TREND CHART

GREATER METROPOLITAN REGION

VOLUME 5, NO 1, OCTOBER 2002

A TOOL COMMENSURATE WITH OUR AMBITIONS

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

Canada Economic Development
Développement économique Canada
Canada

TABLE OF CONTENTS

Trend Chart **is a quarterly publication of statistical analysis of the Board of Trade of Metropolitan Montreal produced in partnership with Canada economic development.**

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Canada Post – Publications Mail Agreement no. 40063203

EDITORIAL

An economic yardstick commensurate with our ambitions

These are exciting days for the Montreal urban agglomeration. Everywhere you look, we're building, reorganizing, planning and inaugurating. Montreal is simply hopping, and the prospects are exciting.

Amid this flurry of activity, what is especially exciting is that in itself this means that all across Greater Montreal we're trying new things and aspiring to be better... and as we all know, you can't succeed without trying.

This excitement stems from and is nurturing a growing collective enthusiasm regarding the agglomeration's future. This summer, while the New York and Toronto stock exchanges took a dive, Quebec and Montreal posted employment growth that surpassed the Canadian average. The economic slowdown that everyone anticipated at the same time last year proved to be far less painful than expected. While not everything is perfect, the fact is that Montreal is currently very optimistic. And that is good.

Organized by the Board of Trade and held on April 30 and May 1, the symposium *Montreal 2017 – A 375-Year Old City of the World* highlighted the many daunting challenges we can expect to face over the next 15 years. It is certainly preferable to approach these challenges with enthusiasm. As well, Montreal cannot hope to confront the intense competition posed by other cities – be they in North America or elsewhere – without being aware of its qualities or having confidence in its assets.

Still, optimism and confidence inevitably ebb and flow and present the inconvenience of tainting our perceptions. In this context where the agglomeration must make important strategic choices, we need additional tools to validate our impressions, specify the magnitude of our challenges and document our progress and that of our competitors. We need facts and figures that will help us guard both against complacency and defeatism.

The *Trend Chart* is one such tool. In order for it to reflect the importance the Board of Trade is attaching to this key period in our agglomeration's development and its desire to make a tangible contribution, we spent the summer enhancing its content and simplifying its analysis and access. As well, the complete overhaul of the *Trend Chart's* appearance and layout reflects our desire to sensitize an ever-growing number of people in our community to the region's economic realities and outlook and to share, more than ever before, the spirit of action that drives us.

Our goal is therefore to make a better *Trend Chart,* one that can offer us the most accurate and comprehensive portrait possible of the state of health and progress of the metropolitan Montreal economy and accurately assess the efforts still required as well as the true impact of the those already deployed.

This goal may be ambitious, but then so is our vision of the Montreal urban agglomeration's future.

Benoit Labonté
President

N.B.: To ensure your access to the most recent developments, the Board of Trade's new monthly electronic bulletin *La Cité* will include the latest statistics in a section called "Extra Trend Chart." This information, available to Board of Trade members, may be found at the following address: www.btmm.qc.ca

A GLANCE AT MONTREAL'S ECONOMY

Canada Economic Development... an essential partner for the enterprises of Metropolitan Montreal

As Secretary of State responsible for Canada Economic Development, I am delighted to be associated with the production of this new edition of the *Trend Chart,* a most timely initiative from the Board of Trade of Metropolitan Montreal.

To meet the challenges posed by our economic context and take advantage of the accompanying business opportunities, Montreal entrepreneurs need to have tools geared to this new reality. The *Trend Chart* certainly is a useful addition to this tool box.

Canada Economic Development has been a *Trend Chart* partner from the outset, and has the mandate of promoting the economic development of the regions of Quebec. To that end, the Agency focusses its action on two main areas of activity such as Enterprise development and Improvement of the environment for economic development of the regions of Quebec.

Canada Economic Development thus contributes directly to implementation of the Government of Canada's major economic priorities, particularly with respect to innovation and competitiveness. The Agency enables Montreal SMEs to obtain information, consulting services and financial support for carrying out activities in line with the preferred areas of activity.

SMEs have some major challenges to meet at a time when the global economy is changing. As you pursue this objective, Canada Economic Development is your partner. It is in this spirit that our organization joins the efforts of those men and women who invest their hearts, talent and future in developing our economy and ensuring their communities' prosperity.

Developing our economy is a job for builders and visionaries. It is a long-haul, forward-looking operation. These people may be recognized by their drive. And Canada Economic Development's goal is to back such builders, business people and executives as they carry out their projects, and to support their entrepreneurship.

My interest in economic development issues takes into account the development potential of each specific region of Quebec. In this regard, innovation, while presenting more than its share of challenges for Greater Montreal, also embodies a multitude of opportunities and advances. The adoption and dissemination of a true culture of innovation in our Montreal enterprises will be, more than ever, prime assets for our communities' economic development. That is why I am proud to see the Canada Economic Development team mobilized by this crucial issue.

Technological innovation is one of the essential ingredients in increasing our productivity. Where there is increased productivity, there is also enhanced economic growth and prosperity. It is through innovation, the cornerstone of our penetration of the international scene, that our enterprises rank among the major players on global markets.

The Government of Canada has undertaken to foster and improve small- and medium-sized enterprises' access to new technology, as well as dissemination and commercialization of Canadian innovations. It has set up several programs for SMEs in order to enhance the development and dissemination of technology.

Creating a culture of innovation and positioning the country as a world leader in that field are among the Government of Canada's major priorities for guaranteeing the country's future. Indeed, through Canada's innovation policy, on which consultations are currently being held across the country, we wish Canada to be known, within 10 years and the world over, for its culture of excellence, its innovation and its productivity, in such a way that its standard of living and quality of life will have been enhanced.

Canada's desire to innovate is already bearing fruit: from the Blackberry system to the Canadarm, via GPS technology and satellite cartography systems, Canadians' ingenuity is making a difference.

page 4 Canada Economic Development...

At a time when Greater Montreal SMEs account for a significant share of the Quebec economy, their level of productivity and competitiveness pose a major challenge. Canada Economic Development therefore intends to encourage and help SMEs undertake different improvement processes so as to be more competitive.

The development of Montreal is a major issue for the Government of Canada. We see Montreal as an essential economic, cultural and social engine in Quebec, as was indeed shown by our past activities and our commitments at the Montreal Summit. The Government of Canada once again confirms its desire to contribute, along with other players and local stakeholders, to the development, growth and outreach of the new Montreal, and this, throughout the world.

Since 1996, Canada Economic Development has supported 1,900 projects in Greater Montreal through contributions totalling $402 million. This translates into investment of some $1.4 billion, thus contributing to the creation or maintenance of close to 21,000 jobs for Montrealers. Canada Economic Development is especially proud to be associated with several large-scale projects or initiatives that have generated economic activity leading to spinoffs benefiting our fellow Canadians.

Whether to support entrepreneurs wishing to develop new markets, boost Montreal's international outreach, ensure the development of entrepreneurship or foster the adoption of new practices in innovation and productivity, Canada Economic Development is an essential partner in the economic life of Metropolitan Montreal.

I, therefore, invite you to call on our advisors at the Island of Montreal business office!

Claude Drouin
Secretary of State,
responsible for the Economic Development Agency of Canada

United States
The economy grows more slowly than expected

The American recession was deeper than originally believed. The U.S. Department of Commerce has confirmed that the U.S. economy contracted during the first three quarters of 2001. After that, a more flexible monetary policy and tax incentives set in place by the Bush administration enabled the U.S. economy to grow, in terms of **GDP,** by 2.7% in the last quarter of 2001 and by 5.0% in the first quarter of 2002. The second quarter of 2002 saw a weakening of this expansionary trend, with growth of just 1.1%. In short, the first half of 2002 reveals a shaky recovery of the U.S. economy, which may continue without increased capital spending.

Currently, **inflation** in the United States is under control, and there is no reason to fear a major upturn over the short term. Growth has slowed now that inventories are in line with sales, that unit costs are experiencing downward pressure, and salaries are increasing gradually, while a large gain in productivity keeps prices firmly in check. Since the start of 2001, the U.S. economy has clearly not fulfilled its potential in terms of GDP and is therefore far from overheated.

While not off the charts, **employment** data in the United States paints an encouraging picture. After posting thirteen consecutive months of losses, job creation finally turned the corner – producing 22,000 new jobs in May, 66,000 in June, and a mere 6,000 in July. Real wages have nevertheless been increasing for the past few quarters, clearly helping to bolster household spending.

The **unemployment** rate held firm in July at 5.9%, exceeding the so-called level of "full employment." In the coming months, the U.S. job market should post more convincing results but, once again, this will depend on the level of capital spending.

It is noteworthy that, throughout the first half of 2002, U.S. companies continued to slash expenses (through layoffs, for example), as they have since the second half of 2001, aiming to widen lackluster profit margins that were sowing dissatisfaction among shareholders. The profits of major U.S. corporations have thus grown, raising the possibility that one day they will start increasing their capital stock. That day is slow in coming, however, with managers remaining skeptical about increasing production, fearing they could be stuck with stockpiles of inventory after a too "soft" expansion. Despite improved profitability, companies are therefore slow to kick-start either hiring or capital investments.

Despite the weak employment market in the United States, **retail sales** grew by 1.4% in June and by 1.2% in July, with low finance rates for the purchase of new cars greatly stimulating sales in the automobile sector. Order books in the manufacturing sector seem to be somewhat backlogged, indicating a trend in the U.S. economy to want to bounce back more quickly.

All in all, some analysts expect the Federal Reserve to lower its **rate** this fall, after leaving it unchanged in August and seeing the publication of data indicating the slowdown will deepen in the United States.

Canada
Canada's economy continues tu perform well

Since January, the Canadian economy has turned in a very different performance from that of the United States. While benefiting from a reduction in inventories, the country's economy has been stimulated by a boom in residential construction, increased consumption of durable goods, and rising factory shipments.

The strength of the Canadian economy and the existing low interest rates will encourage the Bank of Canada to continue tightening its monetary policy in the near future. The Bank of Canada's **overnight rate** is now 2.75%. This rate is expected to increase gradually over the next few months, reaching 5% by mid-2003. If stock prices should continue to fall, however, this process could be slowed. The progress of the U.S. economy must also be closely monitored, for if the U.S. recovery is slower than expected, there could be a negative impact on the balance of trade and thus on the strength of our economy. For the moment, the gap between Canadian and U.S. interest rates and the comparative strength of the Canadian economy seem to bode well for an upward trend in the value of the Canadian **dollar.**

page 7

page 6 Canada...

Employment has surged by 326,000 jobs since the beginning of the year. Employment in Canada grew by 3.8% since January 2002, with positive repercussions on the unemployment rate, which fell to 7.6% in July after reaching a high of 8% last December. Even at 7.6%, however, Canada's unemployment rate is above what is considered to be the "natural" unemployment rate of 6.5 – 7%.

The latest data from Statistics Canada reveals that the Canadian economy has not expanded in terms of **GDP** since April. After several months of consecutive growth, including a strong push of 0.8% in April, the GDP made no progress in May. This hesitation was largely due to a slowdown of purchases not related to housing. During the first quarter of 2002, the Canadian economy grew by 6%. In the second half of 2002, the economy is expected to grow at a slower, but still steady, rate of about 4.5%, thanks to low interest rates and the strengthening of the U.S. economy.

Canada's economy is expected to grow by 3.8% in 2002, stimulated by the labour market, the housing sector, and increased capital spending. The housing sector should remain one of the major engines driving the country's economy. In 2003, Canada's economy is expected to be much more vigorous than that of its neighbour to the south. These factors bolster consumer confidence, which has grown since last fall. Moreover, **inflation,** as measured by the rate of change in the total CPI, should remain within the Bank of Canada's target range of from 1 to 3 percent, despite the considerable jump between June and July. The Bank of Canada predicts that by 2003, the Canadian economy should be approaching the limits of its production capacity, thus exerting strong inflationary pressure.

Wholesale trade remained relatively stable in June, with growth of just 0.1% stimulated by the construction sector. Despite a relatively flat sales period in June, growth remained strong in the second quarter (+2.1%). **Retail trade** was up 1.8% in June 2002, making up for the 1.1% decline in May. Despite June's strong performance, however, retail sales have not advanced much since January, which followed a four-month period of heavy consumer spending. During the second quarter, **retail sales** in Canada grew by 0.8% over the first quarter, posting the third consecutive quarter of growth. This June increase portends well for this year's third quarter.

Quebec

Quebec's economy turns in a surprising performance

Quebec is raising eyebrows with the economic vitality it has demonstrated since the beginning of 2002. Its GDP has grown by 3.1% over 2001. With predicted growth of 4.3% for 2002, Quebec ranks second behind Newfoundland, with its Hibernia oil project, which is expected to grow by 6.5%. Quebec's projected **GDP** represents an increase four times higher than that registered last year, growth due largely to the positive performance of the construction industry (both the manufacturing sector and new homes) – and company investments. Quebec's performance is all the more surprising given that its population growth is less than half that of the country. After 2002, prospects are encouraging.

Quebec is also making surprising progress on the **employment** front. With 128,000 new jobs since the beginning of the year, job creation has been exceptional – accounting for 40% of new jobs in Canada. There's just one fly in the ointment: the unemployment rate. In June, it reached 8.7%, the same as the annual average for 2001. Improved employment prospects appear to have inspired discouraged job seekers to rejoin the labour force. On the other hand, the closing of GM and the possible closing of Murdochville could soon impact the province's unemployment rate.

The **housing sector** is currently key to the province's economic growth. The real estate and home construction markets are thriving, fueled by low interest rates and high consumer spending. The prospect of rising interest rates should not impact the number of housing starts for 2002, estimated at 38,600 units – higher than the 28,000 starts last year.

Private and public investments are expected to increase by 9.6% in Quebec in 2002, compared with the 3% projected for Canada. Quebec will experience the second strongest growth in investments in the country in 2002. The launch of the public works program announced in the 2002-2003 provincial budget has had a positive impact on employment in the construction and services sectors.

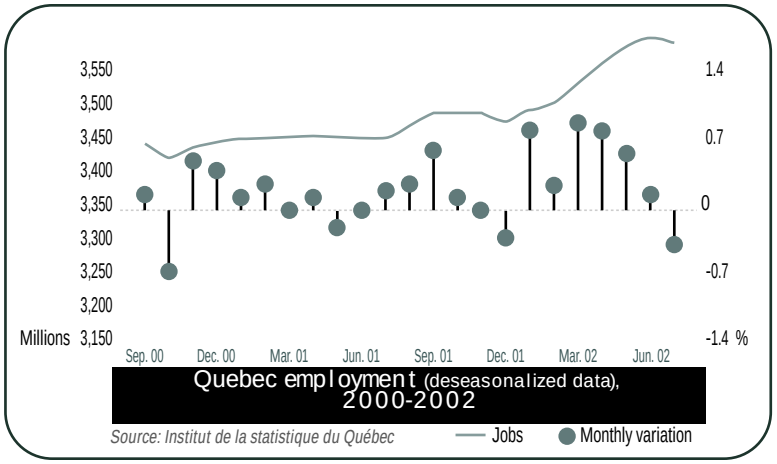
Labour market
Job growth continues

According to the most recent Statistics Canada labour force survey, the number of jobs in all categories increased in **Canada** in July for the seventh consecutive month. In all, 23,000 jobs were created in this country in July, an increase that served to consolidate gains made during the first quarter. All of July's employment increase was in full-time jobs (+35,600), while the number of part-time positions fell (-12,600). Since January 2002, employment has surged by 326,000 jobs in the country (up 2.2%), for an average monthly increase of 47,000 jobs. In Canada, employment gains were concentrated in the goods-producing sector, specifically manufacturing, which added 14,200 jobs to its work force. This sector has continued its upward trend, with factory employment increasing by 128,000 (+5.8%) since the start of the year. The uncertainty that continues to weigh on the U.S. economy could nevertheless have negative repercussions on the Canadian manufacturing sector.

Despite the positive job-creation results, the unemployment rate slightly edged up from 7.5% in June to 7.6% in July, since the encouraging economic prospects caused more people to enter the labour market in search of work. (The unemployment rate is the percentage of the active population that is seeking employment.)

For its part, **Quebec** posted a slight decline in employment in July (-15,000), after six consecutive monthly increases totaling 128,000. Losses were mainly in the retail and wholesale trade industry. Despite this monthly decrease, Quebec is nevertheless still doing well. The province has been responsible for the creation of 113,000 jobs (+3.2%) since January 2002. In any event, analysts expect this decline in Quebec employment to be short-lived.

Quebec's poor employment performance in July had repercussions on the province's unemployment rate, which rose by 0.5 percentage points to 8.7% in July, the highest level observed since March 2002. As mentioned above, this higher unemployment rate should be temporary, given that the job creation trend in Quebec should exert a downward pressure on unemployment.



Quebec employment (deseasonalized data), 2000-2002

Source: Institut de la statistique du Québec

According to Quebec's Institut de la statistique, **Metropolitan Montreal*** posted its second monthly decline since the start of 2002. After posting a net gain of 11,800 jobs in June, Greater Montreal saw a loss of 9,700 jobs. Net job creation has been 53,200 since the start of the year. As was the case for the province of Quebec, the unemployment rate in the metropolis edged up 0.4% to 8.3%.

There is reason to hope that the poor monthly performance of employment indicators in Montreal will not be repeated, since several sectors, including health, construction, and corporate services, remain vigorous.

*See page 12, in the section "Greater Montreal economy", for a more in-depth analysis of Montreal's labour market.

Housing market
Low interest rates stimulate the housing sector

Low interest rates and strong job growth have stimulated housing transactions in Canada. According to its second quarter report, The Canada Mortgage and Housing Corporation (CMHC) expects housing starts in Canada to reach a 13-year high of 182,200 units this year. Despite a slight decline predicted for 2003, housing starts should still reach 174,000 units in Canada.

In July 2002, the CMHC's seasonally adjusted annual rate (SAAR) of housing starts in Canada was down slightly from June. In annualized figures, housing starts slipped from 200,800 units in June to 200,300 units in July. Between January and July this year, actual housing starts were 27.1% higher than for the same period in 2001 (100,148 units compared with 78,811 units in 2001).

The outlook for **Quebec** is also very encouraging. The strength of the Quebec economy, low vacancy rates, and the limited number of properties for resale have had a positive impact on housing starts here, where forecasts are up by 36,600 units in 2002. Prospects for 2003 also remain positive at 33,000 units. Between June and July 2002, annualized housing starts in Quebec rose by 8.1% to 43,800 units. This was the largest increase posted since the start of the year. In concrete terms, there were 16,747 new housing starts in Quebec (urban centers with a population of 10,000 persons and over) in the past seven months, representing a 52% increase over 2001.

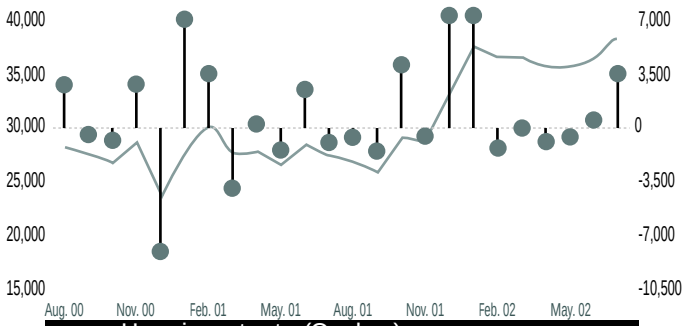
Quebec's real estate market is also booming. On a year-over-year basis, more than 70,000 dwellings have changed hands in Quebec since January. This is a net increase of 20% compared to the same period in 2001.

In **Metropolitan Montreal*,** annualized housing starts kept up the pace set in January. In July there were 18,300 annualized housing starts, down from 21,000 units in June. Since January, there have been an average of 19,200 housing starts per month. If we compare the first seven months of this year to the same period one year ago, we note that the South Shore and Vaudreuil-Soulanges are the two regions posting the highest increases in housing starts, or 55% for both regions.

In terms of real estate, Montreal is a paradise for home buyers, since the average price of a house sold here is lower than elsewhere in the country. For example, the average price of a house sold in Montreal during the first six months of the year was $139,501, compared to $274,635 – or almost double that price – in Toronto.

The resale market continued to grow in Greater Montreal in July. Despite signs of a slowdown in the first quarter of 2002 (a decrease in the number of listings and an increase in the average price), the resale market is still going strong. There were 13% more home sales in July 2002 than during the same period last year.

*See page 13, in the section "Greater Montreal economy", for a more in-depth analysis of Montreal's housing market.



Financial markets

Inflation rate

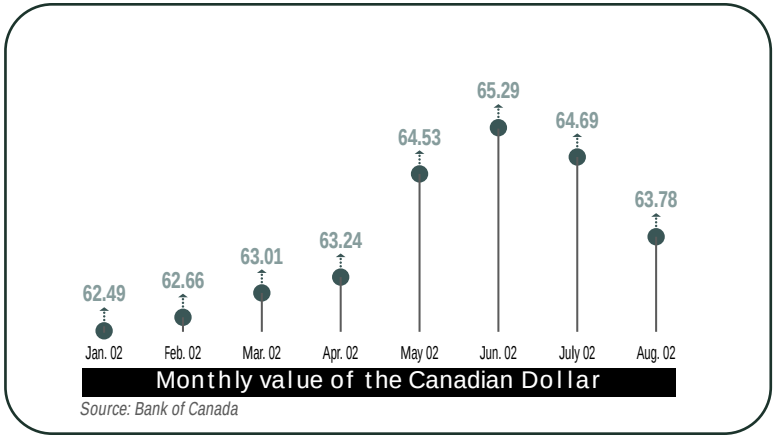
The Consumer Price Index (CPI) rose 0.5% in Canada in July, following a 0.3% increase in June. The All-items index rose 2.1% in July from July 2001. This was the largest increase since March, according to Statistics Canada. Cigarettes, gasoline, electricity, automotive vehicle insurance premiums, and restaurant food also exerted upward pressure on the CPI. Although the inflation rate is now within the target range established by the Bank of Canada, there are inflationary pressures. The Canadian economy is growing quickly and approaching the limits of its production capacity, and increased oil prices and the drought in the prairie provinces could affect the CPI in the coming months. The Bank of Canada plans to continue taking the steps necessary to achieve its inflation target of 2% over the medium term.

Interest rates

In the last six months, the Bank of Canada has increased its overnight rate three times (April 16, June 4, and July 16) for a total of 75 basis points. Currently its target for the overnight rate is 2.75%. Although, based on annual estimates, prospects for the Canadian economy are encouraging. As we go to press, it is not clear what action the Bank of Canada will take at its September 4 meeting. There are both upward and downward pressures on the Canadian economy. The Bank of Canada notes that while, on the one hand, the expansion of activity in Canada could continue to surpass expectations given the considerable monetary stimulus in the economy, on the other hand, a great deal of uncertainty is linked to recent global corporate and financial market developments, as well as the potential effects of these events on confidence and world economic growth. In addition, there is a growing gap between Canadian and U.S. rates, which is not expected to close before the fall or perhaps even next spring. The slowdown in the U.S. economic recovery led Federal Reserve Chairman, Alan Greenspan, to leave the federal funds rate unchanged in July. Canada could be affected by this slowdown.

Exchange rates

In the past seven months, the Canadian dollar increased in value, reaching a high of 66.18 cents on June 27. Since then, it has continued to trend lower, reaching 64.28 cents on August 23. The short-term movements of the Canadian dollar depend, among other things, on stock market fluctuations. The performance of the U.S. economy will, of course, have repercussions on our dollar. Specifically, the assessment of the trade deficit, the skittishness of investors following the series of financial scandals in the United States, and the monetary policy of the Federal Reserve are all factors influencing the fate of our dollar. Some analysts believe that, as a result of economic growth and interest rate increases, the Canadian dollar could be worth almost 70 cents U.S. by next year.



Stock markets

A little over two years after reaching historic highs, the major North American market indices are still undergoing a difficult period. Although there were signs of a recovery at the start of the year, the situation has been gloomy for the past few months. Many leading sectors have seen forecasts revised downward, while financial scandals continue to make headlines. Some analysts nevertheless predict U.S. stocks will rise in the coming months, as they are now clearly undervalued. Some

page 11

page 10 Stock markets...

foreign moneylenders impatiently await the return of stability to the financial markets, while others consider investing their money elsewhere than the U.S.

The freefall of stocks nevertheless seems to have leveled off in the past few weeks. This plunge in the markets could have a negative impact on economic activity, since it reduces household assets, increases the cost of capital, and limits investment, as well as undermining demand and consumer confidence. If it continues, the stock market weakness could signal a reduction in economic strength. This is not likely to happen, however, given that market indices appear to be undervalued at the moment.

Although some bargains are on the table, the loss of investor confidence seems to be discouraging Canadians from investing in the stock market, according to some Toronto Stock Exchange surveys.

Public and private investments

2002 intentions revised upward for Canada and Quebec

The intentions for public and private investments were revised upwards from estimates made in February 2002. According to the most recent Statistics Canada estimates, public and private investments in plant, equipment, and housing should jump 3% in Canada to $201.7 billion from the $194 billion forecast in February of this year. For its part, Quebec is expected to see a 9.6% increase in these investments, bringing them to $38.8 billion, up from the earlier estimate of $35.8 billion. In 2002, Quebec will experience the second strongest growth in investments in the country.

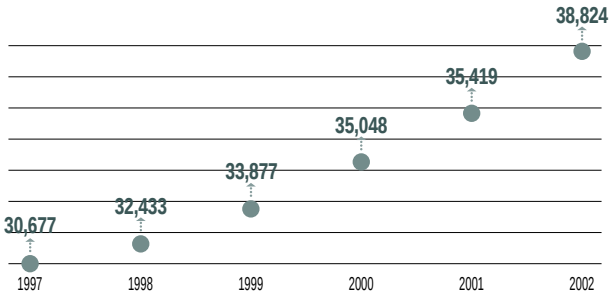
In both cases, this upward revision is due primarily to the strength of the housing market (new housing and renovations). Quebec's housing sector has seen a significant 17.6% increase, rising from $8.23 billion in 2001 to $9.67 billion this year. For all of Canada, investments in housing should increase by 11.8% to $48.2 billion, a far larger increase than the initial estimate of 1.3%.

With regard to investments by businesses, institutions, and governments, the results are less impressive, but still encouraging, given the 1.6% decrease predicted in February. Compared to 2001, the revised July estimates for the country signal a 0.4% increase to $153.5 billion.

Excluding the housing sector, investments by companies are less promising. The company CEOs interviewed by Statistics Canada expect to reduce their investments by 4.4% to $111.3 billion in response to the turbulent financial markets.

Investments by governments alone should increase to $20.7 billion this year, a 20.5% jump. In Quebec, this confirms the commitment made last fall by the provincial government to accelerate its $3 billion investment in construction projects related to health, education, and transportation. This feverish economic activity in Quebec holds no surprises for the rest of the country.

Investments in the public utilities sector should increase by 22.2% to $11.1 billion. Electricity projects in Quebec and Ontario are largely responsible for this increase.



Capital spending in Quebec
($ millions)

Source: Statistics Canada

Culture in Montreal
A project for Montreal: a Quartier des spectacles

The cultural sector is already a driving force of the Montreal economy. A project known as the *Quartier des spectacles* could enhance its vitality even more by reaffirming Montreal's cultural status. Montreal has been buzzing since last December about the formation of an artistic district that will create synergy between Montreal's main tourist attractions and the cultural establishments in the quadrilateral east of downtown, delimited by de Bleury, St-Hubert, Sherbrooke and Viger streets. The show venues would be harmonized with the urban environment, making this showcase of Montreal and Quebec culture an international tourism promotion tool for the city and a prime example of collaboration between the various parties involved in Montreal's development.

Why this location? Because, according to the Association québécoise de l'industrie du disque, du spectacle et de la vidéo (ADISQ), this is where 80% of "the Island's cultural production" is concentrated and because the area can accommodate a seating capacity of 25,000.

The recent announcements of several projects in the district gave the impetus to create the *Quartier des spectacles.* The most notable are: the Centre Spectrum, to be developed by Équipe Spectra (a cinema and theatre complex); a complex comprising a theatre and hotel by Cirque du Soleil; a new concert hall for the Montreal Symphony Orchestra; and a ticket counter. Some people believe that this is the perfect context in which to create our very own Broadway.

To this end, ADISQ – jointly with other organizations including the Corporation de développement urbain du Faubourg Saint-Laurent – will modernize the public services underground infrastructures, redevelop roads, public spaces and vacant lots in the quadrilateral, and improve access to and directional signage in the Quarter. This wave of projects will extend downtown's development to the east and further advance the concept of blending the business and cultural communities.

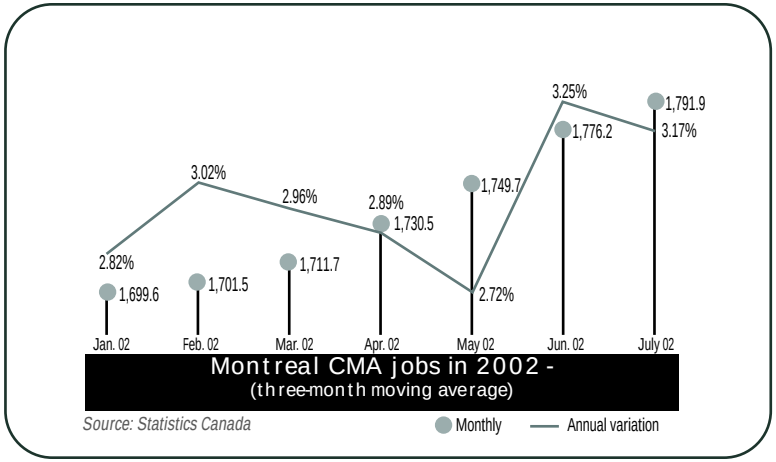
Through this project, the cultural authorities are seeking to reaffirm Montreal's status as a cultural metropolis and thus reap the spin-offs, financial and otherwise, of an urban, tourism and cultural renewal. ⁂

Montreal labour market
Positive outlook for Montreal labour market

July statistics offered a positive outlook for Quebec, and for Montreal as well judging by a Manpower survey, which shows 26% of the leaders of large Montreal companies poised to hire in the fall, compared with 24% of Canadian leaders.

Just as in Quebec, employment in Montreal continues to grow strongly in 2002, having maintained an annual growth rate ranging from 2.70% to 3.25% between January and July. This increase is owed mainly to the goods producing sector, although some services sub-sectors also deserve credit for a superior performance, namely, financial and real estate services. The growth in the latter reflects the situation observed in the housing market since the beginning of the year.

These gains have offset the slowdown in the services sector as well as in those sub-sectors most affected by the events of September 11, i.e., air transportation, truck transportation and accommodation services.



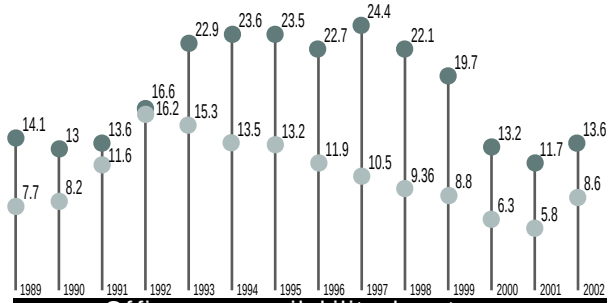
page 12 Montreal labour ...

The positive outlook for the job market in the Montreal urban area is the result of strong labour demand in the health, knowledge, high tech and manufacturing sectors. However, if Montreal is to avoid the manpower shortage currently plaguing or threatening the construction, food, accommodation and movie computer graphics industries, its education and training systems must rise to the challenge. In this perspective, it is perhaps a good idea for Montreal to rapidly forge ahead with the Université de Montréal and McGill University teaching hospitals.

Montreal housing market

Residential construction takes no break this summer

The housing market in Montreal continued its robust performance in July. The monthly survey published by the Canada Mortage and Housing Corporation (CMHC) indicates 1,456 starts for the month in the Montreal urban area, a 41% increase over the corresponding year-earlier period, bringing to 11,888 the total number of units since the beginning of the year, or a 49% increase over the same period last year.



Office space availability downtown - class "A" and "B", in %

Source: Devencore

Class "A" Class "B"

This activity is not only encouraging, it is important. At a time when rental units are in scarce supply and the resale market is booming (the CMHC projects a 6% increase in transactions in 2002 for Greater Montreal), a greater supply is one way to avoid a price explosion. With the average price of single family homes on the rise on the island of Montreal (the CMHC is forecasting a 9% gain in 2002, to $212,000), we hope the anticipated increase in interests will keep market growth at a reasonable rate, allowing Montreal to preserve its advantage of affordable housing over comparable North American urban centres.

For its part, the downtown Montreal real estate market offers good opportunities for office tenants according to Devencore. This market has been registering an increase in rental space since the beginning of the year, the greatest availability being in the Eaton building, phase I of the Cité du commerce électronique, the Caisse de dépôt building and the Olympic tower. Although these last few years have been good to owners of corporate real estate in Montreal, the trend is waning as vacancy rates rise. The 7.8% vacancy rate recorded in July 2001 for class A and B buildings combined – the lowest rate recorded in the last 10 years – seems to have been a one-time occurrence.

Montreal tourism

The 2002 summer tourist season is just winding up, but one thing is already clear: Montreal is having a good year. Unlike other major Canadian cities, which are having a more difficult time, Quebec's metropolis is doing just fine.

During the first six months of 2002, Greater Montreal had an occupation rate of 64.8%, compared with 65.6% during the same period last year. The average room price increased to $135.36, from $130.87 in 2001, while other Canadian cities saw a decrease in the average price of their rooms. The average room price in Canada is $130.14 this year, up from $124.49 last year.

page 14

page 13 Montreal tourism...

Toronto and Vancouver present a less rosy picture in terms of occupancy rates. In Toronto, the occupancy rate fell to 61.7% between January and June, 2002, compared with 66.6% in 2001. Vancouver also saw its occupancy rate fall to 59.2% from 62.8% in 2001.

Many large Canadian and American cities have fallen behind in this regard, while Montreal is holding its own. There are a variety of reasons for this discrepancy, including the range of attractions and events enhancing Montreal's tourism product and its diversified clientele. In addition, the promotional campaign waged by Tourism Montreal in spring 2002 was more dynamic – and thus more effective – than those waged by other Canadian cities, such as Toronto, for example.

In the past few years, we have seen a change in the travel habits of Europeans, who are visiting Quebec in smaller numbers than before. The number of arrivals from France was down 19% between January and June 2002 compared with the same period in 2001. This was the second consecutive decrease, since 2001 was already down 7% over 2000. The weak growth of the French GDP was partly responsible for this decline, although the events of September 11 also played their part.

Travel habits have changed dramatically since that fateful day. In Quebec, we have seen an upsurge in the number of Quebecois and American travelers. The weakness of the Canadian dollar has also boosted domestic tourims. ⁂

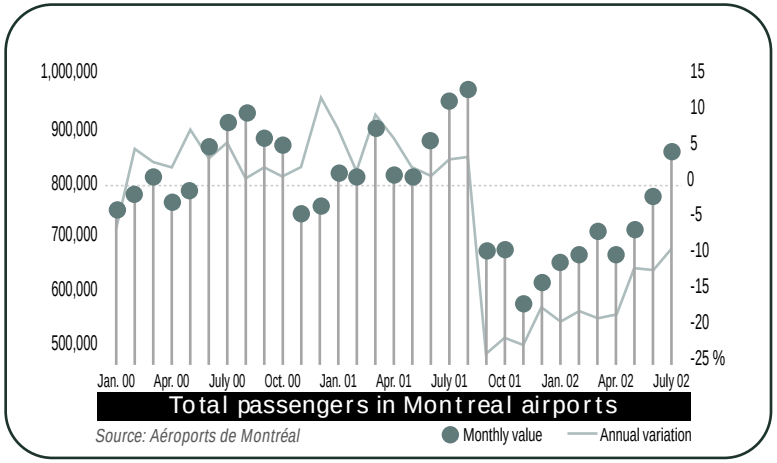
Air transportation in Montreal

September 11 has highlighted the industry's fragility

Despite the North American economic recovery, the air transport market is still suffering the blues. The attacks of September 11, 2001, are indeed responsible for some of the losses suffered by the air carriers, but not all. While the events have changed our travel habits, the air transport industry is also in the midst of major changes. A drop in traffic and substantial, often unforeseeable variable costs characterize this industry.

This past year has seen the Canadian air transport market undergo a transformation. In a context marked by decreasing traffic, bargain airlines (Tango, WestJet, Jetsgo, etc.) have surged in popularity. Following the bankruptcy of Canada 3000, which had acquired CanJet and Royal Aviation, Air Canada consolidated its presence with a 79% market share. One would think that the viability of small carriers such as WestJet, Air Transat and others would be jeopardized. But in fact, the small carriers are faring well, offering very competitive alternatives on the busiest routes.

Specifically in Montreal, air passenger traffic in Dorval and Mirabel has plummeted since that fateful day last September, dropping 23.73% in that month alone and 20.27% in the last quarter of 2001. Just like the other large cities in the world, each subsequent quarter saw passenger traffic ebb further, although this trend has diminished over time. As the graph shows, the annual drop stood at 10% in July. The desire to travel is slowly picking up, but the loss in traffic is still exerting pressure on carriers to reduce their fares. ⁂



John Manley: Important choices to make now and in the future

by Renaud Lachance, associate professor, École des HEC, and director of the B.A.A. program

Mr. Manley is scheduled to soon deliver his first budget speech. Can we expect him to announce a major change in the Chretien government's fiscal policies? Not likely. I do, however, hope that Mr. Manley will show us that he plans to manage this post-deficit period and that he understands the major role the federal government must play in the country.

From an economic perspective, budget speeches are rarely exciting, but this is a good thing. A government cannot change the way it manages the public purse and its economic philosophies every year without creating confusion and showing a lack of direction that would create concern in both financial circles and citizens alike.

The Mulroney conservatives helped balance the budget by increasing the individual taxpayer's burden and implementing broad economic policies such as the Free Trade Agreement. The Chretien liberals, for their part, helped bring the budget into line by allowing the federal government to once again take control of expenses. By taking political risks, Mr. Martin achieved his objective of a balanced budget. He did this by controlling or significantly reducing transfer payments to the provinces, employment insurance and other expenditures. At the end of Mr. Martin's mandate, the liberals tried to hide the first surplus by using it to reduce income tax across the board and trim the debt. The result is that Canadian corporate tax today compares favourably to that in the United States, and individuals in all income brackets have been enjoying significant income tax reductions for the past two years.

What choices must Mr. Manley now make?

First, regardless of what is said, the federal government will generate a surplus every year, barring a serious economic recession, which no one is anticipating. The basic surplus is currently at least $5 billion. Only a small portion of this amount should be allocated to paying down the debt. In a good economic year, the surplus could easily exceed this amount. This excess should translate into an immediate tax reduction for the middle class for two reasons: first, because they are the ones who through their spending and confidence in the economy generate the most economic growth in the country; and second, they are also the ones who contributed heavily to fighting the deficit and they deserve their money back. If Mr. Manley elects to spend this surplus on social programs, the federal government must do so through the provinces. This is not because health and education are provincial jurisdictions but because there is no significant efficiency to be gained by having the federal government involved in the delivery of public services in these sectors.

Restoring financial health affords each level of government an opportunity to reflect on its role in the economy and in society. The federal government does not play the same roles as the provinces. The role of a central government in the economy should lead Mr. Manley to use its financial resources for broad economic policies aimed at increasing productivity and reducing the cost to business arising from international accords such as Kyoto and to offset the transition costs in changing industrial sectors.

Another key role of the federal government is to distribute wealth in the country. This issue will become more important in the next few years as the richer provinces step up tax competition and increase financial incentives in their bid to attract companies to their territory. Only the federal government can ease this situation by improving the distribution of wealth through, among other things, the transfer payment program. To this end, this program must be reviewed and improved.

Mr. Manley will perhaps not tell us anything very different in his first speech, but he must show us if the federal government intends to assume these major roles. Although doing so may alienate this level of government from partisan politics and the media, it would place it on par with central governments in other countries evolving in a highly competitive world. ※

MONTREAL: ON THE ROAD TO BECOMING A SMART CITY?
THE SPREAD OF NICTs

The shift to new information and communications technologies (NICTs) is opening up new opportunities in education, training, business, culture and municipal affairs. The "smart city" concept is becoming increasingly important for all players in the Montreal area. A smart city is [translation] "a regional unit, ranging from a large neighbourhood to a regional entity of considerable size, in which residents, organizations and government bodies use NICTs to transform their local and regional systems to a significant degree. The process requires co-operation among the private, public, educational and civic sectors, as well as mobilizing citizens to make them active members of the community who are capable of contributing to its collective intelligence."[1] This synergy helps improve the quality of life and strengthens a city's power of attraction.

ISSUES

The Montreal area can exploit its extensive expertise in NICTs to speed up the shift to new technologies. This is an important challenge. The number of households with Internet access is lower in Montreal than in other major Canadian cities, such as Toronto and Vancouver. It has, however, risen rapidly and has caught up to the Canadian average. In 2001, almost one half of Montreal-area households were connected to the Internet.[2] As citizens get on-line, they are better equipped to exert pressure on all levels of government for access to information, to share opinions and to perform on-line transactions. The City of Montreal already offers some on-line services, but to become a smart city, it needs to catch up with other North American cities when it comes to providing round-the-clock access to public services, primarily through interactive and transactional Web sites.[3] Municipal governance will also have a role to play in bringing people together by facilitating the creation of knowledge-based networks.

OUTLOOK

Smart cities such as Boston and Indianapolis are redefining the standards. They offer residents and businesses an array of on-line transactional services, 24-hour communication with the mayor's office, and citizen surveys. As part of the development of smart cities, the creation of regional portals linking municipalities and everything they offer is being contemplated. These would offer citizens one-stop service and a complete international showcase. At the same time, networked communities (or virtual communities), supported by electronic applications, will become increasingly common. It is expected that NICTs will continue to play an important role in driving development in the coming years.

By Dany Provençal, Canada Economic Development
With assistance from Caroline Ranger, Canada Economic Development

[1] Source: Centre francophone d'information des organisations (CEFRIO), *Réseau cefrio : La cité de demain.*
[2] Source: Institut de la statistique du Québec, statistics on ICT use, 2002.
[3] TechnoVision Montréal, *Rapport annuel 2001.*

Success factors for smart cities:

- EDUCATING AND TRAINING KEY PLAYERS AND USERS
- ANTICIPATING AND MANAGING WORK FLOWS AND PROCESSES related to networking, portals and single windows
- DEVELOPING A CULTURE OF CO-OPERATION BETWEEN LOCAL PLAYERS AND BETWEEN REGIONS
- GETTING THE COMMUNITY INVOLVED BY USING LOCAL INTERMEDIARIES (community groups, social movements, business clubs, associations)
- PROMOTING AN APPROACH FOCUSSED ON LOCAL CITIZENS' NEEDS
- FOSTERING CONVERGENCE BETWEEN PUBLIC POLICY AND GOVERNMENT PROGRAMS
- DEPLOYING EFFECTIVE HIGH-SPEED INFRASTRUCTURES

Source: Centre francophone d'information des organisations (CEFRIO), Réseau cefrio : La cité de demain.

Erratum: In the June 2002 issue of the Trend Chart, the byline for the CED report was incorrect. It should have read "By **Sébastien P. Poirier,** Canada Economic Development – in collaboration with **Sylvain Laurendeau,** Human Resources Development Canada.