Canada losing its competitive edge

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Canada is losing its competitive edge as a cost-effective place to do business because of the high value of the Canadian dollar, according to an international study released Thursday.

The negative impact of the soaring loonie has been somewhat offset by corporate tax cuts, a skilled work force and reliable energy supply, which leaves Canada in second place behind Mexico in terms of cost-competitiveness among 10 countries surveyed by KPMG.

Still, Canada's cost advantage is only a “nominal 0.6 per cent” over third-place United States, which “has improved its position significantly against all other countries as the value of the U.S. dollar has declined,” KPMG reported in its Competitive Alternatives study, which is conducted every two years.

The results were determined using recent exchange rates, with the Canadian dollar valued at par with the U.S. dollar – an appreciation of 17.4 per cent from 2006.

The soaring Canadian dollar has eroded cost-competitiveness, according to a new study by KPMG

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“With the Canadian dollar at par, Canada is challenged to maintain the competitive edge it once held,” Mark MacDonald, KPMG's global director of competitive alternatives, said in releasing the results of the survey, which included labour costs, taxes, real estate and utilities in its calculations.

The business costs were expressed as an index, with the U.S. assigned the baseline of 100 points. The rankings from lowest cost to highest cost were: Mexico, with a cost index of 79.5 points; Canada at 99.4; U.S. at 100; Australia at 100.2; France at 103.6; United Kingdom at 107.1;

Netherlands at 107.3; Italy at 107.9; Japan at 114.3 and Germany at 116.8.

“Canada has lost most of its previous cost advantage over the U.S., but has gained ground against other countries, assisted by moderate increases in labour costs and reductions in corporate income taxes,” KPMG reported.

“Canadian corporate tax rates, incorporating future effects of the tax cuts announced in last October's [federal] mini-budget, are now moderately low in comparison to the U.S. and a number of other countries studied.”

The study also compared the cost of doing business in 136 major cities around the world.

Sherbrooke, Que., led the list of the most cost-competitive cities in Canada, followed by Moncton, Fredericton, Charlottetown, Quebec City, Halifax, Saskatoon, Winnipeg, Waterloo, Ont., Montreal, St. John's, Edmonton, Ottawa, Toronto, Chilliwack, B.C., Calgary and Vancouver.

Cost is not the only factor that determines where businesses will locate and prosper – and Canada has a distinct advantage when non-cost factors are considered, said Glenn Mair of MMK Consulting, one of the study's authors in partnership with KPMG.

“Canada consistently ranks well when we consider environmental regulation, educational attainment, housing affordability, labour force and energy availability – all of which are important business location considerations,” Mr. Mair said.

Other competitive factors, in terms of business location, are, in order of importance: highway accessibility, labour costs, energy availability and costs, availability of skilled labour, occupancy or construction costs, availability of land, corporate tax rates, state and local incentives, environmental regulations, tax exemptions and proximity to major markets.

Energy availability is a far more crucial consideration than it was two years ago, “no doubt reflecting concerns over both high oil prices and geo-political uncertainty around future oil supply.”

Among the 10 countries included in the study, only Australia, Canada and Mexico are self-sufficient in energy.

KPMG also probed what it referred to as “indicators of business regulatory environment,” including red tape, perceived levels of corruption and the ease of doing business.

Canada fared well on the “corruption perception index,” ranking second, after the Netherlands, as an ethical place to do business. The U.S., Italy and Mexico were not perceived as favourably, ranking eighth, ninth and tenth out of ten respectively.

As to red tape, measured in the average number of days to finalize a permit for a warehouse, the U.S. was ranked the most efficient, with an average of 40 days, followed by Canada, with an average of 75 days, and Germany, with an average of 100 days.

Quality of life also factors into business location decisions, “and these factors tend to be particularly relevant for owner-managed enterprises, for knowledge-intensive businesses that need to attract and retain key highly-skilled workers in an increasingly global labour marker, and for companies that are trying to provide incentives to staff to move to a new location."

Low crime rates, ratings of public schools, housing cost and availability, quality of health care, climate, cultural opportunities, proximity to colleges and universities and recreational opportunities all factor in to the quality of life equation.

In terms of non-cost factors, Canada was strong in educational attainment and a number of other areas:

"Canada ranks second in terms of environmental performance after France; it is perceived as a country with environmental laws that are most compatible with business competitiveness," KPMG reported.

"Total labour costs are lowest in Mexico by a significant margin; however, Canada ranks much higher than Mexico on quality of life issues such as health care, crime rates and education, which are included in the study for the first time."

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