

Atlantic Canada Grows Business Cost Advantage Over Its US Neighbours – KPMG

New Brunswick tax cuts help consolidate Moncton and Fredericton as business cost leaders

(Toronto, ON – March 30, 2010) – Atlantic Canada is emerging from the Great Recession of 2009 in an improved competitive position for businesses, and even the lingering effects of the recession in the US have not prevented Atlantic Canada from growing its business cost advantage over New England during the last 2 years, according to KPMG's *Competitive Alternatives 2010* study, which compares business costs in 10 countries in North America, Europe, and Asia Pacific. As the cost leaders in Atlantic Canada, Moncton and Fredericton have grown their relative business cost advantages, compared to both the US and other cities in Atlantic Canada.

The slight easing in the Canada-US exchange rate over the last 2 years has helped the competitiveness of Atlantic Canadian cities. Federal tax cuts have assisted the cost competitiveness of Canada for global business, and tax cuts being phased in by New Brunswick are providing further benefit to businesses in the province. In fact, in 2010, Newfoundland and New Brunswick represent the leaders among 80 state and provincial jurisdictions examined in 10 countries for their low effective corporate income tax rates.

Competitive Alternatives examines business competitiveness in 112 cities in Australia, Canada, France, Germany, Italy, Japan, Mexico, the Netherlands, the United Kingdom, and the United States. The study measures 26 significant cost components that are most likely to vary by location, including labour, taxes, real estate, and utilities, as they apply to 17 business operations over a 10-year planning horizon, as well as a range of non-cost competitiveness factors.

The business cost results for the major cities in Atlantic Canada are as follows (reported as a percentage cost index relative to the US baseline of 100.0): Moncton, 91.3; Fredericton, 91.8; Halifax, 93.3; Charlottetown and St. John's, both 93.8. Therefore, these cities have business costs between 8.7 and 6.2 percent (respectively) below the US baseline, and all offer business costs below any of the 60 US cities examined. In comparison, the lowest cost cities examined in New England were Bangor, Maine (95.6), and Burlington, Vermont (97.7).

“Cities in Atlantic Canada offer businesses a variety of cost and non-cost advantages—low operating costs, competitive corporate tax rates, availability of labour, high-quality educational institutions, and excellent housing affordability,” said Gregory Simpson, Office Managing Partner, KPMG's Halifax office. “Indeed, Moncton offers both the second lowest business costs and the fifth most affordable housing market among 75 Canadian and US cities studied.”

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The results were determined using recent exchange rates with the Canadian dollar valued at USD\$0.943 (CAD\$1.06 per USD\$), down from parity in 2008. “With the Canadian dollar at USD\$0.94, it is very positive for Atlantic Canada to demonstrate such a strong cost advantage over the United States,” says Simon Harding, Associate Partner in KPMG’s Advisory Services practice and head of its Strategic & Commercial Intelligence practice. “Structural changes through the 2000s—both nationally and regionally—have allowed Atlantic Canada to build this strong competitive position relative to the US, even in this high-dollar environment.”

"From an industry viewpoint, Atlantic Canada’s location does present some challenges for manufacturers moving large volumes of lower value products to the North American industrial heartland," said Glenn Mair, Director, MMK Consulting, and one of the study authors in association with KPMG. “But with its extremely competitive labour costs, Atlantic Canada is well positioned for higher value manufacturing industries, such as aerospace, auto parts, and electronics; for business services; and for R&D.”

Comparison of Cost Indices among Featured Canadian Cities

| City | 2010 Rank | 2010 Cost Index | 2008 Rank |
|----------------------------|-----------|-----------------|-----------|
| Sherbrooke, QC | 1 | 91.2 | 1 |
| Moncton, NB | 2 | 91.3 | 2 |
| Fredericton, NB | 3 | 91.8 | 3 |
| Quebec City, QC | 4 | 92.4 | 5 |
| Halifax, NS | 5 | 93.3 | 6 |
| Charlottetown, PEI | 6 | 93.8 | 4 |
| St. John’s, NL | 7 | 93.8 | 11 |
| Winnipeg, MB | 8 | 93.9 | 8 |
| Saskatoon, SK | 9 | 94.0 | 7 |
| Montréal, QC | 10 | 94.2 | 9 |
| Prince George, BC | 11 | 94.3 | 13 |
| St. Catharines-Niagara, ON | 12 | 94.7 | 10 |
| Vancouver, BC | 13 | 94.9 | 15 |
| Edmonton, AB | 14 | 95.7 | 12 |
| Toronto, ON | 15 | 95.8 | 14 |

Ranks shown in this table are among this group of 15 Canadian cities featured in both the 2008 and 2010 editions of *Competitive Alternatives*. Business costs are expressed as an index, with the United States being assigned the baseline index of 100.0. A cost index less than 100 indicates lower costs than the US. A cost index greater than 100 indicates higher costs than the US. For example, an index number of 95.0 represents a 5.0 percent cost advantage relative to the US.

(Source: *Competitive Alternatives 2010*, KPMG)

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Canada and the International Comparison

- Mexico ranks first among the countries studied, with business costs 18.2 percent lower than in the United States. This rating reflects Mexico's status as the only emerging industrial country included in *Competitive Alternatives 2010*.
- Canada and the Netherlands are the cost leaders among the nine established industrialized countries examined, with business costs 5.0 and 3.5 percent below the US, respectively.
- Australia, the United Kingdom, and France rank fourth, fifth, and sixth, respectively. Costs in Australia are 2.2 percent below the US baseline, while costs in the UK and France are very closely matched, at 1.8 and 1.7 percent below the US, respectively.
- Costs in Italy are virtually equivalent to the study baseline—the United States.
- Germany and Japan have the highest cost structures among the 10 countries examined, with costs 2.5 and 7.4 percent (respectively) higher than the US.

Cost Competitiveness: 2010 and 2008 Rankings by Country

| Country | 2010 Rank | 2010 Cost Index | 2008 Rank |
|----------------|-----------|-----------------|-----------|
| Mexico | 1 | 81.8 | 1 |
| Canada | 2 | 95.0 | 2 |
| Netherlands | 3 | 96.5 | 7 |
| Australia | 4 | 97.8 | 4 |
| United Kingdom | 5 | 98.2 | 6 |
| France | 6 | 98.3 | 5 |
| Italy | 7 | 100.0 | 8 |
| United States | 8 | 100.0 | 3 |
| Germany | 9 | 102.6 | 10 |
| Japan | 10 | 107.6 | 9 |

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(Source: *Competitive Alternatives 2010*, KPMG.)

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Rankings for most countries are generally consistent between 2008 and 2010. The two exceptions are the Netherlands, which has seen a relative improvement in its ranking, and the United States, which has seen a relative decline. These changes are due in part to the shift in study focus for the 2010 edition of *Competitive Alternatives*, to base the national comparisons on business costs for the largest cities in each country, rather than the mix of different sized cities compared in previous editions. This change has improved the national relative ranking of the Netherlands, due to its relatively homogeneous nationwide cost structures, while worsening the relative ranking of the United States, which sees much greater variation in costs between its largest cities and smaller regional ones.

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About Competitive Alternatives

KPMG's 2010 *Competitive Alternatives* study provides an independent comparison of international business location costs in 112 cities in 10 countries around the world. The study enables businesses executives to take a quick initial scan of how business costs compare among a variety of cities in leading countries. It also assists KPMG professionals and economic developers in their work with businesses considering relocation, and enables policy makers to help determine the impact of a proposed tax and/or incentive policy change on the cost competitiveness of their jurisdictions.

To access the full report, please visit www.competitivealternatives.com.

About KPMG

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