TREND CHART

Greater metropolitan region

2009 Perspectives

Fall 2008
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of Metropolitan Montreal

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Canada Economic Development
Développement économique Canada
Canada

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

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Editorial

STAY THE COURSE

Fall 2008 will go down in history as dark economic times. The headlines these recent weeks have been nothing short of unbelievable, and not in a good way. In fact, they've been downright depressing, and the question on many people's minds right now is just how long this economic slump will last.

Of course, anyone who has stock market investments has good reason to feel poorer. In this regard, the financial crisis is having a very real impact on us here, one that is so severe it boggles the mind.

That said, while the economic picture is certainly not rosy, there's no reason to panic. The financial storm may have grown into a hurricane, but Montréal has a strong economic foundation, and as such, we should be able to make it through relatively unscathed. We may, in fact, be among the first to recover once the turmoil subsides.

This *Trend Chart* has been revised a number of times in the past few weeks to take into account the recent economic upheavals and provide you with the most up-to-date forecasts. However, we had to go to press at some point, and since the situation seems to be changing every day, there may be some new developments that did not make it into this issue. Consequently, we've decided to publish an update to the *Trend Chart* in December to make sure you start the New Year with the latest information in hand.

A resilient metropolis

Until then, we hope the Montréal economy proves its resilience and ability to withstand the financial crisis. There are a number of reasons we believe this is possible.

First, the Canadian banking system is much more solid than its U.S. counterpart, a fact confirmed by the World Economic Forum study, and owed in part to the stability of our housing market. While it's true that the latter skyrocketed in the last few years, this was partially because we had a long way to catch up.

Another important factor is the health of our local economy. Quebec and Montréal are doing extremely well on the job front; if there is anything good about an impending labour shortage it's that unemployment is not likely to shoot up and fuel a vicious cycle of slowing the economy. As such, provided Montréal consumers keep their chin up, domestic demand should not take too much of a hit.

In this situation, the best thing to do is to work on what we can control – the vitality of our local economy. And on this level, the outlook for Montréal is pretty good: thanks to a good number of public infrastructure projects scheduled to break ground in the next few months and in 2009, key sectors like construction should remain robust.

Hence the importance of staying the course... and staying optimistic.

OUR ECONOMIC INDICATORS

Canada, Quebec and Montréal

OUR ECONOMIC INDICATORS				
Indicator	As of	Canada	Quebec	Montréal
ECONOMIC ACTIVITY				
GDP†	Q2 2008	+ 1.5%	+ 0.9%	+ 0.9%
LABOR MARKET				
Jobs created†	September 2008	+ 1.6%	+ 0.7%	- 0.9%
Activity rate	September 2008	67.8%	65.7%	66.7%
Unemployment rate	September 2008	6.1%	7.3%	7.4%
CONSTRUCTION AND REAL ESTATE				
Building permits†	August 2008	- 12.5%	+ 0.3%	- 1.3%
Housing starts†	Q2 2008	- 4.6%	- 5.2%	- 6.4%
PURSHASING POWER AND CONSUMPTION				
Inflation† (CPI 2002=100)	September 2008	+ 3.4%	+ 3.2%	+ 3.1%
Retail sales†	Q2 2008	+ 4.3%	+ 3.9%	+ 2.3%
INTERNATIONAL TRADE				
Exports†	August 2008	+ 9.8%	+ 4.6%	-

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

†These variations are relative to the same period of 2007

OUR ECONOMIC INDICATORS			
		Variation from	
FINANCIAL MARKETS	NOVEMBER 4 2008 VALUE	PREVIOUS MONTH	PREVIOUS YEAR
Bank of Canada: key interest rate	2.25%	- 25 basis points	- 225 basis points
Canadian dollar (vs US dollar)	$0.8687	+ $0.0247	- $0.1653
Oil barrel price (WTI, in US dollar)	$70.41	- 8.1%	- 25.7%

Source : Banque du Canada, Energy Information Administration

ON THE RADAR SCREEN

2009 outlook

FORECASTING IN A FOG

The outlook for next year is anything but certain. One year after the subprime crisis, analysts are openly worried about the state of the global economy and more specifically, its ability to rebound from an extremely volatile year. The financial crisis that erupted as a result of the subprime debacle has yet to be resolved and when coupled with the extreme fluctuations in the price of oil and some commodities is creating mounting pressure on many economies.

A sharp slowdown in 2008

Global growth forecasts have continually been readjusted this year. The latest revision by the International Monetary Fund (IMF) and the summer update issued by Export Development Canada (EDC) Economics are calling for **global GDP** growth of around 3.9% for 2008.

While not alarming, these projections indicate that this slowdown will stay with us until year-end. Accordingly, this past spring, the Organization for Economic Cooperation and Development (OECD) revised the growth forecasts of its **member countries** downward to 1.8%. The World Bank, for its part, predicts **industrialized countries** will expand at a pace of 1.6%.

The **euro zone** will feel the brunt of the downturn. In fact, the European Commission trimmed its growth forecast to 1.3% for 2008. That said, not all EC countries will be affected to the same degree. For example, while the economy is expected to pull back in **France**, where GDP will advance about 0.8% this year, there is talk of recession – at least in the technical sense[1] – in other areas. Such is the case for **Ireland**, dubbed the "Celtic Tiger" a few years back due to its booming economy. With two consecutive quarters of negative growth in 2008, i.e., -0.3% in the first, followed by -0.5% in the second, Ireland has become the first EC country to officially go into recession.

According to forecasts, Ireland will soon be followed by **Germany**, where GDP will slip 0.2% in the third quarter after shrinking 0.5% in the second. The **United Kingdom** and **Spain** will be next in line, contracting 0.2% and 0.1% respectively in the third quarter and 0.2% and 0.3% in the last three months of the year.

Softening North American and European demand is weighing heavily on Japanese export growth, which together with sluggish domestic demand and industrial output, has prompted the IMF to revise Japan's GDP forecast to 0.7% for the year. This revision is largely due to a disastrous second quarter, where according to the government's preliminary statistics, the economy shrank 3% on an annualized basis, effectively putting an end to 78 months of straight, albeit modest, growth that began in 2002.

The world's **developing countries** will not be spared. As such, the World Bank has tempered its GDP forecast to 6.5% for the year, well below the 7.8% posted in 2007 but still solid. Not surprisingly, China and India are still driving much of the expansion in the developing world, which according to the World Bank, would be 5.2% if these two countries were excluded from the calculation. Consequently, even after the adjustments in the September update issued by the Asian Development Bank (ADB), **China** and **India** are still the regional economic tigers of Southeast Asia, with projected growth rates of 10% and 7.4% respectively for 2008.

In 2007, the **Russian** economy was fuelled by a number of factors conducive to expansion, namely, high energy prices, robust domestic demand and solid industrial investments. After clocking in at 8.1% last year, more moderate growth of about 7% is called for 2008 by the IMF as weaker domestic demand and a drop in oil exports take a bite out of GDP.

Latin America will also be exposed to global economic pressures. In August, the Economic Commission for Latin America and the Caribbean (ECLAC) projected 3% growth for the region in 2008, down from the 5.7% recorded last year. This pullback will mostly affect Mexico and Central America. The World Bank's 2008 estimates call for 2.7% growth for **Mexico** and 6.9% for **Argentina**.

[1] A technical recession occurs when GDP growth is negative for two consecutive quarters.

Last year, the two economies expanded at a rate of 3.3% and 8.7%. For its part, **Brazil** can expect to see its GDP growth shrink from 5.4% in 2007 to 4.6% in 2008.

While many factors explain the economic sluggishness around the world, they are all interrelated. It also bears mentioning that high energy and commodity prices are one of the main risks facing the global economy.

What will happen to **oil** prices? According to the International Energy Agency (IEA), **global demand** will ebb as consumption in the OECD countries falls. As such, the IEA's October update pegs global demand in 2008 at 86.5 million barrels per day, or 0.5% more than last year. This figure is expected to increase by 0.8% to 87.2 million barrels per day in 2009.

Due to the slower than expected growth in oil demand, EDC Economics analysts are calling for oil **prices** of US$110 in 2008 and US$84 in 2009. However, the Energy Information Administration (EIA) predicts a barrel of **West Texas Intermediate** (WTI) will cost US$115.81 in 2008 and US$126.50 in 2009. What we can be sure of in this regard is that oil prices will remain volatile.

Another thing that's certain is that OPEC is looking for triple-digit prices, as evidenced by the cartel's decision to cut production to 520,000 barrels a day as of September 10. The world will also have to contend with the constantly growing demand by developing nations and regions, namely, China, the Middle East, Latin America and India.

A second risk factor is the seesawing **price of food** such as wheat, rice and corn, which are closely tied to increased demand (stemming from the greater purchasing power created by these last few boon years). They are also closely correlated to fluctuating oil prices (which have affected the cost of fertilizers, shipping and transportation) and to the turbulence on the capital markets (speculative funds replaced risky real estate and financial investments with food commodities).

Global inflation, which reared its head in 2008 as a result of fluctuating oil and food prices, will therefore be a major risk factor according to the IMF. Thus, for 2008, the organization predicts prices will jump almost 3.6% in **industrialized countries** and 9.4% in **developing countries**.

However, in 2009, inflation is expected to retreat in the former and to drop to 7.8% in the latter. Accordingly, the European Commission believes inflation will reach 3.4% in the **euro zone** this year before falling back to 2.4% in 2009. As for **Asia's developing nations**, the ADB projects prices will rise 7.8% in 2008 and 6% the year after. Slowing global growth will also help curtail prices, which should help the economy bounce back somewhat in 2009.

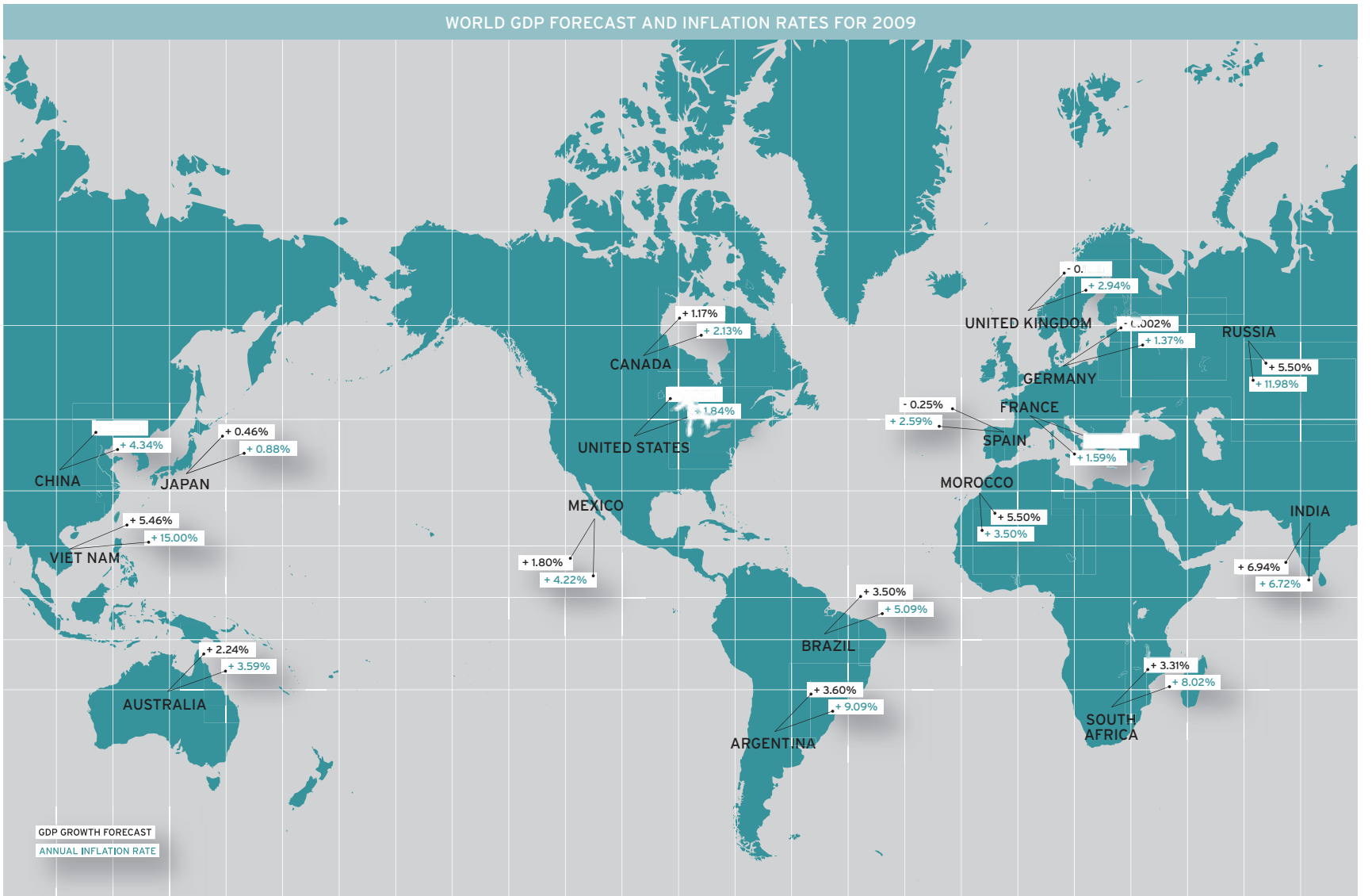
A recovery in 2009?

The IMF is calling for a slow but steady recovery in 2009, with **global GDP** growth of 3%, versus the EDC call of 3.7%. These figures reflect the underlying risk of global stagflation and explain why the economic development of OECD countries and the U.S. in particular will be carefully monitored throughout 2009.

Once again, **developing nations** will be the main drivers of economic expansion, with GDP estimated at 6.4% by the World Bank. Stirred by inflation fears, the ADB is forecasting downward-revised rates of 9.5% and 7% respectively for China and India.

Somewhat more moderate growth is on the horizon for Russia – 5.5% for 2009 – according to the IMF, due to a decrease in the supply of hydrocarbons and an inflation rate of almost 12%. As for Brazil, where domestic demand and investment will be fuelled by income growth and a strong currency, the EDC is calling for 4.1% growth next year.

The industrialized world will also record more tempered growth, projected at about 0.5% in 2009. In the euro zone, this year's sharp downturn and the technical recessions in a few member countries will have a definite impact in 2009 with the result that the IMF has trimmed next year's growth estimates for the region to 0.2%. More specifically, **Germany** and **France** should expand 0.2%, while at 0.2% and 0.1% respectively, **Spain** and the **United Kingdom** will continue struggling. Lastly, **Japan** is expected to turn in a similar performance to this year, with GDP growth estimated at 0.5% for next year.



Source: Based on data from the IMF's World Economic Outlook (October 2008)

International trade will of course depend heavily on global economic developments. Although demand in industrialized nations will be affected by the ups and downs of purchasing power, the IMF is still projecting a 4.9% increase in **global trade volume** for 2008, mainly due to the fact that developing countries are responsible for a growing share of global demand. At 4.1%, next year's estimate falls well short of the 7.2% recorded in 2007.

The slowing pace of growth that will affect developing countries challenges the notion that their economies are increasingly immune to the effects of the economic cycles in industrialized parts of the world and reinforces the idea of interdependence brought about by globalization. For instance, the ADB points out that Asia's developing countries are highly dependent on the G3 export markets (United States, euro zone and Japan) and has expressed concern about the global trade ramifications of a protracted slowdown in these countries and about the turmoil on the world's capital markets, which is seeping into the Asian financial system.

It should be noted that not all the forecasts take into account the latest global developments since some revisions had not yet been released at the time the Trend Chart went to press. One thing we do know, however; in light of this economic interdependence, the world's economic stakeholders will be paying special attention to the U.S. economy, as evidenced on September 18 when the Bank of Canada, the Federal Reserve, the European Central Bank, the Bank of England, the Bank of Japan, and the Swiss National Bank took coordinated action to improve the liquidity on the capital markets.

THE FALLOUT OF THE FINANCIAL CRISIS IN THE U.S.

In light of the latest developments in the U.S. economy and financial system, to try and make projections about the world's largest economy is not only almost impossible and quite risky.

Already, the **GDP growth** projections made by the IMF in September 2007 were revised downward for 2008, from 2.8% to 2.2%, spurred by fears concerning the housing market. These fears turned out to be justified as the real estate bubble burst this year, with the result that forecasts in this sector are quite grim.

The housing correction therefore continues as **residential investment** keeps falling. After plunging 25.1% in the first quarter and 15.7% in the second, the last two quarters of the year are not looking any better, with decreases projected at 11% and 5.5% respectively. Already weak for some time now, residential investments are expected to drop 20.5% in 2008 and 3.1% in 2009.

Despite stagnation in some sectors, household spending – which accounts for 70.9% of GDP – remained buoyant at the beginning of the year, against all expectations. Indeed, the figures released by the Bureau of Economic Analysis (BEA) in September show just how important consumer spending and exports are to Uncle Sam's economy, fuelling a good part of the growth recorded in the first half of the year.

Thus, **consumer spending** advanced 1.7% in the second quarter. However, RBC Economics Research is calling for a 2.3% decrease in the third quarter and 0.7% in the fourth. It remains to be seen whether the U.S. consumer will remain strong during this crisis and whether spending will pick up in 2009 or stagnate as RBC predicts.

In light of this surprising performance, the IMF this month revised its growth projections upward from 1.3% to 1.6% for 2008. However, with the downturn expected to deepen next year, the IMF is now calling for the economy to expand just 0.1% in 2009.

Despite the BEA's unexpected call for real GDP growth of 2.8% in the second quarter (on an annualized basis), the performance of the other indicators remains worrisome. For example, the **unemployment rate**, which at 6.1% in August and September reached a five-year high, and **inflation**, which in July hit 5.6% on an annualized basis, makes it even more doubtful that U.S. households will be able to keep up their spending.

In the wake of the financial storm that whipped through the financial markets in September and the ensuing stock market collapse, economists have been scrambling to revise their projections. The fact is that the debacle that began with subprime mortgages has now spread to all other securitized[1] products, affecting anyone with investments in the credit market.

As the year draws to a close, the big question for 2009 is whether this crisis will be quickly resolved and thus keep the U.S. from plunging into an even deeper recession.

[1] Securitization is a financial technique whereby loans are bundled into securities that are then sold on the capital markets.

WILL THE CANADIAN ECONOMY HOLD UP?

Until now, the economic woes south of the border had little effect on the Canadian side. As a result, the autumn forecast of the Conference Board of Canada (CBOC) called for Canadian **real GDP** to grow 1.7% in 2008 and 2.7% the year after.

However, these estimates are now being questioned as the financial crisis spreads and we gain a better sense of the potential impact on our economy. For its part, the Bank of Montreal has trimmed its real GDP forecast to just 0.7% for the year, followed by a gradual recovery, with growth of 1% in 2009.

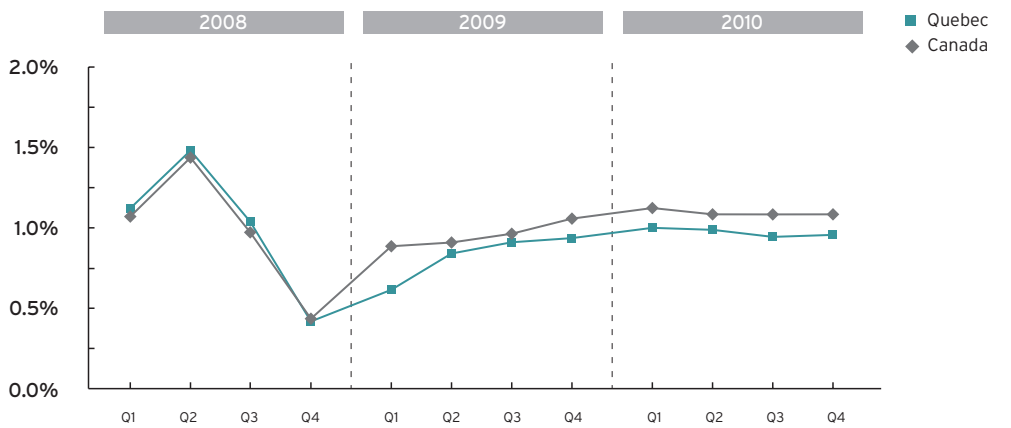
Even before the stock markets started to unravel, the pace and volume of Canadian exports were a big drag on growth. While total **export value** is projected to rise 4.2% in 2008 due to high energy and commodity prices, total **export volume** is set to fall 4% according to Export Development Canada Economics. However, the reverse is expected to happen in 2009 as lower energy and commodity prices cause the value of exports to decrease 1.2% but volume to increase 1%. More specifically, according to the CBOC, the downturn in automobile exports will be behind the limited growth in 2008.

In this rather worrisome context, domestic demand seems to be a priceless commodity. If the volatile stock markets don't wreak too much havoc on Canadians' economic morale, the job situation, debt levels and increased disposable income should all work in favour of maintaining and even boosting consumer spending. It will therefore be very interesting to see how these last two months will affect the initial forecast for **real consumer spending**, i.e., a 3.9% increase this year and 2.7% the next.

At the **provincial** level, the West will fare somewhat better than the rest of the country. Towards the end of summer, we expected to see real GDP growth of 2.6% and 2.2% this year in Alberta and British Columbia, and a more modest 1.7% and 0.8% in Quebec and Ontario. As for next year, initial forecasts called for a slightly stronger recovery in Alberta (3.3%) and British Columbia (2.9%) than in Quebec (2.4%) and Ontario (2.8%).

However, cost of living is a risk factor that the Bank of Canada will try to attenuate. In fact, **inflation** is expected to remain around 2.2% for the next

CANADIAN AND QUEBEC CONSUMER SPENDING FORECAST

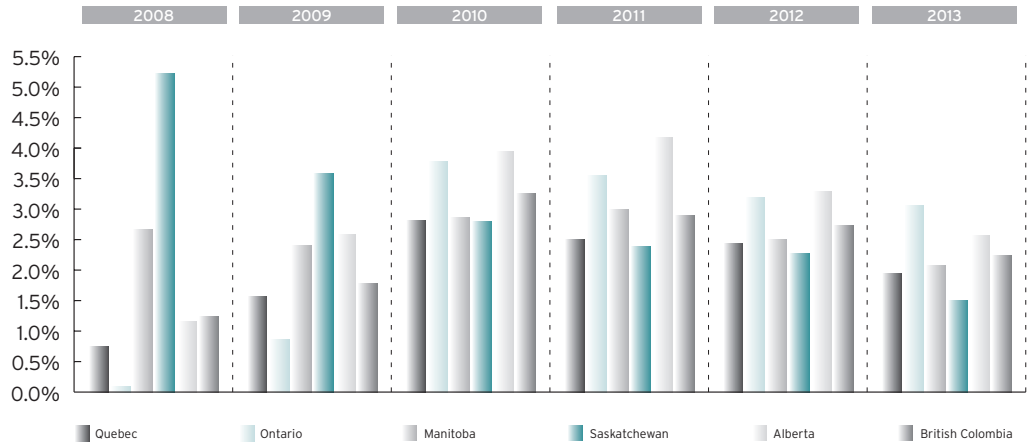


Source: Based on the Conference Board of Canada data published on October 28, 2008

two years. But like growth, it will not be the same across the board. For example, after rising 4.9% last year, the cost of living in Alberta is expected to go up 3.3% in 2008, whereas in Ontario, it will remain at 2.1%, i.e., within the Bank's target range. The CBOC is expecting inflation to ease next year in both provinces and is forecasting a rate of 2.4% in Alberta, 2.5% in British Columbia and 2% in Quebec and Ontario.

In the wake of rapidly deteriorating credit conditions across the globe and the massive fallout, the Bank of Canada cut **interest rates** on October 21 to 2.25% in a bid to relieve some of the tension on the financial markets. Should the Bank see more signs of a slowdown, it will likely step in with another deeper cut to help jumpstart the economy.

PROVINCIAL REAL GDP FORECAST



Source: Based on the Conference Board of Canada data published on October 28, 2008

QUEBEC:
WHILE AWAITING THE RECOVERY...

The news comes as no surprise: the Quebec economy slowed slightly in 2008. The main culprits are exports and the long-struggling manufacturing sector. In its autumn economic forecast[1], the Conference Board of Canada (CBOC) put Quebec's **real GDP** growth at 1.4% for 2008. This projection does not factor in recent developments arising from the global financial crisis, which has financial institutions calling for more modest growth than the CBOC. For example, Desjardins Group is forecasting a mere 0.5% for the year, very close to the 0.6% predicted by National Bank.

[1] Published in September 2008.

Quebec's industries are far from contributing equally to this performance. For example, the **manufacturing sector** – which in 2007 accounted for just over 60% of the GDP generated by the goods producing industries and almost 20% of the province's total GDP – will contract 1.8% in 2008. The main reasons are the strong loonie and slumping U.S. demand, because our manufactured goods, which represent nearly 87% of total international exports, head mostly south of the border.

Consequently, after advancing just 1% in real terms last year, Quebec's **international exports** will contract 3.9% in 2008, largely as a result of a 4.3% decrease in exports from the goods producing sector, which includes, among others, **information and communication technology (ICT)** and the **forestry industry**. The real international exports of these two industries are projected to fall 14.1% and 26.6% respectively this year.

However, the situation is expected to improve in 2009, which should bring moderate growth as the U.S. economy gradually comes out of its slump and our dollar stabilizes, thus boosting demand for Quebec exports.

Before the fall crisis, **international exports** were set to rise 2.1% in real terms next year, including a 2.2% increase (in real terms) in merchandise exports. The **ICT** sector was expected to rebound and expand by 3.3%. And after growing 5.7% in 2008, exports from the **aerospace industry** – a beacon of the Quebec economy with 16% of all merchandise exports – were also supposed to pick up 7.1% next year.

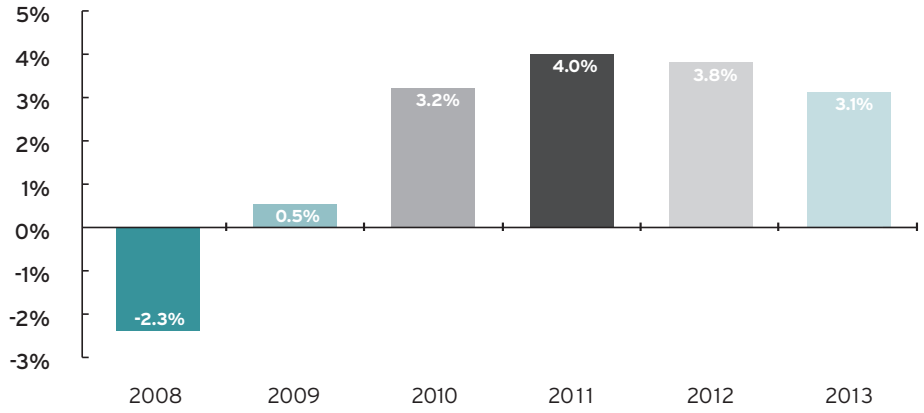
It now remains to be seen how these optimistic forecasts will ultimately be affected by the revised projections made necessary by the financial crisis. Be it as it may, the most important thing to remember is that once the storm has passed, Quebec exports will play a major role in the province's growth.

The **service sector**, which is behind nearly 70% of Quebec's GDP, remains a key driver of economic growth. The **GDP generated by the service sector**, projected before the crisis at 2.4% for 2008 and 2.3% for 2009, attests to the stability anticipated in this sector.

Lastly, the labour market is expected to hold up fairly well given the current shortage of manpower. Once again, at the beginning of the season, **jobs** were projected to grow 0.9% this year and 0.7% the next, to 3,915,000. This would put the **unemployment rate at** around 7.2% for the two years while the **participation rate** would rise to 65.9% in 2008 before pulling back slightly the following year to its 2007 level of 65.7%.

Thus, the economic downturn south of the border will affect Quebec exports, 70% of which are destined for the U.S. However, the loonie's weakness and the gradual U.S. recovery in 2009 will play in our favour. Ultimately, Quebec is expected to weather the global economic and financial storms, and our economy should pick up again in 2009.

QUEBEC REAL EXPORTS TREND



Exports are valued in constant 2002 dollars
The % change is compared to the previous year
Source: Based on the Conference Board of Canada data published on October 28, 2008

MONTRÉAL: FROM TURBULENCE TO TURNAROUND?

In many respects, 2008 will not have been a great year for Quebec's largest city. One reason is its real GDP, which with an estimated growth of 1.7% by the Conference Board of Canada (CBOC), constitutes the city's weakest performance in the last five years. The question now is how long it will take the economy to recover in 2009 and how far off **real GDP**[1] growth will be from the initial 2.4% projection.

According to the CBOC, the manufacturing sector will once again be behind Montréal's sluggish output this year. After contracting 0.7% in 2007, **manufacturing GDP** will shrink another 3.8% in 2008, mainly as a result of soft demand for Montréal-manufactured goods in the economically depressed U.S. This situation will invariably affect **jobs in the manufacturing sector**, which after chopping its workforce by 9.5% in 2007, will lay off another 4,483 workers or 1.8%. However, next year looks brighter thanks to the anticipated growth of the aerospace industry. Fuelled by Bombardier's strong order backlog, this industry will help create some 2,700 manufacturing jobs, for an increase of 1.4% over 2008.

The main reason Montréal will be able to avoid the worst is its strong **service sector**, which will spur its recovery next year. Accounting for nearly 75% of Greater Montréal's GDP, this sector is a veritable economic driver that is living up to its reputation with projected real GDP growth of 2.7% for 2008. The only fly in the ointment is **service jobs**, which will be slightly affected by the slowdown and therefore decline by 0.2% this year. However, this situation could be short-lived if the sector shifts back into its usual high gear, in which case more than 10,000 jobs should be created in 2009.

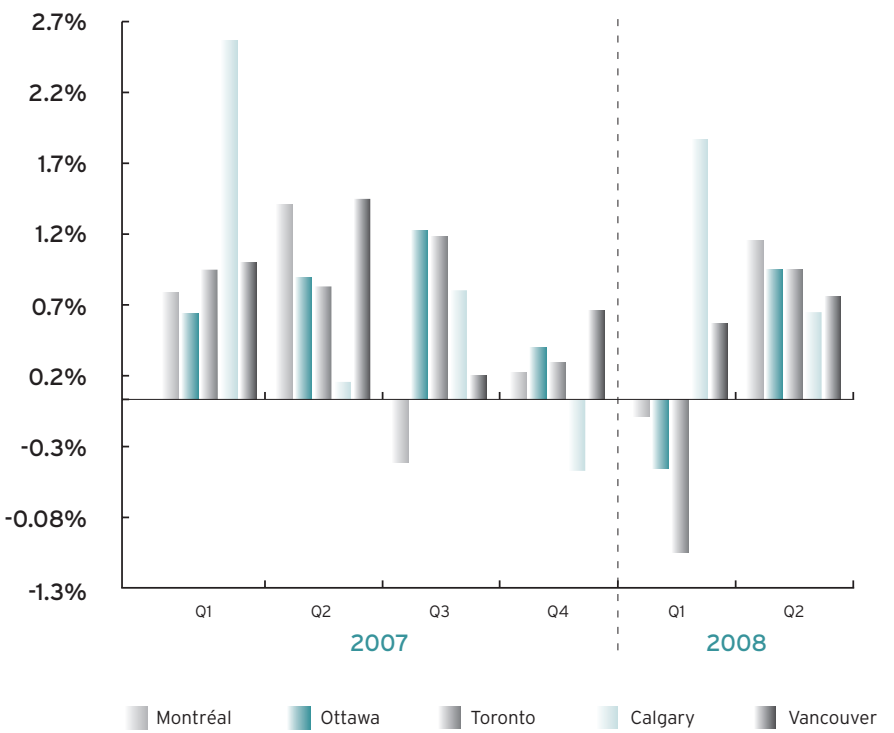
The construction industry, for its part, is sending reassuring signals. Accordingly, although the Canada Mortgage and Housing Corporation

[1] The CBOC was in the process of revising its metropolitan projections at the time of writing.

(CMHC) is calling for **housing starts** to dip in Montréal from 22,600 this year to 22,200 in 2009, the situation is nowhere near as serious as in the U.S. housing market. In fact, the decrease is more a reflection of a demographic adjustment stemming from weak population growth, i.e., 0.7% in 2008 and 0.5% in 2009.

Non-residential construction will be stimulated by a number of major projects, including the superhospitals, the replacement of the Turcot interchange, the completion of Highway 25, the modernization of Notre-Dame Street, and the Quartier des spectacles projects. According to the CBOC, these projects add up to some $7.85 billion, meaning that despite everything, Montréal's **construction industry** will fare well, generating GDP of 2.9% this year and about 2.4% in 2009. As a result, employment in this sector will end the year up 12.5% over 2007, the biggest increase in sector employment in 2008. A 0.3% gain is forecast for 2009, translating into jobs for nearly 97,000 workers.

REAL GDP GROWTH FOR CANADA'S MAIN METROPOLITAN AREAS



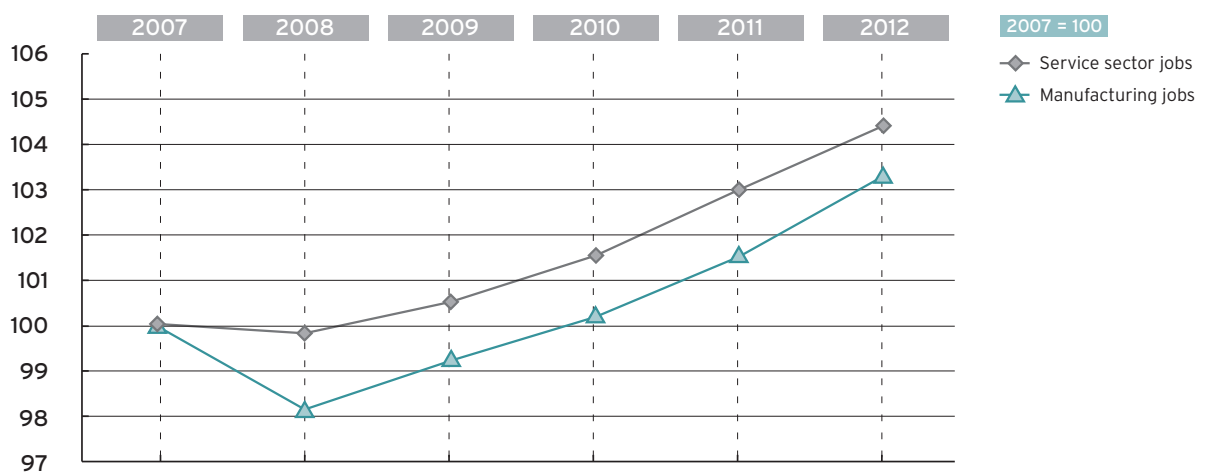
Source: Based on the Conference Board of Canada data published on August 14, 2008

Another positive factor that should sustain the metropolitan economy is increased purchasing power. Accordingly, **disposable personal income**[2] per capita will grow 3.9% in real terms (after adjustment for inflation) this year and by as much as 2.2% in 2009, bringing it to $27,319. Inflation will also remain steady such that the CBOC predicts that our cost of living will increase by 2.4% this year and a slightly more modest 2% the year after.

It therefore looks like turbulence notwithstanding, the Montréal economy will turn in an overall decent performance both this year and next.

[2] Personal disposable income is what is left after subtracting income taxes and other contributions (employment insurance, Régime de rentes du Quebec, etc.).

EMPLOYMENT GROWTH FORECASTS FOR THE MANUFACTURING AND SERVICE SECTORS



Source: Based on the Conference Board of Canada data published on August 14, 2008

ACCORDING TO FINANCIAL INSTITUTIONS

In 2009, the Montréal economy will...

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

The Montréal economy is facing strong headwinds heading into 2009. First and foremost, the U.S. economy is experiencing its first housing and consumer-led slowdown in nearly two decades, from which it should emerge in 2010. Tourism and export-related activities will be hardest hit. Second, while inflation should ease by the second quarter of 2009, it will eat away at modest personal disposable income growth. Employment growth will slow and result in higher unemployment rates. However, Montréal's diversified and predominately service-sector oriented economy will weather this storm as it has others. Firms should use the slowdown as an opportunity to streamline their operations, invest in energy-saving and productivity-enhancing measures while readying for better times at the dawn of the next decade.

Mr. François Dupuis
Vice-President and Chief Economist
Desjardins Group

The main challenge for Montréal in 2009 will be to strengthen the fundamentals needed to ensure the future prosperity of the region. Given the shortage of qualified labour, stronger international competition, and the turbulence in financial markets and the economy, improving Montréal's labour productivity and competitive ability should, more than ever, guide the actions of decision-makers. To remain an international business hub in America, Montréal must modernize its infrastructures, particularly those related to transportation, in order to facilitate the flow of merchandise and people in respect of the public's quality of life. To preserve its role as an international economic leader, Montréal must also demonstrate that it can fulfill its ambitions in the areas of education, innovation, health and culture.

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

Montréal, like the rest of the country, will feel the effects of the global economic slowdown caused by the worsening financial crisis and its impact on credit availability, not to mention sluggish consumer spending in the U.S. Fortunately, preventive measures taken by the governments, i.e., income tax cuts at the federal level and major infrastructure investments on the provincial side, will help the Montréal economy weather the storm. Construction projects abound (hospitals, Quartier des spectacles, the Turcot interchange, modernization of Notre-Dame Street and Highway 25), and residential construction – although it has tapered off somewhat – will remain buoyant by historical standards. On a structural level, Montréal has several strong industries (knowledge, health, culture, aerospace, etc.). The services sector has taken up the slack left by manufacturing, a trend that is expected to continue.

Mr. Robert Hogue
Senior Economist
RBC Financial

To a large extent, the events that will affect Montréal in 2009 will not be specific to the city. Just like other major urban centres around the world, the economic situation in Montréal will very much depend on the fallout of the financial crisis on the North American and global economies. The recession south of the border and the downturn in the Canadian economy will sap tourism and demand for goods produced in the metropolitan region, although the weakening Canadian dollar should soften the impact somewhat.

Montréal's loss of Formula One's Canadian Grand Prix could create a void that would be tough to fill. Economic uncertainty and rising unemployment will sap consumer confidence and cool the housing market. Fortunately, major infrastructure projects will continue to fuel activity, helping to offset the otherwise broad-based slowdown. The global outlook should gradually improve in the second half of the year as the financial markets return to normal.

Mr. Carlos Leitao
Chief Economist
Laurentian Bank Securities

Events have unfolded in unbelievably quick succession, and consumer and business confidence has melted like snow in July. With the U.S. economy already in a consumer-led recession, it would be unreasonable to expect the Canadian and Montréal economies to escape undamaged, even if the global financial system is functioning normally. We doubt the U.S. recession will be as severe as markets currently anticipate. Moreover, the very aggressive policy measures taken so far will pay dividends in due course.

The bottom line is that 2009 will be a difficult year for the Montréal economy. Those segments that cater directly to U.S. discretionary consumer spending will find it increasingly tough to operate and maintain cash-flows. The challenge will be to quickly redirect resources towards domestic demand or offshore markets. The silver lining in this process is that both energy prices and interest rates will remain much lower than in 2008.

Canada Economic Development report

MONTRÉAL CMA LABOUR MARKET IN 2008

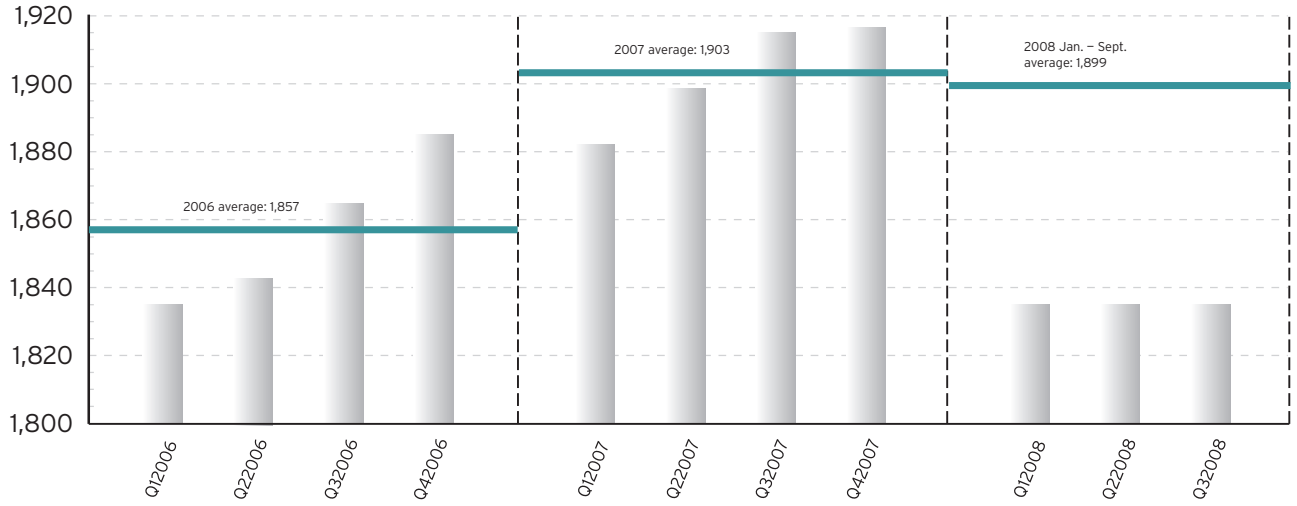
After 14 straight years (1994 to 2007) of employment growth, with an average of 32,000 jobs created each year (+1.9% annually), the Montréal census metropolitan area (CMA) seems to be running out of steam on the labour front. After getting off to a slower start in 2008, the metropolitan area created less than 1.9 million jobs from April to September (seasonally adjusted), a level surpassed in the previous three quarters.

This situation, combined with a slight increase in the number of people looking for work, pushed in 2008 the CMA's unemployment rate to 7.4%, up from 7.0% last year. Since the beginning of the year, 31,000 positions have been created outside the metropolitan area, holding the jobless rate there at 7.2%.

The following industries have performed well on the labour front these last two years: construction; professional, scientific, technical, IT and financial services; transportation and transportation equipment manufacturing; and restaurants. In contrast, most of the industries that make up the manufacturing sector continued to shed jobs, as did the retail and wholesale trades.

Despite everything, some sectors will perform well this year and next. For example, non-residential construction will remain strong thanks to many

QUARTERLY ADJUSTED EMPLOYMENT, MONTRÉAL CMA, 2006 TO 2008, IN THOUSANDS



Source: Statistics Canada, Labour Force Survey, compiled by CED.

large projects either underway or planned, which will spur the regional economy. The outlook is fairly positive for aeronautics, and professional, scientific and technical services. That said, no one can predict the impact of the financial crisis and probable U.S. recession on economic growth.

GDP forecasts have already been trimmed for Quebec and Canada, meaning slower growth for the Montréal area and by extension, weaker growth on the employment front in 2009, particularly since there is a several-month lag between the time production slows and jobs are cut.

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