

# Infoline

Issue: 97-13      6 Pages

March 27, 1997

You will find the last 5 issues on our website:  
<http://www.bcstats.gov.bc.ca>

## Report

## Incorporations Signal Slumping Confidence

### BC at a glance . . .

<b>POPULATION (thousands)</b>	Jan 1/97	% change on year ago
BC	3,902.5	2.2
Canada	30,135.9	1.1
<b>GROSS DOMESTIC PRODUCT</b>	1995	% change on year ago
<i>(BC - at market prices - \$ millions)</i>		
Current Dollars	103,273	4.6
Constant (1986) Dollars	74,107	1.9
<b>TRADE (\$ millions)</b>		
Manufacturing Shipments (seas. adj.) Jan	2,839	3.8
Merchandise Exports (raw) Jan	2,091	10.5
Retail Sales (seasonally adjusted) Jan	2,815	9.7
<b>CONSUMER PRICE INDEX</b>	Feb '97	% change on year ago
<i>(all items - 1986=100)</i>		
BC	139.4	0.9
Canada	137.3	2.2
<b>LABOUR FORCE (thousands)</b>	Feb '97	% change on year ago
<i>(seasonally adjusted)</i>		
Labour Force - BC	2,000	2.7
Employed - BC	1,828	2.6
Unemployed - BC	173	3.7
		Feb '96
Unemployment Rate - BC (percent)	8.6	8.5
Unemployment Rate - Canada (percent)	9.7	9.6
<b>INTEREST RATES (percent)</b>	Mar 19/97	Mar 20/96
Prime Business Rate	4.75	7.00
Conventional Mortgages - 1 year	5.05	7.00
- 5 year	7.00	8.50
<b>US/CANADA EXCHANGE RATE</b>	Mar 19/97	Mar 20/96
<i>(avg. noon spot rate) Cdn \$</i>	1.3696	1.3597
<i>US \$ (reciprocal of above rate)</i>	0.7301	0.7355
<b>AVERAGE WEEKLY EARNINGS</b>	Jan '97	% change on year ago
<i>(industrial aggregate - dollars)</i>		
BC	616.83	3.9
Canada	594.44	4.0
<b>SOURCES:</b>		
Gross Domestic Product: Statistics Canada, revised by BC STATS		
Population, Trade, Prices, Labour Force, Earnings: Statistics Canada		
Interest Rates, Exchange Rates: Bank of Canada Weekly Review		

### Revised Population Figures

This issue includes January 1, 1997 population figures released by Statistics Canada on March 27th. With this release, in an unusual move, the previous quarter has been revised. Whereas we reported, for October 1 for BC and Canada respectively, 3,888.5 and 30,101.6 (thousands), the revised October figures are 3,880.0 and 30,051.6.

### Note

The interest rates and exchange rates shown on this page have not been updated, as the source document, *Weekly Financial Statistics*, will not be published until Monday March 31 due to the Friday holiday.

### Released this week by BC STATS

- Earnings and Employment Trends, December 1996
- Business Indicators, March 1997
- Current Statistics, March 1997

### Next week

- Migration Highlights, Fourth Quarter 1996
- Exports (BC Origin), January 1997
- Labour Force Statistics, March 1997
- Tourism Room Revenue, November 1996

# Infoline Report:

March 27, 1997

## Changes In Business Confidence Expressed In Numbers of New Incorporations

Reprinted from the Third Quarter 1996 issue of *Small Business Quarterly*. An annual subscription is \$30 + GST.

Incorporating a business implies confidence, so the rate at which new corporations are being created is tied to the business outlook and the state of the economy. The link is particularly significant for small and medium businesses, which account for the great majority of incorporated businesses.

Whether large or small, businesses incorporating in British Columbia can do so under any one of several incorporating jurisdictions. Their likely first option is to use the provincial British Columbia Company Act. However, depending on their business needs or legal advice, they could choose instead to incorporate federally under the Canada Business Corporation Act or under the equivalent corporate law of another province or country.

If they are incorporated in a legal jurisdiction outside British Columbia, they can continue to operate in the province simply by registering with the British Columbia Corporate Registry as an extraprovincial corporation.

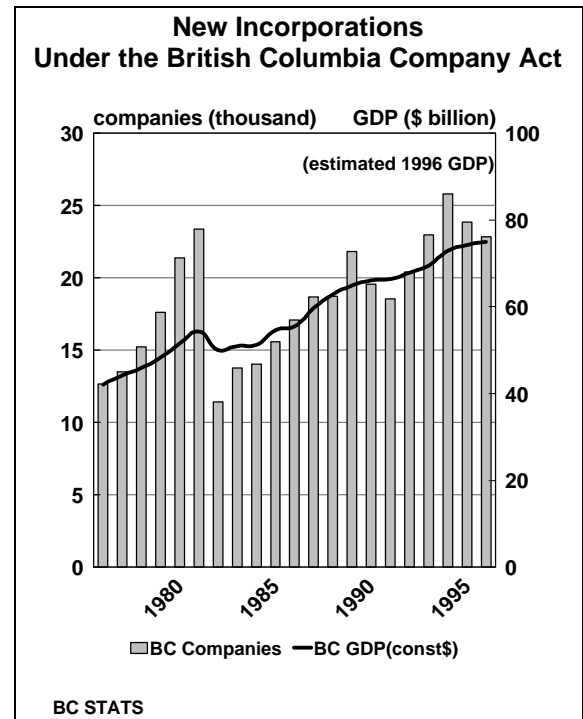
The vast majority choose to incorporate under the British Columbia Company Act. There were some 248 thousand of these British Columbia Corporations at the end of 1996, far more than the 4,858 federally incorporated companies based in British Columbia, or the estimated 1,200 companies incorporated in other provinces but registered as active extraprovincial corporations in British Columbia. There were only an estimated 290 companies incorporated in other countries, registered as extraprovincial companies in British Columbia.

There are considerably fewer numbers of active incorporated businesses than these numbers suggest. Many corporations are no more than holding companies, established only to tie together other companies in a corporate tree. Others are merely shelf companies, empty legal shells stored away until needed.

### When Economic Growth Falters, New Incorporations Drop Off Sharply

People are understandably more inclined to create new business corporations when they feel confident about business prospects. Business prospects are largely determined by economic growth, so that historically there is a strong as-

sociation between the rate at which new incorporations are created and the change in provincial gross domestic product.



But usually when a change in gross domestic product from one year to the next leads to a change in the numbers of new incorporations being processed, it produces a magnified response. The pattern suggests the dynamics of some confidence-related stock market 'corrections' or real estate market 'adjustments'.

The most remarkable of these magnified responses came in the recession of 1982. After decades of consistent and sometimes rapid economic growth, the economy shrank 8% between 1981 and 1982. It remains on record as the only time the province has posted a year over year decline (after inflation) in gross domestic product in the entire 35 year period for which gross domestic product numbers have been compiled.

The shock to business confidence was particularly sharp for small business, producing a 51% drop in the numbers of new incorporations being issued under the British Columbia Company Act from 23,368 in 1981 to 11,432 in 1982.

In more recent economic history, slowdowns in economic growth have produced similar, although less dramatic, effects on the rate at which new incorporations are formed.

The largely eastern Canadian recession of the early 1990's was felt as little more than an economic slowdown in British Columbia. Nevertheless, it shook business confidence enough to cause a 10% drop in new British Columbia incorporations from 21,817 in 1989, to 19,550 in 1990. They then fell another 5% in 1991 to 18,528.

Business confidence began to recover again in 1992 and new British Columbia incorporations shot back up 10% to 20,406. They continued climbing through 1994 to reach a peak of 25,774 in that year.

In 1995, they began to tumble again as economic growth slowed. They dropped 8% to 23,846 between 1994 and 1995, and then slipped another 4% to 22,848 in 1996.

The down cycle in business confidence is confirmed by other indicators. For example, private sector capital spending fell 5% from 1994 to 1995, and then another 5% from 1995 to 1996. Anticipated production and new manufacturing orders also fell off in both years.

### Federal Incorporations Suggest A Wider Business Focus

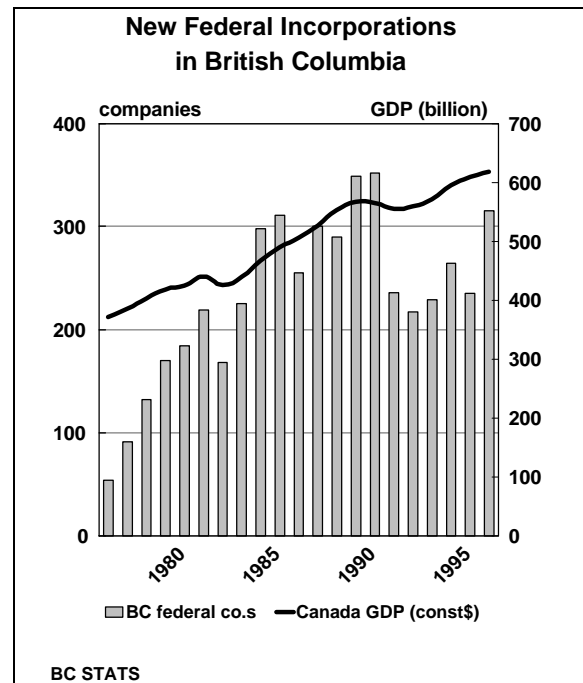
The rate of new federal incorporations in British Columbia have moved in a somewhat different pattern, one better explained by economic trends affecting the economies of Canada as a whole.

The reason for the difference lies in the types of companies that are likely to prefer federal incorporation to provincial. In general, federally incorporated companies are more apt to operate beyond provincial borders.

With business operations further afield, federally incorporated companies are more sensitive to trends affecting the total Canadian economy (as indicated by changes in the *Canada* gross domestic product) than are provincially incorporated companies.

During the recession of the early 1980's, the numbers of new federally incorporated companies being created in British Columbia were far

less strongly affected than were the numbers of new provincially incorporated companies.



The difference reflects the relative severity of that recession in British Columbia and in Central Canada. In British Columbia the 1982 recession hit hard and was followed by slow growth for some years after. In much of the rest of Canada it was sharp but short, with relatively few lingering effects.

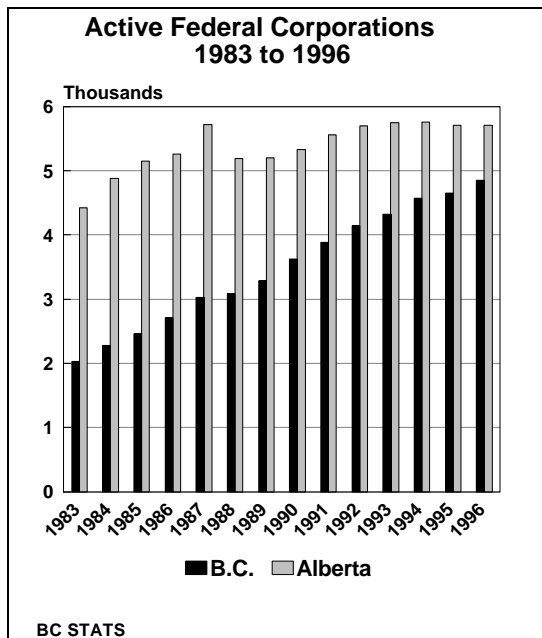
Following the pattern of the Canada gross domestic product, the numbers of federally incorporated companies being chartered in British Columbia dropped off in 1982, but then recovered almost immediately in 1983. They continued to grow well past the 1981 level in the years after.

Later, during the recession of the early 1990's, the patterns were reversed. This was largely an eastern Canada recession that registered as not much more than a moderate economic slowdown in British Columbia. This time it was the federally incorporated companies in British Columbia and elsewhere that were being incorporated at much reduced rates for years after, while the rates at which new provincially incorporated companies were being created dropped less and recovered more quickly.

### Fewer Federal Corporations In British Columbia Than In Alberta, But Gap Closing

British Columbia has traditionally been the base for fewer federally incorporated companies than Alberta. This might seem strange because British Columbia has a larger population and an economy of about the same size, with more individual businesses and more self-employed people. The gap has been closing steadily in the 1980's and 1990's, but there are still more federal corporations in Alberta.

The main reason for British Columbia to have



fewer federally incorporated companies is that it is relatively isolated from other parts of Canada.

Separated by a mountain range from the only neighbouring province, and with that provincial border located along a relatively sparsely populated side of the province, British Columbia has produced fewer businesses that can easily extend their operations into other parts of Canada.

Alberta, by contrast, occupies a relatively central location in western Canada with road and rail routes to eastern British Columbia, Saskatchewan and Manitoba that are shorter, straighter and more easily traversed.

But although British Columbia still has proportionately fewer federally incorporated companies operating in the province, the number is increasing faster than in any other province. There were 4,858 active British Columbia based federally incorporated firms at the end of 1996, up 12% from 4,327 at the end of 1993. This compared

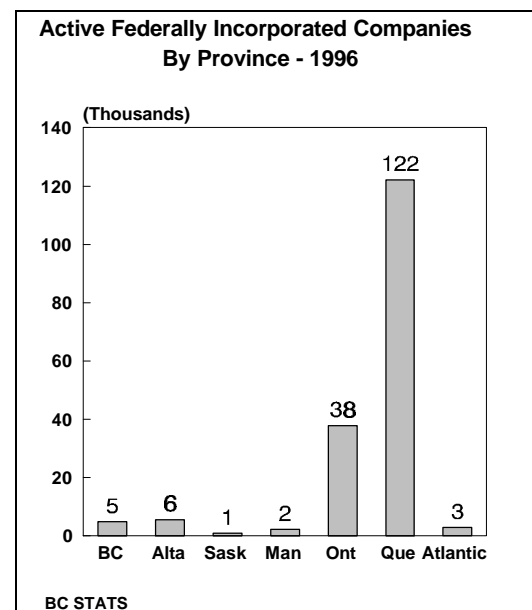
with the drop of 1% for Alberta over this period, and a very modest rise of 2% for Ontario.

The catch up reflects the emergence of Vancouver as a major business centre in Canada, and as the country's main centre for conducting business with the fast growing markets of the Pacific Rim.

### Most Federally Incorporated Companies Based In Quebec

By a peculiar feature of its corporate law, Quebec has tempted a larger number of its businesses to incorporate federally than any other province.

Quebec is the only province that does not have



legislation permitting corporate charters to be transferred to or from other provinces. This has provided companies in Quebec with a special incentive to incorporate federally as a means of keeping options open, should they ever wish to leave the province.

It has also produced the curious incongruity of the province with a separatist government being the home to 69% of the federally incorporated companies in Canada.

Even with increases in federal incorporating fees, Quebec companies continue to choose federal incorporation in much larger numbers than those in other provinces. In 1996, 59% of all new federal incorporations issued were for Quebec based firms.

# highlights

March 27, 1997  
Issue: 97-13

a weekly digest of recently released British Columbia statistics

## ***Business and Economics***

- **BC's economy weakened in 1996, as real GDP grew by a forecast 0.5%, down from 1.9% in the previous year.** A drop in capital investment, particularly in the non-residential sector, and declining exports contributed to the slowdown in economic growth. However, the province's economy has shown some signs of strengthening, and is forecast to grow 2.2% this year, and 2.5% in 1998.

*Source: Ministry of Finance and Corporate Relations, Budget 97*

- **In 1994/95, there were 1,989 BC firms in the software development and computer services industry, accounting for 14.6% of the national total.** These firms employed 10,515 people and earned revenues of \$1.1 billion. About 15% of total revenues came from sales to foreign customers. Nationally, 11.6% of the \$10.0 billion revenues of this industry were from foreign sales, and no other province was as dependent on exports of computer software and services as BC. Professional services accounted for the largest share (45.2%) of the sector's total revenues in BC, followed by software product development (20.5%) and processing services (19.5%). Professional services also accounted for the lion's share (43.0%) of total revenues at the national level. *Source: SC, Catalogue 63-222-XPB*

## ***Labour Force***

- **The number of British Columbians receiving regular employment insurance (EI) benefits declined 4.8% (seasonally adjusted) between December and January, to 68,870.** There were 619,380 EI beneficiaries in Canada in January, 6.1% less than in the previous month. The number of beneficiaries was down in all regions of the country except Yukon (+7.9%). The number of EI beneficiaries in BC, and in most parts of the country, declined steadily during 1996. Since the beginning of the decade, the number of EI

recipients has decreased 50%, to levels not seen since the early 1980s. *Source: Statistics Canada*

## ***Youth***

- **The number of youth (aged 15 to 24) in British Columbia increased 12.6%, to 497,700, between 1989 and 1996, reversing a downward trend in the young adult population that began in the early 1980s.** Alberta (+1.2%) was the only other province where the young adult population grew during this period. Nationally, the number of young adults fell to 3,951,300 between 1989 and 1996, a decrease of 1.5%.

*Source: SC, Catalogue 71-005-XPB*

- **Last year, one in five working-age British Columbians were between the ages of 15 and 24, and just under two-thirds (62.0%) were in the work force.** The participation rate for young people has traditionally been higher than average, but last year, it dropped below the provincial average (65.5%) for the first time since 1977 (the first year for which provincial Labour Force Survey data are available on CANSIM). Since 1989, the youth participation rate in BC has decreased 12.7 percentage points, more than in any other province.

One possible reason for the dropping participation rate among youth is the "discouraged worker syndrome". In 1996, the unemployment rate for young British Columbians was 15.2%, 6.3 percentage points higher than the provincial average (8.9%). Another reason for the decline in labour force participation is that more young people are staying in school. In 1996, more than half (56.9%) of British Columbians aged 15-24 were attending a school, college, or university. This compared to 48.7% of youth in 1989. BC's school attendance rate was slightly below the national average (60.4%) in 1996.

*Source: SC, Catalogue 71-005-XPB*

### *Did you know...?*

***In 1996, just under \$1.5 million of counterfeit Canadian bank notes were found in circulation. The chances of encountering a counterfeit note were 1 in 16,900. There were 1.2 billion (legal) bank notes in circulation last year, worth more than \$29 billion.***

### ***The Nation***

- **The net worth of Canadians increased 2.5% in 1996, to \$85,000 per capita as national net worth rose almost 4% to \$2.6 trillion.** The increase was a combined result of growth in the national wealth (the value of land and other physical assets such as structures, machinery and equipment) and a small decline in net foreign indebtedness. The national wealth rose 3% to \$2.9 trillion last year. Just over 49% of the national wealth at the end of 1996 was held by individuals, who also saw the largest increase in wealth (4.0%, compared to a 2.5% gain for the wealth corporate and government sectors).

*Source: Statistics Canada*

- **Household debt grew 5% as the ratio of consumer debt and mortgages increased to a record-high 97% of after-tax income in 1996.** However, assets held by households also increased, and as a result, the net worth of individuals rose 5% last year, leaving the debt to net worth ratio unchanged. Total household debt currently stands at just under 20% of the net worth of the personal sector. *Source: Statistics Canada*
- **Canada had one of the highest population growth rates (+1.3%) in the industrialized world in 1995.** Over half of the population gain was due to immigration. This growth was four and a half times higher than in the European Economic Area, and higher than in Australia and the United States. *Source: Statistics Canada*

### ***Health***

- **Alzheimer's disease killed 1,685 women and 859 men in 1994—more than the total number of Canadians who died from AIDS (139 women and 1,489 men).** Although almost twice as many women as men died from Alzheimer's disease, the difference is due to the larger number of women in the age groups most affected by the disease. The incidence of Alzheimer's disease increases with age. *Source: Statistics Canada*

### ***Social Trends***

- **Almost 2 million Canadians—one in every seven couples—were in a common-law union**

**in 1995.** This compares to 700,000 (1 in 16 couples) in 1981. Twenty-six percent of Canadians aged 15 and over in 1995 were, or had been, in a common-law union at some time. Common-law unions are most prevalent in Quebec, where 25.0% of couples were in a common-law relationship in 1995. British Columbia (13.8%) had the second-highest incidence of common-law unions in the country. Among other regions, the percentage of couples in common-law unions ranged from a low of 7.1% in Manitoba and Saskatchewan to 12.2% in Alberta.

Common-law relationships have become increasingly prevalent during the last fifteen years. In 1981, only 6.3% of Canadian couples were in a common-law union. The incidence of these unions among provinces was lowest in Atlantic Canada (3.9%) and highest in Quebec (8.2%). BC's rate, the second highest in the country, was 7.9%.

About 18% of first common-law unions are transformed into marriages within three years, considerably less than in the late 1970s, when 38% of these unions ended in marriage within three years. Canadians are now equally likely to choose common-law unions as marriages for their first union. *Source: Statistics Canada*

### ***Religion***

- **In the 1991 Census, 12% of Canadians—and 30% of British Columbians—said they had no religious affiliation.** BC and the Yukon (34%) had the highest proportion of people with no stated religious affiliation. Residents of Newfoundland (2%), PEI (4%) and Quebec (4%) were the least likely to indicate that they had no religious affiliation. In BC, 45% of the population said they were Protestant and 19% said they were Catholic or Eastern Orthodox. The remaining 6% of the population identified with non-Christian religions. This compares to less than 3% of the Canadian population.

*Source: SC, 1991 Census of Canada*

**highlights, Issue 97-13**  
March 27, 1997