TREND CHART

Greater metropolitan region

2010 Perspectives

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Canada

Chambre de commerce
du Montréal métropolitain

Board of Trade of Metropolitan Montreal

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Editorial
FOR A SUCCESSFUL ECONOMIC RECOVERY

We have all witnessed the resilience of the metropolitan economy in the last few months. In fact, the latest statistics confirm that Montréal has been far less affected by the recession than North America's other big cities.

Our challenge: to make a strong comeback
Now that the worst seems behind us, the challenge is to make a stronger comeback than these other cities. This will be a major challenge.

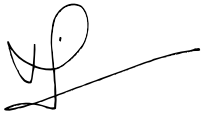
Some experts believe that Montréal is not as well placed to capitalize on the recovery as its counterparts. Others say that this is understandable since we were relatively spared, but the truth is, there really is cause for concern. Productivity gains have been lagging for a number of years now. We invest less in equipment and are slower, particularly SMEs, to integrate the latest innovations. This cannot continue.

Still, we do have reason to be optimistic. Like all Canadians, we have a solid banking system, providing us with somewhat easier access to credit than elsewhere. Our economic base is well diversified and underpinned by promising sectors. A rebounding global economy will fuel demand for aeronautic products and natural resources, which we have aplenty, just as an aging and increasingly health conscious North American population will do for biopharmaceutical products. This is also true for our tourism industry as well as our multimedia and electronic games companies. In short, well prepared, we can make a strong comeback and greatly increase our economic prosperity.

However, to fully capitalize on the global turnaround, we must act now and act quickly. Our businesses must consolidate their competitive advantages and prepare to seize new opportunities. To this end, they will have to resort to such strategic tactics as:

1. Investing heavily in training the talent they were smart enough to hold on to;
2. Finding available talented individuals they can recruit once demand materializes;
3. Taking advantage of the loonie's strength to invest in equipment, and as a result, boost productivity;
4. Develop and implement aggressive market penetration strategies in Canada and abroad in order to be well positioned to capitalize on the rebound in global demand.

In 2008, we encouraged our companies to hang in and weather the storm. Now it's time to pick up the pace and make the most of our position vis-à-vis the competition.



Michel Leblanc
President and CEO
Board of Trade of Metropolitain Montreal

OUR ECONOMIC INDICATORS

Canada, Quebec and Montréal

OUR ECONOMIC INDICATORS				
INDICATORS	As of	Canada	Quebec	Montréal
ECONOMIC ACTIVITY				
GDP[1]	Q2 2009	- 2.5%	- 0.8%	- 1.2%
LABOR MARKET				
Jobs created[1]	October 2009	- 2.3%	- 1.6%	- 1.3%
Activity rate	October 2009	67%	64.8%	66.2%
Unemployment rate	October 2009	8.6%	8.5%	8.9%
CONSTRUCTION AND RETAIL ESTATE				
Building permits[1]	September 2009	- 20.9%	- 3.5%	- 10.2%
Housing starts[1]	Q2 2009	- 42.4%	- 13.3%	- 18.4%
PURSHASING POWER AND CONSUMPTION				
Inflation[1] (CPI: 2002=1)	September 2009	- 0.9%	- 0.3%	0%
Retail sales[1]	Q2 2009	- 5.4%	- 2.1%	- 3.3%
INTERNATIONAL TRADE				
Exports[1]	August 2009	- 31.6%	- 21.9%	–

Source: Statistics Canada, Conference Board of Canada/*Institut de la statistique du Québec*

[1] These variations are relative to the same period of 2008

OUR ECONOMIC INDICATORS			
		Variation from	
FINANCIAL MARKETS	NOVEMBER 10, 2009 VALUE	PREVIOUS MONTH	PREVIOUS YEAR
Bank of Canada: key interest rate	0.25%	0 basis point	- 200 basis points
Canadian dollar (vs US$)	$0.95	- $0.0085	$0.1134
Oil barrel price (WTI, in US$)	$79.01	+ 10.11%	+ 27.23%

Source: Banque of Canada, Energy Information Administration

MONTRÉAL: A METROPOLITAN COMPARISON

Montréal, Calgary, Ottawa, Toronto and Vancouver

2008 RESULTS	Montréal	Calgary	Ottawa	Toronto	Vancouver
Gross domestic product (million $2002)	121,539	62,783	45,212	221,182	80,330
Personal income per capita (dollars)	34,586	54,293	41,224	39,037	37,309
Personal disposable income per capita (dollars)	26,362	41,672	31,884	30,192	29,273
CPI (2002=1)	1.126	1.218	1.131	1.131	1.128
Employment (thousands)	1,898	704	670	2,921	1,237
Unemployment rate	7.4%	3.5%	4.8%	6.9%	4.3%
Retail sales (million $)	42,290	21,829	14,878	60,423	25,354
Housing starts (thousands)	21.9	11.4	10.3	42.2	19.6

Source: Conference Board of Canada

2009 AND 2010 FORECASTS (Except the unemployment rate, all variations are from the previous year's results)	Montréal		Calgary		Ottawa		Toronto		Vancouver	
	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010
Gross domestic product	- 1.0%	+ 2.4%	- 2.1%	+ 3.2%	- 0.5%	+ 3.1%	- 2.7%	+ 3.2%	- 2.6%	+ 3.4%
Personal income per capita	- 0.3%	+ 2.6%	- 0.1%	+ 2.1%	+ 0.4%	+ 2.0%	- 0.6%	+ 2.2%	+ 1.6%	+ 2.3%
Personal disposable income per capita	+ 0.2%	+ 2.3%	+ 0.2%	+ 1.9%	+ 0.6%	+ 2.1%	- 0.5%	+ 2.3%	+ 1.9%	+ 2.1%
CPI (2002=1)	+ 1.1%	+ 2.7%	+ 0.6%	+ 2.7%	+ 1.0%	+ 2.5%	+ 0.9%	+ 2.4%	+ 0.8%	+ 2.6%
Employment	- 1.1%	+ 1.0%	- 1.0%	+ 1.5%	- 2.8%	+ 0.3%	- 1.1%	+ 1.9%	- 0.4%	+ 1.1%
Unemployment rate	+ 9.5%	+ 9.8%	+ 6.4%	+ 7.3%	+ 6.1%	+ 6.5%	+ 9.3%	+ 9.6%	+ 6.9%	+ 7.4%
Retail sales	- 2.5%	+ 3.3%	- 6.6%	+ 3.9%	- 1.9%	+ 3.6%	- 5.7%	+ 4.4%	- 5.6%	+ 5.8%
Housing starts	- 15.4%	- 5.0%	- 60.5%	+ 59.9%	- 21.7%	- 11.2%	- 45.3%	+ 28.2%	- 65.4%	+ 63.6%

Source: Conference Board of Canada

To view the most recent data, please consult our online version at: www.montrealtrendchart.com

ON THE RADAR SCREEN

2010 Outlook: A modest recovery

Just a few short months ago, we were in the throes of a full-blown global economic crisis, the biggest since the Great Depression. And just a year ago, in September 2008, we witnessed the collapse of several American financial institutions, marking the beginning of the financial debacle, which due to unprecedented global financial and economic interdependence, morphed into a world crisis. Of course, since more than 50% of Quebec's GDP relies on exports, this crisis – which drove down demand for Quebec and Montréal products and services – ultimately had an impact on our economy.

After contracting sharply in the first quarter of 2009, the global economy is beginning to show signs of improvement that signal, according to the Organization for Economic Cooperation and Development (OECD), an earlier-than-anticipated recovery. That said, while many economists agree that the worst is probably behind us, uncertainties remain concerning the form and durability of the recovery, thus complicating the economic outlook for 2010.

2009, better than expected...

As such, although 2009 will go down in history as the year of the Great Recession, it is also the year in which the first signs of a rebound appeared. Thanks to exceptional government spending and monetary policies around the world, it looks like the global economy will stabilize sooner than expected. Consequently, a number of international organizations revised their growth forecasts upwards. For example, the International Monetary Fund (IMF) report states that the global financial system is showing signs of stabilization in both advanced and emerging economies. As well, the OECD composite leading indicator[1] rose 1.3 points for the OECD area in September – 3.4 points higher than last year – and 1.4 points for the Euro area or a 6.3-point increase over last year. Thus, all the signs point to a recovery on the horizon.

Although overall, the economy seems to be picking up in the end this year, the global growth forecast for 2009 remains negative. At the time of writing, the most recent data showed that **global gross domestic product (GDP)** growth would slip approximately 2.9% in 2009 according to the World Bank and 1.1% according to the IMF, which was more optimistic.

As well, in its early estimate published in September 2009, the OECD called for a 3.7% drop in output for the G7 nations this year, less than that announced in the summer. For its part, the IMF's world economic outlook, released in October, was predicting a 3.4% drop in GDP for **advanced economies.**[2]

The United States, our main trading partner, will have seen its real GDP shrink 2.7% in 2009. As a city of trade, Montréal felt the impact of the global recession and especially the weakening of its neighbour to the south. In fact, in Quebec alone,

[1] The OECD composite leading indicator (CLI) is designed to provide early signals of turning points in business cycles – fluctuations of economic activity around its long-term potential level. The approach, focusing on turning points (peaks and troughs), results in CLIs that provide qualitative rather than quantitative information on short-term economic movements. Four cyclical phases form the basis of this qualitative approach: expansion – CLI increasing and above 100; downturn – CLI decreasing and above 100; slowdown – CLI decreasing and below 100; recovery – CLI increasing and below 100.

[2] According to the IMF, the advanced economies are: Australia, Austria, Belgium, Canada, Cyprus, Denmark, Finland, France, Germany, Greece, Hong Kong, Iceland, Ireland, Israel, Italy, Japan, Korea, Luxembourg, Malta, Netherlands, New Zealand, Norway, Portugal, Singapore, Slovenia, Spain, Sweden, Switzerland, Taiwan, United Kingdom and the United States.

more than 70% of exports are headed to the U.S., which gives new meaning to the importance of having a market diversification strategy. As such, the recovery outlook appears to differ somewhat from one place to the next.

The European recovery takes hold

After seeing output contract sharply in the first and second quarters of this year (-2.5% and -0.1% respectively), the **euro area** should, according to the European Commission, have gotten back on track in the second half of the year. However, given the net decline in GDP recorded at the beginning of the year, the Commission has projected a 4% decrease for the euro area in 2009.

Among other things, an increase in consumer spending, an improvement in the financial markets and a pickup in international trade suggest that the euro area economy is stabilizing. Much of the turnaround is owed to the performance of **Germany** and **France** in the second quarter. According to the European Commission, the EU's two largest economies expanded by 0.3% in the second quarter while output continued to fall, albeit at a slower pace, within the other EU countries, including **Italy** (-0.5%) and **Spain** (-1.1%). Still, higher unemployment, households deleveraging and excess capacity will slow the pace of the expansion. As such, despite recent improvements, growth will have remained negative in 2009. Germany, whose economy relies on exports, will have seen real GDP fall 5.1% this year while France's economy will have shrunk by 2.1%. Output will have declined by 5% and 3.7% in Italy and Spain.

According to these same projections, the **U.K.** seems to be headed towards a recovery. In fact, after a net contraction in real GDP in the first quarter of 2009 (-2.4%), followed by a more moderate decline in the second (-0.7%), it will have grown by 0.2% in the third quarter and 0.5% in the fourth. Nonetheless, its GDP will have declined 4.3% for the year as a whole.

Asia posts strongest growth

Japan, whose economy is driven by exports and industrial production, was hard hit when global trade plunged. However, thanks to stimulus programs as well as a rebound in industrial production and international trade, the country also got back on track in the second quarter with, according to the OECD, GDP growth of 3.7% after an 11.7% nosedive in the first three months of the year. Still, the OECD is predicting the Japanese economy will have contracted by 5.6% in 2009, not far off the IMF's call of a 5.4% drop.

Developing Asian countries[3] will have posted the strongest growth around the world in 2009. **China** and **India** naturally lead the way, with projected growth for this year of 8.5% and 5.4% respectively according to the IMF. Aggressive public policies in both countries, particularly in China, together with an improvement and stabilization of financial markets, and inventory adjustments have shored up domestic demand and encouraged production.

Dissimilar performances elsewhere...

In **Russia,** a number of factors, including the drop in commodity prices, the devaluation of the ruble and the decline in capital flows pulled down GDP by 10% in the first six months of 2009 (year over year) according to the IMF. The rebound in commodity prices and global trade, along with stimulus policies, will have helped this economy turn around. Still, the 7.5% decline in Russia's GDP will have been one of the biggest in 2009.

For its part, Latin America will have seen its economic activity contract 2.5% in 2009 according to the IMF. **Mexico** and **Chile,** two of the region's most active global trade participants, will have to wait for international demand to pick up before their economies can resume growing. They will have seen output fall by 7.3% and 1.7% respectively in 2009. As for **Brazil,** its GDP will have shrunk a moderate 0.7% this year.

Fragile growth?

Despite the optimism sweeping across the global economy these recent months, the impending recovery could fall short of its potential[4] and is threatened by a number of factors, including withdrawing stimulus policies too soon, inflationary or deflationary pressures, capital stock adjustment, and changes in commodity prices.

In the near term, the biggest threat regarding the variation of prices is the risk of **deflation.** The decline in output and the collapse of commodity prices at the beginning of the year have caused global inflation to plummet from over 6% in 2008 to 1% in July according to the IMF. The inflation outlook for advanced economies is 0.1% this year and 1.1% for 2010. However, for Montréal, the Conference Board of Canada has called for inflation of 1.1% for 2009 and 2.7% in 2010. In fact, deflation is a threat for the economy insofar as it can result in lower output, higher unemployment and lower wages. It can even go so far as trigger another recession. Still, in the medium term, the risk of inflation is higher due to the expansionist monetary policies that the authorities have adopted to stimulate the economy.

As regards **oil,** the recession has had a negative impact on its global demand. As such, despite an increase in the third quarter and another expected in the fourth, the International Energy Agency (IEA) is projecting that global demand will have fallen 1.9% in 2009, to 84.6 million barrels a day. That said, in 2010, when the recovery is more firmly underway, particularly in emerging countries, which are large oil consumers, global demand will increase by 1.7%, returning to its 2007 level of 86.1 million barrels per day.

The return to growth, greater demand from China and a production cutback by OPEC (Organization for Petroleum Exporting Countries) have driven oil prices up since the second quarter of 2009. As such, the Energy Information Administration (EIA) expects the price of **West Texas Intermediate** (WTI) oil to average US$59.9 per barrel this year and US$72.42 in 2010. This increase, which goes hand in hand with economic growth, should not, according to the IMF, occur all at once due to OPEC's excess capacity.

Will we see growth at last in 2010?

According to the latest IMF forecast, **global real GDP** growth should be 3.1% next year. Well below potential, this growth will not be enough to bring down unemployment. Note however that overall, the IMF has revised its growth projections upward since July.

The recovery will be strongest in **developing Asian countries,** where economic activity will expand 7.3% in 2010 or almost 1% more than this year. Of course **China** will lead the way with a 9% increase in GDP. **India** will also experience robust growth of 6.4% in 2010. As for, **Russia,** which took a beating when international trade and oil prices fell, will benefit from the reversal of this trend and see its GDP rise 1.5%.

[3] According to the IMF, the developing Asian countries are: Afghanistan, Bangladesh, Bhutan, Brunei Darussalam, Cambodia, China, Fiji, India, Indonesia, Kiribati, Laos, Malaysia, Maldives, Myanmar, Nepal, Pakistan, Papua New Guinea, Philippines, Samoa, Solomon Islands, Sri Lanka, Thailand, Timor-Leste, Tonga, Vanuatu, and Vietnam.

[4] Potential growth is the growth that results from the efficient use of production factors (capital and labour).

Advanced economies will see economic activity increase moderately next year, i.e. about 1.3%. At 0.3%, growth will be anaemic in the **euro area.** Export dependent **Germany** will benefit from a pickup in world trade to once again resume growth, projected at 0.3% next year, while **France** will see its GDP rise 0.9%. After posting negative growth in 2009, **Japan** will be pulled up by the recovery of its trade partners, which will push up GDP to 1.7%.

There will also be an economic upturn in **Latin America.** Considered the hardest hit by the crisis of the region, **Mexico** will achieve GDP growth of 3.3% in 2010 thanks to the economic recovery of the U.S. and its other trade partners. Real output in **Brazil** will increase 3.5%.

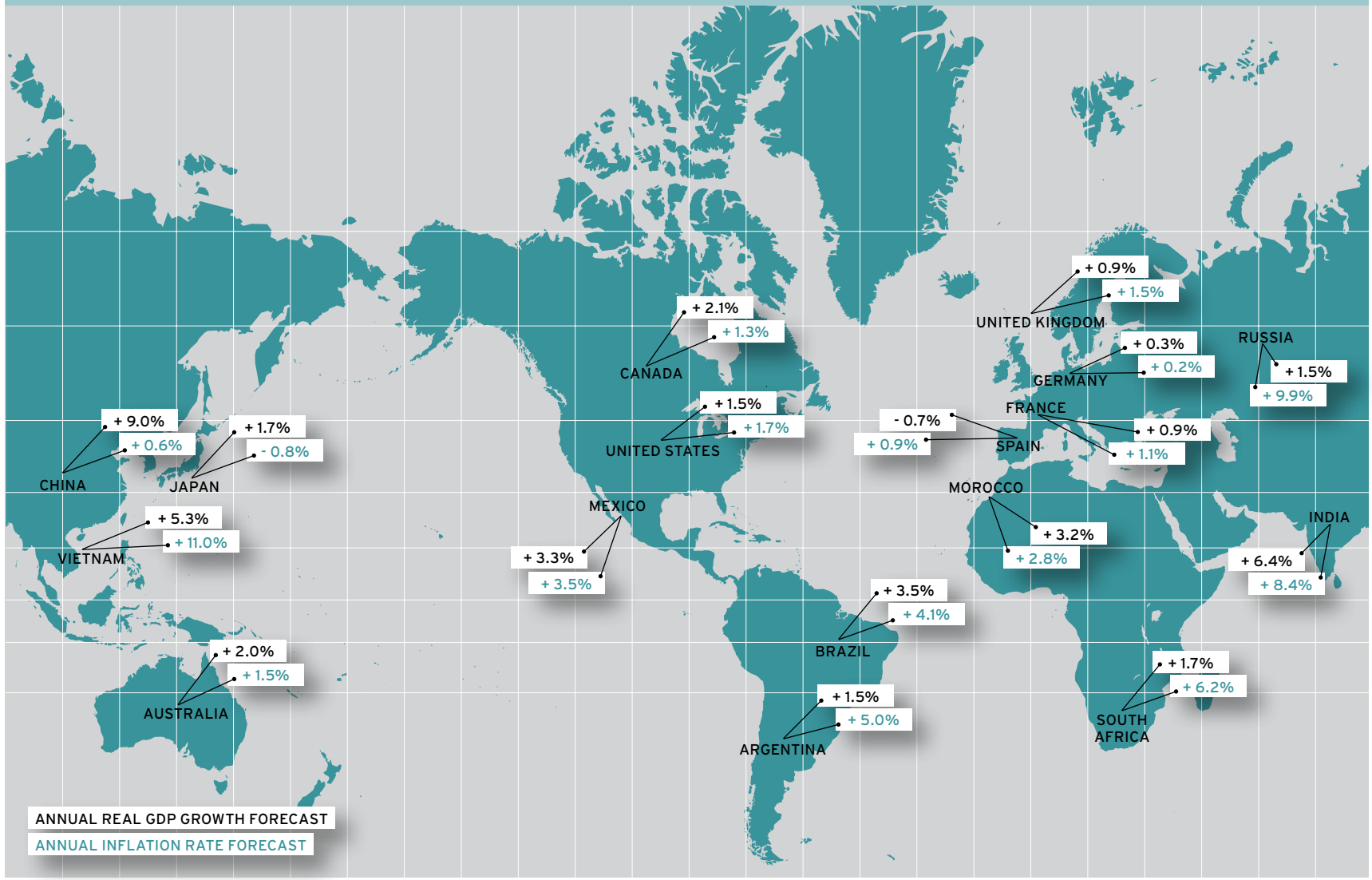
Just as it played a decisive role in spreading the crisis, global trade is an important factor in the recovery. In fact, as a result of unparalleled global economic integration, the recovery, particularly in emerging countries, has spread around the world. Stimulus policies have fuelled consumption and by extension, global demand. According to the World Trade Organization, global merchandise exports rose 8% in the second quarter of 2009 over the first three months although volume was still 33% below the same year-ago period. According to the IMF, the **global trade volume,** which will drop 11.9% in 2009, will pick up 2.5% in 2010, driven largely by growing demand from developing and emerging nations.

The weak projected global growth for 2010 will not be enough to resolve the unemployment problem. In fact, given that it is a lagging indicator,[5] the **unemployment rate** may even increase in 2010. In some places, this could lead to lower disposable income and by extension, impoverished households. Depending on its scope, this situation could also have a negative impact on the recovery. The IMF projects the unemployment rate in advanced economies will be 8.2% in 2009 and 9.3% in 2010. According to the IMF, the U.S. reached a 26-year-high in August when unemployment hit 9.7%, a rate expected to surpass 10% in 2010. The figure will be 9.9% in the euro area this year and 11.7% in 2010. However, as the global economy picks up steam, so too will global output and the jobless rate will eventually come down.

While the economic crisis certainly did not spare any economy, it is safe to say that some fared better than others. For example, emerging economies like China and India posted the strongest growth during the recession. As such, these countries hold strong potential for Montréal SMEs, which, more than ever, would do well to seize business opportunities and gain a foothold in these markets so as to gain a competitive edge when the recovery takes hold.

[5] A lagging indicator is an economic statistic that changes after macroeconomic conditions have already changed.

GDP GROWTH AND INFLATION RATES FORECAST FOR 2010



Source: Based on data from IMF's World Economic Outlook (October 2009)

UNITED STATES: A CONVALESCING ECONOMY

2009, signs of recovery...
After more than a year of negative growth, the U.S. economy is showing signs of recovery. A number of factors, including the 1.4-point increase in the OECD composite leading indicator in September, combined with an improvement in the real estate and financial markets, point to a turnaround south of the border.

In fact, after slumping for several years, the housing market is beginning to see a light at the end of the tunnel: **housing starts** were up 1.5% in August, to 598,000 units, their highest level since last November. This increase was fuelled by, among other things, historically low mortgage rates. According to Desjardins Economic Studies, this upward trend should continue, with new home construction projected to jump 23% in 2010. That said, the rise in the unemployment rate, along with still high household indebtedness, will slow the housing market's momentum for some time yet, as attested by September's flat performance (590,000 units).

Moreover, domestic demand, as well as industrial production, have picked up sharply in the last few months, buoyed by the U.S. government's Cash for Clunkers program. But demand for automobiles waned once the program ended, driving down new car sales by 35% in September, according to Desjardins Economic Studies. This has naturally affected, among others, consumer spending, and by extension, retail sales and industrial production. As such, **retail sales** fell 1.5% in September only to increase 1.4% in October. However, if car sales are excluded, they actually grew 0.2% in October over the previous month, suggesting that demand is slowly rebounding. As for the **ISM manufacturing index,**[1] it reached 55.7 in October, its highest level since 2006 and the third month in a row it was above 50. For its part, the **non-manufacturing ISM** broke the 50 level in September, coming in at 50.9 for the first time since September 2008. Although the index fell slightly in October to 50.6, it still remained above 50. These increases therefore confirm that a recovery is around the corner for the U.S.

According to the IMF, the United States will have gotten back on the growth track in the second half of this year. Nevertheless, the sharp 6.4% GDP contraction in Q1 is leading the IMF to predict negative growth of -2.7% for 2009. Only next year will the U.S. see positive growth, projected at 1.5% by the IMF and 2.3% by the Conference Board of Canada.

[1] Index published by the Institute for Supply Management at the beginning of each month reflecting the state of the U.S. manufacturing sector. As such, a reading above 50 indicates growth, while a reading below 50 indicates a contraction.

The threat to growth...
While there is broad agreement that things are picking up, not everyone is sure about the sustainability of the turnaround. One of the biggest risks weighing on the recovery is the jump in **unemployment,** caused by, among other things, excess capacity.

According to the IMF forecast, the unemployment rate will have hit 9.3% in 2009 and surpass 10% in 2010, a level unseen in 26 years. This spike is bound to have a negative impact on the income of already heavily indebted households. Consumer spending will therefore suffer, which could hold back growth.

With regards to **inflation,** the fact that projected output will be below the pre-recession level is exerting downward pressure on prices. According to the IMF, inflation will therefore have been negative in 2009, i.e. -0.4%, but rise to 1.7% next year, fuelled mainly by an increase in commodity prices and domestic demand.

In light of the foregoing, while 2010 appears to bode fairly well for the U.S., it is probably due to the country's aggressive stimulus plan. Therefore, considering the tenuous nature of this recovery, government intervention will be required throughout 2010.

Moreover, the resurging U.S. economy confirms the theory of a recovery in 2010 of the global economy, and more specifically of the Quebec and Montréal economy. Since over 70% of Quebec exports are headed south of the border, growth in U.S. GDP will drive up demand for Quebec products and services and thus present new growth opportunities for our local businesses. However, fluctuations in the dollar could have an impact on how well exporters can seize these new business opportunities.

THE CANADIAN ECONOMY: ON THE RIGHT TRACK

Despite its strong trade ties with the U.S., Canada is in fairly good economic shape compared to the other G7 nations and therefore was less affected by the global crisis. In fact, not only did the recession take hold later here, i.e. in the fourth quarter of 2008, the country's output contracted the least relative to the G7 average. As such, according to the OECD, Canadian GDP will have contracted 3% in 2009, versus 3.7% for the G7 overall.

Moreover, thanks to the expected recovery in the U.S., combined with rising commodity prices and the already visible effects of the federal government's stimulus policies, Canada, according to forecasts, will have gotten back on the growth track in the third quarter of this year.

Based on the projections of the Conference Board of Canada (CBOC), our **real GDP** will shrink 2.1% this year but bounce back with 2.9% growth in 2010. For its part, the IMF was a bit more pessimistic and predicted a 2.5% decline in 2009 and a 2.1% increase next year.

Although the extent of the growth is still a topic of debate, there appears to be consensus concerning the turnaround. Slumping U.S. demand along with lower commodity prices and a stronger Canadian dollar have weighed heavily on **Canadian foreign trade** in the past few quarters. According to the CBOC, real export volume will have fallen 15% in 2009. However, the increase in commodity prices together with a rebound in demand from the U.S. and emerging countries will stimulate Canadian exports, which according to the same forecast, should grow 2.1% in 2010. The weak export recovery can be explained by the loonie's appreciation and the slowdown in U.S. growth. The situation south of the border has sapped demand for Canadian goods and services, particularly in the auto and forestry industries.

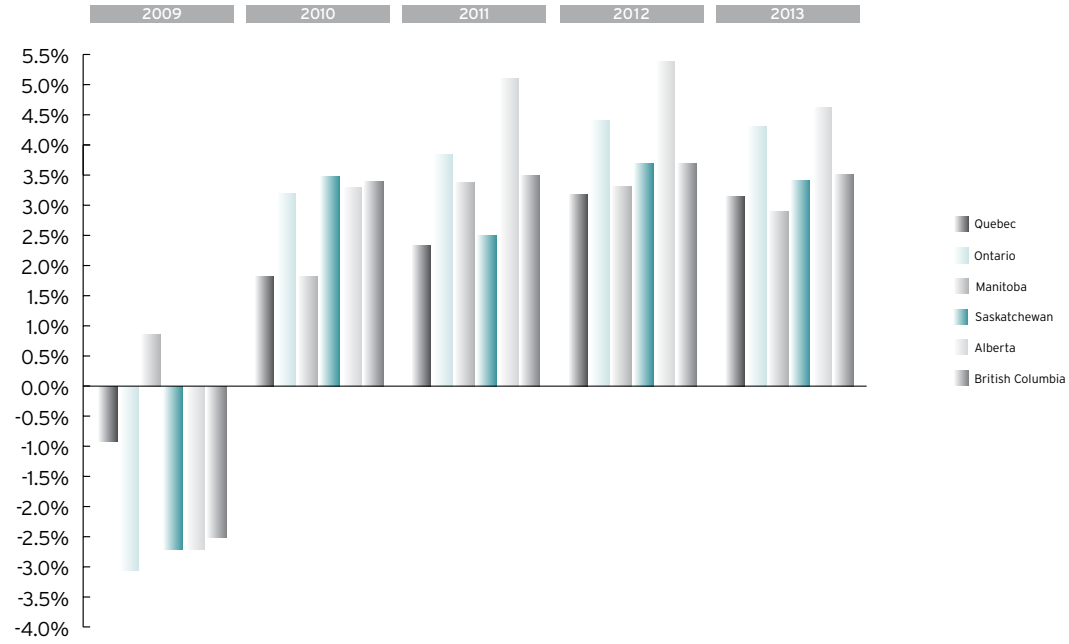
The **housing market** is also picking up steam, fuelled in large part by lower interest rates, home buyers' programs and the renovation tax credit. As such, given that housing starts rose 5.4% from September to October bodes well for this indicator's growth. As regards building permits, their value reached $5.1 billion in September, up 1.6% from August. This trend should continue as growth intensifies.

Domestic demand is also firming up. In fact, according to TD Bank Financial Group, despite a drop in July (-0.6% from the previous month), retail sales rose 0.8% in August. Thanks to lower household debt and greater consumer confidence, this trend is expected to continue.

That said, the Canadian economy is still adjusting. Excess capacities — due to inventory unwinding and plunging commodity prices — are exerting downward pressure on prices and pushing up the unemployment rate. In fact, according to TD Bank Financial Group, annual inflation fell 0.9% in September, the fourth decrease in as many months. However, the upturn in commodity prices and pickup in output should reverse this trend. Consequently, the IMF is predicting inflation of 0.1% in 2009 and 1.3% in 2010. Moreover, since the unemployment rate usually lags behind the economic recovery, forecasters expect it to stay high in 2009 and continue to increase in 2010. As such, the IMF has predicted a rate of 8.3% in 2009 and 8.6% in 2010.

Despite everything, the Canadian economy seems to be getting back on track. Thanks to a sound banking system and diverse economy, Canada was able to avoid the worst of the crisis. For the very same reason, it should be able to fully benefit from the impending recovery. In other words, Canadian companies, and more specifically, Quebec and Montréal businesses, which were relatively spared compared to others, should take the opportunity to penetrate new markets and boost their revenues.

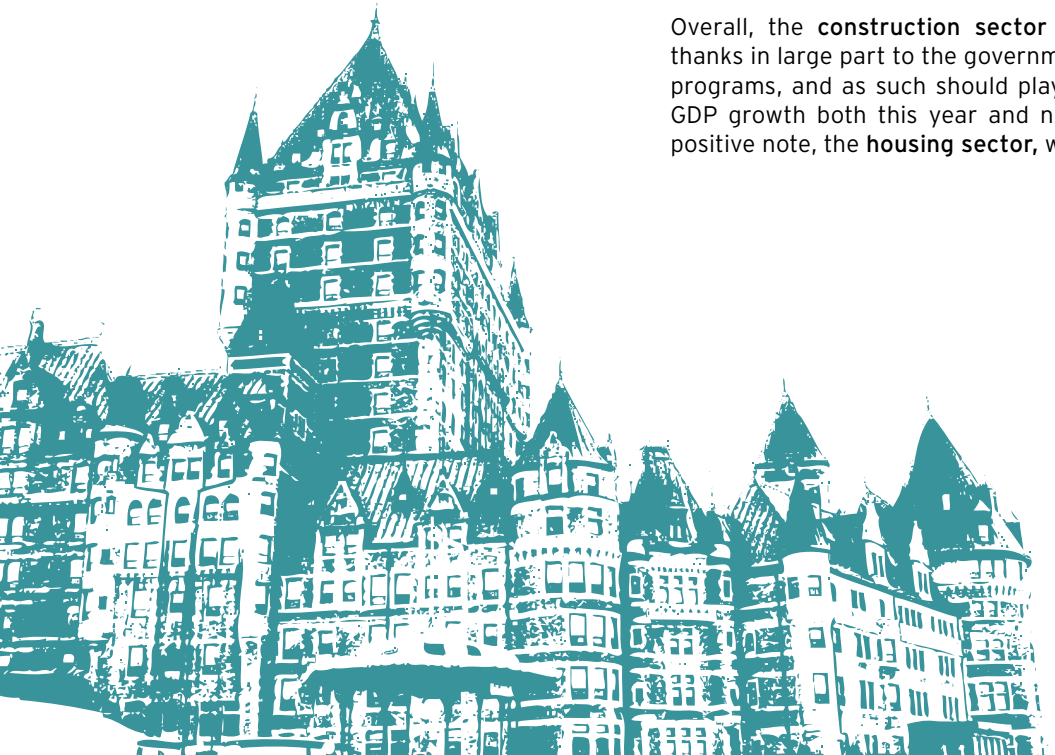
PROVINCIAL REAL GDP FORECAST



Source: Based on data from the Conference Board of Canada

QUEBEC:
MODEST CRISIS AND RECOVERY

Thanks to its diversified economy and its public investment program, Quebec has been able to sidestep the worst of the economic crisis, as proven by the fact that the province recorded the lowest drop in GDP in relation to the national average. Fuelled in large part by the rebound in foreign demand, Quebec will have gotten back on track in the third quarter. As such, according to the forecasts of the Conference Board of Canada (CBOC), the province will have seen its **real GDP** contract by 0.7% in 2009 but then expand by 1.8% the following year. For its part, Laurentian Bank Securities has called for a 1.9% decrease this year, followed by a 1.7% increase in 2010.



Although public investments are limiting the drop in output, it seems like Quebec exports are the main casualty of this recession. The loonie's rise, combined with weak foreign demand, is the main reason. And as the CBOC has indicated, only oil, coal and pharmaceutical exports were slated to grow in the second half of 2009, while those from industries that play a larger part in total exports, i.e. aerospace, IT, primary metals, paper and related products, and wood products, will have dropped this year. As such, **real exports** will have fallen 10.4% in 2009. However, the U.S. recovery, projected growth among our other trade partners, and an increase in domestic demand will help real exports advance about 3.2% in 2010.

Overall, the **construction sector** remains solid thanks in large part to the government's stimulus programs, and as such should play a big part in GDP growth both this year and next. On a less positive note, the **housing sector,** which has been one of the causes of the economic downturn, has contracted sharply. Risk aversion by financial institutions and households, along with higher unemployment, are essentially behind the decline in housing starts and building permits since 2008. According to the CBOC,[1] housing starts are expected to contract by 15% in 2009, while real residential investment will fall 1.4% this year and 9.6% the year after. Moreover, a weak economic outlook and tight credit conditions will have discouraged non-residential investments, which according to the CBOC, will decrease by 3.3% in 2009. However, the recovery, along with greater credit availability, will help non-residential investments grow by 4.2% in 2010.

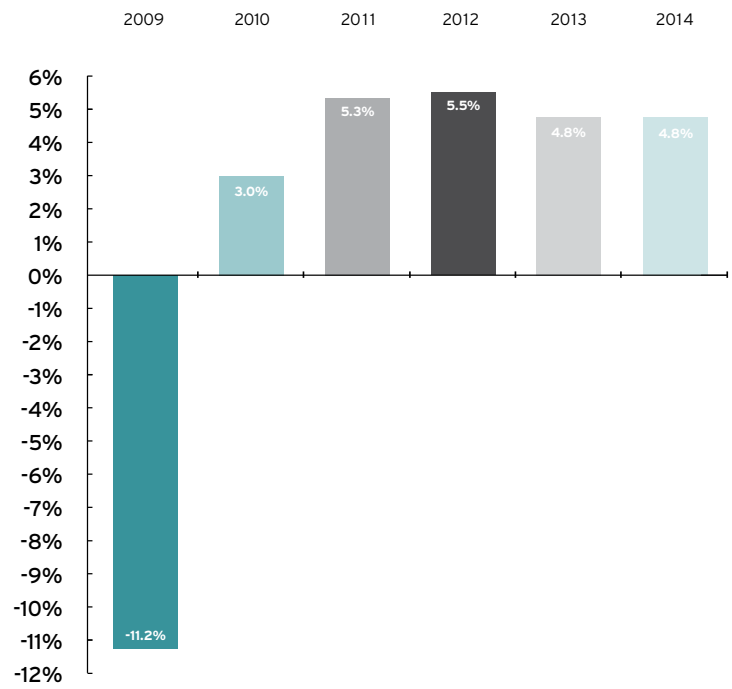
On the unemployment front, it comes as no surprise to learn that it will continue to climb in 2010. In fact, past experience shows that jobs cuts continue after an economy recovers because companies tend to react late to a fall off in

[1] Conference Board of Canada provincial outlook, summer 2009

demand. According to RBC Economics, the jobless rate should therefore rise from 8.8% this year to 9.4% in 2010. This forecast is in line with the CBOC's (8.8% in 2009 and 9.3% in 2010). And as for inflation, Quebec's and Canada's will have been low in 2009. The CBOC thus has predicted 0.6% for Quebec in 2009 and 2.7% the following year.

Despite the economic constraints and threats weighing down on Quebec, its GDP will shrink modestly compared to the other provinces, thanks largely to the government's massive infrastructure programs. However, once the recession is over and growth resumes, the **public debt** will become the new albatross of economic growth. According to Laurentian Securities, Quebec's deficit may reach as much as $5 to $6 billion in 2009-2010, posing a major challenge for the government, i.e. rebalancing its finances without curtailing a recovery that is shaping up to be modest.

EXPECTED QUEBEC REAL EXPORTS TREND



Source: Based on the Conference Board of Canada data published on October 2009

Exports are valued in constant 2002 dollars
The % change is compared to the previous year

MONTRÉAL, POISED FOR TAKE-OFF?

The census metropolitan area (CMA) of Montréal was generally less affected by the global recession than its North American counterparts. In fact, the latest real GDP figures of the Conference Board of Canada (CBOC) show not only that the Montréal economy posted stronger growth than the other large Canadian cities in 2008 but also that it will have slowed less sharply than the latter in 2009. For example, the Toronto economy grew 0.3% in 2008 and will have shrunk 2.7% in 2009 whereas the corresponding figures for Montréal were 1.1% and 1% respectively. As such, much like the other cities in North America, Montréal's recovery started in the third quarter and according to the CBOC, its economy should expand by 2.4% in 2010.

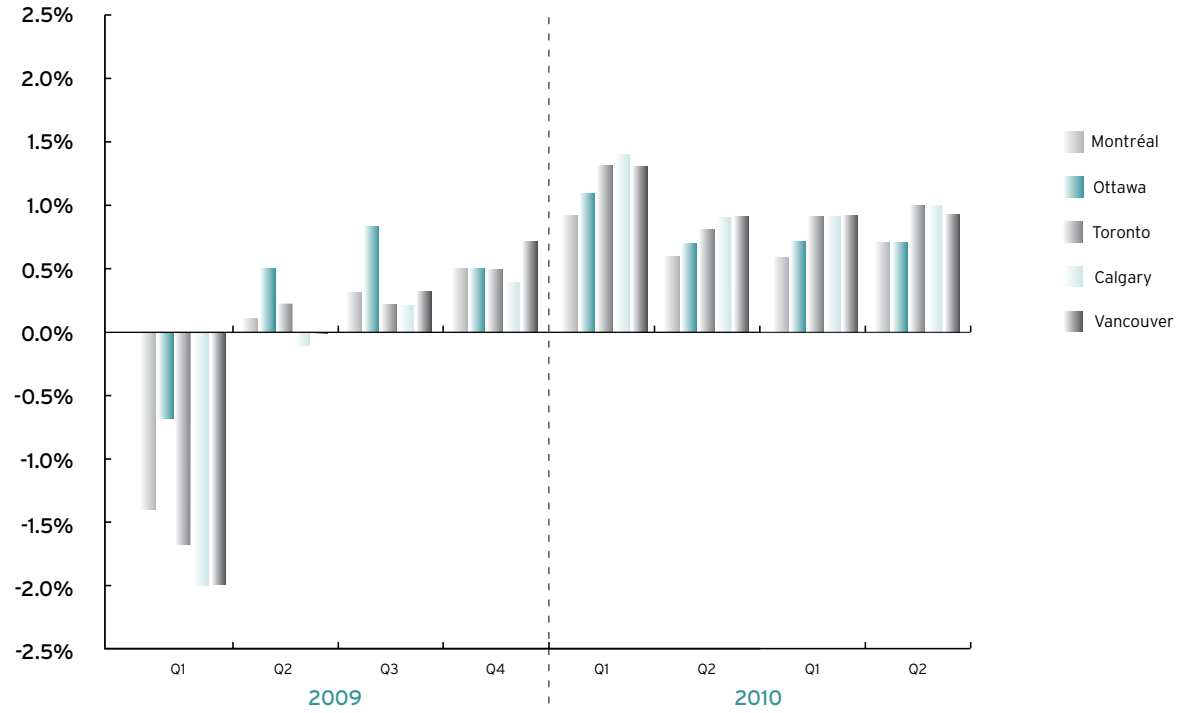
However, a number of metropolitan sectors have been affected by the crisis with, not surprisingly, **manufacturing** heading the list. According to the CBOC, output in this sector will have fallen 6.6% in 2009. Less severe than elsewhere in North America, this decline can primarily be attributed to the pullback in the aerospace industry, where postponed and cancelled orders forced many flagship companies to cut staff and production. The export-dependent manufacturing sector has also been weakened by the strong Canadian dollar. Still, production and employment are expected to pick up next year as the recovery gathers momentum in Montréal and among its main trade partners.

The city's **financial sector** is also feeling the recession. The CBOC forecasted that total output growth in the financial, insurance and real estate sector — which slowed in 2008 — will end up being almost

nil in 2009. This will naturally affect employment, slated to decrease by about 20% in financial services and 14% in real estate services this year.

Despite massive public investment, the **construction industry** slowed sharply this year. However, based on the latest statistics from the Canada Mortgage and Housing Corporation (CMHC), it appears to have picked up some steam in the past few months. Thus, after falling every month since last December, housing starts rose for the second straight month in September (year over year). Still, as a result of rising unemployment, a drop in income and stricter borrowing conditions, housing starts will decrease in 2009 as a whole. Fuelled by the economic recovery, home starts should increase slightly in 2010, from 17,900 units in 2009 to 18,900 in 2010 (CMHC projection). On the non-residential side, despite heavy government spending on infrastructures, all signs point to overall modest growth in 2009. Lastly, according to the CBOC, the growth in the construction industry will have been 0.5% this year, a pretty weak performance compared to the 6.5% increase racked up in 2008.

REAL GDP GROWTH FORECAST FOR CANADA'S MAIN METROPOLITAN AREAS

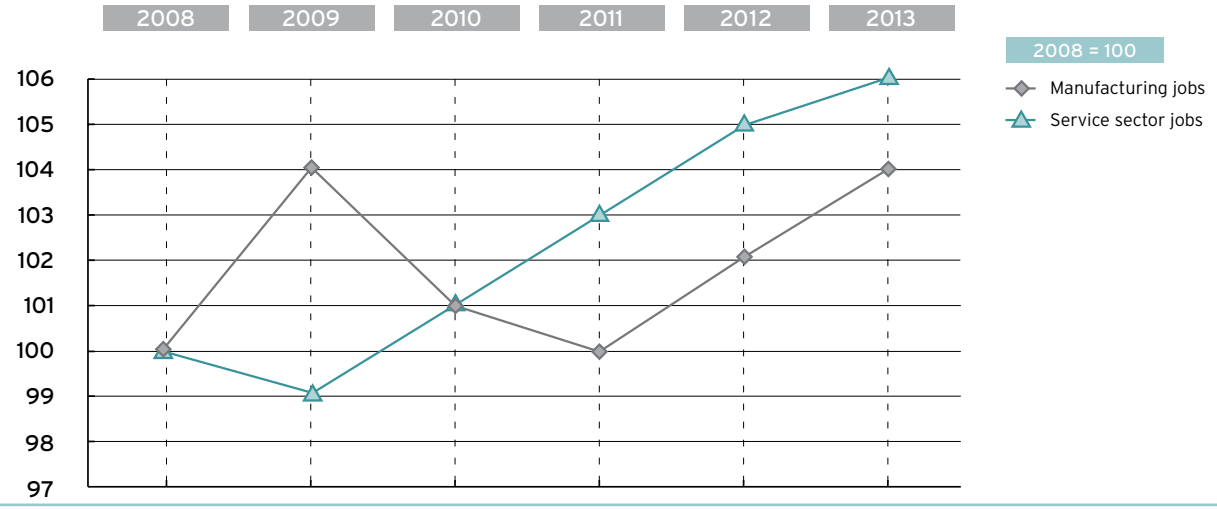


Source: Based on the Conference Board of Canada data published on August 2009

On the employment front, the Montréal CMA is faring well compared to its North American counterparts. Indeed, as pointed out by Montréal International, of the twenty largest cities in Canada and the U.S., Montréal lost the fewest number of jobs from June 2008 to June 2009. As such, during the same period, Montréal jobs fell 0.4% while the corresponding figure for Boston was 3.7%. Despite this, the **unemployment rate** remains one of Montréal's biggest challenges. The downturn in several key sectors of the local economy has taken a toll on this front. According to the CBOC, the jobless rate still shot up from 7.4% in 2008 to 9.5% this year. And despite the recovery, the labour market will continue to adjust next year, pushing unemployment up further, to 9.8%. This increase will affect the **retail and wholesale trade,** where output is projected to drop 2.7% in 2009. However, because the metropolitan economy will operate below potential this year, the **inflation rate** will remain fairly low, at 1.1% in 2009, and rise to 2.7% in 2010 as the economy picks up steam.

In conclusion, thanks to government spending, notably on infrastructure projects, Montréal's output will fall less than its Canadian counterparts, with the result that this recession, as the forecasts suggest, will have lasted only three quarters and resemble the 1990-1991 downturn. Now that the worst seems to be behind us and the global recovery is on the horizon, our businesses would do well to be proactive and invest in equipment and labour so as to seize new business opportunities. Montréal must continue working to outpace the other large North American cities.

MONTRÉAL'S MANUFACTURING AND SERVICE SECTORS EMPLOYMENT GROWTH FORECAST



Source: Based on data from the Conference Board of Canada published on August 2009

AEROSPACE, STILL A PROMISING SECTOR FOR MONTRÉAL

Interview with
Ms. Suzanne M. Benoît
Chief Executive Officer
Aéro Montréal

Like Montréal's other industries, the aerospace sector was not spared by the global recession. The fact that it held steady at the beginning of the downturn had us hoping otherwise. However, according to Aéro Montréal CEO Suzanne M. Benoît, the aerospace sector's performance usually lags behind the economic situation by 12 months, mainly because its order books are filled long in advance. Consequently, this industry is just now feeling the fallout of the downturn and may continue to do so for a few months yet.

One such fallout is the decrease in airline revenues. Faced with a decline in passenger travel, air carriers are either deferring or cancelling their plane orders, resulting a recent wave of layoffs by the city's main aerospace firms.

Still, Benoît insists that the current slowdown in no way changes the industry's growth outlook. Quite the contrary. The fact is that aerospace is a promising sector for Montréal, for many reasons.

Indeed, not only is Montréal the aerospace capital of Canada, it also ranks as one of the top aerospace centres in the world, along with Seattle and Toulouse. Accounting for 98% of Quebec's activity in this field, Greater Montréal is home to some 235 companies and their 42,000 employees. This industry, which generates over $12 billion in sales, is the third largest in Quebec and first in manufacturing exports. As Benoît points out, Greater Montréal has a cluster of key players from the industrial, academic, scientific and aerospace-related sectors, allowing the city to maximize its industrial capacity and R&D efforts and therefore remain highly competitive.

Consequently, there is no doubt as to the vitality of our aerospace industry. The massive investments announced by local order givers also bode well for the sector for the next few years. For instance, Bombardier's investment in the new environmentally friendly CSeries regional jets will create roughly 3,500 jobs by 2017. And Pratt & Whitney Canada's construction of a new aerospace centre in Mirabel for the final assembly and testing of its new PurePower line of more fuel-efficient engines will ultimately generate over 500 jobs. This is excellent news for the long-term development of aerospace in Greater Montréal and should encourage young people to choose a career in this dynamic sector.

It also bears mentioning that the aerospace industry is undergoing structural changes in that competition from emerging countries and a labour shortage are threatening the competitiveness of subcontractors. "Therefore, in order to hold onto our lead over other countries, particularly emerging nations with low production costs, our companies must remain on the cutting edge of technology and continue to invest in research and development despite the recession," concludes Benoît.

ACCORDING TO FINANCIAL INSTITUTIONS

In 2010, the Montréal economy will...

Mr. Don Drummond
Senior Vice-President and Chief Economist
TD Bank Financial Group

Montréal's economy in 2010 will be marked by a positive transition, during which growth should resume for most sectors. Having weathered the recession relatively well, job creation should restart at a modest pace. There will be a lag, but the region's unemployment rate will peak near 10% early in the year – much lower than the 14% high endured during previous recessions – and gradually ease in the second half. Tourism and export-related activity will turn the corner and start to expand again after having sustained a prolonged contraction. The city will set off on a firmer footing than Canada's other large urban centres, and the year should be highlighted by the ability of local firms to compete in the global economy even when faced with a strong Canadian dollar.

Mr. François Dupuis
Vice-President and Chief Economist
Mouvement des caisses Desjardins

In 2010, Montréal will not only modernize its infrastructures, it will seek to reshape its image in order to regain its stature as a beautiful, modern and vibrant city. As such, it will be a pivotal year that will affect the city for years to come. The projects on the table or already underway in the areas of public or individual transit, the environment, the arts, culture, and technology will raise Montréal's profile both across the country and on the world stage. However, there is still a debate as to the best way to get there and on how to improve governance. Since time is of the essence, let's hope 2010 will be a year of consensus and decisions that will ensure a bright future for our city.

Mr. Robert Hogue
Senior Economist
Royal Bank of Canada

The overriding theme in the economy in 2010 will be the onset recovery, albeit a modest one. Although we're already headed in this direction and progress is expected to be steady, there will be some obstacles that will temper the pace. One of the key stakes in the Montréal area will be the extent to which consumer and business confidence fully recovers, which in turn will in large part reflect global conditions. In this regard, we are confident that the financial crisis will be a thing of the past and that the economies of our top trade partners will be on the mend. Public spending will remain a primary economic driver in the city although private investments should gradually pick up and eventually take over.

Mr. Carlos Leitao
Chief Economist
Laurentian Bank Securities

Timid recovery: the most likely scenario

A policy-driven global economic rebound is underway. In Canada, the economy also appears poised to return into positive territory this fall and could well advance by 2 to 3 percent in 2010. Nevertheless, that would be a significantly slower pace of expansion than in previous cycles.

Activity in the export-oriented goods-producing industries has plunged sharply and is slow to revive owing, in no small measure, to the unusual strength of the Canadian dollar (unusual in the sense that coming out of recession was typically accompanied by a relatively weak currency). Activity in the services-producing industries has been more robust reflecting very low interest rates and a resurgence in housing market activity.

Montréal in particular is caught up in this maelstrom. External demand will likely remain weak throughout 2010 which will crimp activity in some key sectors such as aerospace, tourism and transportation. Domestic demand, however, will continue to be supported by low interest rates.

Mr. Douglas Porter
Deputy Chief Economist
BMO Capital Markets

Montréal's economy in 2010 will be characterized by recovery. The city was not hit as hard by the recession as Canada overall: while employment declined significantly, the unemployment rate rose at a less dramatic pace than the national average and the housing market outperformed. Looking ahead, a rebound in manufacturing, led by rejuvenated aerospace orders, should help drive the recovery. While factories will provide the short-term fuel, the service sector will gradually take on an increased role. Manufacturing has shrunk from 20% of total Montréal employment in 2000 to 12.5% in August 2009, offset by gains in services. Health care and professional services have driven much of this growth, and this will likely continue as we move into economic recovery.

CANADA ECONOMIC DEVELOPMENT REPORT

Human capital, a key driver of growth in metropolitan areas

The link between education and productivity is quite clear. The wages of workers in cities with an educated population are higher, as are property values. And it's not only the very educated who earn more; there is a spill-over that affects the wages of everyone in the community. Those who live in a city with a greater proportion of university graduates can therefore expect to make more regardless of their own level of schooling.

In North America, the most educated cities – Washington and San Francisco – report the highest GDP per job. Conversely, the least educated – Riverside, Montréal and Tampa – report the lowest. Although a strong correlation exists between human capital and city growth, there is still no academic consensus as to why this is so.

With 26.5% of 25-to-64-year-olds holding a university degree 2006, Greater Montréal ranked 29th out of the 31 regions analyzed. Montréal has moved up one spot in five years, closing the gap that separates it from the average of the 31 large urban centres[1] by 1.3%.

The other Canadian cities placed slightly below their U.S. counterparts: Ottawa-Gatineau (35.4%, 9th), Toronto (33.6%, 14th), Vancouver (30.7%, 19th) and Calgary (30.6%, 20th). However, they all outperformed Montréal.

In Montréal, the 25-to-34-year-old group has the highest university graduation rate. In fact, the proportion is increasing the fastest in this group, propelling it from 20th to 17th place.

Although the wide gap persists in the 35-to-44-year-old cohort, it did narrow between 2001 and 2006 from 7.7% to 5.7%, pushing Montréal up by three spots, from 30th to 27th. However, the number of 45-to-64-year-old university graduates grew much slower than in the other age groups, which came in 30th place, compared to 31st in 2001.

In 2006, Montréal ranked 25th for the number of 25-to-64-year-olds with a **graduate** degree, a slight improvement from 2001.

In Canada, the **school attendance rate** among 20-to-24-year-olds is slightly higher than south of the border. Almost half (48%) of Montréal's youths were enrolled in school last year, versus 47.8% of those in the country's other large cities.

Article written by François Gauvin,
Canada Economic Development

The entire study is available
on the Communauté métropolitaine de Montréal Web site at:
http://www.cmm.qc.ca/index.php?id=201

The study has been written by the *Groupe de travail sur le capital humain*, overseen by the Communauté métropolitaine de Montréal.

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[1] In Canada, this includes the five most populated metropolitan areas (Toronto, Montréal, Vancouver, Calgary and Ottawa) and in the U.S., the 26 Metropolitan Statistical Areas (MSA) with a population of over 2 million.

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