

Study: Influence of urban clustering on the productivity of firms, 1989 to 1999

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All manufacturing firms experience gains in labour productivity resulting from clustering together in cities, but the benefits differ between smaller and larger businesses.

The study focused on Canadian manufacturing establishments operating between 1989 and 1999. Labour productivity was measured as value added divided by the number of production workers.

Firms benefit from clustering in three ways — labour market pooling (local specialization in labour skills); density of upstream suppliers (the development of localized buyer-supplier networks); and knowledge spillovers, that is, knowledge that spills across firms working in the same industry in the same location.

The study found that virtually all plants reap productivity benefits from locating in places where there is a match between the skills they require and the skills of local workers.

However, these benefits are greater for smaller and younger businesses. These rely more on local labour markets to find workers with the skills that match their needs because their geographic foot print is more focused.

Larger and older firms still rely on local pools of labour. However, these firms have greater internal resources to find and attract workers from outside of the local area.

Younger, smaller firms also benefit more in terms of knowledge spillover. These firms, due to their age and size, have less well developed in-house capabilities to generate knowledge, or to draw less upon spatially extensive networks of affiliated firms and thus rely more on localized knowledge sources.

In contrast, older firms benefit most from access to a dense network of upstream suppliers. Regardless of size or complexity, older firms are better able to exploit the advantages of local supplier networks, because their production processes are more standardized. Therefore, portions of their production processes are more amenable to being outsourced to specialized suppliers.

Definitions, data sources and methods: survey number 2103.

The research paper "Urban Productivity: Who Benefits from Agglomeration Economies?", part of the *Economic Analysis Research Paper* series (11F0027M), is now available from the *Browse by key resource* module of our website under *Publications*.

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