



Small business confidence growing in B.C.

Confidence increased in the first quarter among operators of small- and medium-sized enterprises (SMEs) in B.C., according to the latest survey by the Canadian Federation of Independent Business (CFIB). The CFIB's Business Barometer Index reflects how well business owners expect their firms to perform in the next 12 months. The index for B.C. stands at 114.8 as of March, up from a reading of 113 in December. This marks three quarters of steady gains in SME confidence in B.C. Indeed, B.C.'s SME's were the most optimistic in the country for the second straight quarter.

The employment outlook among B.C.'s SMEs remains optimistic, with one in three enterprises planning to increase full-time employment over the next year, compared with just one in 13 planning to decrease full-time employment. Almost one in three SMEs report that rising customer demand and continued low interest rates are currently the most important factors contributing to their performance.

The biggest concerns of SMEs are higher costs of insurance and energy. Two of every three businesses indicate these costs have worsened their business performance over the past 12 months. SMEs report that rising costs for other factors of production, increasing competition and difficulties in crossing international borders have also hurt their performance.

Canada-wide, enterprises in all major industrial sectors except agriculture are tightly grouped in their levels of optimism. Agriculture continues to suffer the negative impact of BSE and related trade issues. At a more detailed industrial breakdown, the most optimistic outlooks for business performance are in computer services, health-care practices, structural contracting, wholesale industrial machinery and retail sporting goods.

Small business confidence up in B.C.

Expectations Index, Quarterly
Small and Medium Sized Enterprises



Source: Canadian Federation of Independent Business.

Business incorporations trending higher

The positive trend in business incorporations continues with February's data, with 2,015 new businesses formed in B.C., pulling up the monthly trend to 2,130, its highest level ever. The year-over-year comparison was positive, with a rise of more than 11%. Increased business formations likely reflect the stronger domestic economy in B.C. over the past two years, as well as some favourable small business tax changes. Other factors such as business confidence also affect the incorporations trend.

There is some correlation between business incorporations and self-employment trends, but it is weak. Entrepreneurial drive and increasing demand for various services explain some of small business formation trends. Also, there has been a trend to replace salaried workers with independent self-employed contract workers, and some of the latter might decided to incorporate. In 2002, only 34% of self-employed business owners in B.C. were incorporated, operating mainly in service industries, led by the "other services" category, accommodation and food, retail trade, and professional services.

Business incorporations are forecast to rise 10% this year to 25,550, following increases of 9.3% and 7.7% in 2003 and 2002, respectively.

International entries slowly rising

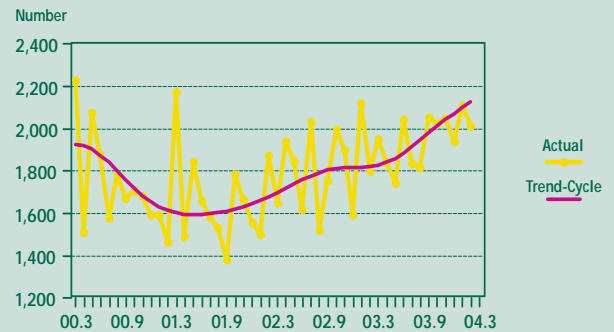
Overseas entries to B.C. are rebounding from last year's SARS scare much more strongly than entries from the U.S. More favourable exchange rate movements for Japanese and European tourists than for Americans are the likely reason. Also, the Japanese economy is growing more robustly after its 2002 slump. While the rebound in overseas entries is helpful for a better B.C. tourist season, the muted rebound in U.S. entries is holding back the total, since Americans account for over 80% of foreign visitors.

Since 9/11, travel from the U.S. has been on a decline, which was exacerbated by SARS. And even though the U.S. economy is growing at a 4%-plus clip, the rebound is quite muted. The depreciating exchange rate is a factor, as is the increased cost of travel due to tighter security measures and related fees. Also, most U.S. travellers to B.C. come from the Pacific Coast states, whose economies have been growing less robustly than the country as a whole.

Employment forecasts for Washington, Oregon, and California put their growth slightly above the national average this year, with a greater out-performance expected in 2005. If these forecasts materialize, travel to B.C. should improve. However, the Canada-U.S. exchange rate is still an issue and various forecasts call for either further depreciation or a turnaround next year, so there is no real consensus. We expect some modest depreciation.

B.C. business incorporations rising

B.C. Business Incorporations, Monthly



Source: B.C. Stats, CUCBC.

Latest: Feb.

Tourism GDP for 2003 is not yet available, but no doubt it will show a decline based on the various tourism-related indicators. BC Stats recently released its 2002 estimate, which showed a weak 0.4% gain compared to the 2.2% growth in B.C.'s real GDP at factor cost. The outlook for 2004 is slightly more positive, but a modest gain is probably the best we can expect.

Rebound in overseas visitors

International Entries via B.C. by Origin

