TREND CHART

GREATER METROPOLITAN REGION

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LET'S TALK ABOUT WEALTH!

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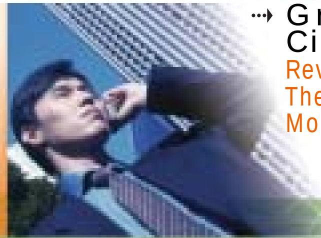

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GUEST COLUMNIST

EDITORIAL

Let's talk about wealth!

The first Trend Chart of 2003 is an opportunity to review the economic data of the previous year. And we must admit that, overall, Quebec's economy made a very good showing in 2002, with growth, job creation, economic performance superior to that of most other Canadian provinces, and increased house values. It's been quite a while since so many positive things could be said about our economy at the same time, and there is every reason to hope this trend will continue through 2003.

It is nevertheless noteworthy that even when things seem to be going so well, one word is still relatively absent from our vocabulary: wealth.

The fact that, collectively, we are on average somewhat less rich than our closest neighbours perhaps has something to do with it: the *per capita* GDP of Quebec and Greater Montreal do not generally figure among the good economic news. And so, in response to those who, like the Board of Trade of Metropolitan Montreal and its 7,000 members, are concerned about the relative weakness of our standard of living, there are those who hasten to stress the great quality of life to which we apparently have access: according to them, we may be poorer, but we live better!

Unfortunately, this perception has a lot more to do with wishful thinking than reality. The "positive" effects of a low standard of living are basically limited to allowing the occasional growth spurt typical of a "catch-up economy."

Montreal and Quebec are part of an increasingly globalized economy wherein isolated enclaves where you can live better while earning and producing less are few and far between. For evidence, just consider the difficulties that the weakness of the Canadian dollar causes for Quebec companies that, to increase their productivity, must acquire expensive production machinery from the United States or Europe.

The Board of Trade has therefore begun to take an interest in a measure that is particularly revealing of changes in the standard of living and collective wealth of Montrealers and Quebecers: equalization. This system was basically implemented to ensure that each Canadian province would have the financial resources to provide its residents with a comparable level of services. Equalization payments are thus based not on the fiscal choices made by each of the provinces but rather on their ability to collect taxes in the first place – in other words, on the wealth possessed by citizens and on which they may be taxed (or not!) by the various provincial governments.

So being among the provinces benefiting from equalization payments means first and foremost being one of the poorest provinces – one of those whose economic status does not permit the funding of public services at the level of the Canadian "standard."

Just as the Board of Trade urges metropolitan Montreal to actively play the game of competition with other major urban centers on this continent and around the world, we would urge Quebec to strive to be among the richest and most productive provinces in the Canadian confederation. This will inevitably mean increasing the wealth produced and retained by all Quebecers.

It is from this perspective that the Board of Trade wishes to bring the questions of standard of living and wealth (both personal and collective) back to the forefront of the economic debate. And to do so, it proposes a challenge. Why should Quebec not become a net contributor of equalization payments – within ten years - instead of a recipient? And why should standard of living not be one of the aspects of the Greater Montreal and Quebec economies that show significant improvement?

A daunting challenge? No doubt; but that is the price we must pay if we wish to pride ourselves on being a true leader of the Canadian economy!

Benoit Labonté
President

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 -
The Bush plan: an ambitious US$674 billion plan

At the beginning of the year, President Bush announced an ambitious economic recovery program valued at US$674 billion over 10 years. In essence, the plan calls for abolishing tax on dividends of U.S. companies, a measure that alone amounts to $364 million over 10 years. This plan would also see $98 billion injected in the short term through other measures, including income tax reductions (already announced for 2004 and 2006) retroactive to January 2003 and tax credits for couples and children.

The purpose of this exercise is clear: to stimulate an economy languishing after the stock market collapse, the events of 9/11 and the financial scandals of 2002 and to boost investor confidence.

While the 2001 recession was the mildest in American history, encouraging results continue to be elusive on all levels as the data attests. For example, while Canada created 560,000 jobs in 2002, 180,000 Americans stopped looking for work.[1] Given its size, the U.S. economy has historically always been able to create comparatively more jobs than Canada. Last year saw that trend put to an reverse.

In terms of economic growth, U.S. GDP reached 2.4% in 2002 while Canada's surpassed 3.3% (projected at press time). Although companies cut back investments by nearly 6% in 2002, the news was positive on some fronts, such as consumption and residential construction. However, even their performance was undermined, namely, by a high level of household debt.

The debt load of U.S. households has reached alarming proportions. A number of analysts point out that the decrease in interest rates has hastened the American recovery. This relaxing of monetary policy did in fact boost consumption (+3.1%) and residential construction (+3.8%), but with these gains came an increase in the debt burden. The ratio of household debt has risen from 89% of disposable income in 1994 to 108% today. Because historically one of the consequences of a recession is a rise in personal debt, the increase itself is not unusual; however, its level in 2003 is cause for concern.

The American government's financial situation is no more encouraging. End-of-year data shows a budget deficit of $231 million in 2002, the highest level in the past decade.

Halfway through his term, President Bush has two years left to show the merit of his tax plan. Some economists believe that this plan could increase GDP by 0.5% to 1% (projected at 2.8% for 2003). However, changing the perception of business and investors about the economy is a monumental challenge. The President will have to convince the population and also rally the members of the Congress.

Canada -
A vigorous economy that eclipsed the U.S.

The Canadian economy enjoyed exceptional growth in 2002, not only surpassing its own objectives, but also beating its southern neighbour in several areas.

GDP advanced 3.3% in 2002 (projected at press time), earning it first place among the G-7 nations[2], which averaged 1.4%. The Organization for Economic Cooperation and Development (OECD) is projecting Canada's GDP to grow 3.1% and 3.5% in 2003 and 2004 respectively, against 2.6% and 3.6% for the U.S.

Job creation was especially strong last year, with 560,000 new positions (+3.7%, the highest annual growth since 1987) created, resulting in a 3% increase in disposable income. Last year's solid economic performance increased the working population, bringing the participation rate[3] to 66.7%, the highest level since the early '90s. For the first time in a decade, we are beginning to see a gap between the Canadian and U.S. participation rate.

Job creation in Canada, combined with low interest rates, boosted residential construction by 15.3% in 2002, compared with a 4.7% gain in 2001. The resale market (sale of existing homes) also flourished, advancing 15.5% over 2001 in 24 of the 25 urban agglomerations in the country (led by Vancouver with a 27% increase, followed by Montreal, with 22%).

In terms of investments, Canadian companies also tightened their belt (-2.6%) in 2002, but not to the same extent as their American counterparts. Hopefully, the fears asso-

[1] Number of people in a country, aged 15 or older, who have a job or who are actively looking for work.
[2] The G-7 refers to the seven major industrialized countries in the world: United States, Japan, Germany, France, Great Britain, Italy and Canada.
[3] The participation rate is the percentage of the population aged 15 and over that is employed or actively looking for work.

ciated with last year's financial scandals will dissipate in 2003 and investor and business confidence will return (needed to boost investment in inventory and equity).

Working hard to put its fiscal house in order, the federal government, for its part, has posted a budget surplus for the fifth year in a row. Consequently, Canada now enjoys a better credit rating and has earned the honour of being the only G-7 nation to table a balanced budget for the second consecutive year.

Strong employment growth and an inflation rate that is exceeding the Bank of Canada target has prompted the latter to tighten its monetary policy in 2002 with the result that the positive output gap between Canada and the United States has reached a seven-year high. This gap should remain pronounced in 2003 since our economy's sustained growth, combined with inflationary pressures, will likely prompt the central bank to tighten monetary policy, a move that will not be mirrored in the U.S.

After an excellent performance in 2002, Canada's economic outlook remains favourable for 2003. However, there is a shadow on the horizon. If the U.S. economy remains sluggish, and should demand wane (especially in construction and automobile sales), Canadian exports could suffer in 2003. The spectre of a war between the U.S. and Iraq also adds uncertainty to the global economic outlook, Canada's included.

Quebec - Quebec's economic performance leads the country

Quebec achieved an amazing feat last year. Not only did the province surpass the U.S. in terms of growth, it also beat both Ontario and the Canadian average. Like in the rest of the country, construction and manufacturing underpinned this performance. Thus in 2002, Quebec's GDP reached 3.8% (projected at press time), compared with 3.3% for Canada (also projected at press time).

Historically, Quebec has frequently trailed both the U.S. and Ontario in economic growth. However, last year was a watershed: Quebec became the benchmark. According to the Conference Board's 2002 projections, the urban agglomerations of Quebec City and Montreal recorded the strongest growth in the country, with rates of 4.4% and 4.3% respectively.

The most important statistic pertains to job creation. Two thousand two was a spectacular record year for Quebec that witnessed the creation of 168,000 jobs (+4.8%). The first two quarters (January to July) were also exceptional, producing 128,000 new jobs or 40% of all new jobs in the country. Quebec's employment rate also advanced, reaching the historic level of 60.3%, while Ontario's remained unchanged at 63.5%.

The construction sector owes its banner year to Quebec's strong job market and low interest rates. Housing starts reached 42,000 units last year, an increase of 53% over 2001. A shortage of qualified labour is projected for this sector in the next few years and will, in all likelihood, curb growth. However, residential construction should enjoy another good year. On the institutional side, the $3 billion in investments announced in the 2001 provincial budget also had an impact on the Quebec landscape.

Besides the triumphs of certain economic sectors that explain Quebec's excellent performance in 2002, forecasters point to profound changes to explain this accomplishment, namely, the improvement in the province's fiscal health and the signature of the North American Free Trade Agreement.

This past year upset the popular belief that Quebec is an under-performing economy vis-à-vis the Canadian average. These profound changes will likely bolster the province's ability to generate additional revenue in the future.

One would hope that Quebec's performance in 2002 marks the beginning of a new era of economic growth. This is why the Board of Trade is pressing the Montreal urban agglomeration to actively compete with the other major cities on the continent and around the world. It is in Quebec's interest to strive to be among the most productive and richest provinces in the Canadian federation. To achieve this status, the province must increase the wealth created and held by Quebecers.

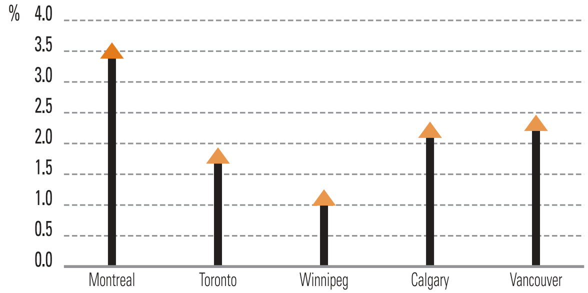
OUR ECONOMIC CONDITIONS

labour market

A vintage year for job creation in Quebec

According to the Conference Board of Canada, the **Montreal region** continued to set itself apart from the other agglomerations in the country for the second half of 2002, creating 62,000 jobs in Montreal. This exceptional growth of 3.6% stems from solid performance by the construction, retail, wholesale, finance, real estate and insurance sectors. Greater Montreal's diversified economy was also a contributing factor to the region's performance despite an unfavourable context, among other things, for the high-tech and aeronautics sectors.

In comparison, the four other agglomerations that make up the C5[4] posted weaker job growth in 2002 compared with 2001: 2.3% for Calgary, 2.0% for Toronto, 2.4% for Vancouver and 1.3% for Winnipeg.



EMPLOYMENT GROWTH IN 2002 - C5 CITIES

Source: Conference Board of Canada

According to the Institut de la statistique du Québec, the metropolitan Montreal created 19,100 and 11,900 jobs in November and December respectively. Only March and July bucked the trend. Montreal's unemployment rate dropped to 8.4% in December, against 8.6% in November, and the city finished the year with an average rate of 8.4%.

According to some observers, 2002 was a stellar year for job creation in **Quebec**, which outperformed its Ontario rival (+4.8% against +3.3%). These two provinces combined account for two-thirds of the increase in the country.

Statistics Canada's labour force survey shows 168,000 jobs created in 2002, with Quebec posting its strongest growth since 1983. The manufacturing sector contributed greatly to the growth in 2002 along with educational, professional, scientific and technical services. On a monthly basis, employment jumped by 30,500 in December 2002 over the previous month.

Quebec's unemployment figures continued to impress, dropping 1.6% in December and ending the year at 8.4%, against the annual average of 8.6%. The positive job outlook has prompted people to re-join the working population, explaining the increase in the unemployment rate during some months despite strong job creation. Strong domestic demand made it possible to absorb these new job seekers and explains why the provincial unemployment rate was still able to decline during the year.

Job growth in **Canada** in 2002 was largely fuelled by the manufacturing, health care and social assistance, educational services and construction sectors, with employment rising 3.7%, the highest annual growth rate since 1987. The labour force expanded by 560,000 workers in 2002, and on a monthly basis, consistent job creation led to the addition of 58,000 new jobs in December. The number of people who lost their jobs equalled the number who found employment, leaving the unemployment rate unchanged at 7.5% in December.

Housing market

Residential construction in Montreal reaches new heights in 2002

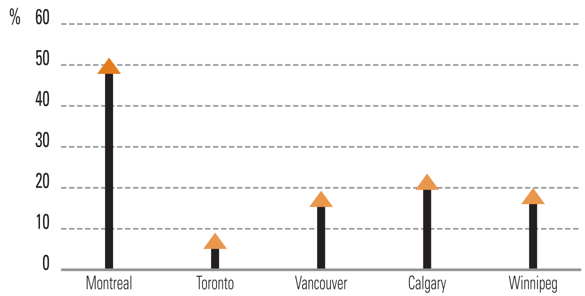
The booming residential construction sector is behind the 20,554 new units (cumulative for 2002) built in the **Montreal region**, which recorded its best year since 1990 according to the Canada Mortgage and Housing Corporation (CMHC). These figures represent a 55% increase over 2001, which saw the Montreal region build 13,300 housing units. Once again, the suburbs, notably the South Shore (+80%), were largely responsible for this stellar performance. Job creation, combined with low interest rates and dwindling vacancy rates (estimated at 0.7% in October), continued to drive the construction sector in Montreal.
At the provincial level, **Quebec** also had a very good year with a 53% increase in hous-

[4] Forum of mayors of the five largest cities-regions in the country (Vancouver, Calgary, Winnipeg, Toronto and Montreal), whose main objective is to work together to reposition their cities.

ing starts over 2001 and a seasonally adjusted annual rate (SAAR)[5] of 42,200, the same as last December. Not only was the annual increase double the national rate, but Quebec can boast the strongest growth of all provinces, a feat not achieved since 1984. Quebec also recorded impressive employment growth reflected in the construction sector and resale market.

Building permits in Quebec reached $790.1 million in November, a gain of 9.5% over the previous month, fuelled in large part by the non-residential sector (projects in the education sector in the Montreal area). In contrast, when the first 11 months of 2002 are compared with the year earlier period, it becomes clear that residential construction was the catalyst for the 50.7% increase in building permits in Quebec. According to Statistics Canada, the total value of building permits in Canada slipped 2.7% to $4.0 billion in November. Despite this decrease, the total value of permits, from January to November, reached a record $42.5 billion in the country. Of the C5 cities, Montreal posted the third strongest growth (+12.7%), behind Vancouver (+18.4%) and Calgary (+17.8%) for the same period.

Not to be outdone, **Canada** also turned in its best performance in this area since 1989. The MCHC pegs the number of starts in the country at 204,900, a jump of over 25% over 2001. As the graph below shows, the C5 cities recorded growth on par with the national rate last year, and Montreal excelled in 2002 in relation to the year-earlier period. Forecasters with the major banks agree that nationally housing starts will decrease in 2003 but still remain relatively high. The shortage of labour and certain materials (stemming from the enduring lumber dispute), along with the anticipated increase in interest rates will help put the brakes on housing starts in the country.



Housing starts in C5 - Change in 2002 over 2001

Source: Conference Board of Canada

Financial market

Inflation rate

In December 2002, inflation – the change in prices over 12 months as calculated by the consumer price index (CPI) – in Canada was 3.9%, down from the 4.3% recorded in November 2002. This deceleration in the monthly inflation was caused primarily by the drop in the electricity index (-18%), which was almost entirely attributable to the tumble in the Ontario index (-50%). Moreover, a decrease in the price of clothing (-3.6%) and gasoline (-2.6%) also contributed to this contraction. Conversely, certain factors limited the decrease, namely, the hike in automotive vehicle insurance premiums (+6.2%) and the price of fresh vegetables (+5.0%). For the sixth time in a row, the inflation rate in December crept above the 2% inflation-control target set by the Bank of Canada. The Central Bank believes this situation is cause for concern, because although it has not yet reached a problematic level, it will become an issue if the inflation rate exceeds the upper limit of the target range (1% to 3%) over an extended period. The Bank prefers to use the core CPI to guide its monetary policy given that this measurement excludes from inflation the eight most volatile components (fruit, vegetables, gasoline, fuel oil, natural gas, mortgage interests, intercity transportation and tobacco products). Between December 2001 and December 2002, the core CPI rose 2.7%. Statistics Canada calculates that prices inched up 2.2% in 2002, a more moderate increase than the 2.6% recorded in 2001.

Interest rates

There was no surprise in the Bank of Canada's announcement that it will maintain the target for the overnight rate at 2.75%. In its announcement on January 21, the Central Bank once again invoked geopolitical, economic and

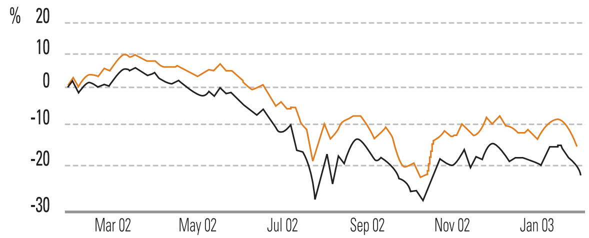
[5] Seasonally adjusted annual rates.

OUR ECONOMIC CONDITIONS

financial uncertainties to explain why it was leaving its key rate unchanged. However, the inflation rate in the past few months remains well above the target, a situation that has the Central Bank concerned. At a time when the U.S. economy is growing in fits and starts and financial markets are unsteady, the Bank does not consider it wise to raise its overnight rate as it could adversely affect spending. Still, the Bank will be closely monitoring the pressures on output capacity and inflation[6] from now until its next meeting on March 4. Should they be too strong, it could tighten its monetary policy, which means interest rates could increase faster in Canada than in the U.S. this year.

Exchange rate

For several months now, despite the fact that the U.S. economy has lagged behind Canada's, our currency has been gaining little ground on the U.S. greenback. In a context where our economies are intimately linked, it has become clear that our currency is not considered a refuge in risky times. As for the U.S. dollar, it remained a refuge currency until the end of 2002 despite growing geopolitical uncertainty. According to many analysts, the loony remains undervalued and should regain some lost ground this year. The solid performance of our economy (first among the G-7 in 2002), along with job creation and the improvement in our governments' financial situation[7] are all factors that should see our currency appreciate this year. Since the beginning of January, the Canadian dollar has rallied against its U.S. counterpart, topping the US$0.65 mark. Still, there is a shadow on the horizon: Despite its substantial appreciation since the end of 2002, the looney underperforms against other currencies such as the Euro, the Australian dollar and the Yen.



EVOLUTION OF THE DOW JONES AND THE S&P 500 INDEXES IN THE LAST YEAR

Source: Bloomberg Dow — S&P 500 —

Stock markets

Stock markets have lost much of their value since last year and especially since September 2001 and the U.S. economic recovery has yet to be felt in this area. Growing geopolitical uncertainty and investor concern, prompted by the spiralling profit projections of public companies, have sapped the stock markets, especially for the last two quarters of 2002. Investor anxiety while awaiting the financial results of the last quarter (Q4-2002 results not yet published at press time) has had a negative impact on the stock market reports of the past few weeks. A comparison between the weeks of January 6 and 27 show the S&P 500 and the Dow Jones down 7.4% and 7.9% respectively.

With regards to geopolitical uncertainties, President Bush's State of the Union address did nothing to allay investor jitters, as attested by the volatility of the markets when they opened on January 29. The Federal Reserve's upcoming decisions are eagerly awaited to breath life into the markets so they can resume their growth. According to experts, all signs point to the Reserve maintaining its key rate unchanged for the next few months.

[6] The situation becomes problematic when GDP growth considerably exceeds potential GDP growth, set at 3-3.5% for a prolonged period. The more marked and prolonged the excess, the greater the pressure on output, thus implying strong inflationary pressures.
[7] Canada will be the only G-7 country to post a balanced budget for a second year in a row.

OUR ECONOMIC CONDITIONS

Foreign trade

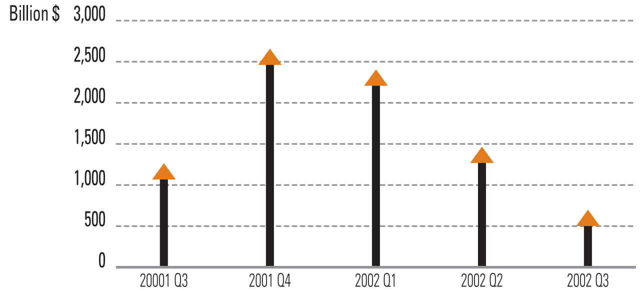
Quebec trade balance sliced in half in Q3

The value of **Quebec** exports in Q3 2002 slipped 4.7% compared with the previous quarter to $16.7 billion. On a monthly basis, exports advanced 6% in October over September. Both on a quarterly and monthly basis, aircraft topped the list of products shipped outside the country. Sales of other aeronautical products (aircraft engines and parts) also fuelled the increase, along with measurement, control, laboratory, medical and optical instruments. However, the sales of telecommunications equipment, automobiles as well as office machines and equipment decreased in relation to September. Following the closure of the Boisbriand plant, automobile exports, mainly to the U.S., tumbled in Q3. The countervailing duty levied by the U.S. on softwood lumber was also responsible for the quarterly decrease.

At $16 billion, imports remained stable in Q2 and Q3, reducing the trade surplus to $677 million, against $1.5 billion in Q2. The increase in imports of petroleum and its derivatives, aircraft engines and parts, apparel and footwear was offset by a drop in the import of automobiles, trucks, vehicle motors and parts, aircraft parts and chemical products. On a monthly basis, Quebec imports (seasonally adjusted to 1997 prices) advanced 9.4% in October to $5.4 billion owing to the solid performance of some sectors, namely computers, aircraft engines, telecommunications equipment and organic chemical products. This increase, combined with the decrease in monthly exports, reduced the trade balance in October by 25% in relation to September to 210.3 million current dollars in October, compared with a trade surplus of $274.5 million in September.

Exports in **Canada** inched up 0.9% to $35.4 billion in October. Just as in Quebec, Canadian exports to the U.S. were affected by the soft lumber dispute (forestry products dipped 2.4%) and the slowdown in automobile sales (down 5.0%). Export of energy products (crude petroleum and its derivatives and natural gas) advanced 9.9% in October although imports only inched up 0.3%. The largest variation in imports in October was found in energy products (+15%) due to an increase of over 25% in the price of crude petroleum, automotive products (-3.0%) and agricultural and fishing products (-3.0%). Canada's trade balance remained positive at 5.1 billion current dollars in October, up $231 million over September.

Entrepreneurs in Quebec and Canada alike are facing growing competition and must therefore always be on the lookout for new export markets. Quebec enterprises must look to forge new business ties as well as acquire or consolidate their export knowledge. Economic globalization is the order of the day and exporting the key to expansion and new consumers. The second edition of the Export Alliance Construction, an international networking event geared to Quebec enterprises in the residential, industrial and institutional construction industries and held in Montreal last February 10 and 11 reflects this reality. Organized by the World Trade Centre Montréal—a branch of the Board of Trade of Metropolitan Montreal—along with the Minister of Finance, the Economy and Research and the Société d'habitation du Québec, this event attracted some 20 buyers from the Americas to meet local entrepreneurs and over 150 participants from the construction industry.



QUEBEC QUARTERLY TRADE BALANCE

Source: Institut de la statistique du Québec

A GLANCE AT MONTREAL

What is social cohesion, and why do we care?

Social cohesion is a new expression coined to address an old issue – how to maintain social order. Let's begin with the definition created by the French Commissariat du plan in 1997: Social cohesion "is a set of social processes that help instill in individuals the sense of belonging to the same community and the feeling that they are recognized as members of that community."

In practice, these social processes exist at work, at play, in public life and community affairs. Do all citizens have the chance to work to earn their own living and support their families? Do all citizens have the right to vote and to have a voice in community affairs? Do all children have access to schools, to recreation? Do all citizens feel safe when they walk the streets and respected by the people they meet?

Social cohesion is not a utopia where all is peace and tranquility. Instead, it describes a society that accepts diversity and manages conflicts before they become fights. It requires a society where workplaces are fair, where the voice of workers is respected, where people can express their views without fear of acrimony or reprisal.

Why is this important?
Canada and Quebec have become diverse, pluralistic societies exposed to highly competitive, global markets.

One challenge to social cohesion comes from growing role of markets in our lives. Competition offers opportunity of great rewards as well as risk of unemployment and insecurity. These possibilities, unfortunately, increase income inequality and create greater social distances within communities. The most well-to-do families in Montreal (top 5%) have 4 times as much income as the poorest (bottom 5%). This ratio is about the same as Toronto (4.1), but higher than Vancouver and Quebec City (with 3.0 each). Cities like Montreal, for example, include neighbourhoods with high concentrations of poverty, where many young men do not work, and where high school drop out rates are still remarkably high. As an example, 40% of poor families in Montreal live in very poor neighbourhoods, opposed to poor families in other Canadian cities: Toronto 30%, Quebec City 25%, and Vancouver with 14%. They may only live a short distance away from privileged families where a high percentage of the young people are headed for universities and good jobs.

Immigration and growing diversity add to the challenge. The diversity of our people greatly enriches our life, but it also introduces different value systems, many more languages, and different ethnic and religious traditions. Even second and third generation minority groups are still being treated as strangers. Many of them do prosper in this country. But too many are stuck in the poor neighbourhoods where their economic and social prospects are severely limited.

The changing political culture is also creating greater distances between citizens and their governments. People no longer defer to authority, they have lost patience with political institutions which are not accountable for their actions, are slow to respond to the needs of the population, or seem to be out of touch with the lived experience of ordinary people.

If citizens are to gain a sense of solidarity and common purpose, they must trust their political institutions to represent them fairly, to serve their needs, and to reflect a basic understanding of the turbulent changes they experience in their daily lives.

In this context of competition, diversity, and greater inequality, people yearn for a sense of belonging and common purpose to anchor their lives and to define their identity. They are looking for respect and reciprocity in workplaces, schools, community spaces, and political institutions.

The most successful societies, going forward, will be those that create those social connections and foster a sense of mutual responsibility, even as they strive to compete head on with the industrial might of the global economy.

This is our shared challenge – a challenge we each face in our own neighbourhood, our city, region, province, and country.

Judith Maxwell
President,
Canadian Policy Research Networks

A GLANCE AT MONTREAL

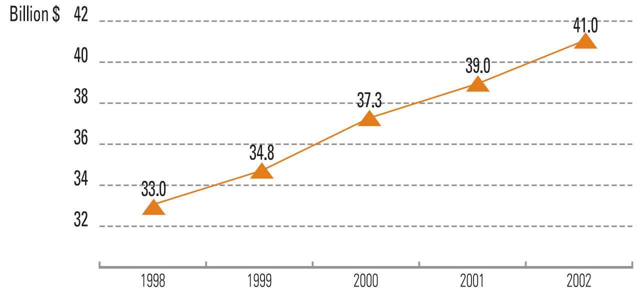
Centraide: giving together

Centraide is an organization that has been serving the Greater Montreal community for the past 30 years.

Through the initiatives of 326 community agencies and 46,000 volunteers, Centraide helps more than 500,000 disadvantaged people in Montreal, Laval and the South Shore. Every year, during its annual fundraising campaign, Centraide receives donations from about 200,000 people. As well, every year, 23,800 employees from some 1,500 companies in the region volunteer their services.

Since the first Centraide of Greater Montreal campaign (known then as Centraide Montreal), the fundraising results have always been most encouraging. Donations have grown dramatically, from $33 million in 1998 to $41 million last year, an increase of nearly 25% over a five-year period. People say the campaign is dear to their hearts and as such, many rally around this cause.

We have noticed that during the past five years, the average contribution has risen more quickly than the number of donors. Centraide is fortunate to be able to count many donors (private citizens and businesses) who contribute $1,000 and more: they form what we call the *Leaders' Circle*. All these factors combined explain the growing success of the Centraide campaigns.



RESULTS OF CENTRAIDE OF GM'S CAMPAIGNS SINCE 1998

Source: Centraide of Greater Montreal

But it's about much more than numbers
The strength of Centraide's action is based on the ties the organization has forged within society and in various milieus, especially with the business world and community groups.

Supporting the annual Centraide campaign creates a wave of solidarity that erases ranks and competition: the goal is to help. Neighbourhood tours, agency visits, presentations in the workplace (an average of 700 conferences per year with the participation of 180 speakers) and days of caring all bring the community and business people together.

Centraide certainly plays a major role in social cohesion, a topic discussed by Judith Maxwell in her article on the previous page. Indeed, beyond the money collected, ***the Centraide fundraising campaign helps people from all walks of life rally around a common goal and to get to know and understand each other better.***

I invite you to visit our Website www.centraide-mtl.org, where you will discover the depth of the solidarity and true meaning of our motto: people who help people who help people. You will discover the importance of the ties that bind the business world to Centraide and the agencies it supports.

In this regard, the following testimonials eloquently attest to Centraide's ability to forge ties of solidarity. Thank you to each and every one of you.

Michèle Thibodeau-DeGuire
President and executive-director,
Centraide of Greater Montreal

GREATER MONTREAL ECONOMY

City contract

Made public on January 30 by the Government of Quebec and the City of Montreal, the five-year city contract defines the framework of relations between the two partners with a view to building the new city. To the government's credit, it is contributing $1.4 billion under this contract to resolve the unfunded liability that is weighing heavily on the City's finances.

Revenue diversity

While the provincial government acknowledges the need for cities to diversify their revenue sources, especially Montreal, no significant relief in this regard is forthcoming in this contract. In fact, it offers no lasting solution in the short term to change the fact that 72% of Montreal's revenues are derived from property taxes. The other cities of Quebec also depend largely on property taxes[8], drawing on average 68% of their revenues from this source.

Considering that at the end of the Montreal Summit (June 2002) the provincial government had committed itself to improving the City's tax structure and to diversifying its revenue sources, the Board of Trade is disappointed. Indeed, while the government's open admission regarding the need for revenue diversity is a step in the right direction, it was made more than a year ago and has yet to materialize into greater financial flexibility for the City.

Still, under the city contract, $20 million will be spent, starting in 2004, to fund school transportation and property taxes for the Palais des congrès. Moreover, during the second phase of redefining the relationship between the City and the provincial government, expected in 2004, the contract provides for legislative amendments that would allow the City to charge new rates specifically for metropolitan Montreal, notably, in order to fund mass transit. During this second phase, the City will also enter into negotiations with the federal government concerning its development, with the support of the provincial government. However, in a context where expenses are rising at an annual rate of 3% against 1% for revenues, the City is grappling with immediate needs, notably, managing its aging infrastructures.

With elections looming, there is every reason to question the outcome of the future phases. One would hope that whichever party assumes power, it will be as open, if not more, to diversifying Montreal's revenue base. It bears repeating that the urban agglomeration of Montreal is the driving force behind Quebec's vitality and accounts for half of its population. It would be logical that it also have the tools it needs to grow and be able to compete with the other North American economies. By acknowledging Montreal's leadership, the government is also admitting that the City's development will benefit all Quebecers.

The unfunded liability problem

The City of Montreal has long been contending with a problem that is crippling an ever-growing share of its revenues: the initial unfunded liability of the former City of Montreal's employee pension fund (excluding police officers[9]). The unfunded liability represents the shortfall in assets required for the fund to be fully funded, as determined on the actuarial valuation date. When a pension plan is not fully funded, it means that the contributions collected are not sufficient to cover the plan's commitments, that is, to pay out the promised retirement benefits on that date.

A brief history of the unfunded liability

The source of the problem dates way back in the history of the former City of Montreal. Chronic and continuous under contributions of the City's employee pension fund is at the root of the unfunded liability. The problem first came to light in 1965 with the ratification of the *Supplemental Pension Plan Act* by the government of Quebec. This piece of legislation obliges pension funds to be fully funded. In other words, the obligation to be fully funded means that the value of the plan's assets, must, on a given date, be at least equal to the value at that date of the obligations arising from the plan, i.e. the pension benefits payable. As far back as January 1, 1966, the pension plans of City of Montreal employees, other than police officers, were $94.5 million in the red. Although this amount had to be amortized before the end of 1990, the problem was not addressed appropriately with the result that the pension plans continued to be underfunded.

[8] The problem with this type of taxation is that it in no way reflects economic activity.
[9] Police officers have their own pension plan, separate from the other City employees.

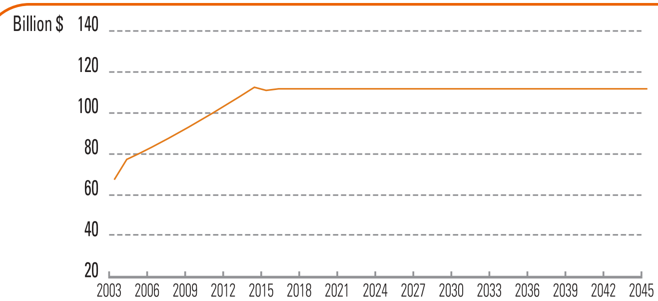
GREATER MONTREAL ECONOMY

With the arrival of Expo 67, and following by-law amendments and extraordinary legislation, the government of Quebec enacted laws applicable to fiscal 1969-1970 and 1970-1971 granting the City of Montreal a contribution holiday for all its pension plans (current contributions and contributions aimed at amortizing the already existing unfunded liability). The exorbitant cost of Expo 67 for the City of Montreal, combined with the contribution holidays, caused the unfunded liability to quickly spiral out of control.

The underfunding problem continued until the early 1980s. In 1984, following the recommendations of an inter-ministerial committee and various notarial acts, the City of Montreal reached an agreement with its employee unions to pay back the deficit. Realizing the magnitude of the problem, the City of Montreal, through various notarial acts concluded in 1983 and 1984, sought to put an end to its escalating deficit. It was at this time that the concept of "initial unfunded liability" took on its full meaning, encompassing the deficits incurred before this date. Valued at $869 million, these initial deficits had to amortized by 2045. Since then, the burden of these special contributions has been weighing heavily on the City of Montreal's finances. As well, since then, the City has been conducting an actuarial valuation every three years to ensure the contributions are sufficient.

After 1984, the employee pension plans began recording major surpluses. Strangely however, it was not until 1998 that the administration in power succeeded in reaching an agreement with the unions whereby these surpluses would be used to repay the unfunded liability. At the same time, the provincial government, grappling with deficits of its own, and in the spirit of putting its fiscal house in order, concluded a "fiscal pact" with the municipalities in 2000 valued at $375 million per year. Along with the new responsibilities this pact entailed, Montreal was now also forced to contend with an additional $46.8-million bill per year and all the consequences it brought to bear on the City's budget.

Taking into account all these factors, actuarial valuations showed a deficit of $1.8 billion: past annual contributions did not even cover the interest on the debt, and year after year the deficit continued to grow. Moreover, the bear market in 2001 and 2002 had a negative impact on returns, further increasing the unfunded liability and requiring the special contributions to be increased in order to pay it down.



CHANGE IN SPECIAL ANNUAL CONTRIBUTIONS FOLLOWING SIGNATURE OF CITY CONTRACT

Source: City of Montreal

Financial impact of the unfunded liability

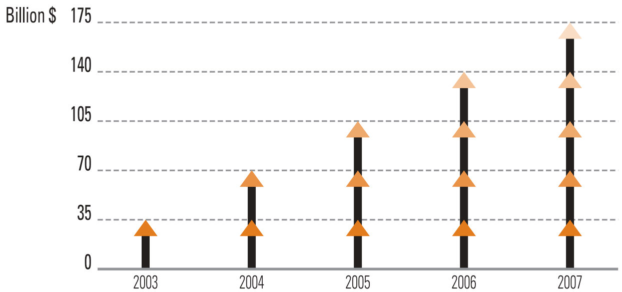
The initial unfunded liability of the former City of Montreal's employee pension plans remains today at the heart of the city contract and concerns of the municipal administration. The ensuing chronic underfunding and financial errors (controllable and uncontrollable) have imposed a major, ever-increasing burden on the City's budget. Without the city contract, the portion of the budget allocated to the deficit could have reached more than 10% each year.

In light of the five-year contract, we can say that a good part of the government's new commitments are aimed at reducing the unfunded liability. In this regard, the net proceeds of the sale of Île Notre-Dame to the government, evaluated at $240 million, will go directly to the unfunded liability. In this way, the City of Montreal obtains a relatively lasting solution to this liability problem that has haunted more than one Montreal mayor. In the eyes of the Board of Trade, this sale will put an end to the inter-generational transfer of the unfunded liability of previously underfunded pension plans. The City and the unions are thus taking responsibility for their past errors. Moreover, the strategy for refinancing the City's deficit will also reduce the fiscal stranglehold that both the City and its citizens are shouldering despite the fact that the City's revenues are not highly diversified. Moody's has rightly seen the City's choices – sound management and a city contract – in a positive light, boosting Montreal's credit rating, which will in turn have a positive impact on its revenue-raising ability. In this regard, it looks like the city contract is beginning to generate benefits.

Montreal's cost-saving efforts

The first challenge in the city contract will be of a financial nature. In this bipartisan arrangement, the City of Montreal undertakes to reduce its expenses and boost productivity to the tune of $525 million over a five-year period. What this means is that in year 1, and then each year for the next four years, the City will trim its budget incrementally by $35 million. For 2007 alone, the City will have to cut its budget by $175 million.

In fact, most of these savings will be realized by renegotiating collective agreements, the terms of which the City had promised before the 2003 budget, and which, ultimately would not have cost the City anything. In light of the figures in the city contract, the savings required of the City can only be qualified as enormous. And when you consider that the government's participation is set at $1.4 billion over five years but that it actually only provides $370 million in "new" money, you have to wonder how the new City will manage to save $525 million over five years. In light of this reality, it is all the more urgent to diversify the revenue base and ensure a growing, predictable and recurring revenue stream.



REQUIRED SAVINGS - CITY OF MONTREAL

Source: City of Montreal

As citizens of the City of Montreal, we have every reason to wonder what will happen to service quality if the government is bent on slashing expenses by $525 million. "To be qualified a success, this belt tightening should be realized without reducing the quality of services to both corporate and private citizens. A reduction in quality of life due to a second-rate service offering will do nothing to contribute to the economic development of a first-rate city such as Montreal," cautioned Board of Trade president Benoit Labonté, in the press release of January 30 (www.ccmm.qc.ca/asp/index.asp?lang=2&GrSection=2).

GUEST COLUMNIST

GUEST COLUMNIST

For an enlightened use of market mechanisms - Case study: education vouchers

It may be a good thing to introduce market mechanisms in sectors where governments are active.

For example, private firms could be allowed to compete with suppliers in the public sector in the delivery of a service. Faced with competition from the private sector, suppliers in the public sector would have no choice but to improve their performance to survive.

While this reasoning seems correct at first glance, it is important to go one step further. Let us examine, for example, the case of education vouchers, a market mechanism that is being widely discussed of late.

Let us compare the existing education system with a system of education vouchers in which:

a) parents would receive an educationl voucher for each child equivalent to, on average, the average cost of a child registered in a Quebec school. Parents could then register their children in the school of their choice;

b) all schools would be private. As such they would be free to select students according to their own criteria and could charge fees over and above the amount of the voucher.

Is this reform a good idea?
The answer is not at all clear, both in terms of economic efficiency and fairness.

In order for such a reform to translate into efficiency gains, students would have to succeed as well or better after the reform, with a level of resources that is the same as or less than before the changes. Promoters of education vouchers believe that greater competition between schools will translate into such efficiency gains.

I seriously doubt that true competition can exist in education. Numerous studies have shown that the determining factor for parents in choosing a school is how far it is from home. This considerably narrows the choice, thus limiting competition between schools. While it is true that in an urban setting there is a greater concentration of schools, traffic and the resulting increase in travel time are such that few parents end up sending their children to schools far away from home. As for parents in rural settings, the notion of choice is clearly a theoretical one.

Competition would be a good thing if it led to an expansion or replication of successful schools and the elimination of less performing ones. However, the reality is that in the realm of education, successful schools have no interest in multiplying because they would then have to admit less talented students. And as for the less successful schools, since education is mandatory in Quebec, it is hardly likely that they would be closed.

We can therefore not expect strong competition between schools. And economic theory teaches us that in the absence of competition, companies charge too much and limit supply. In other words, with education vouchers, the resources dedicated to education would increase (inflated prices) and Quebec students would succeed less well. A private school system with little competition is simply less efficient than a state-regulated monopoly, as our system currently is.

Fairness and efficiency
The implementation of education vouchers has other consequences that could be detrimental to economic efficiency. In terms of student composition, it might be a good idea to have a heterogeneous blend of students of varying abilities and from different socio-economic backgrounds. A system of education vouchers could lead to the exact opposite, that is, a uniform clientele in each school.

Education vouchers could be just as harmful in terms of fairness. Schools that choose to impose fees beyond the amounts of the vouchers will benefit from greater resources than others. And if these establishments are frequented by students from more privileged backgrounds, the gap in terms of academic success between children from different milieus will widen.

The implementation of market mechanisms is therefore not a panacea as the case of education vouchers clearly illustrates.

Nicolas Marceau,
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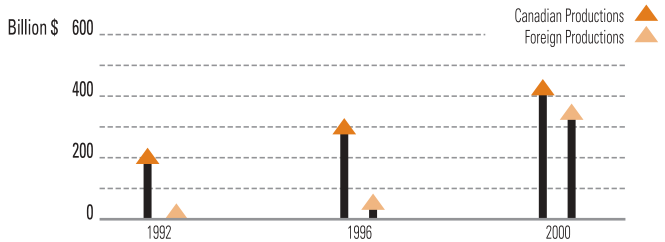
CANADA ECONOMIC DEVELOPMENT REPORT

Quiet on the Set!

After the past few years of seeing more and more signs of film production on the streets of Montreal, it is clear that the city has established itself as a reliable film city. Aided by the favourable exchange rate for American productions, Montreal rapidly entered into the same league as Toronto and Vancouver as a reputable, desired location with a skilled, knowledgeable workforce. One advantage Montreal offers, unique in North America, is the ability to act simultaneously as both a typical North American city and as an European locale, complete with French subtleties. However, this industry is very fickle; one where trends come and go overnight.

Cinematic production budgets were no longer as tightly questioned if the choice boiled down to filming in the US or Canada, and the patriotic fervour – returned in full force after September 11 – guided many productions to stay in America. As well, tensions arising from the various industry unions decrying the volume of "runaway productions" mounted pressure to retain work in America. After playing host for 44 American-based films and made for TV movies in 2000, the Montreal Film and Television Commission announced that at the beginning of 2003 there were no confirmed plans for any major American production within the city. The question that arises is how to preserve all the resources and expertise that have been created in the past few years until film production returns?

The increased demand for movie related services to help assist all the production taking place created a boom for production-related companies. Between 1996 and 2000, employment in services associated in film and video (such as production, distribution, presentation, post-production) increased 49% from 4,541 jobs in 1996 to 6,755 in 2000. Although the actual movies being filmed came and went, many permanent local businesses were established and grew. Montreal is able to offer the complete services required by foreign production crews –- makeup, costumes, studios, equipment –- sometimes all within the same company. Expertise in the industry increased thanks to the injection of foreign money which helps the quality of domestic productions as well.



TOTAL OF CANADIAN DOLLARS SPENT IN MONTRÉAL BY CANADIAN AND FOREIGN PRODUCTIONS

Source: Montreal Film and TV Commission

If there is any conciliation, Montreal has become a very diversified motion picture city. Although production crews provided a visible presence, Montreal has become well established in more permanent facilities as well. Technicolor Laboratories built a processing plant in the city to process the negative of films for the North American market is one such example. The investment and construction of a massive permanent studio on the Montreal south shore is another. Telefilm Canada and the National Film Board have their head offices in the city as well, not to mention the numerous award winning 3-D animation and special effects companies scattered across the island.

However, the question remains as to where Montreal will find itself in the long run. Was 2000 a special year or is the current environment temporary and once budgets become tighter, production will start to flow north again? One consequence of any turndown in the number of productions is that employment in related services will suffer. However, generally speaking, the services that survive typical turndowns such as this are more likely to be the higher skilled, higher knowledgeable firms, hence the reputation for quality film production services in the Montreal area will actually increase in the short term, as long as these firms can remain viable. As well, it is important to keep in mind that domestic productions, which have also increased due to the larger pool of skilled workers, still accounted for almost 70% of production dollars spent in the Montreal areas in 2001. The foreign production aspect of Montreal's film industry may have temporary faded to black, but in terms of overall stability, it is simply preparing for a new act to begin. ⁎

By Michael Yake

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