Music Canada

Economic Impact Analysis of the Sound Recording Industry in Canada

April 12, 2012

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Executive summary

Introduction

PricewaterhouseCoopers LLP (PwC) was engaged by Music Canada (formerly the Canadian Recording Industry Association) to estimate the direct and indirect economic impacts of the Canadian sound recording industry (the recording industry). For the purpose of this study, the Canadian recording industry is defined as those companies involved in developing, publishing, manufacturing, distributing, marketing and promoting musical recordings and artists and performers. In Canada, the recording industry is comprised of four major record companies[1] and hundreds of independent companies that vary in size and scope.

The recording industry represents one segment of the broader music industry. The broader music industry can be defined as including live performing events, physical and digital retailers and the use of musical recordings in film and television. An even broader definition may include the manufacturing and sale of musical instruments, merchandising, tourism generated as a result of live musical performances and other related but non-industry revenues and activities. While the recording industry is only a subset of the music industry, it plays an important role in generating revenues for these activities and the resulting economic impacts.

The approach used in this study focuses on estimating the economic impacts of the total sound recording industry in Canada including the four major record companies and independent record companies. Economic impacts are provided for well-established measures of economic activity – GDP, wages and salaries, employment and government revenues – generated as a result of the expenditures and investments made by the industry.

In addition to the recording industry, a separate analysis of the estimated economic impacts from live musical performances is provided as part of this study. The impacts associated with live musical performances were included as record companies are more often structuring contractual agreements with artists and performers that provide them with a share of revenues from live performances and other associated revenue-generating activity.

While the recording industry also plays an important role in promoting and developing Canadian artists, musicians and performers in Canada and internationally, cultural benefits are not reflected in this study's estimate of the economic impacts as they are qualitative in nature and not easily measured.

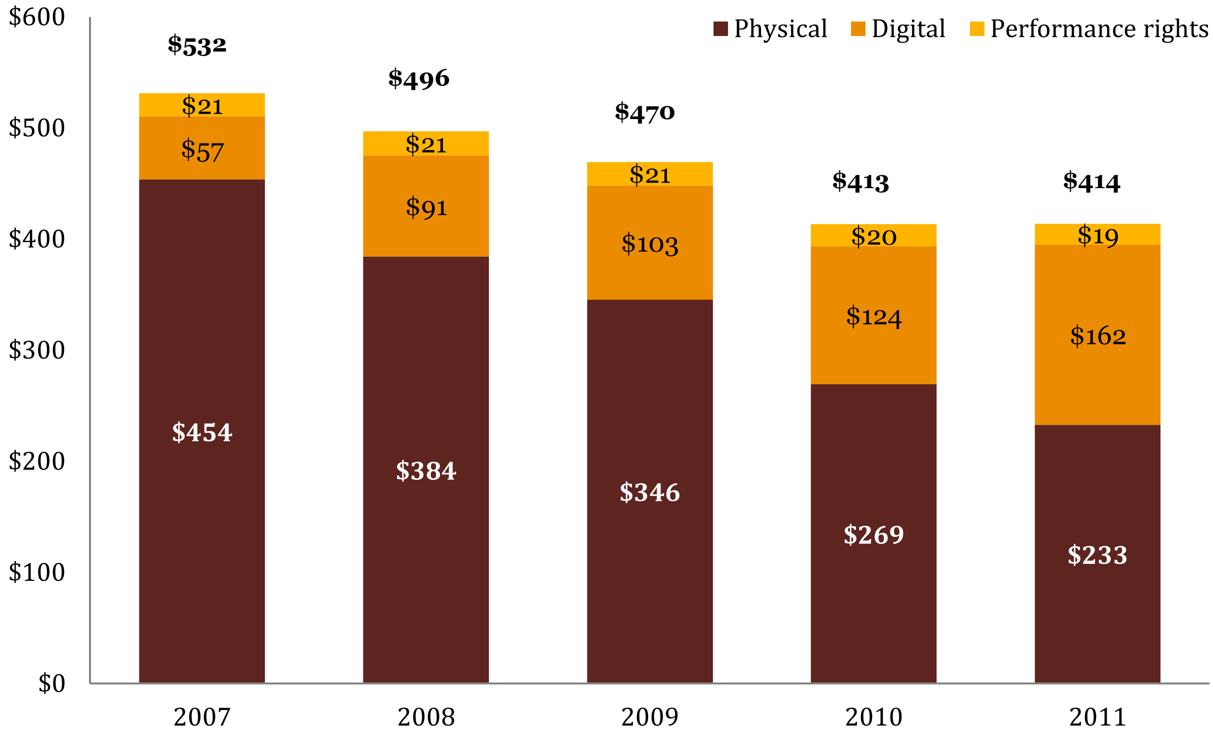
This report supersedes the report issued on February 2, 2012 to reflect information that became available after the February 2, 2012 report was issued to Music Canada.

Changing structure of the recording industry

Technological changes – and specifically the move to digital distribution – have significantly impacted the music industry and the recording industry in Canada. The diagram below shows the actual and forecast of revenues from physical and digital distribution of recorded music in Canada from 2007 to 2011.

[1] EMI Group Ltd. was split and sold on November 11, 2011. Universal Music Group purchased the recording division while Sony / ATV, a joint-venture between Sony Corp. and the Michael Jackson estate, purchased EMI's publishing division. The two-part sale is expected to be reviewed in Europe, the US, Japan and Australia before finalizing the sale arrangements.

Figure E.1 – Actual recording industry revenues in Canada by type ($ millions)



Source: Recording industry in numbers, 2011, IFPI

In 2007, total sales of recorded music in Canada totalled $532 million with revenues from digital distribution accounted for only 10.7% of these sales. From 2007 to 2011, total revenues from the sale of recorded music decreased by 28.5%. Even though revenues from the digital distribution of music almost tripled in that time period, this increase has not offset decreases in revenues from physical distribution. This gap is generally attributed to a combination of the shift from selling higher-priced albums of songs to lower-priced electronic singles, and the effects of internet piracy. In 2011, revenues from the digital distribution of recorded music were close to 70% of physical sales. Revenues from digital sales are expected to close this gap within the next few years. Of note is the slight increase in revenues from 2010 to 2011. This minor increase can primarily be attributed to the increase in digital sales, offset by a corresponding decrease in physical sales. In addition to increased sales in digital recordings, new sources of revenue from synchronization activity may grow over time and help to stabilize industry revenues.[2] The four major record companies in Canada, which have traditionally accounted for approximately 70% of total sales of recorded music, have experienced similar changes in overall industry activity as illustrated in the figure above.

What this means for Canada

The four major record companies account for the majority of overall sales activity, with approximately 70% of Canadian sales revenues, and account for approximately 72% of total industry expenditures excluding expenditures for royalties, rights, licensing and franchise fees, which are largely paid outside of the country.

[2] IFPI began reporting synchronization revenues in 2010 which refers to flat fees or royalties from the use of sound recordings in TV, films, games and advertisements. In 2010 and 2011, synchronization revenue for Canada was reported as $5.4 million and $15.9 million respectively.

The balance of industry revenues and expenditures are made up by the activity of independent and other related companies. In addition to generating revenues from commercial sales, royalties and other rights payments, independent companies are eligible to receive funding from government programs. In Canada, the Department of Canadian Heritage provides multi-year funding to FACTOR in English Canada and MusicAction in Quebec. In addition, commercial broadcasters in Canada contribute 3% annually from the transaction value of radio broadcasting acquisitions towards the development of the Canadian independent music industry through Radio Starmaker Fund and Fonds Radio Starmaker.

As expected, decreased industry revenues have led to decreased expenditures and investments by the recording industry. This has had a significant impact on the Canadian recording industry value chain – particularly in the context of the important role played by the four major record companies – and for Canada from a macroeconomic perspective. The tables below show the economic impacts of the Canadian recording industry in 2010 and 2009 respectively.

Table E.1 – Economic impact of the Canadian recording industry in Canada (2010)

	Direct Impact	Indirect Impact	Total Economic Impact
Output (Millions)	$261.2	$136.9	$398.1
GDP (Millions)	$158.4	$81.4	$239.8
Wages and Salaries (Millions)	$130.1	$48.7	$178.8
Government Revenues (Millions)	$31.6	$11.9	$43.5
Employment (Number of Jobs)	2,227	1,095	3,322

* Totals may not add up due to rounding

In 2010, the Canadian recording industry, as defined for the purposes of this study as including the four major record companies and independent record companies, had operating expenditures and investments in Canada of $261.2 million. These expenditures and investments resulted in an estimated direct economic contribution to Canada of $158.4 million in GDP. Including the indirect impacts, the Canadian recording industry contributed approximately $239.8 million to Canada's GDP. The bulk of this impact occurred in the Greater Toronto Area (GTA), where the majority of overall industry spending occurs. In terms of employment, the Canadian recording industry's direct expenditures resulted in total employment of approximately 2,227 jobs. Including the indirect economic impact, the industry contributed some 3,322 jobs across Canada. In 2010, the estimated average wage for the industry in Canada was $44,500 for indirect wages and$58,400 for direct wages.

In 2009, the recording industry had noticeably higher level of expenditures and investments in Canada. As the table below demonstrates, direct industry expenditures and their corresponding economic impacts were substantially higher.

Table E.2 – Economic impact of the Canadian recording industry in Canada (2009)

	Direct Impact	Indirect Impact	Total Economic Impact
Output (Millions)	$353.0	$177.8	$530.8
GDP (Millions)	$182.1	$95.1	$277.2
Wages and Salaries (Millions)	$141.1	$58.6	$199.7
Government Revenues (Millions)	$34.9	$19.7	$54.6
Employment (Number of Jobs)	2,795	1,351	4,146

*Totals may not add up due to rounding

Direct industry expenditures in 2009 were estimated at $353.0 million - $91.8 million higher than in 2010. As such, the economic contribution of the Canadian recording industry was larger in 2009. In terms of GDP, the Canadian recording industry contributed an estimated $277.2 million to the Canadian economy and was a source of approximately 4,146 jobs across Canada. In 2009, the estimated average wage for the industry in Canada was $50,500 for direct wages.

Declines in the recording industry's overall revenues, and as a result expenditures and investments, have led to a decreased economic contribution of the industry to Canada. As demonstrated in Tables E.1 and E.2 above, a comparison of impacts from 2010 to 2009 shows a decline in economic activity in Canada resulting from the Canadian recording industry. Total economic impact for GDP fell from an estimated $277.2 million to $239.8 million, a reduction of 16% and employment fell 20% from 4,146 to 3,322 jobs.

Contributions from live musical performances

In addition to the economic contributions made by the Canadian recording industry, additional contributions facilitated by the Canadian recording industry are provided through live musical performances. Economic impacts from live musical performances provide a considerable economic impact to Canada and especially to the GTA, where the greatest percentage of overall industry expenditures occur. Table E.3 below shows the economic impacts across Canada associated with household spending on live musical performances.

Table E.3 – Economic impact of live musical performances in Canada (2010)

	Direct Impact	Indirect Impact	Total Economic Impact
Output (Millions)	$302.0	$153.2	$455.2
GDP (Millions)	$170.5	$81.2	$251.7
Wages and Salaries (Millions)	$135.2	$52.3	$187.5
Government Revenues (Millions)	$37.1	$16.4	$53.5
Employment (Number of Jobs)	6,102	1,318	7,420

* Totals may not add up due to rounding

In 2010, the total GDP impact across Canada associated with live musical performances was estimated at $251.7 million and provided directly and indirectly approximately 7,420 jobs. In 2010, the estimated average wage for live musical performances was $22,200 for direct wages. As can be seen through this analysis, live musical performances are an important channel for establishing artists in the marketplace and are also partly facilitated by the recording industry.

Summary

While the recording industry in Canada has been challenged in recent years, economic impact estimates calculated as part of this study suggest that the industry – directly and from a facilitative perspective – continues to contribute to Canada's economy. While the industry contributed significantly more in the past than it does currently, the industry's decreased economic contribution to Canada can largely be explained by structural changes in the recording industry.

The sharp decline in industry revenues, which is largely related to technological and structural changes to the music industry including internet piracy, has led to decreased industry employment, a situation shared by the global industry. Other factors, including decreased prices for recorded music, have also contributed to decreased industry revenues, expenditures and investments made by record companies. Revenue forecasts for recorded music suggest that these trends may continue, however, at a slower pace. We understand that Music Canada and the recording industry in general are taking steps to address these negative trends.

1. Background and study purpose

1.1 Study objectives

Music Canada engaged PricewaterhouseCoopers (PwC) to estimate the economic impact of the Canadian recording industry. The objective was to obtain a greater understanding of the present economic contributions of the industry as generated by estimates of key economic indicators including contributions to GDP, employment, and taxes, nationally for Canada and for the provinces of Ontario and British Columbia, and the Greater Toronto Area (GTA). Included in this work is information provided by members of Music Canada and publicly available information used as inputs to an economic impact model.

Founded in 1964, Music Canada (formerly the Canadian Recording Industry Association) is a non-profit trade organization that represents Canada's major companies and their artists. Core members include: EMI Music Canada[3], Sony Music Entertainment Canada Inc., Universal Music Canada Inc., and Warner Music Canada Co. In addition to the major companies, Music Canada also extends membership benefits to some of Canada's leading independent record companies and distributors. Major record companies are involved with all facets of the recording industry, which includes manufacturing, production, promotion and distribution of music in Canada. Of significance for Canadian artists is the role the major record companies play in the development and support of Canadian musical talent, including live musical performances, throughout the world.

This report supersedes the reports issued on February 2, 2012 to reflect information that became available after the February 2, 2012 report was issued to Music Canada.

1.2 Definition of the Canadian sound recording industry

For the purposes of this study, the Canadian sound recording industry (recording industry) is defined as those activities that contribute to the development, manufacturing, publishing, distribution and marketing and promotion of musical recordings and musical artists/performers. The definition for the sound recording industry used in this study maps to the following North American Industry Classification System (NAICS) industry groupings: Sound Recording Industries (5122) and Musical Groups and Artists (71113).[4]

To enhance the sales of music and to promote artists that have signed with record companies, record companies undertake considerable expenditures in the marketing and promotion of artists and the music they produce. Both musicians and record companies earn revenues through the sales of physical CDs, digital distribution, performance rights, and live performances.

Given that musicians in Canada rely on revenue earned from live performances for a sizeable share of their music business earnings, and live performances are essentially a marketing and promotional tool for

3 EMI Group Ltd. was split and sold on November 11, 2011. Universal Music Group purchased the recording division while Sony / ATV, a joint-venture between Sony Corp. and the Michael Jackson estate, purchased EMI's publishing division. The two-part sale is expected to be reviewed in Europe, the US, Japan and Australia before arrangements are finalized.

4 The North American Industry Classification System (NAICS) is an industry classification system developed by the statistical agencies of Canada, Mexico and the United States. It is designed to provide common definitions of the industrial structure of the three countries and a common statistical framework to facilitate the analysis of the three economies.

album sales, expenditures on live performances are included in this study's definition of the Canadian recording industry.[5]

It is important to note what is not covered by this operational definition of the industry. This study makes the distinction between the Canadian sound recording industry and the broader Canadian music industry. Activities such as radio broadcasting, merchandise sold at concerts, physical retail among others, are excluded from this study.

1.3 Data collection, availability and reliability

Data to estimate the economic impact of the recording industry was obtained from the four major record companies that comprise the membership of Music Canada:

- Sony Music Entertainment Canada Inc.
- EMI Music Canada
- Warner Music Canada Co.
- Universal Music Canada Inc.

PwC created a data capture template, which was then provided to the four record companies above by Music Canada. The data capture template asked the record companies to provide information on their operating and capital expenditures in the GTA, the rest of Ontario, British Columbia and the rest of Canada for 2009 and 2010. Expenditure data provided was checked by PwC for reasonableness.[6] PwC did not verify or validate the accuracy of the data provided.

In addition to data obtained from the four record companies, Statistics Canada's catalogue no. 87F0008X, *Sound recording and music publishing*, was accessed to obtain industry expenditure data for the independent record companies.

To conduct the economic impact modelling, Statistics Canada's input-output tables were employed to estimate industry impacts. Input-output tables depict the industrial structure of the Canadian economy and are used to generate estimates of industry contributions. More specifically, the input-output tables show the sales and purchases from one industry to another. They are used to estimate direct and indirect economic impacts. Household spending data and other relevant data from Statistics Canada was also used to estimate the total impact of the Canadian recording industry.

A separate data set of household expenditures related to live performances was used to estimate the economic impacts of live musical performances in Canada.

A literature review of global and national industry trends and issues was conducted including a review of PwC's *Global entertainment and media outlook, 2011-2015 (PwC Outlook)*. Consultations on industry matters were also conducted with PwC subject matter specialists.

1.4 Organization of the report

The report is structured as follows:

- **Section 1** provides the background and study purpose
- **Section 2** provides a profile of the Canadian recording industry

5 An overview of the financial impact of the Canadian music industry, Douglas Hyatt, Ontario Media Development Corporation, 2008.
6 Expenditure data received from the four major record companies was checked against publically available sources, such as Statistics Canada, to ensure the proportions spent coincided with literature on the recording industry in Canada.

- **Section 3** provides the results of the economic impact analysis for Canada, Ontario/GTA and British Columbia using data provided by the four major record companies and supplemented by data obtained from Statistics Canada
- **Section 4** provides the results of the economic impact of live muscial performances in Canada using household expenditure data from Statistics Canada
- **Appendix A** provides a comparative analysis of the industry's estimated economic impact results using Statistics Canada's 2010 data set released on March 19, 2012 and the results from using actual data provided by the four major record companies.

1.5 Restrictions and limitations

This report was prepared by PricewaterhouseCoopers LLP (PwC) at the request of Music Canada. The comments included in this report do not constitute professional advice, nor should they be relied upon to replace professional advice. This report is not to be published in whole or in part without PwC's prior written consent. Any use that a third party makes of this report or reliance thereon, or any decision made based on it, is the responsibility of such third party. PwC accepts no responsibility for damages, if any, suffered by any third party as a result of decisions made or actions taken based on this report.

The material in this report reflects PwC's best judgement in light of the information available at the time of its preparation. PwC has relied upon the completeness, accuracy and fair presentation of all the information, data, advice, opinion or representations obtained from public sources and from Music Canada (collectively, the Information). The findings in the report are conditional upon such completeness, accuracy and fair presentation of the Information. PwC has not verified independently the completeness, accuracy and fair presentation of the Information.

PwC reserves the right, at its discretion, to withdraw or make revisions to the report should PwC be made aware of facts existing at the date of the report which were not known to PwC when it prepared the report. The findings are given as of the date hereof and PwC is under no obligation to advise any person of any change or matter brought to its attention after such date which might affect the report's findings and conclusions.

2. Profile of the Canadian recording industry

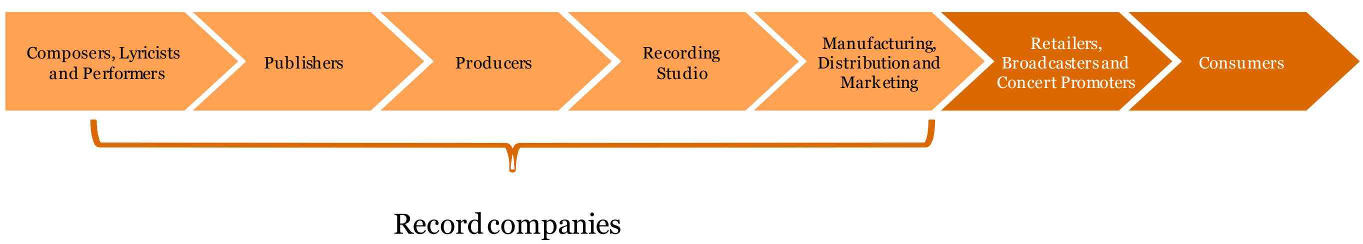
2.1 Introduction

The following section of this report describes the sound recording industry value chain and an overview of the Canadian recording industry. To provide industry context for the activity generated by the record companies, it is important to illustrate where in the value chain record companies fit. In Canada, the recording industry value chain is made up of seven major components, of which five components define record company activity. Record companies play an important role in the recording industry value chain by producing, recording and distributing and marketing music. Record companies also have publishing arms that support the development of artists. As such, they hold a strategic and important position in the value chain by playing an active and significant role in developing talent and in interacting with consumers.

2.2 Recording industry value chain

The recording industry is comprised of many players that work together to provide value to the end user – the consumer – by creating music content, bringing new artists and performers to the market and distributing content in a variety of formats to the consumer. Figure 1 shows a simplified version of the value chain that characterizes the recording industry and highlights the critical role played by record companies.

Figure 1 – Recording industry value chain



The recording industry value chain can be separated into different stages of development with varying degrees of record company involvement. In the first stage, music and lyrics are composed and become published and available to be performed by musicians with support from record companies. This is followed by the production, recording, distribution and marketing, the principal value chain activities undertaken by record companies. When music is available in physical or digital format, it is available for distribution to the consumer. A more detailed description of these activities follows:[7]

Composers, lyricists and performers

Composers, lyricists and performers are the creative backbone of the industry and write and perform the music and words that comprise Canadian music. Canadian musicians have become widely recognized in the United States and internationally, particularly in the field of popular music. Record companies contribute funds to this activity and therefore play an important role in the creative process.

[7]Descriptions of the key players in the Recording Industry value chain are adapted from The Canadian music industry. Heritage Canada. http://www.pch.gc.ca/pgm/em-cr/evaltn/2007/2007-04/105-eng.cfm and http://www.telefilm.gc.ca/document/en/01/17/NordicityMusicReport.pdf.

Record companies play an important role as managers to some composers, lyricists and performers, although some artists have managers who are not affiliated with a record company. The manager's key responsibility is to negotiate business matters on behalf of the artist, which may include those related to bookings, handling copyright issues, marketing and promotion, negotiating performances, recording, and performance contracts, and financial and business management and planning.

Publishers

Publishers act on behalf of composers, lyricists and performers to exploit and generate income created by the songwriter. Publishers manage the royalty income a songwriter earns through the three main types of income streams: mechanical, performance and synchronization royalties. Mechanical royalties are generated from the sale of music on physical and digital formats. Performance royalties are generated from the performance of music, whether live, recorded or broadcast. Income earned from the streaming of music via the internet would also qualify as performance royalties. The use of an artist's music in film, TV and other audiovisual formats (i.e., video games) generates synchronization royalties. The four major record companies in Canada play an important role in the generation of royalty revenues.

Producers

Producers oversee the recording and production of music. Responsibilities of producers include arranging recording sessions and providing artistic input into the recording and post production of the recordings. Record companies can also play an important role in the creative process.

Recording studios

Recording Studios are facilities used to record music, built to be mindful of acoustic effects, and fitted with necessary equipment, including recording devices, mixers to integrate multiple sound sources, synthesizers, samplers, microphones, amplifiers and other similar equipment, all needed to produce a master recording. The four major record companies operating in Canada make significant expenditures in the recording and post-production of music.

Manufacturing, distribution, and marketing

Once the master recordings are created, manufacturers transform them into mass produced media such as compact discs. In addition to duplication and replication services, manufacturers may offer other services such as in house mastering, graphic design for packaging and discs, production of special promotional CDs such as shaped discs, and the creation and manufacture of posters. Record companies can also play this role in the recording industry value chain – a significant portion of record company's overall expenditures fall into this category.

Distributors ensure that pre-recorded music is available in retail stores. Often working closely with Record companies, they will offer marketing assistance such as advertising support, free promotional copies, and persuasive arguments in an effort to convince retailers to stock the product. Distributors may be general distributors, carrying a wide variety of product, specialized retailers carrying limited selections of popular products, or independent distributors, carrying product for companies unaffiliated with large multinational companies. Record companies also act as distributors for their musician's product.

Distribution of recorded music to consumers now takes place through several pathways, both physical and online, ranging from specialized to general retailers and from online to physical stores.

Retailers, broadcasters, and concert promoters

Consumer options now include large "box" retailers such as Wal Mart and Costco, electronics focused vendors such as Future Shop and Best Buy, and, media specialized vendors such as Indigo and HMV – all of which have both physical and online retail outlets. Other options are exclusively online retailers, such as Amazon.ca, which will ship physical media and Apple's iTunes, which provides downloads. Significant changes have occurred in the retail segment of the recording industry value chain. In 2010, worldwide music revenues generated from licensed digital music services represented 29% of total revenues (US$4.6 billion).[8]

Another important distribution avenue for music is live performances. Concert promoters are responsible for producing live performance events, ranging from a one off show to a national or international tour and are responsible for assuming the financial risk of staging the event, and negotiating and overseeing the services and vendors needed to make the performance possible.

Radio broadcasters have always been an important outlet for music. Using an advertising-based business model that includes paying a portion of revenues to copyright collectives for the use of recorded music, radio broadcasters have been a vehicle through which artists can reach audiences, stimulate demand, and become exposed to new markets.

Consumers

Consumers are the most important part of the recording industry value chain and their tastes and preferences drive the development of music and the activities of musicians, record companies and other players active in the value chain. Record companies play an important role in interacting directly with consumers through marketing and promotion, and distribution activities. Their understanding of consumer preferences and tastes is integral to the creative process indicating that record companies play an important role in the recording industry value chain.

In summary, record companies play a central role in the value chain by publishing, producing, recording, distributing and marketing music to retailers, broadcasters and consumers. In addition, record companies play an important role in developing talent and by taking part in the creative process. Through marketing and promotion activities record companies interact directly with consumers to gain an understanding of consumer tastes and preferences that they then rely on to produce and distribute music profitably. Record companies invest considerable funds to market and promote the music artists produce.

2.3 About the recording industry in Canada

The recording industry in Canada is comprised of four major record companies and hundreds of small and medium-sized independent record companies. The major record companies comprise the far majority of overall sales activity in Canada (approximately 70%) and can better absorb losses while providing a higher level of marketing support to their artists than independent record companies.[9] It is common for some independent companies to have distribution and promotion agreements with the large companies to complement the services they provide to artists. This study uses expenditure data provided by the four major record companies to identify overall expenditures for the sound recording industry in order to estimate the economic impacts generated. Record company data has been supplemented by including expenditure data available from independent record companies available from Statistics Canada. The four major record companies in Canada include:

- Sony Music Entertainment Canada Inc.
- EMI Music Canada[10]
- Warner Music Canada Co.
- Universal Music Canada Inc.

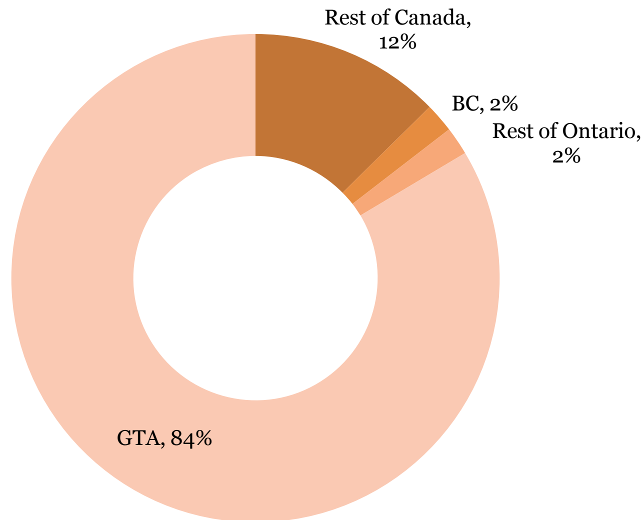
[8] http://www.ifpi.org/content/library/dmr2011.pdf

[9] The Canadian music industry. Heritage Canada. http://www.pch.gc.ca/pgm/em-cr/evaltn/2007/2007-04/105-eng.cfm

[10] EMI Group Ltd. was split and sold on November 11, 2011. Universal Music Group purchased the recording division while Sony / ATV, a joint-venture between Sony corp. and the Michael Jackson estate, purchased EMI's publishing division. The two-part sale is expected to be reviewed in Europe, the US, Japan and Australia before finalizing the sale arrangements.

Canada's recording industry is primarily located in the GTA and the majority of expenditures and investments occur in the GTA. Figure 2 below shows the geographic distribution of the four major record compnay expenditures and investments in 2010.

Figure 2 – Geographic distribution of major record company expenditures (2010, %)



As Figure 2 demonstrates, a significant majority of the four major record company expenditures occur in the GTA. In 2010, these companies spent and invested some $157.8 million in the GTA, which represents 84% of major record label expenditures.

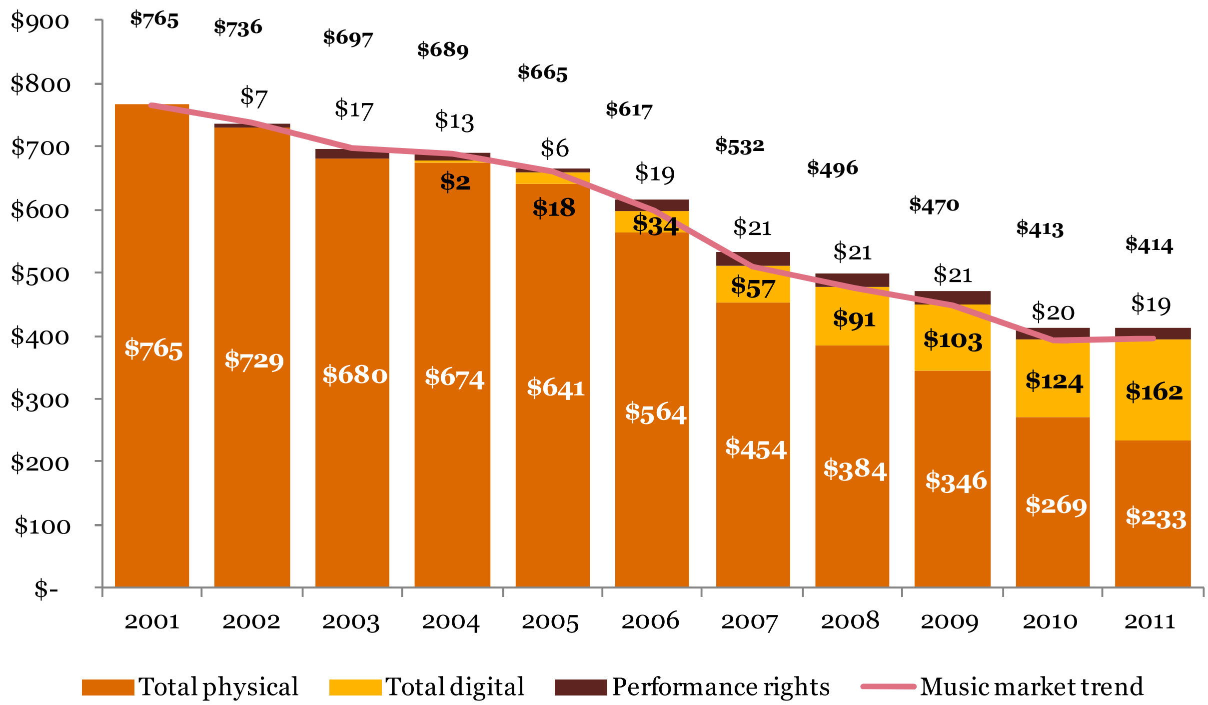
2.4 Industry size in Canada

The recording industry in Canada has undergone significant structural change that has had an adverse impact on the revenues of the four major record companies and the broader sound recording industry. Structural changes occurring in the industry are the result of the migration of consumers from physical product to digital. Accompanying the technology transition is the pervasiveness of piracy from downloading music accessible on internet sites.

Industry revenues

Figure 3 below shows the revenues of the sound recording industry in Canada from 2001 to 2011 as reported by the International Federation of the Phonographic Industry (IFPI). Revenues reported by the four major record companies represent approximately 70% of the overall sales activity in the recording industry in Canada.

Figure 3 – Revenues of sound recording industry in Canada, 2001 to 2011 ($ millions)



Source: International Federation of the Phonographic Industry (IFPI)

From 2001 to 2011, revenues of the sound recording industry in Canada have decreased from $765 million to $414 million. While revenues from digital distribution have increased since 2004 (when Apple introduced iTunes) – from $2 million to $162 million – this increase has not offset the decline in revenues from the physical distribution of music. Indeed, all of the loss in revenues since 2001 can be attributed to traditional revenues forms. However, implicit in this fall in revenue include two key elements: 1) changes in demand for physical music (i.e., CD's) and 2) a fall in price. In 2011, revenues from physical distribution of music were $233 million – a decrease of nearly two-thirds since 2001.

In addition to generating revenues from commercial sales, royalties and other rights payments, independent record companies are eligible to receive funding from government programs. Government programs for the independent music industry are funded through multi-year agreements with the Department of Canadian Heritage which supports FACTOR in English Canada and MusicAction in Quebec. Since 2006, the Department of Canadian Heritage has provided $41.6 million to FACTOR.

Additional funding contributions for the development of the Canadian music industry are provided by commercial and satellite radio broadcasters. In a 1998 ruling, the CRTC authorized an annual allocation of 3% from the transaction value of radio broadcasting acquisitions to a fund administered through the Canadian Association of Broadcasters (CAB) that would be available to support the Canadian independent music industry. In 2001, RadioStarmaker Fund and the Fonds RadioStar began operations with these annual contributions from commercial and satellite radio broadcasters. Additional contributions from radio and satellite broadcasters are also provided to FACTOR and MusicAction. Both independent and major record companies are eligible for radio broadcast funds although the majority of funding is directed towards the independent music industry as shown in Table 1.

As Table 1 shows that in 2010, the Department of Canadian Heritage contributed $8.4 million to FACTOR and $6.4 million to MusicAction with contributions from radio broadcasters of $9.8 million and $2.0

million respectively. During 2010, FACTOR awarded $15.9 million to members of the independent music industry while MusicAction awarded $8.0 million.

Table 1 - Public and private funding to the development of the independent music industry

Funding Organization	FACTOR	MusicAction	Radio Starmaker Fund	Fonds RadioStarmaker	Total Contributions
Canadian Heritage (millions $)	$8.4	$6.4	$-	$-	$14.8
Commercial Broadcasters (millions $)	$9.8	$2.0	$7.7	$2.2	$21.7
Total (millions $)	$18.2	$8.4	$7.7	$2.2	$36.5
Awards to members of independent music industry (millions $)	$15.9	$8.0	$7.2*	$1.8	$32.8

Source: Annual Reports 2010-2011, FACTOR, MusicAction, Radio Starmaker Fund, Fonds RadioStarmaker

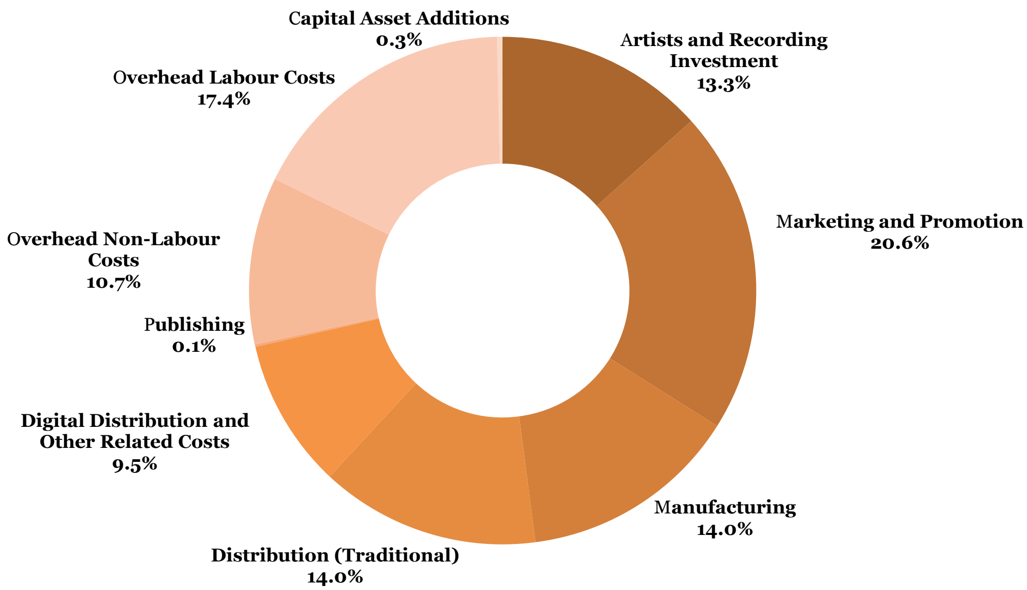
*Major record companies were granted awards of $415,476 or 5.8% of total awards from the Radio Starmaker Fund but otherwise do not receive funding from FACTOR or MusicAction programming.

Industry expenditures

The diagram below demonstrates the range of activity the four major record companies in Canada engage in across the recording industry value chain. The top three categories of expenditures made in Canada by the four major record companies include: digital and traditional distribution of music activities accounting for the largest share of total expenditures at 23.5%, marketing and promotion activities accounting for 20.6% of total expenditures, while investments in artists and recording investment represent 13.3% of total expenditures. Expenditures for artists and recording investments are associated with scouting for talent and overseeing the artistic development of musicians, artists and performers. Figure 4 shows the breakdown of the expenditures of the four major record companies made in Canada during 2010.

In comparison to the four major record companies, the majority of independent record companies are smaller companies, generally focused on a more narrow range of value chain activity that includes producing and recording artists. Independent record companies often form partnerships with the major record companies for manufacturing, marketing and distributing product. As only aggregate expenditure and investment data is available for the total industry, a further breakdown of expenditure data for the independent record companies was not available.

Figure 4 – Major record label industry expenditures by type of expenditure (2010)



Source: PwC aggregation of major record companies Canadian expenditures

Expenditures and investments of the four major record companies in Canada – which are an important part of the recording industry value chain – have decreased significantly since 2000. In addition to impacting the recording industry value chain, this has decreased the economic contribution the industry provides to Canada.

From 2009 to 2010, overall expenditures and investments of the four major record companies decreased from $255.2 million to $188.8 million: expenditures and investments associated with marketing and promotion decreased by $34 million; overhead non-labour costs decreased by $27 million; and, investments in artists and performers decreased by $13 million. On the other hand, expenditures associated with digital distribution of music increased, which follows increased revenues from this increasingly important source of revenue for the four major record companies.

In comparison, total industry expenditures reported in 2010 by Statistics Canada differ markedly from the actual expenditures provided by the four major record companies. When royalties are excluded, the total industry expenditures reported for 2010 are $350.8 million, which is 25% higher than the total expenditures calculated using the actual expenditures reported by the four major record companies. Through discussions with Statistics Canada, the difference between the two sets of numbers can be attributed to the following two factors: (1) the structural changes occurring within the industry as a result of digital innovation and the four major record companies response by reducing expenditures given declining revenues, and (2) the inherent time lag in statistical data collection and methodology used by Statistics Canada to report the 2010 industry statistics. As such, for purposes of this report, actual expenditures by the four major record companies were considered to more accurately reflect overall industry expenditures in 2010. For comparison purposes, the estimated economic impacts for the industry using Statistics Canada's 2010 industry expenditures is provided in Appendix A.

Table 2 below illustrates the relationship between actual expenditures of the four major record companies to total industry expenditures in 2009 reported by Statistics Canada as being 72%. The difference indicates that independent record companies make up the balance or approximately 28% of industry expenditures. From this relationship, and with no indication that this ratio has changed, the same 72% to 28% ratio was assumed to apply in 2010 and has been used to estimate 2010 expenditures for the independent record companies as shown in the Table 2.

Table 2 –Estimate of total industry expenditures for the recording industry in Canada, (2010)

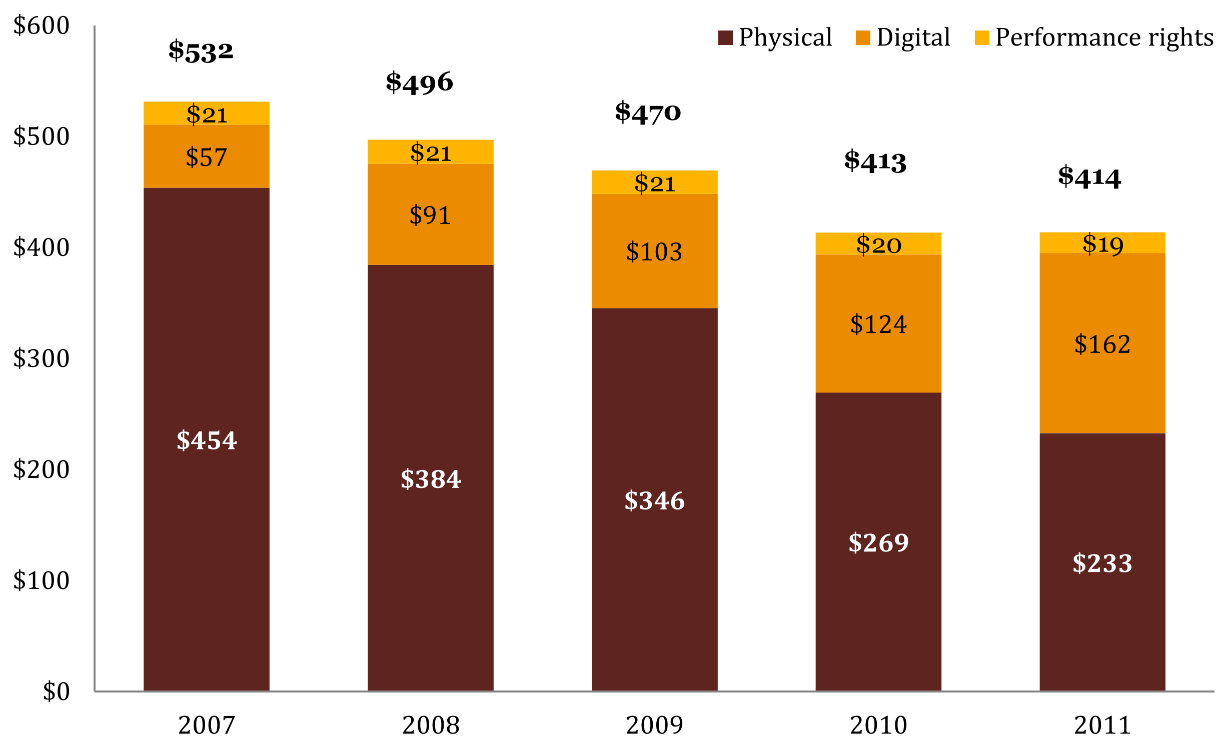
	Statistics Canada expenditures, 2009 ($ millions)	Industry expenditures, based on four major record companies, 2010 ($ millions)
Four major record companies*	$255.2*	$188.8*
Independent record companies	$97.8	$72.4
Total industry	**$353.0****	**$261.2**

Notes:
*Four major record company's actual Canadian expenditure data for 2009 and 2010
**Statistics Canada Catalogue no. 87F0008X 2010 (excluding royalties, rights, licensing and franchise fees)

2.5 Changing structure of the recording industry

Technological changes – and specifically the move to digital distribution – have significantly impacted the music industry and the recording industry in Canada. Taking data from IFPI, the diagram below shows the actual revenues from physical and digital distribution of recorded music in Canada from 2007 to 2011. The purpose of the figure is to demonstrate the shift from physical product to digital from 2007 to 2011.

Figure 5 – Actual recording industry revenues in Canada by type, 2007 to 2011 ($millions)



Source: Source: Recording industry in numbers, 2011, IFPI

In 2007, total sales of recorded music in Canada totalled $532 million and revenues from digital distribution accounted for only 10.7%. From 2007 to 2011, total revenues from the sale of recorded music decreased by 28.5%. Even though revenues from digital distribution of music almost tripled, this increase has not offset decreases in revenues from physical distribution. This gap is generally attributed to a combination of the shift towards consumer preferences to purchase lower-priced electronic singles rather than higher-priced albums of songs, and the effects of piracy.

In 2011, revenues from the digital distribution of recorded music were close to 70% of physical sales. As can be seen in the trend illustrated in the chart above, revenues from digital distribution of recorded music are expected to close the gap with physical sales within the next few years. Also of note in the chart above is the slight increase in revenues from 2010 to 2011. This minor increase can primarily be attributed to the increase in digital sales, offset by a corresponding decrease in physical sales.

In addition to increased sales in digital recordings, new sources of revenue from synchronization activity may grow over time and help to stabilize industry revenues.[11] The four major record companies in Canada, which have traditionally accounted for approximately 70% of total sales of recorded music, have experienced similar changes in overall industry activity as illustrated above.

[11] IFPI began reporting synchronization revenues in 2010 which refers to flat fees or royalties from the use of sound recordings in TV, films, games and advertisements. In 2010 and 2011, synchronization revenue for Canada was reported as $5.4 million and $15.9 million respectively.

3. Economic impact of the recording industry

3.1 Economic impact methodology

This study uses input-output accounts to estimate the impact of the activities of the Canadian recording industry in 2010 in the following regions: Canada, Ontario, British Columbia and the GTA. The input-output approach was selected because of its widespread use and because it facilitates comparisons with economic impact studies of other industries. The fundamental philosophy behind economic impact analysis is that changes (increases or decreases) in expenditures are multiplied throughout the economy. An increase in spending on some goods and services generates a need for additional goods and services. Using input-output analysis, we are able to track this cascading effect through the various economies (regional and national). Using the input-output tables for Canada, Ontario and British Columbia, the appropriate economic impact multipliers were developed and applied to arrive at the estimated economic impacts of the Canadian recording industry activities.

Economic impacts may be estimated at the direct and indirect levels.

- **Direct impacts -** are changes that occur in "front-end" businesses that initially receive expenditures and operating revenue as a direct consequence of the operations and activities of a business. For the recording industry, these include operating expense activities directly attributable to the recording industry, such as hiring a digital marketing manager to maximize the sales potential of the current artists online and expand the e-commerce division of the label.
- **Indirect impacts -** arise from changes in activity for suppliers of the "front-end" businesses. For example, the digital marketing manager would purchase materials such as computers, software and content, thereby impacting manufacturers of computer systems, software production, and content creators such as photographers, and graphic designers among others.

Estimating direct and indirect economic impacts are generally done through the use of input-output multipliers. The most commonly used of these measures are output, Gross Domestic Product (GDP), employment, salaries and wages, and government tax revenues. Each of these measures is described below.

- **Output -** the total gross value of all business revenue. Output represents the total sum of all economic activity that has taken place in connection with expenditures made through the Canadian recording industry. This is the broadest measure of economic activity.
- **GDP** - the "value added" to the economy. Since the GDP figure captures the difference between the value of output and the value of intermediate inputs, it represents the unduplicated total value of economic activity that has taken place. The GDP impacts in this report represent the value-added to the economy as a result of the expenditures of the record companies in Canada.
- **Employment -** the number of additional jobs created as a result of the expenditures made by record companies in Canada.
- **Salaries and Wages -** measures the additional salaries and wages generated and includes direct wages and salaries, as well as supplementary labour income and mixed income sources.
- **Government Tax Revenues -** the total amount of tax revenues generated and includes estimates of personal income taxes, indirect taxes less subsidies (e.g. sales tax), corporate income taxes and a measure of the total amount of tax revenues generated for each level of government (municipal, provincial and federal).

Input-output analysis does not address whether the inputs have been used in the most productive manner or whether the use of these inputs in this industry promotes economic growth by more than their use in another industry or economic activity. Nor does input analysis evaluate whether, when or where these inputs might be employed elsewhere in the economy if they were not employed in this industry at this time. Input-output analysis reports the direct and indirect economic impacts which can reasonably be expected to result in the economy when these inputs are used in this industry, based on historical relationships within the economy.

Data Sources

For this study, we have used 2009 as the base year for estimating the impacts of the total industry that includes the four major record companies and the independent companies. Data sources include:

- Statistics Canada input-output tables
- Statistics Canada data on household spending
- Expenditure data gathered from the major Canadian record companies.
- Expenditure data reported by Statistics Canada for the sound recording industry, catalogue no. 87F0008X

3.2 Estimated economic impacts to Canada

The direct and indirect economic impacts presented in Table 5 are based on the Canadian sound recording industry's expenditures of $261.2 million in 2010. The approach taken in this study was to estimate the economic impacts of the Canadian sound recording industry focusing on the actual expenditures and investment patterns of the four major record companies. To ensure the balance of industry expenditures attributable to the independent record companies were included, a comparison of total industry expenditures as reported in 2009 by Statistics Canada against the actual expenditure data received from the four major record companies was made. This comparison indicated that the four major record companies accounted for 72% of industry expenditures with the independent record companies accounting for 28% of industry expenditures.

The total value of industry expenditures used as inputs to run the economic impact model differs from the 2009 total industry expenditures reported by Statistics Canada. Expenditures for royalties, rights, licensing and franchise fees have been excluded as inputs to the model as the majority of these payments are made outside of Canada. In addition, an adjustment has been made to account for the four major record companies expenditures made in Quebec of approximately 7% on average.

To ensure the allocation of industry impacts across Canada was consistent with spending by both the four major companies and the independent companies, an adjustment of 7.5% of total industry expenditures was applied to independent label spending to account for the larger percentage of spending by independent companies in Quebec. The remainder of the independent record company expenditures were allocated across the regions in similar proportions as the four major record companies. Table 3 outlines the geographic distribution of spending across Canada for the industry.

Total industry expenditures used to run the 2010 economic impact estimates were based on actual expenditure data received from the major record companies instead of 2010 expenditure data reported by Statistics Canada as the Statistics Canada data reported appeared to overstate industry expenditures. We understand from speaking with Statistics Canada that the methodology used to collect the 2010 data was based on a sampling methodology that, given the information from the four major record companies we have available to us, did not appear to capture a representative sample of the four major record company's expenditures. As a result, the actual expenditure data provided by the four major record companies was used as the basis of our analysis. Using the 2010 expenditure data provided by the four major record companies, the ratio of major companies to independent companies spending (72% / 28%) was applied to derive total industry expenditures for 2010.

For comparison purposes, economic impact estimates for the sound recording industry at a national level for 2010 were prepared using the 2010 Statistics Canada expenditure data and are provided as Appendix A.

Table 3 below illustrates the composition of total industry expenditures for the Canadian recording industry in 2009 and 2010 adjusted to exclude non-Canadian spending.

Table 3 –Estimation of total industry expenditures for the recording industry in Canada

	Expenditures, 2009 (millions $)	Ratio, 2009	Expenditures, 2010 (millions $)	Ratio, 2010
Four major record companies*	$255.2	72%	$188.8	72%
Independent record companies	$97.8	28%	$72.4	28%
Total industry	$353.0**	100%	$261.2***	100%

Note:

*Expenditure data provided by the four major record companies for 2009 and 2010

**Statistics Canada Catalogue no. 87F0008X (less royalties, rights, licensing and franchise fees)

***PwC calculation

Table 4 below illustrates the geographic distribution of the four major record and independent record company expenditures in 2010.

Table 4 – Geographic distribution of the Canadian recording industry expenditures, 2010

	Canada	GTA	Rest of Ontario	British Columbia	Rest of Canada (including Quebec)
Major record companies ($m)	$189	$158	$4	$4	$23
% of total	*100%*	*84%*	*2%*	*2%*	*12%*
Independent companies ($m)	$72	$47	$1	$1	$23
% of total	*100%*	*65%*	*1.5%*	*1.5%*	*32%*
Total ($m)	**$261**	**$205**	**$5**	**$5**	**$46**
% of total	***100%***	***79%***	***1.5%***	***1.5%***	***18%***

As Table 4 demonstrates, a significant majority of record company expenditures occur in the GTA. In 2010, the four major record companies spent $158 million in the GTA, which represents 84% of their spending. The independent record companies spent and invested some $47 million or 65% of their expenditures in the GTA.

In 2010, the Canadian recording industry had operating expenditures and investments in Canada in the amount of $261.2 million. As shown in Table 5, these expenditures and investments resulted in an estimated direct economic contribution to Canada of $158.4 million in GDP. As a result, expenditures can be said to have generated an estimated $239.8 million in direct and indirect contributions to GDP through spending by the Canadian recording industry. In terms of employment, the Canadian recording industry's direct expenditures resulted in total employment of approximately 2,227 jobs. When the indirect economic impact is included, the industry contributed some 3,322 jobs across Canada. The estimated average wage for the industry in Canada was $44,500 for indirect wages and $58,400 for direct wages.

Table 5 – Economic impact of the recording industry in Canada (2010)

	Direct Impact	Indirect Impact	Total Economic Impact
Output (Millions)	$261.2	$136.9	$398.1
GDP (Millions)	$158.4	$81.4	$239.8
Wages and Salaries (Millions)	$130.1	$48.7	$178.8
Government Revenues (Millions)	$31.6	$11.9	$43.5
Employment (Number of Jobs)	2,227	1,095	3,322

*Totals may not add up due to rounding

In 2009, the Canadian recording industry experienced a much higher level of expenditures and investments in Canada. As Table 6 indicates, direct industry expenditures (output) and the corresponding estimates of economic impacts were substantially higher in 2009 than in 2010.

Table 6 - Economic impact of the recording industry in Canada (2009)

	Direct Impact	Indirect Impact	Total Economic Impact
Output (Millions)	$353.0	$177.8	$530.8
GDP (Millions)	$182.1	$95.1	$277.2
Wages and Salaries (Millions)	$141.1	$58.6	$199.7
Government Revenues (Millions)	$34.9	$19.7	$54.6
Employment (Number of Jobs)	2,795	1,351	4,146

*Totals may not add up due to rounding

Direct industry expenditures in 2009 were estimated at $353.0 million, which was $91.8 million higher than they were in 2010. As a result, the economic contribution of the recording industry was larger in 2009. In terms of GDP, the recording industry contributed an estimated $277.2 million to the Canadian economy and was a source of approximately 4,146 jobs across Canada. In 2009, the estimated average wage for the industry in Canada was $43,400 for indirect wages and $50,500 for direct wages.

Declines in the recording industry's overall revenues, and the resulting decline in expenditures and investments, have lead to a decreased economic contribution of the industry to Canada. Notably, total economic impact from GDP fell from an estimated $277.2 million in 2009 to $239.8 million in 2010 representing a reduction of 16%. Employment fell 20% from 4,146 in 2009 to 3,322 jobs in 2010.

3.3 Estimated economic impacts to Ontario and the GTA

Estimates of the direct and indirect economic impacts presented in Table 7 are based on the Canadian recording industry's expenditure in Ontario of $209.8 million.

Table 7 – Economic impact of the Canadian recording industry in Ontario (2010)

	Direct Impact	Indirect Impact	Total Economic Impact
Output (Millions)	$209.8	$99.7	$309.5
GDP (Millions)	$130.3	$60.0	$190.3
Wages and Salaries (Millions)	$108.8	$36.1	$144.9
Government Revenues (Millions)	$27.0	$9.6	$36.6
Employment (Number of Jobs)	1,809	796	2,605

*Totals may not add up due to rounding

The estimated total output of $309.5 million was made up of $209.8 million in direct impacts (the value of expenditures reported in Ontario) and indirect impacts of $99.7 million. As a result, expenditures in Ontario can be said to have generated approximately $99.7 million in additional impacts through this spending. Contribution to GDP is estimated at $190.3 million and consists of $130.3 million and $60.0 million in direct and indirect impacts respectively which resulted in an estimated total employment of 2,605 jobs in Ontario. The estimated average wage for the industry in Ontario was $45,400 for indirect wages and $60,100 for direct wages.

As indicated in the table below, the majority of impacts in Ontario occur in the GTA.

Table 8 – Economic impact of the Canadian recording industry in the GTA (2010)

	Direct Impact	Indirect Impact	Total Economic Impact
Output (Millions)	$205.3	$40.3	$245.6
GDP (Millions)	$127.3	$23.4	$150.7
Wages and Salaries (Millions)	$103.7	$14.1	$117.8
Government Revenues (Millions)	$25.8	$3.8	$29.6
Employment (Number of Jobs)	1,773	311	2,084

GTA impacts in terms of total output represented 79% of total impacts in Ontario. Of the estimated 2,605 jobs in Ontario, the GTA represented 80% or 2,084 of these jobs. In addition, the estimated average wage for the industry in the GTA was $45,300 for indirect wages and $58,500 for direct wages.

Comparing the impacts in 2010 to 2009 shows a decline in the economic activity attributable to the Canadian recording industry as demonstrated in Tables 9 and 10 below.

Table 9 – Economic Impact of the Canadian Recording Industry in Ontario (2009)

	Direct Impact	Indirect Impact	Total Economic Impact
Output (Millions)	$256.3	$118.9	$375.2
GDP (Millions)	$154.6	$70.3	$224.9
Wages and Salaries (Millions)	$122.3	$42.9	$165.2
Government Revenues (Millions)	$30.6	$11.4	$42.0
Employment (Number of Jobs)	2,191	945	3,136

*totals may not add up due to rounding

The estimated total economic output, GDP and employment generated from spending in Ontario in 2009 was $375.2 million, $224.9 million and 3,136 jobs respectively. Wages and salaries amounted to $165.2 million and government revenues generated from economic activity were approximately $42.0 million. In 2009, the estimated average wage for the industry in Ontario was $45,400 for indirect wages and $55,800 for direct wages.

A comparison of impacts from 2010 to 2009 shows a decline in economic activity in Ontario resulting from the Canadian recording industry. Total estimated contributions to GDP fell from $224.9 million to $190.3 million, a reduction of 15% and employment fell 17% from 3,136 to 2,605 jobs.

Table 10 – Economic impact of the Canadian recording industry in the GTA (2009)

	Direct Impact	Indirect Impact	Total Economic Impact
Output (Millions)	$219.1	$42.2	$261.3
GDP (Millions)	$133.3	$24.3	$157.6
Wages and Salaries (Millions)	$107.0	$14.7	$121.7
Government Revenues (Millions)	$26.8	$4.0	$30.8
Employment (Number of Jobs)	1,894	325	2,219

*totals may not add up due to rounding

The estimated total output, GDP, and employment generated from spending in the GTA in 2009 was $261.3 million, $157.6 million and 2,219 jobs respectively. Wages and salaries amounted to $121.7 million and government revenues generated from economic activity were approximately $30.8 million. In 2009, the estimated average wage for the industry in the GTA was $45,300 for indirect wages and $56,500 for direct wages.

A comparison of impacts from 2010 to 2009 shows a decline in economic activity in the GTA resulting from the Canadian recording industry. Notably, total contributions to GDP fell from an estimated $157.6 million to $150.7 million, a reduction of 4% and employment fell 6% from 2,219 to 2,084 jobs.

3.4 Estimated economic impacts to British Columbia

The direct and indirect economic impacts presented in Table 10 are based on the Canadian recording industry's expenditure in British Columbia of $4.7 million in 2010. Since the British Columbia recording industry is much smaller than Ontario's and there was a much sharper downturn in 2010 the data and estimates for BC may not be as reliable as those for Ontario.

Table 11 – Economic impact of the Canadian recording industry in British Columbia (2010)

	Direct Impact	Indirect Impact	Total Economic Impact
Output (Millions)	$4.7	$2.3	$7.0
GDP (Millions)	$3.2	$1.6	$4.8
Wages and Salaries (Millions)	$2.9	$0.9	$3.8
Government Revenues (Millions)	$0.7	$0.2	$0.9
Employment (Number of Jobs)	53	27	80

Although there was not a substantial amount of music recording activity in British Columbia, there were some associated impacts. The estimated total output of $7.0 million is made up of $4.7 million in direct impacts (the value of expenditures reported in British Columbia) and indirect impacts of $2.3 million. As a result, expenditures in British Columbia can be said to have generated an estimated $2.3 million in additional impacts through this spending. Contribution to GDP is estimated at $4.8 million and consists of $3.2 million and $1.6 million in direct and indirect impacts respectively which resulted in total employment of approximately 80 jobs in BC.

The estimated total economic output, GDP, and employment generated from spending in British Columbia in 2009 was $47.5 million, $26.9 million and 570 jobs respectively. Wages and salaries amounted to $21.5 million and government revenues generated from economic activity were approximately $5.2 million.

Table 12 – Economic impact of the Canadian recording industry in British Columbia (2009)

	Direct Impact	Indirect Impact	Total Economic Impact
Output (Millions)	$33.1	$14.4	$47.5
GDP (Millions)	$17.3	$9.6	$26.9
Wages and Salaries (Millions)	$14.6	$6.9	$21.5
Government Revenues (Millions)	$3.4	$1.8	$5.2
Employment (Number of Jobs)	354	216	570

As demonstrated in Table 12 above, a comparison of impacts from 2010 to 2009 shows a substantial decline in economic activity in British Columbia resulting from the Canadian recording industry. Notably, total economic impact fell from an estimated $47.5 million to $7.0 million, a reduction of 85% and employment fell 86% from 570 to 80 jobs.

3.5 Wages and salaries

As demonstrated in Table 13 below, the estimated average wage in Canada's sound recording industry was $58,400 in 2010. When compared to the average Canadian wage of $42,700, the sound recording industry's average wage was 37% higher. The average sound recording industry wage in Ontario is approximately $60,100, which was 37% higher than Ontario's average wage. Finally, the average wage in British Columbia's sound recording industry was estimated to be $54,700, which was 27% higher than the average provincial wage.

Table 13 – Average wages and salaries of the recording industry in Canada (2010)

	Canada	Ontario	British Columbia
Music industry wages and salaries (Millions)	$130.1	$108.8	$2.9
Music industry Employment (Number of Jobs)	2,227	1,809	53
Music industry – average wage	$58,400	$60,100	$54,700
All industries - average wage*	$42,700	$44,100	$42,800

Source: PwC calculations and Statistics Canada (CANSIM table 282-0072, average weekly earnings, all industries)
Note: *Statistics Canada average wage data does not include benefits paid

4 Estimated economic impacts of live musical performances

While live musical performances are not traditionally considered a part of the recording industry's direct economic activity, musical performances are becoming an increasingly important part of the broader music industry. The major record companies are starting to structure contractual agreements with artists and performers to provide them with greater opportunities to perform live musical events. As a result, live performances are part of the marketing and promotion campaign which ensures artists receive wide recognition and exposure for their work. In addition, live musical performances provide musicians with an important source of revenue.

Live musical performances are partly facilitated by the recording industry and provide a considerable economic impact to Canada and the GTA, where the majority of overall industry expenditures occur.

To estimate the economic impact associated with live musical performances, data on average household expenditures on live performing events was obtained from Statistics Canada. However, this data also includes average expenditures on live performances beyond musical events. We have assumed that approximately 20% of these expenditures are associated with live musical performances[12] and applied the appropriate multiplier to this figure. In addition, household expenditures will include a portion of spending on live musical performances of foreign musicians and their foreign employees who tour with them. As such the economic impact of that spending will be less and likely restricted to spending on hotels, restaurants and transportation during their Canadian tour. The estimated impacts reported in Table 14 below do not account for this differential and therefore may overestimate the impacts from live musical performances based on Canadian average household spending across Canada.

Table 14 – Economic impact of live musical performances in Canada (2010)

	Direct Impact	Indirect Impact	Total Economic Impact
Output (Millions)	$302.0	$153.2	$455.2
GDP (Millions)	$170.5	$81.2	$251.7
Wages and Salaries (Millions)	$135.2	$52.3	$187.5
Government Revenues (Millions)	$37.1	$16.4	$53.5
Employment (Number of Jobs)	6,102	1,318	7,420

In 2010, the estimated total output of $455.2 million is made up of $302 million in direct impacts (the value of expenditures in live musical performances) and indirect impacts of $153.2 million. The total contribution to GDP in Canada associated with live musical events was $251.7 million. Estimated government revenues generated was approximately $53.5 million. In terms of employment, the Canadian recording industry's expenditures result in an estimated total of 7,420 jobs across Canada.

The estimated average wage for live musical performances in Canada was $22,200 for direct wages. Average wages and salaries are expected to be lower in this category because of the intermittent nature of live musical performances and the hourly type of employment associated with this activity.

[12] Hyatt - http://www.omdc.on.ca/AssetFactory.aspx?did=6245

Appendix A

Comparative analysis of economic impacts

In this report, total industry expenditures used to run the 2010 economic impact estimates were based on actual expenditure data received from the four major record companies. When Statistics Canada released its 2010 catalogue for the sound recording industry on March 19, 2012, it was immediately apparent there was a marked difference between the two sets of expenditures numbers. It appeared that Statistics Canada's 2010 expenditure data was overstating 2010 industry expenditures.

Through discussions with Statistics Canada, the difference between the two sets of numbers can be attributed to the following two factors: (1) the structural changes occurring within the industry as a result of digital innovation and the four major record companies response by reducing expenditures given declining revenues, and (2) the inherent time lag in statistical data collection and methodology used by Statistics Canada to report the 2010 industry statistics. As a result, we have used the information provided to us by the four major record companies as the basis of our analysis. The discrepancy between the two expenditure numbers can also be accounted for by the rapid change in distribution technologies which has reduced revenues and by extension, expenditures of the four major record companies.

To illustrate the estimated economic impacts that would have resulted if the 2010 industry expenditure data reported by Statistics Canada was used as inputs to the economic impact model, a separate economic impact analysis was generated at the national level. When royalties are excluded, total industry expenditures for 2010 then become $350.8 million. As shown in Table A.1 below, these expenditures would result in an estimated direct contribution to Canadian GDP of $327.4 million.

In terms of employment, the Canadian recording industry's direct expenditures would result in total employment of approximately 2,839 jobs. When the indirect economic impact is included, the industry would contribute some 4,336 jobs across Canada. Under this scenario, the estimated average wage for the industry in Canada would have been $62,400 for direct wages.

The results of the economic impact analysis using industry expenditures from the 2010 Statistics Canada catalogue are presented in Table A.1 below.

Table A.1 –Estimated economic impact of the recording industry in Canada, Statistics Canada expenditure data, (2010)

	Direct Impact	Indirect Impact	Total Economic Impact
Output (Millions)	$350.8	$187.0	$535.8
GDP (Millions)	$216.0	$111.4	$327.4
Wages and Salaries (Millions)	$177.2	$66.6	$243.8
Government Revenues (Millions)	$43.1	$16.3	$59.4
Employment (Number of Jobs)	2,839	1,497	4,336

Source: Statistics Canada catalogue 97F0008X, PwC calculations

Table A.2 below provides the comparison between the economic impact estimates using the actual 2010 expenditure data from the four major record companies as the basis for total industry expenditures and the 2010 industry expenditure data as published by Statistics Canada and released on March 19, 2012.

As illustrated in Table A.1, total expenditures reported by Statistics Canada for 2010 were $350.8 million (excluding royalties, fees and franchise payments) which were 25% higher than the total expenditures calculated based on actual expenditures reported by the four major record companies ($261.2 million). As a result, the economic impact estimates using the Statistics Canada data were also higher.

In comparison, the estimated impact on GDP using Statistics Canada's expenditure number for 2010 was $327.4 million which is $87.6 million more than the GDP impact estimated using the total industry expenditure number based on the four major record company data. Similarly, the number of jobs estimated by using the Statistics Canada data results in 4,336 jobs which is 1,014 jobs more than the number estimated using total expenditures based on the four major record company data.

Accordingly, the lower, total industry expenditure value produced by using the actual expenditure data from the four major record companies results in a more conservative estimate of impacts.

Table A.2 –Comparison of estimated economic impacts of the recording industry in Canada, (2010)

	Total Economic Impact – Four major record company expenditures	Total Economic Impact – Statistics Canada expenditures
Output (Millions)	$398.1	$535.8
GDP (Millions)	$239.8	$327.4
Wages and Salaries (Millions)	$178.8	$243.8
Government Revenues (Millions)	$43.6	$59.4
Employment (Number of Jobs)	3,322	4,336

Source: Four major record company expenditure data, Statistics Canada catalogue 87F0008X, PwC calculations