

QUÉBEC : A COMPETITIVE ECONOMIC ENVIRONMENT



Québec 

Québec :

A competitive economic environment

KPMG has developed a method for comparing business location and operating costs for many industrial sectors and cities in major industrialized countries. The results of this comparison are made public periodically. At the request of the Québec government, KPMG broadened the scope of its study to show separate results for Québec and to consider more economic sectors and cities. These results, which are given in this brochure, provide a comparison of Québec's competitiveness in relation to major industrialized countries.

The KPMG study, whose results were released in September 1999, reflects the competitive situation of businesses in the second half of 1998.

KPMG bases its method on the financial statements of companies over a period of ten years for each industrial sector and each location. These financial statements provide a basis for comparing costs. They are calculated by combining two main sources of information:

- operating characteristics for each industrial sector;
- current data on investment and operating costs for each location studied.

In general, medium-size companies are considered, i.e. companies employing from 70 to 130 people with annual sales of about \$7.5 million to \$35 million.

The study has two sections:

The titles of the two sections of the KPMG study are:

- The Competitive Alternatives - A Comparison of Business Costs in North America and Europe - Focus on Québec
- A Comparison of Business Costs in Major North American Cities for 12 Manufacturing and 6 Service Industries

INTERNATIONAL

(North America and Europe)

(Identified by the following color code) →

NORTH-AMERICAN

(Identified by the following color code) →





International section (North America and Europe)

- Manufacturing sectors studied**
- Electronics
 - Food processing
 - Medical devices
 - Metal fabrication
 - Pharmaceuticals
 - Plastic products
 - Telecommunications equipment

- Service sectors studied**
- Packaged software
 - Advanced software

Cities and countries studied

- Fifty-two cities in seven industrialized countries (see maps)

The competitiveness index of Québec is based on the average costs for the four Québec cities studied: Montréal, Québec City, Hull and Sherbrooke.

- Location-sensitive cost components**
- Industrial land
 - Industrial construction
 - Office lease
 - Electricity
 - Labour
 - Wages and salaries
 - Statutory benefits
 - Other benefits
 - Transportation
 - Telecommunications
 - Interest / depreciation
 - Income tax and other taxes



North American section

Manufacturing sectors studied

- Electronics
- Food processing
- Medical devices
- Metal fabrication
- Pharmaceuticals
- Plastic products
- Telecommunications equipment
- Aerospace parts
- Chemicals-specialty
- Non ferrous metals
- Transportation equipment
- Paper-specialty

Service sectors studied

- Packaged software
- Advanced software
- Head offices
- International banking centres
- Multimedia development
- Call centre

Cities studied

- Thirteen North American cities, including Montréal (see map)

Location-sensitive cost components

- Same costs as in the international section
- Tax and budgetary incentives offered in the locations studied



Business location and operating costs:
the study by KPMG, an international firm of management
consultants, provides striking evidence of Québec's
competitiveness among the major industrialized countries.

- Québec's competitiveness (International section) page 5
- Montréal's competitiveness (North American section) page 8
- Québec's competitive advantages page 9
 - Initial investments page 9
 - Labour page 10
 - Services (electricity, transportation, telecommunications) page 11
 - Taxation page 12
 - Financial incentives page 13

Québec :

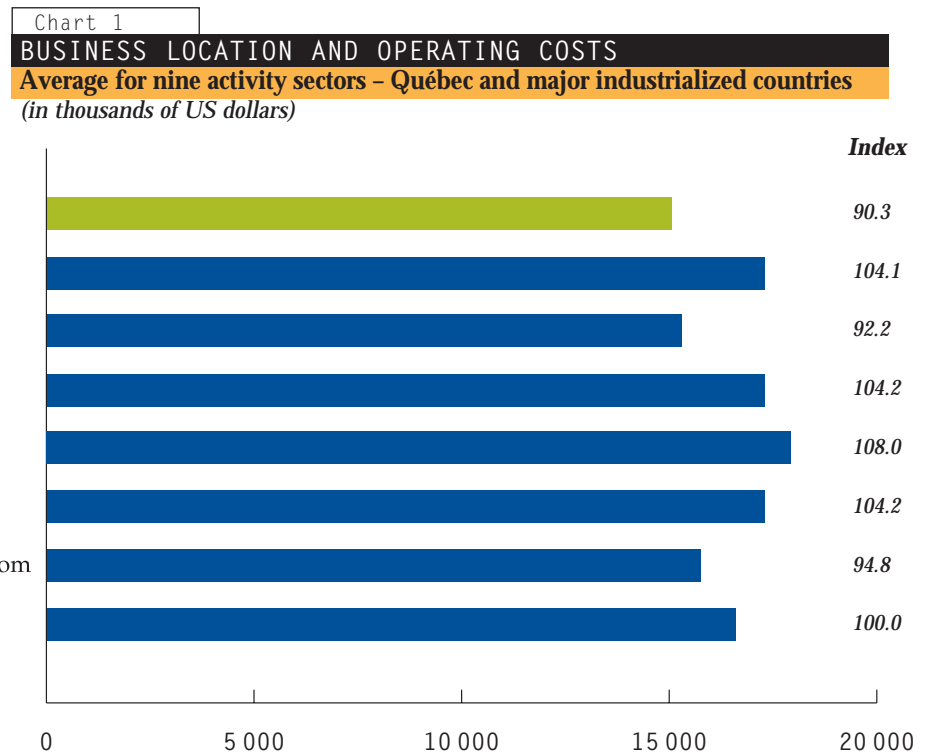
there is no better choice

Québec offers a highly competitive business environment. Average business location and operating costs are the lowest among the countries studied:

- 2.1% lower than the Canadian average;
- 9.7% less than in the United States;
- 4.7% less than in the United Kingdom, the European country with the best competitiveness index (94.8).

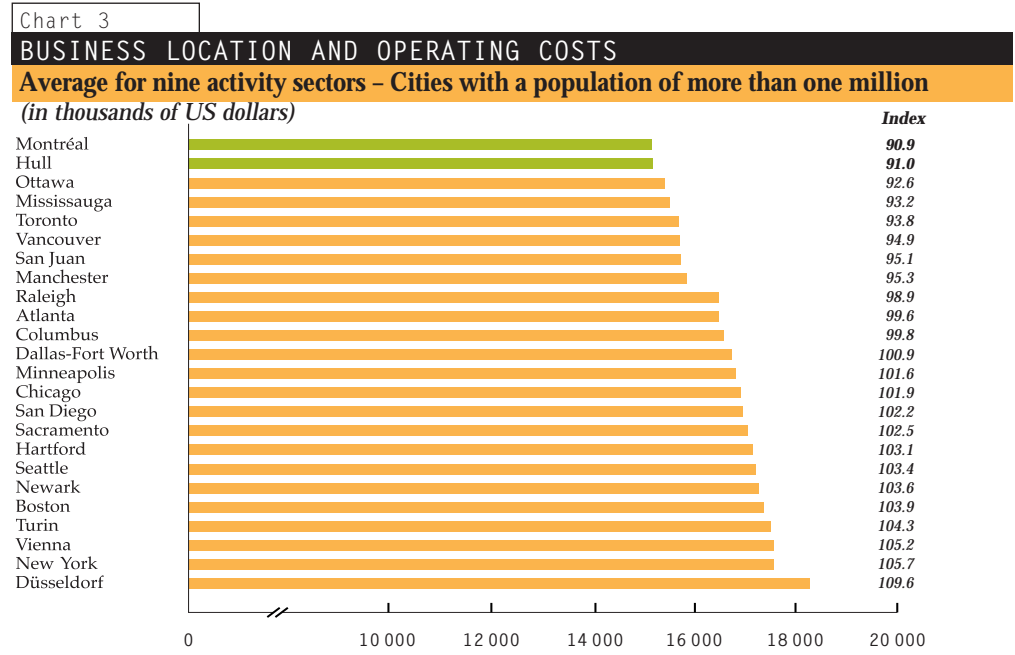
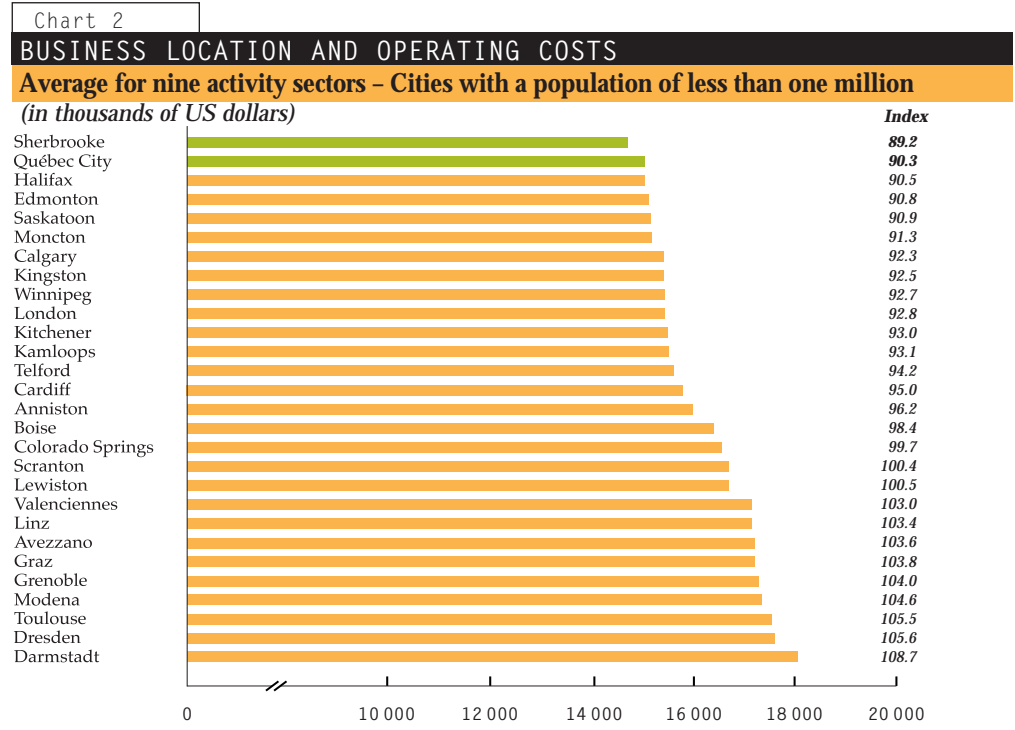
In addition to its advantage in terms of business operating costs, Québec offers an environment conducive to investment:

- highly educated labour force;
- readily obtainable financing;
- modern transportation and telecommunications infrastructures;
- world-class research centres;
- access to the vast North American market thanks to NAFTA;
- an attractive exchange rate for export-oriented companies.



Cities with a clear advantage

The international section of the KPMG study covers 52 European and North American cities. Sherbrooke and Québec City rank first and second respectively among the 28 cities with a population under one million, while Montréal and Hull⁽¹⁾ hold the same ranks among cities with a population of more than one million.



(1) For the purposes of the population classification, Hull is considered to be part of the Hull-Ottawa agglomeration.

Activity sectors

in which Québec is exceptionally competitive

Québec ranks first in eight of the nine activity sectors studied. Its performance is particularly striking in the service sectors, in which its advantage over the United States averages 17.7%, while in the manufacturing sectors, its advantage is 8.8%.

Table 1

INDEX OF COMPETITIVENESS BY ACTIVITY SECTOR ANALYZED
Québec and major industrialized countries
(United States = 100)

Location	MANUFACTURING SECTORS							SERVICE SECTORS		Overall
	Electronics	Food processing	Medical devices	Metal fabrication	Pharmaceuticals	Plastic products	Telecommunications equipment	Packaged software	Advanced software	
Québec	89.4	93.4	90.9	89.6	91.8	89.7	93.8	82.9	81.8	90.3
Austria	106.7	98.6	103.7	101.4	102.8	100.8	102.7	115.2	114.5	104.1
Canada	91.5	94.3	92.4	92.1	93.4	92.2	94.9	86.0	85.5	92.2
France	106.0	100.3	103.2	102.6	102.9	101.3	102.5	114.2	112.6	104.2
Germany	111.8	102.4	107.7	108.6	106.1	107.9	104.8	118.0	116.0	108.0
Italy	105.8	99.6	103.4	101.8	103.0	100.7	102.8	115.0	114.2	104.2
United Kingdom	98.4	93.1	94.0	92.5	94.8	93.2	97.3	94.0	93.8	94.8
United States	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

MONTRÉAL :

a particularly attractive option

Montréal ranks first in 13 activity sectors:

- electronics;
- medical devices;
- metal fabrication;
- plastic products;
- pharmaceuticals;
- telecommunications equipment;
- transportation equipment;
- aerospace parts;
- paper-specialty;
- packaged software;

- advanced software;
- international banking centre;
- multimedia development.

In the five other sectors, Montréal ranks second:

- chemical-specialty;
- food processing;
- non ferrous metals;
- call centre;
- Head offices.

The KPMG study includes a North American section in which Montréal is compared with twelve other cities in the United States and Canada, and the analysis is broadened to 18 activity sectors. Overall, the results show that business location and operating costs are lower in Montréal than in the other cities studied.

Table 2

INDEX OF COMPETITIVENESS BY ACTIVITY SECTOR ANALYZED

**Thirteen North American Cities
(United States=100)**

Location	MANUFACTURING SECTORS												SERVICE SECTORS						Overall
	Aerospace parts	Chemical specialty	Electronics	Food processing	Medical devices	Metal fabrication	Non ferrous metals	Paper specialty	Pharmaceuticals	Plastic products	Telecommunications equipment	Transportation equipment	Advanced software	Call centre	Head offices	International banking centre	Multimedia development	Packaged software	
Montréal	87.4	93.7	91.2	94.5	92.5	91.5	95.1	93.8	93.0	91.6	94.6	94.1	75.2	78.4	70.1	67.8	72.1	79.3	90.8
Atlanta	99.2	100.2	100.1	99.3	99.6	99.5	100.3	97.7	99.9	99.7	99.8	99.7	99.2	98.9	99.7	99.2	99.5	99.4	99.4
Boston	105.1	102.9	105.0	103.4	103.8	107.1	103.4	107.9	103.2	108.2	101.9	103.1	105.2	109.2	109.6	112.4	106.0	105.8	104.7
Calgary	88.1	93.3	92.6	94.5	93.0	93.6	94.9	96.1	93.8	93.9	95.2	94.5	86.7	76.3	67.2	76.1	85.1	86.8	92.4
Chicago	102.3	101.3	102.8	100.9	102.5	102.5	102.2	101.9	101.8	102.9	101.3	101.0	104.1	106.9	104.7	106.9	104.7	104.5	102.0
Colorado Springs	98.3	99.2	99.6	100.6	99.6	100.3	99.5	101.5	99.7	100.2	99.6	99.9	99.3	98.1	98.9	98.2	99.0	99.1	99.9
Columbus	100.1	99.7	99.0	98.9	99.8	98.7	99.3	98.6	99.5	98.8	99.9	100.0	99.6	101.0	100.2	100.9	99.4	99.6	99.6
Dallas-Fort Worth	102.4	100.9	101.3	101.2	101.0	101.4	100.9	102.2	100.9	101.3	100.7	100.4	101.8	102.0	101.3	101.8	102.0	101.9	101.1
New York	108.7	104.6	108.2	104.7	106.1	108.5	105.9	112.8	105.0	110.5	103.1	103.8	106.6	111.4	109.8	113.4	107.1	106.9	106.5
Sacramento	102.2	102.4	101.9	103.0	102.7	104.0	101.7	106.6	102.1	103.8	101.1	101.2	103.0	105.8	103.9	106.3	103.1	103.4	102.8
Seattle	103.4	103.4	102.9	104.8	103.4	106.5	102.9	107.3	103.4	105.4	102.2	103.1	102.5	108.2	106.1	106.7	103.6	103.1	104.1
Toronto	91.0	95.5	94.8	95.9	95.0	94.9	97.4	98.0	95.6	95.3	96.3	96.3	87.9	81.6	71.9	79.6	86.9	88.4	94.3
Vancouver	91.6	95.9	95.6	96.8	95.9	97.2	97.3	97.3	96.7	97.0	97.2	96.7	89.0	82.4	70.3	71.0	87.5	89.1	94.6
Canada	89.5	94.6	93.5	95.4	94.1	94.3	96.2	96.3	94.7	94.4	95.8	95.4	84.7	79.7	69.9	73.6	82.9	85.9	93.0
United States	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Exceptionally low initial investment costs

Québec ranks first in terms of initial investment costs. In particular, its average land acquisition costs are half those observed in Canada and the United States.

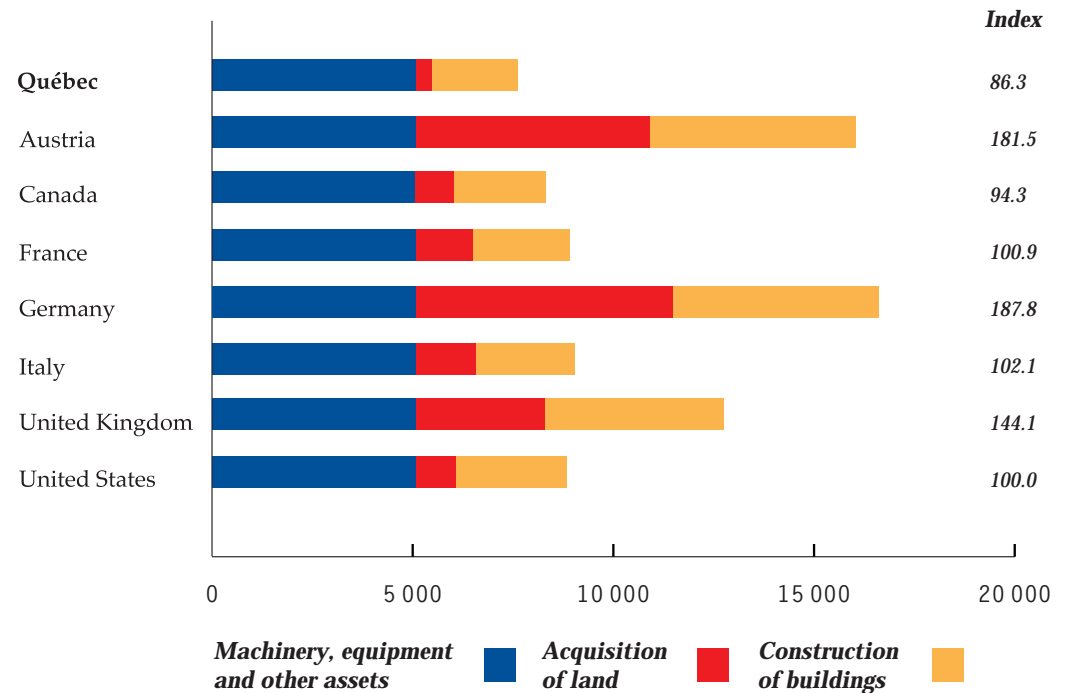
Québec also features the lowest average construction costs.

Chart 4

INITIAL INVESTMENT COSTS

Average for seven manufacturing industries – Québec and major industrialized countries

(in thousands of US dollars)



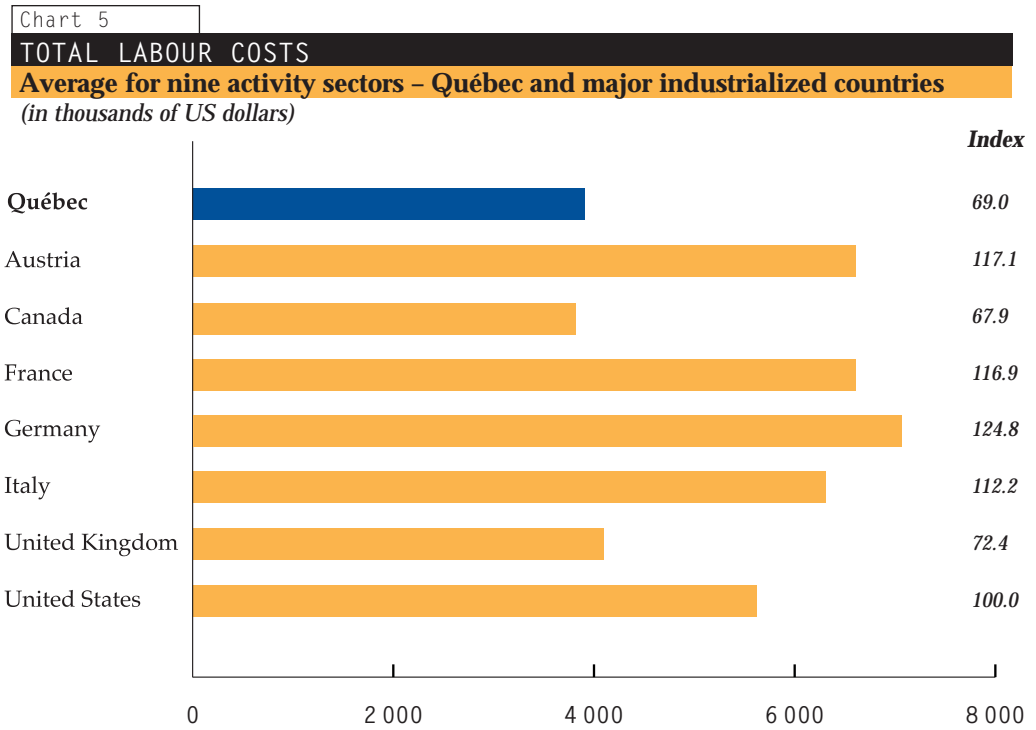
Very Low Labour costs

Companies that locate in Québec benefit from very low labour costs.¹ They are markedly lower than those in the United States and all the European countries studied.

This competitive advantage is particularly important because labour costs account for 58% of location-sensitive costs for the manufacturing sectors, and 79% for the service sectors.

Québec's performance in the service sectors is mainly attributable to its labour costs which are 37.4% and 52.7% lower than those in the United States and Germany respectively.

(1) Labour costs include wages and salaries, obligatory employee benefits paid by the employer and taxes based on remuneration, as well as other social benefits offered by the employer.



The lowest service costs

The total cost of transportation, telecommunications and electricity is lower in Québec than in major industrialized countries.

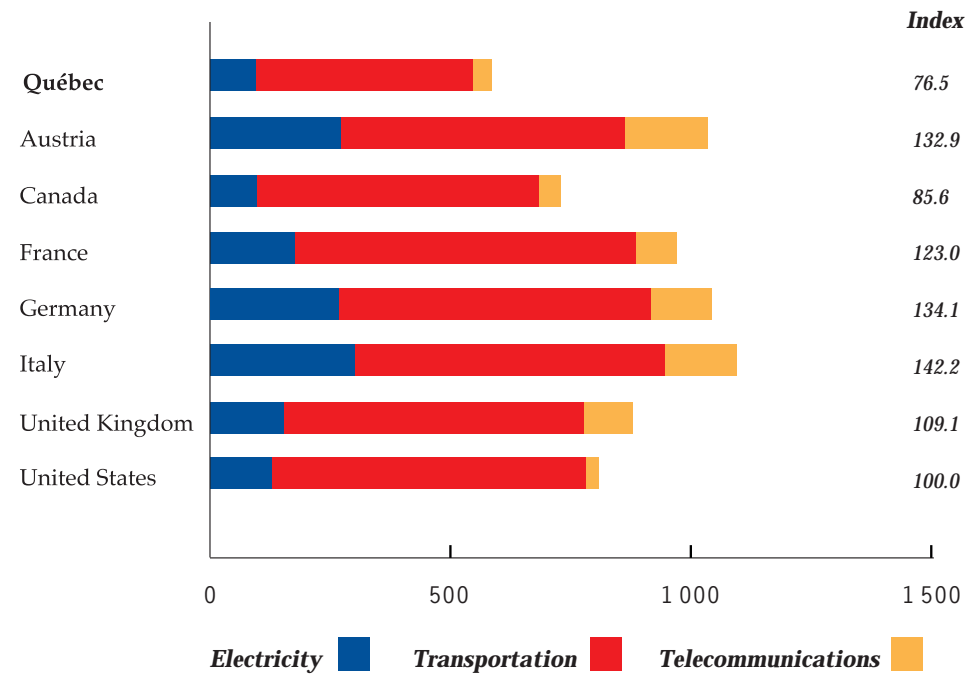
Québec's comparative advantage is 23.5% compared to the United States and 10.6% compared to Canada. Compared to European countries, this difference is even greater.

Chart 6

TOTAL COST OF SERVICES

Average for nine activity sectors - Québec and major industrialized countries

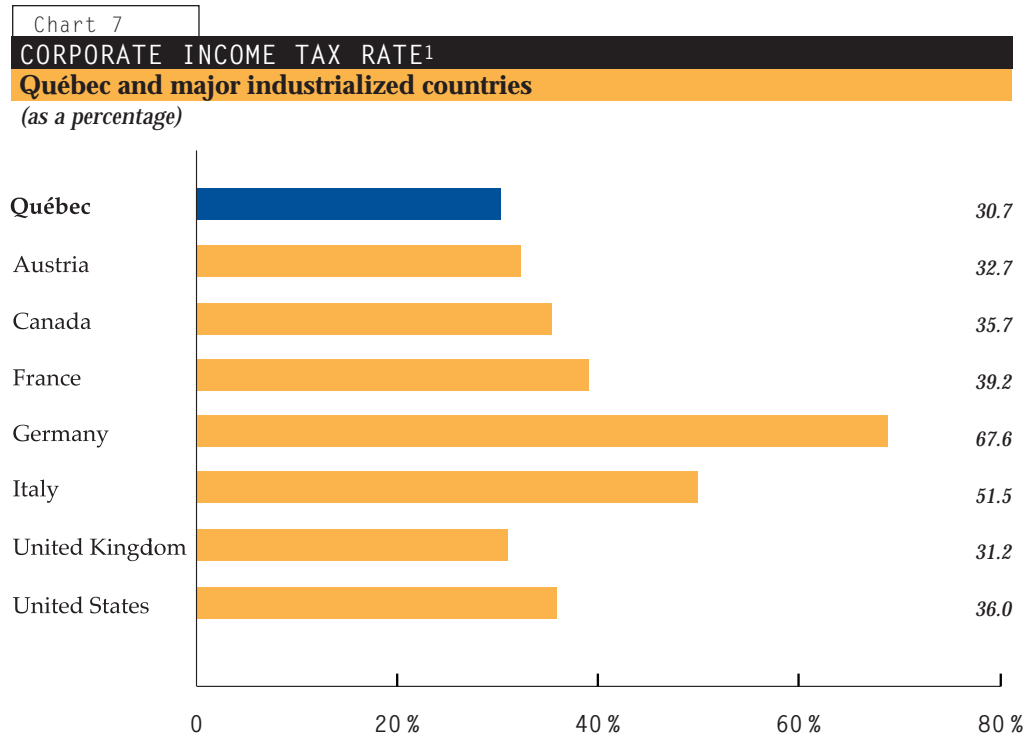
(in thousands of US dollars)



A favourable tax system for investment

Québec's competitive advantages are reinforced by tax provisions that apply to companies that locate in Québec.

- Corporate income tax rates are lower in Québec than in the other jurisdictions studied.
- Input tax refunds provide companies located in Québec with an advantage compared to the other jurisdictions studied in North America.
- The property tax in Québec is less than half the Canadian average, for the seven manufacturing sectors studied by KPMG.



(1) Effective tax rate for all levels of government in the jurisdiction in question.

Financial incentives

for investment: many sectors benefit

The North American section of the study assessed the impact of budgetary and tax incentives as a competitive advantage. The results, in thousands of US dollars per job created, show that Montréal ranks first, ahead of the other 12 North American cities, both in the manufacturing sectors and the service sectors. Montréal's advantage is substantially greater in the service sectors. Québec has implemented extremely generous tax measures to foster the development of service sectors, in particular for information technologies (software, multimedia) and international financial centres. All the other locations favour manufacturing sectors over service sectors.

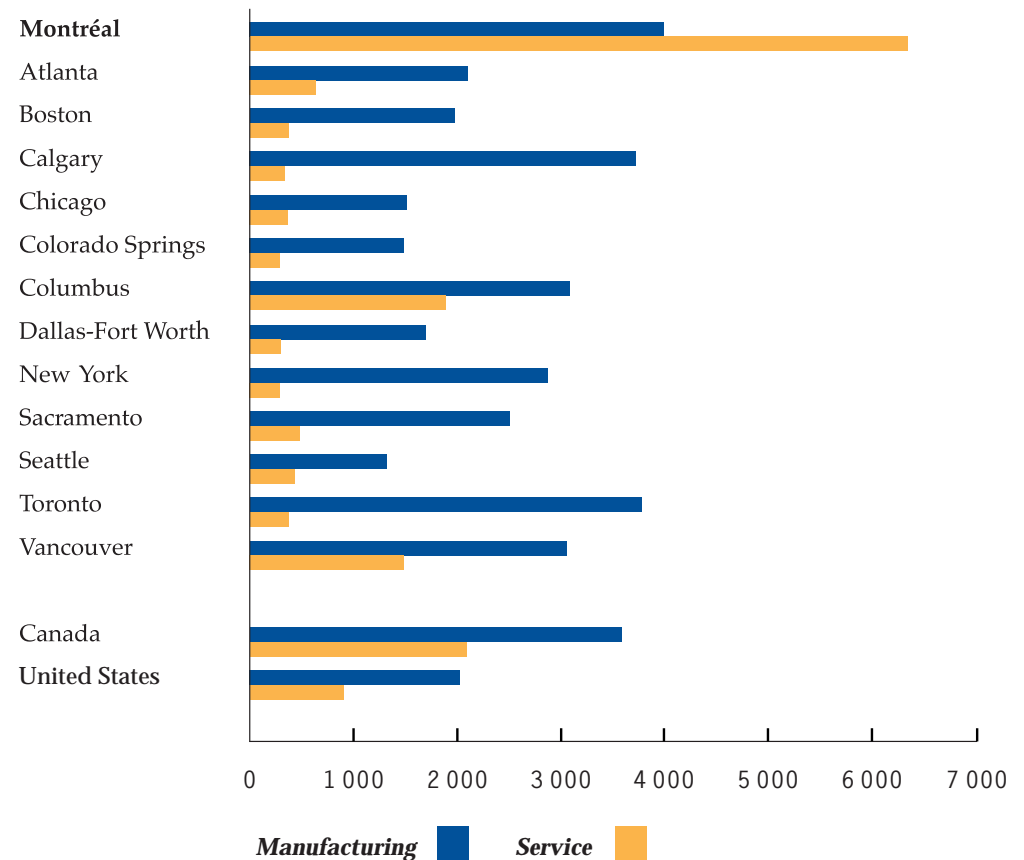
Chart 8

BUDGETARY AND FISCAL INCENTIVES

Average for twelve manufacturing sectors and six service sectors

Thirteen North American cities

(in thousands of US dollars per job created)



To obtain information on this study, a copy of the full report or sector-specific information, contact:

MINISTÈRE DES FINANCES
Direction des communications
12, rue Saint-Louis
Québec (Québec)G1R 5L3
Tel.: (418) 691-2233
Fax: (418) 646-1631
E-mail: dir.communications@finances.gouv.qc.ca