

## Highlights

▲ Small businesses in Canada are concentrated in the services and construction sectors. They are typically built around the expertise of a single, or small group of, individuals and/or primarily serve the local community.

▲ Growth in the number of small businesses has slowed in the past five years, partly reflecting softer economic conditions.

▲ At the industry level, there is a loose correlation between output performance and growth in the number of small businesses. Other factors, largely industry-specific, are also at play.

▲ Consolidation in the manufacturing sector has led to a generalized loss of small businesses. However, there is evidence that average firm size has grown in the majority of industries. A similar “bulking up” of firms is also found in sectors outside manufacturing.

▲ Within the broad small-firm category, there appears to be a shift in composition towards larger organizations, suggesting that many “micro” businesses are taking steps to scale up their operations in the face of increasing challenges. Only the hardest-hit manufacturing industries, such as textiles and clothing, fail to show a gain in average firm size.

▲ Looking ahead, the slower growth trend in the number of small firms is likely to persist as the “soft patch” in the economy dampens opportunities for new business formation in the near-term and the forces of consolidation and restructuring restrain any pick-up in the pace once economic activity re-accelerates. Similarly, the increase in average firm size is likely to continue.

▲ While definitive judgment will await the availability of more comprehensive data, the evidence to date is encouraging. Signs of small businesses in Canada gaining heft across the spectrum of industries underscore important, positive structural adjustments taking place in our economy, enhancing its longer-run prospects.

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## CURRENT ANALYSIS

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### Small businesses and industries in Canada – Recent trends

The vital role of small business in the economy has long been established. Small businesses represent the vast majority of firms in Canada (98% of employer-establishments), collectively employ almost one-half of the workers in the private sector — more than 45% of private-sector payrolls<sup>1</sup> (or 40% if the public sector is included) — and contribute significantly to job creation. In addition, the creativity and risk-taking by means of which many of these enterprises thrive are important sources of industrial renewal and dynamism, helping our economy adjust to a rapidly changing world.

Small business formation was strong in Canada in the 1980s and parts of the 1990s with elevated business “birth rates” and a growing share of employment held by small firms (Exhibit 2). Since then, the small-business population appears to have entered a maturation phase: the pace of net business creation has slowed and the focus has generally shifted to strengthening existing operations.

In a 2006 study<sup>2</sup>, RBC Economics found evidence that smaller firms have moved up the size chain since the start of the decade and have made notable strides in boosting productivity. These developments were viewed as positive because an earlier report published jointly by RBC, the Canadian Federation of Independent Business and Canadian Manufacturers & Exporters in 2002<sup>3</sup> had raised concerns about the high concentration of small firms in Canada compared to the United States and the need to address Canada’s well-documented lagging productivity performance.

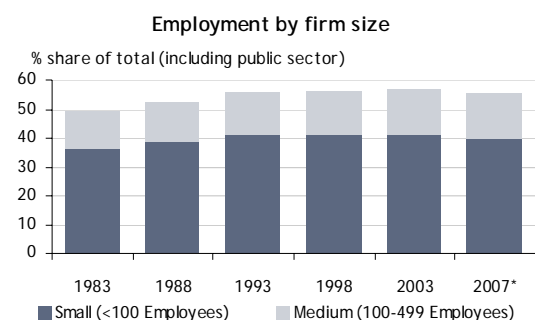
The present report reviews recent data on, and trends in, Canadian small businesses from an industry perspective. It focuses on the most recent five years by examining data from Statistics Canada’s Business Register and attempts to gauge the progress noted in the 2006 paper with respect to the size of small firms. It finds evidence that slower growth in the number of small businesses and some movement towards larger firms have indeed taken place across a wide spectrum of Canadian industries during that period.

<sup>1</sup> Excluding payrolls in hospitals, public administration and educational services.

<sup>2</sup> *Small- and medium-sized businesses driving productivity gains*, RBC Economics Research, October 2006. ([http://www.rbc.com/economics/market/pdf/business\\_resaping.pdf](http://www.rbc.com/economics/market/pdf/business_resaping.pdf))

<sup>3</sup> *The path to prosperity: Canada’s small- and medium-sized enterprises*, RBC Financial Group, Canadian Federation of Independent Business, Canadian Manufacturers & Exporters, October 2002.

EXHIBIT 1



\* RBC Economics Research estimate

Source: Statistics Canada, RBC Economics Research

## Defining small businesses

In this report, small businesses are defined as establishments with fewer than 100 employees. The smallest among them — those with one to nine employees — are referred to as “micro” businesses. Medium-sized businesses are those that employ between 100 and 499 people, while large businesses have 500 employees or more.

Businesses without workers on payroll — either self-employed individuals or establishments with only contracted workers, irregular payrolls or family members — are typically not included in the population of small firms (Statistics Canada classifies them as “indeterminate”) despite representing more than 54% of all private-sector establishments in Canada. Nonetheless, we will make occasional references to that category to highlight certain trends.

## Small businesses concentrated in services and construction

Reflecting the diverse nature of the economic activities being performed, the small-business population is far from being evenly distributed across industries. Some sectors — for example those necessitating close personal or professional attention — are more easily served by small businesses, whereas others — industries requiring scale, for instance — are better served by larger organizations.

The vast majority of small firms in Canada operate in the services and construction sectors. Together these sectors account for about 90% of micro/small private-sector establishments with employees and 93% of businesses without a payroll. In contrast, the share of medium-sized and large enterprises in these sectors (combined) is much lower at 68% and 44%, respectively.

EXHIBIT 2

### Snapshot: Canada's business population<sup>1</sup>

	Micro and small businesses <sup>2</sup>	Medium-sized businesses <sup>3</sup>	Large businesses <sup>4</sup>
<b>Numbers (2007)</b>			
Employer-establishments	1,034,838	18,723	1,863
Employees on payrolls	5,226,933	1,864,453	4,217,904
<b>% share of total (2007)</b>			
Employer-establishments	98.0	1.8	0.2
Employees on payrolls	45.2	16.3	38.5
<b>Growth (average annual % change, 2002-07)</b>			
Employer-establishments	0.6	-1.3	1.8
Employees on payrolls	1.1	1.3	2.2

<sup>1</sup> Private sector only (excludes Public Administration and Educational Services)<sup>2</sup> Establishments with fewer than 100 employees<sup>3</sup> Establishments with 100-499 employees<sup>4</sup> Establishments with 500 or more employees

Source: Statistics Canada, RBC Economics Research

## Retail trade, personal services, construction and professional services account for almost one-half of all small businesses

The number-one breeding ground for small businesses is the retail trade industry, which had more than 130,000 establishments with fewer than 100 employees at the end of 2007, or almost 13% of all micro/small businesses in the private sector (Exhibit 3), according to data from Statistics Canada's Business Register, the majority of which (seven in 10) being of the "micro" variety. Large numbers of micro and small businesses are found among grocery and convenience stores, car dealerships, pharmacies, gasoline stations, clothing stores and appliance retailers.

Close behind retail trade is the personal services industry, which includes repair and maintenance services, personal care services and in-home daycare, with just under 126,000 micro and small establishments (12% of total), although it leads all sectors in the number of micro employer-businesses. The construction sector and the professional, scientific and technical services industry are the only two others with more than 100,000 establishments in Canada. It is of note that the entire manufacturing sector ranks in eighth place among all industrial sectors in Canada with only 5% of all micro/small firms.

## Vast majority of small businesses built around the expertise of a single individual or a small group of individuals...

The industry composition of the small-business population in Canada highlights the fact that a large proportion of small businesses are built around a single individual or a small group of individuals with special expertise/knowledge/skills/equipment in areas such as:

- ▲ Technical or professional fields (lawyers, accountants, engineers, financial advisers, business consultants, information technology, dentists, doctors);
- ▲ Sales (real estate, insurance products, financial products, retail trade);
- ▲ Construction trades;
- ▲ Farming;
- ▲ Trucking.

## ...or to serve the local community

In addition, a host of small firms target services to local communities (restaurants, bars, stores, gas stations, health clubs, theatres, waste management, daycare, taxis).

## Small businesses dominate construction and personal services...

Within industries, small businesses also play greatly different roles. While the distribution of the establishment population does not vary substantially across industries — with the small business share elevated nearly everywhere — shares of employment tell a more meaningful story. On that basis, the construction sector and the personal services industry emerge as the most heavily weighted in small businesses, which account for 75% and 72% of industry employment, respectively (Exhibit 4). The forestry and logging industry, although not a particularly large hub for small businesses in absolute terms, nevertheless relies heavily on them, with small businesses accounting for 68% of the sector's employment, or just slightly more than in the accommodation and food services industry. At the other end of the spectrum, large enterprises dominate utilities,

EXHIBIT 3

### Top 15 industries: Number of micro and small employer-businesses

	Micro	Small	Both	% of all micro/small businesses
Retail trade	92,765	37,979	130,744	12.6
Personal and other services	111,652	14,039	125,691	12.1
Construction	95,131	21,651	116,782	11.3
Professional, scientific & technical serv.	101,666	14,518	116,184	11.2
Health care & social assist. (excl. hospitals)	66,437	17,358	83,795	8.1
Wholesale trade	43,784	19,252	63,036	6.1
Food services & drinking places	32,348	29,013	61,361	5.9
Manufacturing	30,947	22,612	53,559	5.2
Administrative services & waste mgmt.	37,128	11,084	48,212	4.7
Transportation & warehousing	37,897	9,493	47,390	4.6
Finance & insurance	25,115	9,380	34,495	3.3
Agriculture	29,838	4,083	33,921	3.3
Real estate	26,820	3,862	30,682	3.0
Arts, entertainment & recreation	11,745	5,157	16,902	1.6
Information & cultural industries	9,264	3,793	13,057	1.3

Source: Statistics Canada, RBC Economics Research

EXHIBIT 4

### Industry employment by firm size

% share, 2007

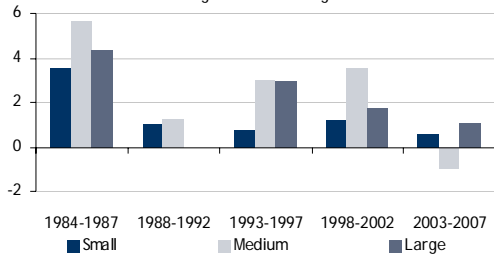
	Micro/small	Medium	Large
Construction	75.3	13.8	10.9
Other services (except public administration)	72.3	13.8	13.9
Forestry, logging & support	68.0	13.9	18.1
Accommodation & food services	66.3	16.5	17.2
Real estate & rental & leasing	61.6	14.8	23.6
Professional, scientific & technical services	59.7	15.2	25.1
Wholesale trade	53.0	19.9	27.1
Arts, entertainment & recreation	48.9	17.9	33.2
Retail trade	45.2	11.2	43.6
Management of companies & enterprises	43.1	13.3	43.7
Admin. & support, waste mgmt. & remediation serv.	37.9	21.6	40.5
Transportation & warehousing	34.6	14.3	51.1
Manufacturing	33.8	25.0	41.1
Health care & social assistance	33.0	14.9	52.1
Mining, quarrying & oil & gas extraction	25.4	17.3	57.3
Finance & insurance	22.3	10.9	66.8
Information & cultural industries	20.8	12.5	66.8
Utilities	6.2	6.0	87.8
All Industries	40.2	15.2	44.6

Source: Statistics Canada, RBC Economics Research

EXHIBIT 5

### Business counts\* by firm size

Average annual % change



\* 2003-07 based on Business Register; all other periods on LEAP.

Source: Statistics Canada, RBC Economics Research

finance and insurance, information and cultural industries, and mining and oil and gas extraction.

### ...while medium-sized and large enterprises have larger shares in manufacturing

Medium-sized enterprises play the biggest role in the manufacturing sector, with 25% of manufacturing employment, or almost 10 percentage points above the all-industry average. Large enterprises are the most prominent category of firms in this sector, accounting for 41% of manufacturing employment.

### Growth in small businesses slowed in the past five years<sup>4</sup>

During the past five years, expansion of the small-business population in Canada has continued to exhibit a moderating trend, slowing to an average rate of 0.6% annually among private-sector firms, down from a pace of about 1% during 1998-02, ostensibly the slowest rate going back to the early 1980s on the basis of historical figures from the Longitudinal Employment Analysis Program (LEAP) database (see Exhibit 5). The trend among medium-sized enterprises has been even more radical in the most recent period, with their number *falling* at a rate of 1% in the past five years, although this followed periods of especially rapid growth from the mid-1990s to the early 2000s. Their much smaller base (being outnumbered by micro/small businesses by a factor of 50-to-1) tends to lead to higher volatility over time. The pool of large firms has continued to increase, but at a decelerating pace in the most recent five years (at a rate of 1% annually, down from 3% in the mid-1990s and 1.8% around the turn of the millennium).

### Softer economic growth likely contributed

The moderating trend in the small-business population during 2002-07 was concomitant with a softening in general economic growth as average economy-wide real GDP growth eased to 2.8% from 3.8% during 1998-02. This would be consistent with a less robust economic environment restraining opportunities to start or maintain a small business, although other forces are also necessarily at play (e.g., intensifying competition, evolving demographics, consolidation).

### Industry output performance a factor but not always

On an industry basis, the relationship between output performance (as measured by real GDP) and the growth in the number of small businesses is an important factor in many, although not all, cases, again underscoring the role of other forces. For instance, the top-15 list of industries with the fastest rising small business counts during the past five years does, indeed, contain high-flying industries but several of the industries listed were slow movers (Exhibit 6). Only the construction, administrative services, professional services, retail trade, finance and insurance, and information and cultural industries,

EXHIBIT 6

### Top 15 industries: Fastest growth in micro and small employer-businesses

Average annual % change, 2002-07

Utilities	5.9
Personal & other services	5.4
Support activities for mining/oil & gas extr.	5.2
Oil & gas extraction	2.4
Construction	1.4
Health care & social assist. (excl. hospitals)	1.4
Admin. services & waste management	1.0
Transportation & warehousing	1.0
Mining & quarrying (except oil & gas)	0.8
Professional, scientific & technical services	0.7
Retail trade	0.3
Finance & insurance	0.3
Real estate	0.1
Food services & drinking places	-0.4
Information & cultural industries	-0.4

Source: Statistics Canada, RBC Economics Research

<sup>4</sup> **A note on the data.** Using Statistics Canada's Business Register counts to examine changes in the business population over time, although frequently done by economists, is far from ideal because changes in data collection methodology have occurred over time, for which no corrective measures have been taken. Such changes have occurred in the most recent five-year period under study, distorting observable trends. Methodological issues have both added and deleted establishments to overall counts, the net effects being largely unknown. Future investigations should instead make use of the Longitudinal Employment Analysis Program (LEAP) database maintained by the Business and Labour Market Analysis Division at Statistics Canada when this dataset is updated to cover the most recent period.

tries also rank among those outpacing the all-industry real GDP average growth rate in the 2002-07 period (Exhibit 7). However, the picture is clearer among industries experiencing the sharpest declines in the number of small businesses where the majority also experienced rapid drops in real GDP.

The relationship between the growth in the number of small firms growth and industry performance during the past five years is captured graphically in Exhibit 8. It illustrates the loose correlation that exists between the two on an industry-by-industry basis: the dots are generally concentrated along an ascending line — suggesting that the stronger the real GDP performance, the faster the rise in small business counts — although several outliers weaken the relationship. The empty lower-right-hand-side quadrant, however, confirms the just-noted observation on declining industries.

In fact, it can be stated in even bolder terms: all industries that posted negative growth between 2002 and 2007 also saw a decline in the number of small businesses. This would support the view that growth in an industry is, if not a prerequisite, at least a strong contributing element to the expansion of the small business population. However, the reverse cannot be said. Growing industries do not necessarily have expanding small business bases, as is evidenced by the many industries dotting the top left-hand quadrant.

## Many other factors exert an influence on small business trends

This apparent asymmetrical relationship between industry output and growth in small business counts reflects the influence of a host of other factors or forces, many of which are industry/sector-specific. Given the common occurrence of the growing output/declining small business counts industry profile, it would seem that factors contributing to industry consolidation (resulting in fewer firms producing more output) are quite prevalent, affecting not just the goods sector but also the services sector.

For instance, technological advances in the communications field have likely triggered some restructuring among small firms in segments of professional and technical services by opening up the Canadian market more widely to foreign competition and/or by allowing the combination or scaling up of businesses not previously feasible or practical.

More generally, the forces of globalization and the lessening of regulation during the past decade or two have upped the ante for firms in a wide spectrum of industries and have exerted increasing pressure to take measures to become more competitive — including combining operations with other organizations. This more intensely competitive environment might also have led to greater exits of small businesses.

The sharp rise in the Canadian dollar since the end of 2002 has likely inflicted some damage on small businesses in Canada, even though rela-

EXHIBIT 7

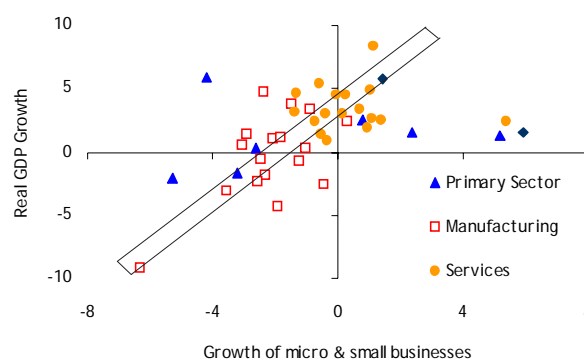
### Real GDP by industry Average annual % change, 2002-07

Agricultural production	5.9
Construction	5.8
Wholesale trade	5.4
Admin. & support services & waste mgmt.	4.9
Retail trade	4.5
Finance & insurance	4.1
Professional, scientific & technical serv.	3.4
Accommodation services	3.2
Real estate & leasing services	3.1
Information & cultural industries	3.0
<b>All-industry average</b>	<b>2.8</b>
Health care & social asst. (excl. hospitals)	2.5
Mining & quarrying (excl. oil & gas)	2.5
Transportation & warehousing	2.5
Personal & other services (excl. -public admin.)	2.4
Arts, entertainment & recreation	2.4
Oil & gas extraction	1.6
Utilities	1.6
Support activities for mining and oil & gas extr.	1.3
Food services & drinking places	0.9
Fishing, hunting & trapping	0.3
Manufacturing	0.2
Support activities for agriculture & forestry	-1.7
Forestry & logging	-2.1

Source: Statistics Canada, RBC Economics Research

EXHIBIT 8

### Small business growth and real GDP growth Average annual % change, 2002-07

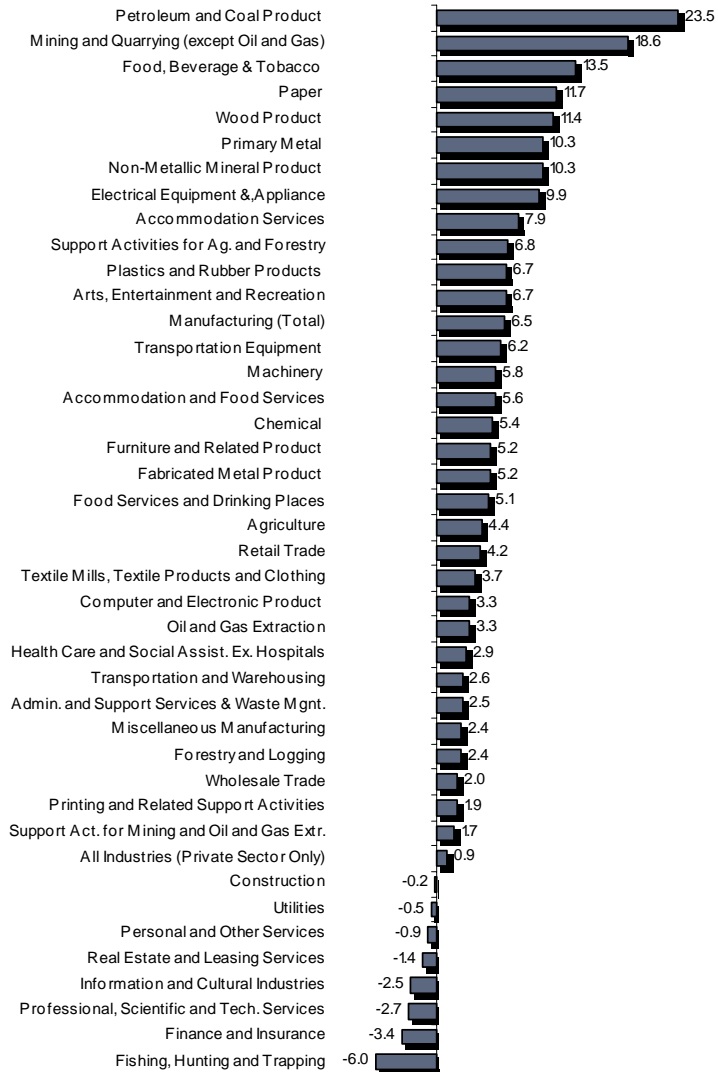


Source: Statistics Canada, RBC Economics Research



**"Small" share of the micro/small business category**

Gain/loss from 2002 to 2007, percentage points



tively few of them are export-oriented. Those affected include firms in sectors directly exposed to the currency, such as tourism, but also comprise suppliers of goods or services to larger, export-dependent organizations.

While we are stressing the negative effects on small firms, the various environmental factors affecting them should not be construed as being unequivocally one-sided. Indeed, all of the above examples can be found to have opposing effects in other corners of the economy. Technological advances, globalization, the lessening of regulation and the high Canadian dollar do open new opportunities for small businesses as well (e.g., smaller players might benefit from greater outsourcing, access to new global markets or to cheaper foreign goods). However, these appear to be only partial offsets.

### Manufacturing experiencing generalized declines in small businesses...

Referring back to Exhibit 8, all but one manufacturing industry (miscellaneous manufacturing) had a net loss of small businesses during the 2002-07 period, even those (about one-half of them) with positive industry real GDP growth. This is evidence of the restructuring that is sweeping the entire manufacturing sector, draining employment in the process. In the very challenging context of the past several years, the decline in the number of small manufacturing firms might actually be a positive sign if it reflects a movement towards larger firms. Larger firms, among other things, are believed to be in a better position to make the investments necessary to become or remain globally competitive.

### ...although average firm size appears to be rising

In fact, there are indications that a shift towards larger firms is taking place. Although the dataset is not ideally suited to discern movements of firms between size categories<sup>5</sup>, it is found that within the micro/small business category, the share of the larger firms among them — the “small” establishments with between 10 and 99 employees — has increased in all manufacturing industries between 2002 and 2007 (Exhibit 9). Even though, as noted above, such a shift does not appear to extend beyond to the medium-sized enterprise category, it does suggest a widespread upward tilt in the composition of small manufacturing businesses.

Further confirmation can be obtained when looking at the change in average firm size of an industry, as proxied by real GDP per establishment (see Exhibit 10 on page 7). On that score, it appears that the majority of manufacturing industries has experienced a

<sup>5</sup> For example, the dataset cannot show whether a drop in the number of establishments of a certain size is attributable to graduations to above size categories, the demotion to the lower size categories, or simply the “death” of establishments.

## EXHIBIT 10

**Manufacturing industries**

Average annual % change, 2002-07

	Average firm size*	Micro/small businesses
Computer & electronic products	7.6	-2.4
Non-metallic mineral products	5.3	-1.5
Machinery	4.3	-0.9
Transportation equipment	4.1	-2.9
Primary metals	3.5	-1.8
Food, beverage & tobacco	3.5	-3.1
Chemicals	3.2	-2.1
<b>Total manufacturing</b>	<b>2.4</b>	<b>-2.0</b>
Miscellaneous manufacturing	2.2	0.3
Plastics & rubber products	1.7	-2.5
Fabricated metal products	1.6	-1.0
Petroleum & coal products	1.1	-1.2
Wood products	0.5	-2.3
Printing & related support activities	0.4	-2.6
Paper	0.0	-3.5
Furniture & related products	-1.9	-0.4
Electrical equipment, appliances & components	-2.0	-1.9
Textile mills, textile products, clothing & leather prod.	-2.7	-6.3

\* Real GDP per employer-establishment

Source: Statistics Canada, RBC Economics Research

## EXHIBIT 11

**Canadian industries**

Average annual % change 2002-07

	Average firm Size*	Micro/small businesses
Agriculture	10.6	-4.2
Wholesale Trade	6.1	-0.6
Accommodation services	4.6	-1.4
Construction	4.3	1.4
Retail trade	4.3	0.3
Finance & insurance	3.9	0.3
Admin. & support services and waste management	3.8	1.0
Information & cultural industries	3.4	-0.4
Real estate & leasing services	3.4	-0.2
Forestry & logging	3.4	-5.3
Arts, entertainment & recreation	3.0	-0.8
Fishing, hunting & trapping	3.0	-2.6
Professional, scientific & technical services	2.8	0.7
Manufacturing	2.4	-2.0
Mining & quarrying (excl. oil & gas)	1.9	0.8
Support activities for agriculture & forestry	1.6	-3.2
Transportation & warehousing	1.5	1.0
Food services & drinking places	1.4	-0.4
Health care & social assistance (excl. hospitals)	1.2	1.4
Oil & gas extraction	-0.5	2.4
Personal & other services	-2.8	5.4
Support activities for mining and oil & gas extraction	-3.6	5.2
Utilities	-3.7	5.9

\* Real GDP per employer-establishment

Source: Statistics Canada, RBC Economics Research

shift towards larger firms during the past five years. Only in textiles and clothing, electrical equipment, furniture and paper have average firm sizes declined or remained unchanged, while they have grown marginally in printing and wood product. These are among the industries hardest hit by the downturn affecting the manufacturing sector. Notable size gains have been made by manufacturers of computer and electric products, non-metallic mineral products, machinery and transportation equipment, suggesting that many, by design or necessity, have taken steps to boost the scale of operations.

### Services firms also showing signs of bulking up

Extending this analysis to industries outside manufacturing, it also appears that average firm size is rising across the board. Exhibit 11 shows a particularly big gain in agriculture, likely reflecting the recent booming conditions in key parts of this sector. Strong increases are also noted in wholesale trade, accommodation services, construction and retail trade. Overall, the evidence is pointing to encouraging trends in the majority of industries.

### Shift towards larger firms is positive for Canada's productivity

While it cannot strictly be demonstrated from the data the extent to which small firms are behind this bulking up, it can be said that output is being produced by larger and larger enterprises in Canada. Whether this size expansion is attributable to smaller firms becoming

bigger, larger firms gaining heft, or both, this should be seen as positive news for our economy because, among other things, the productivity performance tends to get stronger the larger the size of the enterprise. Industry output structures becoming more heavily weighted towards larger firms should — at least at the margin — facilitate a pick up in productivity growth in the future in Canada.

### A look ahead – more industry consolidation

With the Canadian economy expected to gradually emerge from its “soft patch” during 2009, general business conditions should improve and stimulate small businesses and their formation. However, the rate of growth in the number of small businesses is unlikely to pick up much, if at all, from recent experience, as the maturation process further pursues its course. The focus in several key sectors will remain on consolidating and restructuring. In particular:

▲ The sluggish performance expected in residential construction will dampen new business opportunities for small construction trade operators;

▲ High energy prices (although projected to remain lower than the historical peaks attained earlier this year) will do the same for transportation services and industries dependent on tourism activity, such as accommodation and food services;

▲ Lingering uncertainty in global financial markets could well pour cold water on the strong momentum of small providers of finance and insurance services;

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▲ The cooling in the residential real estate market will have negative repercussions on real estate firms;

▲ The still-elevated Canadian dollar and high energy prices will continue to exert intense pressure on firms in the manufacturing sector.

### **Outlook for retail trade, personal services and agriculture outlook relatively bright**

On the upside, relatively robust labour markets and steady growth in household incomes will support consumer spending and businesses in the retail trade and personal services sectors, the two largest hubs for small businesses in Canada. Strong demand and high prices for food commodities could attract new businesses into the agricultural arena and help stabilize the rapid decline in the number of small agricultural firms witnessed in recent years.

### **Growth in the small business population likely to remain subdued; average size to increase further**

Considering the largely offsetting trends among industries and the outcomes of idiosyncratic factors on small business formation, the rate at which the number of small firms will grow is likely to continue to be slow in the coming year or two. Generally, the focus will remain on strengthening existing operations. As the economy re-accelerates next year, the average output per firm is consequently set to continue rising in the aggregate and in the majority of industries.

### **Upward mobility of small firms contributes positively to the economy**

Beyond the implications for productivity, movements in firm size have other, perhaps, more significant effects on the economy. International studies have found that most of the jobs created in the economy come from a small subset of the business population: firms that have sustained exponential growth over an extended period – the so-called “gazelles”. The vast majority of these firms are (or have started out as) small- and medium-sized enterprises. Accordingly, the economic vitality and industrial renewal greatly depend on such firms taking flight. It is therefore imperative to continue to closely monitor trends in the mobility of firms and advocate for a policy environment that is conducive for Canadian gazelles reaching their full potential. As more comprehensive data become available, future work should focus on documenting more precisely the upward mobility of small Canadian firms and, if possible, investigating the prevalence of gazelles.

## **Conclusion**

While it is still too early to pass a definitive judgment on the recent performance of small firms in Canada, the most recent evidence is encouraging. Signs of small businesses in Canada gaining heft across the spectrum of industries underscore important, positive structural adjustments taking place in our economy, enhancing its longer-run prospects.

Going forward, it will be crucial to ensure small businesses looking for growth have as clear a path as possible on their way up the size ladder. Policy should focus on removing obstacles to growth – including reducing business irritants such as red tape and complex regulation, and lessening disincentives to grow embedded in the current tax structure. The continued success of small firms is of benefit to all Canadians.

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