Trend Chart

Greater Metropolitan Region

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a publication of the Board of Trade of Metropolitan Montreal

Time for Quebec to make Montreal's development its own!

Exclusive partner

Canada Economic Development
Développement économique Canada

Canada

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

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Editorial

Time for Quebec to make Montreal's development its own!

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

By neglecting to specifically mention the City among the strategic priorities in its last budget, the Quebec government has once again demonstrated its "malaise" regarding our city.

Statistically, everyone knows that Montreal is Quebec's economic engine and that when it fires on all cylinders, the entire province benefits. Be that as it may, Quebec's malaise regarding Montreal is such that the government generally prefers not to mention the city as though innuendos were sufficient to fully exploit its potential.

Excluding Montreal from the government's everyday political vocabulary only adds fodder to the myth that the rivalry between Montreal and the other regions of Quebec is greater than their common interests. But the fact is we have many common interests, starting with Quebec's prosperity.

One of the unfortunate consequences of this situation is that it is becoming increasingly difficult for the governments to assess a project or make a decision based solely on its merits. All too often, rivalry for public funds taints this assessment with the result that the money ends up scattered rather than channelled where it is truly needed.

If we, as Quebecers, were to assess our economic performance from a shareholder's perspective, we would quickly realize that Quebec is not adequately leveraging Montreal. While the city may appear prosperous to us, it looks decidedly poor when compared to the 26 largest urban centres in North America in terms of per capita GDP, ranking dead last.

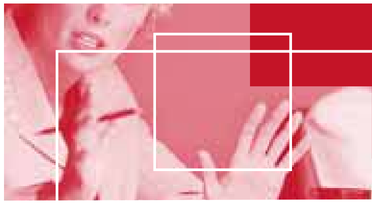
As such, the government's financial woes have little to do with the disparity of wealth between the different levels of government and more with the fact that there is insufficient wealth creation in Quebec – in large part because our economic engine is not running at full throttle.

We at the Board of Trade therefore believe the time has come for everyone in Quebec to *take charge* of Montreal's development. The time has come for Quebec to speak of *its* city in the same way it speaks of *its* provincial capital. The time has come to view Montreal as a source of collective wealth for all Quebecers, like oil is for Albertans. And one of the fundamental mandates of any Quebec government should be to get the most out of Montreal so that all Quebecers view its economic performance in the same way they view the return on their investments.

Taking charge of the city's development also means that the regions should use Montreal to shore up their own expansion. Montreal should be systematically used as the location of choice to showcase products and know-how found in the regions. What better opportunity for the people of La Pocatière to demonstrate their talent and ingenuity than by manufacturing the new generation of Montreal metro cars!

And far from viewing this as an intrusion, I'm sure Montrealers would be thrilled to see their fellow Quebecers ask more of them. Indeed, metropolitan Montreal has never challenged its contribution to the province's collective wealth and regional development. Quite the contrary: when Montreal successfully plays its role as an economic engine, enabling the Quebec government to boost its redistribution capacity thanks to the $25 billion the region contributes to its coffers, Montreal feels proud.

With all the people from the Saguenay, Gaspé, Magdalen Islands and other parts of Quebec now living in the metropolitan area alongside their born-and-bred Montrealers, the Quebecois influence on Montreal is stronger than you might think. And I'm sure that if we focused more on what we have in common and on Montreal's contribution to our collective well-being, Quebec would be more likely to make Montreal's development and resulting stature its own.



Trends and overview

United States

Clouds on the horizon

In the first quarter of 2005, the U.S. posted an annualized gain of 3.1% in real **GDP**, down from the 3.8% in the previous quarter. This slower than expected growth was largely due to waning domestic demand, which dipped to 3.2% from 4.5% in the last quarter of 2004. As well, the quarterly trade deficit shaved 1.5 points from economic growth due to a 14.7% surge in imports versus an increase of only 7% in exports.

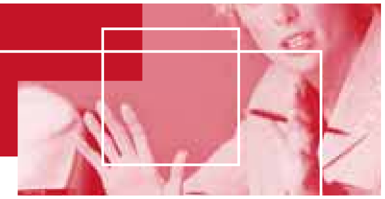
Productivity, which directly impacts GDP, advanced 3.2% in the last quarter of 2004 over 2003 on an annualized basis. The average hours worked by Americans slipped (-1.3%) in the fourth quarter compared with the same period in 2003. This boosted productivity, which has been climbing since 2002, and 2004 was no exception (+4%).

The first quarter saw the creation of 504,000 **jobs**. While the gain in March (+110,000) is the most disappointing since last July, February's figures (+262,000) broke with the downcast trend of the past several quarters but did not, however, revive fears of inflation.

Already fuelled by oil prices and a weak greenback, **inflation** has been rapidly climbing since early 2005: 3% in January and February (annual rate) and 3.1% in March, resulting in close scrutiny by the Federal Reserve. At its rate setting meeting on March 22, the Fed decided to continue with its monetary tightening policy launched in June 2004 by raising its **key rate** to 2.75%. The Committee intends to maintain this course of action at a pace that is "likely to be measured," meaning we can expect further quarter point rate hikes, which could put a damper on consumption.

At $61 billion (+4.3%), the U.S. **trade deficit** reached new heights, exceeding the previous peak of November 2004. This level is explained by an increase in imports (+1.6 %), generated by strong demand for oil and clothing and stagnating exports (+0.1 %). The U.S. has already begun to feel the fallout of the Agreement on Textiles and Clothing (ATC): imports of these products surged 62.4% in the first two months of 2005, boosting the country's trade deficit with China, which had already reached $162 billion in 2004, or more than 25% of the entire trade deficit. Washington points the finger at the under-evaluation of the yuan, which has been pegged to the U.S. dollar at 8.28 since 1994, making trade less "equitable."

In terms of the **public purse**, the U.S. current account deficit reached a record high of $412 billion in 2004, and economists expect it to reach $427 billion by year-end. Given the anticipated interest rate hikes, the debt service will soon cost more, further increasing the country's deficit. ■



Trends and overview

Canada

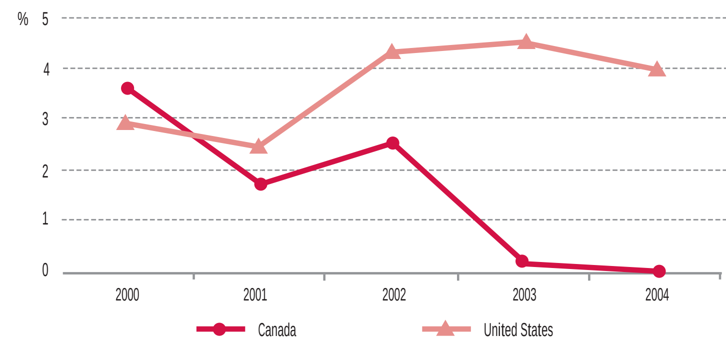
Confidence reigns among businesses and consumers

Canadian **GDP** grew 2.8% in 2004 despite a decline in exports in the third and fourth quarters. This performance was driven in part by the wholesale trade (+6.2%), retail trade (+3.9%) and, surprisingly, manufacturing (+3.9%). January also bodes well, with GDP increasing 0.2% over December on the strength of rebounding retail sales (+2.1%).

More specifically, in its monthly retail bulletins, Statistics Canada noted that **retail trade**, which slipped 1.3% in December, climbed back up in January (+2.1%) thanks to gift certificate redemptions after Christmas. At $30.4 billion, sales in February reached a record high, thanks to the clothing and accessories and automotive segments (+4.1% and +2.4% respectively). For its part, **wholesale trade** has been on the rise since October with the exception of a small setback in January (-0.2%). Its February performance (1.1%) was fuelled by the other products (+3.9%), food products (+2.6%) and machinery and equipment (+4.3%) segments. According to some analysts, **consumer confidence** went a long way to stimulating trade. In 2004, real disposable income advanced 2.4% while inflation, as measured by the Bank of Canada's Consumer Price Index, rose 1.6%, leaving Canadians with more money in their pockets and increasing their propensity to spend.

However, the picture was not quite as rosy for companies, where **productivity** recorded its worst performance in eight years, remaining flat in 2004, versus a 0.2% gain in 2003. Both economic activity, hit by the rising Canadian dollar, and the number of hours worked increased (+2.8%) in tandem for the second year in a row. If no measures are taken, these two consecutive years of stagnation could stymie growth in the short term. But, notwithstanding a strong dollar, Canadian businesses have invested in their productivity in recent months as evidenced by the 6.8% increase in **machinery and equipment imports** between November 2004 and February 2005.

Industrial capacity rose to 86% in the fourth quarter of 2004 (compared with 85.7% in the previous quarter), the best performance recorded since the peak in the first quarter of 1988 (87.2%) and indicating that the Canadian economy is reaching its full potential. Another good sign is the **resurgence of business confidence**: the Bank of Canada's latest quarterly survey shows that 44% of businesses are projecting an increase in sales over the next 12 months and 50% believe the employment level will be higher during the same period.

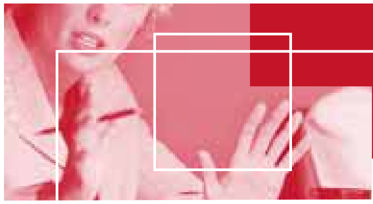


Labour productivity (output per hour worked) – Annual change

Source: Statistics Canada

On the international trade front, **exports** continued their freefall after peaking at $38.1 billion in July, a figure surpassed only in December over November (+3.6%). In the first two months of 2005, **exports** have evolved in see-saw fashion. In contrast, exports ended the year up 62% over 2003 and continued their strong performance into the first two months of 2005, advancing 8.5% in January. The **trade balance** rose 15.6% in 2004 driven by a surplus with the U.S. that offset the deficit with the rest of the world. The monthly trade balance figures for January and February are also positive.

Despite disappointing export figures in the last quarter of 2004 and an economy that is approaching its potential thanks to a high industrial capacity utilization rate and strong domestic demand, the Bank of Canada decided to keep its **overnight rate** at 2.5% in April. But in light of inflation, which is being fuelled by gasoline prices, consensus predicts an impending interest rate hike. ■



Trends and overview

Quebec

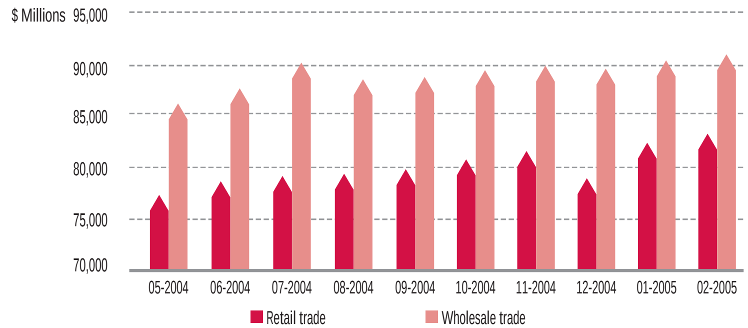
More investment in machinery

Quebec created 6,900 **jobs** in the first quarter of 2005. Although a modest gain, it's a definite improvement over the 2,600 jobs lost in the last three months of 2004. The Quebec City and Montreal regions led the way in job creation, while Bas-Saint-Laurent and Montérégie fared poorly. The good news is that these are quality jobs, with 9,900 full-time positions created and 3,000 part-time jobs eliminated.

This anaemic employment growth could affect the housing sector next year, and in fact, may have already. Despite historically low interest rates, **housing starts** plunged 17.4% in the first quarter, all the way to 2003 levels. The drag on new construction in the CMAs, particularly the condominium segment, pulled down the entire market.

It therefore looks like low interest rates have not helped the real estate market as much as consumers. Indeed, thanks to low inflation (2.2% in the first quarter), the economic climate remained conducive to consumption, which had a positive effect on **retail trade**. Trending upwards for a number of years now, this sector has been consistently registering monthly gains since April 2004. In February, annualized sales reached a peak of $83.1 billion. The **wholesale trade** mirrored this strong performance, posting record sales of $90.7 billion in February. The robustness of these two sectors helped fuel Quebec's growth in the second month of the year and in January contributed to the 1% increase in GDP over December.

Real **GDP**, which measures the total output of all the economic sectors, advanced 2.5% in 2004. The services industries (+3.4%) played a greater part in this increase than the goods-producing industries (+0.7%), which were sapped by a strong loonie. Accounting for about 20% of Quebec's GDP, the manufacturing sector expanded 1.6%.

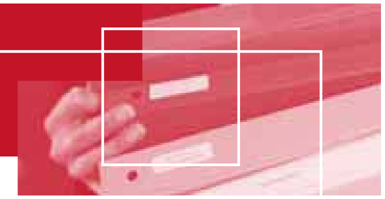


Wholesale and retail trade in Quebec

Source: Institut de la statistique du Québec

Exports finished the year up 6.8% over 2003 while imports rose 7.9%. Although 2005 started with a bang, with exports reaching $6 billion in January, they fell to $5.3 million as the quarter progresses. **Imports** were more stable, beginning the year at $5.6 billion and rising slightly to $5.7 in February. As for the **trade balance**, 2003 ended with a $593 million surplus while 2004 closed the year $35 million in the red. And although January looked promising with a $432 million surplus after seven months of consecutive losses, February once again saw Quebec back in a deficit position ($-480 million).

A 9.4% increase in investments over 2003 show that our local companies are confronting international competition head on and trying to offset the effect of a strong loonie by **modernizing their equipment and machinery**. And we may very well see this trend accelerate thanks to the measures announced in Minister Audet's 2005-2006 budget, namely, the 5% capital tax credit for investments in manufacturing and processing equipment, and easing of the tax burden by cutting the tax on capital (from 0.6% to 0.29% in 2009) beginning in 2006. ■



Our economic conditions

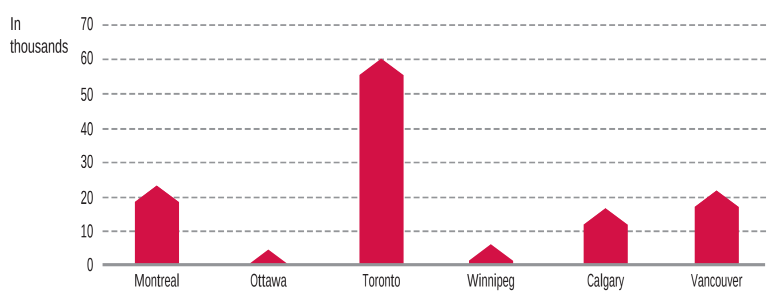
Labour market

Montreal and Quebec hold on to manufacturing jobs

Montreal fared well on the employment front in the first quarter of 2005, creating 31,400 jobs thanks to noteworthy gains in January (+23,900) and regular monthly increases thereafter in the teaching, construction and manufacturing sectors.

However, Asian competition and the strength of the Canadian dollar continued to rattle the manufacturing sector. In February, sportswear manufacturer Gildan announced it was cutting 115 jobs in March due to the abolition of textile import quotas on January 1. As well, in February, Viasystems, a manufacturer of print circuit cards, announced that it was closing its doors this summer, thus eliminating 780 jobs.

January began on a positive note, with the unemployment rate dropping from 9.2% to 8.7%. Although employment remained stable (-100) in February, the joblessness rate continued to slide to 8% as 14,200 people stopped working or looking for work. The following month, 11,000 people joined the workforce but only 7,600 jobs were created, nudging the unemployment rate up to 8.2%.



Job creation in 2004 – Canadian cities

Source: Conference Board of Canada

In **Quebec**, the first quarter of 2005 ended with a gain of 6,900 jobs, down more than 50% year-over-year (+14,000). January was rosy (+15,700) but February (-3,400) and March (-5,400) somewhat tarnished the picture. January's gains came courtesy of the retail (+11,300), accommodation and food services (+9,400) and transportation (+8,800) sectors. Most of the losses were in the segment of business services related to buildings and others (-7,400). The manufacturing sector emerged relatively unscathed (-400); in fact, it ended the quarter with 10,400 additional jobs.

The first quarter saw unemployment slip from 8.4% in January to 8.2% in March due to the creation of 6,900 new jobs and the withdrawal of 11,300 people from the labour force.

Canada ended the first quarter on a strong note with 25,300 new jobs – a significant improvement over the 2,300 jobs created in the same period last year. This growth is explained by the addition of 26,600 jobs in February, while the gains and losses in January (-5,700) and March (+4,400) virtually cancelled each other out. At 7% since December, the unemployment rate remained stable during the first two months of the year, and then in March slipped to 6.9%, a level not seen since January 2001.

During this first quarter, the job market was buoyed by the retail (+32,000) and teaching (+19,200) sectors. In contrast, the manufacturing sector eliminated 14,000 jobs. Even more sluggish, the accommodation and food services sector cut 29,200 positions, which Statistics Canada explains by the NHL strike. For its part, the construction sector showed signs of cooling off, in contrast with the boom of 2004, losing 11,000 jobs in February and 1,100 in March year-over-year.

In January, Quebec emerged as the provincial leader in job creation with 15,700 new jobs, while Ontario lost 28,300. The following month, our neighbour redeemed itself with a gain of 19,100. Overall during the quarter, Alberta (+13,500) and British-Columbia (+11,500) fared the best with regular monthly gains. ■

Our economic conditions

Housing market

Real estate growth cools off

Posting a 19.6% decrease in the first quarter year-over-year (4,416 starts), **Montreal**'s housing market is showing signs of slowing down. However, it will be recalled that last year's market was red hot: the first quarter of 2004 had a record month in March with 2,692 housing starts, the best performance since February 1989.

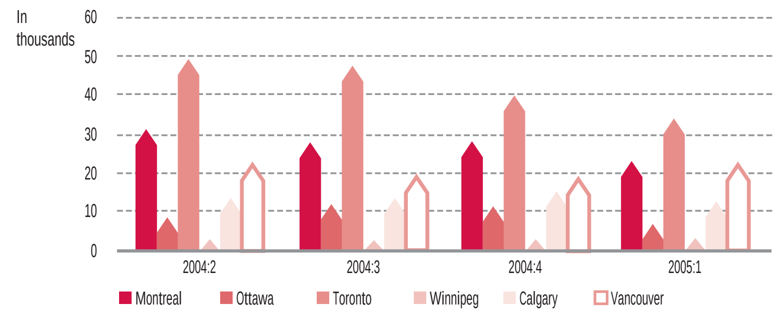
The North Shore was behind the performance in metropolitan Montreal in the first quarter of 2005. Rental dwellings stole the show with an 82% jump this quarter over the same period in 2004.

In contrast, residential construction on the South Shore and in Vaudreuil-Soulanges continued its downward spiral begun last fall[1] as a result of a sluggish labour market. For example, in Longueuil, the number of units built in February plunged 71%, from 140 in 2004 to 41 in 2005.

On the Island of Montreal, housing starts in the first two months of the year advanced 5% over the same year-ago period. March, however, was particularly sluggish with only 443 starts against 1,175 in 2004 (-62%). All types of housing were down, particularly condominiums (-39.7%).

In the first quarter, **Quebec**'s real estate market contracted in urban centres with 10,000 residents and more despite a healthy January. Housing starts tumbled from 8,412 in the first quarter of 2004 to 7,172 (-15%). February and March saw the collective dwellings segment fall 19%, particularly in the census metropolitan areas (CMAs) of Montreal, Gatineau and Sherbrooke. The CMHC was not surprised by the downturn in this segment since it had already stated that the construction pace was unsustainable.

Despite this performance, Quebec City and Trois-Rivières came out ahead this quarter. Indeed, the number of units built in Quebec City surged from 1,034 to 1,321 (+28%), thanks to increases in collective dwellings (+49%). As for Trois-Rivières, new construction was up 13%, helping boost the collective dwelling segment by 47%.



Housing starts – Canadian cities

Source: Conference Board of Canada

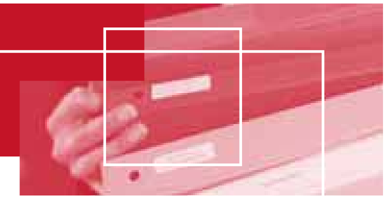
In **Canada**, the real estate boom continued for a number of reasons: the job market for people age 45 to 64 is very strong. For example, between January and December 2004, jobs in this age group increased 4.2% compared with only 1.5% for the 25 to 44 group. Moreover, an aging population means more homeowners. Finally, low mortgage rates and a strong dollar make home ownership more accessible.

On a seasonally adjusted annualized basis, the housing market began the year on a strong note. Housing starts in January remained above the 200,000 mark and reached 217,800 and 218,500 in February and March. Overall, this performance is still 5.9% lower than in the same quarter a year ago.

The rental dwellings segment posted gains between January and March (+19.2%), overtaking the individual dwellings segment in major urban centres of 10,000 residents and more, in February and March.

On a regional basis, housing starts from January to March lost ground in the Atlantic provinces (-8.4%) and Quebec (-12%) but increased in Ontario (+7.3%), the Prairies (+29.6%) and British Columbia (+23.2%). ■

1. See CMHC press release of November 8, 2004.



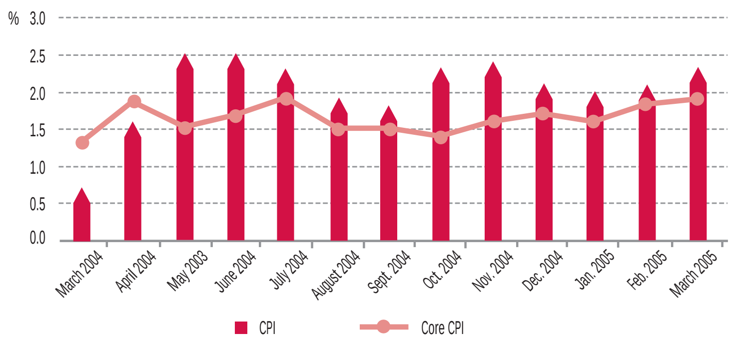
Our economic conditions

Financial market

Inflation rate

In January, the Consumer Price Index (CPI) dipped slightly over December from 2.1% to 2%. The CPI excluding energy rose 1.5% year-over-year, attesting to the volatility of energy prices. The energy index climbed 7.3% during the same period as a result of higher prices for all its components, namely, fuel oil (+20.5%), gasoline (+8.6%) and natural gas (+6.5%). The following month, the CPI climbed 2.1%, then 2.3% in March due to rising gasoline prices. According to Statistics Canada, the price of gas was the leading contributor to the 11-month increase in the index.

Created by the Bank of Canada to measure inflation, the core Consumer Price Index[2] mirrored the CPI, rising 1.6% in January. The main factors behind this increase were homeowners' replacement cost, which represents the worn out structural portion of housing (+6%), property taxes (+4.3%) and prices for restaurant meals (+2.5%). In February, higher prices for travel tours (very popular in the winter months and affected by kerosene prices) pushed up the core CPI by 1.8%. Lower prices for computer equipment and supplies (-22.1%), children's clothing (-5.9%) and women's clothing (-2.3%) tempered this inflation somewhat.



Inflation – Year-over-year CPI change

Source: Bank of Canada

Interest rates

The Bank of Canada's outlook for the Canadian and international economy published on April 12 is consistent with the forecasts presented in its last Monetary Policy Report Update of January 27. In fact, the Canadian economy continues to operate below production capacity while adjusting to major global developments such as strong demand for commodities, the frenetic pace of expansion in Asia and volatile oil prices. This explains why on March 1 and April 12, the Bank of Canada kept the overnight rate at 2.50%, a level unchanged since October 19, 2004.

In its Monetary Policy Report published on April 14, the Bank expects the economy to return to full capacity in the short term due to strong domestic demand. More specifically, the Bank is projecting annualized growth of 2.5% in 2005 and 3.25% in 2006. Stimulated by this growth, inflation is expected to reach the 2% target by the end of next year. The Bank will then probably tighten its monetary policy and raise the target overnight rate to prevent the economy from overheating.

2. The core Consumer Price Index excludes the eight components with the most volatile prices: fruit, vegetables, gasoline, fuel oil, natural gas, mortgage interest, intercity transportation, and tobacco products.

Our economic conditions

Exchange rates

The Canadian dollar continues to make the news: after reaching an annual high of US$0.8320 in March, it's been dipping ever since, losing 2.6% in one month. In fact, since early April, our loonie has posted the second worst performance among international currencies. A number of reasons explain why.

First, as an exporter of commodities such as crude oil, Canada's currency is very sensitive to oil price fluctuations. Consequently, despite the historic peak reached on April 4, 2005 at US$58.28 per barrel, the price has since slipped, taking the dollar with it.

As well, we'll probably be heading to the poles following the Gomery Commission's revelations on the sponsorship scandal. Typically averse to uncertainty, the markets have reacted by cooling their demand for Canadian assets.

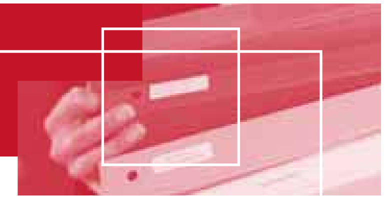
Finally, at its last meeting, the Bank of Canada decided to keep its overnight rate at 2.50% while the Federal Reserve raised its rate to 2.75% on March 22, signalling continued tightening of U.S. monetary policy in 2005 and surpassing the Canadian rate for the first time since April 2001. This makes investments in Canadian dollars less interesting and dampens demand for the loonie.

Stock markets

After the price of oil reached a record high in early April, the International Energy Agency (IEA) reassured the markets of crude oil availability. In its Monthly Oil Market Report published on April 12, the Agency announced that growth in Chinese demand for crude oil was waning and was down from an annual rate of 16.1% in January 2004 to 5.4% in January 2005. This trend continued into February: 5.4% compared with 25.8% year-over-year. Moreover, output from OPEC and other oil-producing nations was up.

As for basic metals, prices have continued to rise on the strength of global economic growth and China's voracious appetite for commodities (there's even talk of building an oil pipeline to Alberta!). But according to some economists, this upward trend is about to end because the monetary policy tightening in the U.S. should put a damper on consumption and by extension, Chinese imports. If this happens, the Canadian indices will feel the pinch much more than the S&P 500 or Dow Jones given their heavy weighting in metals, for example, 18% for the S&P/TSX.

The latest U.S. economic indicators show disappointing gains in employment in March (+110, 000 jobs); a trade deficit in February (US$61 billion); slower retail sales growth in March (+0.3%); and a hike in inflation in March (+0.6%). As expected, the markets reacted promptly to this sluggishness. Moreover, two of the three U.S. auto giants revised their profit guidance downward: GM, the biggest auto maker in the world, reported a loss of US$1.1 billion in the first quarter of 2005, while Ford, which was banking on profits of US$1.5 million now expects to close out the year without any gains. At the same time, such high-tech giants as IBM announced disappointing quarterly results, which does nothing to lift the stock markets. ■



Our economic conditions

Foreign Trade

Quebec: according to aircraft exports

QUEBEC

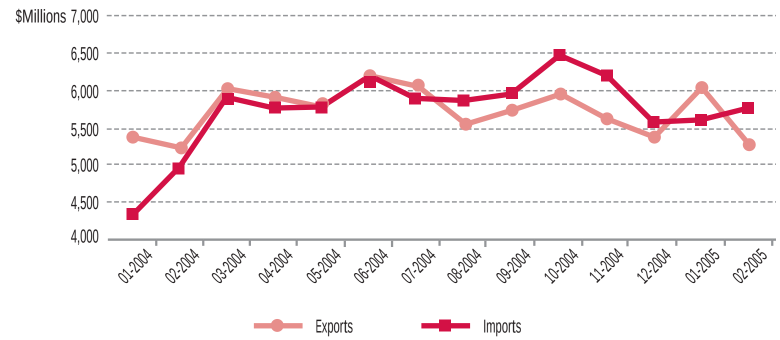
Exports started the year on a roller coaster, climbing 11.8% in January to $6 billion only to see the gains almost entirely wiped out in February with a decrease of 11.6%. January's performance was fuelled largely by aircraft and aircraft engines, where exports surged 137.5% in January to $1.1 billion. However, this increase was offset in February by a $366.8 million shortfall. Exports to the U.S. – Quebec's main trading partner – jumped 15.3% (+$649.2 million) in January, then fell by almost as much (-11.6%) the following month. Exports to China dropped in the first two months 2005 by a whopping 56.6%.

Imports inched up in January (+0.5%) and February (+3.1%). On a sectoral basis, organic chemical products (+121.7%) and crude oil (+6.7%) stole the show while passenger cars and chassis contracted 24.3%. However, this last category rebounded (+33.1%) a month later, explaining the monthly gain, which was nonetheless somewhat hampered by the drop in crude oil (-9.6%). On a geographic basis, in January, the decrease in U.S. (-$130.5 million) and Chinese (-$12.5 million) imports was compensated by an influx of goods from the United Kingdom (+$149.4 million). The following month, the increases were spurred by imports from the United States (+8.8%) and China (+9.7%).

For the first time since July 2004, Quebec enjoyed a trade surplus in January, ending the month with a gain of some $432 million. However, this performance was short-lived and just a month later, that figure had turned into a $480 million deficit.

CANADA

Exports slipped 1.2% in January to $36 billion, dragged down by a 12.3% drop in energy exports despite a good performance by the other sectors. However, this upset was offset in February when all the main merchandise groups did well, contributing to a 1.4% increase in exports. In terms of destination, U.S.-bound goods fell 2.2% in January, but picked up 1.5% in February while shipments to other countries remained somewhat stable during this period.



Foreign merchandise trade in Quebec

Source: Institut de la statistique du Québec

Imports peaked at $31.7 billion in the first month of the year, an improvement of 1.9%, which was only partially eroded by the 0.2% drop in February. January's performance was driven by the agriculture and fishing sector (+8.7%) and by energy products (+2.2%). Imports from the European Union jumped 11.6% in January and stayed the course the following month. Japanese imports also jumped in January (+28.7%) but fell back to a more typical monthly level, i.e., $844 million in February.

The Canadian trade surplus amounted to $4.3 billion in January and $4.8 billion in February. ■

Greater Montreal economy

Montreal tourism: Making the most out of Montreal's signature

Last year, almost the equivalent of Quebec's total population – 7 million tourists – visited Montreal. The economic spinoffs generated by these conventioneers, travelers and vacationers alike are a major source of revenue for Montreal businesses and merchants, not to mention the various levels of government.

Whether it's American tourists in search of European cachet in the heart of North America, or Europeans who discover a North-American city with a back-home flavour, the people who fall under the City's charm are many. With its blend of cultures, Montreal is indeed unique and it is precisely this major asset that it must exploit to attract new travellers in search of an original, attractive destination.

While this uniqueness is a definite asset, it must be combined with a quality accommodation infrastructure, a key factor in the competition for travellers. The Board of Trade therefore believes that in order to meet the needs of tourists we must pay constant attention to improving our existing infrastructures, for example, the recent expansion of the Palais des congrès, and building new ones, like a new trade centre.

Montreal's appeal and charm

Montreal geographic location is an excellent drawing card for tourists. Only a one-hour flight from cities like Toronto, New York, Boston, Philadelphia and Washington, Montreal also offers many direct flights to major European destinations.

Tourisme Montréal has compiled a list of over 400 diverse points of interest in Greater Montreal. The following table shows the most popular among sightseers.

Montreal's top ten tourist attractions in 2004

Attraction	Number of Visitors
Montreal Casino	6,251,933
Old Port of Montreal	5,523,421
Bell Centre	1,452,364
Botanical Gardens and Insectarium	964,520
Montreal Biodome	805,463
Montreal Museum of Fine Arts	382,173
Olympic Park (guided tours of the stadium, tower observatory)	291,672
Musée Pointe-à-Callière	277,548
Marguerite Bourgeoys Museum and Chapel	202,692
Musée d'art contemporain	170,117

Source: Tourisme Montréal, 2005.

3. Who stayed more than 24 hours.

Greater Montreal economy

The metropolitan area also has many smaller but nonetheless important attractions that contribute to Montreal's appeal such as the Château Ramezay and Marc-Aurèle Fortin museums and the Centre d'histoire de Montréal.

One of the City's main drawing cards on the international scene and a formidable asset is the countless festivals staged throughout the year. Some of these events have built a solid international reputation and contribute to the City's image on the world stage. The Montreal International Jazz Festival, which celebrated its 25th anniversary last year, attracts close to 2 million visitors each year, many of them from abroad and who stay for an extended period of time.

Attendance at these large festivals increased significantly in 2004 over the previous year, particularly at the Montreal International Jazz Festival and the Festival Montréal en lumière, each of which drew 100,000 more visitors than in 2003.

While there's no denying that these major events have made Montreal one of the most festive cities in North America and contribute to an exceptional quality of life, smaller events like the Festival Voix d'Amériques, Mondial SAQ or the Coupe du monde de cyclisme féminin also deserve credit in this regard.

Main Cultural and Sports Events in Montreal in 2004

Event	Number of Visitors
Montreal International Jazz Festival	1,913,800
Just for Laughs Festival	1,707,800
FrancoFolies	814,000
Festival Montréal en lumière	516,200
Grand Prix Air Canada	317,000
Canada International Tennis	166,400
Festival Nuits d'Afrique	140,000

Source: Tourisme Montréal, 2005.

Greater Montreal economy

Time to build on our strong foundation

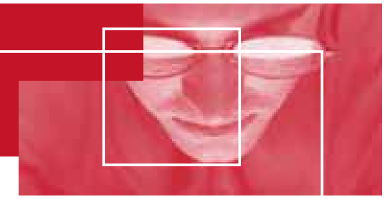
Besides being a window on the world, the tourism industry generates major spinoffs for Montreal, estimated at more than $2 billion in 2004, and supports nearly 67,000 direct and indirect jobs in the metropolitan region. However, despite these statistics, the Board of Trade is of the view that this industry needs special attention to ensure that the number of tourists continuously increases. To this end, we have identified two current core initiatives that will no doubt increase the number of visitors and tourists: the first involves improving the City's tourist offering and the second, fine-tuning its branding to promote the City on the international scene.

Initially, we think the City would do well to enhance its tourist offering and build new infrastructures to meet visitor needs and requirements. In this regard, the Board of Trade supports the Société du Havre, which suggests creating, near Old Montreal and along the Lachine Canal, a tourist centre of excellence that would include, among other things, a world-class trade fair centre as well as a hotel complex. Besides giving business people and visitors one more reason to choose Montreal, such projects would redevelop and showcase land near Old Montreal, generating spinoffs and benefits for the whole City.

The expansion of the Palais des congrès de Montréal is one example of the large-scale projects that have recently had a major impact on Montreal's development, namely, repositioning Montreal as the second destination in North America and the first in Canada for international congresses and boosting tourism by 4% last year over 2003. In fact, in 2004, 13 international congresses were held in the Palais des congrès, attracting nearly 20,000 delegates from around the world and generating economic spinoffs in the order of $40 million.

Moreover, the Board of Trade commends Tourisme Montréal's on its ambitious initiative to use branding to properly position Montreal in Canada and internationally by presenting its most important characteristics. Although many elements should be part of this brand image, we believe some are particularly representative of the City's dynamism and cultural vitality and should be included, for instance, the Festival de Musique de chambre de Montréal, the FrancoFolies, the Festival Montréal en lumières and sporting events like Grand Prix Air Canada and Canada International Tennis, all of which make Montreal the only one of its kind in North America.

Besides providing a major source of revenue for local merchants and the various levels of government, tourism contributes to economic development. Through the congresses and trade fairs held here, it also helps position the City as a major urban centre in North America. While Montreal is already highly adept at showcasing its many attributes, the Board of Trade believes the City needs to leverage its creativity to design new infrastructures and adapt its branding to capture the imagination of new tourists and entice them to visit. Lastly, in a world of intense competition, showcasing our attractions is not enough; we must strive for excellence and build the best possible infrastructures so that Montreal can join the ranks of the most popular tourist destinations in the world. ■



Guest economist

The interrelationship between Montréal and Québec's regions

By Fernand Martin, professor in the economics department of the Université de Montréal*

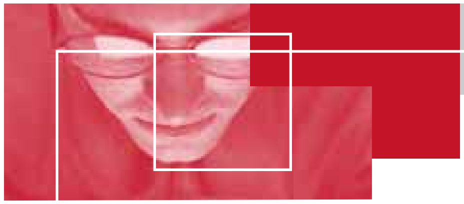
To properly understand the recent evolution (1996-2001 and beyond) of the relationship between Montréal and the other regions of Québec, we need to accustom ourselves to seeing the 17 administrative regions of Québec as comprising 4 groups:

1. Metropolitan Montreal Community (MMC);
2. The metropolitan region bordering Montréal:
   Estrie, Lanaudière (except the part included in the MMC), Laurentides (except the part included in the MMC), Montérégie (except the part included in the MMC), Centre du Québec, and the southern part of Mauricie (Trois-Rivières area);
3. Regional "capitals" and the adjoining areas:
   Québec, Chaudière-Appalaches, Outaouais;
4. Outlying regions:
   Bas-Saint-Laurent, Saguenay—Lac-Saint-Jean, Nord-de-la-Mauricie, Abitibi-Témiscamingue, Côte-Nord, Nord-du-Québec, and Gaspésie—Îles-de-la-Madeleine.

The new element in the relationship between Montréal and the regions of Québec is that (the Island of) Montréal plays two roles:[4] (i) Montréal (and sometimes the adjacent metropolitan area) provides a catch basin for surplus labour (especially highly-skilled workers) for whom there is no demand elsewhere in Québec, and (ii) then supplies inputs to the surrounding belt. The phenomenon of the rapid growth of this belt, located beyond the suburbs at approximately a one-hour drive from Montréal, has also been observed elsewhere in Canada and in the United States, where it is known as Exurb growth. This zone is characterized by commuting and outmigration from Montréal, as well as by development that is largely linked to the city. The industrial structure varies from one sub-region to the next, but consistently features a certain linkage with Montréal. For example, Saint-Hyacinthe belongs to a nexus incorporating Montréal, Longueuil and Sherbrooke,[5] forming a life-sciences industrial cluster.

Given the growth of this belt, Montréal's population would be falling (in 2004, 1.3 per cent of the residents, or 24,000 individuals, moved into the belt) were it not for the immigration from other countries and provinces that keeps the balance marginally positive. Between 1990 and 2004, 350,000 people left the Island of Montréal for the belt surrounding the city.

4. Aside from serving as the port of entry for immigrants from other countries.
5. The Université de Sherbrooke even has a satellite campus, as well as an affiliated hospital (Charles-Lemoyne) in Longueuil (Montréal metropolitan region).



Guest economist

This reciprocity in Montréal's relationship with the other regions of Québec (a receptacle for those leaving the regions and a supplier to the adjacent regions) is manifested by the geographic mobility of Québec's highly-skilled workers (HSW).

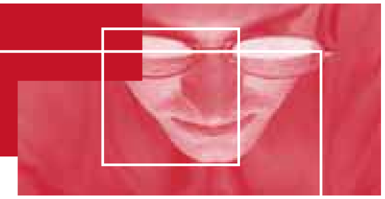
During the period 1996-2001, Montréal posted an inter-regional balance of migration of 8490 workers, 83 per cent of whom were HSW. Nonetheless, the migratory balance of the adjacent metropolitan belt (as defined above) was considerably greater, totalling 28,310 workers (Montérégie, 8,250; Lanaudière, 5,090; Laurentides, 17,140; Estrie, -135; Centre-du-Québec, 1,230; and Mauricie, -3,265), of whom 25 per cent were HSW. During the same period, the outlying regions lost 34,215 workers, 30 per cent being HSW.[6]

Thus, Montréal's usefulness in the framework of interregional relationships is found in the fact that it receives surplus workers from the outlying regions and offers them the opportunity to find work in keeping with their potential.[7] This reduces unemployment, specifically in the regions with surplus labour, but sometimes at the expense of increasing the unemployment rate in Montréal.

In this context of the new economy, the most recent sources of competition are places like China and India, among others. These are the countries that will set future global production prices and, by extension, wage levels in low-tech industries, since these new competitors will appropriate a share of the traditional manufacturing and commodities sectors. Their impact is already felt, though not yet to a great extent. We need only observe the concerns of Canadian and U.S. labour unions regarding "outsourcing" and "offshoring."[8]

For a while, it was believed that, from the perspective of the new knowledge-based economy, Montréal was no better placed than Rimouski, and that the development of the new information and communication technologies (NICTs) represented opportunities for all regions. However, time has shown that NICTs tend to reinforce another structural trend that has been operating for several decades (or even centuries): urbanization. More specifically, NICTs allow for a certain degree of decentralization of work and production units, provided they remain within zones in which occasional commuting is practical at a reasonable cost. This commuting is essential, since the access to "coded" information that NICTs make possible cannot replace access to "tacit" information, which continues to require physical proximity between individuals, and which is necessary for generating innovations.

6. The source for these calculations is CETECH (2005, vol. 7, no 1). Since there is no correction for the fact that portions of some regions fall within the MMC, there is a slight overestimation of the movements of workers.
7. Nonetheless, the departure of these workers, especially the HSW, creates a burden that "…undermines their long-term growth prospects" (according to Normand Roy of CETECH). However, as we shall see below, the advent of the new economy, the performance of which depends upon urbanization (or even hyper-urbanization) largely thwarts the potential of the outlying regions unless they find some way to urbanize.
8. A balanced view of this phenomenon is provided by Roy (2005), CETECH, vol. 7, no 1.

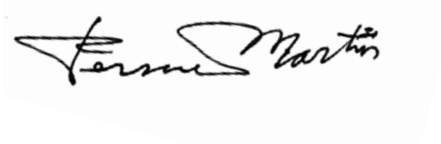


Guest economist

Consequently, and in contrast to what one might initially suspect, NICTs have the effect of reinforcing the zone of influence of large urban centres. The essence of urbanization (indeed, of hyper-urbanization) also happens to be one of the key features of what we have come to call the "new economy" or the "knowledge-based economy." Characterized by the central role played by cutting-edge technologies (NICTs and others) and advanced knowledge, "new economy" firms tend to concentrate near centres in which knowledge and innovation are produced, especially universities and research centres. Massachusetts provides a particularly eloquent example of this phenomenon. To a lesser extent, Montréal is also developing along this model—relatively consistent with the theory of industrial clusters and growth centres. However, one may always wonder whether recent technological upheavals will have different impacts in the future.

P. Cross[9] used employment to compare the recent (2000-2004) performance of industries that were "laggards"[10] during the 1990s (one may assume these are the ones that contributed to the decline of the regions, including the outlying regions) with their performance during the 1990-2000 period. According to Cross (2005), these laggards are now growth leaders in industrial employment. Thus, there is room for hope. Unfortunately, the turnaround of the outlying regions has not been very far-reaching. First, Cross measured performance across Canada, sometimes covering sectors having minimal presence in Québec's outlying regions. For example, the "mining" sector in Canada includes oil, which is virtually absent from Québec, while Québec's forests are threatened with depletion. As to the "hospital" and "construction" sectors, they are principally urban, if not specific to Montréal. All in all, it also remains to Cross to convince us that the sudden prosperity of the "laggards" is not simply a matter of the business-cycle or local conditions.

Of course, the fact that Montréal and the bordering metropolitan regions act as a catch basin of last resort for surplus workers from the outlying regions does not represent an ideal solution. But does Québec really have alternatives? It's all very nice to advocate entrepreneurship, but the objective conditions (discussed above) must also be present and favourable. ■



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9. Cross, P. (2005), "Recent changes in the labour market" in *Canadian Economic Observer*, March, Statistics Canada no 11-010.
10. The "laggard" industrial sectors Cross identifies are: real estate, mines, construction, public administration, hospitals, and retail trade.

Canada Economic Development report

Industry price controls: A deterrent to innovation

Since the early 1980's Montreal has developed as a major player in drug development worldwide placing the metropolitan at the forefront of the Canadian knowledge based sector[11]. Despite this past success, key issues threaten subsequent achievements in innovation that allows life sciences to thrive. It is therefore vital to examine these issues, in order to assure that Montreal remains a leader in drug manufacturing.

Prior to 1987, drug prices in Canada were among the highest in the world, behind only the United States, at levels 23% above medium international prices. In 1987, worried about sky-rocketing drug prices being an increasing burden on public expenditure, the federal government introduced Bill C-22 which restricted annual increases of introductory drug prices so as not to exceed levels of inflation. To counteract the negative consequence of reduced prices to the pharmaceutical companies, Bill C-91 was introduced which established patent protection with the provision that the patented pharmaceutical companies would increase R&D expenditure 10% by 1996, to foster innovation.

Since the mid 1990's Canadian patented drug prices have been consistently averaging 10% below the international levels. In fact, the real price of patented drugs has effectively declined in recent years. Between 1998 and 2002 the nominal price of patented drugs increased by 0.6% a year, well behind the average CPI rate of 2.5%. Consequently, the legislative changes which essentially enforced offering easier access to more expensive drugs combined with a more productive industry was seemingly a success. Nevertheless, recent developments have shown that this success may be unsustainable and may actually be detrimental to the well being of Canadians.

The industry is facing a decrease in research that is essential for the potential breakthrough of life improving drugs as well as for the vitality and viability of the industry. Since 1995, after peaking at 11.7%, R&D-to-Sales of all patentees have steadily declined to reach the lowest levels since 1989 at 8.8%. This in part may be as a result of the lowest year-over year sales increase since 1996 (10%). In 2003, Patented Medicine Prices Review Board (PMPRB) reported that R&D expenditure decreased from the previous year even though reporting companies increased by 4%[12].

Forced by Bill C-22 to accept lower returns on investment, companies may be less equipped to increase spending on research and development. If not rectified, the problem may lead to foregone opportunities, less valuable discoveries and lower job prospects for those areas most affected by lower research (i.e. West Island). In a report published in September 2002, Rx&D[13], a national association representing Canada's research based Pharmaceutical companies, expressed concern over the impact of drug prices on innovation. They concluded that the pricing regime in Canada does in fact delay and immobilize the outflow of drugs. This in turn suggests that the stringent price controls of Bill C-22 may inhibit Bill C-91 from achieving its subsequent goals of higher innovation. Despite the fore mentioned concerns facing the sector, the pharmaceutical industry is still a significant part of the Montreal economy. However, the industry is exhibiting signs of maturity. The underlying issue is no longer the effects of higher prices but the effects associated with lower innovation which may suggest that measures taken to improve the welfare of the Canadian population may have a counterproductive effect. The trade off to the current system is that the industry price controls may maintain lower prices for consumers but at a cost of innovation which can reduce long term welfare. ■

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