Trend Chart

Greater Metropolitan Region

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a publication of the Board of Trade of Metropolitan Montreal

Asymmetry

– at every level!

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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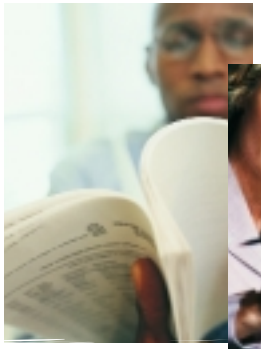
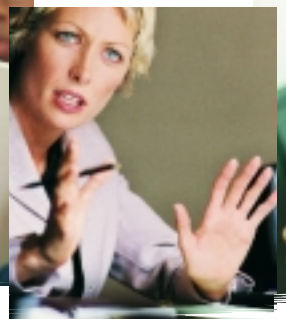


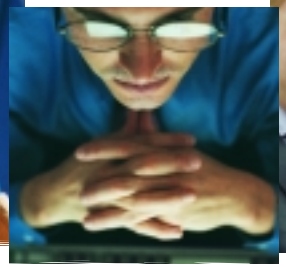

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Editorial

Asymmetry – at every level!

By Benoit Labonté, president and CEO, Board of Trade of Metropolitan Montreal

This fall, at a First Ministers' Meeting, the word "asymmetrical" took the opportunity to reintegrate the vocabulary commonly used to describe federal-provincial relations. The concept of asymmetrical federalism has been praised so highly it is tempting to hope the Canadian government and the provinces will be generous enough to extend the benefits of asymmetry to their relationships with the country's cities. Why, in fact, should cities not be treated in different ways, with elements such as their revenue sources and responsibilities reflecting their own reality? In short, the idea would not be to treat cities of different sizes in an inequitable manner but, as with federal-provincial relationships, to adapt approaches to the individual situation of each one.

We formulate this desire knowing full well it is not likely to be well received. Too often, unfortunately, cities and rural communities tend to equate different treatment with unequal treatment. This is why the urban agenda of the federal government has moved gradually from major cities to cities and communities, while the Quebec government persists in talking about the importance of the economic development of the regions with no apparent regard for the fact that half of Quebec's GDP originates in metropolitan Montreal.

The idea of creating greater asymmetry in the relationships between cities and their provinces is nevertheless promising — for all communities — particularly if we look at it in terms of the return.

We've said it many times: urban centres are more than ever at the heart of economic growth and wealth creation. Talent and investment tend to be concentrated in cities, and competition between them is increasingly fierce. Faced with this new reality, there are two possible responses: ignore the situation or adopt relevant development strategies. The asymmetry we have in mind would fall into the second category.

Metropolitan Montreal is the economic engine of Quebec. With 48% of the population, according to the Montreal Metropolitan Community, the metropolis generates 50% of Quebec's gross domestic product and sends $25 billion in revenues to Quebec City — or about 55% of the government's autonomous revenues. In this way, Montreal helps finance public services far beyond its borders.

Given Montreal's apparent "facility" for producing wealth — on the Quebec scale, that is – we might be tempted to conclude that Montreal is in need of nothing and that prioritizing the regions is actually the way to go. Unfortunately, when we compare Montreal's performance to that of other cities — in North America or elsewhere — we are forced to conclude that Quebec does not benefit enough from its metropolis.

In fact, what would Quebec's public finances look like if Montreal's per capita GDP was comparable to that of Toronto (+26%) or Boston (+176%)? One thing is certain: all of Quebec would benefit. Yet, unbelievably, the very idea of making the development of the metropolis a Quebec priority is still taboo. That is why the return in force of the concept of asymmetry gives Quebec an opportunity to expect more from its metropolis — insofar, at least, as the province will finally — and resolutely — provide it with the necessary tools.

For example, the Quebec government will soon have to decide how to use its share of the gasoline tax money transferred to it by the federal government: redistribution on a per capita basis, on the basis of need? On the basis of consumption and the use of public transit? In this context, we believe Quebec would be well advised to place the notion of return at the centre of its deliberations: which method would generate the biggest return for all Quebecers?

This could mean concentrating the groundbreaking ceremonies in certain areas. But if it then enabled all Quebecers to benefit from healthier public finances and even, perhaps, a lighter tax burden, who could claim that asymmetry was unfair?

Trends and overview

United States

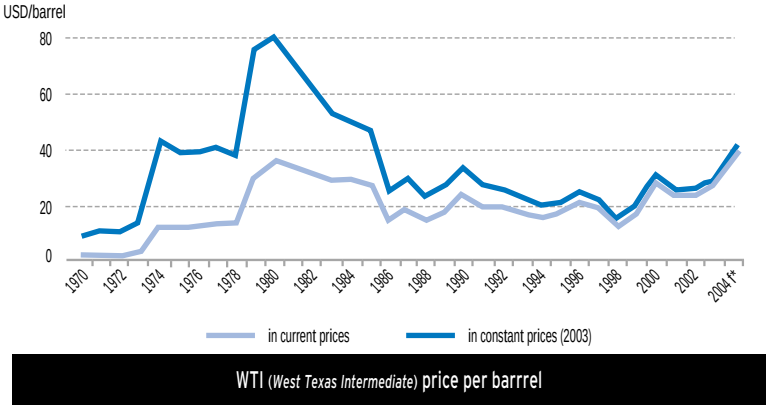
Uncertain outlook

Based on third quarter results, the U.S. economy appears to be faring well. The 3.7% growth in **real GDP** was helped along by robust **consumer spending** (+4.6%) and **business investment** (+11.7%), especially in hardware and software (+14.9%). Continuing low interest rates kept home sales on a strong footing despite a 6.0% decrease in **housing starts** in September due to the hurricanes. Up 1.8% in September over August, **construction permits** signal strong activity.

Employment figures were also positive (+96,000 new jobs), although some analysts expected a better performance (+148,000). Employment growth was held back by losses in the manufacturing (-18,000) and retail (-15,000) sectors in September. The average gains for July to September are hardly more encouraging with only 103,000 new jobs created per month, almost 50% below expectations for this period.

The spike in the **price of crude oil** (up some 30% from July to October) could cast a pall on the economic outlook. This increase and its consequences for the U.S. and global economies have become a constant concern (here and elsewhere). According to analysts, we are not facing an oil crisis such as in the 1973 and 1979 given that the current price per barrel in constant dollars is half as much as at the peak of the crisis in 1979, but the increase in prices could have a palpable effect on economic growth.

The Conference Board's **Consumer Confidence Index**[1] – a measure of consumer perception of current and future economic health – dropped for the third consecutive time, from 96.7 in September to 92.8 in October (1985=100). The **ISM Manufacturing Index**[2] (Institute for Supply Management) also fell for the third time in a row, from 58.5 in September to 56.8 in October, indicating a slowdown in output growth. The **U.S. trade deficit**, which grew in August (-$54.0 billion), also attests to the negative impact of oil prices on economic activity.



Source: Bloomberg
**f: forecast*

Besides the uncertainty associated with rising oil prices, growth projections for the fourth quarter could also be tempered by the low **savings rate** (0.4% in the third quarter of 2004 on an annualized basis, after reaching 2.0% in 2002 and 1.4% in 2003) and a decrease in **disposable income** growth (estimated at 1.9% in the third quarter, compared with 4.0% and 3.6% in the first and second quarters of 2004). Although promotions had a positive effect on retail sales in September, the future remains unclear given the current level of consumer debt. ■

1. Consumers delay or stop spending when they consider the economic situation less positive or negative (making it harder to find a job or their future income will decrease).
2. Typically the economy is shrinking when this indicator of the economic health of the manufacturing sector is at 50 or less, and expanding when it is above 50.

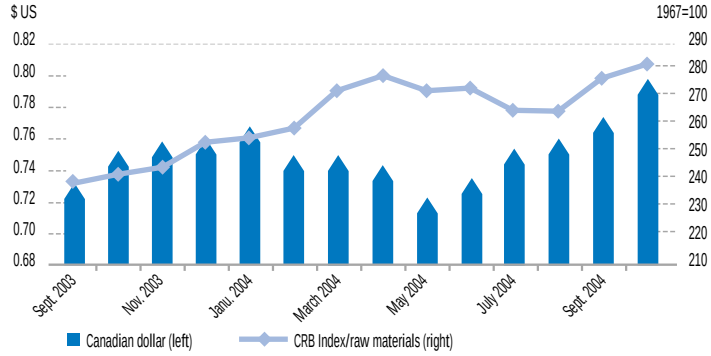
Trends and overview

Canada

Canadian economy humming along

Thanks to a 0.5% **GDP** gain in August, Canadian economic growth continues at a brisk pace. Sectoral GDP advanced in terms of production of goods and services and the figures for July and August bode well for the third quarter, with forecasters projecting third quarter GDP growth to surpass the 3.0% rate predicted by the Bank of Canada.

In setting its overnight rate, the Bank of Canada is keeping a close watch on the **loonie, which continues to rise** (+5.9%) on increases in commodity prices and the **price of oil** (see graph). For the time being, the dollar's gains do not seem to be hurting foreign trade: **exports** have climbed 6.7% since the beginning of the year and the **trade surplus** is growing unchecked, reaching $7.4 billion in August, its second highest level in three and a half years. As for the rising price of crude oil – driven by growing global demand and output uncertainty –, it will have positive spin-offs for Canada in the short term since we are a **net exporter of crude oil** (although there are vast regional disparities across the country). In the longer term, if output uncertainty persists and oil prices remain too high, the global economy could slow and knock the wind out of Canadian exports.



Change in Canadian dollar and raw material prices

Sources: Bank of Canada and Desjardins
CRB: Commodity Research Bureau

The growing demand for Canadian products continues to produce a net **increase in jobs** (and an increase in the number of hours worked). Although there were no real productivity gains,[3] the country created 155,700 new jobs (+1.0%) from January to September.

Despite a deceleration in recent months, the **housing market** remains robust, fuelled by job gains, low interest rates and strong consumer confidence. Based on the number of transactions and their average price, the resale market is still going strong. However, lagging sales in some new housing segments (such as condos in Montreal) could mean a chill wind is about to cool down the housing market.

Notwithstanding exterior risks to the Canadian economy such as geopolitical situations, uncertainty related to financing the current account and U.S. budget deficits, the outlook remains positive for the months ahead. ■

3. After posting a strong 1.1% gain in the first quarter of 2003, productivity has been virtually flat for five consecutive quarters.

Trends and overview

Quebec

Sustained growth

Although uncertainty over rising oil prices is weighing on Quebec's economic projections, our **real GDP** rose 0.7% in the second quarter of 2004 after advancing 0.6% at the beginning of the year. This growth was fuelled primarily by **merchandise exports**, which expanded 3.0% in the second quarter. After three years of shrinking, and provided the increases recorded in the first half of the year continue, Quebec exports should have a good year in 2004. Although the U.S. economy is expected to slow, it should continue to expand sufficiently to generate demand for our products.

Employment in Quebec also continues to grow strongly with 50,600 new jobs created in the first nine months of the year. After feeling the pinch of the rising loonie, the manufacturing sector appears to be back on track with 26,500 positions created over this same period thanks to great results in September. More good news: the jobs created in the first three quarters of 2004 were full time. As a result of these gains and improved employment opportunities, the labour force reached a new high of 4,071,700 while the employment rate rose to 60.6%. However, these factors caused the unemployment rate to rise to 8.3% in September as more people actively looked for work.

Bolstered by the positive employment outlook, the residential construction sector remained buoyant. However, as **interest and mortgage rates** rise, some consumers will likely reconsider their decision to buy a new home. In this context, it comes as no surprise that housing starts lost some steam this past summer. Still, new construction jumped 18% from January to September over the same period last year.

On the business side, **investment in machinery and equipment** fell short of expectations, slipping 0.4% after rising 2.8% at the beginning of the year. The rebound in corporate profits (+4.7% in the second quarter of 2004) combined with fewer bankruptcies—the smallest number in 20 years — seems to indicate that companies are doing better. While a major challenge for exporters, the **continued appreciation of the dollar** does reduce the cost of equipment purchases—often made in the U.S. — that help boost the productivity. ■

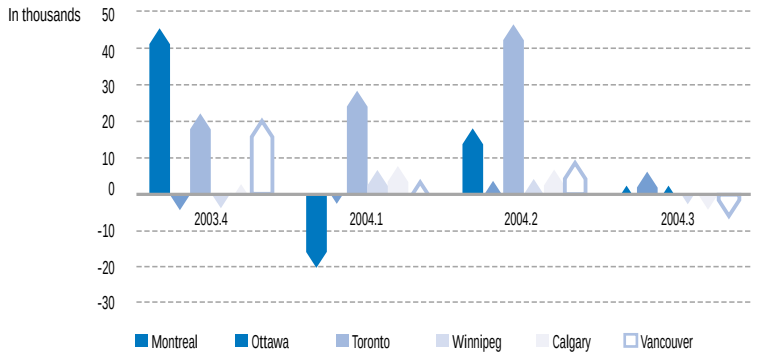
Our economic conditions

Labour market

A mixed bag: losses in Montreal, gains in Quebec and Canada

The employment situation in the **Montreal census metropolitan area** (CMA) continues to disappoint this year, with only April recording gains worthy of mention. At the end of the first three quarters of 2004, Montreal lost 1,700 jobs due to a downturn in the commerce, healthcare and social assistance sectors. On a monthly basis, September ended with 5,000 jobs lost. And Bombardier's recent announcement of impending layoffs (1,340 positions) in the Montreal area does not bode well for the city's economic health. According to new estimates by the Conference Board of Canada, the effect of these layoffs will be a slowdown in Montreal's GDP, which will grow only 3.0% in 2005 rather than the 3.2% projected earlier. In other words, employment in Montreal continues to take a beating, with the jobless rate reaching 8.6% in September after settling at 7.9% in August.

As for the other major CMAs in the country, according to the Labour Force Survey, Toronto created 32,300 new jobs in the first nine months of 2004, while Vancouver barely added 2,000.



Job creation - Canadian cities

Source: Conference Board of Canada

Notwithstanding Montreal's anemic results, **Quebec** overall gained 15,500 new jobs in September on the strength of the manufacturing sector (+22,400) – which goes against the trend observed in the rest of Canada (particularly in Ontario and Alberta) – despite the fact that some industry stakeholders continue to bemoan the effects of our rising loonie. However, the construction industry lost 16,300 jobs in the same month, offsetting the gains made earlier this year. This downturn is explained by the completion of a number of major industrial projects launched by the provincial government after 9/11.

Quebec has created 50,600 new full-time jobs since the beginning of the year. The improved employment outlook pushed the unemployment rate from 8.0% to 8.3% in September. Although on a monthly basis the number of people working increased, the figure for the first nine months of the year is down. Thus the employment rate reached 60.6% in September, its second highest peak since 1976.

On the heels of virtually no employment growth in the summer, **Canada's** job market capped off the third quarter on a stronger footing, recording 43,200 net new positions in September, mostly in Quebec and British Columbia. This growth was fuelled by educational services (+34,100) – as a result of the back-to-school period – and public administration (+16,100). During this time, the unemployment rate was 7.1%, down from August to its lowest level in three years.

At the end of the first three quarters of 2004, Canada created a total of 155,700 new jobs (+1.0 %). The number of hours worked also increased (+2.1 %), a sign, say some experts, that the economy is operating very close to full capacity. ■

Our economic conditions

Housing market

Losing steam

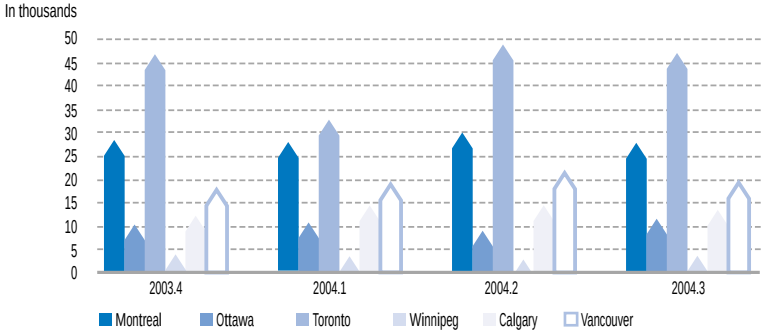
Residential construction is beginning to lose steam in the **Montreal census metropolitan area** (CMA). September's figures show that housing starts fell to 25,800 units[4] and have been stuck below the 30,000 mark since June. The 10.7% decrease in September over August is the second highest monthly drop since the 17% recorded in June. On a real basis, condominium construction, which tumbled from 913 units in September of last year to 613 in September 2004, appears to be behind the decline. The downturn was more pronounced on the island of Montreal than elsewhere in the metropolitan region. According to the Canada Mortgage and Housing Corporation (CMHC), 1,151 new condos still had no takers in August, the highest level since 1996.

Nonetheless, while slowing on the South shore, housing starts in the Montreal CMA for the first nine months of 2004 were up 23% year-over-year.

At 52,500 units, **Quebec** starts also contracted for the second time in a row in September. CMHC experts consider this slowdown "logical" given the frenetic pace of construction this year, which they believe has reached its "cyclical peak." The most active segment of the market in recent years, multiples[5] have lost the most steam in the past few months. Housing starts in urban centres (all types combined) of 100,000 or more residents declined 6% in September while construction of multiples fell 12% year-over-year. Given that it accounts for two thirds of all housing starts, the Montreal CMA set the tone for this downturn.

Still, for the first three quarters of 2004, housing starts in Quebec climbed 18% over the comparable year-ago period thanks to the 29% increase in the multiples segment. With the exception of the Saguenay area, all the urban centres with 100,000 or more residents saw their multiple starts grow during this period.

Housing starts in **Canada** remained strong despite a decrease from 241,000 units in August to 231,000 in September. The monthly average for the first nine months of the year was slightly higher than last year's annual average and is at its highest level since 1988. Following the same pattern as in Quebec, multiple starts dropped 4.7% in September and accounted for the decline in the country's urban centres.



Housing Starts - Canadian Cities

Source: Conference Board of Canada

On a regional basis, housing starts contracted in British Colombia (-14.1%), Ontario (-6.5%) and Quebec (-1.6%) but expanded in the Atlantic region (+9.2%) and in the Prairies (+2.1%). ■

4. Housing starts are presented on a seasonally adjusted annualized basis.
5. At the end of September 2004, multiple housing accounted for 59% of all starts in urban centres in Quebec with 100,000 or more residents.

Our economic conditions

Financial market

Inflation rate

On an annual basis, the Consumer Price Index (CPI) stood at 1.8% in September 2004, after reaching 1.9% the previous month. In other words, consumers had to shell out 1.8% more than in September 2003 to buy the same basket of goods. Higher gas prices were one of the reasons behind this increase. For its part, the Bank of Canada's core CPI[6] rose 1.5% between September 2003 and 2004.

On a monthly basis, inflation in the country inched up 0.1% from August to September, owing mostly to higher prices for women's clothing (the new Fall-Winter collections pushed up the index by 6.2%); tuition fees (+4.2%); fuel oil (+5.6%); and men's clothing (+2.2%). Other factors, however, offset this increase, notably the price of gasoline (-1.2%), automotive vehicles (-0.7%) and vegetables (-5.8%). The core CPI rose 0.3% during the same period, slightly more than expected.

The Bank of Canada is keeping a close eye on the core CPI even though it has been below its 2% target all year long.

Interest rates

For the first time this year, the Bank of Canada raised its overnight rate in September by one quarter of one percentage point to 2.25%. The Bank then raised the rate again to 2.50%,[7] the second increase since April 2003. In its decision of October 19, the central bank explained that the Canadian economy is operating near its production capacity[8] and continues to adjust to global economic developments. The main factors behind this hike were the increases in world oil prices and the appreciation of the Canadian dollar.

In the press release accompanying the publication of its *Monetary Policy Report*, the Bank expressed four uncertainties related to Canada's adjustment to changes in the global economy: the evolution of oil prices, the pace of expansion in China, the way in which current account imbalances in the United States and East Asia will be resolved, and geopolitical developments.

The central bank of Canada anticipates further rate increases in the coming months to ensure the economy does not exceed its production potential and to keep inflation within the 1% to 3% target range.

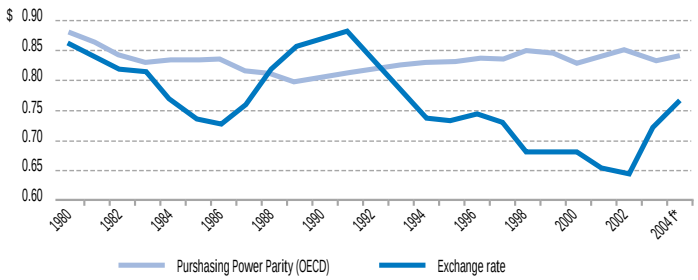
Exchange rates

The Canadian exchange rate continues to make headlines this year. After appreciating 22% last year, the loonie continued to climb above the 80 cent mark, to 82 cents U.S. at the end of October 2004, the strongest it's been in 12 years. Some analysts are already predicting the Canadian dollar will be on par within 15 to 18 months while others see a value of closer to 83-85 cents U.S. It bears mentioning that by reaching this peak, the loonie is approaching its "real value," i.e., its value based on purchasing power parity (see graph next page).

Since Canada is a net exporter of primary commodities, including oil, commodity prices have contributed to the appreciation of the Canadian dollar since the beginning of the year. In fact, our dollar has climbed 5.9% since January and 14% since the trough in May 2004 while commodities rose 11%.

6. The core CPI is a variant of the CPI that excludes the eight components with the most volatile prices.
7. Since the Bank of Canada's next scheduled date for announcing the overnight rate is December 7, 2004, at which time this issue of the Trend Chart will have gone to press, the outcome of that meeting will not appear in these pages.
8. The closer the Canadian economy approaches its production potential, the greater the risk of it overheating. By increasing its overnight rate, the Bank of Canada tries to contain inflation.

Our economic conditions



Development of the Canadian Exchange rate and its Purshasing Power Parity (annual)

Source: Bank of Canada and OECD
**f: forecast*

Since changes in our currency affect our exports (and imports), the Bank of Canada must take into account the evolution of the loonie along with its target overnight rate[9] when formulating its monetary policy so as to keep the economy on a stable path. In this regard, the institution deems that a three percentage points change in the exchange rate is roughly equivalent to a one percentage point change in interest rates.

Stock markets

Stock markets have been volatile since the beginning of the year due to the spiking price of crude oil and growing demand for commodities, thus affecting investor returns. The impact on the various stock markets is directly proportional to their sectoral weighting. In other words, the greater an index's weighting in a volatile sector—such as natural resources at a time of strong global demand—the more the changes in the sector impact the stock index in question. Given the skyrocketing price of oil and commodities, it is therefore not surprising to see Canadian indices with a heavier weighting in natural resources surpass their American counterparts. For example, the S&P/TSX has gained 6.0% since the beginning of 2004, outpacing the S&P 500 (+1.64%) and the Dow Jones (-4.1%).

Analysts believe that depending on certain factors such as a good performance by the Canadian economy this year, continued earnings growth into the fourth quarter, and a rising loonie, which will reduce the returns on investments made in U.S. dollars, Canadian stock markets should continue to outperform their U.S. analogs. However, certain risks could lessen the spread, for example, fears concerning the price of oil, which could slow global demand; the appreciation of the loonie, which could shrink corporate profit margins as forward contracts expire;[10] and inflation in China, which the Chinese government must address by tightening credit conditions and which could affect demand for Canadian natural resources. ■

9. The target for the overnight rate tells major financial institutions the average interest rate the Bank of Canada wants to see in the marketplace where they lend each other money for one day, or "overnight."
10. When companies see the exchange rate rising in a short time (as was the case in 2003), they will try to hedge against a volatile exchange market since a sudden (and unplanned) rise in currency can significantly affect cash flows and make them difficult to manage. One way to protect themselves is by purchasing forward exchange contracts that fix the buying or selling exchange rates in advance of the settlement date.

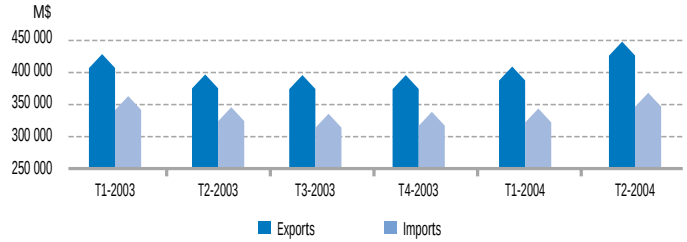
Our economic conditions

Foreign Trade

Foreign trade improves again in August

In keeping with the trend of the past few months, **Quebec's** international merchandise trade increased, on the strength of aircraft sales, which have been driving Quebec exports since 2001. Total exports advanced 7.3% in June (in constant 1997 dollars) over the previous month thanks to gains in 12 of the 25 main export groups. However, in July, exports shrank 3.0% to $5.7 billion, a figure that could have been higher were it not for increases in aircraft (+48.1%), measurement instruments (+30.9%) and newsprint (+10.0%) sales. For their part, imports ended the month of June up 6.5% but fell 9.7% in July to $5.6 billion. The decrease in automobile imports was spread over these two months.

After the first seven months of 2004, Quebec exports rose 5.3% to $37.5 billion year-over-year despite considerable monthly variations. This increase was fuelled by office machinery and equipment, telecommunications equipment, finished products and copper. The equivalent figures for imports are 8.4% to $36.1 billion thanks to imports of electrical tubes, computers and copper.



Canadian foreign trade in goods – Quartely

Source: Statistics Canada

Canada's trade surplus jumped $1.3 billion in August to $7.4 billion. However, a closer look shows that exports nevertheless slipped 0.4% to $37.7 billion in August over July, mainly due to a drop in energy products (-2.6%). The downturn stemmed mostly from imports, which fell 4.4% to $30.3 billion. Although all the import categories declined, automobiles (-5.5%), and machinery and equipment (-4.8%) posted the greatest losses. The decrease in the last category raises some concern since it may signal cutbacks in business investment.

In terms of the main Canadian export markets, the largest decreases were recorded in the U.S. and Japan. The 2.6% contraction in U.S.-bound energy exports (oil and electricity) is explained by a cooler August. As for imports, all the markets shrank with the exception of the "other OECD countries"[11] (+6.7%).

At the end of the first eight months of 2004, Canadian exports rose 6.7% over the same period in 2003 on the strength of industrial goods and energy products while imports advanced 3.3%, driven mostly by industrial goods. ■

11. "Other OECD countries" include Australia, Iceland, Mexico, New Zealand, Norway, Switzerland, Turkey, Poland, South Korea, Hungary, Czech Republic and Slovak Republic.

Public transit financing at a crossroads

The strategic importance of transportation for large cities and the key role public transit plays in their economic competitiveness is well documented. Indeed, by focusing on public transit in their development strategy, cities like Barcelona, Lyon, Boston, Seattle and San Francisco have become among the most dynamic urban centres in the world.

Companies are increasingly paying attention to public transportation since the related benefits are so significant. In fact, a recent survey conducted by the Board of Trade showed that 50% of the business leaders surveyed in the metropolitan area agree that the private sector should be more financially involved in upgrading the city's public transit infrastructure. In this regard, it bears mentioning that when it came to choosing the site of its headquarters, U.S. aeronautics giant Boeing opted for Chicago because of its extensive public transit system rather than Denver, even though the latter ranks among the most competitive cities in North America.

While it boasts a widely used public transit system, Greater Montreal is nonetheless facing major financial challenges with regards to its infrastructure. Indeed, according to the Société de transport de Montréal (STM), over $3.5 billion will be required in the next 10 years to upgrade the system. Given the magnitude of the investment required, it is particularly important to fully grasp the impact of public transportation on the metropolitan economy, and it is for this reason that the Board of Trade conducted and published a study on this very subject on December 6, 2004.

Public transit and mobility

Clearly, for a city like Montreal, one of the most important benefits of a public transit system is that it reduces the number of vehicle movements—by some 500,000 in rush hour. The impact of such a reduction is significant when you consider that adding only 1,000 travellers to a congested network results in a car line up nearly 6 kilometres long! Another illustration of the value of this contribution is the reserved bus lane on Champlain Bridge that transports as many people in rush hour than all the people driving vehicles on the three other lanes combined. For the Board of Trade, this simple comparison demonstrates how much public transit contributes to the mobility and transportation of people and merchandise as well as to the city's economic development. This increased mobility of people also enlarges the pool of potential workers available to local businesses.

Though the number of people using public transportation has grown steadily in recent years, the number of cars in the region has increased even more, i.e., 6% between 1993 and 1998. To really gauge the use of public transit, we must look at the change in "market share" held by public transit by comparing the number of users to the total number of drivers. Thus, in Montreal, public transit's market share is in the vicinity of 20%. Between 1993 and 1998, it dropped four percent, mainly in favour of car use, which corresponds to an increase of nearly 30 million vehicle movements annually. In our view, the challenge is not only to upgrade the public transit infrastructure, but also to reverse this strong trend.

Greater Montreal economy

Financial benefits

Besides increasing mobility, public transit contributes to the city's economic health in a variety of ways. For example, the public transit operating authorities in the Montreal region spent some $1.3 billion in 2003 on operations and infrastructures, supported the equivalent of nearly 13,000 direct and indirect jobs, and generated an added value of more than $930 million. That same year they also purchased goods and services estimated at over $284 million.

Estimate of direct and indirect economic benefits of PTA expenditure budgets (2003)

	Operating expenditures	Capital expenditures	Total expenditures
Jobs[1]	**11,989**	**856**	**12,845**
Direct	9,610	-	9,610
Indirect	2,379	856	3,235
Added value[2]	**$885.8 M**	**$51.1 M**	**$936.9 M**
Direct	$738.5 M	-	$738.5 M
Indirect	$147.3 M	$51.1 M	$198.4 M

Source: Institut de la statistique du Québec, based on data provided by SECOR Consulting
[1] Does not include induced jobs
[2] Salaries, benefits to companies and other revenues)

Among the major products purchased is gasoline, electricity, rolling stock, replacement parts, electrical equipment and financial services. Given the nature of this spending and the location of the industry's suppliers, its impact is highly concentrated in the Montreal area, so much so that only 10% of every $10 million is spent outside Quebec. In contrast, nearly 50% of all outlays involving private automobile transportation is spent outside the province since there are virtually no automobile manufacturers in Quebec.

In terms of financing, the Quebec government contributes 16% to public transit while Ottawa provided no funding until this year. However, both levels collect substantial revenues through taxation and incidental taxation, amounting to some $23 for each $100 spent by the regional transit agencies, for a total of more than $300 million of revenues per year.

While the benefits created by the public transit operating authorities are important for the regional economy, they are equally so for the households that use public transportation. For example, by not having to spend money on a car to get to work, families increase their annual disposable income. In Greater Montreal, these savings add up to $600 million a year. Moreover, the availability of these funds for other types of spending generates almost double the economic spin-offs than if it were spent on cars.

Finally, for local businesses, public transit clearly plays a big role in reducing the inconveniences caused by traffic snarl-ups, which cost companies $1 billion per year according to SECOR Consulting.

The quality of place

Another benefit of public transportation is its contribution to the quality of place in that it generates four times less air pollution per kilometre than the total number of cars required to transport the same number of people. At a time when major initiatives are being taken to reduce greenhouse gases, we believe that public transit is a key element to leverage.

Not only used by workers, public transportation also plays an important role in ferrying visitors and tourists to attractions. Major cultural events such as the Jazz Festival, the Francofolies, the Just for Laughs Festival and the Formula 1 Grand Prix would certainly not be as well attended if we did not have an efficient public transit system. These events draw a huge number of tourists, who spend $2.5 billion every year in Montreal.

Whether it improves mobility, generates major economic spin-offs or improves the physical environment of our city, the benefits of public transportation are many. However, faced with the need to soon make strategic decisions regarding the financing of its infrastructure, the various levels of government are finding themselves at a crossroads.

The Board of Trade acknowledges that the cost to upgrade the system is considerable, particularly when one considers the precarious state of Quebec's public purse. However, in our view, Quebec should not attempt to save money by letting the transit infrastructure, which is vital for our economy and the city's competitiveness, deteriorate any further. Rather, it is in the best interest of the province – and especially Greater Montreal – to maximize the spin-offs generated by the public transit system by making the necessary investments to boost use and more importantly, market share. ■

Guest columnist

The 2005 budget for the City of Montréal: A budget of action!

By Mr. Frank Zampino, chairman of the Executive Committee, City of Montréal, and mayor of the borough of Saint-Léonard

With the tabling of the City of Montréal's 2005 budget, our administration has without a doubt demonstrated that the spectre of referendums is well behind us. We are focusing on the development of our community, which is at a crossroads. Montréal is on the move; Montréal is being given new dynamism; and Montréal is positioning itself as a city of the future.

The citizens of Montréal will be proud to learn that we have honoured our commitment to maintaining a balanced budget and protecting the overall fiscal burden. Since 2002, thanks to our rigorous management, the fiscal burden will have increased, on average, by only 1.14% a year, compared to the annual inflation rate of almost 2.1%. We are now in a position to move ahead with a substantial slate of measures aimed at making Montréal a city on the move.

The total budget for 2005 is $3.98 billion, an increase of 3.9% in comparison with last year's budget. This increase is due partly to major investments in the drinking-water infrastructure, and the resumption of contributions to the pension plans. Leaving aside these exceptional expenditures, the budgetary increase for the City of Montréal is around 2.1%, which is the same as the rate of inflation.

Good News on the Taxation Front

The 2005 budget contains good news on the taxation front for a substantial number of property owners. In fact, 55% of them will be pleased to learn that their residential tax bills will be decreasing, and 19% will experience an increase that is lower than the inflation rate of 2.1%.

The situation is quite similar in the non-residential sector. More than 43% of property owners will see their tax bills decrease, while 20% of them will experience an increase that is lower than the inflation rate.

Water Management

The 2005 budget also allows for the spending of an additional $20 million dollars for the water fund created in 2004 with an initial investment of $25 million. We are placing considerable importance on the water management strategy in order to put an end to the poor management that has long characterized the drinking-water distribution system on the Island of Montréal. This proactive investment will generate millions of dollars in savings over the coming years.

Road Infrastructures

More than $165 million will be invested in 2005 for repairs to the road network. Almost 14% of the Montréal road network needs to be partially or even totally rebuilt. Montréal will need more than $4 billion over the next 10 years in order to maintain its road infrastructures.

Public Transit

The City will invest nearly $300 million in 2005 in order to operate, develop and maintain Montréal's public transit system, which is considered one of the most efficient systems in the world. The challenge is great, however, because the survival of the public transit system relies heavily on massive investments by higher levels of government.

Electronic City

In order to develop our virtual showcase on the national and international level, and to ensure the efficiency of the City of Montréal's on-line services, more than $12 million will be dedicated over the next three years to the strategy of implementing the Electronic City (e-city) project.

Other Projects

The 2005 budget, of course, is not just limited to these four themes. We could also mention our search for new sources of financing, developing the Quartier des spectacles, supporting the Cité des arts du cirque, creating a bio-food centre, revitalizing McGill St. and St-Laurent Blvd., as well as many other projects.

Everything leads us to believe that Montréal is heading into a prosperous year in terms of artistic creativity, economic development and improvements to different infrastructures, such as the water and road networks. Our administration is striving to reach that goal by working together with all our partners from every milieu.

A glance at Montreal

Board of Trade's comments regarding the MMC's Economic Development Plan

By Benoit Labonté, president and CEO, Board of Trade of Metropolitan Montreal

The Board of Trade is very pleased to participate in the consultations of the Montreal Metropolitan Community (MMC) on the *Draft Economic Development Plan* (Draft EDP). Our organization believes that adopting such a regional strategy is critically important given that, today, all the major cities of the world are competing economically with each other. In our opinion, the MMC is the organization of choice to lead this economic planning process. First, the territory under its jurisdiction corresponds well to the economic territory defining the metropolitan region. Second, its structure is conducive to promoting coherent economic action by all the municipalities on its territory.

Increasing the wealth produced in the metropolitan region

Insofar as the major development issues are clearly identified and Montreal's performance is compared with its competition, we must find ways to propel Greater Montreal to the ranks of the leading metropolitan regions. In this context, the Board of Trade commends the fact that increasing the collective wealth of Greater Montreal — as measured by per capita GDP — is the main objective of the MMC's economic development strategy. We therefore believe the EDP must set objectives that clearly acknowledge Montreal's unfavourable position vis-à-vis the main metropolitan economies and that require the region to improve its performance. The scenario that calls for annual GDP growth of 5.2% over the next 20 years, allowing Montreal to climb to sixth place in terms of per capita GDP among the 26 metropolitan regions of North America, definitely meets these criteria.

That said, such a growth rate is especially ambitious as it is substantially above the economic forecasts for the region. Indeed, the Conference Board of Canada expects the Montreal economy to grow on average 2.8% per year between 2002 and 2020, i.e., over 2% below the EDP target.[12] Inevitably, we will have to make major changes in the way we do things if Montreal is to climb 20 spots in the ranking.

In any strategic planning exercise, the main challenge is always its implementation, which, in the case of the EDP, will depend in large measure on the involvement and mobilization of the metropolitan region's development stakeholders. If Greater Montreal hopes to achieve exceptional economic growth, all the stakeholders must, without exception, put forth equally exceptional efforts. For these reasons, we believe that one of the roles of the EDP is to mobilize the Montreal community and inspire its economic development stakeholders to achieve the Plan's objectives by making them feel somewhat as if they had a performance contract with the region.

To define conditions for success

In this context, the Board of Trade believes that the EDP should expressly identify the conditions for success that must be fulfilled in order for Montreal to rank among the leading North American cities. By "conditions for success," we essentially mean action that can be taken quickly, in other words, prerequisites to achieving the accelerated growth targeted by the EDP.

The Draft EDP identifies one of these conditions for success, without actually naming it as such: diversifying the revenue sources of cities and the MMC. Indeed, this is one condition that must be fulfilled if the region hopes to see the series of desired investments become a reality. The EDP also suggests a strategic planning and thinking process, particularly for the development of clusters, which will likely lead to the definition of new conditions for success. Our proposal therefore does not run counter to the EDP, quite the opposite; it simply suggests making the strategic thinking exercise more explicit and extensive.

Defining conditions for success would better demonstrate the urgent need for immediate and major action to resolutely set Montreal on the path to catching up with the competition. These considerations are important in that they will

12. It is interesting to note that over the past 10 years, GDP growth in the Montreal region has surpassed 5% on only two occasions: in 1999 (7.8%) and in 2002 (5.5%). In 2003, this growth was 1.7%.

have a definite impact on the credibility of the EDP, and by extension, on the level of engagement it will be able to obtain from the partners.

To define success objectives

In the same vein, the Board of Trade believes that, in addition to GDP growth, the EDP should set a series of other quantified objectives. In fact, the Board of Trade believes that the MMC should take its idea of monitoring our economic performance through indicators one step further. In our view, defining specific objectives to achieve in the short, medium and long terms for a variety of indicators would contribute to the success of the economic strategy in two ways.

First, agreeing on a target to achieve for a performance indicator would make it easier to more closely monitor the success of the EDP, for example tracking the progress of action taken by the MMC and determining adjustments to be made along the way.

Second, the Board of Trade believes that by having a greater variety of quantified objectives, the economic strategy would have the major advantage of being able to better mobilize the stakeholders around its implementation. While it is true that per capita GDP is a comprehensive and valid measure of a society's collective wealth and productivity, the global character of this indicator makes it impossible to associate it directly with the activities of the various economic players. In other words, it is difficult to perceive the impact of each player's initiatives on per capita GDP growth, and consequently to impress upon everyone the importance of their contribution to achieving the identified objective.

A metropolitan contract to conclude

Several areas of action identified in the Draft EDP correspond to competencies exercised by the upper levels of government, especially of Quebec. Education and transportation are but two examples. Therefore, the Board of Trade believes the EDP should be rounded off with a "metropolitan contract."

The Board of Trade considers it particularly relevant to formalize the Quebec government's involvement in and commitment to the development of the Montreal region.

For the Board of Trade, concluding a metropolitan contract is an important complement to the EDP; it is the way through which the Quebec government's role in metropolitan development will be defined and recognized, and through which its commitment to join forces to make the metropolitan region prosperous and competitive will be confirmed. This complement is critical to achieving the EDP's objectives in 2025 and to adding credibility to the strategy it proposes today.

Conclusion

While it has big ambitions and an inspiring vision, the Draft EDP must develop its power to act, unite and mobilize; it must clearly state what needs to be done and map out the difficult path we must follow. Given the ambitious – and necessary – growth objectives set by the region, it goes without saying that everyone's contribution is required. Hence the idea that the EDP be designed as a mobilization plan.

The Board of Trade of Metropolitan Montreal strongly supported the creation and development of the MMC, believing that the metropolitan perspective defining the organization was critical for the economic success of Montreal and its region, at a time when economic competition is being played out directly between urban centres. While it can be further improved, the draft economic development plan unequivocally underscores the importance of uniting all the forces of the metropolitan area. The Board of Trade is therefore determined to continue its efforts and work together with the MMC to make sure that the EDP project truly mobilizes the dynamic forces required for Greater Montreal to reach new heights. ■

Canada Economic Development report

Business-University partnerships: A challenge for Montreal

In the metropolis, a new dynamic has been formed with the transition from an industrial economy to a new knowledge-based economy. In this new environment, a city cannot simply strive to acquire a knowledge-based educational system and industries. It must be able to innovate quickly in all sectors. A challenge of this nature cannot be met efficiently without the cooperation of several economic players, since it calls for communication and interaction among them. Joint business-university endeavours seem, therefore, an avenue worth exploring. In fact, this was one of the OECD's recent recommendations for strengthening Montreal's international competitiveness[13].

It is well known that businesses and universities have different objectives. The role of business is to produce goods and services with the goal of making profit in so doing. A business also provides jobs for its employees and generates wealth through the added value of its activities. The role of universities is to broaden and spread knowledge through research and teaching. Business, for its part, may also broaden knowledge, but it typically retains new information to serve its own development. These two visions can, however, be complementary and enhance one another.

To be competitive, businesses must constantly innovate and stand apart from their competitors not only in the area of products and services but as well in that of processes, because the life cycle of products and technology is getting shorter. Faced with these challenges, businesses can consider partnerships with university research centres, which will give the latter a better awareness of needs and markets, and an opportunity to improve the focus of their teachings and contacts between students and businesses. In return, universities can offer a wide range of knowledge to businesses, owing to their competent staff, equipment, rigorous and multidisciplinary approach, as well as their involvement in international research. It is also an opportunity for them to get to foster the recruitment of their students.

A long way to go

Business-university collaboration can take many forms, such as a research project; equipment sharing; technological monitoring; or even the creation of new businesses for the commercial development of research findings. Business-university relationships seem to be increasing substantially in the City of Montreal, but there is still a long way to go to de-compartmentalize research. In 2001, 10.2% of university research in Montreal was sponsored by business, which was higher than that for OECD countries as a whole (6.2% in 2000). This demonstrates that Montreal universities already have major partnerships with the private sector particularly large companies. However, the amount that businesses spend on R&D through universities only corresponds to 4.1% of their total investments. The truth of the matter is that businesses carry out most of their R&D without university partners.[14] In its report, the OECD lends credence to this fact, arguing that Montreal has major assets in human capital and research and educational infrastructure, but the institutional framework designed to exploit these assets sometimes lacks cohesion. At present, there is little co-operation between universities and small- and medium-size businesses. This is problematic insofar as Montreal's industries mainly consist of small- and medium-size businesses. For their part in establishing links with businesses, universities implement a number of programs that foster co-operation either between businesses and research initiatives, or between students and businesses, such as co-op programs.

To increase its competitiveness, the City can no longer rely on a weak Canadian dollar, which has appreciated considerably over the past two years. Montreal can, on the other hand, bank on its knowledge to provide products tailored to demand, find more effective ways to manufacture new products in line with needs and evolving markets. The role of innovation is very important and a business-university partnership can help enterprises remain competitive in foreign markets and take advantage of opportunities on the frontiers of knowledge. ■

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