Trend Chart

Greater Metropolitan Region

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Nurturing Montreal's creativity

Exclusive partner

Canada Economic Development

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Canada

Chambre de commerce du Montréal métropolitain

Board of Trade of Metropolitan Montreal

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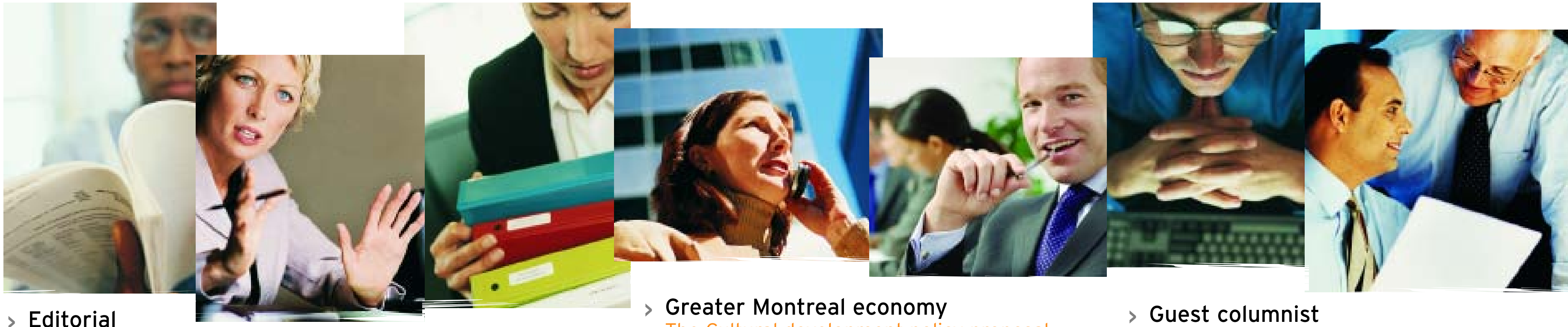

This document pertains to data before February 2, 2005. These data reflect Statistics Canada's update of the Canadian Labour Force and International Merchandise Trade Survey.

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Editorial

Nurturing Montreal's creativity

By Isabelle Hudon, president and CEO of the Board of Trade of Metropolitan Montreal

"Creativity" is the buzzword of the day, particularly where economic development is concerned. Richard Florida, author of *The Rise of the Creative Class* and staunch promoter of creativity as an engine of economic growth, recently spoke before a packed forum at the Board of Trade where he sparked many debates about his theories.

Montrealers have plenty to like in Mr. Florida's approach. According to his data, "Montreal is faring well," ranking on par with the most "super creative" cities in the world. However, this begs the question that if Montreal is doing so well, how come it can't keep up with the economic performance of its North American counterparts?

One thing is for sure. The professor's work has propelled creativity to the forefront as an increasingly important element of economic development. Indeed, in a business environment where fierce competition has reached new heights and where only the best and brightest can survive and endure, innovation becomes nothing short of essential. And how can you possibly innovate without being creative?

However, it also bears mentioning that while creativity is vital to a strong economy, measuring it presents a monumental scientific challenge. Because at the end of the day, the question is: What do we have to do to boost the kind of creativity that really affects economic growth?

Montreal and Quebec like to think they have an especially creative population. We like to cite Guy Laliberté, who built a multinational circus empire from a troupe of street acrobats; or Joseph-Armand Bombardier who envisioned and built the perfect winter "vehicle" in his garage. Looking at these creations, we see that creativity has a lot to do with inventiveness, originality and resourcefulness. And given our harsh climate and small market, it is probably fair to say that we have developed a keen sense of "resourceful creativity."

That said, and without minimizing the achievements of these icons, this picture is far from complete. Random House defines "creativity" as "the state or quality of being creative." This "quality" can be a complex combination of many things that are different from one creation to another. Although inventiveness, resourcefulness and boldness are some of these things, knowledge, training and others are also key elements.

The best example of this combination is Montreal's cultural milieu whose creativity we automatically associate with the genius of its artists, particularly creators of new works: authors, composers, directors, producers and the like. However, their achievements would never see the light of day without a host of other collaborators: lighting and sound engineers, technicians and acrobats, to name but a few.

One of the greatest achievements of Quebec's cultural milieu has been its consistent focus on training in the arts and in related occupations to ensure its creators can always find the skilled manpower they need to bring their ideas to life. Montreal would never have become a hub of circus arts without the École nationale de cirque, or a cultural metropolis without the École nationale de théâtre, the Institut national de l'image et du son, the McGill and Université de Montréal music faculties, and others.

For the Board of Trade, this is the most important lesson to remember if we hope to boost Montreal's competitiveness. Richard Florida is right on the mark when he says that what people look for in a city is tolerance, a quality location, openness and diversity and that these elements foster the emergence of bold new ideas. And we as Montrealers should be proud because our city has them all. Still, being "cool" is not enough to have the power to create. Know-how – something the cultural industry has in spades – is also a key ingredient to our creativity.

This brings us to some worrisome figures with regards to our performance in the areas of professional development and high school and university graduates. In all these domains, Montreal and Quebec generally lag behind the average of their Canadian and North American competitors. A lack of knowledge and skills is probably the reason our "super creative" economy is underperforming.

While the city's cultural wealth and its citizens' diversity and openness certainly go a long way to making Montreal a creative, strong economy, we must never lose sight of the fact that education, training and the sharing of expertise are just as important to nurture our creativity.

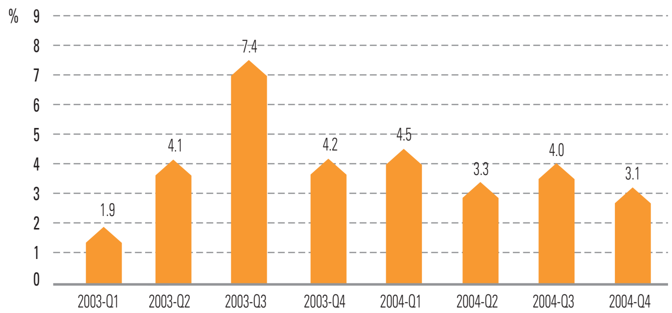
Trends and overview

United States

Moderate growth for 2005

During the last quarter of 2004, **U.S. real GDP** continued to grow, albeit at a slower pace than in the third quarter (3.1% against 4.0%), mostly on the strength of strong domestic demand buoyed by consumer spending (+4.6%) and business investment (+10.3%). Retail sales inched up 1.2% in December, driven by automobile sales, which were stirred up by discount financing offers from manufacturers. Merchants enjoyed their best year since 1999 as retail sales climbed 8% over 2003.

Two thousand four was a good year for GDP growth, which advanced 4.4% compared with 3% in 2003, the greatest increase since 1999. According to some economists, this trend will continue in 2005 with a growth rate of approximately 3.5%, which is considered the country's long-term potential.



Growth rate of US GDP

Source: U.S. Department of Commerce, Bureau of Economic Analysis

After a year of less than stellar performance on the job front, December saw the creation of 157,000 new jobs (December's statistics came with a revision of +34,000 jobs for October and November), allowing the **unemployment rate** to remain stable at 5.4% for the last month of the year. This good news had a positive impact on the Conference Board's **Consumer Confidence Index** – a measure of consumer optimism toward current and future economic conditions – which in January rose to 103.4 (1985=100) from 102.7 in December. The future outlook, however, is a concern, both in terms of impending interest rate hikes and the level of household debt. On an annual basis, this index is up significantly over its January 2004 level (97.7).

Included in domestic demand, gasoline consumption is also responsible for the November upturn in imports (+1.3%) despite the depreciation of the greenback. November saw exports decline (-2.3%) for the first time since the summer with the result that the U.S. **trade deficit** rose to $60.3 billion in November, an increase of $4.3 billion over the previous month.

Lower **gasoline prices** (-3.7%) in December offset higher prices for other goods, causing the Consumer Price Index to dip slightly (-0.1%). Notwithstanding the decrease, 2004 ended with a 3.3% increase in inflation, largely due to rising prices for goods and energy over the course of the year.

Along with this upward pressure on prices came an improvement in industrial output capacity, which advanced 0.8% in December to 79.2%, its highest level since 2001. Increased production and no change in the number of hours worked explain the growth in labour productivity. On December 14, the Federal Reserve decided to once again raise its overnight rate by 25 basis points to 2.25%. As analysts had predicted, in response to the economy's moderate sustained growth, the Fed gradually began tightening its monetary policy on February 2, 2005, hiking the overnight rate for the sixth consecutive time, in this case by one quarter of a percentage point.

As for the housing sector, low mortgage rates continue to stimulate construction. The 11% jump in housing starts in December over November was the biggest monthly increase in seven years. Based on this performance, the major banks believe the housing slowdown may still be well down the road. ■

Trends and overview

Canada

Slowing down before taking off

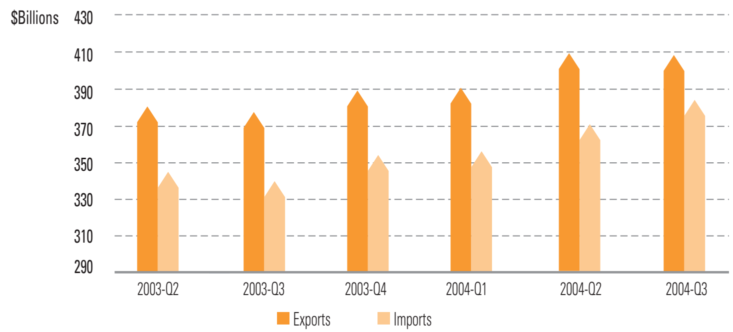
On January 27, the Bank of Canada announced its outlook for 2005 in its *Monetary Policy Report Update* in which it cut this year's growth forecast for the Canadian economy, mainly due to the greater than expected impact of the loonie's rise on exports. At 2.8%, economic growth will stay somewhat below its potential, relying for the most part on strong domestic demand and expansion of the U.S. economy. In a bid to be accommodating, the Bank will gradually move rates up but at a slower pace than announced in its Report last October. In fact, January 25 was the third consecutive time the Bank of Canada has announced that it will keep its **overnight rate** at 2.5%. Consensus expectation is therefore that the Bank will hold this rate for the first half of 2005 and then gradually tighten its monetary policy.

Although robust in the third quarter (annual pace of +3.2%), economic expansion should slow down before the publication of 2004 results as the economy adjusts to the loonie's increase. In fact, **real GDP** in November grew 0.2% as some economists has predicted after picking up 0.1% in September and staying put in October. The Bank of Canada is therefore predicting fourth quarter growth of about 2.25%. On an industry basis, the **manufacturing sector**, which slowed in both September (-0.1%) and October (-0.3%), took a pause in November. For its part, **retail sales** dipped in November (-0.4%) after five consecutive months of moderate gains. Smarting from the NHL strike, the **arts, entertainment and recreation** sector fell by 3.3% from October to November. Stimulated by demand for machinery and equipment, **wholesale trade** was up 1.5% in November over October, accounting for some 40% of the growth during this period.

In November, the merchandise **trade balance** was $5.5 billion. Despite the fact that, for the first 11 months of 2004, it is already $62 billion or up 16.8% over the same period last year, exporters are clearly feeling the pinch after two years of a rising loonie. Indeed, **merchandise exports** totalled $35.6 billion in November, the fifth consecutive monthly drop (-0.5% from October). As for **merchandise imports**, Statistics Canada's revised figures to $30.1 billion, show a decrease of 1.5% from October to November.

Thanks to the strong Canadian dollar, import prices are lower, making it easier for businesses to invest in machinery and equipment, which should go a long way towards boosting productivity and tempering price increases. For 2004, the price of goods and services calculated in the **Consumer Price Index** inched up 1.9% over 2003, less than the 2.8% average annual increase Canadians had to endure in 2003. Prices rose more slowly primarily because hikes in car insurance premiums and cigarettes were small and natural gas prices fell. For the first time since 2001, the average annual increase of the core CPI, i.e., without the eight most volatile components as defined by the Bank of Canada (+1.5%), fell below 2%.

All in all, 2004 ended on a positive note if we consider that Canada created over 228,000 **new jobs** during the year. The average annual **unemployment rate** dropped from 7.6% to 7.2%. As for residential construction, a stronger labour market and low mortgage rates paved the way for a record year in 2004, with an estimated 233,000 **housing starts**, a 6.7% increase over 2003. The Canada Mortgage and Housing Corporation, however, is predicting that the housing market will slow down in 2005, in lockstep with general economic growth. ■



Foreign Merchandise Trade in Canada – Quarterly data

Source: Statistics Canada

Trends and overview

Quebec

Exports tarnish an otherwise good year

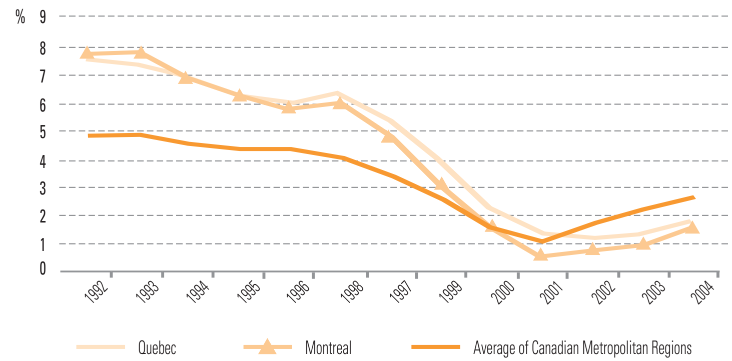
Much like the economic growth trends observed in Canada, 2004 was a good year for Quebec thanks to marked increases in GDP and improvements in some sub-sectors in the third quarter. In the first nine months of the year, Quebec **GDP** climbed 1.9% over the same period last year. This figure is the same as the increase recorded for all of 2003. In Quebec, just as in the rest of the country, rebounding final domestic demand (+1.0%) and inventory build-up explain the growth in the third quarter over the year-ago period.

Q3's final domestic demand was fuelled by greater government and personal consumer spending (+0.4% and +0.7% respectively) as well as major increases in **business investment** (+3.0%) and **residential construction**, which jumped 4.0% after dipping 0.4% in Q2.

The Canada Mortgage and Housing Corporation (CMHC) confirmed that 2004 was the best in 16 years for residential construction in Greater Montreal, particularly for the condominium market, which saw over 10,000 units built in the last 12 months. At the same time, the average **vacancy rate** (+0.7%) of private buildings in Montreal with three or more dwellings rose from 1.0% a year ago to 1.5% in 2004 (see graph). Although the 2004 figures are an improvement over the levels recorded since 2000, we still have a way to go before the market is balanced. However, some signs, such as the increase in unsold new dwellings in the Greater Montreal area and the 5% decrease (December) in housing starts in the province suggest the real estate market is about to slow down. In fact, the CMHC is forecasting a drop of nearly 10% in national housing starts for 2005.

While domestic demand is staying the course, it's quite a different story for **exports**, which were hard hit in the third quarter, shrinking 1.7% quarter over quarter. International exports (-2.5%) were largely behind the losses while inter-provincial exports remained practically unchanged (-0.1%). **Imports** rose for the fourth consecutive quarter, this time 1.3% over the second quarter, causing the **trade deficit** for June to September 2004 to jump from $1.7 billion to $5.7 billion.

Lastly, the **employment** situation seems to be mirroring the downward trend observed in foreign trade, with 13,600 jobs disappearing in the fourth quarter. Still, 2004 as a whole was a good year in many respects, including employment, which saw 37,000 jobs created or 13,500 more than in 2003. ■



Vacancy Rate 1992-2004

Source: Canada Mortgage and Housing Corporation

Our economic conditions

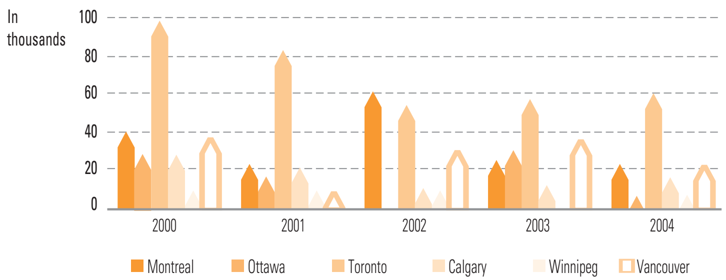
Labour market

A good year for Quebec and Canada, but a deception for Montreal

Montreal's job situation took a turn for the worse in the last quarter of 2004. While it had posted small gains of 400 and 5,100 jobs respectively in October and November, the loss of 12,300 jobs in December ended up tarnishing the quarter's performance. The jobs were lost primarily in the transportation and warehousing sector. Reaching its annual peak in November at 9.3%, the unemployment rate dipped slightly to 9.2% in December.

The unemployment rate for the year was 8.6%. After climbing in May and dipping in June, employment fluctuated a great deal in 2004, finishing the year with a loss of 8,900 jobs, mostly in the health care, accommodation and food services sectors.

In the other major CMAs in the country, Toronto and Vancouver gained 16,600 and 17,600 jobs respectively.



Job creation – Canadian cities

Source: Conference Board of Canada

Across **Quebec**, 2,600 jobs were cut in the last quarter of 2004. The fourth quarter started off creating 9,800 positions in October, only to lose 1,000 in November and another important loss of 11,400 in December concentrated in the transportation and warehousing sector (-9,500), making Quebec the worst performing Canadian province in December. Unemployment dropped to 8.6% in December after reaching its annual peak of 8.9% in November.

Despite Montreal's losses in 2004, the annual job creation results for Quebec are positive: 51,300 positions were created last year, mostly in the manufacturing (+25,500), finance and insurance, real estate and rental (+23,400) and trade (+19,200) sectors. The jobs lost in the transportation and warehousing (-18,100) and teaching (-10,900) sectors cast a pall on the annual picture. Still, jobs grew steadily during the year except for the hiccup in June.

Overall, job creation in 2004 outpaced 2003 (+27,500) but remained modest compared to 2002, which was an exceptional year (+168,000). The annual unemployment rate was 8.5%, down from 2003 (9.2%).

On the **Canadian** labour market, things looked pretty good in the last quarter, with 59,700 new jobs created, thanks in large part to strong gains in October, which alone added 43,400 jobs and December, which contributed another 15,100, broken down among a few sectors: primary sector (+13,700), professional, scientific and technical services (+12,300) and accommodation and food services (+9,500). While a number of industries lost jobs, the biggest loser was the trade sector, which saw 11,500 jobs disappear, mostly owing to the strong loonie. In terms of job creation, British Columbia came out on top with 12,700 jobs, followed by Ontario with 7,200 new positions. During this period, the Canadian unemployment rate dropped over November from 7.2% to 7.0%, the lowest since January 2001 (6.9%).

Canada did well in 2004, creating 226,300 new jobs. However, these results pale compared with 2003 (+282,600) and 2002 (+560,000). The top performers last year were Ontario (+83,000), followed by Quebec (+51,300) and British Columbia (+32,400). The unemployment rate continued to drop, settling in at 7.2% against 7.6% in 2003.

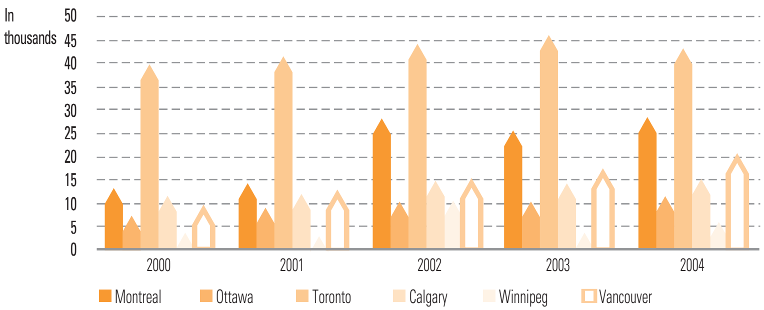
Our economic conditions

Housing market

An exceptional year

The **Montreal Census Metropolitan Area (CMA)** recorded 28,400 and 32,700 housing starts in October and November respectively.[1] However, residential construction dipped in December, stabilizing at 26,400 units. According to actual data, 3,055 housing starts were recorded in November and 2,037 the following month. The decrease observed in December affected all segments of residential construction, especially collective dwellings, i.e., semi-detached houses (-52%), condominiums (-57%) and rental units (-64%).

According to the CMHC, "2004 was the best year in 16 years for residential construction." The year ended with 28,673 units, up 18% over the corresponding 2003 figure of 24,321. Most of the increase took place on the Island of Montreal (+3,458) where residential construction jumped 47% between 2003 and 2004. Of the new dwellings, 50% (+2,160) were condominiums and 39% (+1,717) were destined for the rental market, which should find takers among senior citizens, according to the CMHC.



Housing starts – Canadian cities

Source: Conference Board of Canada

Just like Montreal, **Quebec** recorded increases in housing starts in November, particularly in the collective dwellings segment, followed by a decline the following month. In fact, in December, foundations for 26,400 units (seasonally unadjusted data) were poured, a drop of 19.2% from November. In terms of actual data, 3,070 housing starts were recorded in November, a 32% (+751) jump over October. In December, this segment picked up steam to stabilize at 2,697 units. In contrast, individual housing starts continued to slide due to the price of land, dropping from 1,647 to 1,570 units and ending December at 1,291 units.

Overall, 2004 was a very good year for residential construction in Quebec. Housing starts in urban centres with 10,000 or more inhabitants were up 17%, from 39,857 in 2003 to 46,721. This growth was also reported in all cities with 100,000 or more inhabitants, with the exception of Saguenay, where the market for detached houses stayed put but where collective dwellings tumbled 46%.

The scenario is pretty much the same at the **Canada** level with 228,100 starts (seasonally unadjusted data) recorded in October and 242,600 in November. Quebec and British Columbia were behind this performance while Ontario and the Atlantic region both suffered losses. At 234,400 units, new construction was close to the annual average in December.

The residential construction boom continued in 2004. In fact, the number of units built has remained above 200,000 for 18 consecutive months. According to the CMHC, residential construction reached a 17-year high with 233,000 starts recorded, an increase of 6.7% over 2003. ■

1. Housing starts in annualized seasonally unadjusted data.

Our economic conditions

Financial market

Inflation rate

On a monthly basis, the Consumer Price Index (CPI) declined 0.2% from November to December (seasonally unadjusted data) owing to lower energy costs (-2.9%) and a decrease in the price of clothing and shoes (-2.3%). The Bank of Canada's core CPI, i.e., a variant of the CPI that excludes the eight components with the most volatile prices[2] as well as the effect of changes in indirect taxes on the other components, slipped 0.1% during the same period.

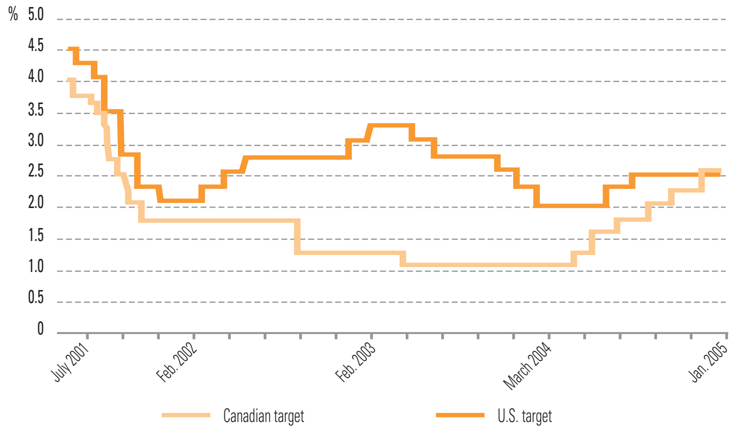
On an annual basis, the total CPI, after reaching 2.4% in November, settled at 2.1% in December 2004 (which means that Canadians had to shell out 2.1% more than in December of last year to buy the same basket of goods and services). Dropping gasoline prices were the main reason behind the slowdown during this period. For its part, the core CPI inched up from 1.6% in November to 1.7% the following month. The Bank of Canada aims to keep inflation at the 2% target, the midpoint of the 1 to 3% inflation control target range, expressed in terms of total CPI inflation.

Interest rates

The Bank of Canada's overnight rate remains unchanged at 2.5% following the announcement made on January 25. Although this rate has stayed put since October 19, 2004, the Bank is keeping an eye on elements that exert pressure on Canadian activity and therefore on interest rates, i.e., the price of crude oil, the evolution of the greenback and global economic health.

Indeed, in its *Monetary Policy Report Update* published on January 27, the Bank of Canada expressed the same concerns as those mentioned in the last issue of our *Trend Chart*: oil prices, the pace of expansion in China, global imbalances, and the geo-political climate. And indeed, the Bank of Canada maintains that these concerns are very real in the medium term.

Be that as it may, the consensus view is that the overnight rate in Canada will stay the same until summer 2005.



Canadian and U.S. Overnight Rate

Sources: Bank of Canada and Federal Reserve

2. The eight most volatile components are fruits, vegetables, gasoline, fuel oil, natural gas, mortgage interest, inter-city transportation, and tobacco products.

Our economic conditions

Exchange rates

Our loonie often made headlines at the end of 2004 and in early 2005 as it continued its ascension begun in early 2003 (on average 65 cents U.S. in January 2003). It finally stabilized at 82 cents in January 2005 after reaching more than 85 cents on November 26. In all, the dollar has gained 25% over the greenback in the past two years.

According to the Bank of Canada, two reasons explain the dollar's vigour. First, global growth has generated greater demand for Canadian products and especially commodities. Second, the U.S. deficit has depreciated the U.S. dollar against the major floating currencies despite a strong economy. Whereas in early 2003, the loonie's appreciation was for the most part underpinned by global growth, the reason today is the weak U.S. dollar.

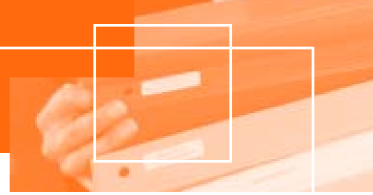
Given that the loonie's strength has dampened foreign demand for Canadian products, the consensus view is that the negative consequences of our strong dollar will be felt even more in 2005 and that economic growth will fall short of the 3% potential projected by the Bank of Canada for the year. Indeed, the Conference Board of Canada has revised its annual Canadian growth forecast down to 2.5%.

Stock markets

All the major indices advanced in 2004. However, with a 23.5% increase, the Toronto Stock Exchange outperformed its counterparts. The S&P 500 and the Dow Jones faired well, advancing 10.9% and 10.8% respectively. For its part, the Nasdaq gained 8.6%. As for early 2005, January was rather tepid due to rumours of interest rate hikes and inflationary pressures. On Wall Street, the Dow Jones lost 2.7% while the Nasdaq plunged 5.2% and the S&P 500 dipped 2.4%. The trend was also downward in Toronto where the S&P/TSX slid 3.5%.

At the end of 2004, oil prices rose on the news of the day and geo-political tensions, and more recently, the elections in Iraq. The price of crude peaked at US$56.17 on October 22 before sliding down to close the year at US$43.45, only to start climbing again and settling at around US$48 in January 2005.

Canadian stock markets paid the price for the loonie's strength in 2004. Based on 2005 projections for our currency, some economists are projecting stock markets will gain no more than 7% in 2005. If the Bank of Canada holds interest rates until summer or next fall, as some predict, and the Federal Reserve continues to gradually increase its rates, Canadian investments will lose their appeal to investors. In fact, since June 2004, the Federal Reserve has hiked its overnight rate on six separate occasions by 25 basis points each time (from 1% to 2.50%) whereas the Bank of Canada has increased its rate by 50 basis points over the same period. In early February 2005, there was no difference between the Canadian overnight rate and the U.S. target federal funds rate. ■



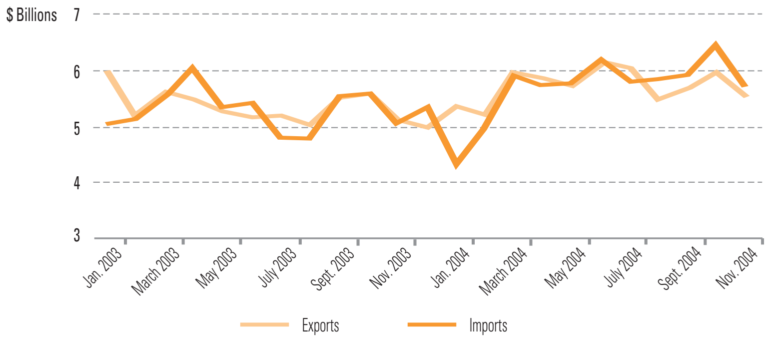
Our economic conditions

Foreign Trade

Sluggishness of November's exports results, but a progression in the year to date

Quebec's international merchandise exports in seasonally-adjusted current dollars fell by $298.9 million or 5.0% in November, mainly as a result of a sluggish aerospace sector. In fact, exports of aircraft and aircraft engines shrank to the tune of 15.8% and 21.6% respectively, translating into a loss of $144.5 million or almost half of the monthly downturn in exports. An 18% downturn was also noted in the lumber and softwood sector. As for Quebec's trading partners, trade with the U.S. and Spain underpins most of the decline. In fact, exports to those countries tumbled $179.1 million and $75 million respectively.

Quebec's imports also suffered in November, slumping $705.8 million or 11.0% over October. This downturn was observed in the organic chemicals and crude oil sectors, in which imports declined by $160.2 million and $76.6 million respectively. With regards to Quebec's various trading partners, the U.S. and the U.K. were behind the downturn, contracting $468.1 million and $147.5 million respectively during this period.



Foreign Merchandise Trade in Quebec – Quarterly data

Source: Institut de la statistique du Québec

For the first 11 months of the year, exports advanced 6.7% and imports rose 7.6% over the corresponding year-ago period. The trade surplus for this period of 2004 amounted to $614.7 million, down from the $938.6 million recorded in 2003.

Canada's merchandise exports, in seasonally adjusted current dollars declined $185 million or 0.5% in November compared with the previous month. The downturn was primarily owing to the automotive products sector, which saw their exports drop by $378 million (-5%). At the other extreme, the energy sector was particularly robust, with exports up $242 million. Still, this 4% growth was not enough to offset the export slide in October. As for Canada's trading partners, exports to the U.S. stayed the course, while those to the European Union declined $140 million.

Canadian imports also fell in November to the tune of $465 million or 1.5%. The dollar's gain over the greenback was behind the drop. In particular, imports fell 3.9% or $343 million in the machinery and equipment sector and 2.6% or $170 million in the industrial goods segment. With regards to Canada's trading partners, imports from the U.S. fell $809 million (-3.9%) and those from the European Union by $137 million (-4.2%).

The Canadian trade surplus in November was $5.5 billion, up some $280 million over October.

For the first 11 months of 2004, exports totalled $393.8 billion, an increase of 7.3% over the same period last year. For their part, imports rose 5.7% to $331.8 billion. ■

Greater Montreal economy

The Cultural development policy proposal for the City of Montreal: Guaranteed to boost creativity and competitiveness

Characterized by a rich culture and heritage, Montreal is working on acquiring the tools it needs to protect and increase this wealth by defining policies to shape Montreal's cultural development in the years ahead and to preserve and enhance its heritage.

Culture and heritage will help Montreal stand out for its quality of life. In this regard, a survey conducted in 2004 and published in the *Montreal Health Report*[3] showed that, for the most part, the business community believes Greater Montreal stands out for its quality of life and that culture plays a big role in shaping this exceptional quality.

This bustling culture is largely due to the fact that the City holds major cultural events and festivals that attract over 7 million people each year to Montreal.[4] Moreover, the cultural sector generates economic spin-offs of some $5 billion a year and 90,000 direct and indirect jobs.[5] Consequently, culture plays a big role in the City's economic development and, in our view, constitutes a true economic lever. Indeed, a recent study conducted by Statistics Canada showed that the country's average annual employment growth was 3.4% in the cultural sector, outpacing the economy overall, which advanced 2.3%[6] in 2003.

Quality of life, cultural vitality and competitiveness

When it comes to attracting and retaining talented people, quality of life and cultural vitality are clearly major factors when deciding on a place to raise a family and find a stimulating job. For this reason, the City must do everything in its power to maintain this quality of life and attract talented, creative people who will contribute to the City's vitality and development. We believe Montreal's very competitiveness against the likes of Barcelona, San Francisco and Boston is at stake.

One of the core elements of this competitiveness is precisely the image the City projects on the international scene. In this regard, the Board of Trade commends Montreal's branding initiative aimed at building a real image for itself like other major cities (such as New York with its "I love New York" slogan and its yellow taxies, or Barcelona with its "Nature and Culture") that did this a long time ago. Montreal has no choice but to create an image that will reflect its distinctiveness and position it on the world stage, namely, as a city with a particularly rich and vibrant culture. In this respect, the economic development players in Montreal, notably, the City, Tourisme Montréal and the Montreal Metropolitan Community (MMC) must pool their expertise and work together.

Greater Montreal already has major assets in this regard thanks to its many organizations known the world over, be it the Montreal Symphony Orchestra, Cirque du Soleil, the productions of Wajdi Mouawad or the La La La Human Steps dance company, to name just a few.

However, it is interesting to note that Montreal's annual investment in cultural development is $65 per capita,[7] well below the amount invested by the world's major cultural cities: for example, San Francisco spends at least $167[8] each year.

Per capita spending on cultural activities and public libraries (2003 data in Canadian dollars)

City	Population	Total per capita
San Francisco	793 600	$167
New York	3 313 573	$95
Vancouver	568 442	$85
Toronto	2 481 494	$70
Montreal	**1 862 698**	**$65**

Source: City of Montreal

3. Board of Trade of Metropolitan Montreal, *Montreal Health Report*, 2004.
4. Tourisme Montréal, *Le profil-type du visiteur à Montréal en 2002*, mars 2004.
5. City of Montreal, Montreal, Cultural Metropolis, November 2004.
6. Statistics Canada, *Economic Contribution of Culture in Canada*, December 2004.
7. City of Montreal, Montreal, Cultural Metropolis, November 2004.
8. Ibid.

Greater Montreal economy

If it hopes to join the ranks of the major cultural cities of the world, Montreal needs to better structure and organize this added value and entrench the enviable place culture holds in its economic development.

Above cultural vitality: Creativity

Known for its cultural effervescence, Montreal is a creative centre of excellence. According to a recent study conducted by Richard Florida, 32% of the jobs in the city are related to the "creative" sector, an element that helped make Montreal the second most creative city in North America[9].

While creativity comes in various forms, the Board of Trade has identified three types that merit special attention for Montreal's cultural development. First, the creativity of our City's creators and artists must be fostered and supported, both locally and internationally. Second, we believe that the cultural development players, in particular the City of Montreal, must use creativity to implement the most relevant initiatives to promote culture and find adequate means of funding. Lastly, the business community, for which the City's cultural vitality translates into a better economic environment, must itself find innovative ways to support creators and artists.

Key elements of Montreal's development policy

Of the 45 pledges in the Cultural development policy proposal, we believe that a number should be prioritized by all the cultural development stakeholders to energize this sector and ensure lasting development.

Because it is a genuine structuring project for Montreal's development, the Board of Trade is paying particular attention to the Quartier des spectacles, an initiative aimed at promoting the cultural growth of this central Montreal district by making space available to artists for their work and creations and redeveloping certain unstructured areas in the City, as well as creating a "vitrine culturelle" to make the cultural offering more accessible to residents and tourists alike.

Moreover, we believe this project provides opportunities to implement creative financing approaches for Montreal's major cultural institutions that include the City's partners: the MMC and the governments of Quebec and Canada. And, in our view, the many businesses already involved to varying degrees in the cultural sector can make a significant contribution in this regard.

Defining quantified success objectives for the Cultural policy is a particularly relevant exercise. We suggest that the future "Conseil consultatif de la culture de la Ville de Montréal" be charged with following up on these objectives. For example, the council could track the Policy's implementation and its impact in terms of the total amount invested per capita in the cultural sphere or the number of library books available and borrowed per capita.

Private business and cultural development

Moreover, a number of additional original initiatives could be put forth to encourage private business to fund cultural institutions, and cultural and artistic activities in Montreal. The following are a few suggestions to promote rapprochement between business and culture that may prove useful to the City in implementing the Policy.

The City should make the private sector understand how important it is to back cultural institutions and artists in order to ensure Montreal's cultural vitality. We believe that businesses should adopt cultural patronage as a corporate value, in the same manner as some companies implement measures to strike a work-home balance or to reduce waste.

We suggest creating an investment fund for artists and emerging companies that could be spearheaded by the Conseil des arts de Montréal. This initiative would facilitate their development and integration in the

9. The Richard Florida Creativity Action Team, *Montreal's Capacity for Creative Convergence: Outlook and Opportunities*, 2005.

Greater Montreal economy

cultural milieu. To set up such a fund, the Board of Trade suggests exploring the possibility of creating joint programs that incorporate initiatives already undertaken by organizations working in the field. The Société de développement des entreprises culturelles (SODEC), the Financière des entreprises culturelles (FIDEC), and the numerous federal government programs are all entities that could, based on their means, financially contribute to developing Montreal's cultural succession together with the Conseil des arts de Montréal.

The Board of Trade approves of the idea of creating a "forum of reflection and action" that would bring together the business and cultural communities and that could be held under the auspices of the Conseil des arts de Montréal. This body could, for instance, offer mentoring services to cultural organizations by providing access to experienced managers from the business community to help them with decision-making and the search for funding. It could also favour networking between the business and cultural communities by having business people sit on the boards of cultural organizations and vice versa, by encouraging companies to invite people from the cultural industry to sit on their board. This type of networking would, in our view, lead to beneficial business relations between these two areas where opportunities for rapprochement are all too few today.

We consider the City's plan to offer businesses "cultural menus" or "packages" an excellent way to promote Montreal's cultural productions and help support cultural institutions and organizations. These menus purchased at the beginning of the season could consist of plays, shows and admission to exhibitions that companies could buy and offer their employees or clients. They could also include shows for children, thus making them family oriented and a means of introducing children to the various forms of artistic expression.

In addition, the Board suggests exploring the possibility of implementing federal and provincial tax measures aimed at businesses and individuals alike to promote the acquisition of works of art, including public works exhibited abroad. England, through its Arts Council, has already implemented a similar program, known as OwnArt, which grants individuals interest-free loans to acquire works of art. Implementing such a program would increase the support to the artists of the metropolis and help budding artists make a name for themselves, as well as increasing the number of public works of art on the metropolitan territory when they can be exposed outdoors.

Finally, the City, with the backing of the various levels of government, could help organize exhibitions of corporate art collections, which could be shown either at the owner's premises, in museums, art galleries or cultural centres. Moreover, through its travelling exhibition program that makes the rounds of the various cultural centres on the island of Montreal, the Conseil des arts de Montréal could include collections belonging to private companies. In our view, such initiatives are excellent ways to back emerging artists and introduce them to new audiences.

In conclusion, we believe, the Cultural development policy for the City of Montreal is a milestone that will help develop Montreal's culture and promote the City as one of the most dynamic in the world. To this end, pooling the resources of the MMC and the various levels of government will be critical for the City to acquire the necessary levers to grow and earn a place among the major cultural cities of the world. In this regard, persuading the private sector to add cultural patronage to its corporate values will go a long way to helping with the implementation of the Cultural Development Policy.

Montreal is already informally recognized as a cultural metropolis; let's do what it takes to make this signature official. ■

A glance at Montreal

A Flair for fashion: The apparel industry of Montreal

By Elliot Lifson, vice-chairman, Perless Clothing Inc.

Fashion is in Montreal's heart and its apparel industry, which produces everything from casual wear to formal evening wear, is one of the main pillars of the local economy.

Many people do not realize the importance of our industry. As of 2002, the apparel industry employed over 40,000 people in the greater Montreal region, with another 18,000 in other parts of the province. Another 40,000 individuals are employed in industries that supply our industry. Montreal is now the second largest apparel production center in North America only surpassed by Los Angeles.

Our industry does face challenges, especially from global competition. On January 1, 2005, new trading rules took effect which abolished decades-old import quotas that restricted the volume of imported apparel from low-wage countries. This trade liberalization creates new challenges for our industry. How do you compete in this new environment? Apparel companies are looking closely at their production and sourcing options. At Peerless Clothing, where I and over 2,500 other Montrealers work making men's fine tailored clothing, we constantly review our sourcing and reinforce our domestic capabilities through continuous innovation.

Canadian apparel companies can compete and thrive if they concentrate on their strengths. We have the creative talent to produce leading fashion products. We have an experienced labour force and we have the domestic manufacturing and logistics infrastructure. Therefore, we can deliver the right product at the right time. We also have the ability to offer products with the right price/value relationship – not the lowest price, but the best combination of fashion, quality, consistency and reliability. Our unique competitive advantage also lies in our proximity to the U.S. market, which represents almost $3 billion in Canadian apparel export sales.

Where will our industry be in 10 years? We will be in business. The only question is where our apparel will be produced. Competitive forces will have a large say, but so too will government policy.

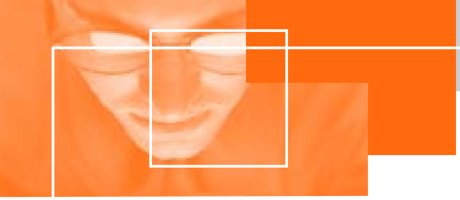
Government policy has to be in line with market realities. If it isn't, companies will be forced to move their production elsewhere. An example of a step in the right direction is the federal government's announcement in December that it would eliminate all duties on fabrics not made in this country used by Canadian apparel manufacturers. Currently, we pay up to 14% duty on fabrics not made in Canada. When duties are eliminated, domestic apparel manufacturers will be able to maintain and enhance their competitiveness despite the elimination of the quotas and the stronger Canadian dollar.

There remain, however, other policies that are discouraging Quebec firms from continuing domestic production. One example is the policy introduced by the Government of Quebec in 2004 which imposed a minimum wage of $8.00 per hour on four sub-sectors of the industry. No other province sets a special minimum wage for a specific industry. What is the logic behind singling out this industry for a surcharge on its labour costs, even as it is being confronted with greater competition from abroad?

At the municipal level, the City of Montreal must also recognize the importance of our industry and support the enhancement of the image and reputation of Montreal as a world fashion center, including supporting activities such as Montreal fashion week. If any industry deserves the support of Montreal, our city with so much fashion and flair, it is certainly the apparel industry.

The Montreal fashion industry is well positioned to compete in the post 2005 quota free world, we have the talent, but it will take a combination of continued resourcefulness on the part of the industry, and good government policies, to ensure that the industry thrives.

The support of the Board *of Trade* of Metropolitan Montreal assists the viability and competitiveness of Montreal's best-kept business secret – our innovative and competitive fashion industry. ■



Guest columnist

Montreal: Driving Quebec's growth

By Michel Audet, minister in Quebec Government

The economic vitality of Greater Montreal stimulates all the other regions of Quebec. A quick glance at a few facts suffices to illustrate the importance of the Montreal economy: nearly half of Quebec's population and jobs are found in Greater Montreal; the region accounts for 70% of the province's exports; 90% of private R&D investments in Quebec are made in Greater Montreal.

Montreal is part of a network of North American cities that are major economic sectors of excellence and that compete fiercely against each other. Montreal is not in competition with the other regions of Quebec but with the other technopoles of Canada, the United States and the rest of the world.

Although Montreal is recognized internationally for its industrial diversity, knowledge institutions, excellent quality of life and cultural wealth, a recent study conducted by the OECD ranked Montreal 44th out of the 65 largest cities in the world in terms of per capita GDP. The study asserted that on average, the gap between Montreal and the other selected regions can be explained by 62% lower productivity.

Faced with intense competition from the vibrant economies of China and India, this gap represents a major problem, particularly when combined with the rapid rise of the Canadian dollar against the U.S. currency. Innovation, R&D, ongoing skill development, access to venture capital and equipment modernization are more essential than ever if our entrepreneurs are to successfully compete on the world stage.

That said, we have all the tools we needs to speed up the growth of both Montreal and Quebec. The metropolitan region ranks second among North America's 15 largest cities in terms of university students per capita thanks to its 11 universities, including four major institutions, and its many colleges and public and private schools. In this regard, the region is outdone only by Boston, the intellectual capital of the U.S.

Moreover, according to a recent study by Research Centers Directory, Greater Montreal is ninth among the 15 largest cities in North America and first in terms of research centres. With 201 such facilities on its territory, Montreal boasts the largest research complex in Canada.

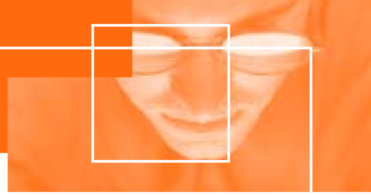
Our city also stands out for its vitality in a number of leading-edge industrial sectors. According to the high-tech innovation indicators of Montréal International, the high proportion of the population working in the aeronautics, IT and life sciences sectors places Montreal third in North America in terms of technology jobs. Moreover, as the Board of Trade of Metropolitan Montreal pointed out in its Montreal Health Report published last spring, Montreal is among the urban centres with the highest percentage of high-tech manufacturing jobs in North America.

The city has another major asset. According to Statistics Canada, Montreal has the most diversified economy in the country. Urban economies with a diversified industrial base are considered more stable and more dynamic than the others. We know that diversified cities, where new innovations are transferred more easily from one industry to another, have better long-term prospects for growth.

In short, Montreal is well placed to stimulate Quebec's economic development.

For its part, our government is working actively to develop these strengths and improve the business environment in Quebec. Since our election, we have relaxed Article 45 of the Labour Code to facilitate subcontracting, thereby adjusting our legislative framework to that of our competition. We abolished the tax on training for SMEs with a payroll under $1 million because we found this administrative burden unnecessarily cumbersome for very small companies. In terms of taxation, our government decided to address the capital tax since it is detrimental to employment, particularly in the manufacturing sector. Today, 75% of Quebec companies no longer pay this tax. And we are working to implement other measures that will promote productivity and investments.

In October, we announced the government's action plan for regulatory and administrative streamlining. In this plan, we put forth a number of measures that will reduce administrative red tape for businesses by 20% and targeted a number of administrative requirements that are repetitive and costly for companies.



Guest columnist

We also launched an electronic business services portal (www.entreprises.gouv.qc.ca) where business people can find information compiled from 57 ministries and agencies on all the steps in a company's lifecycle. Some operations are already transactional and the project should be finished by the end of 2006.

In the past few years, a number of studies have concluded that there was a dearth of private venture capital investments in Quebec. It therefore became critically important to develop a real VC offering. As such, in response to the Brunet report on venture capital, and after listening to 75 stakeholders speak before a parliamentary commission, the government changed its approach outright with a view to attracting more private capital to the Quebec economy.

The major shift in the government's role in venture capital is already bearing fruit, with VC investments increasing in each of the first three quarters of 2004 to a total $463 million or $50 million more than the first 9 months of 2003. In the last quarter alone, Quebec companies cornered 48% of all venture capital investments in the country. By no longer competing against the private sector, we have opened the door to new world-class private investors in Montreal.

It bears mentioning that the privatization of Innovatech du Grand Montréal resulted in the injection of an additional $200 million of private VC capital in Montreal. As well, the new Fonds d'intervention économique régional (FIER) will enable us to generate $520 million in new, mostly VC investments in Greater Montreal and elsewhere in Quebec.

While this is very good news indeed for our Montreal life sciences and IT firms, we must step up our efforts to encourage companies to modernize their equipment, adopt best practices, optimize their methods and develop new products. To this end, the government developed the Strategy Support for Investment Program (PASI) to help promote investment and innovation with the ultimate goal of enhancing productivity, making our companies more competitive and restructuring key industrial sectors of our economy.

We must also encourage our SMEs to invest more in R&D. These companies currently enjoy the most competitive taxation in Canada in this regard but too few exploit this potential despite the fact that R&D is essential to boosting output.

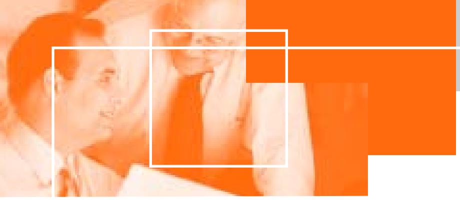
More must be done to substantially increase the number of start-ups. According to the OECD, "Entrepreneurial activity contributes extensively to innovation and adoption of new technologies and, ultimately, productivity growth. New technologies are often more efficiently harnessed through the creation of new enterprises and the redesign of existing ones, both factors dependent on the entrepreneurial environment."[10]

In terms of human capital, Montreal also has everything it needs to succeed. Not only are our academic institutions able to offer world-class education, but the city, through its industrial and cultural diversity, has the ability to attract qualified immigrants that will allow us to significantly improve the quality of our labour force. In fact, our government has already committed to increasing the number of qualified immigrants to strengthen Montreal's position as a "city of knowledge."

Lastly, the companies in Montreal and Quebec must ensure their competitiveness by constantly looking to develop new markets and, in this regard, can always count on the Quebec Government to facilitate their efforts and accompany them on trade missions such as the one last fall to Mexico.

In closing, I would like to commend the Board of Trade of Metropolitan Montreal for its *Trend Chart*, a publication that illustrates the spillover effect of Greater Montreal's vibrant economy on the rest of Quebec. ■

10. OECD, *The Sources of Economic Growth in OECD Countries* (2004)



Canada Economic Development report

Retaining qualified immigrants

Since it is clear that Montreal must attract and retain immigrants to maintain its economy, due to its low natural population growth, more focus and attention should be placed on the need to increase its proportion of qualified immigrants. In fact, the attraction and retention of qualified immigrants is a large challenge facing the city over the next few years as Montreal is falling behind other large Canadian cities in this respect.

Reality

In 2002, 43% of immigrants who arrived in Montreal held a university degree, compared with 50% in Toronto and 45% in Vancouver. Of this total, many left the city because they were not able to find employment matching that of their experience and capabilities, and because possibilities for advancement were limited. Consider this in light of the fact that the number of jobs to be filled in Montreal between 2003 and 2007 is estimated to be a quite impressive total of 336,000, or 51% of all the available jobs in Quebec. Of these, 18.4% will be in the professional sector. Presently, some employers are reluctant to open their companies and hire immigrants. The reality for new immigrants is that they are either unemployed or hold underpaid jobs that do not reflect their level of education. The statistics speak for themselves: the unemployment rate among recent immigrants to Montreal in 2001 (15.3%) was higher than that of non-immigrants (5.2%).

Need for action

To improve our productivity, and thus increase the standard of living in the city, action must be taken to reduce the effects of an aging population. Montreal's position is already declining in relation to other North American cities when measured in terms of its population. When it comes to economic competitiveness, larger urban centres can rely on a critical mass and large-scale economies to attract workers and capital, which in turn creates a threat for smaller cities such as Montreal. As well, Montreal has one of the oldest populations – according to the latest census, the average age was 37.9. These demographic issues will become increasingly important, especially since they are not a factor for certain other cities.

Between 2000 and 2002, the overall proportion of economic immigrants arriving in the Montreal region increased from 52% to 64%, bringing the city in line with other Canadian cities such as Toronto (64%) and Vancouver (62%). However, the retention rate for all immigrants who arrived in 1996 is only 90.8%, lower than that observed in the same two cities (96% in Toronto and 95% in Vancouver) . Of this retention rate, it should be noted that economic immigrants were much more likely to leave Montreal than other types of immigrants, such as refugees. It is therefore important that this situation be brought to the attention of the business community. In order to encourage the integration of immigrants into Montreal society and the city's labour market, professional corporations must demonstrate a willingness to be open and welcoming to immigrants that is noticeable through concrete measures.

An invaluable contribution

Qualified immigrants play a key role in the economic development of Montreal as a city of knowledge. They bring with them a significant contribution by raising the productivity levels and the level of qualification in the labour force. Immigration also provides companies a way to boost foreign trade and to develop commercial and cultural ties with immigrants' countries of origin, simply by exposing them to new cultures and peoples that they might have ignored in the past. In order to compete with emerging nations, Montreal must continue to develop its intellectual capacity, and immigration remains one of the best ways to attain this objective. Competition among cities to attract immigrants at both the national and international levels is becoming increasingly fierce, especially with respect to economic immigrants. Hence, the importance to convince businesses, if they themselves wish to remain in and help build a competitive city, of the necessity of attracting and, above all, keeping this new talent. ■

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