

SPRING 2007  
A PUBLICATION OF THE BOARD OF TRADE  
OF METROPOLITAN MONTREAL

# TREND CHART

## GREATER METROPOLITAN REGION

### 2006 REPORT



Exclusive partner



Canada Economic  
Development

Développement  
économique Canada

Canada



Chambre de commerce  
du Montréal métropolitain

Board of Trade of Metropolitan Montreal

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## EDITORIAL

## 2006: A PREVIEW OF 2007?

In many ways, 2006 was an intriguing year for the metropolitan economy and in some respects, for the global economy as well. This is because the year was characterized by seemingly contradictory trends: skyrocketing

oil prices yet resilient global economic growth; U.S. economic slowdown but an increase in Quebec exports; modest GDP growth for Montreal yet one of its best performances on the job front.

Similarly, a number of statistics showed that Montreal SMEs faced serious challenges in 2006, yet according to some business leaders and based on the performance of the city's clusters, it looked like the city was able to acquit itself fairly well.

If there is one thing our 2006 report shows, it's that the Montreal economy is closely linked to the rest of the world. Just as the U.S. is no longer the sole driver of global economic growth, our companies are increasingly integrating into a global economy that extends beyond the U.S., diversifying their export markets and setting up global supply chains.

The scope and complexity of this integration is nothing short of fascinating. This is clearly the case for new technologies, which continue to "flatten the world," as Thomas L. Friedman contends in his book, *The World Is Flat*. The same is true for the major impact this integration is having on a local scale, particularly on domestic consumption, which remains solid year after year. There's no denying that this strong domestic demand is partially fuelled by competitive pricing, made possible by the purchase and production of goods in emerging countries. In fact, it is this very practice that allows local companies like Trudeau or L. L. Lozeau, which contributed to this edition of Trend Chart, to succeed.

One can't help but wonder whether 2007 will be a replay of 2006. Many indicators are on the same track as last year, for example, Montreal continues to fare well on the job front, while oil prices and the loonie keep on rising.

If in fact 2007 will be a repeat of 2006, there's every reason to hope that Montreal will do better in one particular aspect: wealth creation. Alain Dubuc aptly pointed out our shortcomings in this regard in his book, *Éloge de la richesse*, published last year. Based on the Conference Board of Canada's projection of 2.6% GDP growth (updated in March) for Montreal, it looks like Mr. Dubuc's call is starting to be heard.

Isabelle Hudon

President and CEO

Board of Trade of Metropolitan Montreal

# OUR ECONOMIC INDICATORS

## CANADA, QUEBEC AND MONTREAL

| OUR ECONOMIC INDICATORS                 |       |        |        |          |
|---|-------|--------|--------|----------|
| Indicators                              | As of | Canada | Quebec | Montreal |
| <b>Economic activity</b>                |       |        |        |          |
| GDP                                     | 2006  | + 2.7% | + 1.6% | + 1.6%   |
| <b>Labor market</b>                     |       |        |        |          |
| Jobs created                            | 2006  | + 2%   | + 1.3% | + 1.8%   |
| Activity rate                           | 2006  | 67.2%  | 65.5%  | 67.5%    |
| Unemployment rate                       | 2006  | 6.3%   | 8%     | 8.4%     |
| <b>Construction and Real estate</b>     |       |        |        |          |
| Building permits                        | 2006  | + 9%   | + 6.4% | + 4%     |
| Housing starts                          | 2006  | + 0.8% | - 6%   | - 9.9%   |
| <b>Purchasing power and Consumption</b> |       |        |        |          |
| Inflation (CPI 1992=100)                | 2006  | + 2%   | + 1.7% | + 1.8%   |
| Retail sales                            | 2006  | + 6.2% | + 4.6% | + 3.2%   |
| <b>International trade</b>              |       |        |        |          |
| Exports                                 | 2006  | + 0.9% | + 3%   | -        |

These variations are relative to 2005

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

| OUR ECONOMIC INDICATORS              |                   |                |               |
|--------------------------------------|-------------------|----------------|---------------|
|                                      |                   | Variation from |               |
| Financial markets                    | June 4 2007 value | Previous month | Previous year |
| Bank of Canada: key interest rate    | 4.25%             | 0 basis point  | 0 basis point |
| Canadian dollar (vs. US dollar)      | 94.48 cents       | + 0.99 cents   | + 4.89 cents  |
| Oil barrel price (WTI, in US dollar) | \$65.94           | + 3.06%        | - 7.06%       |

Source: Bank of Canada, Energy Information Administration

# MONTREAL: A METROPOLITAN COMPARISON

MONTREAL, CALGARY, OTTAWA, TORONTO AND VANCOUVER

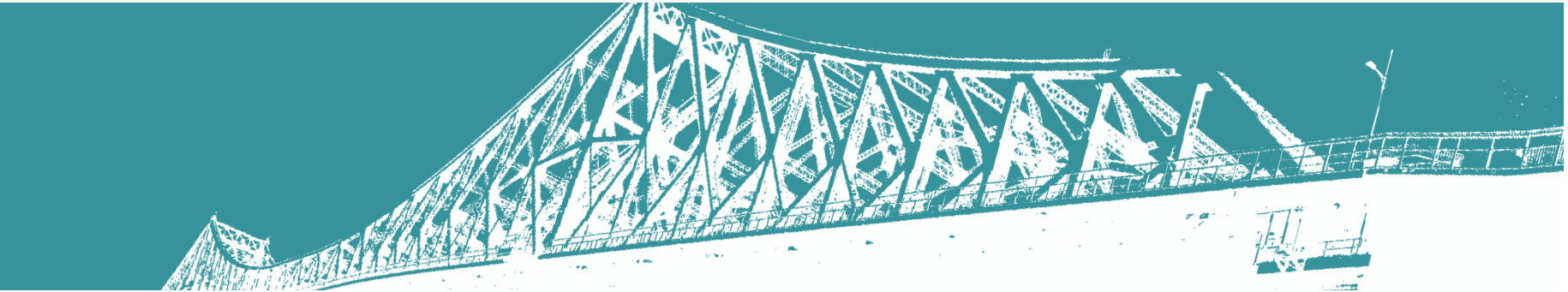
| 2006 RESULTS   |          |         |        |         |           |
|--|----------|---------|--------|---------|-----------|
|  | Montreal | Calgary | Ottawa | Toronto | Vancouver |
| Gross domestic product (million \$1997)                | 111,952  | 51,306  | 40,734 | 202,329 | 73,067    |
| Personal income <i>per capita</i> (dollars)            | 32,618   | 47,178  | 37,949 | 35,774  | 33,333    |
| Personal disposable income <i>per capita</i> (dollars) | 24,610   | 36,854  | 28,893 | 27,237  | 25,906    |
| CPI (1992=100)   | 125.6    | 141.3   | 132.4  | 130.7   | 128.1     |
| Employment (thousands)                                 | 1,857    | 655     | 643    | 2,802   | 1,187     |
| Unemployment rate                                      | 8.4 %    | 3.3 %   | 5.2 %  | 6.6 %   | 4.4 %     |
| Retail sales (million \$)                              | 39,704   | 20,104  | 13,595 | 55,124  | 24,360    |
| Housing starts (thousands)                             | 22.8     | 17      | 8.8    | 37.1    | 18.7      |

| 2007 AND 2008 FORECASTS   |          |        |         |        |        |       |         |       |           |       |
|---|----------|--------|---------|--------|--------|-------|---------|-------|-----------|-------|
| (Except the unemployment rate, all variations are from the previous year's results) |          |        |         |        |        |       |         |       |           |       |
|   | Montreal |        | Calgary |        | Ottawa |       | Toronto |       | Vancouver |       |
|   | 2007     | 2008   | 2007    | 2008   | 2007   | 2008  | 2007    | 2008  | 2007      | 2008  |
|   | %        | %      | %       | %      | %      | %     | %       | %     | %         | %     |
| Produit intérieur brut  | + 2.6    | + 3    | + 4.2   | + 4    | + 2.2  | + 2.9 | + 2.5   | + 3.9 | + 2,9     | + 3.6 |
| Revenu personnel <i>per capita</i>  | + 4.6    | + 2.8  | + 1.4   | + 3    | + 2.3  | + 4.1 | + 3.1   | + 3.3 | + 4,7     | + 3.6 |
| Revenu personnel disponible <i>per capita</i>                                       | + 4.6    | + 2.5  | + 1     | + 2.7  | + 2    | + 3.8 | + 2.8   | + 3   | + 4,5     | + 3.4 |
| IPC (1992=100)  | + 1.1    | + 2    | + 3.2   | + 2.3  | + 1    | + 2.3 | + 1.1   | + 2.3 | +1,8      | + 2   |
| Emplois   | + 1.7    | + 1.2  | + 4.1   | + 2.4  | - 0.9  | + 2.5 | + 1.5   | + 2.3 | + 2,9     | + 2.1 |
| Taux de chômage   | 8.1      | 7.9    | 3.4     | 3.6    | 6.3    | 6.2   | 6.9     | 6.9   | 4,3       | 4.3   |
| Ventes au détail  | + 5.5    | + 5.1  | + 7.4   | + 6.1  | + 5.2  | + 5   | + 5.5   | + 6   | + 4,5     | + 5.7 |
| Mises en chantier   | - 21.1   | - 11.1 | - 11.1  | - 11.5 | - 19.6 | + 2.7 | - 0.8   | + 8.3 | - 9,9     | + 0.9 |

Source: Conference Board of Canada

# 2006 REPORT

## 2006 UPDATE



### ROBUST GLOBAL GROWTH

The end of 2005 came with a flurry of forecasts on the trends that would shape the upcoming year. At that point, oil prices had climbed to over US\$65 a barrel for the first time in a decade, conjuring up memories of the oil shocks of the '70s and '80s and their dire consequences on the global economy.

Two thousand five was also marked by rising commodity prices and a slowing housing market in the U.S., foreshadowing a major slowdown in the world's largest economy. So, while not pessimistic, the global growth forecasts for 2006 were nonetheless tame, ranging from 2.9% according to the Organization for Economic Cooperation and Development (OECD) to 4.3% by the International Monetary Fund (IMF).

All this to say that 2006 turned out better than expected, as preliminary results beat expectations. The IMF's revisions put **world gross product (WGP)** growth at about 4.9%. For its part, the United Nations is calling for as much as 5.1%,<sup>1</sup> the same as EDC's (Export Development Canada) *Spring 2007 Global Export Forecast*.

This surprising vitality is largely owed to the world's emerging economies, notably those in Asia, which expanded a hefty 8.2%, fuelled largely by **China**, (up 9.5%) and **India** (up 7.3%). **Russia** was not far behind at 5.8%, followed by **Brazil**, with a more modest 3.3%.

The world's advanced economies grew at a more tempered pace, i.e., 3.2% for the **OECD countries** and an even more subdued 2.7% in the **euro zone**. Although very moderate, this result is better than the average of the past decade and a definite departure from the sub par performance of the past five years.

In July 2006, **oil prices** peaked at around US\$74 a barrel<sup>2</sup> or 82% higher than at the same time in 2004. Although prices did come down somewhat as the year wore on, the world ended up paying an average of 17% more for crude than in 2005. While a number of reasons were cited for this increase, including major geo-political conflicts, which exerted pressures on global production and supply, the main reason was the surging demand by the burgeoning economies of such countries as China, India and Brazil.<sup>3</sup>

These hikes took their toll on some economies, boosting transportation costs, and ultimately final consumer prices, as well as squeezing export margins. Rising 3.8%, **global headline inflation** attests to this trend. Still, thanks to their vigilance, decision makers were able to contain the effects on the global economy. As such, inflation in **advanced economies** (G7 nations) stayed pretty much the same as in 2005, i.e., 2.3%.

The brunt of the price hikes was borne by the world's **emerging markets and developing nations**, which saw inflation reach 5.3%. Although high, this figure is in fact lower than in previous years and is part of a downward trend.

Interestingly, fluctuating energy prices did not have much of an impact on **international trade**, which according to World Trade Organization (WTO) statistics, was especially strong in 2006. As such, **merchandise trade** rose 8% over 2005, and real global export growth was 15% for merchandise and 11% for services.

<sup>1</sup> This UN statistic is calculated on the basis of purchasing power parity. Taking into account GDP at market prices, global GDP growth should be in the vicinity of 3.8% in 2006.

<sup>2</sup> The price of West Texas Intermediate (WTI) crude based on Energy Information Agency statistics.

<sup>3</sup> OECD Economic Outlook, no.78.

## U.S. RECOVERY BEGUN IN 2006 NEEDS TO FIRM UP

After some turbulence in the last quarter of 2005, the U.S. economy fared reasonably well in 2006 with **real GDP growth** of 3.3% according to the Bureau of Economic Analysis (BEA). Far from uniform, this growth was dramatic in the first quarter, amounting to 5.6% (on an annualized basis). It then fell to more moderate levels of 2.5% and 2% for the second and third quarters of 2006. The recovery in the fourth quarter, fuelled by household spending, remained modest at around 2.5%, due to pressures on the real estate market.

The biggest surprises came from the job market, where the **unemployment rate** fell to 4.4% in October, its lowest level during the year. The annual average for 2006 was 4.6%, which according to the UN's annual report World Economic Situation and Prospects 2007, was the best result in the last five years.

**Inflation slowed** to 2.5% in 2006 according to the Bureau of Labour Statistics (BLS), down from 3.4% a year earlier. However, **energy** prices rose 6.1% over 2005. While this increase may appear high at first blush, it is still a considerable improvement over the 26.7% and 16.7% hikes recorded in 2004 and 2005.

The U.S. set another record, in 2006, this time with regards to the **trade deficit**, which according to EDC, reached US\$765 billion or nearly 6% of GDP. Oil prices were largely responsible for this gap since the U.S. imports about 60% of its oil.

There was much debate as to whether the U.S. economy could withstand the potentially destabilizing trends that had emerged: rising energy prices, high levels of consumer spending and debt, and a housing market poised for a correction. Yet in the end, it managed to hold its own, confirming the soundness of the Fed's decision to continue its strict monetary policy and raise its **key rate** by 75 basis point over 2005 (to 5.25% in 2006).

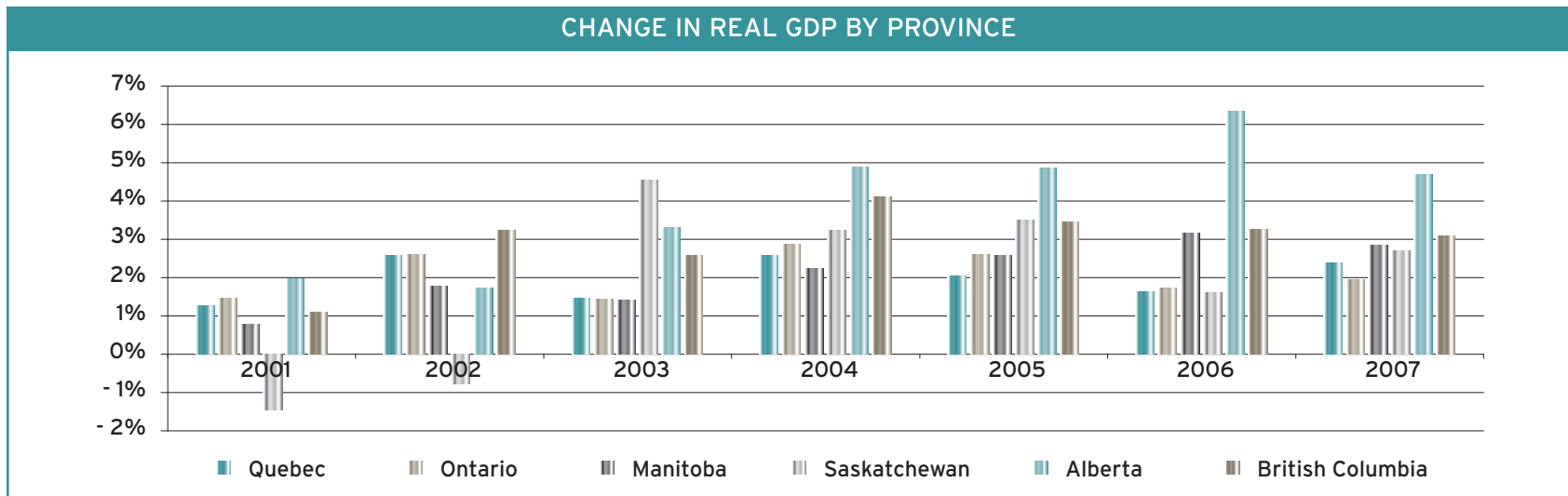


## IN CANADA, UNEQUAL GROWTH AMONG THE PROVINCES

At 2.7%, Canadian **real GDP** growth was slower in 2006 than 2005, marking a second straight year of slowing growth (3.3% in 2004). Consequently, according to the World Economic Forum ranking, Canada placed 16<sup>th</sup> in terms of productivity.

However, significant regional variations underlie these figures. The provinces were, in fact, characterized by **disparate results**, depending on their geographic location. For example, Western Canada<sup>4</sup> posted average real growth of about 5.4% whereas the East<sup>5</sup> barely reached 1.5%.

Rising commodity prices (including energy prices) and a strong loonie explain much of this disparity. Most of the country's oil fields are found in the West, and the woes of some exporters, particularly in the manufacturing sector, are clearly tied to our strong dollar, which reduces the purchasing power of foreign importers.



Source: Based on data from the Conference Board of Canada

<sup>4</sup> Alberta, British Columbia, Manitoba and Saskatchewan.

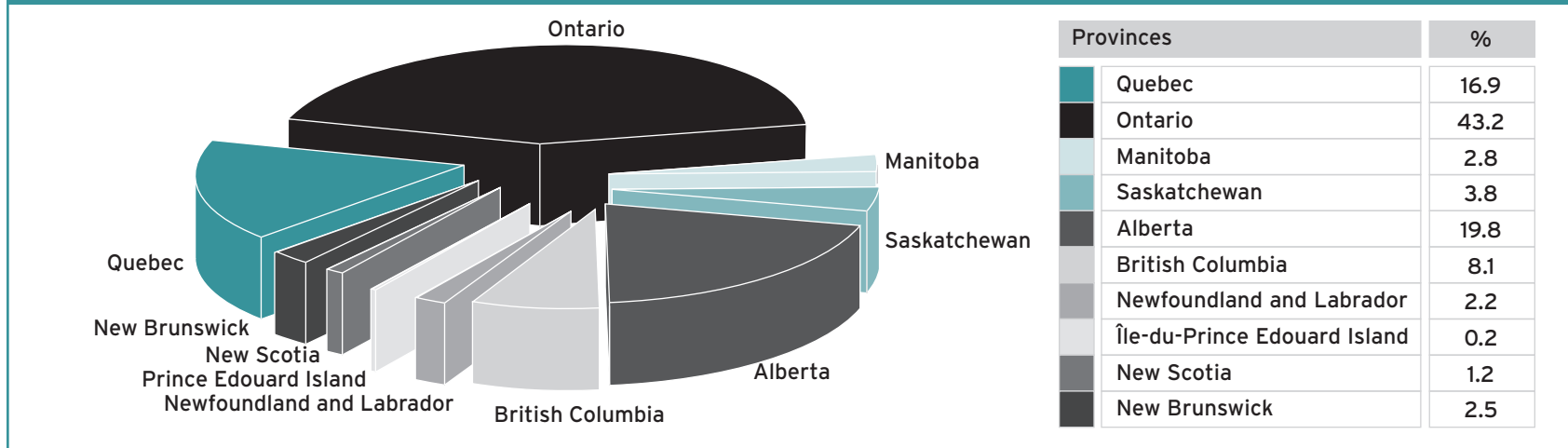
<sup>5</sup> Quebec and Ontario.

Consequently, **Canadian goods exports** advanced less than 1% in 2006 according to EDC, which attributes the poor performance to lower exports in some sectors, particularly automobiles, regional aircraft and forestry. But just like the GDP, exports do not follow the same trend from one province to another, for instance, they were up 17.2% and 10.3% in Manitoba and Saskatchewan but down 1.4% in Ontario.

Besides driving the boom in the West, commodity prices also lifted the Toronto Stock Exchange, with the **S&P/TSX Composite Index** setting a new record when it broke through the 13,000 level in the fourth quarter.

For its part, the Bank of Canada hiked its **overnight rate** by 100 basis points in 2006, from 3.25% in January to 4.25% in May, where it remained for the rest of the year. In so doing, **inflation** - at 2% in 2006 - stayed within the inflation control target range.

### PART DES PROVINCES DU TOTAL DES EXPORTATIONS CANADIENNES DE BIENS (2006)



Source: Based on data from Export Development Canada(EDC)

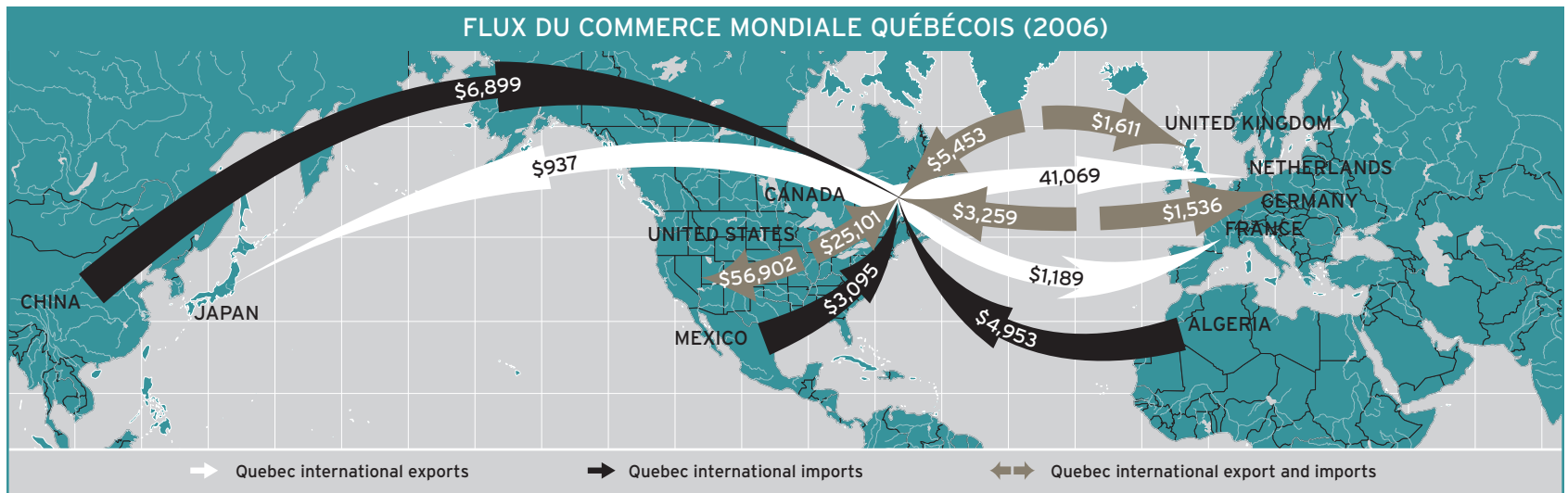
On balance, Canada's results are not that far off the consensus call for 2006. While goods export growth fell more than the 3% projected in spring 2006, the economy seems to have weathered the storm of the rising loonie.

The forecasts calling for strong domestic demand did in fact materialize in the second half of the year, offsetting softer demand from our southern neighbours. Finally, with the exception of some cases and some sectors, manufacturers took advantage of our stronger dollar to make investments and increase production capacity.

## QUEBEC POSTS LUKEWARM BUT PROMISING RESULTS

The labour market set records in 2006. At 8%, the **unemployment rate** fell to its lowest level since 1976. According to Statistics Canada, the **employment rate** also rose to its highest level in 30 years, reaching 60.23%.

In fact, this assumption is supported by Quebec's positive results in terms of **exports**, which according to the EDC, advanced 3.5% over 2005. Besides strongly outperforming the nation overall, Quebec also topped Alberta and British Columbia, which posted rates of 1.5% and -2.2% respectively.



Source: Based on data from Institut de la statistique du Québec

According to the Institut de la statistique du Québec (ISQ), **Quebec real GDP** growth was 1.6%, down from the 2.2% recorded in 2005, and less than the country's overall growth. The ISQ explains that domestic demand was weaker in Quebec than in the country as a whole.

As expected, the **construction sector** lost its title of growth engine in 2006, with **housing starts** falling 6%. According to the Conference Board of Canada, at 47,877 units, housing starts reached their lowest level in more than 4 years.

### QUEBEC INTERNATIONAL EXPORTS

| Country        | Value (millions of constant \$) 2006 | Variation relative to 2005 | % of Québec's total exports |
|----------------|--------------------------------------|----------------------------|-----------------------------|
| United States  | 56.902                               | - 1%                       | 77,6%                       |
| United Kingdom | 1.61                                 | + 19%                      | 2,2%                        |
| Germany        | 1.536                                | + 75%                      | 2,1%                        |
| France         | 1.189                                | + 20%                      | 1,6%                        |
| Netherlands    | 1.069                                | + 44%                      | 1,5%                        |
| Japan          | 937                                  | - 21%                      | 1,3%                        |

### QUEBEC INTERNATIONAL IMPORTS

| Country       | Value (millions of constant \$) 2006 | Variation relative to 2005 | % of Québec's total imports |
|---------------|--------------------------------------|----------------------------|-----------------------------|
| United States | 25.101                               | 0%                         | 31.1%                       |
| China         | 6.899                                | + 16%                      | 8.5%                        |
| Royaume-Uni   | 5.453                                | + 3%                       | 6.8%                        |
| Algeria       | 4.953                                | + 19%                      | 6.1%                        |
| Germany       | 3.259                                | + 2%                       | 4.0%                        |
| Mexico        | 3.095                                | + 21%                      | 3.8%                        |

Source: Institut de la statistique du Québec

## MONTREAL LABOUR MARKET FARED WELL IN 2006

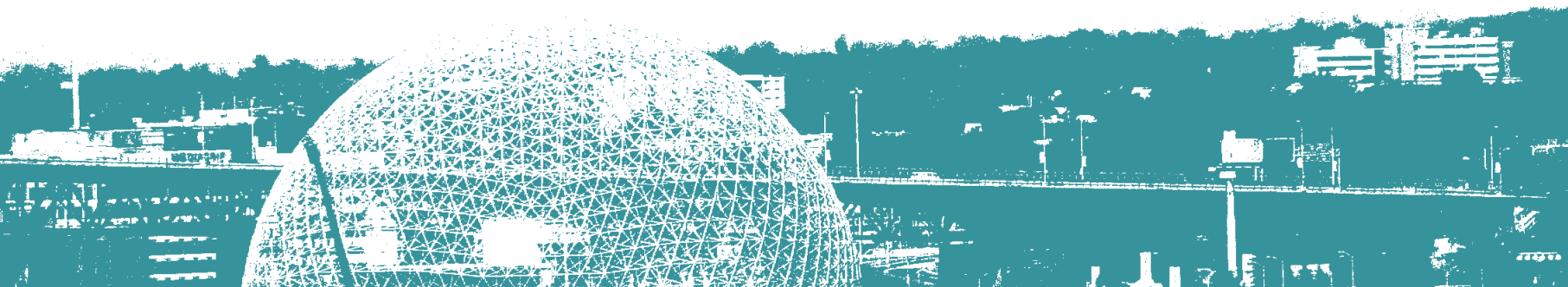
Despite **real GDP growth** of only 1.6% in 2006, compared to 2% in 2005 and 2.2% in 2004, the Montreal Census Metropolitan Area (CMA) had a relatively good year in some respects.

First, the CMA posted its best **employment rate** in 20 years, reaching 62%. Moreover, at 8.4%, the **unemployment rate** fell sharply, to a level closer to 2001, thus moving away from the rates of the past five years and continuing on the downward trend that began in 2004. Furthermore, close to 34,000 **jobs were created**, nearly 45% more than in 2005.

The labour market results on the island of **Montreal** reflect those of the CMA. In fact, according to the Bilan économique de l'agglomération de Montréal, at 59.4% and 66% respectively, the **employment rate** and the **participation rate** were the best in 20 years. The caveat, however, is the types of jobs created, i.e., all of the 23,700 new positions were **part time**. The fact that 3,900 full-time jobs were lost means that despite the strong gains, the labour market remains fragile. ■

# MONTREAL'S CLUSTERS IN 2006

STRONGER Foothold FOR METROPOLITAN CLUSTERS IN 2006



A review of 2006 would be incomplete without acknowledging the major strides made by metropolitan Montreal's clusters in terms of consolidation and structure. Thus, while Quebec GDP advanced a modest 1.6%, not all the sectors followed this trend. In fact, there were significant advances in the aerospace, life sciences and information technology sectors.

In 2003, the Montreal Metropolitan Community (MMC) prepared an exhaustive study on the clusters it considered worthwhile developing since they would allow Montreal to capitalize on its strengths both in terms of knowledge and expertise and on the presence of major national and international players on its territory.

Today, four years later, Montreal has four clusters, including three referred to as "competitive clusters" – aerospace, life sciences and information technologies – and one "visibility cluster," i.e., cinema.

In 2006, the **Aéro Montréal** cluster created a secretariat comprised of aerospace players whose goal is to mobilize business people, institutions, associations and the public sector. After just one year of activity, the results augur well for the future. According to the "Faits saillants et chiffres sur le secteur pour 2006" section of report of the ministère du Développement économique, de l'Innovation et de l'Exportation du Québec (MDEIE), in 2006 the Quebec aerospace sector counted **241 companies** and **40,400 employees** (98% of Quebec's aerospace activities are concentrated in metropolitan Montreal).

Although the number of companies remained virtually unchanged from 2005 (240 companies), the number of jobs increased by 3.5% over the previous year and revenues rose 2.7% from \$11.1 billion in 2005 to **\$11.4 billion** in 2006.

Exporting 80% of its production, the aerospace industry leads Quebec in terms of manufacturing exports. Although Quebec **exports of aerospace parts** and products slipped 0.06% from 2005, they accounted for \$8 billion or close to 11% of the province's total exports.

Meanwhile, the **life sciences cluster Montréal InVivo** - created in April 2002 - also posted good results in 2006. Comprising **479 companies** and **149 research centres**, the cluster was responsible for some **40,500 jobs**, including 15,000 in the biopharmaceutical sector, and generated revenues of **\$4 billion**.

**Pharmaceutical and drug** exports played a large part in the cluster's growth, jumping 14% over 2005 to a total of **\$780.75 million** in 2006.

On another positive note, the life sciences cluster captured the lion's share of the **venture capital** invested in Quebec in 2006. According to data compiled by Thomson Financial for Réseau Capital, the **life sciences** industry received 44% of the funds invested in the province, i.e., **\$263 million**, a 42% increase over the amount invested in 2005. The **biopharmaceutical** sector captured 93% of the total, or **\$246 million**, a 68% increase for this sector. If the investments bear fruit, the next few years could be very interesting indeed.

Montreal's third competitive cluster, **information and communication technologies (ICT)**, had to wait until spring 2007 to be officially launched under the **TechnoMontréal** banner. However, it nonetheless managed to post good results for the year. With regards to employment, most of the positions were computer-related. According to Statistics Canada, jobs in the **telecommunications** sector increased 26% from 26,800 in the fourth quarter of 2005 to almost 33,800 for the same period in 2006. Although jobs in **IT systems design** fell 1.6%, they still amounted to 43,300 in the fourth quarter of 2006, not far off the 44,000 recorded towards the end of 2005.

In manufacturing, the changes were greater, and more importantly, different. Thus, while **electrical component, appliance and component manufacturing** saw the number of jobs rise 26.6% between the fourth quarters of 2005 and 2006, the **IT systems design** segment lost 32% jobs during the same period.

In terms of financing, venture capital was down slightly compared to 2005, but in real terms, the difference was negligible. The IT sector captured 36% of the total venture capital invested in 2006, in comparison with 40% in 2005. The real difference was in terms of who got the financing. As such, in 2005, 72 companies shared \$219 million, but a year later, only 57 enterprises shared the **\$217 million** pie.

As for ICT exports, 2006 was somewhat uneven, with decreases in several segments. Thus, exports of **computers and electronics** and **computers and peripheral equipment** fell 17% and 3% respectively from 2005. Conversely, exports of **communications equipment** and **telephone equipment** rose 1% and 3.5% respectively over the same period. ■

# CROWN CORPORATIONS IN 2006



## A VINTAGE YEAR, FAVOURABLE WINDS AND PROFITS: CROWN CORPORATIONS MAKE A SOLID CONTRIBUTION TO GOVERNMENT COFFERS

On balance, 2006 was a good year for the Quebec government's three crown corporations, Hydro-Québec, Société des alcools du Québec (SAQ) and Loto-Québec, all of which posted earnings growth over last year, helping pad the government's shrinking coffers.

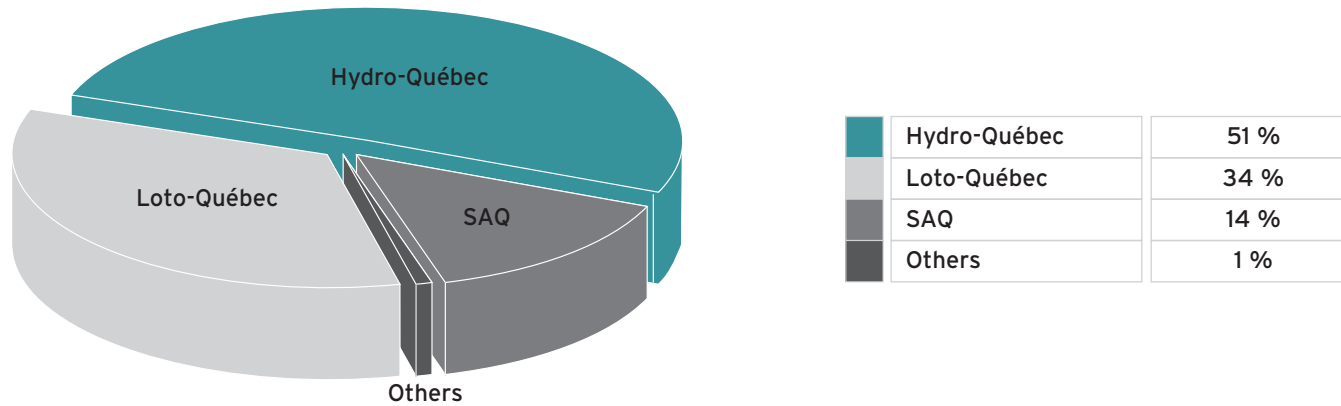
First, the SAQ enjoyed an especially profitable year, with **net earnings** climbing 20.4%, from \$545.8 million in 2005 to **\$659.9 million** in 2006. The fact that net sales rose only **9.4%** and **operating expenses** increased a mere **1.7%** suggests very strict cost control, which enabled the corporation to generate a higher return on each sales dollar and therefore higher profits than last year. As such, SAQ contributed almost \$660 million to the public purse in 2006.

**Hydro-Québec's** performance was also good, and not only in terms of wind power. In 2006 the utility launched or completed a number of projects, including the largest hydroelectric development in a decade, the Eastmain-1-A-Sarcelle-Rupert project. One of the highlights in Hydro's annual report is the **66% increase in net earnings** over 2005, which reached **\$3.741 billion**. The utility also declared **\$2.342 billion in dividends**, more than double last year's figure.

Not to be outdone, Loto-Québec turned in another solid performance in 2006, recording **net earnings** of close to **\$1.6 billion**, a 1.9% increase over 2005. Almost the entire amount, i.e., **\$1,537 billion**, will be turned over as **dividends to the Quebec government**, which will allocate 38% of the funds to health and social services and 22% to education, recreation and sports.

Thus, the public purse swelled by nearly **\$4.5 billion** in 2006 thanks to these three crown corporations, an **increase of 7.6%** over 2005. This contribution represented about **99% of the tax revenues** collected from provincial crown corporations. ■

### TAX RECEIPTS FROM CROWN CORPORATIONS (2006)



Source: Government of Quebec 2007-2008 budget



# MONTREAL SMES IN 2006

A YEAR FILLED WITH CHALLENGES



A defining characteristic of the 21<sup>st</sup> century, globalization is creating major challenges for companies struggling to adapt to foreign competition while trying to capture domestic or international market share.

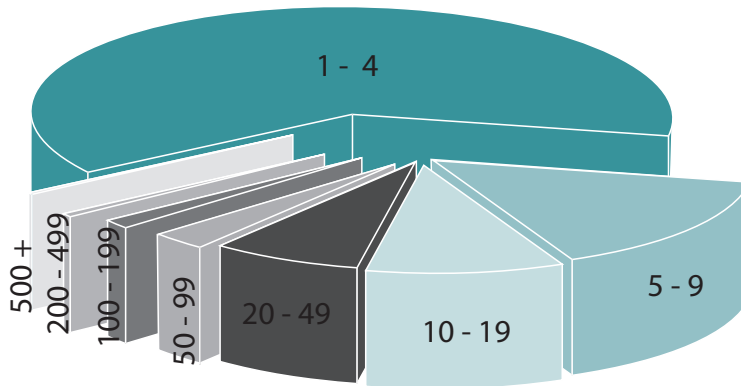
The story is no different for Quebec SMEs, which must double their efforts and demonstrate ingenuity to at least maintain their market share. Two thousand six was an even tougher year for our SMEs, confronted not only with the burgeoning emerging economies but also by rising energy and commodity prices. Among other things, these rising prices resulted in a stronger Canadian dollar against the greenback, placing Canadian and Quebec exporters once again in the unpleasant position of having to either raise their import prices or trim profit margins even more.

That said, a stronger dollar is an incentive for companies to invest, specifically, in new machines to boost productivity. Thus, according to the Institut de la statistique du Québec (ISQ), **capital expenditures** on machines and equipment rose 4.3% in Quebec, from \$18.697 billion in 2005 to \$19.056 billion in 2006. For their part, construction expenditures rose 3.7% to \$31.911 billion in 2006.

While some firms benefited from the investment-conducive climate, others had no choice but to close their doors. As such, according to StatCan's Business Register, the number of **active business establishments in the Montreal CMA** slipped 0.51%, from 109,546 in 2005 to 108,986 in 2006. However, the change was not uniform for all sizes of companies. In fact, only one category grew, namely, businesses with 1 to 4 employees, recording a 2.6% increase that brought their number to nearly 68,000 in 2006. These SMEs accounts for 62% of active businesses in the metropolitan region.

Leading the way in the number of establishments were **residential construction** and **computer systems design and related services** businesses, which grew, respectively, 2.6% and 6.3% over 2005. With regards to residential construction, the biggest change was in companies with between 50 and 99 employees, whose number doubled from 14 in 2005 to 28.

**BREAKDOWN OF BUSINESS ESTABLISHMENT ON THE CMA TERRITORY BY NUMBER OF EMPLOYEES (2006)**



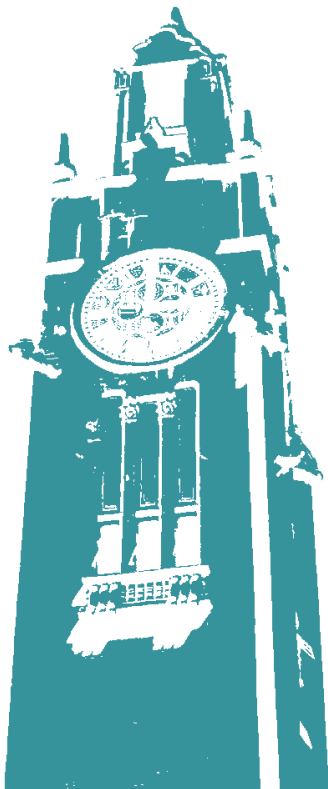
| Number of employees | %     |
|---------------------|-------|
| 1 - 4               | 62,07 |
| 5 - 9               | 15,20 |
| 10 - 19             | 10,09 |
| 20 - 49             | 7,50  |
| 50 - 99             | 2,75  |
| 100 - 199           | 1,39  |
| 200 - 499           | 0,67  |
| 500 +               | 0,32  |

Source: Statistics Canada, Business Register, 2006

In contrast, heavy losses were recorded, in absolute terms, in **administrative and general management consulting services**, which lost 115 businesses. However, this figure is somewhat tempered when expressed as a percentage, i.e., a reduction of 7.8% out of the 1,480 businesses active in this sector in 2005. ■

# BUSINESS LEADERS' REPORT

2006 POST-MORTEM



**Philippe Trudeau**  
President, Trudeau Corporation Inc.

The company had an excellent year in 2006. Consumer spending was strong in Europe, the U.S. and Canada, largely due to the resurging interest in health and relaxation and the move towards families enjoying meals together. The results were also good in Montreal, where the number of food retailers increased. Last year's performance beat expectations, with sales moving ahead 15%. We're expecting great things in 2007, including a 10% increase in sales.



**Sébastien Gignac**  
President and CEO, ART Recherches et Technologies Avancées Inc.

Montreal's owes its rise as a leader in North America's life sciences sector to the different levels of government, which have invested in public research and infrastructures and have encouraged private investment. The situation improved even more in 2006 thanks to the Quebec government's new drug policy and innovation and research strategy, moves that are sure to help consolidate Montreal's leadership in this field.

### Simon Gauthier

President, Novabrik International Inc.

After six strong months in the Quebec construction industry, the second half of the year slowed considerably both in terms of housing starts and shipments of construction materials to distributors. This downturn forced us to seek out other markets such as Alberta, the U.S. and Europe.

In 2006, we inked a number of distribution agreements for our Novabrik product on these markets, including a national agreement with Lowe's in the



U.S. We also continued to make strides and build sales at our plant in the Czech Republic, which also serves the German market.

It's in tough times like these that a company must expand and penetrate outside markets to be able to pursue its growth.

### Joan Vogelesang

CEO, Toon Boom Animation

For Toon Boom, the key to success is to be a net exporter. To that end, we kept our focus on developing new territories offering great business potential, bringing to the market new products in a timely fashion, maintaining a multilingual and multicultural workforce and positioning the company globally with high visibility at tradeshow, festivals and in the media. In 2006 we reinforced our net exporter's position. By hiring more people from different cultural backgrounds, we also



reached the incredible number of 15 languages spoken within the company. This allows us to serve more markets in more countries. We met our goals for 2006 and expect, for the two coming years, to develop new markets mainly in Africa and the Caribbean's.

### Jean Simard

President, L. L. Lozeau Ltée

Retail sales of high-end digital photo and video products beat expectations. However, profits are down because more big-box retailers are delivering increasingly fierce competition.

The key is to offer top notch pre-sales, sales and after-sale service.

However, we still have issues in terms of human resources. Qualified people in our field are hard to

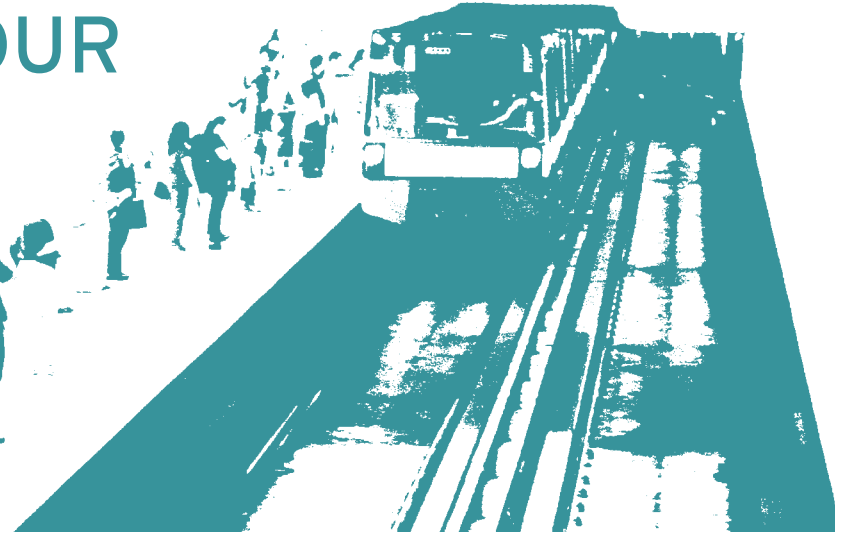


find. We therefore need an in-house training plan. One of our key challenges right now is succession. We're determined to make the transfer successfully.

# THE MONTREAL LABOUR MARKET IN 2006



**Sylvain Béliste**  
Research and Analysis Directorate, Canada Economic Development



Two thousand six was a good year for Greater Montreal on the employment front. The 33,000 increase in the number of jobs was the largest in four years, and for the first time since 2001, the growth rate (1.8%) outpaced that of Quebec as a whole (1.3%). This strong performance shaved three tenths of a point off the unemployment rate, bringing it down to 8.4%. Although greater demographic growth and an even greater influx of job seekers kept the unemployment rate slightly above the 8% provincial average, the figure was nevertheless at one of its lowest levels in 20 years.

While a cause for celebration, these results should not obscure the major challenges facing the region. As such, despite this strong performance, the leading labour market indicators for Montreal are on balance below those posted by Canada's other metropolitan centres. In terms of job growth, Montreal clearly outperformed Toronto in 2006 - for the first time since 2002 - but still lagged well behind the metropolitan regions of Ottawa-Gatineau, Calgary, Edmonton and Vancouver, which all posted growth above 2%. As for the unemployment rate, it was 1.8% higher than Toronto's and more than 3 points higher than the other metropolitan regions. Lastly, the employment rate remains below these same regions.

Like Toronto, Montreal's manufacturing industry has been hard hit by the loony's flight over the last four years and by growing competition from low-labour-cost countries. No less than 17,000 jobs were lost in this sector in the last year alone and just over 45,000 since 2002. However, two decades of major diversification efforts have allowed the region to shift from an industrial structure dominated by the production of consumer goods (clothing, furniture, etc.) to one that is now underpinned by investment goods (aeronautics, chemical and pharmaceutical products, etc.). While globalization still poses serious challenges, the increased presence of higher value-added industries places Montreal in a better position to seize future opportunities.

That said, to meet these challenges, our manufacturing companies need to be able to count on specialized services in a variety of areas: financial, professional, scientific, technical, administrative and management. The good news is that the service industry has taken off in the last few years, creating over 31,000 jobs in 2006 and accounting for more than 50% of the job growth since 2002. Besides supporting the manufacturing sector in such important activities as R&D, innovation and marketing, this industry helps develop professional expertise that can be marketed directly abroad to boost Montreal's competitiveness at home and on the world stage. ■



Canada Economic  
Development

Développement  
économique Canada

Canada