



2010 Release of the Competitive Alternatives: *Does Canada and the Toronto Region Measure Up?*

KEYNOTE SPEAKERS

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Competitive Alternatives

KPMG's Guide to International Business Location

April 13, 2010

ADVISORY

Presentation Outline

- 1. About the study**
- 2. International cost results**
- 3. Non-cost competitiveness factors**
- 4. Global city results**
- 5. Toronto and Ontario results**
- 6. Conclusion**

1. About the Study

About the Study

- **Comprehensive guide to international business costs**
- **2010 is the eighth biennial edition published by KPMG**
 - Previous edition published in 2008
- **45+ public and corporate sponsors in four countries:**
 - Corporate: KPMG, Colliers International, MMK Consulting
 - Australia, Canada, Netherlands, and United States
- **Six months of research and 40,000+ data elements**
- **Compares business costs:**
 - Ten countries:
 - Nine industrialized countries: G7, Australia, Netherlands
 - One emerging country: Mexico
 - 17 business operations
 - 112 individual cities
 - 26 major location-sensitive cost factors
- **Compares non-cost business factors across study locations**

North America

Canadian and US Cities



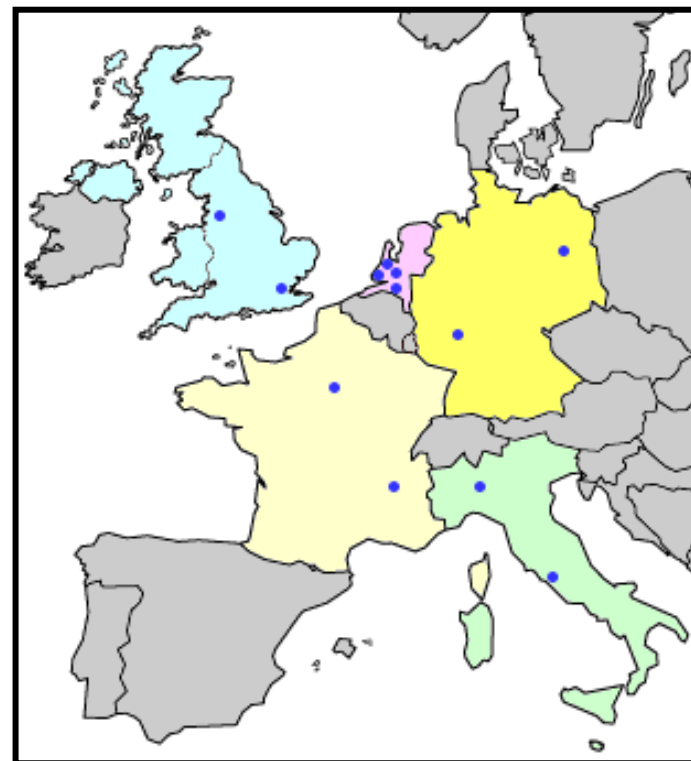
Mexico and Europe



Mexican Cities

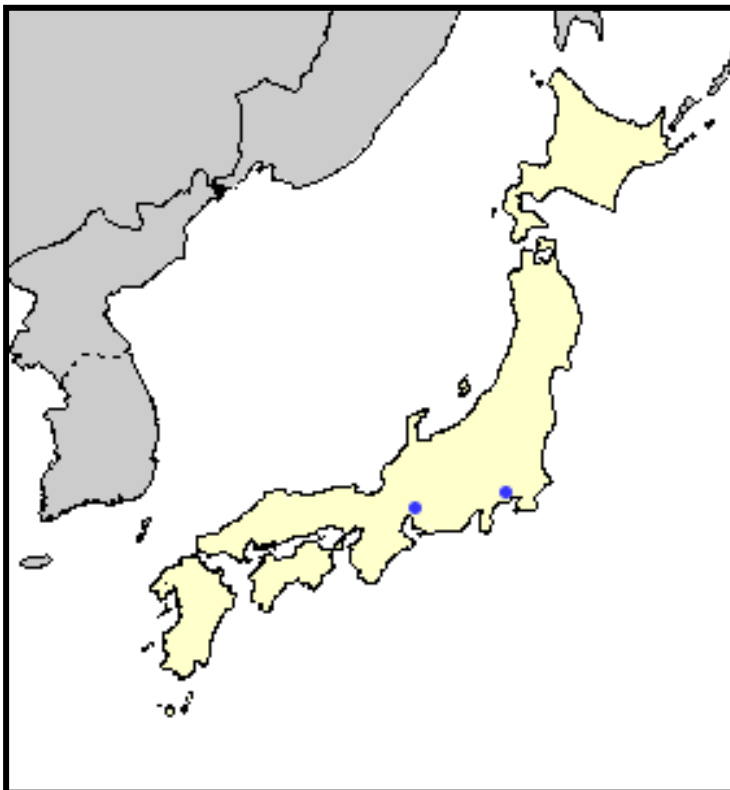


European Cities

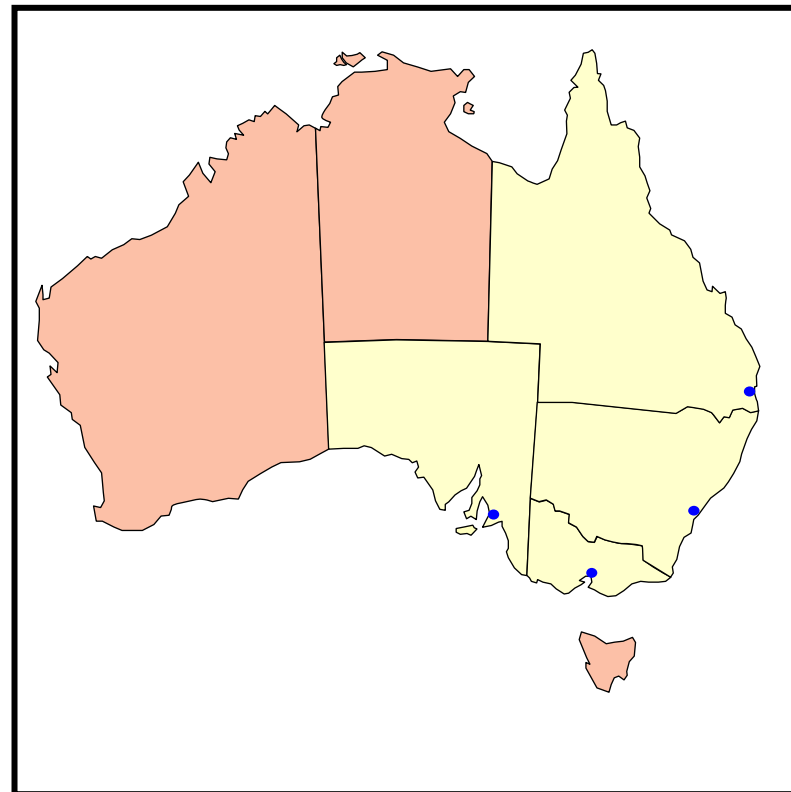


Asia Pacific

Japanese Cities

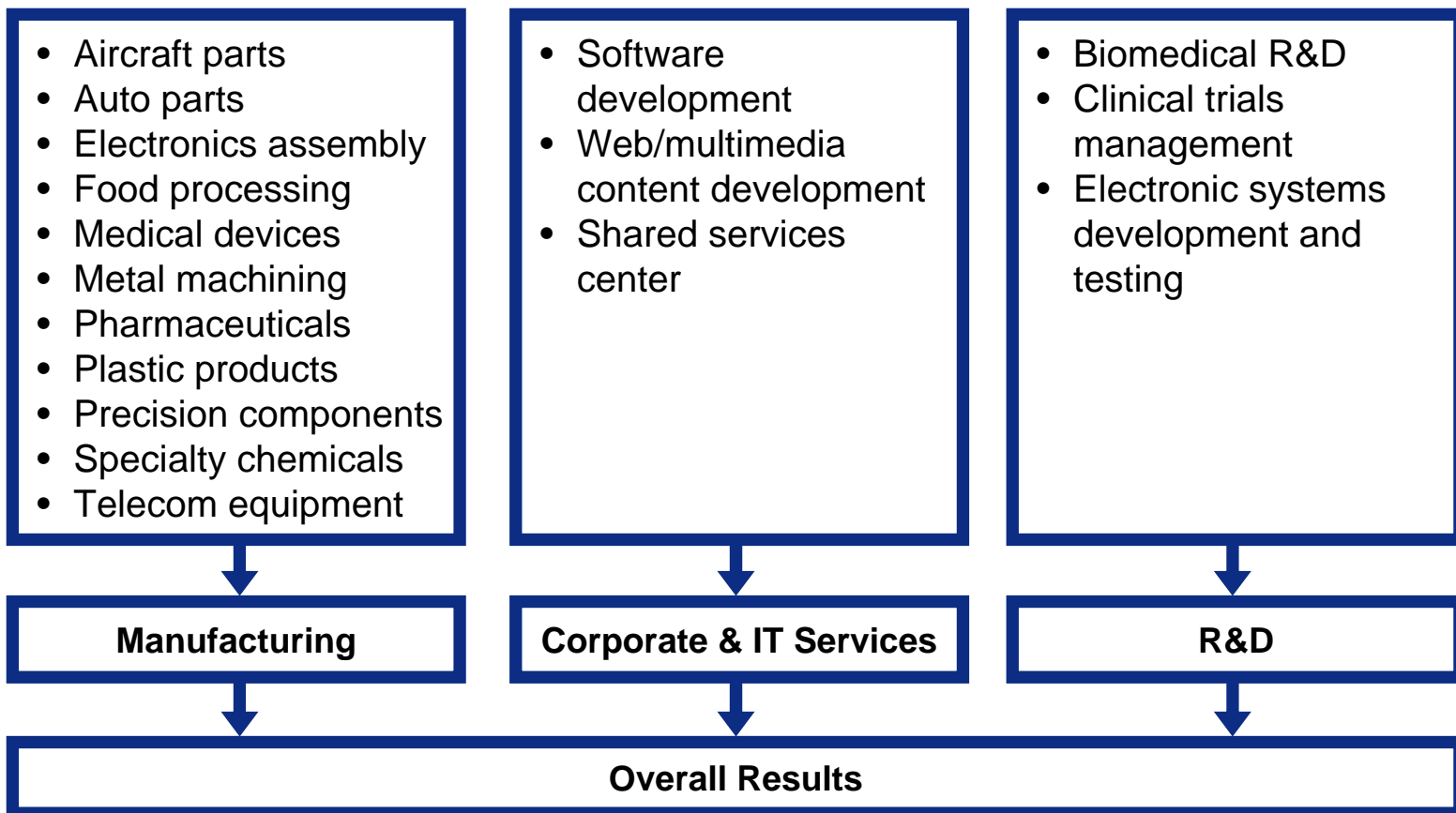


Australian Cities



Industries and Sectors

17 industry operations examined form the basis for comparing three sectors and the overall results



Analysis Framework

	Cost Factors	Other Key Factors
Business	<p>Business Costs</p> <ul style="list-style-type: none"> Land/building/office Labor wage/salary/benefits Transportation and distribution Utilities Financing Federal/regional/local taxes 	<p>Business Environment</p> <ul style="list-style-type: none"> Labor availability and skills Access to markets, customers, and suppliers Road, rail, port, airport infrastructure Utility and telecom/internet service reliability Suitable land sites Regulatory environment
Personal	<p>Cost of Living</p> <ul style="list-style-type: none"> Personal taxes Cost of housing Cost of consumer products and services Healthcare costs Education costs 	<p>Quality of Life</p> <ul style="list-style-type: none"> Crime rates Healthcare facilities Schools and universities Climate Culture and recreation

2. International Cost Results

Cost Components

Labor

- Salaries and wages
 - 42 job positions
- Statutory plans
 - Government pension plans
 - Public medical plans
 - Unemployment insurance
 - Workers' compensation
- Employer-sponsored benefits
 - Paid time not worked (holidays and vacation)
 - Private health insurance
 - Other discretionary benefits

Facility

- Industrial land
- Industrial construction
- Industrial leasing
- Office leasing

Transportation

- Air freight
- Surface freight (road & sea)

Utility

- Electricity
- Natural gas

Depreciation & interest

Non income-based taxes

- Capital
- Property
- Sales and transactions
- Land transfer
- Sundry local taxes

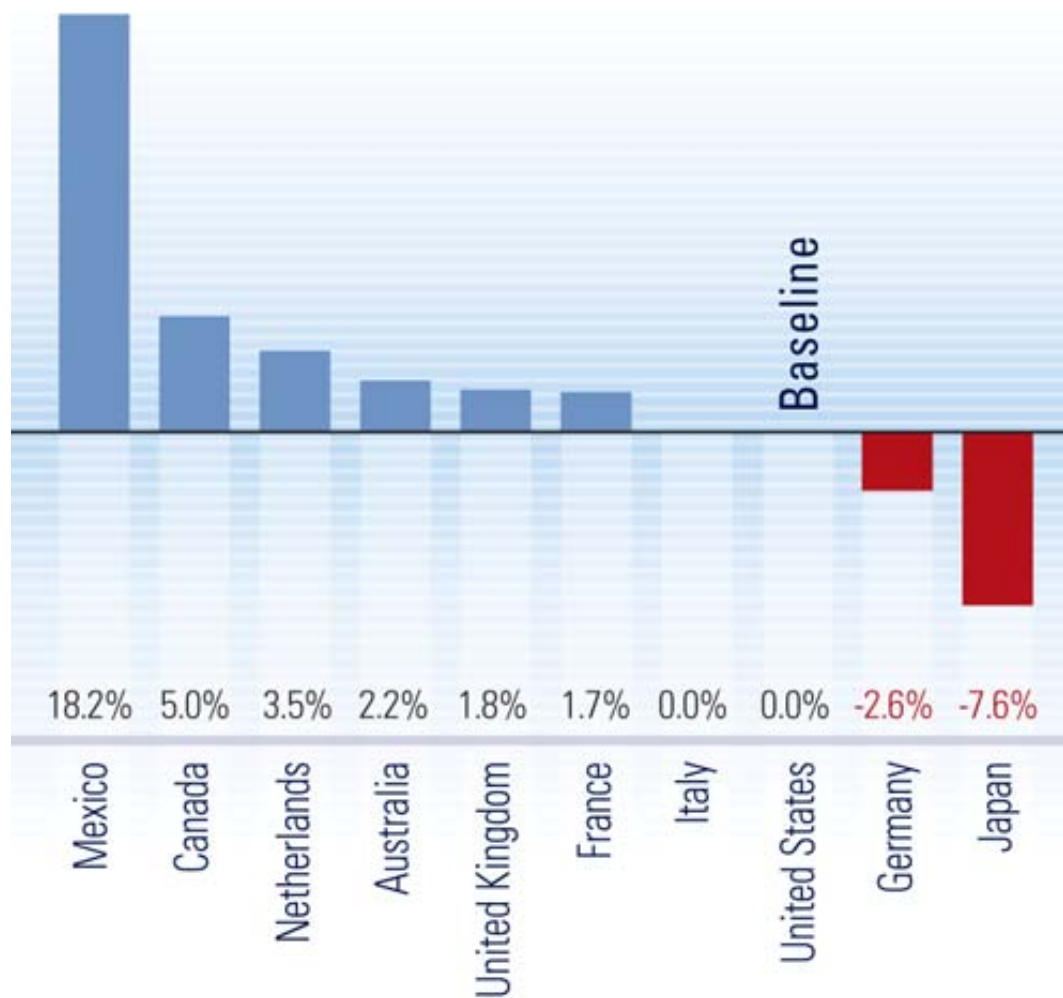
Income taxes

- Federal
- Regional (state, province)
- Local

Cost Trends by Country

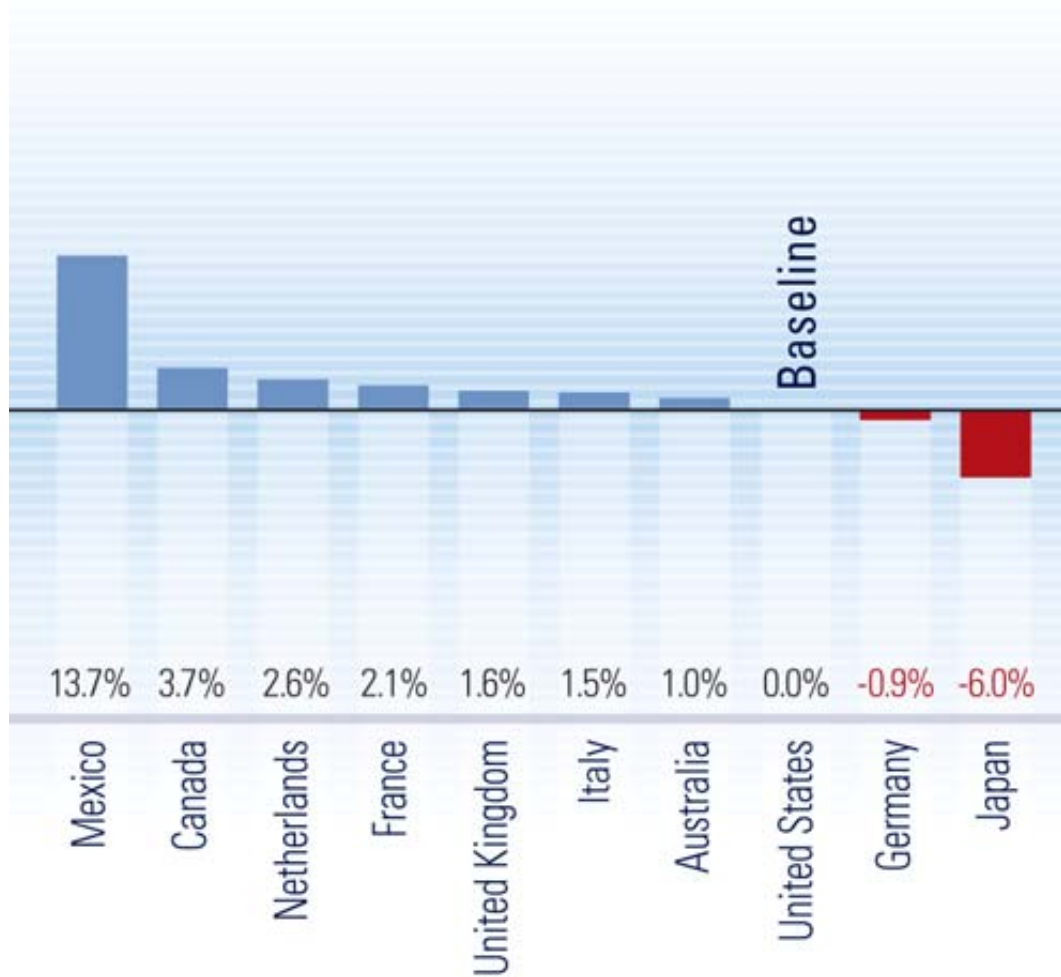
- **Trends since 2008:**
 - **Mexico** retained its number one ranking
 - **Canada** now at a 5% business cost advantage over the United States versus virtual “breakeven” in 2008
 - **Netherlands** ranks third, as the lowest cost country among those examined in Europe
 - **Australia** has improved its competitive position relative to the US since 2008, despite a modest appreciation of the Australian dollar against the US currency and the Euro
 - **United Kingdom** has moved ahead of both the United States and France as an affordable business jurisdiction
 - **United States** has slipped behind most European countries
 - **Japan’s** ranking declined to last place among the 10 countries, due to the strength of the yen

Overall Results



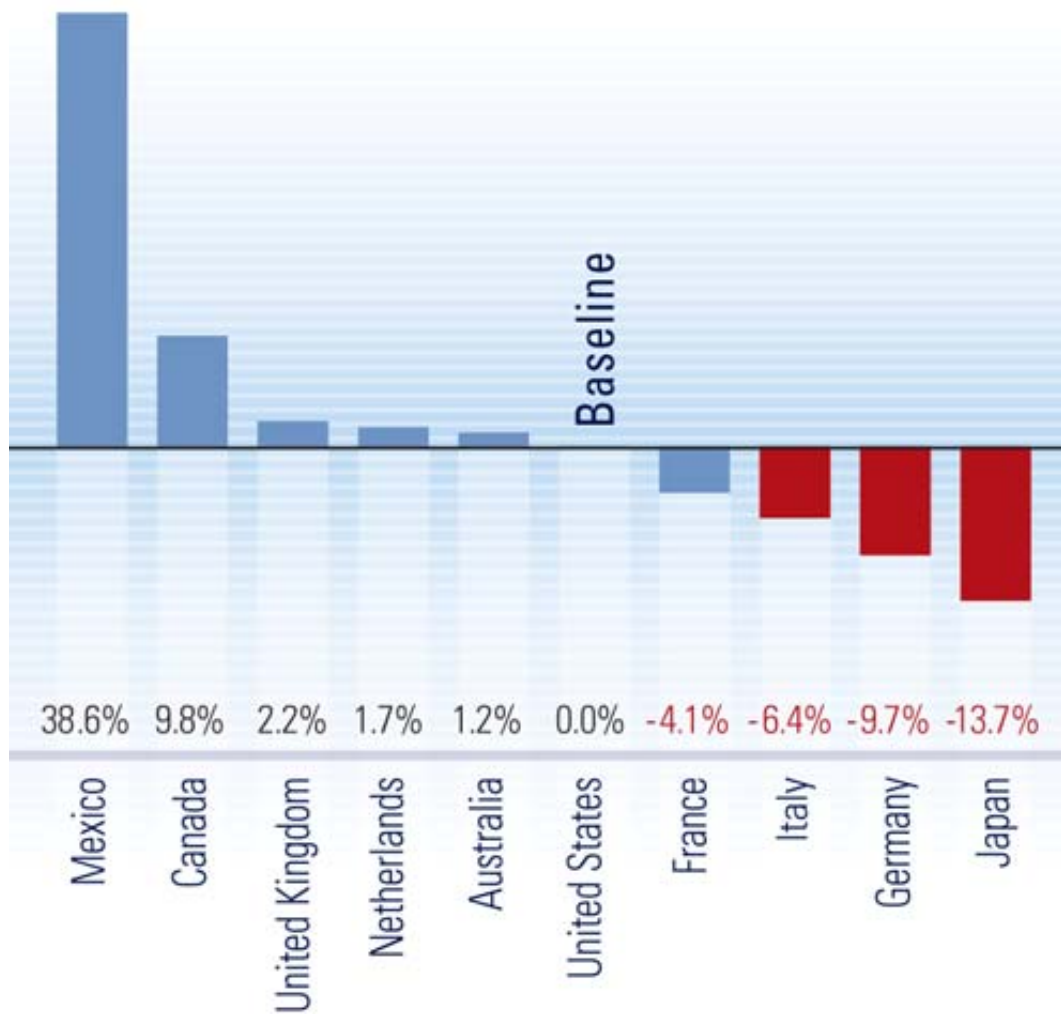
Percentage cost advantage/disadvantage relative to US

Manufacturing



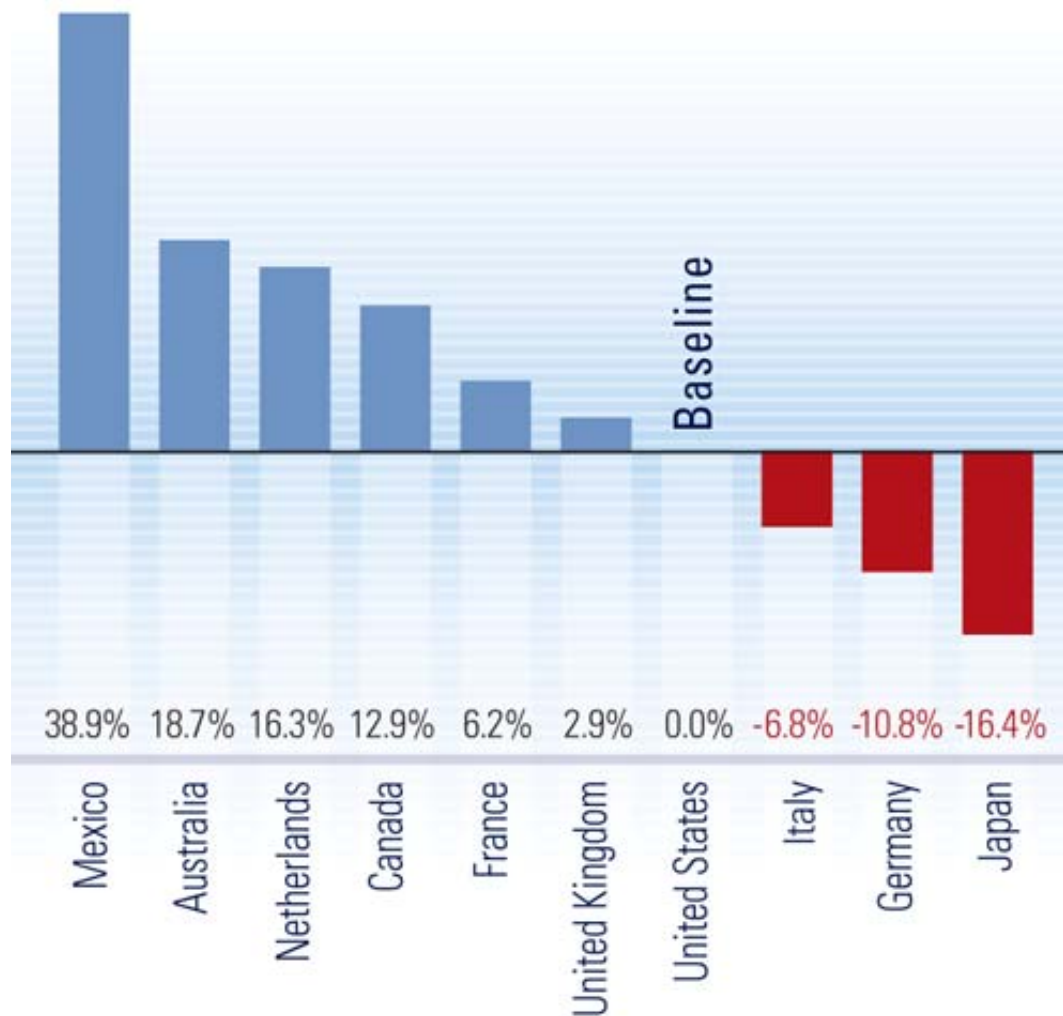
Percentage cost advantage/disadvantage relative to US

Corporate & IT Services



Percentage cost advantage/disadvantage relative to US

Research & Development



Percentage cost advantage/disadvantage relative to US

Exchange Rates

- Exchange rates impact international cost competitiveness
- Exchange rates used in this study and their two-year change relative to the US\$ are:

- Japanese yen	¥89.86	+24%
- Australian dollar	AU\$1.10	+4%
- Euro	€0.68	±0%
- Canadian dollar	CA \$1.06	-6%
- Mexican peso	MX\$13.07	-17%
- United Kingdom pound	£0.61	-18%
- Significant changes in value among the major currencies over the last two years

3. Non-Cost Competitiveness Factors

Non-Cost Competitiveness Factors

- **General business environment**
 - Macro-economic conditions
 - Overall competitiveness
- **Labor markets**
 - Population demographics
 - Labor force activity
 - Availability of skilled labor
 - Labor market flexibility
- **Innovation**
 - Science employment
 - R&D spending
- **Regulatory framework**
 - Business regulations & permitting
 - Environmental regulations
- **Energy supply and demand**
- **Quality of infrastructure**
- **Quality of life**
 - Crime rates
 - Healthcare
 - Housing
 - Quality of public schools

General Business Environment

- Fiscal stimulus and growing government debt are both influencing the business environment

National Government Response to the Crisis								
Economy	2009-2010 Stimulus Package ¹		General Government Debt (% of GDP) ¹				Government Responsiveness ³	
	% of GDP	Rank	2007 (pre-crisis)	2009	2014	Rank	Adaptability of Policy to Economic Change	Rank
Australia	4.9%	1	10%	17%	28%	1	6.3	1
Canada	3.6%	5	64%	78%	69%	3	5.1	3
France	1.5%	8	64%	78%	96%	5	4.0	7
Germany	3.6%	4	63%	79%	89%	4	4.6	4
Italy	0.3%	9	104%	116%	129%	8	2.7	10
Japan	4.2%	2	188%	219%	246%	9	3.0	9
Mexico	2.5%	6	38%	48%	44%	2	3.0	8
Netherlands	n/a	n/a	46%	68% ²	n/a	n/a	5.1	2
United Kingdom	1.6%	7	44%	69%	98%	6	4.3	5
United States	3.8%	3	62%	85%	108%	7	4.1	6

¹ IMF, Eurostat November 2009.

² Forecast general government debt in 2010.

³ Index: 0 = low and 10=high. World Competitiveness Yearbook copyright © 2009, IMD International

Labor Markets

- Time and cost of laying off redundant workers is a factor that has become more relevant to many firms since *Competitive Alternatives 2008*
- Cost of redundancy is lowest in Japan and the US, and highest in Italy and Mexico
- The periods shown here include mandatory union negotiations and/or government approvals, plus required statutory notice, plus typical severance payments

Estimated average weeks of financial commitment to employees following decision to downsize¹

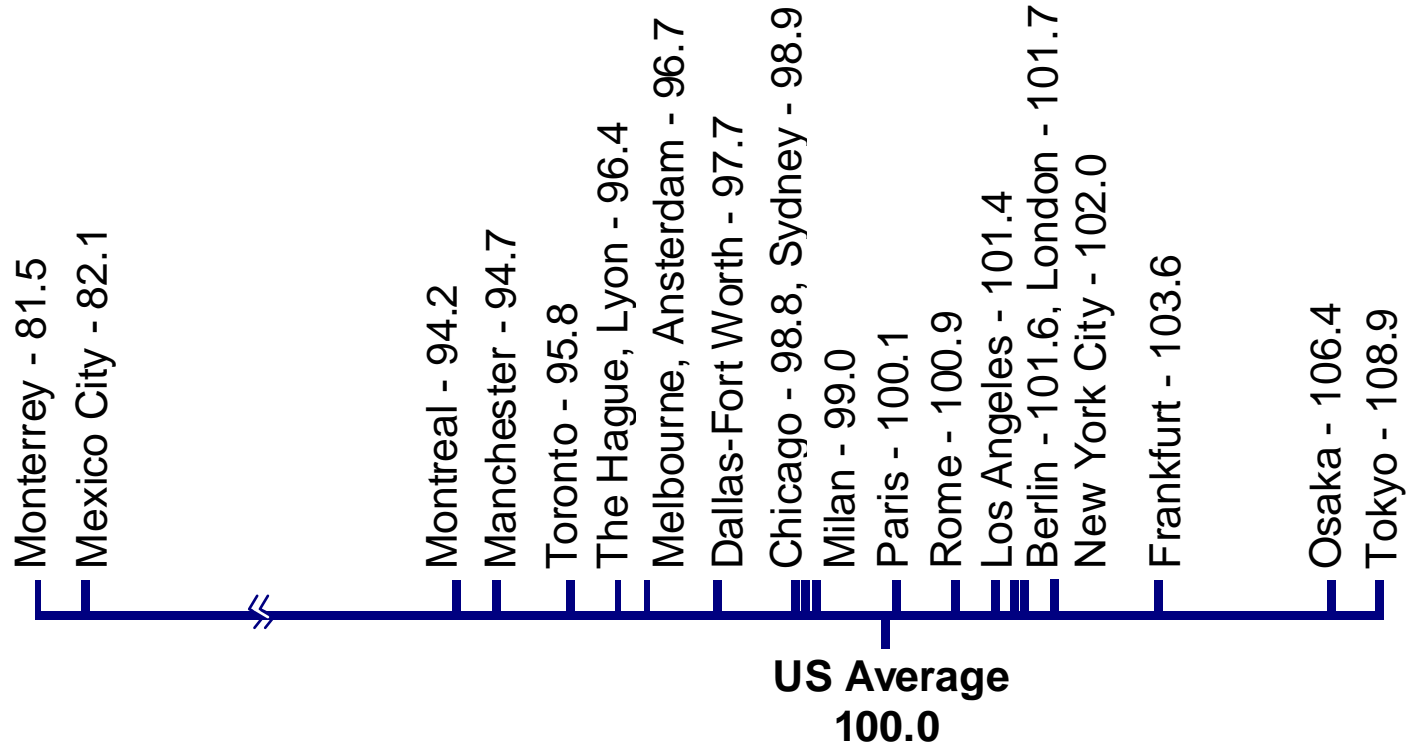
Country	Weeks	Rank
Australia	11.0	3
Canada	14.5	5
France	21.0	6
Germany	22.0	8
Italy	66.5	10
Japan	4.0	1
Mexico	28.0	9
Netherlands	13.0	4
United Kingdom	21.0	6
United States	8.5	2

1: Assumes facility closure with 100 - 150 employees with average service of four years.

4. Global City Results

Global Cities

- Relative cost index for major international cities

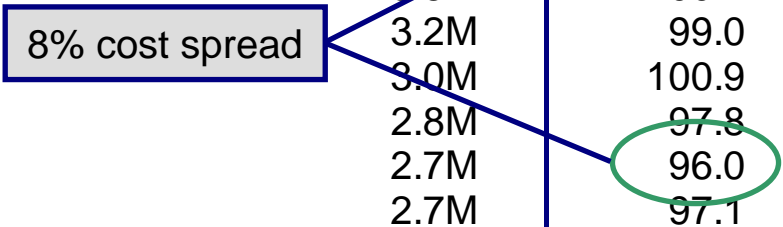


Two leading cities with population > 2 million studied in each country (4 in the US).
Results for these cities are used to define the national results for each country.

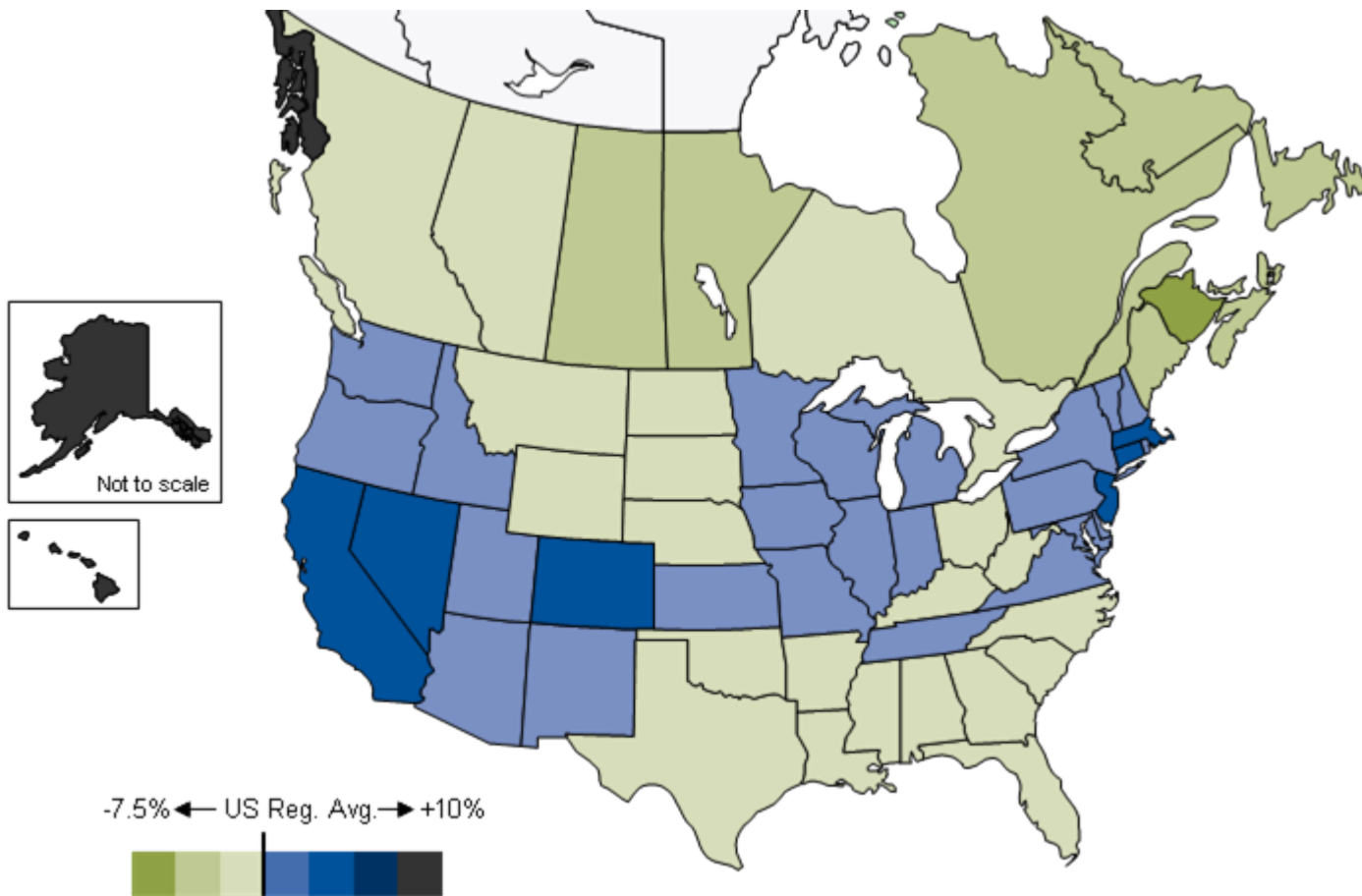
Top 20 Largest US Cities

		Metro Population	2010 Cost Results Index	Rank
1	New York City	19.0M	102.0	19
2	Los Angeles	12.9M	101.4	18
3	Chicago	9.6M	98.8	11
4	Dallas-Fort Worth	6.3M	97.7	5
5	Philadelphia	5.8M	98.3	9
6	Houston	5.7M	97.9	7
7	Miami	5.4M	97.0	3
8	Atlanta	5.4M	96.3	2
9	Washington DC	5.4M	99.0	12
10	Boston	4.5M	100.8	16
11	Detroit	4.4M	98.5	10
12	Phoenix	4.3M	98.1	8
13	San Francisco	4.3M	104.1	20
14	Riverside-San Bernardino	4.1M	99.5	14
15	Seattle	3.3M	100.1	15
16	Minneapolis	3.2M	99.0	12
17	San Diego	3.0M	100.9	17
18	St. Louis	2.8M	97.8	6
19	Tampa	2.7M	96.0	1
20	Baltimore	2.7M	97.1	4

8% cost spread



Costs Across North America



Based on average result of all cities studied in each state/province

5. Toronto and Ontario Results

NAFTA Border Region Cities

- US-Canada Border Region Cities

[	Burlington, VT	97.7	[	Detroit, MI	98.5
	Sherbrooke, QC	91.2		Windsor-Essex, ON	94.5
[	Buffalo, NY	96.5	[	Seattle, WA	100.1
	St. Catharines-			Vancouver, BC	94.9
	Niagara, ON	94.7			

- US-Mexico Border Region Cities

[	Monterrey, MX	81.5
	McAllen, TX	94.8
	Dallas-Fort Worth	97.7

* * *

- Canadian border cities cost competitive against US counterparts
- Significantly lower costs for Monterrey than McAllen or Dallas

Northeast Regional Results

US/Canada Northeast – Population > 1 million

- Montreal, QC	94.2
- Toronto, ON	95.8
- Buffalo, NY	96.5
- Baltimore, MD	97.1
- Indianapolis, IN	97.2
- Wilmington, DE	97.6
- Philadelphia, PA	98.3
- Detroit, MI	98.5
- North Virginia (Metro DC)	99.0
- Trenton, NJ	99.8
- New York City, NY	102.0

**Total operating costs, including taxes
 United States = 100%**

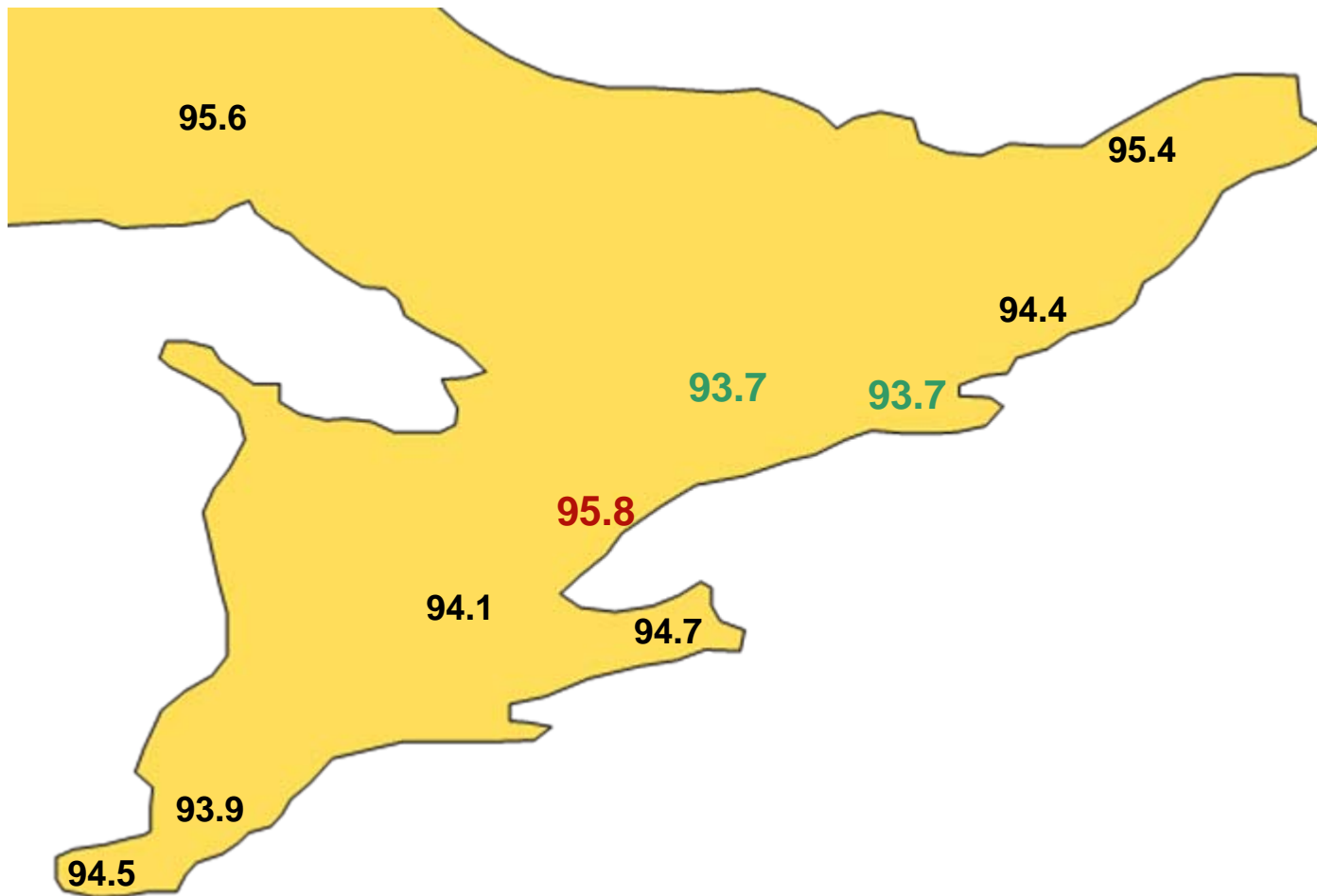
Northeast Regional Results

US/Canada Northeast – Population < 1 million

- Sherbrooke, QC 91.2
- Quebec City, QC 92.4
- St. Catharines-Niagara, ON 94.7
- Charleston, WV 95.0
- Youngstown, OH 95.2
- Lexington, KY 95.5
- Harrisburg, PA 96.6
- Saginaw, MI 97.0

**Total operating costs, including taxes
 United States = 100%**

Costs Across Ontario



Regional Cost Differentials

- Cost differentials among cities in the Netherlands cities are extremely low
- Much higher differentials exist in the US and UK
- Canada also has moderately low regional cost differentials

Cost Index Comparison: Larger and Smaller Cities			
	Largest City	Smaller City	Differential
Netherlands • Amsterdam • Brabant Stad	96.7	96.3	0.4
Australia • Sydney • Adelaide	98.9	97.0	1.9
Canada • Toronto • Avg of 12 regional cities	95.8	93.3	2.5
France • Paris • Lyon	100.1	96.4	3.7
United States • New York City • Avg of 4 largest cities ¹ • Avg of 36 regional cities	102.0 100.0	96.8	5.2
United Kingdom • London • Manchester	101.7	94.7	7.0

1: Study comparison baseline.

Cost Changes For Ontario In 2010

- Major changes in costs since the prior study:

	<u>2008</u>	<u>2010</u>
- Exchange rate	\$1.00 US	94¢ US
- Cost of natural gas	35.4¢/m ³	18.8¢/m ³
<i>(Union Gas, average for rate M2, SW Ontario)</i>		
- Cost of diesel	97.2¢/L	87.4¢/L
<i>(MJ Ervin monthly average)</i>		
- Ontario corp. tax rate, 2013	14%	10%
- Ontario sales tax	PST	HST

The Bottom Line For Toronto

Pharmaceuticals (US\$'000/annum)

	<u>Toronto</u>	<u>Raleigh</u>
Salaries (120 employees)	6,751	6,224
Benefits	2,256	2,665
Leased industrial facility (5 acres, 70,000 ft ²)	363	289
Transportation	2,318	2,121
Utilities (electricity, telecom)	243	209
Interest/depreciation	4,128	4,089
Non-income taxes	354	595
Income taxes	978	1,736
Other (fixed) costs	<u>16,022</u>	<u>16,022</u>
Total costs	<u>33,413</u>	<u>33,950</u>
Cost index	95.6	97.1
Effective corporate income tax rate	17.1%	29.2%

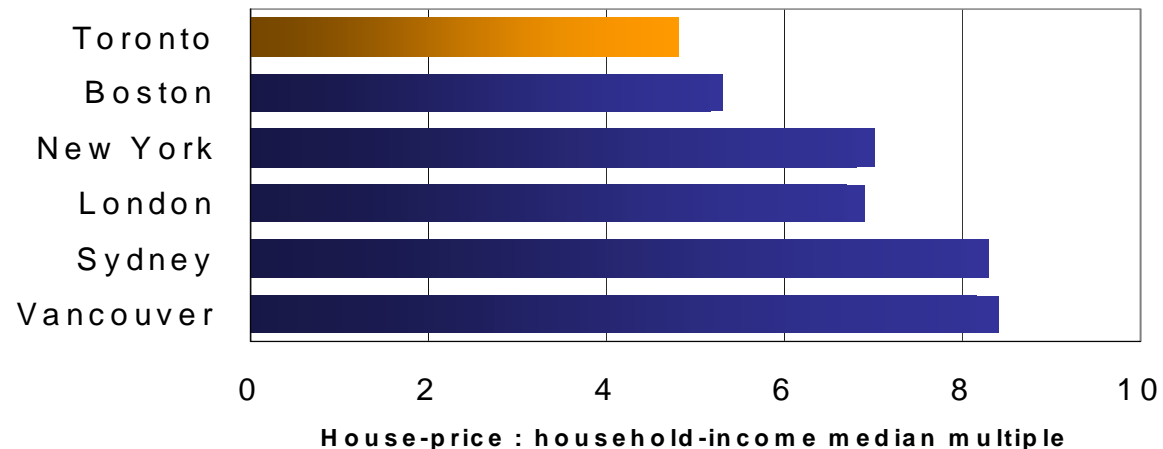
The Bottom Line For Toronto

Software Design (US\$'000/annum)

	<u>Toronto</u>	<u>Boston</u>
Salaries (110 employees)	9,049	9,863
Benefits	2,620	3,740
Leased office facility (22,500 ft ²)	796	911
Utilities	132	198
Interest/depreciation	358	451
Non-income taxes	25	215
Income taxes	1,457	1,299
Other (fixed) costs	<u>2,080</u>	<u>2,080</u>
Total costs	<u>16,517</u>	<u>18,757</u>
Cost index	89.8	102.0
Effective corporate income tax rate	25.4%	38.9%

Non-Cost Competitiveness Factors

- **Other advantages identified for Ontario:**
 - Second highest GDP per capita in Canada
 - Educational attainment above the national norm
 - Second highest rate of R&D investment in Canada – although lagging many US states
 - Reasonable housing prices v. global peers:



6. Conclusion

Key Messages For Toronto

- **Even in the high dollar environment, Toronto represents a cost-competitive business locale**
- **Sectors of greatest cost advantage v. US:**
 - Clinical trials
 - Electronic systems development
 - Software, web, and multimedia development
- **Sectors of best rankings in North America:**
 - Food processing
 - Pharmaceuticals, specialty chemicals
 - Electronics, telecom equipment

Key Messages For Toronto

- **Tax reforms – federal and provincial – are helping Ontario’s competitive position**
- **R&D tax incentives are a great plus for Canadian R&D activities**
- **Access to health care at low cost to corporations benefits all firms**
- **Toronto ranks well ahead of many global cities on costs: London, New York, San Francisco**
- **Cost is just one driver of business location**
 - Cannot ignore the business environment

For Further Information

- Full results at

www.CompetitiveAlternatives.com

- Download reports and summaries
- Access full detailed results
 - User-selected countries and cities
 - User-selected from 17 industry operations
 - Sensitivity to exchange rates, interest rates
- Contact study leaders

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