TREND CHART

Greater Metropolitan Region

2008 Perspectives

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Exclusive partner

Canada

Chambre de commerce
du Montréal métropolitain
Board of Trade of Metropolitan Montreal

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Editorial

MONTREAL'S BATTLE FOR TALENT AND INVESTMENT

Despite these rather uncertain times due to the strong Canadian dollar, high oil prices and the credit crunch in the U.S., we have every reason to believe that our economy will fare well next year.

The Quebec and Montreal labour markets are particularly robust. The employment, unemployment and participation rates are all sending a positive message regarding the solid potential and foundation of our economy. In the metropolitan region, the latest projections call for economic growth to increase in 2008, meaning tens of thousands of new jobs will have to be filled in key areas of Montreal's economy.

That said, we are facing some major challenges. This is not the time to be complacent. To the contrary, we should feel a real sense of urgency in light of our greying population and deterioration of public infrastructures.

Indeed, unless a major shift occurs, Quebec and Montreal are already on the way to relative impoverishment. We must reverse this trend without delay by finding ways to create more wealth. Talent and investment are two fundamental ways to do this.

In many respects, talent and knowledge are today our most precious natural resource. It goes without saying that our educational institutions play a key role in the *quality* of this resource. At the same time, we must ask ourselves how we can maintain and increase the funding and quality of education as well as the value we place on learning in Quebec.

As for the *quantity* of this resource, the solution lies in immigration. Newcomers are already making a huge contribution to our economy, fulfilling nearly all the new demand for labour. But as time goes by, this will not be enough; we must find innovative ways to attract and keep more talent here.

We must apply this same sense of urgency to improve our tax regime for businesses in order to attract and free up more funds for investment. Our tax structure should reward rather than penalize performance, success and innovation. A business driven tax policy would allow us to send out the clear message that Montreal is the place to do business.

In short, while the relative vitality of the metropolitan and Quebec economies should give us a measure of confidence in our abilities, the fact remains that we need to do much better. Because in the battle to attract and retain talent and investment, what counts is winning.

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
ECONOMIC ACTIVITY				
GDP†	Q2 2007	+ 2.3%	+ 1.9%	+ 1.8%
LABOR MARKET				
Jobs created†	September 2007	+ 2.5%	+ 2.3%	+ 1.7%
Activity rate	September 2007	67.5%	65.6%	67.8%
Unemployment rate	September 2007	5.9%	6.9%	7.1%
CONSTRUCTION AND REAL ESTATE				
Building permits†	August 2007	+ 6.2%	+ 15.7%	+ 18.2%
Housing starts†	Q2 2007	- 4.2%	+ 10.9%	+ 23.5%
PURSHASING POWER AND CONSUMPTION				
Inflation (IPC 1992=100)†	September 2007	+ 2.5%	+ 1.9%	+ 1.8%
Retail Sales†	Q2 2007	+ 4.1%	+ 3.7%	+ 4.1%
International Trade				
Exports†	August 2007	- 1.4%	- 6.5%	-

Source: Conference Board of Canada, Statistics Canada, Strategis

†These variations are relative to the same period of 2006

OUR ECONOMIC INDICATORS			
		Variation from	
FINANCIAL MARKETS	OCTOBER 24 2007 VALUE	PREVIOUS MONTH	PREVIOUS YEAR
Bank of Canada: key interest rate	4.50%	+ 25 basis points	+ 25 basis points
Canadian dollar (vs. US dollar)	1.0297	+ 0.0847$	+ 0.1479$
Oil barrel price (WTI, in US dollar)	86.45$	+ 8.2%	+ 30.9%

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)	111,955	51,814	40,853	203,103	73,321
Personal income per capita (dollars)	32,519	48,682	38,180	35,844	33,571
Personal disposable income per capita (dollars)	24,584	37,795	29,180	27,395	26,091
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 $)	39,652	20,640	13,587	55,082	24,161
Housing starts (thousands)	22.8	17	8.8	37.1	18.7

Source: Conference Board of Canada

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
Gross domestic product	+ 2.1%	+ 2.7%	+ 4.4%	+ 4.3%	+ 2.3%	+ 2.9%	+ 2.7%	+ 3.7%	+ 2.9%	+ 3.4%
Personal income per capita	+ 4.4%	+ 3.0%	+ 4.1%	+ 2.9%	+ 3.8%	+ 3.3%	+ 4.1%	+ 2.5%	+ 5.7%	+ 3.7%
Personal disposable income per capita	+ 4.9%	+ 3.1%	+ 5.2%	+ 2.7%	+ 3.4%	+ 3.1%	+ 3.7%	+ 2.3%	+ 6.4%	+ 3.8%
IPC (1992=100)	+ 1.7%	+ 1.9%	+ 4.7%	+ 3.3%	+ 2.2%	+ 2.1%	+ 2.2%	+ 2.1%	+ 2.0%	+ 1.9%
Employment	+ 2.3%	+ 1.0%	+ 3.9%	+ 2.7%	+ 0.1%	+ 1.3%	+ 2.1%	+ 1.4%	+ 2.8%	+ 2.5%
Unemployment rate	7.0%	7.3%	3.5%	3.6%	5.7%	6.2%	6.7%	6.8%	4.0%	3.9%
Retail sales	+ 4.2%	+ 5.3%	+ 8.0%	+ 6.6%	+ 3.7%	+ 5.4%	+ 4.2%	+ 6.1%	+ 6.8%	+ 6.1%
Housing starts	- 6.8%	- 22.5%	- 17.1%	- 4.6%	- 8.2%	- 8.6%	- 8.6%	+ 13.6%	+ 1.5%	- 10.0%

Source: Conference Board of Canada

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

ON THE RADAR SCREEN

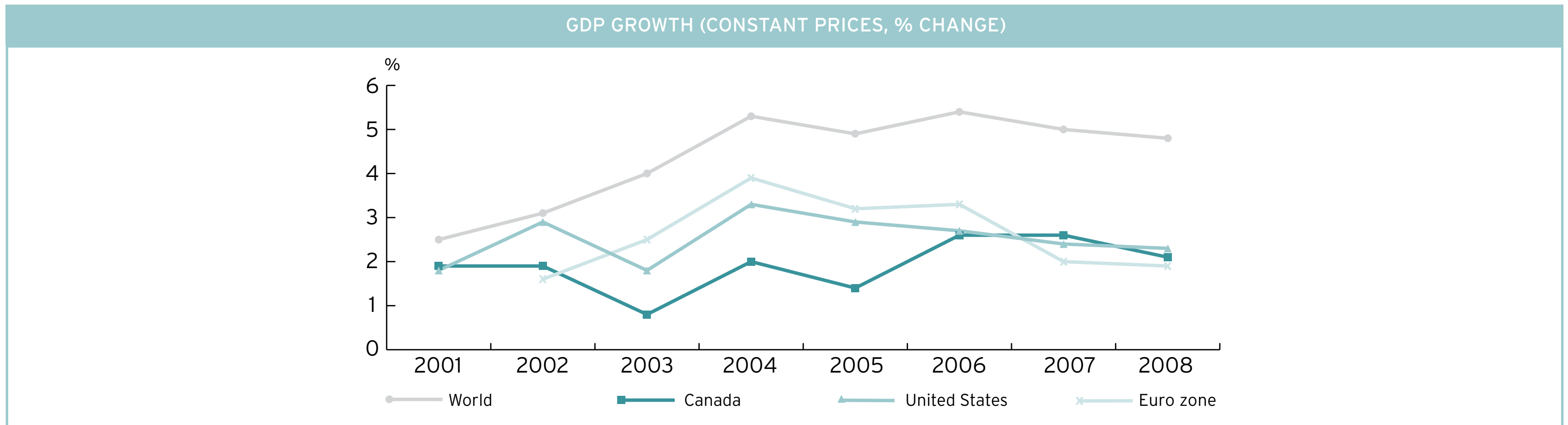
2008 forecasts

PACE OF GLOBAL GROWTH SLOWS A NOTCH...

Global economic growth is expected to continue into 2008; however, the pace will not be quite as robust as in the past two years. According to Export Development Canada (EDC), the **global gross domestic product** (GDP) will be 4.6% in 2008, while the International Monetary Fund (IMF) revised its forecast to about 5%. The projections are therefore slightly below the 5.4% recorded in 2006 and the estimate of about 5% for 2007. This trend prompted the EDC to state that "the global economy is past the peak of the current growth cycle."

Notwithstanding this statement, the fact remains that the realities of the world's economies are quite different. While the IMF will revise its 2008 forecast for the U.S. and Eurozone downward in October, at the end of September the Asian Development Bank raised its regional GDP forecast for the **Asia-Pacific region** to 8.3% for 2007 and 8.2% in 2008.

As such, **China** and **India**, the economic engines of this region which together account for 55.3% of the total GDP of emerging Asian countries, are expected to grow, respectively, 11.2% and 8.5% in 2007, and 10.8% and 8.5% in 2008. It goes without saying that such a pace creates inflationary pressures, which if poorly contained, will do a lot more damage than simply temper the economic climate. Inflation projections for China are 4.2% in 2007 and 3.8% in 2008, whereas Indian inflation is expected to hover at 5% for both years.



Source: International Monetary Fund, World Economy Outlook, April 2007
Note: 2007 and 2008 data are forecasts by the IMF

The IMF is calling for resource-rich **Russia** to expand 7% in 2007 and 6.8% the following year. For its part, **Brazil** will capitalize on South America's solid economic situation with GDP growth of 4.3% in 2007, just below the projected 5.2% rate for the continent. However, both these rates are expected to decrease in 2008. As for **Latin America** and its largest country, their economies will grow 4.5% and 4.1% respectively.

Despite this apparent vitality, the 2008 outlook for the global economy remains quite uncertain due to a number of factors, including recent developments associated with the slumping U.S. real estate market, which hammered the global financial markets in the third quarter; higher commodity prices — a source of inflationary pressures in many countries; and last but not least, risks associated with geopolitical tensions.

Beyond the higher commodity and oil prices, the **Eurozone** is already feeling the effects of some of these pressures, particularly because of the troubles experienced by its financial markets. Consequently, according to the Organization for Economic Cooperation and Development (OECD), the Eurozone will grow 2.5% in 2007 and 2.3% in 2008.

The **Japanese** economy, whose growth is largely fuelled by exports and investments, should also expand at a slower pace. As a result of ebbing demand in the U.S. — one of Japan's main export markets —, a drop in investments, the rising yen, and recent political changes, the OECD is pegging Japan's growth rate at 2.4% in 2007 and 2.1% in 2008.

While opinions vary on the direction of oil prices, there is no disagreement on the imbalance between supply and demand. As such, the Organization of Petroleum Exporting Countries (OPEC) — which supplies just over one third of the world's crude — must boost output by 500,000 barrels per day as of November 2008 in order to satisfy the International Energy Agency's projected demand of 85.9 million bpd in 2007 and 88 million bpd in 2008.

According to EDC's optimistic forecast this past summer, the **price of West Texas Intermediate** (WTI) **crude** should be about US$63 in 2007 and US$56 in 2008. However, in response to fluctuations at the end of September, Goldman Sachs is more pessimistic, calling for the price to hit $85 by year-end and $95 in 2008.

According to global trade flow projections, **international merchandise trade** growth will fall to 6% this year according to the World Trade Organization (WTO), compared to 8% in 2006. The outlook for 2008 remains unclear, because in addition to the factors mentioned earlier, an increase in the price of global maritime transport — notably on dry bulk shipping routes — will have a major impact on the price of some foods, including grain.

AFTER THE CURRENT ACCOUNT DEFICIT, SUBPRIME MORTGAGES ARE CASTING A PALL ON THE U.S. ECONOMY

Forecasters are worried about the U.S. given the weight of the world's largest economy in the global markets. Household consumption, which has always been the backbone of American growth, has fallen off as a result of recent developments caused by the interest rate hikes and by the real estate market.

The fact is that many consumers used the rising values of their homes to increase their debt by refinancing their mortgage while others capitalized on low interest rates to negotiate new mortgages or to take out bigger loans. However, when the real estate market began to lose steam and property investments fell, the speculative bubble burst and the sector crashed. Consumers found themselves with a high level of debt, unable to sell their homes for what they had paid since prices had declined. As well, interest rate hikes – the key rate of the U.S. Federal Reserve (Fed) which until September 18 was 5.25% – resulted in higher mortgage payments, which many households could not afford. According to a report prepared in June by National Bank Financial economists, the **debt level** of the American consumer, expressed by the debt to disposable income ratio, was 135.7%.

The **financial crisis** caused by subprime mortgages – credit granted to high credit risk households – quickly spread and reverberated across essentially all the financial markets in the world. This situation, combined with a major slowdown in **consumer spending** after the first half of the year, led economists to revise their growth forecast down for the next two years.

Thus, the OECD trimmed its 2007 **U.S. GDP** forecast from 2.1% to 1.9%, while the IMF in September cut its earlier 2.8% projection for 2008 to 2.2%.

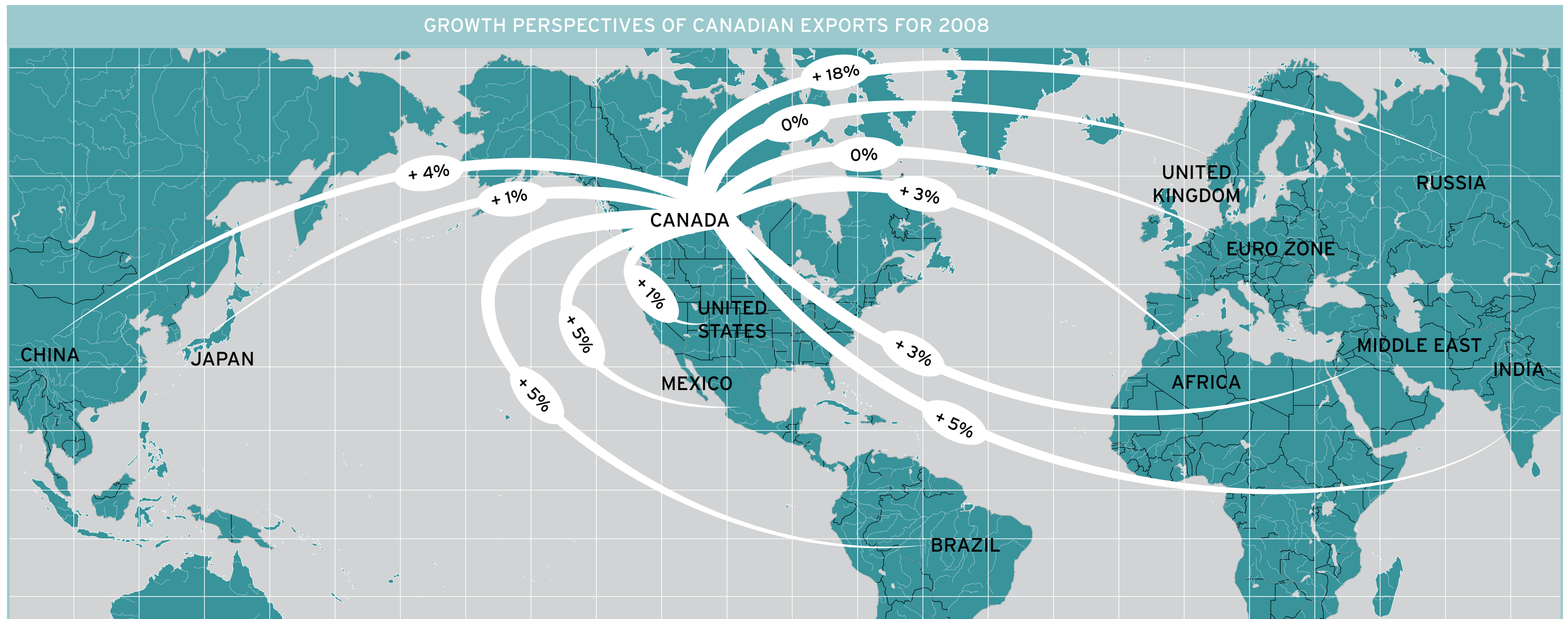
The U.S. economic situation is being increasingly scrutinized both at home and abroad as evidenced by the frenzy caused by the smallest development. For example, when, on September 18 the Fed cut its **key rate** by half a point to 4.75%, most of the indices around the world rose. As such, between September 17 and September 19, the **CAC 40** (Paris) gained 5.3% while the **FTSE 100** (London) advanced 4.5%. In the U.S., the **S&P 500** and **Dow Jones** (New York) moved ahead 3.5% and 3.1% respectively, while in Canada, the **S&P/TSX** rose 1%.

IN CANADA, THE LOONIE'S FLIGHT IS WEIGHING ON GROWTH

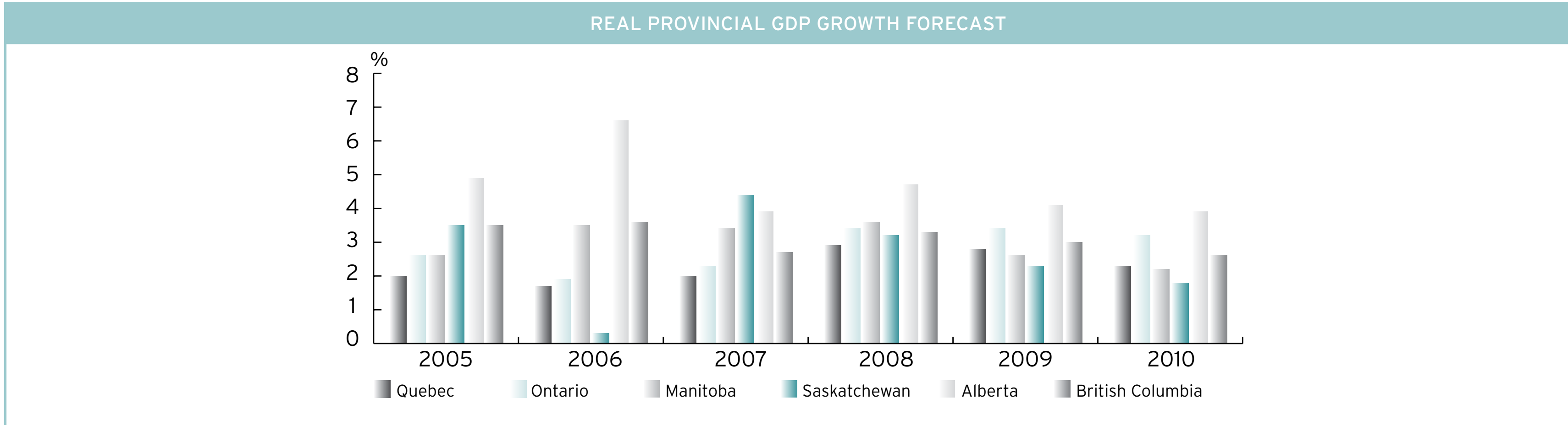
While it revised its 2007 forecast for the U.S. and for much of the Eurozone downward, the OECD did the opposite for Canada in September, raising the expected Canadian **GDP growth rate** from 2.5% to 2.7%. For its part, the Conference Board of Canada (CBOC) is calling for 2.5% in its most recent *Metropolitan Outlook*, justifying this figure, which is a far cry from the 3.7% (annualized) announced in the first quarter, by the **loonie's** appreciation in the second quarter. After trading at US$0.85 in January, the Canadian dollar climbed to US$0.94 in June, averaged US$0.945 in August. On September 20, the dollar reached parity with its U.S. counterpart for the first time in 30 years and on October 29, the dollar hit a 47-year high above US$1.05.

Growth will not be uniform across the country. In fact, the **disparity** that already exists between the East and the West will continue. The Western provinces, which reap the benefits of high oil and commodity prices, will see their economies expand an average of 3.4% in 2007 and 3.9% in 2008, a stark contrast to Quebec and Ontario which, together, will advance 2.2% in 2007 and 3.2% the following year.

GROWTH PERSPECTIVES OF CANADIAN EXPORTS FOR 2008



Source : Based on data from EDC



Source: Based on data from the Conference Board of Canada

In terms of **employment**, Canada is expected to create nearly 357,000 jobs in 2007, including 79% on a full-time basis. This number will swell by 231,000 in 2008, of which more than 90% will be full time. Most of these openings will be in construction and business services.

The CBOC is forecasting 3.2% growth in 2008, the first time since 2004 that GDP will increase more quickly than the previous year. The only fly in the ointment is the expected slowdown in U.S. domestic consumption. Since the U.S. is still our biggest trading partner, accounting for 82% of Canadian exports in 2006, any reduction in exports will have an impact on the nation's economic health.

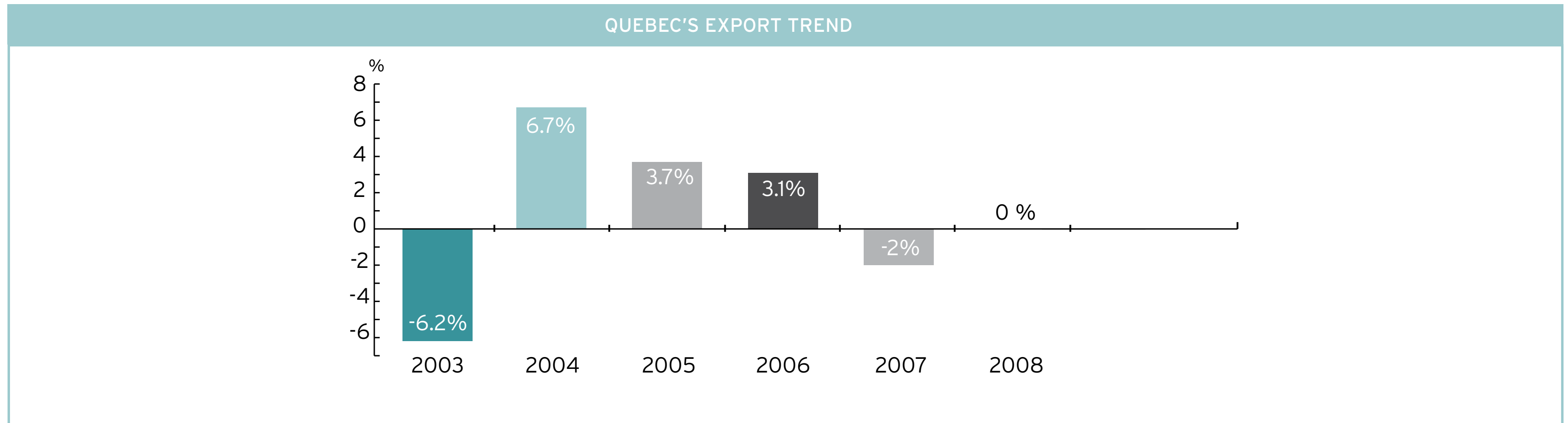
Lastly, **inflation** is expected to hover at 2.4% this year and fall to 2.1% in 2008, well within the inflation control target range. Should things suddenly change, the Bank of Canada has scheduled 10 key interest rate announcements between now and December 2008.

AN ENCOURAGING OUTLOOK FOR QUEBEC

The province is facing mixed forecasts, particularly with regards to its output in 2007. According to the CBOC, **Quebec GDP** will grow 2% in 2007 and 2.9% in 2008, a performance that is largely explained by the situation in the manufacturing sector, which despite some restructuring, is still grappling with the after-effects of the strong Canadian dollar. Thus, Quebec's **manufacturing GDP** will advance just 0.3% in 2007 before rebounding to 4.5% in 2008.

The negative trade balance is another factor working against Quebec's economic growth. According to EDC, **exports** will fall 2% in 2007 and not advance at all in 2008. A downturn in such sectors as lumber, newsprint, consumer goods and automobiles, combined with slowing U.S. consumption, explains these somewhat pessimistic forecasts. Still, some sectors will fare well on the export front. For example, the **aerospace** sector will see its exports climb 12.1% this year and 9.7% in 2008 according to the CBOC. **Electricity** and **information and communication technology** (ITC) exports will increase 11.3% and 1.8% respectively in 2007. Electricity exports will grow more modestly in 2008 – about 2.8% – while ITC exports will pick up 4%.

Lastly, Quebec domestic consumption will drive the economy for the next two years. After rising 3.1% in 2006, **real consumer spending** will increase 3.5% in 2007 and 2.8% the year after. The $1.8 billion pay equity settlement explains some of this increased spending. Per capita **disposable income** will increase 4.8% to $24,624 in 2007, and rise another 2.9% in 2008 to $25,349. The **retail trade** will reap the benefits of this growing purchasing power, with the CBOC calling for sales to pick up 4% from 2006 to $90.5 billion this year, and another 5.4% the following year, to $95.4 billion.



Source: Institut de la statistique du Québec, EDC
Notes: Data up to 2006 are in current prices and are provided by the Institut de la statistique du Québec; 2007 and 2008 forecasts are from EDC.
The % change is compared to the previous year.

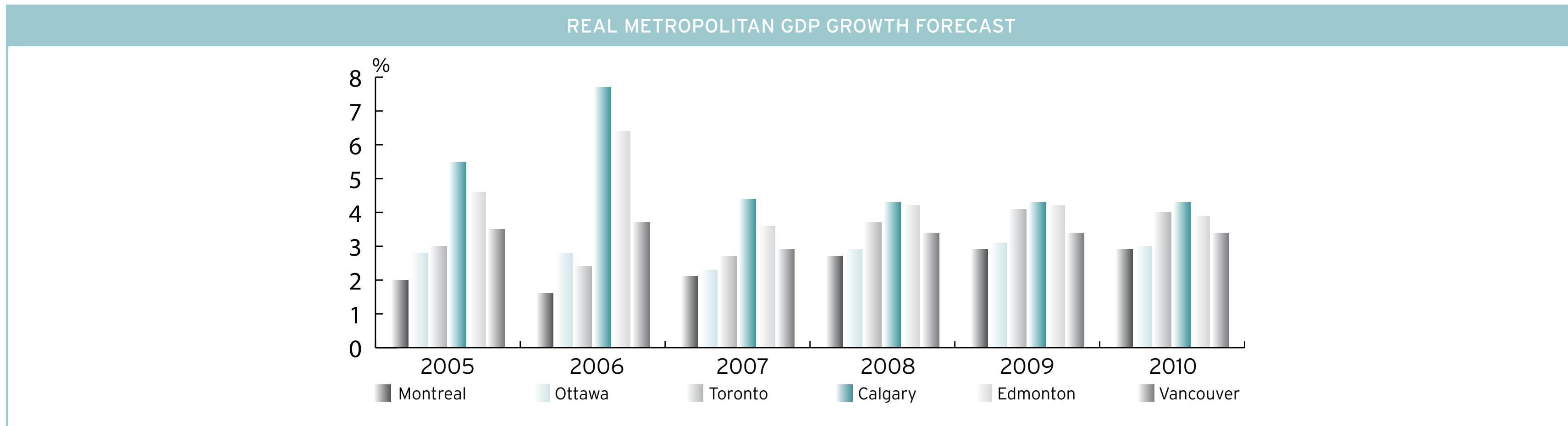
MONTREAL: THE BEGINNINGS OF A RECOVERY

Over the past few years, Montreal's economic growth has averaged 1.8% per year. The IT meltdown, the strong loonie, and the high price of oil have all played a role in this performance. Between 2003 and 2006, the City ranked last among Canada's five largest census metropolitan areas (CMA) and 12th out of the 13 Canadian CMAs in GDP growth.

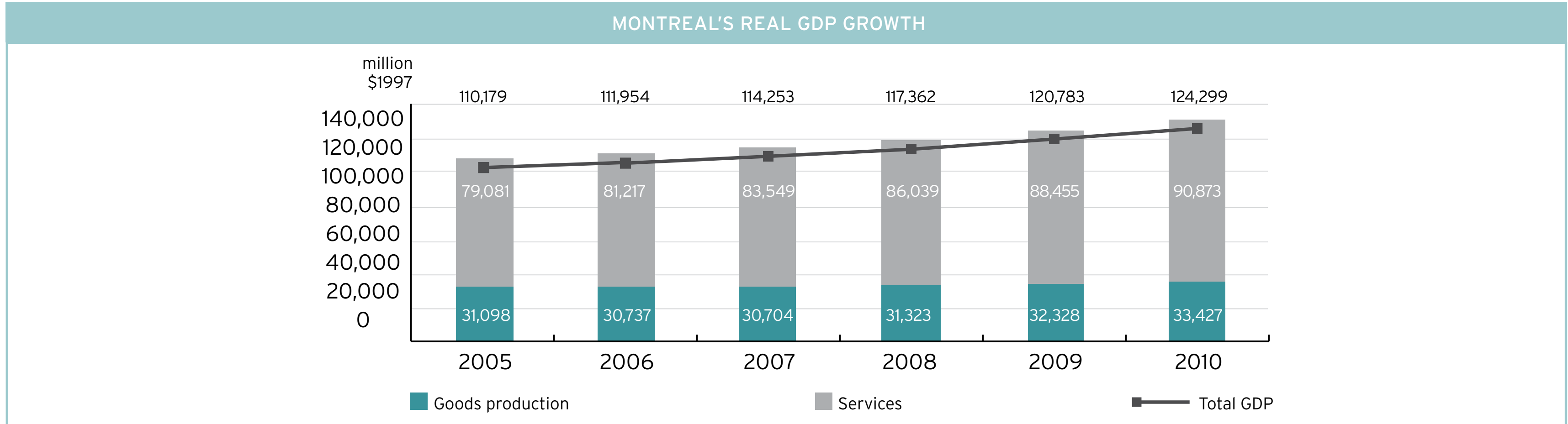
However, according to forecasts, things will change in the next two years. In fact, the Conference Board of Canada (CBOC) is projecting growth of 2.1% for 2007, which is a departure from the trend observed since 2004 when **Montreal's GDP** advanced at a slower rate than the previous year. And the picture gets rosier still, with growth expected to reach 2.7% in 2008.

Faced with greater buying power thanks to a strong dollar, many manufacturers have upped investments in machinery and tools with a view to boosting productivity. As such, the **manufacturing sector**, which has seen output shrink steadily since 2001 should, after contracting 1% in 2007, turn the page and grow 2% in 2008, for a GDP of about $21 billion,[1] and account for close to 244,000 jobs.

[1] Expressed in 1997 dollars.



Source: Based on data from the Conference Board of Canada



Source: Based on data from the Conference Board of Canada

Montreal's labour market set records in the early months of 2007 with an **employment rate** of 62.3%, the highest in the past 20 years, a historically low **unemployment rate** of around 6%, and a **participation rate** that topped the average of the past three years.

The job outlook for the short term is just as good, particularly for this year. With the **anticipated creation** of some 43,000 jobs in 2007 and 18,000 in 2008, Montreal will account for 12% and 8%, respectively, of all Canadian jobs created in the last two years whereas the CMA represents only 11.25% of the total Canadian population.

Most of the **new jobs** will be generated by the **service sector**, which will post almost 65,000 new openings this year and 17,000 in 2008. In second place is the **retail and wholesale trade**, which is expected to hire 25,000 people in 2007 and an additional 5,000 in 2008. In contrast, the **manufacturing** and **goods producing industries** will eliminate 25,000 and 22,000 jobs, respectively, in 2007. Consequently, the modest forecast of 1,816 new positions in 2008 is actually good news.

After a protracted slump, the **construction** sector should find new vigour thanks to new projects in the City, namely, the super hospitals and public infrastructure rehabilitation, and is expected to increase 2.3% in 2007 and 1.9% in 2008.

Lastly, Montreal workers will also fare well as **wages** will rise an average of 3.5% in 2007 and 2.7% in 2008, translating into a 3.1% increase in **per capita disposable income** in 2007 and another 1.2% in 2008.

MAJOR CHALLENGES

These somewhat optimistic forecasts should not obscure the fact that Montreal faces some challenges. The City, along with the rest of Quebec, must contend with an aging population, and as a result of constant demand for qualified labour — a normal by-product of economic expansion — a number of positions are going unfilled. If this situation is not resolved, Montreal could find itself with a shortage of workers in some fields.

The CBOC's statistics are clear: **inter-city** and **inter-provincial** migrations are sapping the Montreal talent pool. Thus, some 13,000 people will move out of Greater Montreal over the next two years to another location in Quebec, and 18,000 Quebec residents will move to another province.

With **natural population growth** — the difference between births and deaths — still in the red, i.e., -17.7% in 2007 and -9.2% in 2008, **international immigration** is more important than ever. In this regard, we must try to lure qualified workers as well as strive to convince the many international students in Montreal to stay, failing which the beginnings of the recovery may very well remain stuck in first gear.

MONTREAL AND THE REGIONS: MORE COMPLEMENTARY THAN WE THINK

We all know that Montreal and the other regions of Quebec have different industrial and economic structures. But does that mean they have nothing in common? Quite the contrary. While they may not be readily apparent, the fact is that there are some very real economic similarities. One need only look at the importance of the **agrifood sector** in the Quebec economy, particularly in terms of job concentration.

In fact, according to the ministère de l'Agriculture, des Pêcheries et de l'Alimentation du Québec (MAPAQ), in 2006, the **biofood** industry accounted for 467,000 or 12.4% of the 3,765,000 jobs filled in Quebec. Interestingly, these jobs were not only concentrated in the regions: with some 120,000 employees, the agrifood sector generated about 13% of the jobs on Montreal island, a similar proportion to that in the other areas of Quebec.

A study conducted by the Fédération des chambres de commerce du Québec (FCCQ) reveals that the agrifood industry, which represents 6% of **Quebec's GDP**, is as solidly entrenched in Montreal as elsewhere, accounting for no less than 5% or about $4.4 billion dollars of **Montreal's GDP**.

Although Montreal is not known for farming and livestock production, 13% of all businesses on the island of Montreal were agrifood-related **establishments**. More than half of them (52.2%) operated in the **food services** sector, while the next largest concentration (33.2%) was in **food distribution**. These figures clearly show that Montreal is an important market for regional products.

However, Montreal's role is not limited to processing and distribution. The similarities between Montreal and the regions go much further, as evidenced by our foreign trade statistics. According to the Institut de la statistique du Québec (ISQ), agrifood products accounted for 5.6% of **Quebec's total** exports last year. Better yet, the value of these exports climbed 43.5% between 1998 and 2006 and, according to the EDC, Quebec agrifood exports will increase 4% in 2007 and 6% in 2008. As a result of its **geographic** location and infrastructures, Montreal is Quebec's international trade hub. As most exports must go through Montreal, the city provides an outlet for the regions' efforts.

An urban centre also helps its surrounding regions through efforts to raise its profile abroad. This often means holding international events — such as the Salon International de l'Alimentation (SIAL) — which generate considerable spinoffs for the local economy. As well, when a company decides to establish its headquarters in a metropolitan area, it does so for many reasons: the city's national or international visibility, access to qualified and abundant labour and investment capital, an essential component for growth. It is therefore not surprising to find that not only agrifood, but **aluminium** and **forestry** companies — two strong industries in the regions — have set up their head offices in Montreal.

In light of these similarities, 2008 could be an important year in terms of developing complementary relationships between all the regions of Quebec. As a matter of fact, the Commission sur l'avenir de l'agriculture et de l'agroalimentaire québécois and the Groupe de travail sur les aides fiscales aux régions ressources et à la nouvelle économie will be presenting the conclusions of their reflections early next year. Hopefully, they will consider the dynamics at play between Montreal and its regions and make suggestions on how their complementarity can be leveraged.

ACCORDING TO FINANCIAL INSTITUTIONS

In 2008, the Montreal economy will...

Don Drummond,
Senior Vice President and Chief Economist TD Bank Financial Group

In 2008, Montreal's economy will be marked by adjustments to the strong Canadian dollar. This is especially true for export-oriented manufacturers that must also contend with a softening U.S. economy and tough global competitors.

Local manufacturers will begin to take fuller advantage of lower import prices and government depreciation incentives to bolster their competitiveness. A shift to higher value-added goods and services will also occur. Some high value-added sectors such as aerospace and advanced materials have global markets and will be less affected by softer U.S. demand and a weak U.S. dollar.

Service activities, more tied to healthy domestic conditions, will continue to grow firmly. Major non-residential construction projects will help.

Yet those tied-in to the fortunes of the currency, tourism for instance, will continue to struggle.

François Dupuis
Vice-President and Chief Economist, Desjardins Group

Montreal will face major challenges in 2008. Despite its diversification, the city's economy will feel the pinch of the manufacturing sector's woes. The strong dollar and fragile U.S. economy will wreak havoc on exporters. In this context, boosting productivity – which is now a vital issue – means not only increased business investment more but infrastructure renewal and modernization. The growing shortage of qualified labour will require additional training efforts and better integration of the immigrant pool. Innovation and knowledge must remain a priority, and we must continue to encourage R&D. More than ever before, we need a shared vision and strong leadership to bring promising projects to fruition.

Clément Gignac
Senior Vice President, Chief Economist and Strategist, National Bank Financial

In contrast to the downturn south of the border, Greater Montreal's economy is robust. While economic activity is expected to slow both in Canada and the U.S. next year, the impending provincial elections should prompt the political parties to devise a wealth creation plan for Quebec and Montreal in particular. The fact is that despite the city's many vibrant sectors (knowledge, health, culture, etc.), it is slowly losing ground to its North-American counterparts as a result of inadequate investments by the other levels of government in universities, research in general, and infrastructures. The stale debate and apparent rivalry between Montreal and the regions has got to stop. The time has come for globalization to be leveraged rather than endured. After all, when Montreal shines internationally, all of Quebec benefits.

Jimmy Jean
Economist,
RBC Financial

A slowing U.S. economy, a dollar at parity, record high oil prices and fierce foreign competition are some of the challenges Montreal manufacturers will have to address in the near term. The good news is that strong consumer spending in 2007, fuelled by the pay equity settlement, along with a fairly healthy employment market, will continue to shore up the economy next year. Combined with the launch of some large public works projects and solid growth in non-residential construction, the Montreal economy should be able to overcome the obstacles and gradually improve into next year.

Carlos Leitao
Chief Economist,
Laurentian Bank
Securities

The Montreal economy in 2008 faces many of the same challenges it did this year, only compounded this time by significantly higher energy prices, a stronger Canadian dollar and weaker U.S. domestic demand. Hence, Montreal's tourism and export businesses will likely find it a more difficult environment than in the past two years. Also, econometric estimates suggest that the full impact of currency appreciation is only felt one and a half to two years later. This implies that the Montreal economy has only fully "digested" the rise in the Canadian dollar to about US$0.87, the level prevailing from late 2005 to mid 2006. Nevertheless, interest rates are expected to remain relatively low and the labour market should continue to perform reasonably well, with gains in services sectors offsetting job losses in manufacturing. Domestic demand is thus healthy. Another major support to the metropolitan economy in 2008 will be substantial non-residential investment (both infrastructure and institutional) and a still favourable global aerospace cycle.

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Montreal was unable to gain momentum and improve its standing in our *Metro Monitor*, a measure that captures economic momentum in Canada's largest CMAs. The city is still in the middle of the pack, but last among the large metropolitan cities. Unfortunately, due to the strong dollar and rapidly slowing US economy, we expect both the manufacturing and tourism sectors to weaken even further in the coming 12 months — limiting any notable upside momentum in job creation. The housing market is likely to soften as well — but non-residential real estate activity and further improvement in the service sector will limit the damage.

WHAT'S NEW IN THE 2007-2008 BUDGET?

On March 19, 2007, federal Finance Minister James Flaherty tabled his government's budget for 2007. During the fall economic update on October 30, other measures were announced. This section therefore recaps the main tax measures that will become effective January 1, 2008.

Government of Canada

- The federal government will reduce the goods and services tax (GST) by an additional percentage point to 5%.

- The **basic personal amount**, which is the amount each Canadian taxpayer can earn without paying federal tax, will be increased to $9,600.

  The personal amounts in respect of a spouse, common-law partner or wholly-dependent relative will also increase to $9,600.

- Individuals will also benefit from an additional measure, i.e., **the lowest income tax rate** is being reduced from 15.5% to 15%. This rate will apply to individuals who earn less than $37,178. Since this measure is retroactive to January 1, 2007, tax payers will see this change as of their next tax return.

- The government will eliminate its 1.12% **corporate surtax.** It will be recalled that the 2006 budget raised the threshold for small business income eligible for the **reduced federal tax rate** to $400,000. As such, this first portion of eligible profits will be taxed at 11% (whereas the rate in effect this year is 12%, to which the surtax is added), and companies with profits over $400,000 will be **subject to a general federal tax rate of** 19.5% (rather than 21%).

Government of Quebec

The following measures were included in Finance Minister Monique Jérôme-Forget's budget tabled on May 24, 2007 and will come into effect on January 1, 2008:

- Quebecers will see their **personal income tax** decrease as the tax table thresholds are raised: the lowest bracket to $37,500, taxed at 16%; the middle bracket to $37,500 to $75,000, taxed at 20%; and the highest to $75,000, taxed at 24%.

  This $950 million tax cut will result in:

  - savings of $275 or 16.9% for a couple with two children and an income of $35,000;
  - savings of $640 in the case of a couple with two children and a household income of $75,000. This is equivalent to a 7.8% tax reduction;
  - savings of $360 or 7.8% for a person living alone and earning $40,000.

- The **basic personal amount**, which is the amount that an individual can earn without paying tax, will rise from $9,745 to $10,215.

- Businesses other than financial institutions will benefit from a reduction in the **tax on capital**. As such, the general rate of the tax on capital over $1 million will decrease from 0.49% to 0.36%. The rate for financial institutions will be reduced from 0.98% to 0.72%.

Canada Economic Development report

FEDERAL MARKETS OFFER ATTRACTIVE BUSINESS OPPORTUNITIES FOR GREATER MONTREAL SMEs

Canada's federal markets offer attractive business opportunities and a source of growth that SMEs should not overlook. In each of the last three years, Public Works and Government Services Canada (PWGSC) spent an average of $14.3 billion on goods and services in Canada. Of this amount, $5 billion per year was spent in the nation's five most populated metropolitan regions (excluding Ottawa-Gatineau), i.e. Halifax, Montreal ($1.5 billion), Toronto, Calgary and Vancouver.

The Montreal metropolitan market

Mirroring Montreal's economic structure, the federal purchases in our area are highly diversified. In the last three years, nearly 40% of federal government spending in Montreal was on services, such as architectural and engineering ($90 million per year), financial ($62 million), professional, administrative and management support ($40 million), and education and training ($36 million).

As for the goods sector, products associated with security and weapons (including aircraft and ships) top the list in terms of procurement value, accounting for $317 million in annual purchases or 21% of the total value of purchases made in the Montreal region. The construction industry also fared well with a market share of $115 million, followed by the health technology sector at $95 million, information technologies at $74 million and ground transportation equipment at $40 million.

Greater Montreal's SMEs

Greater Montreal's SMEs (defined as companies with less than 500 employees) are also making their mark in the public sector, securing many government contracts in all types of fields.

However, the service sector is where our SMEs really shine. In areas where the purchasing volume is very high – professional and management support services (95%), training services (90%), health services (93%) and custodial operations and related services (94%) –, they hold more than 90% of the Montreal federal market.

As for the goods sector, Montreal's SMEs hold the biggest market share in clothing (97%), construction (72%) and information technologies (84%).

Although SMEs are by and large successful in the public federal markets, some still view them as complex and laden with entry barriers. Companies that are reticent to tap into this source of growth should know that information and advice is available to help them get their piece of the federal pie[1].

[1] Resources include the Office of Small and Medium Enterprises (OSME). For more information, visit: http://contratscanada.gc.ca/fr/quesem-f.htm

This document was prepared by Canada Economic Development and the Office of Small and Medium Enterprises (Quebec region).

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