

## UK Moves Ahead of US and France in Competitive Business Costs: KPMG

- *Japan slides on strength of the yen*

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The United Kingdom has pulled ahead of both the United States and France as an affordable jurisdiction to conduct business, according to KPMG's *Competitive Alternatives 2010* study, which compares business costs in 10 countries in North America, Europe, and Asia Pacific.

Mexico retained its number one ranking from the last time the survey was conducted (2008), while Japan's cost competitiveness has deteriorated due to the strength of the yen. Changes in exchange rates, energy costs, transportation costs, and taxes are the main factors influencing international competitiveness over the last two years.

*Competitive Alternatives* examines business competitiveness in 112 cities in Australia, Canada, France, Germany, Italy, Japan, Mexico, the Netherlands, the United Kingdom (UK), and the United States (US). The study measures 26 significant cost components that are most likely to vary by location including: labor, taxes, real estate, and utilities, as they apply to 17 business operations over a 10-year planning horizon. A range of non-cost competitiveness factors are also considered. The 2010 study features a new focus on the largest cities in each country, and includes a number of major global business centers not included in previous editions of *Competitive Alternatives*, such as Berlin, Los Angeles, Lyon, Miami, Milan, Osaka, Rome, and Tokyo.

### 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: KPMG *Competitive Alternatives 2010*.

“The global recession has not been the only factor impacting international business over the last two years” said Simon Harding, Associate Partner in KPMG’s Advisory Services practice and head of its Canadian Strategic & Commercial Intelligence practice.

“Divergent trends in exchange rates, utility and transportation costs, taxes, and incentives have all helped to shape the international competitiveness environment in 2010. The degree of variation in business costs between major cities in some countries is also quite remarkable. All of these factors highlight the importance of having access to up-to-date intelligence on international business competitiveness issues for both businesses and governments.”

**The following sections provide more detail on country, city and industry comparisons:**

Extended notes to editors

**1. Country and city comparisons:**

Highlights by country, and for major cities in each country, include the following

**Europe:**

**The Netherlands** ranks third among the 10 countries examined, with the lowest business costs in Europe. Business costs in the Netherlands are 3.5 percent lower than in the US, and 1.7 percentage points lower than in the UK. The ranking of the Netherlands in 2010 has improved due to decreases in several business cost categories and also due to the shift in study approach for *Competitive Alternatives 2010* to focus on the largest cities in each country, rather than the mix of city sizes compared in prior years. This change boosted the Netherlands’ national ranking due to its relatively homogeneous nation-wide cost structures. The Hague and Amsterdam rank 9<sup>th</sup> and 12<sup>th</sup>, respectively, among the 41 major international cities examined in the study.

The **United Kingdom** and **France** rank 5<sup>th</sup> and 6<sup>th</sup> respectively with costs that are very closely matched at 1.8 and 1.7 percent below the US, respectively. This represents a significant improvement for the UK over 2008, when France held the cost advantage over the UK by 3.5 percentage points, and the US, an advantage of more than 7 percent. The major driver of the UK’s positive result in 2010 is the fact that the British pound has depreciated 18 percent relative to both the US dollar and the euro since 2008. Manchester (4<sup>th</sup>) and Lyon (10<sup>th</sup>), rank well for their low business costs, while costs in Paris (30<sup>th</sup>) and London (36<sup>th</sup>) are significantly higher.

Costs in **Italy** (7<sup>th</sup>) are virtually equivalent to the US study baseline. Milan ranks 26<sup>th</sup>, with business costs 1.0 percent below the US baseline, while Rome ranks 32<sup>nd</sup>, with business costs 0.9 percent above the US baseline.

**Germany** continues to rank as the most expensive among the European countries studied, with costs 2.5 percent higher than the US, and 6.1 percentage points higher than the Netherlands. However, Germany’s relative result in 2010 has improved, ranking 9<sup>th</sup>

among 10 countries, up from 10<sup>th</sup> in 2008. Germany's business cost environment has improved since 2008 due to lower sea freight rates and energy costs. Frankfurt still ranks as the most expensive city in Europe, ranking 38<sup>th</sup> while Berlin ranks 35<sup>th</sup>, just ahead of London.

### **North America:**

**Mexico** ranks first among the countries studied, with business costs 18.2 percent lower than in the US. This rating reflects Mexico's status as the only emerging industrial country included in *Competitive Alternatives 2010*. In late 2009 the Mexican government increased income and sales taxes in order to counter growing fiscal deficits, a move that has taken some of the edge off Mexico's competitive cost position relative to other countries. The two Mexican cities examined – Monterrey and Mexico City – rank 1<sup>st</sup> and 2<sup>nd</sup> respectively, with business costs in Monterrey being slightly lower (0.6 percentage points) than in Mexico City.

**Canada** is the cost leader among the nine established industrialized countries examined, ranking second overall with business costs 5.0 below the US. Since 2008, Canada's competitive position has been helped by slight easing in the Canada-US exchange rate and by a variety of tax cuts and tax reforms that have been implemented, or are in the process of being implemented, by both the federal and provincial governments. Canada's major cities all rank highly, with Montreal (3<sup>rd</sup>), Vancouver (5<sup>th</sup>) and Toronto (6<sup>th</sup>) — ahead of all major US cities.

**The United States** continues to be part of the “middle cost” group of G7 countries – behind the cost leaders – Canada and the UK, but well ahead of the “high cost” G7 countries – Germany and Japan. The competitiveness of the US has been impacted since 2008 by the appreciation of the US dollar relative to the Canadian dollar, British pound, and the Mexican peso, as well as deficit-induced increases in some state taxes. The decline in the US ranking between 2008 and 2010 is also due in part to the shift in study approach for *Competitive Alternatives 2010* to focus on the largest cities in each country. This change impacted the ranking of the US due to its greater variation in costs between the largest cities and regional cities. Tampa and Atlanta are the US cost leading cities, ranking 7<sup>th</sup> and 8<sup>th</sup> respectively, while the highest cost US cities include Los Angeles (34<sup>th</sup>), New York City (37<sup>th</sup>) and San Francisco (39<sup>th</sup>).

### **Asia-Pacific:**

**Australia** has improved its competitive position relative to the United States since 2008, and now ranks 4<sup>th</sup>, with business costs 2.2 percent below the US baseline, despite a modest appreciation of the Australian dollar against the US currency. Costs in Melbourne are significantly lower than in Sydney, with these two cities ranking 11<sup>th</sup> and 22<sup>nd</sup>, respectively.

**Japan** has the highest cost structure: 7.4 percent higher than the US and five percentage points higher than Germany. The 24 percent appreciation of the Japanese yen against both the US dollar and the euro since 2008 has driven this result, despite decreases in

some cost fundamentals in Japan. The two Japanese cities studied, Osaka and Tokyo, have the highest business costs, ranking 40<sup>th</sup> and 41<sup>st</sup>, respectively, among the 41 major international cities examined in the study.

## **2. Costs by Industry:**

For **manufacturing**, costs for globally sourced materials and equipment do not vary significantly by location, resulting in lower cost differentials relative to other sectors. As manufacturing has become more capital intensive, cost variations between locations have decreased over the 15 year history of *Competitive Alternatives*. Italy, Germany and Japan achieve their strongest results in this sector.

Labor costs are more significant in the **corporate and IT services** sector, and vary considerably by country and by region. This results in generally higher cost differentials in this sector, as seen most prominently in the cost results for Mexico. Among the industrialized countries studied, Canada, the United Kingdom and the United States all achieve their strongest results in this sector.

Cost differentials are generally highest for **research and development (R&D)** activities, due to differences in labor costs for scientific and technical employees, as well as differences in tax treatment of R&D costs. Indeed, many of the jurisdictions studied offer specific tax incentives designed to encourage R&D activities. Australia, the Netherlands and France all have their strongest results in this sector, assisted in part by their respective R&D tax incentive programs.

“The importance of R&D to the continued success of businesses, and growth of national economies is undeniable,” said Glenn Mair, Director, MMK Consulting, and one of the study authors in association with KPMG. “Governments are responding accordingly with ever more focus on a variety of incentives for R&D activities. Staying abreast of current R&D incentive offerings in various countries is a key consideration for managing international business activities.”

## **3. 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](http://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](http://www.competitivealternatives.com/new/cities.aspx).

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

**For more information or to arrange a media interview, please contact:**

Julie Bannerjea  
Head of Media Relations  
KPMG  
416-777-3243  
[jbannerjea@kpmg.ca](mailto:jbannerjea@kpmg.ca)

### **About KPMG in Canada**

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