



## OUTLOOK FOR SMALL BUSINESS IN ONTARIO



### SMALL BUSINESS FACTS

A definition:

- Small businesses have fewer than 100 employees

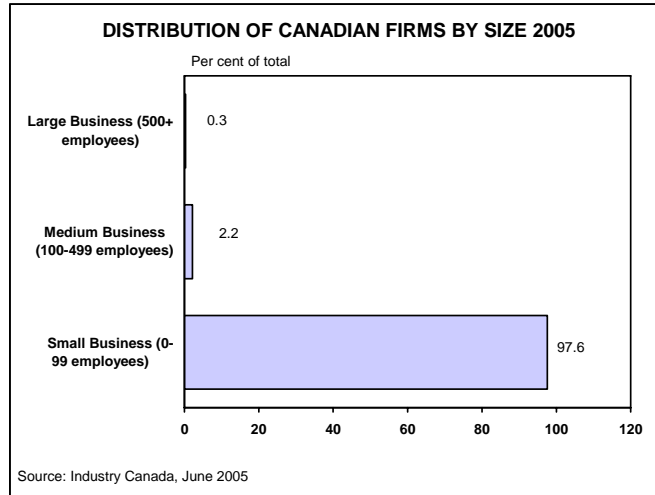
Some numbers:

- Ontario has almost 350,000 small businesses
- Ontario has fewer small businesses than the provincial average across Canada

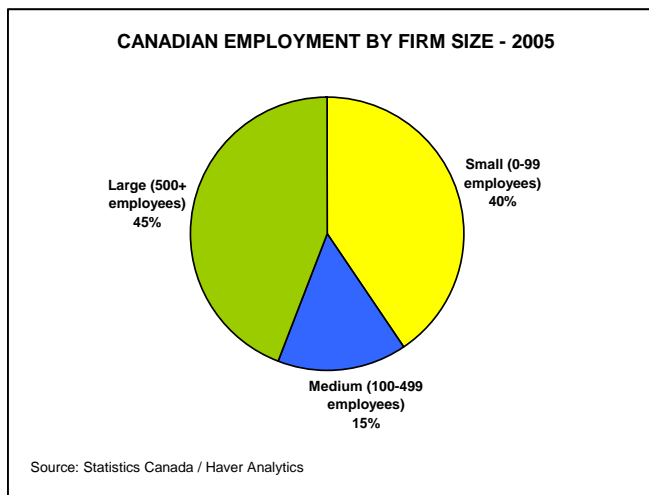
Source: Industry Canada, Statistics Canada, TD Economics



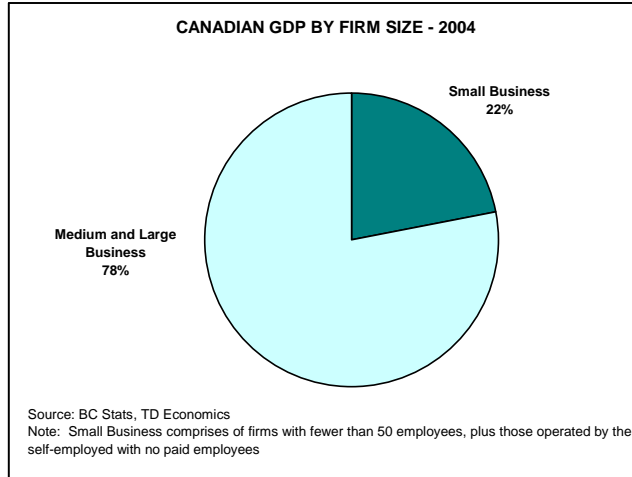
## SMALL BUSINESS IS BIG BUSINESS



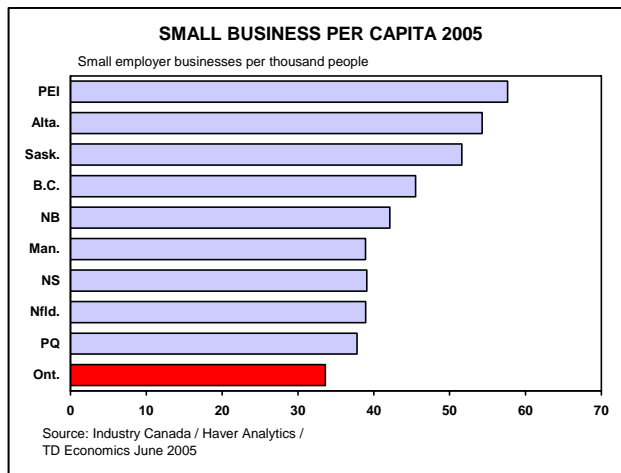
## EMPLOY OVER A THIRD OF WORKERS



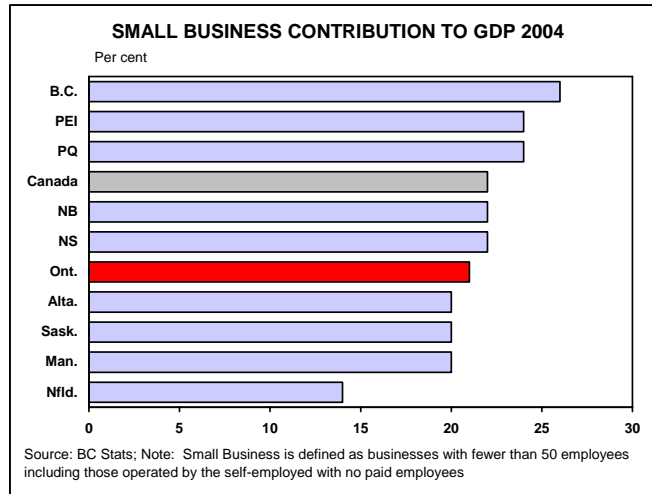
## SMALL BUSINESS GENERATES ALMOST A QUARTER OF CANADIAN GDP



## SMALL BUSINESSES LEAST CONCENTRATED IN ONTARIO



## LESS THAN AVERAGE CONTRIBUTION TO GDP



## KEY DRIVERS OF SMALL BUSINESS GROWTH IN CANADA

- Small businesses in Canada are affected by many of the same influences as large businesses
- Tend to lead pick-ups and slow-downs (pro-cyclical)
- High business turnover

But... less sensitive to trends in:

- US Economy
- Exchange rates

more sensitive to trends in:

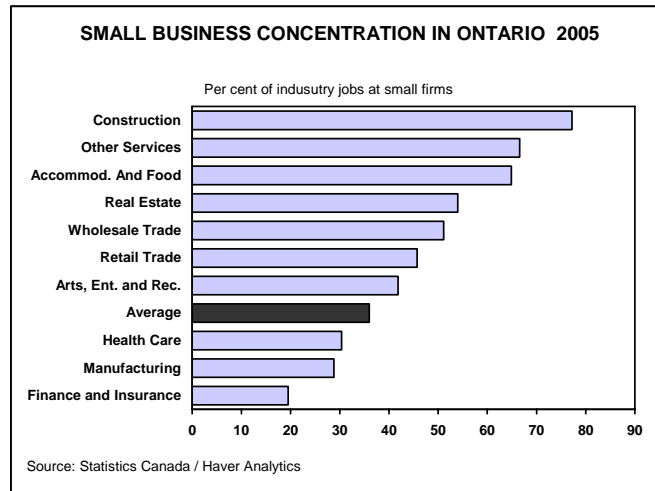
- Consumer spending
- Commodity prices
- Interest rates
- Housing market
- Part-time and youth employment

## ONTARIO SPECIFIC DRIVERS

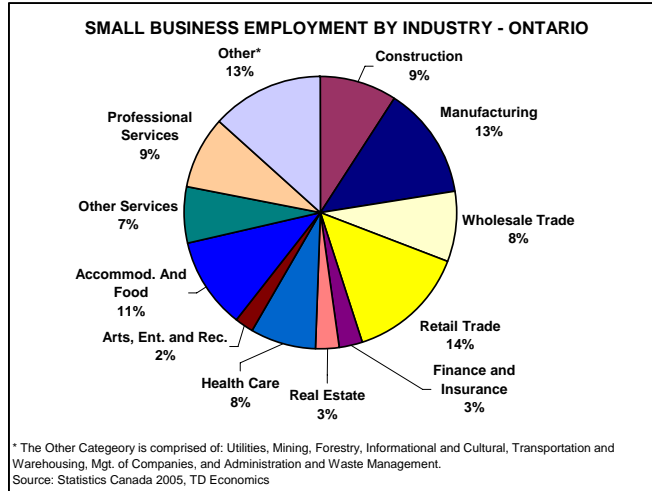
Compared to their Canadian counterparts, Ontario small businesses are:

- Less concentrated in the resource sector
- More geared towards manufacturing, thus greater vulnerability to:
  - Manufacturing trends
  - Export demand (US economy)
  - Exchange Rates
- 35% of all small business exporters reside in Ontario (Source: Industry Canada, 2005)

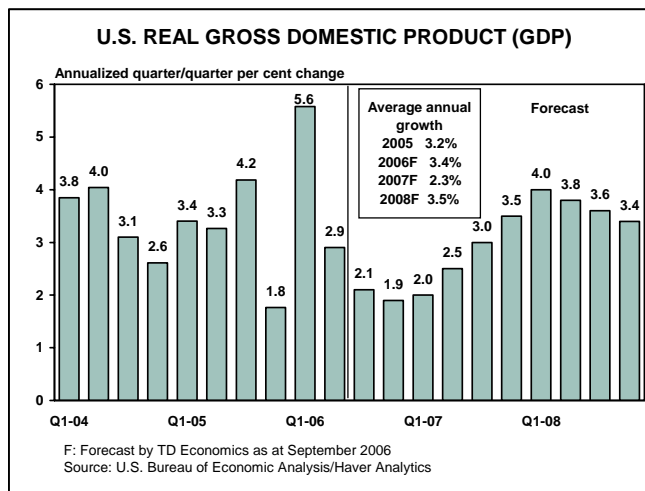
## SMALL BUSINESSES ARE FIRMLY ENTRENCHED IN CERTAIN AREAS



## SMALL BUSINESS EMPLOYMENT CONCENTRATION



## MID-CYCLE SLOWDOWN IN THE U.S.

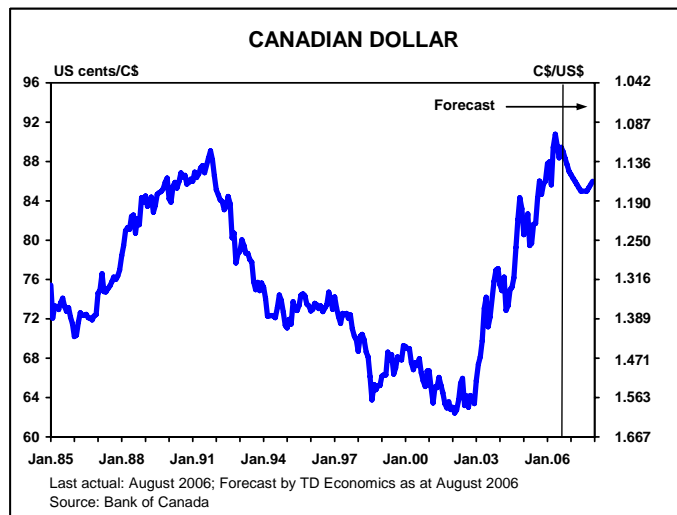


## AUTO INDUSTRY TO MIRROR SLOWDOWN

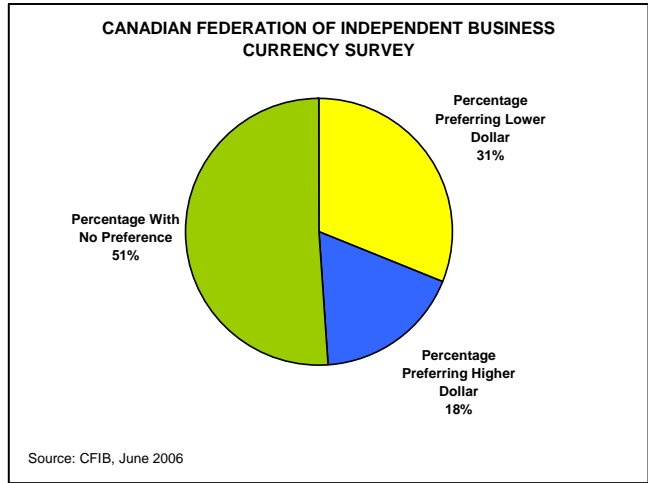
AUTOMOTIVE SALES AND PRODUCTION					
	Thous. of units 2005	Per cent change			
		2004	2005	2006F	2007F
<b>SALES OF LIGHT VEHICLES</b>					
<b>NORTH AMERICA</b>	19,657	1.5	0.9	-3.3	-1.5
<b>Canada</b>	1,583	-3.7	3.2	-0.4	-1.2
<b>United States</b>	16,948	1.4	0.5	-3.9	-1.8
<b>Mexico</b>	1,126	12.0	3.3	2.5	2.8
<b>PRODUCTION OF LIGHT VEHICLES</b>					
<b>NORTH AMERICA</b>	15,752	-0.8	0.0	-2.7	-1.3
<b>Canada</b>	2,624	5.7	-1.5	-3.8	-0.8
<b>United States</b>	11,523	-1.9	-0.4	-4.2	-1.9
<b>Mexico</b>	1,605	-2.4	7.8	10.0	2.0

Forecast by TD Economics as at August 2006  
Source: DesRosiers Automotive Reports, Ward's, TD Economics

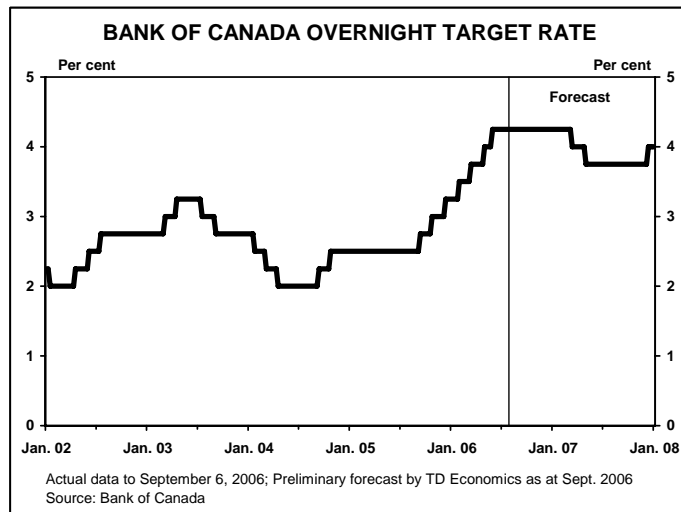
## ONTARIO'S ECONOMY LEVERAGED TO USD



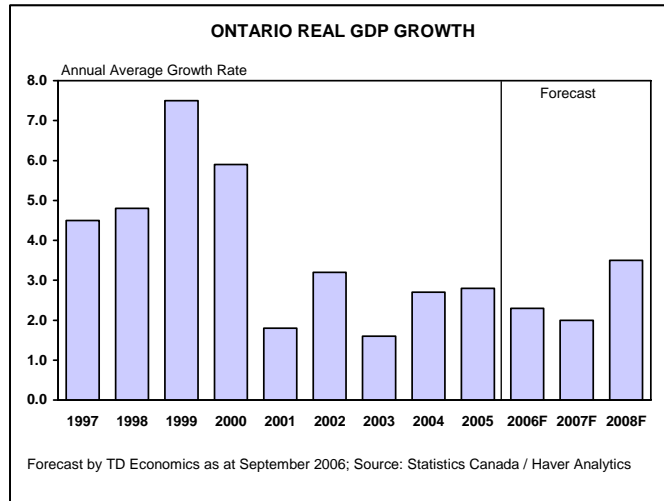
## IMPACT OF CURRENCY ON SMALL BUSINESS



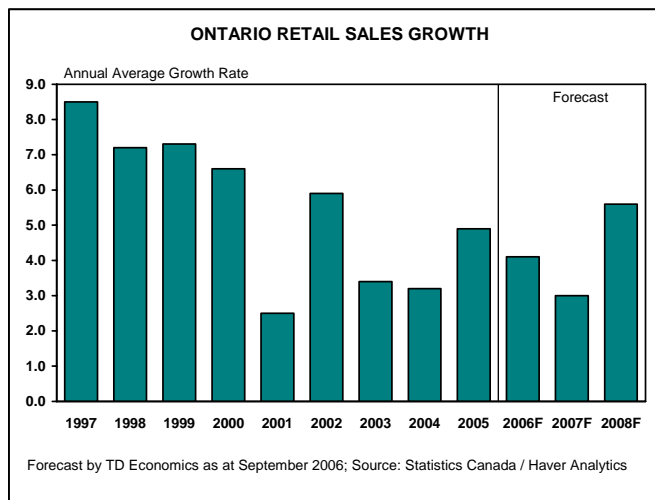
## RATES FAVOURABLE FOR SMALL BUSINESS



## ONTARIO TO GROW SLOWLY UNTIL 2008



## RETAIL SALES TO HOLD UP REASONABLY WELL



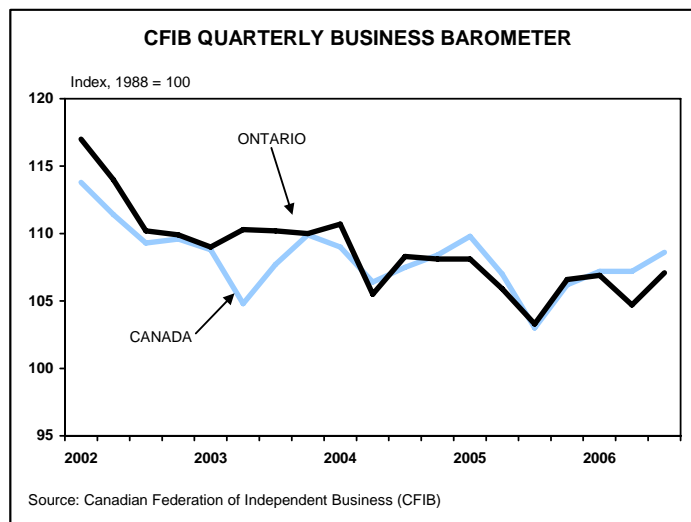
## BUSINESS OUTLOOK OPTIMISTIC

According to the Canadian Federation of Independent Business (CFIB):

- Small business outlook is improving nationally:
  - 40% expect a stronger performance over the next 3 months
  - 49% expect a stronger performance over the next year
  - 32% of firms are looking to increase full-time employment over the next year, 8% looking to cut
- Business optimism greater across Western Canada:
  - Business confidence in Ontario has been below that of Western Canada for nine straight quarters

Source: CFIB

## EXPECTATIONS REMAIN MODEST





## **ISSUES FOR SMALL BUSINESS**

Some matters to consider:

- Insurance costs
- Minimum wages
- Tax burden



## **ISSUES FOR SMALL BUSINESS (CON'D)**

Some more matters to consider:

- Canadian economy increasingly open to the world
- Small businesses are participating, but there are still benefits to tap
- Demographics and immigration will impact small business
- Small businesses are less productive than larger firms



## INSURANCE COSTS

Insurance costs have grown dramatically since 9/11:

- 1/3 of small businesses say insurance costs have dramatically harmed their financial performance
- 3/4 say they have hurt them somewhat

Overall, insurance cost increases have tapered off in recent years

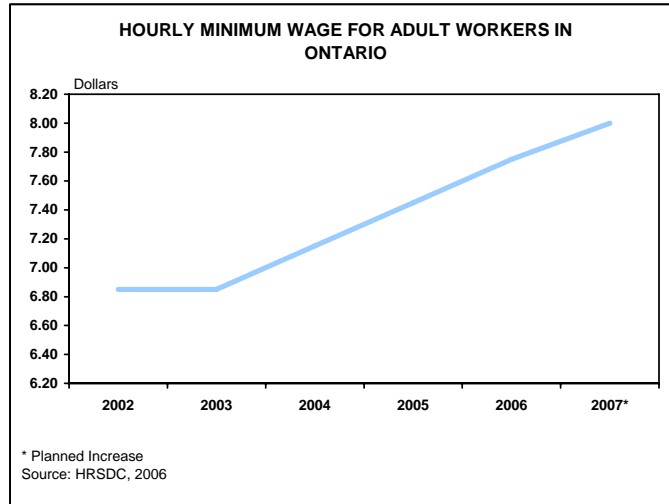
2006Q3, firms noted that there has been a “large improvement” in insurance premiums over the last year (Source: CFIB)



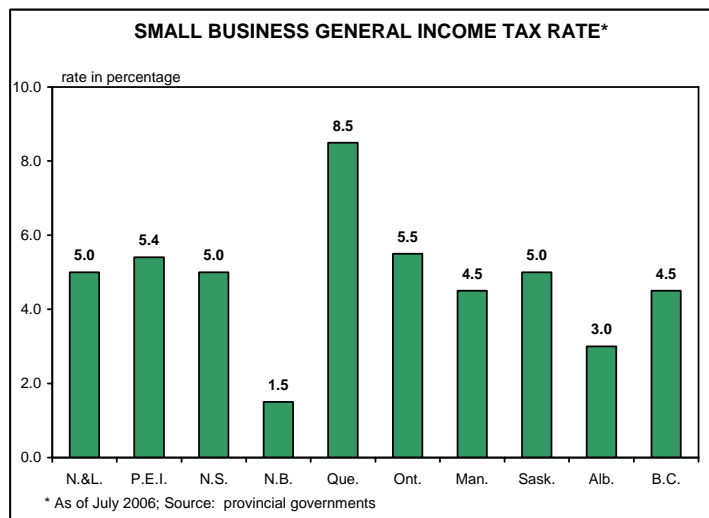
## MINIMUM WAGES

- Small businesses employ a disproportionate number of:
  - Young people
  - Part-time workers
- These two groups earn lower than average salaries
- Therefore, legislated minimum wage laws have a large effect upon small businesses

## MINIMUM WAGE EDGING HIGHER IN ONTARIO



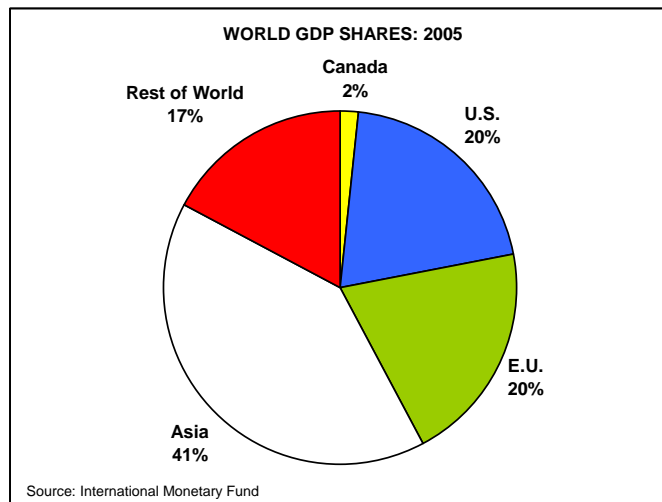
## INCOME TAX BURDEN



## LESS THAN TWO PERCENT OF SMALL BUSINESSES ARE EXPORTERS



## CANADIAN MARKET A TINY FRACTION OF GLOBAL ECONOMY





## **DIRECT TRADE NOT THE ONLY EXPOSURE OF SMALL BUSINESS TO GLOBALIZATION**

- Exporters
- Importers
- Sell to an exporter
- Owned by foreign based company
- Own an operation in another country
- Compete with imports of a foreign based company
- Sell to and employ immigrants



## **OBSTACLES TO TRADING**

- Products or services not exportable
- Satisfied with current market
- Lack of resources
- Lack of financing



## **CHALLENGES TO EXPORTING**

- Duties, tariffs and non-tariff barriers
- Shipping and other costs
- Exchange rate uncertainty
- Difficult customs processes
- Language barriers and cultural differences
- Competition from other businesses



## **GOVERNMENT HAS A ROLE TO BOOST PRODUCTIVITY**

- Border arrangements
- Trade Rules
- Infrastructure
- Competitive taxation and regulation
- Support for education and R&D



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