census Metropolitan Areas, and for other sub-groupings of the survey population. The results are weighted to reflect age, gender and regional composition of the Canadian population according to the 2001 Canadian census. Percentages may not sum to one hundred due to rounding or the acceptance of multiple mentions.

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