

OUTLOOK FOR SMALL BUSINESS IN ONTARIO

Presentation by
TD Economics

October 7, 2003

SMALL BUSINESS FACTS

A definition:

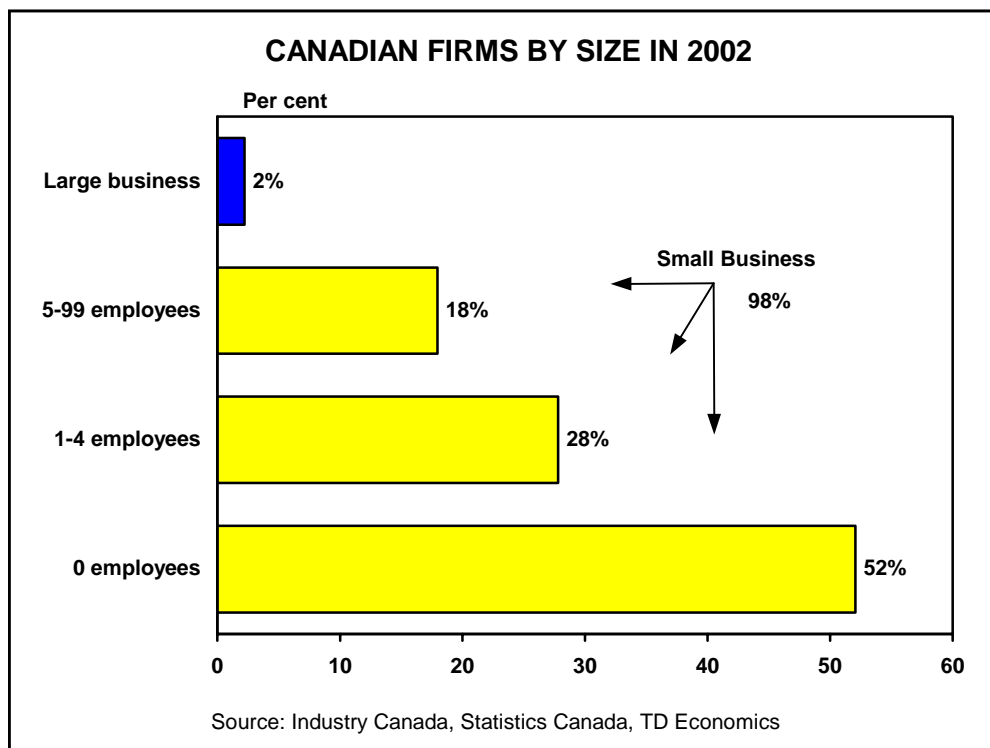
- Small businesses have fewer than 100 employees
- Ontario small business tax rate applies to companies with less than \$320,000 in income

Some numbers:

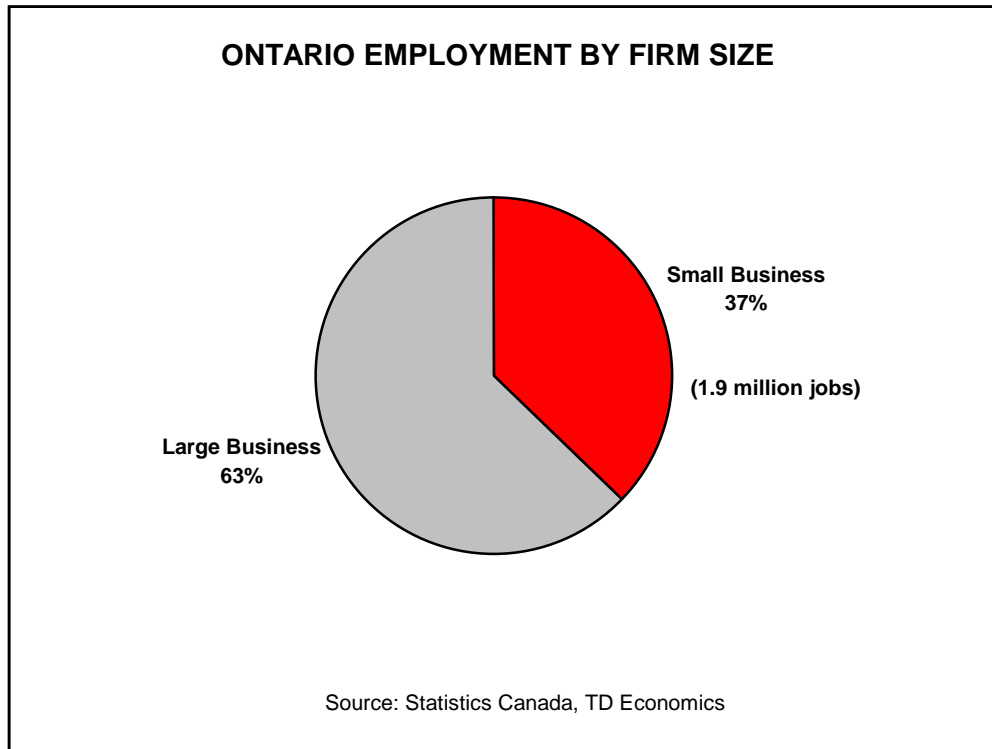
- Ontario has approximately 300,000 small businesses
- Ontario is slightly less small-business intensive than Canada as a whole

Source: Industry Canada, Statistics Canada, TD Economics

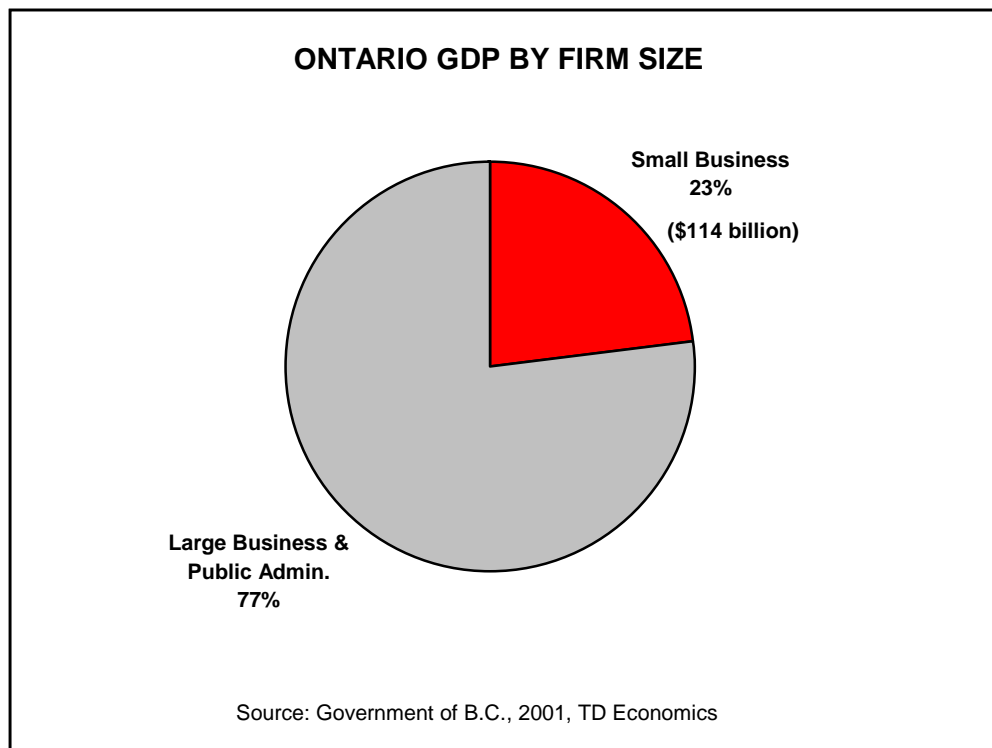
SMALL BUSINESS IS BIG BUSINESS



EMPLOY OVER A THIRD OF WORKERS



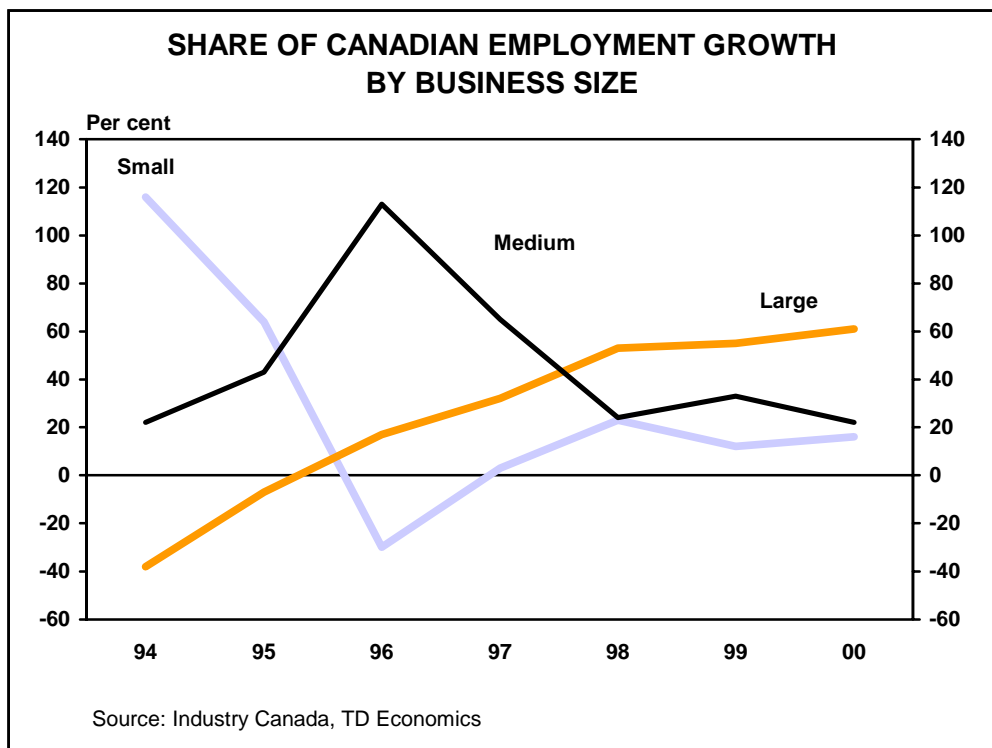
GENERATE ALMOST A QUARTER OF GDP



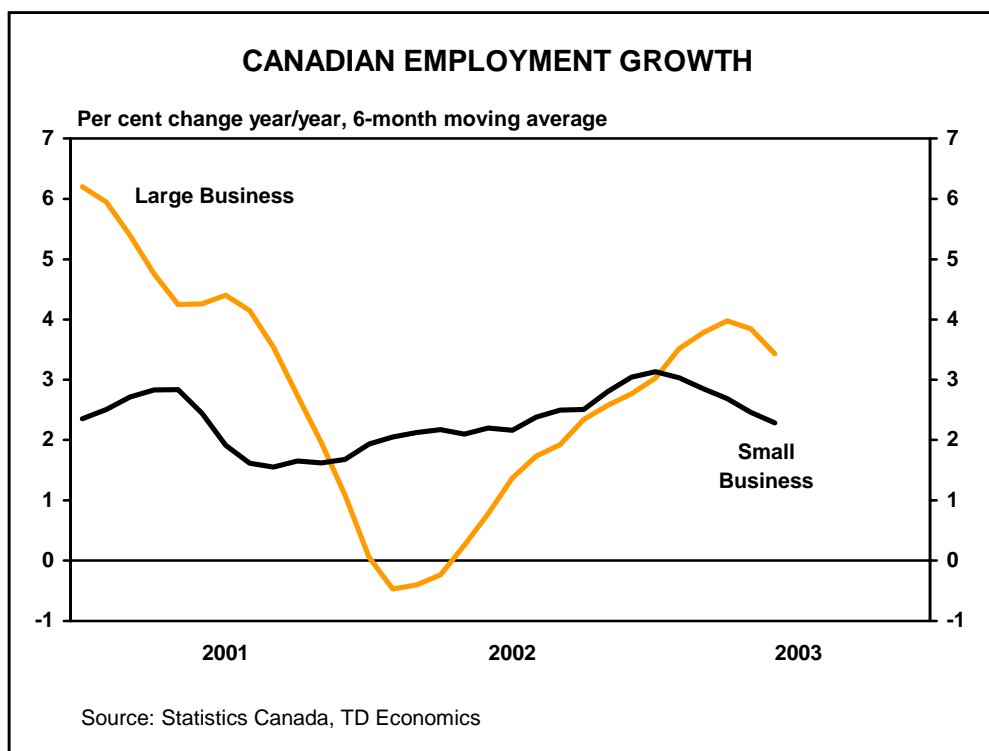
2003 DIFFICULT YEAR FOR SMALL BUSINESS

- 80% of small businesses in Ontario suffered from the blackout (esp. service and manufacturing firms)
- 8% of small businesses in Canada were hurt by SARS
- Stronger dollar hurt 29% of small businesses, while helping 21% of them
- Weak consumer spending and GDP growth limited small business performance

SMALL BUSINESS LED THE WAY OUT OF THE EARLY '90s RECESSION



SMALL BUSINESS HIRING LEADS EMPLOYMENT GROWTH IN THE REST OF THE ECONOMY



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:

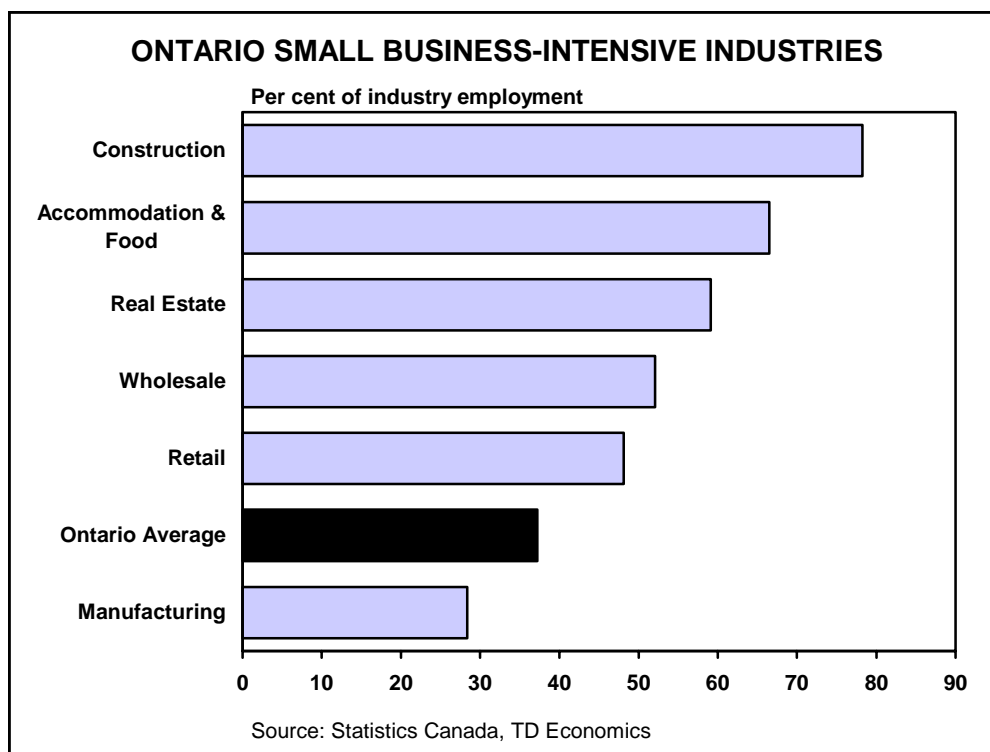
- consumer spending
- commodity prices
- interest rates
- housing market
- part-time and youth employment

ONTARIO-SPECIFIC DRIVERS

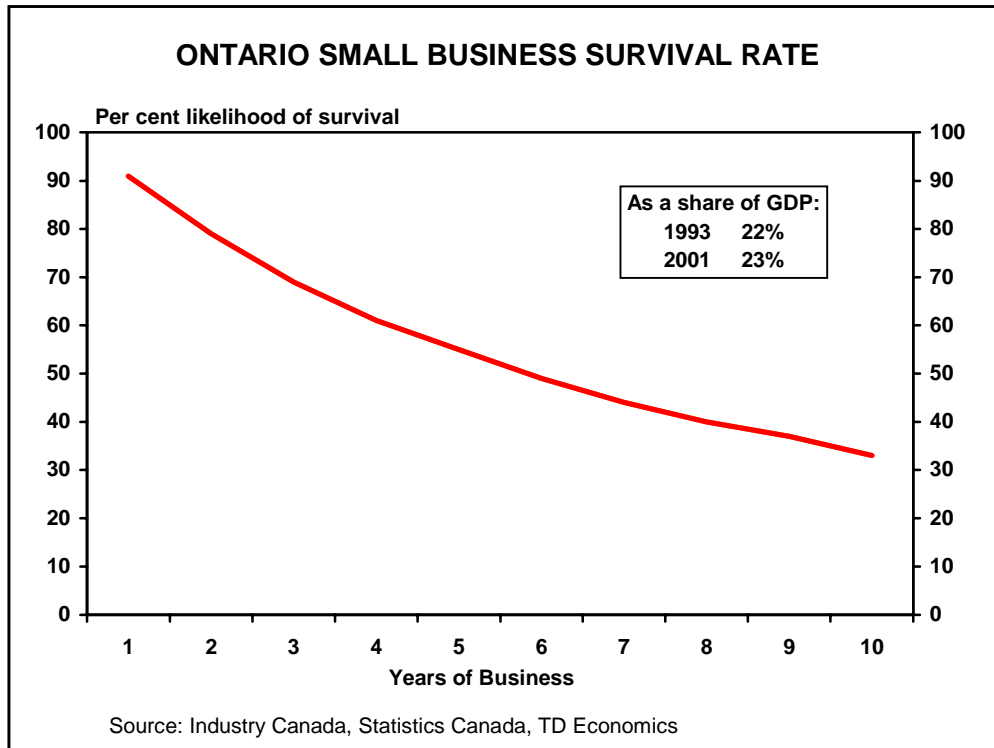
Compared to their Canadian counterparts, Ontario small businesses are:

- Less concentrated in resource sector
- More geared towards manufacturing, thus greater vulnerability to:
 - manufacturing trends
 - export demand (U.S.)
 - exchange rates

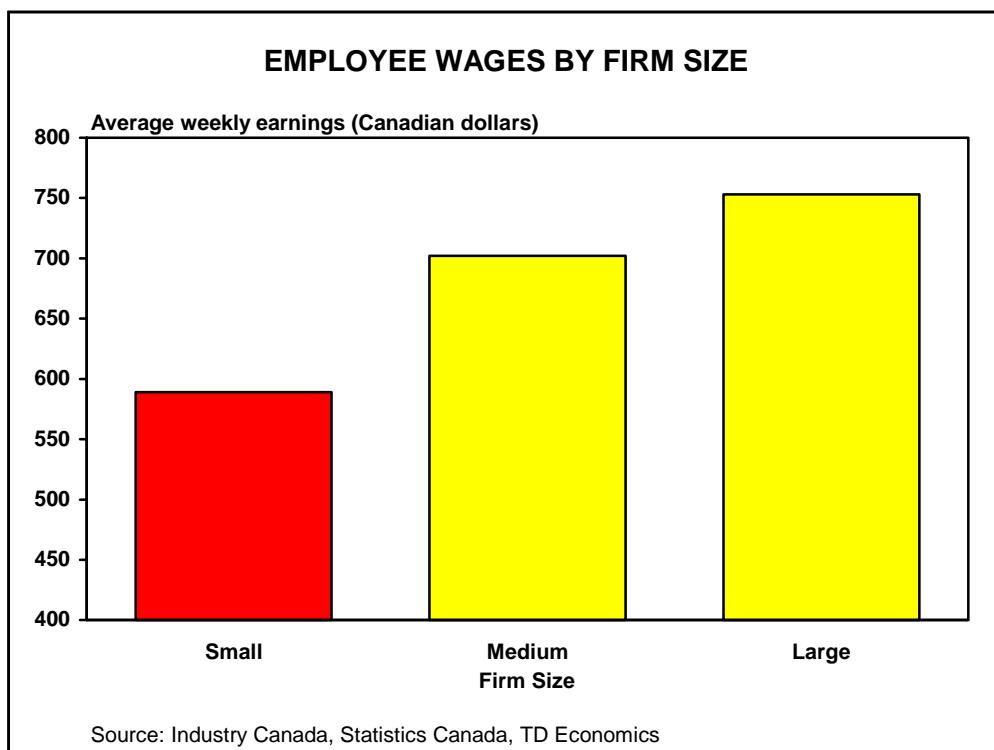
SMALL BUSINESSES ARE HEAVILY ENTRENCHED IN CERTAIN AREAS



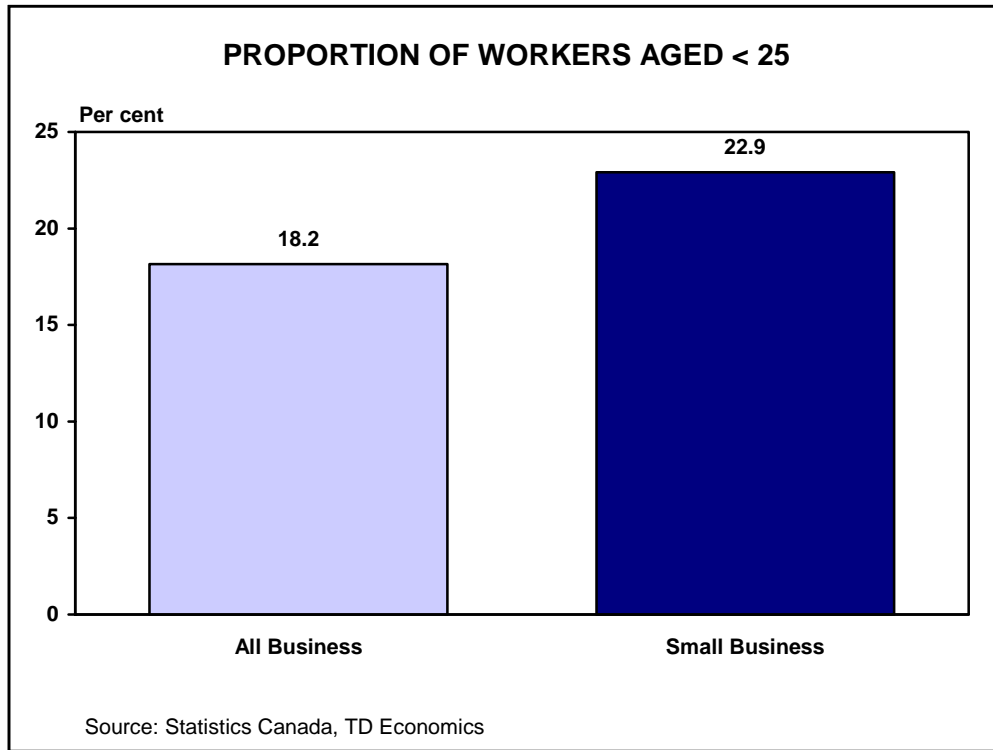
SMALL BUSINESS SHARE OF ECONOMY HAS BEEN STABLE, BUT INDIVIDUAL TURNOVER IS HIGH



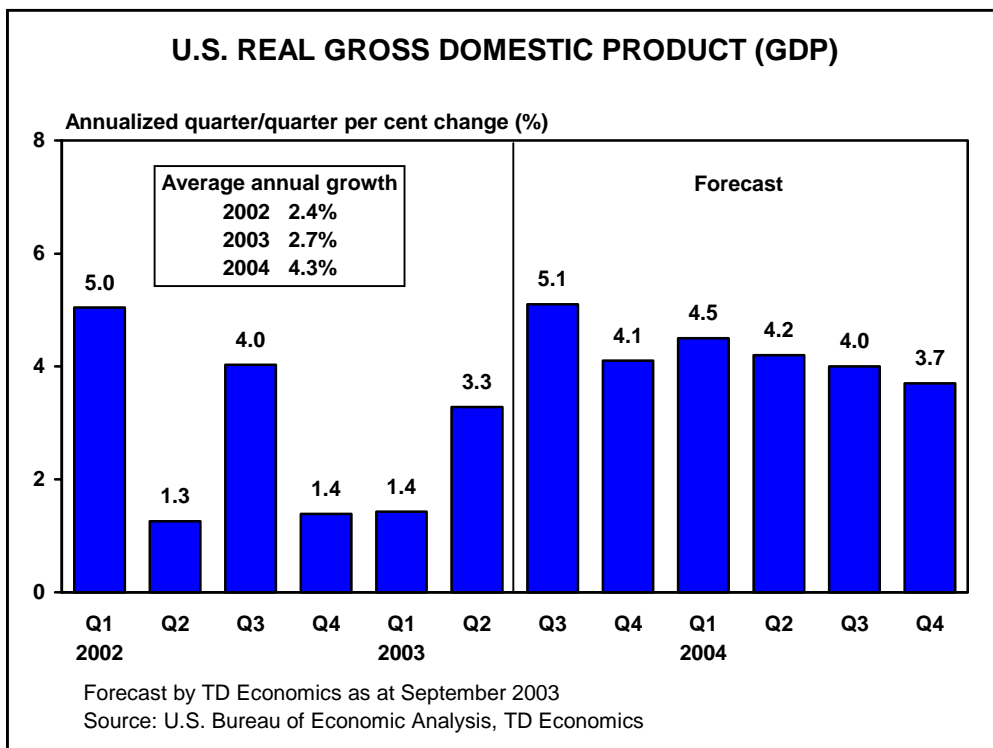
SMALL BUSINESSES PAY LESS...



... AND HAVE YOUNGER WORKERS



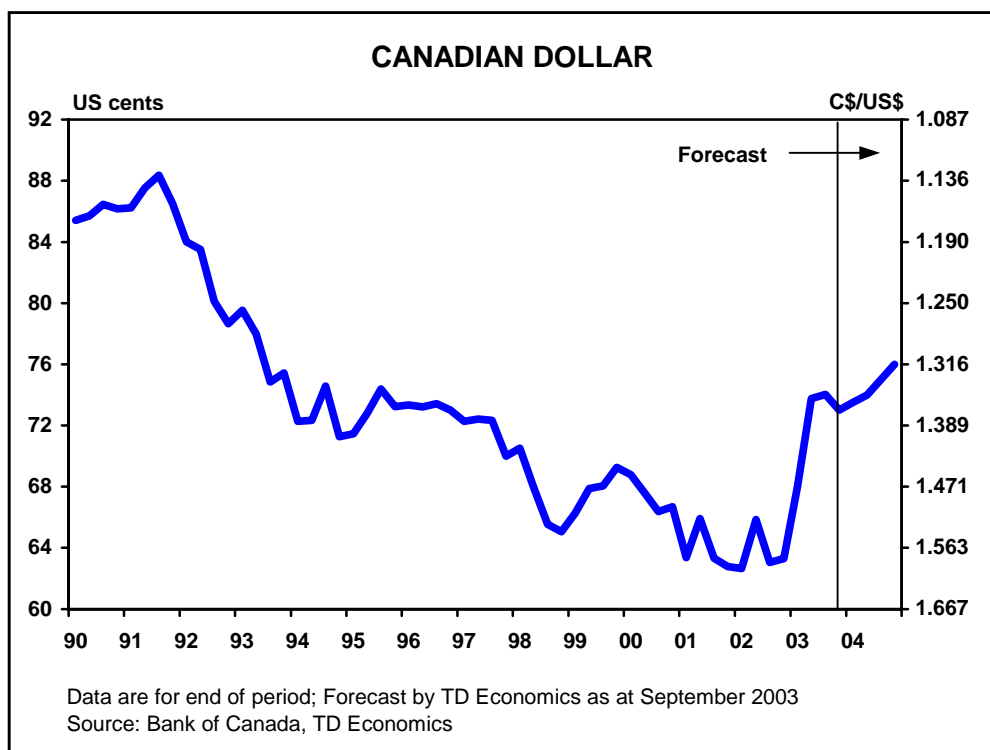
STRONG GROWTH AHEAD IN THE U.S.



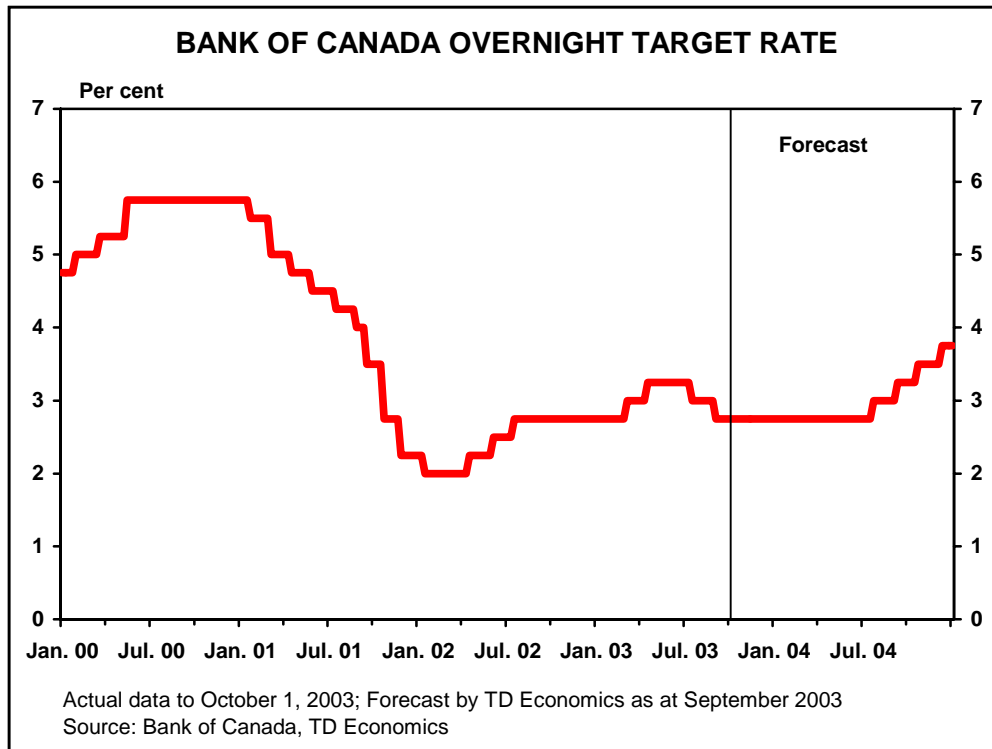
AUTO INDUSTRY TO BUCK THE TREND

AUTOMOTIVE SALES AND PRODUCTION					
	Thous. of units 2002	Per cent change year/year			
		Actual		Forecast	
		2001	2002	2003	2004
SALES OF LIGHT VEHICLES					
NORTH AMERICA	19,492	-0.8	-0.6	-2.4	1.9
Canada	1,703	1.4	8.4	-3.8	2.0
United States	16,813	-1.3	-1.8	-2.3	1.6
Mexico	976	5.4	6.9	-1.8	6.2
PRODUCTION OF LIGHT VEHICLES					
NORTH AMERICA	16,367	-9.8	5.7	-3.0	2.6
Canada	2,599	-14.1	3.8	-2.9	-1.5
United States	12,017	-9.8	7.6	-2.1	2.8
Mexico	1,752	-3.2	-3.1	-8.8	7.6
Forecast by TD Economics as at October 2003					
Source: DesRosiers Automotive Reports, Ward's, TD Economics					

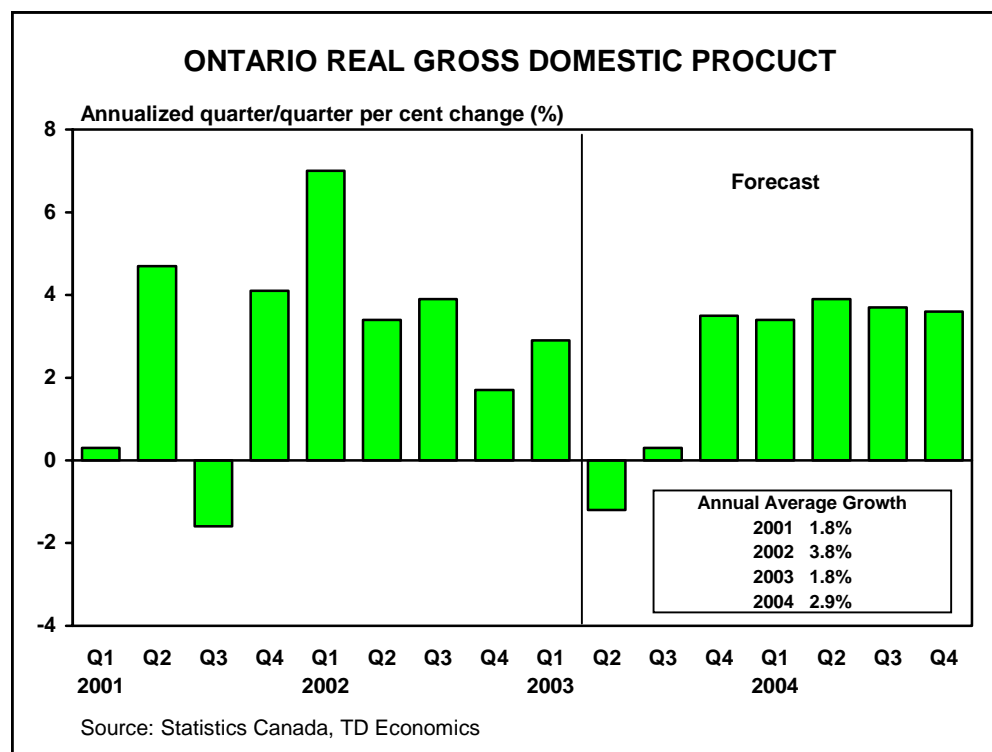
ONTARIO IS SECOND MOST LEVERAGED TO THE U.S. DOLLAR AFTER QUEBEC



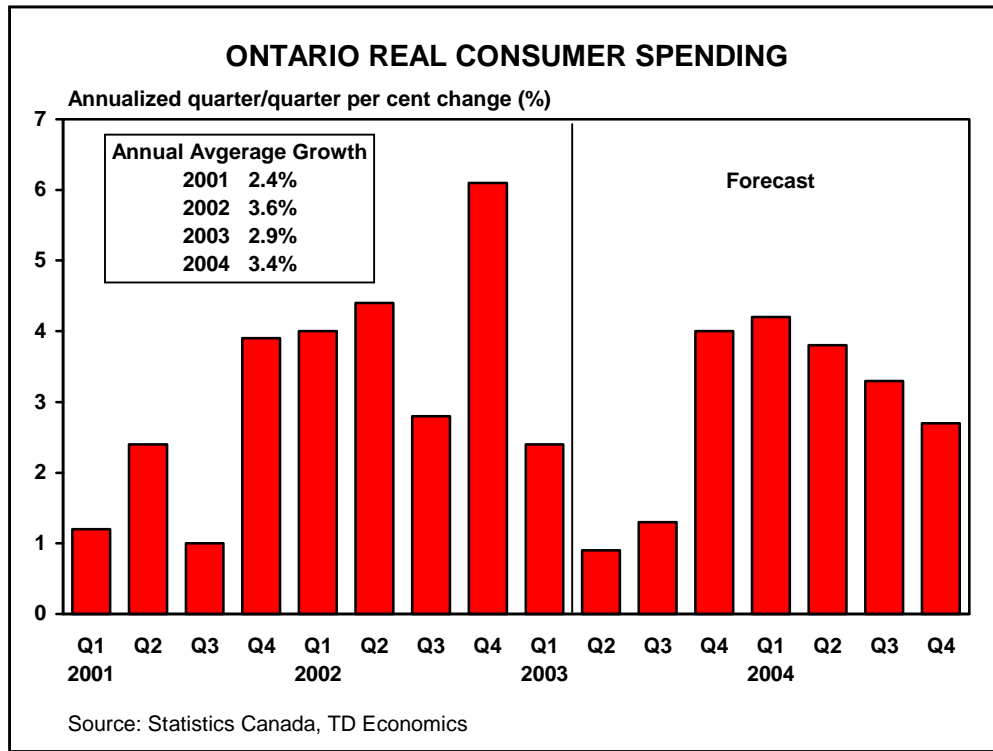
LOW RATES GOOD FOR SMALL BUSINESS



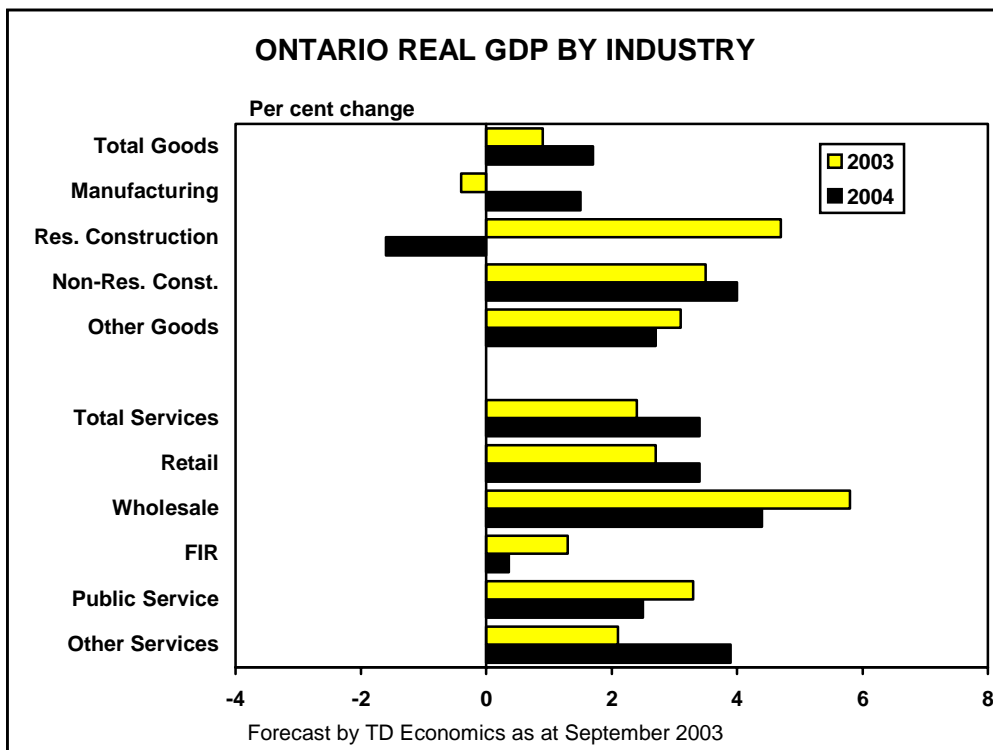
ONTARIO GDP TO IMPROVE



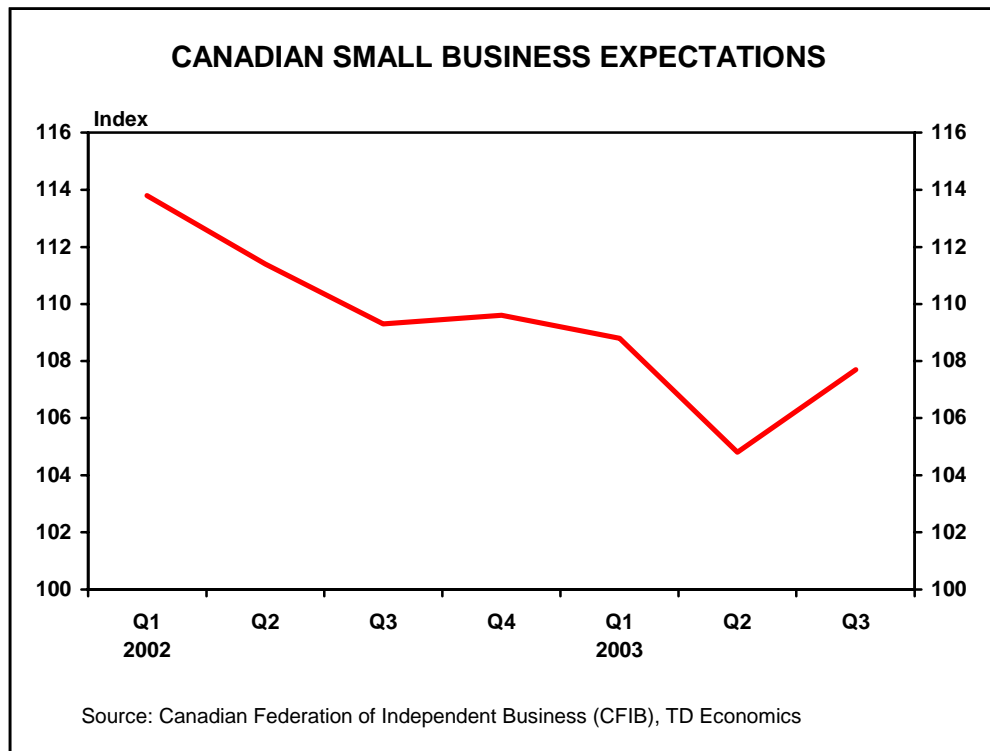
ONTARIO CONSUMER SPENDING TO IMPROVE



SOLID GROWTH AHEAD



EXPECTATIONS ON THE UPSWING



BUSINESS CONDITIONS IMPROVING

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

- Small business expectations are rising
 - 38% expect stronger performance in next 3m vs. 18% weaker
 - 49% expect stronger performance in next 12m vs. 3% weaker
- Hiring plans are being made
 - 29% plan to increase their employment levels in next 12m vs. 9% planning to shrink

Source: CFIB, TD Economics

LOOKING FORWARD

- GDP growth in Ontario and U.S. is accelerating
- Ontario consumer spending to strengthen
- Hiring will be easier due to the entry of double cohort HS grads into labor force

In conclusion,

- Ontario small businesses to grow faster than the overall economy in the short-term

ISSUES FOR SMALL BUSINESS

Some matters to consider:

- insurance costs
- minimum wage
- tax burden
- entrepreneurship

INSURANCE COSTS

Bad news:

- insurance costs grew at double digit rates in early 2003
- 1/3 of small businesses say insurance costs have significantly harmed their performance
- 75% say it has hurt them somewhat

Good news:

- Growth in cost of insurance is down sharply (but now makes up greater share of spending)

MINIMUM WAGE

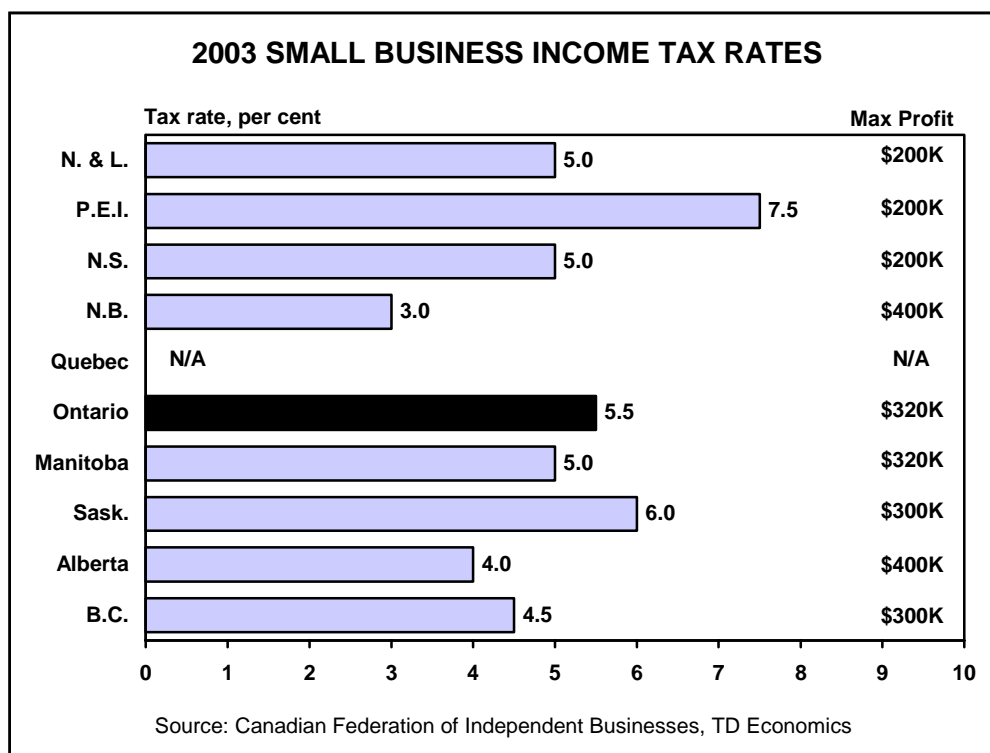
Small businesses employ a disproportionate number of

- young people
- part-time workers

These two groups earn lower than average salaries.

Therefore, minimum wage laws have a large effect upon small businesses.

ONTARIO'S SMALL BUSINESS TAX RATE HAS BEEN FALLING



ENTREPRENEURSHIP

- Little businesses can become large businesses with proper cultivation
- 2000 survey reports Canada is best nation in which to start a new business due to:
 - short administrative delays
 - little regulatory financial burden
- Self-employed people work longer hours than the average worker
- Immigrants make up a disproportionate share of entrepreneurs
- Entrepreneurship occurs to a greater degree in large cities

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