

Canada Gains Business Cost Advantage over the US – KPMG

Canada-US exchange rates, corporate tax cuts, eased the way

(Toronto, ON – March 30, 2010) – Canada’s cost competitiveness as a business location has not been adversely affected by the lingering effects of the recession in the United States, according to KPMG’s *Competitive Alternatives 2010* study, which compares business costs in 10 countries in North America, Europe, and Asia Pacific. The results show that Canada now holds a 5 percent business cost advantage over the United States—an improvement over the virtual break-even position reported in the previous edition of the biennial study, last released in 2008.

The slight easing in the Canada-US exchange rate over the last 2 years has helped Canadian competitiveness. A variety of tax cuts and reforms that have been implemented, or are in the process of being implemented, by both the federal and provincial governments, are also assisting the cost competitiveness of Canada for global business. Indeed, business taxes are now lower in Canada than in any of the other G7 countries.

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.

Competitive Alternatives 2010 compares business costs among a group of 41 large international cities, all with populations in excess of 2 million. Canada’s major cities fare well in this comparison, with Montreal (3rd among 41 cities), Vancouver (5th), and Toronto (6th) ranking ahead of all major US cities studied in terms of affordable business costs. Indeed, Manchester, England (4th), was the only other G7 city to match the rankings of the Canadian cities.

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 Canada to demonstrate this 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. “Ten years ago, we estimated that the break-even exchange rate for the two countries was about USD\$0.80, yet a number of structural changes through the 2000s have allowed Canada to maintain a cost advantage over the US, even in this high-dollar environment.” However, Harding believes that Canada cannot rest on its laurels. “It must continue to present a clear value proposition to businesses in other areas in order to maintain its attractiveness for international firms,” he says.

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
Montreal, 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)

Among all Canadian cities examined, Sherbrooke and Moncton continue to be the cost leaders, both with business costs more than 8.5 percent below the US study baseline. Despite the slowdown in the oil patch, the resource-led western boom of recent years has reshaped the map in terms of business costs across Canada. Since 2008, Winnipeg has moved ahead of Saskatoon in terms of offering lower business costs, while business costs in Edmonton are now higher than in Vancouver and almost on par with Toronto.

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

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 United States. (Source: *Competitive Alternatives 2010*, 2010.)

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.

Other Competitiveness Factors

Government responses to the recent economic downturn are also playing a key role in shaping national business environments, in both the short and long terms. Countries where governments have responded most strongly with stimulus spending—Australia, Japan, and the US—are seeing more short-term stimulus activity for business. However, stimulus spending comes at the cost of deficits, and large deficits may result in increased corporate tax burdens in the longer term.

"What stands out in the 2010 survey is how strong Canada's position is globally as economic recovery starts to set in," said Glenn Mair, Director, MMK Consulting, and one of the study authors in association with KPMG. "Canada has pulled its weight in terms of contributing to the global stimulus response to the economic crisis, ranking fifth among nine countries in terms of relative stimulus spending. However, this has been achieved while maintaining a reasonable long-term government debt outlook—with Canada expected to rank first among the G7 in 2014 in terms of low government debt. This helps Canadian businesses now with direct stimulus spending and, in the future, with lower risk of tax hikes, than in countries where government debt is much higher."

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.

The full ranking of 41 major international cities referenced in this press release is available at www.competitivealternatives.com/new/cities.aspx.

Exchange rates per USD used in the *Competitive Alternatives 2010* study are as follows: AUD \$1.10, CAD \$1.06, €0.68, GBP £0.61, JPY ¥89.86, and MXP \$13.07.

About KPMG

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