# TREND CHART

## Greater metropolitan region

2007 Report

Spring 2008
A publication of the Board of Trade
of Metropolitan Montreal

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

# IN PRAISE OF DIVERSITY

**Isabelle Hudon**
President and CEO
Board of Trade of Metropolitan Montreal

The one thing that comes to mind when I look back at Montréal's performance in 2007 is that diversity is an invaluable asset for our economy.

The truth is that industrial diversity was one of the factors that got us through the last quarter of 2007 and that allows us to remain fairly optimistic about 2008. For example, the service sector picked up the slack from the manufacturing side, sustaining job creation and robust domestic demand.

The situation today, where the shaky U.S. economy is affecting our performance, reminds me of when the technology bubble burst in 2001. While we did struggle, our city was among the first to recover on the employment front. Even back then, it was our diverse economy that helped us bounce back so quickly.

In the same vein, diversity is also a good thing where exports are concerned. Indeed, as our economic performance in 2007 shows, global growth was far from evenly spread. Here too, exporters who were not dependent solely on the U.S. will have fonder memories of 2007. And interestingly, the benefits of diversity were also felt in the tourism industry, where it looks like Europeans are filling the gap left by U.S. tourists put off by our strong loonie.

All to say that if 2007 is any indication of what's in store for 2008, I think we can be rightfully optimistic, knowing that our economy rests on such a solid, diversified foundation.

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# OUR ECONOMIC INDICATORS

## Canada, Quebec and Montréal

| OUR ECONOMIC INDICATORS | | | | |
|---|---|---|---|---|
| Indicators | As of | Canada | Quebec | Montréal |
| ECONOMIC ACTIVITY | | | | |
| GDP | 2007 | + 2.5% | + 2.6% | + 2.2% |
| LABOR MARKET | | | | |
| Jobs created | 2007 | + 2.3% | + 2.3% | + 2.5% |
| Activity rate | 2007 | 67.6% | 65.7% | 67.4% |
| Unemployment rate | 2007 | 6.0% | 7.2% | 7.0% |
| CONSTRUCTION AND REAL ESTATE | | | | |
| Building permits | 2007 | + 3.1% | + 9.2% | + 7.8% |
| Housing starts | 2007 | + 0.4% | + 1.4% | + 1.8% |
| PURSHASING POWER AND CONSUMPTION | | | | |
| Inflation (CPI 2002=100) | 2007 | + 2.1% | + 1.6% | + 1.6% |
| Retail Sales | 2007 | + 5.8% | + 4.3% | + 3.3% |
| INTERNATIONAL TRADE | | | | |
| Exports | 2007 | + 2.3% | - 4.5% | - |

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

These variations are relative to 2006

| OUR ECONOMIC INDICATORS | | | |
|---|---|---|---|
| | | Variation from | |
| FINANCIAL MARKETS | JUNE 3, 2008 VALUE | PREVIOUS MONTH | PREVIOUS YEAR |
| Bank of Canada: key interest rate | 3% | - 50 base points | - 125 base points |
| Canadian dollar (vs. US dollar) | $0.9915 | - $0.0091 | + $0.0527 |
| Oil barrel price (WTI, in US dollar) | $124.33 | - 0.85% | + 84.23% |

Source: Bank of Canada, Energy Information Administration

# MONTRÉAL: A METROPOLITAN COMPARISON

## Montréal, Calgary, Ottawa, Toronto and Vancouver

| 2007 RESULTS | Montréal | Calgary | Ottawa | Toronto | Vancouver |
|---|---|---|---|---|---|
| Gross domestic product (million $2002) | 122,953 | 64,145 | 45,751 | 221,758 | 81,066 |
| Personal income per capita (dollars) | 33,986 | 52,847 | 40,254 | 37,186 | 34,839 |
| Personal disponsable income per capita (dollars) | 25,611 | 40,653 | 30,611 | 28,277 | 26,964 |
| CPI (2002=100) | 110.3 | 118 | 110.7 | 110.5 | 110.2 |
| Employment (thousands) | 1,902 | 681 | 652 | 2,866 | 1,223 |
| Unemployment rate | 7% | 3.2% | 5.2% | 6.8 % | 4% |
| Retail sales (million $) | 40,963 | 22,305 | 14,292 | 58,006 | 25,467 |
| Housing starts (thousands) | 23.2 | 13.5 | 9.3 | 33.3 | 20.7 |

Source: Conference Board of Canada

| 2008 AND 2009 FORECASTS (Except the unemployment rate, all variations are from the previous year's results) | Montréal | | Calgary | | Ottawa | | Toronto | | Vancouver | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 |
| Gross domestic product | + 2.4% | + 2.6% | + 3.9% | + 4.0% | + 2.6% | + 2.9% | + 2.5% | + 3.7% | + 3.1% | + 3.4% |
| Personal income per capita | + 3.4% | + 3.2% | + 2.1% | + 3.3% | + 3.1% | + 3.8% | + 2.6% | + 3.5% | + 3.7% | + 3.7% |
| Personal disposable income per capita | + 3.8% | + 3.2% | + 2.3% | + 3.3% | + 3.3% | + 3.7% | + 2.8% | + 3.4% | + 4.1% | + 3.7% |
| CPI (2002=100) | + 1.3% | + 2.0% | + 2.8% | + 2.5% | + 0.9% | + 2.0% | + 1.2% | + 2.0% | + 1.3% | + 2.2% |
| Employment | + 1.3% | + 0.8% | + 2.1% | + 2.2% | + 1.1% | + 1.8% | + 1.3% | + 2.4% | + 2.3% | + 2.1% |
| Unemployment rate | 7.0% | 7.1% | 3.2% | 3.4% | 5.5% | 5.7% | 6.8% | 6.7% | 4.0% | 3.9% |
| Retail sales | + 4.9% | + 5.2% | + 6,4% | + 6.6% | + 6.2% | + 5.5% | + 6.0% | + 6.4% | + 5.8% | + 5.9% |
| Housing starts | - 15.9% | - 4.6% | - 5.2% | - 7.0% | - 10.8% | - 8.4% | - 1.2% | + 11.6% | - 11.6% | - 3.8% |

Source: Conference Board of Canada

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

# A LOOK BACK AT 2007

## 2007: A SHAKY YEAR FOR SOME BUT NOT FOR OTHERS

A number of events occurred in the past year that raised some questions. A global financial crisis, skyrocketing prices and recessions are just some of the events that took place in the back half of 2007 and that had some economists fearing the worst. At the end of the day, although down slightly, global growth did not suffer unduly, and in fact, the world's combined gross domestic product (GDP) came in not far behind the 5% recorded in 2006.

As such, the International Monetary Fund (IMF) and Export Development Canada Economics (EDC Economics) put **global GDP** growth in 2007 at 4.9% and 4.7% respectively. More conservative, the World Trade Organization (WTO) and the World Bank peg it at between 3.4% and 3.6%. Weighted by purchasing power parity, global growth was slightly above 5%. Using the IMF data, the Peterson Institute for International Economics reports that 2007 was the fifth straight year that the world's GDP was over 4% and the fourth year in a row that it almost hit 5%.

That said, these gains were not evenly spread. Much like 2006, **booming developing economies**, particularly in Asia, drove much of the growth last year. According to the Asian Development Bank (ADB), GDP expanded by 8.7% in **emerging Asian nations**, the highest level in the last two decades. Not surprisingly, **China** and **India** are at the head of the pack, with growth of 11.4% and 8.7% respectively.

The economic situation in **South America** was also favourable, with EDC Economics pegging the continent's growth at about 5.8% for 2007. **Peru** and **Argentina** stood out as their GDP advanced 8.9% and 8.6% respectively, according to the FMI. **Venezuela** and **Brazil** also fared well, the first posting growth of 8.4% and the second coming in at 5.4%. Even if Brazil was outpaced by its neighbours, the 2007 performance breaks the cycle of the last few years where growth did not exceed 3.7%.

It was primarily the industrialized nations that saw their 2007 results held back by the turbulence that rattled the global economy. The year was marked by **oil prices** that climbed into the stratosphere as a barrel of crude[1] surged 68%, from US$54.51 in January to US$91.69 in December. However, the annual average was US$72.34 or 9.5% higher than in 2006. The price of crude is definitely trending upward, reflecting pressure between supply and demand that is largely fuelled by the growing needs of emerging economies and repeated disruptions in supply.

The second half of 2007 was characterized by a financial crisis that originated in the U.S. and that reverberated around the globe. The world's principle financial indices took several hits, for example, a 14% and 13% drop, respectively, by the **CAC 40** (Paris) and the **FTSE 100** (London) between July and August. During the same period, the **NIKKEI 225** (Tokyo) fell 16%, the **S&P ASX 200** (Sydney) lost 11%, the **S&P 500** and the **Dow Jones** (New York) each lost almost 9% each, and in Toronto, the **S&P/TSX** tumbled by 11%.

[1] The price of West Texas Intermediate (WTI) crude based on data from the Energy Information Administration.

As a result, the Organization for Economic Co-operation and Development (OECD) says that economic growth in the **Euro zone**, which lagged the pace of 2006, will not be more than 2.6% in 2007. According to the IMF, GDP growth in **Japan** was 2.1%, slightly less than in 2006. However, the country fared reasonably well thanks to export diversification; in fact, emerging nations now account for half of Japan's exports, versus just one third for the U.S. and the European Union. Exports, particularly energy products, also fuelled GDP growth in **Russia**, which advanced 8.1% in 2007, its best performance since 2000.

There is no denying that rising **commodity prices** (oil, metals and food) played a large part in the results of emerging and developing nations. However, they also created inflationary pressures in many economies.

As such, according to the IMF, global **inflation** was 4% in 2007. Much like global growth, the increase in consumer prices has not been even across the board. Emerging and developing nations felt the brunt, with average inflation of 6.3%, versus 2% for the world's advanced economies. For its part, the ADB pegs Chinese inflation at 4.8% in 2007, considerably higher than the 1.5% recorded in 2006. Rising prices were also a fact of life in India, where despite falling one percentage point from the previous year, inflation was still 4.4% in 2007.

As for international trade, the WTO notes a decline in **global merchandise exports**, mainly due to shrinking demand in developed nations. Thus, exports rose just 5.5% in 2007, well below the 8.5% recorded in 2006. Moreover, accounting for more than half of **global merchandise imports**, developed economies, according to the organization, are the main drivers of merchandise trade.

The results for North American merchandise exports and imports, which picked up 5.5% and 2.5% respectively, are below the rates observed in Asia (11.5% and 8.5% respectively).

## UNITED STATES: THE SLOWDOWN HAS BEGUN

Back in 2006, U.S. growth forecasts already sparked concerns about the possibility of a slowdown and even a recession south of the border, a situation which would invariably have repercussions on the rest of the world. The recession did not materialize in 2007; however, data from the Bureau of Economic Analysis (BEA) shows a pullback in fourth quarter of 2007, with real GDP growth slowing from 1.2% to 0.14%. This brings the annual figure to 2.2%, making 2007 the third year in a row where **GDP** growth was less than the previous year.

Some households were hard hit when the real estate bubble burst, and this has had repercussions on various levels. **Personal spending** dipped slightly but still moved ahead 2.9%, or 20 basis points less than the 3.1% recorded in 2006.

Beyond that, the depreciation of the greenback against the world's other major currencies, caused by, among other things, the international fallout of the subprime crisis, sapped domestic demand. Besides causing a slump in **imports**, which fell from 5.9% in 2006 to 1.9% in 2007, the weaker dollar also allowed the U.S. to shave almost 7% off its **trade deficit**.

For its part, **employment** growth averaged 1.2% according to the Bureau of Labour Statistics (BLS), while the **employment** and **unemployment** rates remained virtually unchanged from 2006 at 63% and 4.6% respectively. The fly in the ointment was mostly the contraction in **investments**, which in 2007 cut into GDP growth. As such, the U.S. economy has been going through a tough time since mid-2007 and the impact could be worse in 2008.

## AN UNEVEN PICTURE IN CANADA

Somehow Canada has been able to withstand the pressures exerted by the global economy, particularly by our neighbour to south, with the result that **real GDP** grew 2.4% according to the Conference Board of Canada (CBOC). While that is slightly less than the 2.7% recorded in 2006, Canada's performance was more than acceptable given the current environment. In fact, despite successive and frequent increases in the prices of many goods, the annual **inflation rate** held steady at 2.2%, well within the Bank of Canada's target range.

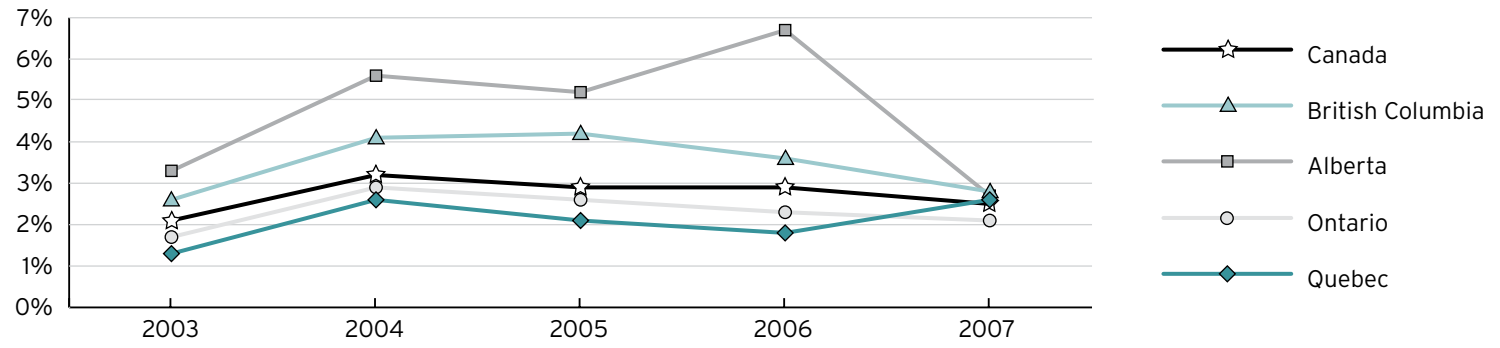
On the job front, 2007 was a record-breaking year. According to Statistics Canada, the **unemployment rate** dipped to 5.8% in October, a 33-year low. The **employment rate** also set a record in November 2007, reaching an all-time high of almost 64%. Translating into an annual rate of 6% and 63.5% respectively, these are the best results in a decade.

While there are still some disparities at the regional level, some are not quite as pronounced as in the past. For example, **provincial real GDP** growth was 2.9% in Western Canada and 2% in the East;[2] not quite as sharp a contrast as in 2006. As for the job market, all the Canadian provinces saw **increases in employment**. The West was especially strong in this regard, with Alberta leading the way with a 4.7% increase.

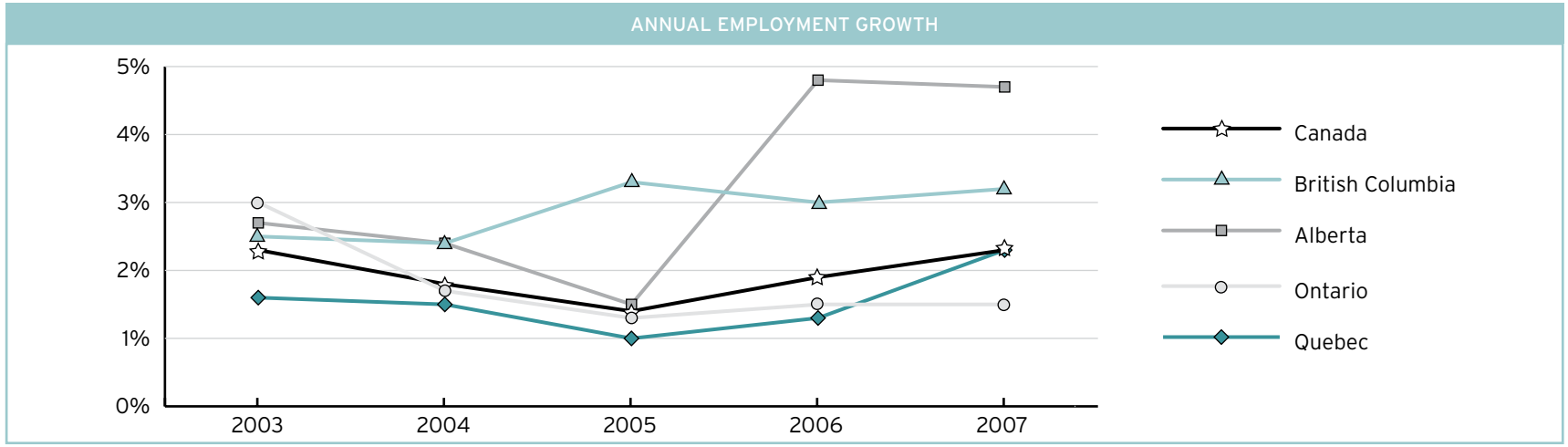
Lastly, the **Canadian dollar** continued its ascent in 2007, breaking a 47-year record and even surpassing US$1.10 in November. The annual average for 2007 was, according to the Bank of Canada, close to US$0.93 or about 5 cents more than in 2006.

[2] Quebec and Ontario

ANNUAL REAL PROVINCIAL GDP GROWTH

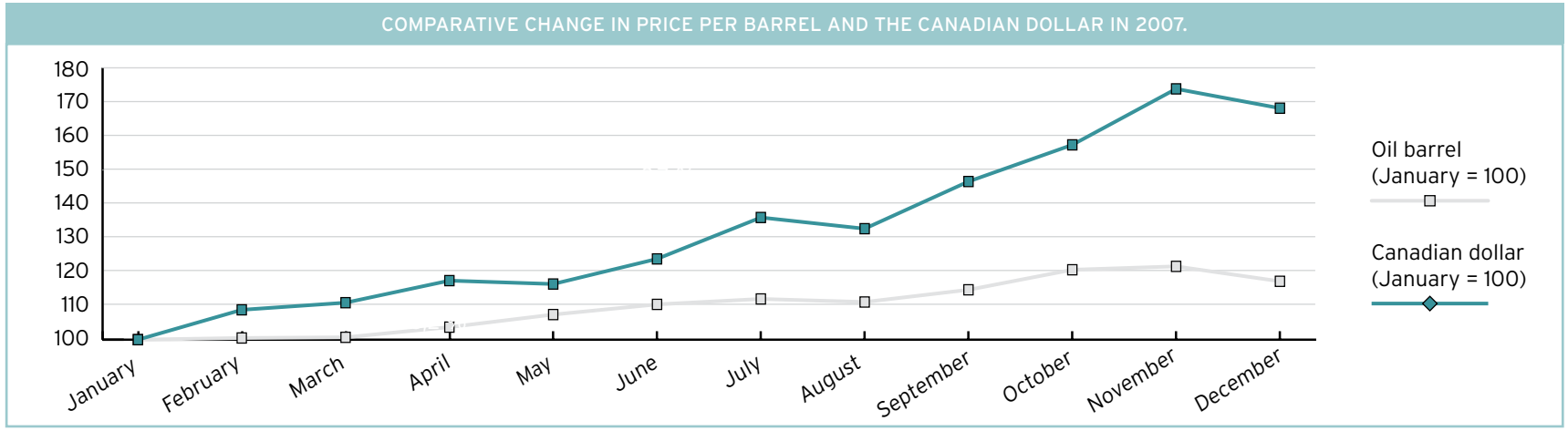



Source: Based on data from the Conference Board of Canada




Source: Based on data from the Conference Board of Canada

The strength of our dollar, which is strongly correlated to the price of oil and other commodities, is still a major thorn in the side of Canadian manufacturers and exporters. **Canadian exports** advanced 2.6% in 2007, or 1.5% excluding oil and gas extraction products. EDC Economics adds another snag, i.e., these rates do not take into account currency fluctuations, and has volume only been taken into consideration, exports would have picked up a mere 0.1% over 2006.



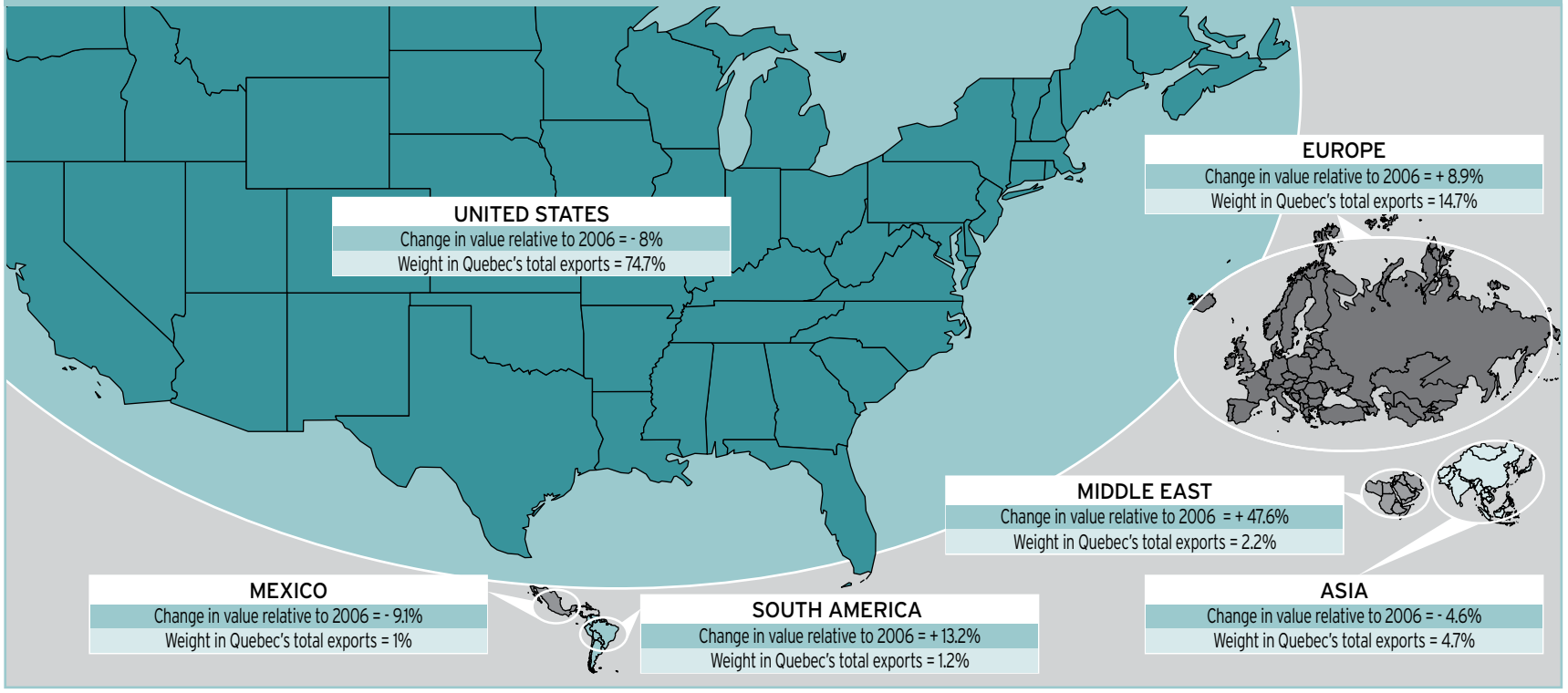

Source: Based on data from the Energy Information Administration and the Bank of Canada

## QUEBEC: ABOVE THE STORM

A look at Quebec activity in 2007 clearly shows that exports held back GDP growth. Exports had inched up slightly in 2006 when forecasters were making their predictions. EDC Economics was expecting **Quebec exports** to remain the same; today, however, the CBOC reports that they fell 1.2%. The organization believes that exports were the main drag on Quebec's economic growth. The situation is explained, in large part, by the strength of the loonie and skittish consumers in the U.S., where three quarters of Quebec's exports are bound.

It bears mentioning, however, that Quebec exports to **BRIC** (Brazil, Russia, India and China) were up slightly. In 2007, these destinations accounted for 2.8% of the total value of Quebec exports, not much compared to the volume bound for the U.S. and British markets. Still, exports to these destinations rose 12.3% in 2007 after almost doubling between 1998 and 2006. As such, active prospecting for new markets will allow our exporters to take advantage of their immense potential. Moreover, besides reducing dependence on one market, diversifying export markets will help spread the risks more evenly.

WORLD MAP BY MARKET WEIGHT FOR QUEBEC EXPORTS IN 2007




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

Fortunately, the Quebec economy was able to rely on robust domestic consumption. **Real personal disposable income**[3] rose 2.7% last year, boosting consumers' purchasing power, as attested by the 4.5% increase in **retail sales** last year.

The job market continued to hold up: the **unemployment rate** fell to 7.2% while the **employment rate** rose to 61%, both setting a 30-year record. At 65.7%, the **participation rate** turned in one of its best performances ever.

The **service sector** was largely behind this performance. Employment in this sector, which accounts for 77% of all jobs in Quebec, rose by close to 4% in 2007 to almost 2,980,000 workers or 115,000 more than in 2006, offsetting the 29,000 jobs lost in the **goods producing industries.**

The Institut de la statistique du Québec (ISQ) data on **GDP by industry** arrived at the same conclusions. The service-producing industries, which account for 70% of Quebec's total GDP, saw activity rise 2.8% compared to the GDP growth of the goods producing industries, which was 1.9%.

While Quebec jobs and GDP continue to advance, the pace was tempered by the performance of the goods producing industries.

In conclusion, it looks like Quebec struggled but succeeded in weathering the storm of 2007.

[3] Personal disposable income is the amount of income individuals have left over after they have paid their income taxes and social security contributions (employment insurance, Quebec pension plan, etc). Real personal disposable income is adjusted for inflation.

**CHANGE IN EXPORTS VALUE BY DESTINATION**

| | 2007 Value (thousand dollars) | Change in value relative to 2006 | Weight in Quebec's total exports |
|---|---|---|---|
| **UNITED STATES** | **52,201,503** | **- 8.0%** | **74.7%** |
| Midwest | 7,732,941 | - 7.6% | 11.1% |
| North East | 22,942,007 | - 14.4% | 32.8% |
| North West | 1,709,055 | - 25.5% | 2.4% |
| South | 18,611,486 | 2.4% | 26.6% |
| **MEXICO** | **670,713** | **- 9.1%** | **1.0%** |
| **CENTRAL AMERICA** | **585,690** | **17.1%** | **0.8%** |
| **SOUTH AMERICA** | **857,857** | **13.2%** | **1.2%** |
| **EUROPE** | **10,306,144** | **8.9%** | **14.7%** |
| United Kingdom | 1,700,567 | 5.5% | 2.4% |
| Netherlands | 1,567,884 | - 14.4% | 32.8% |
| Germany | 1,330,081 | - 13.5% | 1.9% |
| France | 1,186,346 | 0.2% | 1. 7% |
| **EUROPE** | **10,306,144** | **8.9%** | **14.7%** |
| **ASIA** | **3,280,863** | **- 4.6%** | **4.7%** |
| China | 994,819 | 12.3% | 1.4% |
| Japan | 787,397 | - 16.0% | 1.1% |
| **MIDDLE EAST** | **1,512,064** | **47.6%** | **2.2%** |

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

# A HOUSING BUBBLE IN MONTRÉAL? NOT FOR NOW!

The ups and downs of the U.S. housing market that began in mid-2005 raised fears of a real estate bubble. Concerns surfaced about the economy's performance and how a slowdown would affect its neighbours. The speculative bubble, caused by investors and others who were convinced that prices would continue rising, did in fact send home prices spiralling upwards. However, these increases were not supported be either economic growth indicators or an increase in Americans' standard of living. There were some apprehensions when this bubble burst in 2007, particularly in the Canadian housing market, given our geographical proximity to and close economic relationship with Uncle Sam. As such, it only makes sense to take a closer look at our own real estate market, especially since Greater Montréal drives much of the economic growth of a province that ships 75% of its exports south of the border.

Now that the Canada Mortgage and Housing Corporation (CMHC) has released its figures for 2007, we can relax. Last year was a good year, particularly in the resale market, where **sales of existing properties** climbed 12%, bringing the number of transactions to 45,543, versus 38,792 in 2006. What's more, according to the Metropolitan Outlook published by the Conference Board of Canada (CBOC), **housing starts** rebounded 2% to 23,233 units after pulling back 12% and 10% in 2005 and 2006, respectively.

The vitality of the construction and housing markets has also sent prices upward. For example, the **average price** of a single-family home in the metropolitan area rose 7% last year, while condos and plexes both grew 6% to $213,033 and $329,004, respectively, a faster pace than the 4% recorded in 2006. For its part, Statistics Canada's **New Housing Price Index** picked up 4.6% in the census metropolitan area (CMA), compared to 3.8% a year earlier. Still, this growth is less than the 6.9% recorded for the nation and with the exception of last year, the weakest showing since 2001.

While it's true that home prices have gone up in the metropolitan area, there is broadbased consensus that these increases are underpinned by strong fundamentals rather than by speculation. For instance, the Montréal labour market had one of its best years ever in 2007: **unemployment** in the Montréal CMA fell to an all-time low of 7%, the **employment rate** set a 20-year record at 62.7%, and the **participation rate** reached 67.4%, almost on par with the Canadian average.

This solid performance translated into some 46,000 **new jobs** in Greater Montréal, a 37.5% increase over 2006 and the strongest job creation since 2002. Moreover, at close to 40,000, **full-time** jobs accounted for nearly 82% of all the new employment, with the remainder filled by **part-time** positions. As a result, Montréal's **real GDP** grew 2.2%, the third time in as many years that growth surpassed the previous year. Montrealers also saw their purchasing power increase at a pace unseen since 2000; in fact, according to the CBOC, **personal disposable income rose** by 2.5% in constant dollars.

The country's leading financial institutions are therefore qualifying the changes in the housing market, suggesting that we not focus solely on the price increases but also look at **housing affordability**.

In this regard, RBC's economists state in their report that the "long upward trend in house prices, driven by sounder macroeconomic fundamentals such as job growth" are mostly exerting pressure on affordability in the West, particularly in Alberta. In Quebec, a more balanced market has helped keep affordability conditions in check. Our market's stability is also unique to Montréal with the result that affordability has **declined only slightly** and is expected to improve in 2008.

Economist Marc Pinsonneault of National Bank Financial draws similar conclusions in his analysis, rejecting the contention that a housing bubble of the same magnitude as in the U.S. has formed in Canada. He also believes that the recent market cooling out West limits the possibility that "housing prices out West will reach the same highs as the U.S. just before the correction." The report concludes by stating that an IMF report shows that Canada and Austria are the only two out of seventeen developed nations where **home prices are not over-evaluated.**

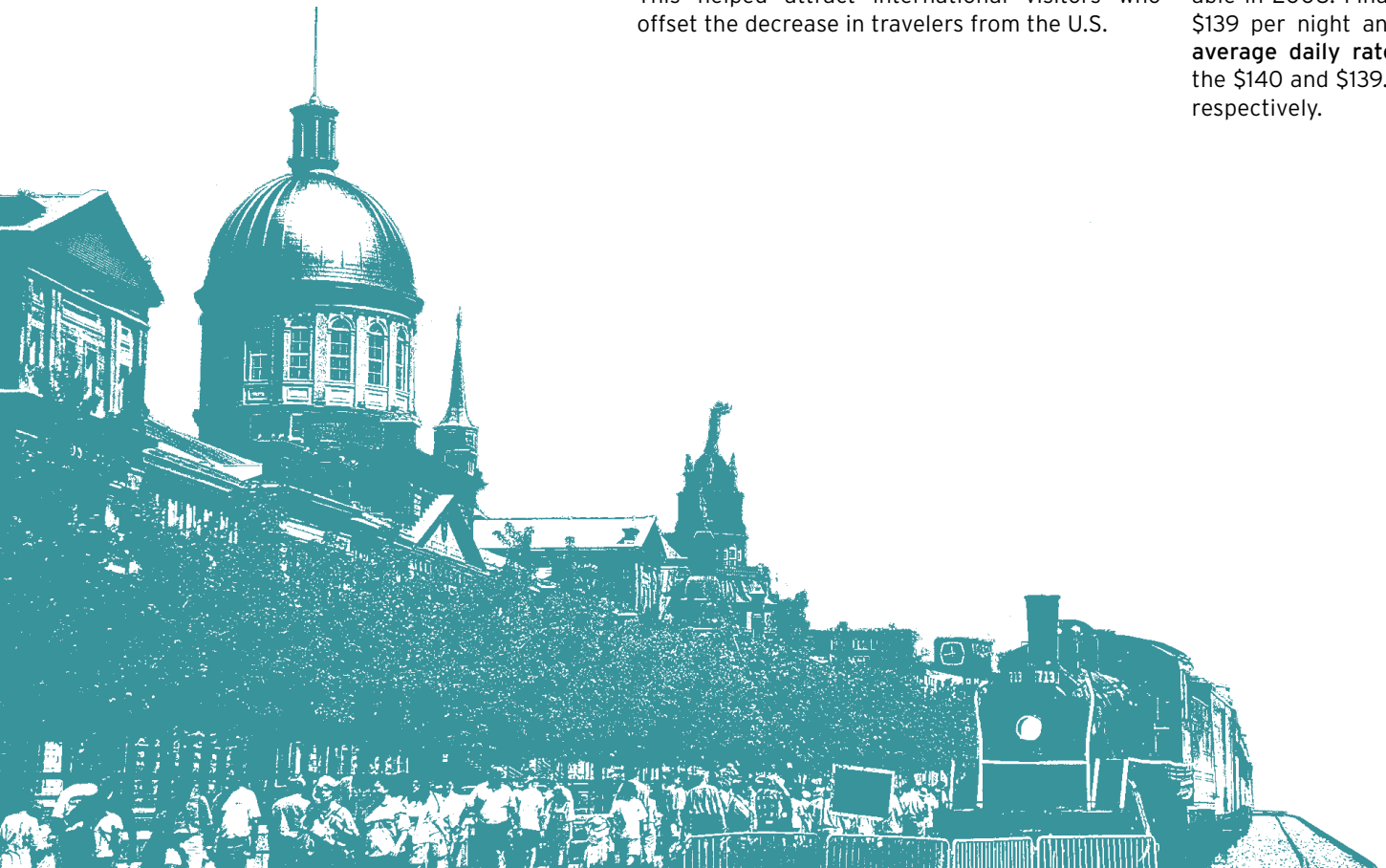
The fact is that there is no housing bubble in Montréal, and the forecasts for 2008 preclude the possibility of one forming. If anything, we will see the resale market pull back slightly, joining the slowing trend already observed in new home sales.

# TOURISM IN 2007

In 2007, Montréal's tourism industry once again swept away the concerns voiced since 2003 about its staying power in the face of a soaring loonie by posting growth for the fourth time in as many years. As such, according to Tourisme Montréal, **tourism spending** rose 3.7% year-over-year to $2.6 billion.

This increase was owed to the 7.6 million **tourists** who visited Montréal last year, 1.5% more than the 7.5 million visitors in 2006. The number of tourists travelling to Montréal grew against all expectations despite higher oil prices and a strong Canadian currency. Although it gained ground against the greenback, closing in on parity, the loonie slipped against other currencies, particularly the euro. This helped attract international visitors who offset the decrease in travelers from the U.S.

The hotel industry fared well, filling 67% of the some 30,200 **rooms available** in the city. At about the average of the past four years, the **occupancy rate** confirms a turnaround after the severe acute respiratory syndrome (SARS) crisis that emptied out hotels in 2003. Consequently, the room supply expanded by nearly 1,000 new units, for an increase of approximately 3% over the 29,400 rooms available in 2006. Finally, tourists paid an average of $139 per night and a high of $171 in June. The **average daily rate** was therefore slightly below the $140 and $139.50 recorded in 2006 and 2005 respectively.



A driver of economic activity in Montréal, tourism boosted GDP by some $2.4 billion in 2007 through direct and indirect **spinoffs**. The industry also accounted for 61,290 **jobs**, not far off the 60,954 recorded in 2006.

However, Montréal was not the only one to benefit from tourism spinoffs. According to the Montréal TEAM model,[4] **provincial taxes** stemming from local tourism activity rose 3.2% over 2006 to $547.6 million while **federal taxes** increased 3.1% to $552.7 million. Finally, **municipal taxes** resulting from tourism reached $254.6 million in 2007, with nearly 75% stemming from direct municipal taxation.

In an economy that is increasingly dependent on the service sector, the effort devoted to energizing the tourism industry is already bearing fruit. And with the global number of air travelers projected to hit 9 billion by 2025, we must continue to leverage this valuable industry.

[4] The Tourism Economic Assessment Model adapted to Montréal's economic reality allows users to assess the regional and provincial economic impacts of tourism-related activities. The model was developed by the Canadian Tourism Research Institute.

# THE SERVICE SECTOR: AN ENGINE OF GROWTH FOR THE MONTRÉAL ECONOMY

The Montréal economy showed some resilience against the global developments of 2007. Despite a far from ideal economic climate for manufacturers and exporters, the city saw its **real gross domestic product** (GDP) grow 2.2%, faster than the 1.9% and 2.1% recorded in 2006 and 2005. Montréal owes this performance to its service sector, the cornerstone of its economy.

The weight of this sector in the metropolitan economy underscores its importance. **Services** accounted for 74% of **GDP** in 2007, a sharp increase over the 68% recorded in 2000. **Service jobs** represented 81% of all jobs in the city, a figure well above the 70% recorded in 2000.

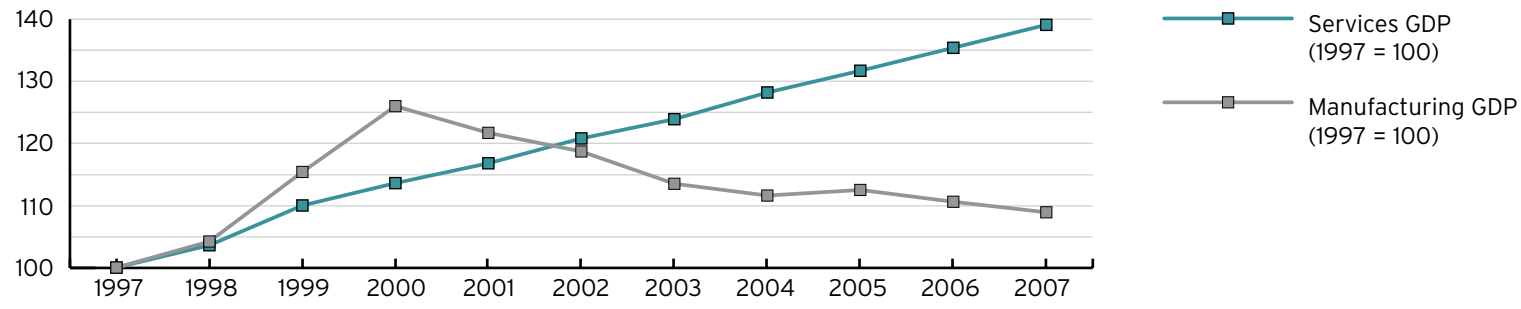
But there's more: GDP and job **growth** in this sector also outperformed Montréal as a whole. For example, services GDP was up 2.8%, fuelled largely by the **wholesale and retail** sub-sector, where sales advanced 5.3%. On the job side, the service sector moved ahead 4.1% in 2007, compared to 2.5% for total employment. With growth of 7.5%, the **commercial services** side was behind most of the job creation.

And there's even more. While manufacturing GDP – calculated in constant dollars – fell 13.5% between 2000 and 2007, the service sector saw its **GDP** climb 22.5%. Industry job data shows a similar evolution. As such, the Conference Board of Canada reported a loss of nearly 67,000 manufacturing jobs in the metropolitan area, with employment shrinking from 310,000 in 2000 to 243,000 in 2007. During the same period, 258,000 new **service jobs** were created, a 20% increase over seven years that brought employment in this sector to some 1,544,000 last year.

According to Statistics Canada's Business Register, 82% of **enterprises** in the metropolitan area operate in the service sector. Of the total number of companies with 500 or more employees, which account for over 50% of Montréal's GDP, 85% operate in this sector.

As these figures show, the service sector is an engine of growth for the metropolitan economy that could help us weather the slowdown in U.S. demand for Canadian products.

COMPARATIVE CHANGE IN MANUFACTURING GDP AND SERVICES GDP IN 2007




Source: Based on data from the Conference Board of Canada

# BUSINESS LEADERS' REPORT

## 2007 post-mortem

**Mr. Stéphane D'Astous**
General Manager, **EIDOS-MONTRÉAL**

What a spectacular start! 2007 will always be forever remembered in the Canadian video game industry.

In fact, in less than 12 months, EIDOS-MONTRÉAL opened its next-generation studio, hired more than 100 highly qualified, enthusiastic employees, launched its first international project and set up a quality assurance centre.

None of this would have been possible without the energy, professionalism and expertise of our home-grown workforce. The best is yet to come!

**Mr. Serge Chagnon**
President, **C2 Solutions**

C2 Solutions serves SMEs, which have become more aware of the important role IT plays in their operations. Consequently, many of our customers have invested in implementing and maintaining sophisticated and, more importantly, reliable computer infrastructures.

As we pursue our growth, we find ourselves facing a shortage of competent candidates and a lack of local venture capital for our special projects.

**Ms. Emmanuelle Géhin**
President and Eco-strategist
**OZONE Relations Publiques**

OZONE Relations Publiques is the only communications agency in Montréal specializing in sustainable development. Since it was created in 2004, OZONE has been growing at a rate of 25% to 30% per year. Sales jumped 75% last year, proving that SMEs are beginning to understand that going green is a smart strategy that will help them cement their reputation and give them a competitive edge.

This growing shift will lead to a critical mass of more responsible companies. Integrating the principle of sustainability is therefore a must for SMEs that want to stay on top in their market.

**Mr. Pascal Joubert**
General Manager, **Regus Montréal**

2007 was a very good year for us in Montréal, with an occupancy rate of 100% every month of the year and revenue growth of 20%. The office space market is faring very well and we benefited from this situation. We also continued growing and now have 950 business centres in 400 cities in 70 countries. In Canada, our network has grown from 5 to 29 centres since 2006.

The lesson we learned in 2007 was the advantage of keeping and satisfying our current customers before prospecting for new ones.

**Mr. André J. Courtemanche**
President, **Muridal Inc.**

For Muridal, the efforts and perseverance of the last four years paid off in 2007. High-rise construction is booming the world over, and thanks to technology and ingenuity, Quebec firms have succeeded in carving themselves a piece of this market. By offering quality wall curtains that are easy to install, quickly delivered and priced to match our competitors in emerging countries, we have put together an unbeatable offer for high-rise builders around the globe.

The most important lesson we learned in 2007 is that the world has become one large village where Quebec SMEs must build their niche based on technology rather than on geography in order to maximize their chances of success.


**Mr. Carlos Castro**
Owner, **Fleuriste Notre-Dame-de-Grâce**

Despite a tough start, 2007 ended on a good note. The conferences and events in the city allowed us to develop the event component of our business and to hire two more employees. We also focused on the service side of our operations: we improved our customer service and our availability, and also launched a Website.

For our family business, 2007 was the year we became aware of the need to go green. We are rethinking our ways of doing things in order to reduce our footprint on the environment. We expect 2008 to be a good one, filled with large conventions and big events.

Canada Economic Development Report

# THE TRANSFORMATION OF GREATER MONTRÉAL'S MANUFACTURING SECTOR

Metropolitan Montréal has not been spared the industrial transformation that has characterized most Western nations. The pace of the adjustments, which accelerated in Quebec in the early 2000s with, among other things, the rise of the Canadian dollar, have had an impact on Montréal's labour market.

**A big adjustment on the employment front[5]**

Between 2002 and 2007, Quebec lost an estimated 106,000 jobs, including two thirds (70,400) in Metropolitan Montréal. More than half of the workers affected lived on the island of Montréal. As such, Greater Montréal saw more than 22% of its manufacturing jobs evaporate. The loss was half as much outside the metropolitan area (10.6%).

However, while some manufacturing sub-sectors in Metropolitan Montréal fell on hard times, others fared relatively well between 2002 and 2007. The job losses were concentrated in the clothing, textile, leather, chemical and metal products, and transportation material sectors. In contrast, the food and beverage, petroleum and coal manufacturing sectors expanded their payrolls. Overall, these adjustments mean that between 2002 and 2007 the proportion of manufacturing jobs to total employment slipped five percentage points, from 17.8% to 12.8%. Still, despite this drop, the city remains a driving force in the province's manufacturing sector, accounting for 44.7% of all such jobs in Quebec, although this figure is 3.6 percentage points lower than in 2002.

Moreover, based on the census of 2001 and 2006, it appears that our city is undergoing two distinct changes at the same time. First, employment in Montréal's traditional industries has fallen off, particularly in clothing, textile, leather and tobacco, but also in the chemical, computer and electronic products sectors. Much of this decrease is associated with the decline of labour-intensive industries across North America. However, the data shows that the job losses are also due to the shifting of some activities off the island.[6]

[5] Statistics Canada, Labour Force Survey (LFS).
[6] Statistics Canada, 2001 and 2006 Census.

## Still a strong sector[7]

Employment is not the only indicator used to evaluate the role and strategic importance of the manufacturing industry. For example, although the proportion of manufacturing jobs has shrunk, the value of production (in real terms) is growing at the same pace as the economy, meaning significant productivity gains, which contribute to wealth creation. In 2006, industrial manufacturing accounted for almost 20% of Quebec's gross domestic product, 90% of the province's international merchandise exports and 18% of investments in machinery and equipment ($3.4 billion). Also worthy of mention is the fact that in 2004, the manufacturing sector was behind 56% of the R&D conducted by businesses in Quebec ($2.3 billion).

## Adapting to new realities[8]

Quebec is not immune to the global transformation of the manufacturing industry and, as the OECD indicates, these changes are likely to continue in the medium term. We must therefore be prepared and try to take advantage of the situation. First, we must come to the realization that modern manufacturing is no longer limited to production but now also encompasses an important service component. This trend allows businesses to diversify their business model and to set themselves apart from the competition.

Second, we must take up the productivity challenge. Notwithstanding that in 2006, industrial manufacturing was one of the most productive sectors in Quebec with added value per worker reaching $80,000, it still lagged behind Ontario by 13% and even more vis-à-vis the U.S. This challenge must be taken up first and foremost by businesses, which must improve their organizational capacity, particularly as regards leveraging ICT in both their internal and external business processes in order to better integrate their value chain and to be able to work in the global village. It is also a challenge aimed at workers and all organizations that, within industrial clusters, drive the networks and connect our industry to the world.

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7 Institut de la statistique du Québec (ISQ).
8 Conclusions drawn after reading reports issued by the OECD on industrial transformation.