TREND CHART
GREATER METROPOLITAN REGION

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EVERYTHING TO SUCCEED!

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Chambre de commerce
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of Metropolitan Montreal

Canada Economic Development
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Canada

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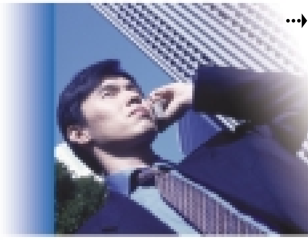

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Publication director
Isabelle Hudon

Writer
Annie Vallières, economist

Editing and coordination
Madeleine Murdock

Contributors
Alain Dubuc, *Le Soleil*
Sébastien Paquet-Poirier, *DEC*
Frank Zampino, *Ville de Montréal*

Design and production
Talengo design inc.

Printer
Reprotech

Also available on the Board of Trade's Web site at: www.btmm.qc.ca

5 Place Ville Marie, plaza level
Suite 12500, Montreal QC H3B 4Y2
(514) 871-4000

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EDITORIAL

An invitation to take on major challenges

To our great surprise, the first meetings of the Montreal Metropolitan Community (MMC) on October 10 and 11 hardly sparked any media interest. Yet this official meeting of the MMC's administration with 63 mayors from the region and Minister André Boisclair had – if not in its form, at least in its content – all the makings of an interesting gathering: the presentation of the analysis prepared by the firm Daniel Arbour et Associés that will form the basis of the MMC's strategic vision and economic development plan.

Are we afraid of bad news?

There is no denying that this analysis, which is available online*, is not very comforting, because it shows the Montreal agglomeration lagging well behind its principal North American competitors in certain indicators, notably, our *per capita* gross domestic product, which ranks dead last out of the 26 agglomerations studied. Boston, the agglomeration in the group closest to us geographically, is the furthest ahead of us, with a *per capita* GDP three times our own: US$73,000 against US$27,000.

For the Board of Trade of Greater Montreal and its 7,000 members, in this case, no news does not mean good news

We are also disappointed that the content of this analysis remained largely within the hands of insiders. In our opinion, the fact that the MMC study has now been made public is in itself good news.

We often lack the critical data required to measure our economic performance in the real competitive environment in which operate, in other words, North America and the world, and not strictly Quebec or Canada. This sometimes lulls us into complacency.

Complacency, however, is not conducive to progress.

Consequently, the fact that Mayor Gérald Tremblay is associating himself with this particularly harsh report on the economic performance of the Montreal region inspires confidence and optimism rather than defeatism. Indeed, there's no longer any doubt that the challenges before us are huge and that we have to act right now. In this regard, this is essentially good news for the business community.

As the MMC report highlights, faced with pressing needs to substantially improve the standard of living in the Montreal agglomeration and increase our companies' productivity, our initiatives must, more than ever before, be creative, coherent and cohesive. As well, it would simply be irresponsible not to question our ways of doing things, especially the government's and the business community's roles in supporting economic development. And it is precisely in this spirit that we invited Alain Dubuc to share his thoughts on the issue (read his column, page 16).

Ultimately, the MMC study calls upon us to take on major challenges. If the Board of Trade expects us to be harsh towards, and demanding of the metropolitan economy, it is because we firmly believe that the Montreal agglomeration has both the maturity and potential to succeed.

And regardless of the nature of the news, the Board of Trade's Trend Chart will continue you to keep you informed.

Benoit Labonté
President

* See the Montreal Metropolitain Community Web site at:
www.cmm.qc.ca/publications/documentscmm/index.asp

N.B.: To ensure your access to the most recent developments, the Board of Trade's new monthly e-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.ccmm.qc.ca

TRENDS AND OVERVIEW

United States

A lacklustre economy

Although the U.S. economy has been showing signs of a slight improvement since our last publication, its performance remains overall rather ho-hum. The demand indicators are much more significant than those on the supply side given the heavy spending of households, which are relying on a still very friendly monetary policy. In light of the current geopolitical risks, the stagnating job market and unsteady stock markets, all signs point to the Federal Reserve maintaining its **key rate** for the remainder of the year or even reducing it if the indicators paint a less than rosy picture.

Unquestionably, the **housing sector** is the one bright light in an otherwise lacklustre economy, acting as a key economic engine since the beginning of the recovery that began at the end of 2001. Many households have capitalized on low interest rates to build a new home as recent statistics confirm: housing starts in September reached their highest level since 1986, with 1.8 million new units. The effect on price has also been clear according to the leading indicator of the Office of Federal Housing Enterprise Oversight. This agency, which tracks housing prices, has reported stunning increases since 2000, more specifically, an annual increase of over 6% for Q2 2002. Although the percentage change in the housing price index has slowed down for the past few quarters, such an appreciation in price clearly contributes to increasing the wealth of households overall, and the spin-offs on consumer spending are significant; this is commonly referred to in economic jargon as the wealth effect.

The flexible monetary conditions have also bolstered the **automobile industry**, which recorded its best quarter of the year, selling an average of slightly over 17.6 million light vehicles (seasonally adjusted annual rates). Zero percent financing has prompted consumers to buy earlier and the repercussions are being felt in all the related sub-sectors. The debt level of households quick to take on loans and their debt service in relation to their disposable income are matters that should be closely monitored. It is worth noting that despite the rising debt level, this ratio has improved since the beginning of 2002 when Bush implemented broad-based tax relief measures.

At first glance, the latest **employment** statistics seem somewhat ambiguous if we look at the household survey versus the establishment survey, the one on which analysts place more stock. The first shows an increase of 429,000 jobs in August and 711,000 in September, as well as an unemployment rate that slipped from 5.9% in July to 5.7% in August and to 5.6% in September. The second, more reliable because it polled 375,000 companies, reveals a more moderate gain of 107,000 jobs in August and a decrease of 43,000 in September. Overall, nothing signals that companies are ready to significantly increase their workforce: they already have sufficient under-utilized resources to meet a short-term increase in demand. For example, the **production capacity utilization rate** was 75.9% in September, well below the optimal rate of 82% to 84% associated with full employment. Another sign that companies are not preparing to boost production is the ISM index (Institute for Supply Management) for the manufacturing sector, which stood at 49.5 in September. Normally, 50 is the cut-off between a contracting economy (below 50) and an expanding economy (above 50).

It's clear that households are fuelling a good part of the current growth and amazingly, seem prepared to spend and even go into debt despite a **confidence level** (a measurement calculated by the University of Michigan) that is relatively low when compared with that of recent years (86.1% in September compared with 107.6% and 89.2% in 2000 and 2001 respectively). For their part, companies are waiting for clear signs to justify hiring and investing in inventory and fixed assets.

Canada

The Canadian economy continues to outpace its American counterpart

The growth of the Canadian economy continues to outperform that of the United States and the other G7 nations, aided by the Bank of Canada's monetary policy, which continues to fuel the growth of the housing and automobile sectors.

The latest figures show **real Canadian GDP** growth of 6.2% and 4.3% (annualized variation) for the first and second quarters of 2002. The solid gains recorded in these two quarters are a significant improvement over the corresponding quarters in 2001. On a monthly basis, this is the tenth consecutive time **GDP** has advanced, to $977.9 million (+0.4%), or an annual growth rate of 3.4%, against 1.5% last year. After a weak June, the manufacturing sector was responsible for much of this monthly growth due to greater demand for Canada- and U.S.-bound automobiles and trucks.

TRENDS AND OVERVIEW

Employment growth continued to trend strongly upward, resulting in the creation of 41,000 jobs in September and 427,000 (+2.8%) since the beginning of the year. The manufacturing and construction industries are both being fuelled by strong consumer spending. Despite the loss of 17,000 manufacturing jobs in September, the industry remains a hotbed for employment for 2002, with 132,000 (+5.9%) new jobs created. This year, manufacturing jobs in Canada contrast sharply with the situation south of the border (-2.4%).

Low **interest rates** continue to stimulate consumption and investment in machinery and equipment, fuelling **wholesale trade** since the beginning of the year. This sector advanced 0.7% in July over June, thanks to the hardware, software and automobile industries. The same holds true for **retail trade**, which has advanced 1.4% since January, despite slipping 0.3% in July, stimulated by automobile sales. Remaining high in the second quarter, **industrial capacity** was 83.2%, the highest rate in the past 12 months, thus confirming increased investments in machinery and equipment.

At the last two meetings of the country's monetary authorities, the Bank of Canada did not budge; however, it claims it will once again tighten **monetary policy** in the near future. Such a move would widen the spread between the Canadian and U.S. key rates to the benefit of the Canadian dollar, which has been battered since the beginning of 2002. The increase in **inflation rate** (+2.6% in August) remains a concern for the central bank.

Quebec
The province forges ahead with its growth

For the first two quarters, Quebec's **gross domestic product** advanced 3.4% over the corresponding period in 2001. In July, the province's GDP inched up 0.3%, the ninth increase in ten months. For the first seven months of 2002, the increase was 2.9% over the same period a year earlier. Quebec has been outperforming the Canadian GDP, which advanced 2.1%. Just as for the rest of the country, Quebec's economy is being driven by consumption (wholesale) and housing (residential construction).

According to the Institut de la statistique du Québec, the **wholesale trade** has grown 6.2% since the beginning of 2002. This robust performance continued in July with a gain of 1.1%, the fourth increase in as many months. Once again, this industry is sustained by the booming construction sector (sales of wood and construction materials). However, **foreign trade** is not faring as well, with exports declining 3.2% from January to July over the same period last year. The provincial trade balance (with the world) in Q2 2002 remains positive at $1.44 billion. With the United States, Quebec continued to be a net exporter of over $8 billion in the second quarter. The trend with Europe and Asia, however, is the opposite, with Quebec being a net importer of $4.6 billion in goods. All things being equal, Quebec is faring well in foreign trade, all countries combined.

For its part, the **housing market** continues to benefit from low mortgage rates, a strong job market and low rental vacancy rates. The number of housing starts in the past few months in Quebec has been higher than the monthly average in 2001, reaching 45,800 in September (annualized value). The resale market has also been contributing to the vitality of the housing market. For some time now, the resale market has been considered a seller's market (demand exceeds supply), explaining the rise in the average price of homes these past few months and even years. It is this scarcity and the increase in housing prices that have been driving residential construction.

Employment in Quebec continues to hum along despite downturns in July and August. Jobs expanded by 3.3% (+116,000 jobs) since the beginning of the year, another factor playing in favour of the housing market: more employed young people, combined with low rental vacancy rates and good monetary conditions facilitate access for first-time buyers.

OUR ECONOMIC CONDITIONS

Job market

Continued employment growth

According to the Conference Board of Canada, **Metropolitan Montreal** is Canada's job-creation champion. During the first six months of this year, Montreal monopolized first place with the creation of 45,500 jobs, primarily in the commerce, services, and construction sectors.

During the third quarter, with an increase of 5,000 jobs, Montreal lost its leadership position to Vancouver. Still, despite these somewhat disappointing third-quarter results and the layoffs announced by GM, Bombardier, CAE Electronics, Pratt & Whitney, and Nortel, Montreal's overall job-creation performance has been exceptional in 2002 – at least double the Canadian average – making it the envy of the country's 25 largest urban centers[1].

According to Institut de la Statistique du Québec, jobs created in Metropolitan Montreal rose by 7,400 jobs in August, and 2,500 in September. But since an even greater number of people entered the labour market in the hope of finding work, Greater Montreal's unemployment rate jumped in September for the third consecutive month, to 8.5%. Still, Montreal's employment rate – the percentage of the active population that is employed - remained stable at 61.6% in September. For 2002, the overall average employment rate is 61.4%.

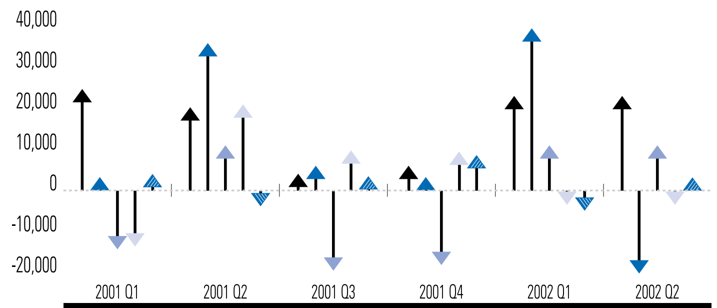
According to Emploi-Québec, employment prospects in Montreal over the coming years (2001-2005) remain encouraging. Overall, 267,300 jobs will have to be filled during this period in metropolitan Montreal, particularly in sectors requiring occupational, technical, and management skills. This number represents 45% of all jobs to be filled in Quebec, resulting largely from retirement and anticipated economic growth.

In **Quebec**, the number of jobs grew by 9,000 in September, for a total increase of 116,000 since the start of the year. Although 21,000 jobs were lost during July and August, more than 27% of all new jobs created in Canada since January were in Quebec. The jobless rate repeated its August performance, edging down 0.1 percentage points to 8.4%. Despite improvements to Quebec's unemployment rate, our province is still home to 329,000 unemployed, or 25% of the Canadian total.

The results of the Statistics Canada Labour Force Survey for September provided additional cause for celebration. In **Canada**, employment continued to grow, with a net increase of 41,000 jobs, all in part-time work (+46,000), offset by a loss of full-time jobs. So far in 2002, employment has grown 2.8%, with gains totaling 427,000. Despite the strong showing of the manufacturing (+5.9%) and construction (+5.3%) sectors since January, results in September were slightly off. Manufacturing dipped by 16,900 jobs, while the construction sector remained unchanged. September's strong employment growth was due largely to the solid performance of the service sector – transportation and warehousing (+30,300) – and health care and social assistance (+20,300). The manufacturing, information, culture, and recreation sectors, on the other hand, lost a total of 52,600 jobs.

Despite the employment gain, Canada's unemployment rate rose to 7.7% in September, as more people entered the labour market in search of work. The participation rate (the percentage of the population 15 years of age and older participating in the labour force) continued to trend upwards to 67.2%, the highest rate in over twelve years.

Finally, with regard to **Canada's five largest city-regions**, members of the C5[2], employment was in line with the performance of the various key sectors. The graph below illustrates the employment patterns in these cities.



JOB CREATION IN THE C5 CITIES

Source: Conference Board of Canada

[1] The 25 urban centers are Calgary, Chicoutimi-Jonquière, Edmonton, Halifax, Hamilton, Kitchener, London, Montreal, Oshawa, Ottawa-Gatineau, Quebec City, Regina, Saint John, Saskatoon, Sherbrooke, St. Catharines-Niagara, St. John's, Sudbury, Thunder Bay, Toronto, Trois-Rivières, Vancouver, Victoria, Windsor, and Winnipeg.

[2] A forum of mayors representing Canada's five largest regional centers (Calgary, Montreal, Toronto, Vancouver, and Winnipeg) working together to revitalize Canadian cities.

OUR ECONOMIC CONDITIONS

Housing Market

Residential construction continues to hum along

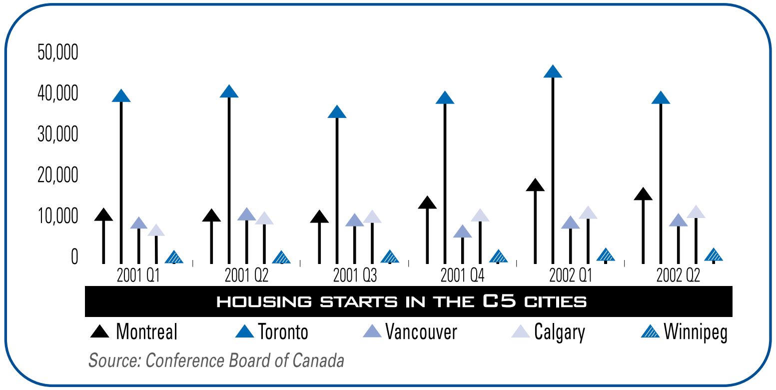
In September, multiple starts, and more specifically rental units, dominated construction activity in the **Montreal urban agglomeration**. According to the Canada Mortgage and Housing Corporation (CMHC), "Residential construction in Montreal is on the way to recording its best performance in the past 11 years." In the metropolitan Montreal area, housing starts (SAAR)[3] returned to their average growth level, with 22,800 new units in August and 23,800 in September. Year to date, the South Shore and Vaudreuil-Soulanges are still posting the strongest growth, with housing starts accelerating 81% and 64% respectively.

At the provincial level, **Quebec** is maintaining a steady growth pace in construction, with **Greater Montreal** accounting for more than half of all housing starts. For obvious reasons, the summer months account for a greater number of new units on average than the remainder of the year. Annualized starts totalled 45,800 units in September, a slight decrease from the 47,100 recorded in August. On an annual basis, January to September saw 42,200 housing starts, 75% of them in the province's major urban centres.

According to Statistics Canada, the total value of building permits rose 15.7% to $5.8 million in Quebec for the first eight months of the year over the same interval in 2001. The corresponding figure for Canada rose 2.1% in August over the previous month to $4.0 billion as the result of a buoyant residential sector. Primarily owing to the solid performance of this sector, the total value of construction permits (residential and non-residential) in the country reached $30.6 billion from January to July inclusive. While this strong showing was widespread across the provinces and territories, Quebec and Ontario set themselves apart with respective increases of $3.4 billion and $8.9 billion in residential construction permits, together accounting for two-thirds of the value of all residential permits issued in the country.

Still fuelled by low interest rates, a robust job market and low vacancy rates, the housing market in **Canada** continues to expand despite a downturn in September. According to the CMHC, housing starts decreased by 6.6% that month to 200,600 (SAAR), against 214,800 in August, largely owing to a decline in multiple starts. Q3 2002 saw housing starts increase by 9,500 units in Canada, 8,700 of which were concentrated in large urban centres.

According to the Conference Board of Canada, the housing market in the C5 city-regions is also affected by low interest rates. The graph below shows housing starts in the C5 cities.



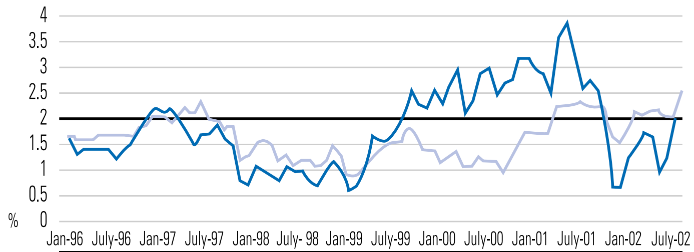
[3] Seasonally adjusted annual rates.

OUR ECONOMIC CONDITIONS

Financial market

Inflation rate

Canada's inflation rate—a calculation of the average price increase in a given month in relation to the corresponding month a year earlier—stood at 2.6% in August, after rising 2.1% in July. For its part, the core consumer price index, which is the overall CPI minus its eight most volatile components (fruits, vegetables, gasoline, fuel oil, natural gas, mortgage interest, intercity transportation and tobacco products) reached 2.5% in August, its highest level since September 1995. In August, increases in the price of cigarettes (+40.2%) automobile insurance premiums (+15.5%) and electricity (+13.0%) exerted the highest upward pressure on inflation. Conversely, the decrease in the cost of natural gas and mortgage interest helped temper the increase. For the past two months, the percentage change over 12 months in the overall CPI has remained above the Bank of Canada's 2% inflation-control target—a situation not seen since September 2001. The Central Bank is keeping eye on the situation in the U.S., because changes in our neighbour's economic situation could influence its decisions on monetary policy.



INFLATION IN CANADA
(VARIATION YEAR/YEAR)

Source: Bank of Canada

Interest rates

Prompted by the bleak global outlook for growth and by the decrease in risk tolerance on international financial markets, the Bank of Canada maintained its key rate at 2.75% for the second time this year. Unlike its September 4 decision, this one came as no surprise to the market, and the dollar thus closed the day on October 16 at just below US63.14 cents (+0.09 cents). In its press release, the Central Bank nonetheless pointed out the Canadian economy's vigorous expansion and an inflation rate that surpasses its target of 2%. Based on this last factor, the Bank of Canada believes that monetary policy will need to be tightened "at the right time" in order to contain inflation. Aware that the Canadian economy does not operate in a vacuum, the Central Bank must closely monitor a very robust domestic economy while taking into consideration external risks that could affect it such as weaker than anticipated growth in the U.S. and conflicts abroad. Due to the influence of globalization, some experts feel that the Bank of Canada is placing more importance on the uncertain future of foreign economies than on the current vigour of the Canadian economy.

Exchange rate

Since the beginning of the year, the performance of the Canadian dollar has had prognosticators scratching their heads as the loony persists in bucking fundamental principles. While it had its strong moments in June, it continues to fluctuate below expectations despite the fact that the Canadian economy has been outperforming its American counterpart for more than 18 months. The Conference Board of Canada recently suggested that this under-performance may be reflecting a shortage of cash flow in the country. As well, geopolitical uncertainty appears to have stimulated greater demand for the American dollar, which could explain the spread in the projected trend. According to some economists, our dollar, which was valued at US63.0 cents for the first 13 business days of October, should nevertheless gain ground in relation to the ostensibly over-evaluated greenback.

Stock markets

The roller coaster performance of the key North American stock market indices since July reflects the inability of investors to form a clear idea as to the outlook for the U.S. economy. While the signals are ostensibly positive in terms of household spending, business seems still consumed with correcting their profit margins, which naturally affects employment and investment. The indices, including the Wilshire 5000 and the S&P 500, have been extremely volatile since the summer as investors actively respond to corporate results that are either better or worse than expected.

A number of analysts still maintain that the stock market is under-evaluated compared to the bond market, but the question is for how much longer. This under-evaluation may well continue for several weeks and even months if economic performance does not improve.

If stock markets continue to behave as erratically as U.S. economic data, especially that of the National Accounts[4], the roller coaster ride may last for another six months. With Q1 2002 ending with a growth rate of 5.0% in real U.S. GDP, the second with 1.2%, the third at a projected healthy 4.0% and the fourth slipping somewhat, nothing points to a clear trend with predominantly converging indicators to simplify the task of investors. We must therefore pay close attention to Q3 results and to October's employment figures since they will have a major impact on stock markets.

Foreign trade

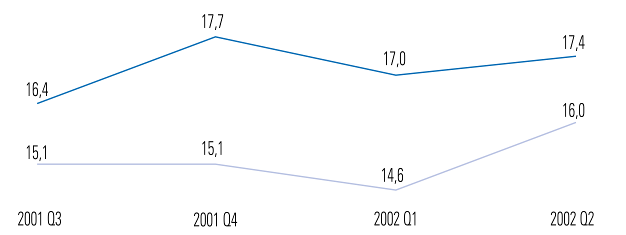
Quebec exports improve slightly in Q2

Quebec's international goods exports advanced 2.6% in the second quarter of 2002 after declining 4.4% in the first three months of the year. On a monthly basis, Quebec exports slipped 1.9% in July over the previous month (seasonally adjusted data in 1997 dollars) as a result of a downturn in some sectors, including telecommunications equipment and material (-13%), measurement instruments (-19%) and copper (-37.2%). Even the solid performance of the aviation (+20.7%), softwood (+22.8%) and printing and publishing (+27.5%) sectors was not enough to positively affect the figure. Overall, from January to July, exports shrank 3.2% over the same period in 2001.

Quebec imports, for their part, climbed 9.5% to $16 billion in Q2. More than half of this increase was fuelled by automobile and airplane purchases. Quebec imports edged up 0.7% in July, largely as a result of crude oil trade (+22.9%) with the United Kingdom. This increase, however, was not the trend for the first seven months of the year during which they fell 6.4% over the corresponding period in 2001.

In July, **Canada** recorded the strongest gains in its exports in over a year, driven by trade in raw materials and automobile products. Exports, all destinations combined, rose 3.4% to $34.9 billion over June, while imports advanced for the fourth consecutive month, increasing 0.2%, to $30 billion. July's gain stems from a strong performance by the automobile and agriculture sectors. The Canadian trade surplus amounted to $4.9 billion, an increase over the $3.8 billion recorded in June and the lowest surplus posted in the last 30 months.

According to Statistics Canada, the entire gain in exports stems from a 4.2% increase to the U.S. and is directly tied to the strength of the forestry products sector. In July, exports of forestry products jumped 4.1% despite anti-dumping penalties imposed by the U.S. government on Canadian softwood lumber exports. Notwithstanding the slowdown in recent months, the U.S. housing market continues to generate stable demand for Canadian lumber.



QUEBEC FOREIGN TRADE
(BILLIONS $)

Source: Institut de la statistique du Québec

[4] National Accounts are to governments what financial statements are to companies.

Infrastructures
The Société du Havre and its mobilizing projects

Le Havre de Montréal has for a long time been an urban space bursting with economic, recreational tourism, cultural and environmental development opportunities. In fact, over the years, the Board of Trade of Metropolitan Montreal has actively promoted the Havre Jacques-Cartier through its committees and particularly through the document entitled "Montréal, cité sur le fleuve" published in 1996. The City's elected officials have also floated such projects for a number of years. The idea finally took hold and resulted in the creation of the Société du Havre on October 3. Co-chaired by the former premier of Quebec, Lucien Bouchard, and the principal and vice-chancellor of McGill University, Bernard Shapiro, this non-profit corporation will face a formidable challenge: [...] *to harmonize public and private interests around a mobilizing intervention plan. An integrated vision of the sector must be developed to allow the various stakeholders to develop a coherent overall development project."*[5]

In this regard, the Société du Havre is mandated to propose a strategic development plan for the urban space surrounding the historical Montreal harbour (the Montreal Port, Old Montreal, Cité du Havre, Île Notre-Dame, Île Sainte-Hélène), as well as an operating and financing structure. For the first year, the City and federal and provincial governments have provided the company with a kick-off budget of one million dollars. After that, the touch will be put on the private sector to help the Société achieve its objectives. Among the 14 development issues on the table, the Société will have to establish priorities and get the projects off the ground (see list of issues). Its actions will be shaped by the following guidelines: create an international tourist location; develop the assorted sectors in the southern part of the downtown area; improve access to the Havre; and invest in the harbourfront's expansive public spaces.

The big challenge for the Société du Havre and its co-chairmen will be to mobilize all the stakeholders who have a vested interest in our city-region's vitality and the City of Montreal's visibility abroad. Creativity, as demonstrated by the redevelopment projects in Old Montreal, will set the tone for all the Société's projects. Much like the composition of the board of directors, these initiatives will demonstrate that it is possible not only to maintain cohesion between stakeholders of different political stripes, but also to act coherently.

The development, redevelopment and conservation issues[5]:

1. Downtown – South Shore link
2. A link to Park Jean-Drapeau – Old-Port – Old-Montreal
3. Incentive parking– access to the autoroute Bonaventure and Victoria Bridge
4. Freight transport (piers and railway lines)
5. The south-west agri-food industrial sector
6. A Technopark and related sector
7. Peel – Lachine Canal area
8. Cité du Havre
9. The eastern point of Nun's Island – Champlain bridge
10. Silo no. 5
11. Recreational tourism piers (Alexandra, King-Edward, the Clock Tower)
12. Jean-Drapeau Park a. Casino b. La Ronde
    c. Jean-Drapeau metro station (formerly St. Helen's Island)
13. The river and its banks
14. The "portes du Havre"

Boundary of Montreal Harbour development projects

Electronic business
E-Commerce Place

Phase 1 of E-Commerce Place is about to be launched. Unfortunately, there is no longer a reason to celebrate. Originally created by the Quebec Government in May 2000 as an extra-budgetary tax measure to keep existing e-commerce jobs in Montreal and to attract and create new ones, E-Commerce Place is being launched on the heel of the tech meltdown that has seen many companies run into financial difficulty and even succumb to bankruptcy.

In its original form, the project was to comprise nine phases and cover 3.2 million square feet of space. The incentive measure consisted of a 25% refundable tax credit, applicable to eligible salaries (jobs specializing in e-commerce development and operations) of up to $10,000 per job and valid for ten years. To benefit from this incentive, companies had to locate within the designated area, bounded by De la Montagne, St-Antoine and Lucien-L'Allier streets and René-Lévesque

[5] "Le Havre de Montréal," document submitted by the City of Montreal (October 3, 2002).

Boulevard. When the project was announced, a number of large building owners in Montreal strongly protested against the government adding thousands of square feet to the market.

After the tech bubble burst, the surface area of E-Commerce Place was cut in half. The Finance Minister then expanded the area eligible for the tax measures, dubbing it the “Zone” (now extending from the river to Sherbrooke Street and from Atwater to De Lorimier), and enhanced the measure (increasing the tax credit to 35%; more categories of eligible jobs, for example, call centres; and increasing the salary limit to $12,500 per job).

The ultimate goal of these tax measures was to *“sustain the development of an emerging industry in Quebec and [....] create jobs”*.[6] However, it is difficult to determine exactly how many net jobs have been created because the information circulating is more often than not based on projections. What we do know is that three companies have already signed leases in E-Commerce Place: CGI (2,400 jobs, of which 80% are eligible for the tax credit, and 4,000 jobs to be created by 2005, according to an announcement made in May 2000); and Computer Science Corporation (expected to create 485 new jobs according to the announcement made in January 2002). IBM has also signed a lease in the E-Commerce Place. However, nothing is confirmed concerning job creation. It is therefore very difficult to concretely analyze the effect of these new measures.

One thing, however, is clear: these measures, like those of the Cité du Multimédia, have increased the number of rental buildings in Montreal. According to Devencore’s study of the real estate market (fall 2002), the building renovated for the Complexe Les Ailes de la mode, the construction of phase 1 of E-Commerce Place and the Caisse de dépôt et de placement du Québec building have added some 1.5 million square feet of AAA office space to Montreal. Including these buildings, the combined vacancy rate in Montreal (class A and B buildings) rose to 10.3% for 2002, compared with 7.8% in 2001.

As for the need for these tax measures, the jury is still out. A number of observers believe that given the vitality of Montreal’s labour market, these jobs could have been created without these incentives. Others believe that they have sharpened the tech industry’s competitive edge, allowing companies to land contracts with U.S. firms and execute them here, thus creating or maintaining many jobs in Montreal’s high-tech sector. A complementary initiative to these tax measures could have been to help companies in the traditional sectors adopt or increase their use of new technologies. As usual, hindsight is 20-20.

In light of all that has transpired in the new technology sector these past years, the Board of Trade believes that the government, having worked to improve supply, should now turn its attention to stimulating demand for these technologies among companies, thus creating new consumption habits that would lay the foundation for more viable demand. Faced with a rising demand for e-commerce, companies will see a golden opportunity to move to Montreal, thus promoting innovation and increasing the productivity and competitiveness of companies that had never before used these technologies. Such a complementary initiative would have a significant impact on e-commerce demand in Montreal both in the medium and long terms.

Education

The new financial realities of Montreal’s universities

By reading the news, you can tell that just like the Board of Trade of Metropolitan Montreal, academics and business people alike agree that education is not an expense but an investment. As obvious as this may be, in the ‘90s the government reduced university funding in order to balance their budget and eliminate the deficit, a move that had a direct impact on university revenues and placed them in a difficult financial position. This lack of funding also impacts directly on the quality of the education delivered and places our universities at a serious disadvantage when competing to attract the best professors, researchers and students. A quality workforce is essential in today’s knowledge economy, and adequate university funding is the means to that end.

[6] 2000-3 Quebec Finance Department information bulletin (May 11, 2000).

According to Statistics Canada, average tuition fees for an undergraduate student in Quebec are $1,851, compared to the Canadian average of $3,738 for 2002-2003. It has been six years since the provincial government froze tuition fees, the official reason being to ensure broader access to university studies. Despite the fact that the government subsidizes 66% of tuition fees, the financial needs of Quebec universities continue to grow.

Average tuition fees of undergraduate students

In dollars	1993-1994	1997-1998	2001-2002	2002-2003
Canada	2,023	2,869	3,577	3,738
Québec	1,550	1,803	1,842	1,851

Variation in %	1993-1994 to 2002-2003	1997-1998 to 2002-2003	2001-2002 to 2002-2003
Canada	84.8	30.3	4.5
Quebec	19.4	2.7	0.5

Source : Statistics Canada

New revenue sources

Unlike the rest of Canada, Quebec universities cannot decide to increase tuition fees, a step that would help them meet their ever-increasing expenses as these fees are dictated by the provincial government. They must therefore adopt more innovative strategies while respecting the principles of accessibility and quality.

Montreal universities are therefore seeking new sources of funding. A number of institutions have resorted to fundraising campaigns (private and corporate donations) – more popular with Anglophones for cultural reasons – while others are selling bonds (Concordia University). More innovative alternatives are under study, especially one idea that calls for a "social contract" under which students, upon graduation, undertake to contribute a portion of their salary to the university for a given period of time. This moral obligation would respect the economic principle of the user-payer, where students give back a part of what they have received. Another alternative to conventional revenue sources is the privatization (partial or complete) of faculties (under study at the McGill University law faculty), although students do not unanimously endorse this idea since tuition would inevitably rise.

In the context of a metropolitan area, universities enrich society and must have the means to educate, attract and retain a growing number of individuals, without overlooking anyone. An increase in tuition fees, among other things, could help fund universities and beef up financial assistance programs in order to maintain access to higher learning. To this end, the governments should unfreeze tuition fees and re-establish funding at pre-1994 levels. With adequate backing, Montreal's universities will be in a better position to contribute to the development and wealth of our society.

Health

The need for a social debate on health-care and its funding

The question of health care will be central to the next provincial election campaign, expected next spring. Since the by-elections held last June, the various political parties have been combing the province, trying to sell their ideas and win votes. A review of the platforms of the various political parties reveals that, for Quebecers, health is a precious – and in some ways, untouchable commodity. Every political party knows it must improve the quality of health care delivered to its constituents.

But each political party has its own spin on the issue. The Parti Québécois has not altered its position since the beginning of its mandate, aside from a few compulsory legislative measures, such as the one regarding emergency room physicians. In the words of Premier Bernard Landry: *"I want to see a shift toward an emphasis on patients [...]. The health-care system must be both more efficient and more concerned with their well-being. The accessibility of health care must be our watchword."*[7]

At the other extreme is the position of the Action démocratique du Québec, which proposes a two-tier health-care system. According to Mario Dumont, his party would allow the gradual integration of the private sector into Quebec's health-care system within a framework preserving the benefits of the public system.[8]

[7] PQ: «Horizon 2005 : Plein-emploi - Souveraineté», (8-9 septembre 2002).

[8] ADQ: «En santé, autrement» (octobre 2002).

The Liberal Party proposes a more moderate vision. Jean Charest suggests that public sector institutions should be authorized to purchase services from the private sector if such services could not otherwise be delivered quickly, without charging patients a cent.[9]

Construction of the teaching hospitals

The Board of Trade of Metropolitan Montreal believes that investments in health care help preserve the quality of life of residents of not just metropolitan Montreal but also the entire province. We also suggest that priority should be granted to certain catalyst urban projects. The proposed new McGill University Health Centre (MUHC) and the Centre hospitalier de l'Université de Montréal (CHUM) appear to be structuring catalyst projects in terms of both medical research and health-care innovation.[10] For Montreal, these health-care projects would facilitate the training of top-calibre health-care professionals and contribute significantly to the ability of the two medical faculties and companies related to this sector to attract, and, above all, retain talent. Beyond that, they would make it possible to continue to offer all Quebecers specialized care that is among the best in the world.

In short, the interests of the various political parties should not outweigh the health-care needs of the public. It is thus time for Quebec to hold an intelligent, instructive, and enlightened debate on the question of health care. Canada's health-care system is based on the principle of universal accessibility of care. Must we revisit this fundamental principle underlying the Canadian health-care system? The Commission on the Future of Health Care in Canada will provide the answer to this question.

N.B.: As we go to press, their report has not yet been published, but it is clear the Commission will not endorse a greater role for the private sector in health care.

[9] PLQ: «Ensemble, Réinventons le Québec» (septembre 2002).

[10] Letter from the Board of Trade about the construction of the teaching hospitals sent to Quebec Premier, Bernard Landry. See Web site: www.btmm.qc.ca/documents/Positions/bernardlandry_16-05.pdf

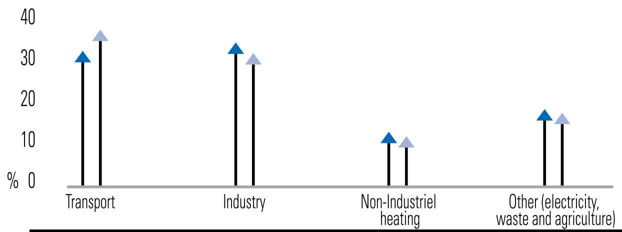
Kyoto: a catalyst for partnerships

Transportation targeted

The Kyoto Protocol will require a series of measures to encourage the public and industry to reduce their greenhouse gas (GHG) emissions. Aided by the use of clean hyrdo-electricity, Quebec is able to post the best GHG emissions per capita in Canada. It is not surprising then, that the transportation industry is the biggest emitter of GHGs in Quebec. The Quebec Department of Transport estimates that by 2016, motor vehicle travel in the Greater Montreal area will have increased from 8 million to 10.2 million trips as a result of increased urbanization and trade with the United States. Congestion and smog are becoming critical concerns for municipal stakeholders. Changes in motorists' travel habits through increased use of public transit, carpooling, flexible work hours and working from home are part of the solution, but they will not be enough. To meet targeted objectives, the Federation of Canadian Municipalities says that Canada's strategy to reduce GHGs will need to place greater emphasis on partnerships between various governments and civil society. These partnerships will be necessary in order to find creative, innovative solutions that will meet Kyoto Protocol requirements.

Innovative solutions

The many innovative projects in transportation undertaken in recent years attest to the vast creativity of Quebec scientists and engineers. They also demonstrate the usefulness of public/private-sector partnerships in the search for solutions. In the area of alternative vehicles, one of the objectives of the Montreal 2000 Electric Vehicle Project, completed in March 2001, was to actually test an alternative vehicle that could be used to reduce the use of conventional vehicles. The pilot project results showed that the use of battery-powered electric vehicles (EV) is a foreseeable, effective solution for urban travel within a limited range. However, the final report says that an information and promotion program in addition to tax incentives and the building of additional infrastructure will be necessary to stimulate EV demand and supply. In the area of alternative fuels, the objectives of the BIOBUS Project, launched in March 2002 for a one-year period, are to conduct experiments in the use of bio-diesel (fuel made from vegetable oil or inedible, recycled animal fat), test the capacity to supply a public transit authority, such as the Greater Montreal Transit Authority (STM), and assess the economic and environmental impacts of using this fuel. A report will be published in the spring of 2003.



1990 AND 1999 GHG EMISSIONS BY SECTOR IN QUEBEC

Source: Quebec Department of the Environment ▲1990 ▲1999

Outlook

Studies produced by the United Nations' Intergovernmental Panel on Climate Change show that greenhouse gas emissions produced by human activity are the main cause of climate change. According to the same experts, The Kyoto Protocol is a small step in the right direction because a far greater decrease in global emissions is required. To prevent long-term climate disruptions, the reductions must be 60% to 80% below the 1990 level, instead of 6% in the 39 countries listed in the Kyoto Protocol. A massive empowerment of civil society and government with regard to the environment will be necessary in order to find and implement creative, viable solutions in line with a philosophy of sustainable development.

By Sébastien Paquet-Poirier

Montreal Island Business Office
(514) 283-2500
www.dec-ced.gc.ca
montreal@dec-ced.gc.ca

A GLANCE AT MONTREAL

The City of Montreal's 2003 budget: a major balancing act

On the eve of the new fiscal year, I would like to take the opportunity, which the Board of Trade of Metropolitan Montreal has afforded me, to briefly analyze the key economic and financial challenges facing our new City today.

The challenge of harmonization

One of the biggest challenges facing the administration is harmonization, which calls for a more balanced allocation of the tax burden among our citizens. Over the next few years, we will have to achieve this objective by dealing with a complex maze of tax tools and disparate tax burdens that characterized the cities prior to the merger, and we must do this without raising taxes.

To this end, four broad principles have guided us until now and will continue to inspire us in the years to come, namely, local autonomy, tax equity, tax neutrality and simplicity.

In preparing the 2003 budget, the administration also sought to maintain stability by avoiding sudden changes whether in terms of property taxes or charging fees for different services.

The debt challenge

The City's debt level remains very high and accounts for a significant portion of the tax burden. At $2,125, our per capita debt is substantially higher than the average of Quebec's municipalities. A sustainable solution must therefore be found to the former City of Montreal's actuarial deficit.

In the meanwhile, the administration will have to develop a strategy so that it can assume its responsibilities in terms of investment without, however, weakening its financial situation. In this regard, it will also have to negotiate new agreements with the higher levels of government for sharing capital expenditures in order to reduce pressure on the new City's debt service and to protect its credit rating.

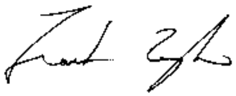
Step up Montreal's development

It is with this in mind that the administration prepared the City's next budget, while remaining well aware that major reforms will have to be undertaken in the upcoming months to place the City's financing on a more equitable and solid footing.

First, when the City negotiates its first contract with the Quebec government, we expect the City of Montreal to be treated in the same manner as Quebec's other municipalities, particularly with respect to school transportation, certain grants-in-lieu of taxes and the funding of regional parks.

It is also critical for the City to obtain access, as quickly as possible, to revenue sources related to economic activity in order to reduce its dependence on property taxes, which have become insufficient and to ensure its fiscal autonomy.

The ability to tie Montreal's financing to economic growth is more essential than ever, in a context where in the coming years we will have to step up our City's development by investing massively in its infrastructures (water, mass transit, road transport), boost its competitiveness beyond its borders and create new wealth in order to improve the quality of life of all Montrealers. ⁂



Frank Zampino
Chairman of the Executive Committee
of the City of Montreal

Comparative chart of municipal debt loads

Province	*Per capita* debt in $
New City of Montreal	**2,125**
Average of all municipalities	
Province of Quebec	1,912
Ontario	552
Alberta	687
British Columbia	592

Source: City of Montreal

Our standard of living, our Achilles heel

by Alain Dubuc, editor, journal Le Soleil

The following text is an excerpt from a speech entitled "D'une culture de la complaisance à une culture de la concurrence" delivered by Alain Dubuc, editor of Le Soleil *newspaper at the annual meeting of the Quebec Chamber of Commerce on October 4, 2002. This text is published with the author's permission.*

Quebec has traditionally looked to the labour market to measure its economic performance, a reasonable course of action in a society whose main economic problem was underemployment and chronic unemployment. Remember Robert Bourassa's promise to create 100,000 jobs? No one would question that this was a laudable initiative; however, this fixation on employment has its downside. Focusing all our energies on job creation could produce the opposite effect, generate economic costs and mask serious deficiencies.

Quebec thus neglected other fundamental realities, specifically, our standard of living, which is neither a concern for, nor in the vocabulary of our politicians. Usually measured by the *per capita* GDP, standard of living gauges economic well-being and is also closely tied to the productivity of an economy and its ability to produce wealth. As such, standard of living is not only an excellent measurement tool, it should figure as an overriding objective in our economic policies, in fact, a top priority. In this regard, the economist Pierre Fortin played a key role in opening the eyes of Quebec and Canadian decision-makers to the strategic importance of standard of living.

How is Quebec faring in this respect? Pretty poorly. In 2000, Quebec ranked fifth in Canada, besting the Maritimes and Manitoba but only just ahead of Nova Scotia and New Brunswick. However, the gap in disposable income between Quebec and Ontario has not budged in the last decade, remaining stuck at over 16%. Other data is even more disturbing, namely, a Statistics Canada study that compared the standard of living of American states and Canadian provinces, taking into consideration taxation, exchange rate and the cost of living in the two countries. Quebec ranked 57th out of 61, ahead of Saskatchewan, Montana, Newfoundland and Arkansas. Ontario fared well, placing 18th, while Alberta finished 25th. With its disposable income of $27,400, Quebec lagged well behind New Jersey, which took first place with $43,300. In fact, Quebec is the only poor region in North America that is also urbanized, industrialized, economically diversified and that has the tools associated with prosperity, such as a cultural life, strong universities and a new economy.

Quebec suffers from a double handicap because not only does it lag behind the rest of Canada, but Canada itself trails its partners in terms of productivity and progress in standard of living. In 10 years, from 1989 to 1999, while the *per capita* GDP rose 22% in the U.S. and 25% in Spain, it only advanced 11% in the rest of Canada and 13% in Quebec. During this same time, a number of small economies performed miracles, for example, Ireland, Portugal and the Netherlands, whose standards of living rose, respectively, 80%, 29% and 25%.

Why this lag? Quebec's inability to adequately improve and generate real prosperity can be explained in large part by its highly bureaucratic structure. First, because it would be surprising if there were no link between how Quebec operates and its economic performance, but above all, because the Quebec government's social and economic measures frequently go against its stated objectives and cause the province to regress rather than progress. Our politicians rarely speak of standard of living, prosperity or wealth creation. This silence stems from a tradition of modesty where money and wealth are concerned and from ideological hang-ups regarding themes perceived as "right-wing," individualistic and contrary to our values of solidarity.

But the real problem is that the measures required to promote productivity and improve the standard of living would put the foundations of the Quebec model into question. To open this door would be threatening, even suicidal for those seeking to maintain the status quo. Instead, we'd rather promise full employment like in 1970. To create wealth and improve our standard of living and productivity, the experts, as you know, recommend measures that encourage investment—the primary source of employment; that inspire innovation—a central element to wealth; that develop human capital in all its forms; and finally, that promote competition and excellence.