TREND CHART

GREATER METROPOLITAN REGION

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TURBULENCE!

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Canada

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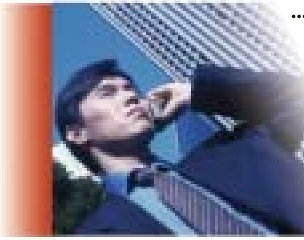

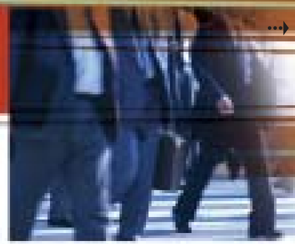

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EDITORIAL

Turbulence!

During this first year of publishing our revamped Trend Chart, our "flight log" has included much good news concerning the economy of metropolitan Montreal. In many respects, our economy has flown higher and faster than many others – including that of Toronto – since 2002. These excellent results were cause for celebration, especially since key sectors of the metropolitan economy – aerospace and information technology – suffered severe setbacks in many other parts of the world during this period.

But this spring, the economic turbulence that Greater Montreal had managed to avoid until now seems to have caught us up, causing a slowdown in growth, a slight increase in unemployment, and a risk of inflation across the country. In addition, some of our biggest players are experiencing tough times: think of Air Canada, which has placed itself under the protection of the Companies' Creditors Arrangement Act, and Bombardier, which is having a hard time filling its order book for regional jets.

And as if that wasn't enough, certain problems in the surrounding "air space" could also affect Montreal's economy. The air transport industry and, in many respects, that of tourism could have done very well without SARS (severe acute respiratory syndrome). As I write these lines, the outbreak seems to have been controlled in Toronto. But the economic damage has yet to be assessed. It is quite possible, in fact, that repercussions will be felt for some time and may impact a much wider area, including Greater Montreal. Already some analysts are considering lowering their predictions for the Greater Montreal tourism industry.

The U.S. economy is another unknown and another source of concern. It remains to be seen whether the Canadian position on military intervention in Iraq will have long-term consequences for Canadian-U.S. economic relations or if the "anti-Canadian" feelings mentioned in some of the media will remain anecdotal. One thing is sure, however: the recovery of the U.S. economy is slow in coming, and as the U.S. is our primary trading partner, this is far from reassuring.

Still, there is no cause for alarm. For the moment, Montreal is experiencing a period of turbulence. While unpleasant, it is certainly not catastrophic. The ride may be bumpy, but the foundations of the regional economy are still unshaken. Montreal will continue to grow in the coming year, although a bit more slowly than we might have liked.

The important thing, under these circumstances, is to remain vigilant and take nothing for granted. The Board of Trade took advantage of the swearing in of Quebec's new Premier on April 29 to remind him in writing of the priorities it has identified for the economic development of the metropolitan area[1]. During this period of "in-flight" turbulence, these recommendations are more relevant than ever. And, like any good pilot, Mr. Charest should do everything in his power to help us rise above it as quickly as possible.

Benoit Labonté
President

1. This letter can be found on the Board of Trade's Web site at www.btmm.qc.ca/documents/DOCS_courriel_divers/Charest_en.pdf

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
Uncertainty continues to reign

Geopolitical tensions culminating in the war with Iraq had a definite impact on the U.S. economy, on stock markets, on employment, and on consumer confidence. Uncertainty surrounding the timing of the war, its length, and its potential impact on the price of oil caused stock markets to plummet before the outbreak of hostilities was announced by President Bush. U.S. economic prospects improved as hopes for a speedy resolution of the conflict were realized, but the markets are still nervous.

Although prospects have improved for the second half of 2003 – the International Monetary Fund (IMF) predicts a 2.2% increase in **GDP** in 2003 – economic data in recent months still paint a gloomy picture.

Employment in the U.S. is still a concern, but the situation is understandable. Wary of economic uncertainties, companies have not increased their employee numbers since the start of the year: in the first quarter, 280,000 jobs were lost in the United States. We can assume that until there is an increase in domestic demand for goods and services, companies will not be doing any hiring. On the other hand, the number of hours worked has increased in certain sectors – a step, at least, in the right direction.

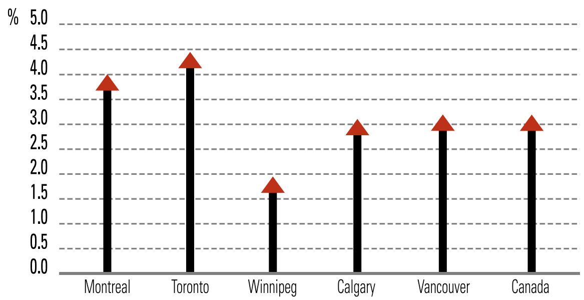
Given the war and the prevailing climate of uncertainty, domestic demand (which accounts for 70% of GDP) is making itself scarce: **consumption** increased by just 1.4% in the first quarter of 2003, the lowest rate posted since the first quarter of 1993. U.S. **GDP** grew at an annual rate of 1.6% in the first quarter – a lower rate than expected. Cautious consumers are postponing their consumption of durable goods, while companies delay purchases and investments. As people wait for the economy to improve, the housing and automobile sectors suffer the direct consequences of this uncertainty.

Housing starts fell by 11% in February, as compared to January, to a seasonally adjusted annual rate of 1.6 million units, the sharpest monthly decline since January 1994. Sales of existing homes fell by 12.6% in January and by 8.1% in February. These setbacks in the housing sector naturally had an impact on exports of Canadian forest products to the United States, which fell by 5.1% in December and by 1.1% in January, compared to the previous month. Sales in the **automobile sector** also fell to 16.1 million in January and to 15.3 million units (annual rates) in February. In March, they increased to 16.2 million units, driven by offers of 0% financing.

Given the current economic situation in the U.S., **inflation** (not counting food and energy) remained a very low 0.9% in the first quarter of 2003, setting off no alarm bells. Financial analysts anticipate that the Federal Reserve will not modify its **key rate,** at least in the first three quarters of this year. It remains to be seen whether a falling U.S. dollar and a slow economic recovery despite the end of the war will encourage Mr. Greenspan to change his plans and lower interest rates in an effort to jumpstart the economy.

Canada
Strong growth despite a few external shocks

The initial months of 2003 were marked by the war between the United States and Iraq, its impact on cross-border trade, and the arrival of the SARS epidemic in Canada. As a result, first-quarter forecasts for economic growth in the country were revised downward to 2.2%, a result somewhat better than that achieved in the previous quarter (+1.6%). In April the IMF predicted annual **GDP** growth of 2.8% this year, but it will be a few months before we can assess the impact of SARS on the tourism industry (especially in Toronto) and on consumption.



PROJECTED CANADA'S REAL GDP IN 2002

Source: Conference Board of Canada

The impact on trade of the economic situation south of the border is another cause for concern. Since the United States is our major trading partner, the stagnation of

TRENDS AND OVERVIEW

U.S. consumption directly affects our **exports** and our trade balance. The 10% appreciation of the Canadian **dollar** against its U.S. counterpart since the start of the year has also had a negative impact on exports. The Canadian **monetary policy** will work to our advantage, however. The Bank of Canada adopted a more restrictive policy at the start of the year to curb inflation – the core inflation rate has been above 2% since February 2002 – pushing the gap between Canadian and U.S. official rates to 200 basis points, thus making the return on our securities more attractive than those linked to U.S. bonds.

The geopolitical uncertainty seems to be weighing on future investments in the country. Statistics Canada estimates that **public and private investments** will increase by 2.1% in Canada in 2003 to a total of $209.7 billion. This growth is directly tied to the strength of the housing sector, which should account for more than 60% of this growth. It goes without saying that investments in companies will continue to be scarce once again this year.

On a more positive note, **employment** continues to fare well, with monthly growth of more than 20,000 jobs since January 2003. In addition, people 55 and over are re-entering the labour force in large numbers: according to the Canadian Labour Congress, 88% of jobs created in the country this year have been among those 55 and over. In recent years, we have heard a lot about the specter of labour shortages haunting many sectors of activity. With the approaching retirement of the baby-boomers, many sectors will be deprived of considerable expertise. If it continues, this trend will therefore be a boon to those sectors most threatened by the labour shortage.

The **construction** industry promises to have another boom year. So far in 2003, Canadian municipalities have issued building permits with a total value of $8.2 billion, or 10.4% more than during the same period last year. Statistics Canada has never before seen such results in the first two months of a year. In short, construction and employment remain strong in the country, allowing us to believe the economy will withstand the shocks of the war and the SARS epidemic.

Quebec
Sustained growth in 2003

During the past year, Quebec has been at the forefront of the Canadian economy, chalking up strong **GDP** growth of 4.3%. While this growth is expected to continue, it will slow to a more moderate 2.6% as a result of the economic woes of the United States, our major trading partner, which is still waiting for better days. Quebec should nevertheless retain the same ranking among the most productive Canadian provinces, but behind those producing oil and natural gas. The "post-war" recovery of the United States should reduce the uncertainty weighing on foreign trade in Quebec and Canada.

The housing sector continues to thrive. Despite the 10% monthly decline in **housing starts** in Quebec in March, and despite the tightening of the monetary policy already begun in the country (raising interest rates), residential construction should continue to grow this year. According to the Institut de la statistique du Québec, housing starts in the province's urban centers posted cumulative growth of 14.9% in the first three months of the year.

In addition, **employment** conditions continue to be welcoming for new workers, although reduced demand in Quebec's manufacturing sector – due largely to latent U.S. demand - is negatively affecting the labour force. Almost 20,000 positions were lost in the first three months of 2003 in Quebec, raising the unemployment rate to 8.9% in March.

Quebec may not have enjoyed its full share of public and private investments in Canada in recent years, but things are looking up in 2003. According to Statistics Canada, Quebec should see its **public and private investments** jump by 8.8% in 2003 – the strongest growth in the country, excluding Nunavut – to $42.2 billion, compared to $38.8 billion in 2002. Investments in the residential sector (housing) should grow by 2.5%, while private investments should be up 3.5%. Together, Ontario and Quebec account for more than half of all investments planned in the country in 2003, with respective shares of 37% and 20%.

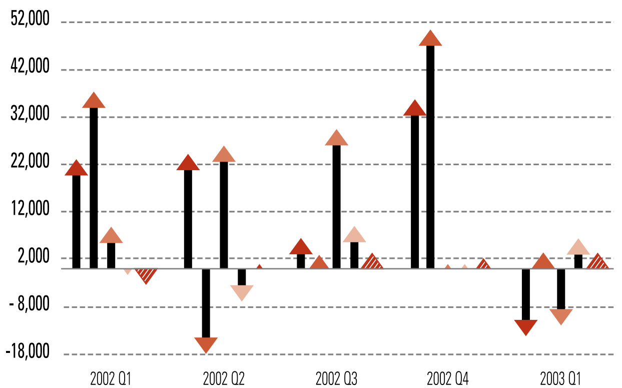
Since investments are concentrated in major urban centers, metropolitan Montreal, and particularly the Laval region, have garnered a growing share of these investments. Thanks to the excellent results produced in 2002 by Laval Technopole, an organization promoting investments in the city of Laval, that region exceeded $1 billion in investments. Up 10% since 2001, the science and technology sectors, including biotechnology, present the greatest potential. Results in 2003 could be equally promising.

OUR ECONOMIC CONDITIONS

Labour Market

A less dynamic start to the year

After an excellent showing in 2002, the employment market faltered during the first three months of 2003. According to Statistics Canada's Labour Force Survey, **metropolitan Montreal** lost 19,800 jobs in March. Between January and March inclusively, Montreal lost a total of 34,400 positions, signaling a drastic change from last year, when 62,000 jobs were created over the twelve months. Recent statistics for the metropolis have been coloured by the layoffs announced by Bombardier and Air Canada. In March, Montreal's unemployment rate shot up to 9.4%, a rate far higher than last year's annual average. This resulted from the addition of more than 10,000 unemployed along with a decrease in the labour force.



JOB CREATION IN THE C5 CITIES

Source : Conference Board of Canada

According to Statistics Canada, Montreal is the city that has experienced the biggest setback in terms of job creation since the start of the year, while Toronto and Vancouver have enjoyed gains of 18,600 and 3,800 jobs respectively.

The province of **Quebec** is also showing signs of running out of steam, with the net loss of 19,600 jobs since the beginning of 2003. In March, it lost 20,800 jobs. The manufacturing sector has suffered the greatest losses, while the construction, housing, and food services industries have posted the largest gains. As in Montreal, employment in the province has shifted gears since the start of 2003, but the experts are not yet ready to sound the alarm. It is not surprising that after the exceptional progress made last year, job creation has slowed this year. We won't be able to draw any firm conclusions until we have seen how things shape up in the coming months. Poor employment results have had a negative impact on Quebec's unemployment rate, which edged up 0.3 points to 8.9% in March.

In Canada, 67,300 jobs were created in the first three months of the year, the smallest quarterly increase since the end of 2001, according to Statistics Canada. In comparison, Canada created 178,600 jobs in the first quarter of 2002. The weakness of the manufacturing sector had a lot to do with this poor performance: the slowdown in the automobile sector and the softwood lumber issue continued to undermine employment in the country. On the other hand, the construction sector made a comeback in March (+12,000 jobs) after falling back since last December. Increased drilling activities related to fears of war in Iraq and its impact on the oil supply along with prices stimulated employment in the natural resource sector. The unemployment rate in Canada fell by 7.3% in March, compared to February, after hovering around 7.6% last year.

Employment gains in the country reflect the newfound vitality of Ontario, which created 71,000 jobs in the first quarter of 2003. After a phenomenal employment year in Quebec, Ontario has retaken its first place position. This data does not take into account the impact of SARS, however, or the WHO's temporary listing of Toronto as a destination to be avoided.

Housing Market

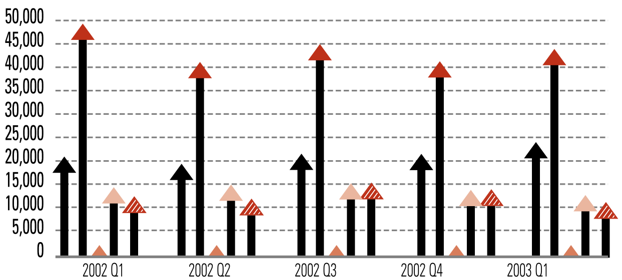
Slight dip in Montreal housing starts

After fifteen months of continuous growth, residential construction in **metropolitan Montreal** registered its first monthly decrease, according to the Canada Mortgage and Housing Corporation (CMHC). Between March 2002 and March 2003, housing starts dropped 14%, or a total of 1,395 units. In the first three months of 2003, the island of Montreal, Laval, and the North Shore were the only sectors to chalk up gains. Increases on the island of Montreal were driven by the construction of rental units, fueled by low vacancy rates. Data collected over the past year reveals that the relative

OUR ECONOMIC CONDITIONS

affordability of the suburbs have made them the hottest resale markets: in 2002, the average price of a single-family home was $226,600 in Montreal, $138,000 in Laval, $126,900 on the North Shore, and $137,000 on the South Shore.

In the first months of 2003, monthly housing starts in **Quebec** surpassed the seasonally adjusted annual rate (SAAR) for 2002. In March, with a total of 39,800[2] housing starts, they were nevertheless down 10% from the previous month and down from the annual average of 42,600 units posted in 2002. Given the heights reached in January, however, this situation is not worrisome.



HOUSING STARTS IN THE C5 CITIES

Source: Conference Board of Canada

The total value of residential building permits was down 17.5% in February to $494 million, compared to the excellent results in January 2003. Elsewhere in Canada, only Ontario saw a greater decrease in the value of residential permits. The total of residential and non-residential building permits has fallen 13.2% in Quebec since January, to $747 million. When you compare this year's performance to the same period last year, however, this trend is reversed, with a gain of 7.6%.

Overall, the construction sector remained strong in **Canada** in March, despite a slight drop compared with January. There were 210,500 housing starts (SAAR) in February, down from 246,100 units in January. The CMHC tells us that results for the first quarter of this year were 6.1% higher than those achieved in the first quarter of 2002. Higher employment, lower mortgage rates, and higher personal income continue to stimulate the housing market.

The total value of building permits was $3.9 billion in February, down from $4.3 billion in January, when an all-time record was set, according to Statistics Canada. The story is much the same for residential permits, which fell 14.2% in February compared with January 2003 and 1.4% compared with the average monthly rate for 2002, an exceptional year. Prospects for the Canadian construction industry remain good this year. ※

Financial market

Inflation rate

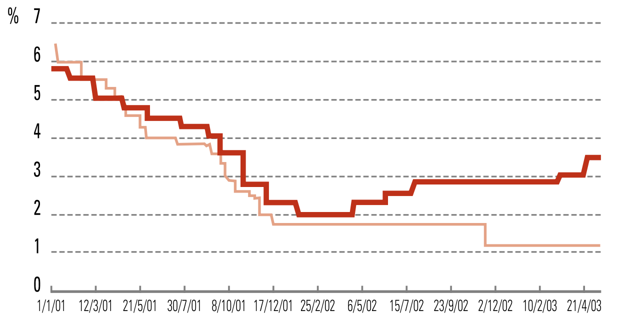
For the ninth consecutive month, or since July 2002, total consumer price index (CPI) inflation has remained well above the 2% inflation target established by the Bank of Canada. After reaching 4.6% in February, a twelve-year high, the total CPI was 4.3% in March, fuelled, among other things, by higher energy prices (natural gas, oil, and gasoline). Even when the eight most volatile components are deducted, the core consumer price index grew by 2.9% in the third month of 2003. In recent months, the growth of the total CPI has resulted from three factors: higher energy prices (oil and natural gas); a significant increase in insurance premiums; and the fact that the Canadian economy is functioning at close to full capacity. The Bank of Canada remains confident that the inflation rate will fall to within its target range by next year. As geopolitical tensions ease, crude oil prices should continue lowering.

Interest rates

On April 15, the Bank of Canada tightened its monetary policy for the second time this year. With core inflation above its target and the economy still functioning at almost full capacity, the central bank had no choice but to raise its overnight target rate 25 basis points to 3.25%. Although geopolitical tensions continue to cast a pall over global economic prospects, the worst fears[3] have not been realized. The Bank of Canada remains confident that these fears will continue to fade, and economic growth will resume in Canada and the United States. The reversal of monetary easing should therefore continue in this country to return the inflation rate to the target set by the Bank of Canada. The 200 basis point gap established between Canadian and U.S. short-term rates in late April could therefore continue to widen.

2. Seasonally adjusted annual rate
3. These worst fears being a long-term armed conflict or a conflict in which oil wells wereset ablaze, increasing the cost of crude oil.

OUR ECONOMIC CONDITIONS



Exchange Rate in Canada and in United States

Source: Bank of Canada and U.S. Federal Reserve — Canadian Rate — Americain Rate

Exchange rate

The Canadian dollar has risen against its U.S. counterpart in recent months, posting a five-year high of 70.48 cents U.S. on May 1st. Since January 2002, the value of the Canadian dollar has grown by about 10% in cash terms (allowing for inflation). Although the loony's flight will have some negative repercussions on Canadian companies and their commercial activities, the strength of the Canadian economy (GDP, production capacity utilization rate, profits in the manufacturing sector), in relation to that of our neighbour to the south, will give us some flexibility to absorb this impact. Still, the faster it climbs, the greater the impact will be. Any increase in the dollar inevitably affects the competitiveness of manufacturing companies, making exports more costly, but this affect should be temporary, given the sound financial position of companies and the Canadian economy. The appreciation of our currency is nevertheless a problem, since it increases production costs, limiting our ability to guard against its impact.

All in all, foreign investors have responded well to the appreciation of our currency and the monetary policy of the Bank of Canada. According to Statistics Canada, foreign investors purchased $4.6 billion more Canadian securities than they sold in February. Securities denominated in Canadian dollars are attractive to investors, given the rising interest rates in Canada and their positive interest rate differential with regard to U.S. rates. While inflation could erode the return on these investments, this should be corrected by decisions made by the central bank.

Stock markets

The bursting of the technology bubble, financial scandals, and fears of war with Iraq have undermined investor confidence in recent years. Uncertainty still weighs heavily on the markets, keeping investors on the sidelines. In the past few months, it seems no U.S. economic data could bind this wound, and stock markets appear to be listless. In fact the beginning of 2003 confirmed that companies and consumers were shaken by the possibility of war with Iraq and fears it could be of long duration, and the still unknown reconstruction costs. Positive U.S. economic news has been scarce, and all stock markets were down in the first quarter of 2003. U.S. and global economic prospects are worrisome. The full impact of the SARS epidemic on the Asian and international economies is not yet known, but it is greatly feared the repercussions could be devastating. Within the global economy, Canada continues to perform well; yet the poor showing of the U.S. economy and the as yet uncontrolled spread of SARS in Toronto seem to cast a pall on the next few quarters of the Canadian economy, given Hogtown's economic weight within the country.

OUR ECONOMIC CONDITIONS

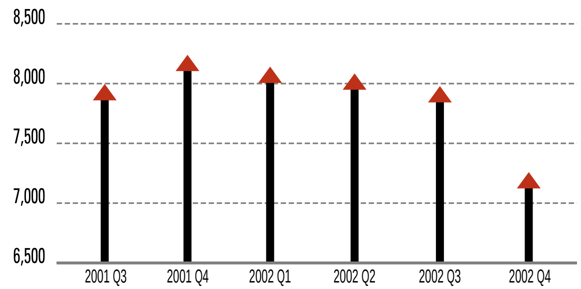
Foreign trade
The trade balance shrinks again

The value of **Quebec** exports grew to $17.2 billion in Q4 2002, up 2.7% over the previous quarter, largely as a result of aircraft sales. Despite the difficulties now facing airlines around the world, aircraft exports remained high throughout 2002 since, for the most part, order books were filled long before market conditions deteriorated in the aviation sector. On the other hand, automobile sales braked in the third and fourth quarters of 2002 following the closing of the Boisbriand plant. On a monthly basis, Quebec exports increased by 9.3% to $5.9 billion (current dollars) in January, helped by sales of aircraft, ships, and medical supplies.

Imports increased 5.1% during the final quarter of 2002 over the previous quarter. The star products were cars and trucks, crude oil, computers, and telecommunications equipment. On a monthly basis, Quebec's merchandise imports posted a 6.7% drop in volume to $5 billion in last January from December 2002. Oil and automobiles were responsible for the largest declines.

Since exports have grown more slowly than imports since the beginning of 2002, the overall trade balance has been slashed practically in half during each quarter: from $2.4 billion in Q1, it had tumbled to just $343 million by the final quarter of 2002. The balance with the United States, where we export 84% of our merchandise, saw a similar – but less dramatic – decline, with an 8.5% decline in Q4 compared to Q3. This was the fourth consecutive decrease in the trade balance with the United States – a trend that will not likely improve in the first quarter of 2003, considering the remarks made by Paul Cellucci, the U.S. ambassador to Canada, when war was declared on Iraq. We can only hope that a lower trade balance will have a limited impact on GDP growth[4].

Exports in **Canada** fell by 1.6% to $34.6 billion in February, while imports remained stable at $30 billion. These two figures combined created a trade balance of $4.6 billion, down half a billion from January – the third decrease in four months. The aerospace sector - representing 22.6% of all exports in the "machines and equipment" sector and ranking second in terms of merchandise exports - was the hardest hit, with a 23.9% decrease in exports of planes, parts, and aircraft engines, for a total of $1.3 billion in February.



QUEBEC'S QUARTERLY TRADE BALANCE WITH THE UNITED STATES

Source: Institut de la statistique du Québec

The trade balance with the United States fell a quarter of a billion dollars in February compared to January, accounting for about half of the total decrease in the international trade balance. Canada's decision not to support the U.S. invasion of Iraq certainly had a negative impact on Canada-U.S. trade, as well as on trade in general. Let us hope this reaction fades quickly. The difficulties experienced by airlines around the world also resulted in decreased U.S. demand for the small passenger and business jets produced in Canada. Other sectors turned in a more positive performance, however – particularly automotive products (+1.7%), and energy products (+1.8%), with exports totaling $7.7 billion and $5.8 billion respectively in February. Another factor that no doubt curbed demand for exports was the rise in the Canadian dollar since the beginning of the year.

4. The GDP equals total consumer investment and government spending plus the value of exports minus the value of imports.

GREATER MONTREAL ECONOMY

Air Canada

A future full of challenges for Air Canada

Recent years have been difficult ones for North American airlines. The collapse of the high-tech sector in 2000, the economic slowdown in 2001, the terrorist attacks on September 11, 2001[5], fare wars with discount fliers, rising fuel prices, and the outbreak of war between the United States and Iraq have all made matters worse for air carriers, including Air Canada. SARS has now added to their problems.

Several U.S. airlines have filed for bankruptcy protection in recent years. Air Canada is no exception to this rule and must deal with major cash flow problems and a high cost structure. The company's 2002 financial results were not encouraging: a net loss of $428 million, a net debt that has grown to $12 billion, and an actuarial loss in its pension plan assessed at $1.3 billion. Following the announcement of these results, the company's president, Robert Milton, explained that Air Canada would have to reduce its operating costs by some $650 million annually, or 22% of its current labour costs: an enormous task that will not be viewed kindly by the unions. As a direct result of the conflict in Iraq, Air Canada announced the elimination of 3,600 jobs (about 10% of its total numbers) by the end of this year.

Restructuring required

Unable to reach an agreement with its labour unions, the air carrier filed for bankruptcy protection on April 1, 2003, under the federal Companies' Creditors Arrangement Act (CCAA). It will have until June 30, 2003, to negotiate the restructuring of its debts with its creditors and must then submit this plan to Ontario's Superior Court for approval. Creditors are already nervous: Air Canada owes $50 million to Nav Canada[6] and $5.75 million to Aéroports de Montréal. As part of this reorganization, Air Canada managers have announced a shift toward "discount" air travel. This poses a considerable challenge, if only at the level of employee negotiations. One might also wonder how Air Canda will manage to maintain demand for "full fare" service when it is offering the same service at discount rates.

Possible solutions

The House of Commons' Standing Committee on Transport has studied the viability of Canada's air transport industry. On April 11, it published a report making four recommendations:

- That the federal government replace the Canadian Air Transport Security Authority (CATSA) with a new body responsible for security on all modes of transportation; that the operating costs for this organization along with the expenses related to ensuring the security of transportation be assumed by the Consolidated Revenue Fund; and that this organization present annual reports to Parliament on the state of transportation security in Canada.
- That the federal government eliminate the airport security fee.
- That the federal government suspend the payment of airport rents for two years and that the airports pass these savings on to the airlines.
- That for two years the federal government reduce its excise tax[7] on aviation fuel by 50%.

Within the context of globalization, companies must work in a competitive environment to promote their harmonious long-term development. The Board of Trade thus supports legislation that is fair to all Canadian airlines and will help them become more competitive in domestic and international markets. We hope its current restructuring will enable Air Canada to resolve its financial difficulties, but, to do so, it must immediately reduce its costs in a sustainable way. Perhaps it should take advantage of this transition period to promote the expertise it has developed at its Dorval heavy maintenance base. Montreal possesses a comparative advantage in the aeronautics sector. It must rely on these strengths to set itself apart from others, which could mean placing these maintenance services at the disposal of other airlines. The coming weeks will thus be decisive for the future of Air Canada.

Bombardier

Restructuring continues

Bombardier has fallen victim to tough economic times. Since the technology bubble burst in March 2000 and the September 11 aftermath, the company has seen a pronounced slowdown in new orders for business jets. It seems this luxury, which senior executives could once afford, is no longer always an option. Moreover, as noted in the preceding text on Air Canada, the air transport industry is in crisis and undergoing one of its bleakest periods ever. Many airlines in Canada, the United States, and elsewhere have filed for bankruptcy protection, and this naturally affects Bombardier, the third largest airframe manufacturer in the world.

5. According to the International Air Transport Association, air carriers around the world have lost a total of US$30 billion since September 11, 2001, and losses associated with the war in Iraq could be at least US$10 billion.
6. Nav Canada is a company that controls the use of Candaian air space.
7. An excise tax is a selective tax on certain products abd services.

Today's economic and financial context forced Bombardier to lower its earnings forecast. The results of the fiscal year ended January 31, 2003, announced in early April, revealed a net loss of $615.2 million, compared to a net profit of $36 million the previous year. In addition to instituting major changes in the organization, Bombardier's new president, Paul Tellier, took less than two months to identify solutions to problems facing one of Quebec's crown jewels. They begin with a change in the corporate mentality proposed by the new president: consolidating major strengths while concentrating efforts on activities with the greatest potential for profitability.

As he did for Canadian National a few years ago, Tellier hopes to turn Bombardier around and restore its credibility among investors. For this reason, the announcement of the latest financial results was accompanied by a refocusing of activity on civil aviation[8] and passenger transport by rail.[9] Then came the announcement of the sale of Bombardier's recreational products division – assessed at almost a billion and a half dollars by some financial analysts – on which the parent company was founded in 1942. Tellier explains that this decision was an inevitable step in the restructuring process. Already, the Bombardier family has announced its decision to purchase this division. As we go to press, this sale has not yet been finalized, although the company has said the division will not be sold to a direct competitor (the time required for regulatory approval would delay the signing of the contract too long). Another key element in the restructuring plan is the issue of class B shares, which should swell the company's coffers to the tune of about $800 million.

Significant challenges await the new president of Bombardier, who must find at least $2 billion of capital to orchestrate the company's restructuring. Investors will have to be convinced of the results of this financial recovery within the next few months.

Despite order books that are not filling up as fast as management would like and the setbacks suffered by the air transport industry, the company's future is not altogether bleak. The proposed downsizing will bring employee numbers in line with the order book, resulting in productivity gains. In addition, orders for regional jets, including the $543 million order for 17 Bombardier aircraft from FlyBe, a budget airline in the U.K., look promising. A purchase option for 20 additional aircraft could double this order. Possibly Air Canada, which is also restructuring, will follow the same path. Tellier's approach looks positive for Bombardier's 15,700 employees in metropolitan Montreal and for the aeronautics expertise developed within our regional economy. Montreal is clearly an aviation hub, and Tellier's arrival at the helm of Bombardier should further strengthen the role played by the company in the local and international economy.

Order book for regional jets at Bombardier
March 31, 2003

	Planes already delivered	Planes to be delivered	Total order totales
CRJ100	226	0	226
CRJ200	504	177	681
CRJ440	21	54	75
CRJ700	85	102	187
CRJ900	1	24	25
Challenger 800	17	0	14
Total	854	357	1221

Source: Bombardier

Fair Centre

The need to give Greater Montreal a fair and exhibition center

In recent years, metropolitan Montreal has enjoyed great success in terms of tourism and its related economic spin-offs. Of course the recent advertising campaigns by Tourisme Montréal have been more dynamic than those by Tourism Toronto, but with its multicultural atmosphere and range of year-round festivals and tourist attractions, Montreal is a tourist magnet! Visitors are charmed by our city.

But tourism also means business tourism, fairs, and exhibitions. All of these events entail the arrival of tens of thousands of people who explore the city and its attractions, spending hundreds of dollars (often charged to expense accounts) along the way. Montreal is one of North America's top business travel destinations, behind Toronto, which is in third place. However our metropolis no longer has permanent infrastructures for the holding of international-caliber fairs and exhibitions. Tourisme Montréal counts some twenty new events that were lost in 2000 alone to Toronto, which has adequate infrastructures to host large fairs and exhibitions, because of a lack of space to receive them.

8- Despite a string of announcements about the restructuring of air carriers, it seems the purchase of regional jets rather than of larger more conventional planes is still their option of choice
9- Bombardier's transportation division is doing very well, thanks in part to contracts signed with the Taipei metro in Taiwan and the London metro in Great Britain. According to Tellier, the rail transport sector is practically recession-proof since clients in this sector have relatively stable financial means

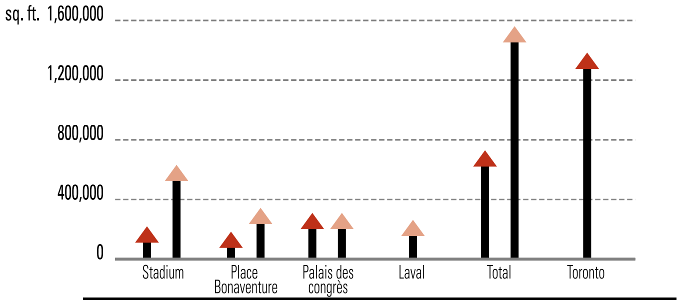
GREATER MONTREAL ECONOMY

THE CURRENT SITUATION

According to a report by Tourisme Montréal[10], to remain competitive, Montreal will need fair centers with a total of 820,000 to 1.5 million square feet, or at least 400,000 additional square feet. Currently, Montreal has a total of only 725,000 square feet, divided among three different facilities – the Olympic Stadium, with 225,000 square feet (and an additional 200,000 square feet during the summer season); Place Bonaventure, with 200,000 square feet; and the Palais des congrès, with 300,000 square feet. The longer we wait before making a decision, the greater the risk that Montreal's competitors will catch up with and overtake it, which would, of course, have financial consequences.

POSSIBLE SOLUTIONS

Tourisme Montréal's study proposes five possible solutions: some short-term and some longer term, requiring new constructions.



SURFACE AREAS OF FAIR CENTRE PROJECTS IN GREATER MONTREAL

Source: Tourisme Montréal — Current situation — Proposed situation

Place Bonaventure

This infrastructure is well-situated in downtown Montreal, near hotels and tourist attractions and linked to the metro. Place Bonaventure administrators plan to expand the exhibition space to 340,000 square feet. Tourisme Montréal does not see this as a good long-term solution, however, since it does not meet current industry standards. Already, the current layout of 200,000 square feet meets only the needs of some small and medium-size exhibitions because of major architectural constraints.

The **Technoparc**

A project developed on this site would permit the construction of a building fully adapted to the needs of a fair centre, including inside spaces without pillars, good access to the exhibition area, and sufficient parking. However, a project on this site would not be served by the metro and would not be available for use soon, since the buildings would have to be constructed from scratch.

The **City of Laval**

For the moment, this new 250,000 square foot construction, with the possibility of expansion to 500,000 square feet, is proposed for the city of Laval. This centre could eventually be linked to the metro system, since stations are being built in Laval. But its distance from downtown Montreal is a disadvantage for the organization of international-level events. On the other hand, this distance could make it possible to organize fairs at lower cost.

The **City of Montreal**

The city of Montreal is considering the construction of a fair centre east of the Palais des congrès, on the Ville-Marie expressway. No analysis has yet been done of this scenario. Such a location seems unsuitable for this purpose, however, since access for many transportation vehicles would be required. In addition, it would probably be difficult to insert a large building behind Montreal's historic city hall.

The **Régie des installations olympiques (RIO)**

Of all the proposed projects, this is the one where changes to existing facilities seem most possible in the short term. This project, estimated at $74 million, would increase permanent exhibition space by 635,000 square feet. Linked to the metro, the stadium offers extensive exhibition space without pillars. Nevertheless, the infrastructures were not designed to host fairs, and some of them may not be very functional, despite the immensity of the stadium.

The final decision remains to be made, but one thing is certain: the construction or development of a fair centre in Montreal would improve the city's tourist supply while generating economic spin-offs for the entire metropolitan area. And, with its fair centre, metropolitan Montreal would possess urban infrastructures worthy of a large city, thus promoting sustainable long-term development.

10. *Étude sur l'état de la situation des centres de foires dans la région métropolitaine de Montréal,* Tourisme Montréal, mars 2003.

GUEST ECONONIST

SARS and Canadian Foreign Trade

As this is being written, the WHO has just lifted its travel warning concerning the SARS danger in Toronto. By the time you read this, the SARS picture is likely to have changed again, perhaps more than once. What one can reasonably do is create two scenarios, one optimistic and the other pessimistic, and point in the direction of their respective probable effects. At the time of writing, the pessimistic scenario seems more applicable to China, the optimistic one to Canada.

Optimistic scenario

Canadian SARS cases fade out, but because the disease is highly unlikely to be eradicated worldwide, it will be sporadically reintroduced. Following each reintroduction, there will be following a period of excitement, and another fade-out, entailing more than considerable additions to health care costs.

The damage for 2003 in terms of tourism has now been done. The farther you go from Toronto, Ontario, Canada, the vaguer the actual location of the epidemic, until some people will believe that it is “Ontario”, others that it is “Canada”. Persons contemplating a vacation will naturally look for prospective destinations with no recent bad news. To make a wild guess, Canadian tourist revenues might be down 20% from 2002. The few tourist businesses forced into bankruptcy by the 2003 scare will continue to be operated by different owners. The continued effect of the SARS scare will fade out rapidly, and by 2004, Canadian tourist revenues should be back to where they would have been otherwise.

Visible exports should remain substantially unaffected both in 2003 and thereafter.

The other problem of concern is the People’s Republic of China. At the time of the writing, SARS seems to be rampant in China and headed for the remote parts which have limited medical facilities. The optimistic scenario requires us to assume that the epidemic in China will somehow be contained. One real problem in China is that it has become one large factory to supply a great many consumer goods to the world. Once SARS raises its head in a particular industrial establishment, the containment procedure should force a shutdown for at least a limited period of time. Managers (particularly expatriates) will tend to evacuate their families as well as themselves. There will be drops in production. In Canada, that might translate itself to the disappearance of some items from the shelf of the “dollar shop”, as well as the electronics store. Chinese imports of textiles will be replaced fairly quickly from other low-wage sources. A not unreasonable estimate might involve a decrease in Chinese exports to Canada by 20-25% in 2003, with growth resuming in 2004 with Canadian imports from China returning to the 2002 level by 2005.

Pessimistic scenario

Following periods of apparent progress, Canadian cases continue to spread somewhat like the Spanish flu did at the end of World War One. Most of the population will be exposed to the virus, with no symptoms. Of those showing symptoms, 85% will recover, and 15% will die.

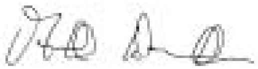
The publicity from the continued/resumed epidemic might cut tourist revenues in 2003 by 75%, and visible exports by 25%. The latter would arise not only because foreigners would, falsely, fear infection from Canadian goods, but also because some suppliers would have substantial production interruptions.

In China, cases are assumed to spread widely with industrial production and growth suffering substantially. Exports could be down by 50% in 2003, with a slow recovery as the epidemic sweeps through the population and eventually fades on the pattern of the Spanish flu. Chinese imports from Canada (and from everywhere else), would fall considerably.

There are of course many intermediate possibilities between what has been described as the optimistic scenario and pessimistic one. It would be reasonable to point out that no one knows or can know the future, and thus to emphasize that all of the information above is speculative. ☼

Canada’s Trade with China (C$000s)		
	January - December	
	2001	2002
Exports	3,949,110	3,528,737
Imports	12,721,016	15,975,579
Trade	16,670,126	19,504,316

Source: http://www.asiapacificbusiness.ca/stats/trade/general_dataset1_china.cfm



Antal Deutsch
Professor of Economics, McGill University

A GLANCE AT MONTREAL

A passion for Montreal – *À LA* Charles Lapointe

During a speech given at the Board of Trade of Metropolitan Montreal on March 12, Charles Lapointe, president and CEO of Tourisme Montréal, discussed his long-term vision of Montreal tourism. The following is a summary of his speech.

Montreal is one of the some 350 urban destinations most often chosen by people around the world for vacations and business conferences. It would therefore be useful to highlight a few facts that could help formulate a strategy encouraging them to opt for Montreal between 2003 and 2017.

In the past fifteen years (1988-2002), Montreal welcomed 83,694 million tourists – not counting those who spent less than 24 hours here. Since 1988, those some 84 million visitors have spent almost $22 billion in Montreal. In 2002, tourists who spent at least one night in the metropolis left CDN$2,077 billion in Montreal. And year in, year out, short-term visitors (those spending less than 24 hours here) spend almost $200 million.

For pleasure tourism, environment and quality of life are in some ways the heart of Montreal's invitation to various clienteles to come spend a unique vacation here. From the Tour de l'île to Gay Pride, along with dozens of other festivals of all kinds throughout the summer season, and now, for the fourth year in a row, the Montreal High Lights Festival in winter, the four corners of the "expanded" downtown core overflow with cultural and urban creativity.

I would like to stress the determination and perseverance of Alain Cousineau, chairman of the board of Tourisme Montréal, who, since the mid-1980s, has remained focused on "reviving tourism in Montreal." It was, moreover, in his 1986 document La relance du tourisme à Montréal that the notion of a "guest night" tax was first proposed.

We can, without false modesty, affirm that destination Montreal has made significant progress: development of events, diversification of clientele, increased number of international conferences, a hotel boom, skills training, and more.

The most recent available data (Pannell Kerr Forster's, 2002) reveals that the occupation rate for Montreal's hotel network was 68.4% in 2002 - higher than that in Vancouver (62.4%), Toronto (63.9%), Ottawa (64.7%), and Quebec City (64.5%). And this notwithstanding the fact that, since 1999, the number of high-quality hotel rooms has increased by almost 1,000 in Montreal. I can't give you a complete list of site improvements, added attractions, and other so-called tourist products in Montreal: same island, new city, and still a multi-faceted destination.

But here is a brief look at some recent developments:
• the Science Centre in the Old Port;
• expansion of the Palais des congrès
• renovations at Place Bonaventure
• the quartier international (ICAO, CDP)
• ten new hotels (downtown/Old Montreal);
• Plan lumière (historic district);
• transfer of flights from Mirabel to Dorval;
• re-opening of the Lachine Canal
• the CART series
• and, since 1997, the $2 tax on bed nights, allowing us to devote more than $45 million to promoting Montreal as a tourist destination.

Not a bad track record! But we mustn't forget that other cities, from Baltimore to Boston, have also evolved – and can boast equally impressive figures.

As Phyllis Lambert likes to say, you must have a bold vision to move in the right direction and achieve results. We need an ambitious goal in terms of increased numbers and tourist revenues. Over the past fifteen years, by devoting the required skills and resources, we have managed to position Montreal at the forefront of culturally vibrant urban destinations. Between 2003 and 2017, we aim to grow from 84 to 115 million visitors, an average annual increase of 2%, which will require the gradual opening of 4,000 to 5,000 hotel rooms. This should result in total tourist revenues of $44 billion (constant dollars), compared to $22 billion in 1988-2002.

A GLANCE AT MONTREAL

It goes without saying that we are working in a highly competitive environment. But we have held our own in the face of the sometimes “aggressive” alternatives.

This competition will only get stiffer. As we expand our Palais des congrès, 80 U.S. cities are constructing or expanding their own convention centres. And there is often a degree of mimicry involved. In the early 1980’s, for example, casinos were rare; in 2003, most provinces and U.S. states have more than one.

The prospects are certainly exciting, but also demanding. Over the very short term – this year and next – there are a multitude of emerging projects, accomplishments, and decisions. Here are just a few:

In 2003:
• Dorval airport (cross-border finger)
• Mount Royal (historic district and natural setting)
• One island, one bicycle path (120 km circling the city)
• the Quartier international
• the Jarry Park Stadium (second expansion of the tennis centre)
• the National Circus School
• La Ronde (investment by Six Flags)
• Mosaïcultures (surface area doubled)
• the cultural showcase (one-stop service, ticketing system)
• the Grand Masquerade
• the Féerie de Noël (Old Montreal, Old Port)

For 2004, I can mention at least these projects: 1) the master plan to be presented by the Société du Havre, 2) the adoption by the city of its new planning program, and 3) the opening of Dorval’s new International Arrivals Hall.

In the coming years, we will be inaugurating the new festival park, the Spectrum Complex, the MSO hall, the Grande bibliothèque du Québec, the new pavilion at the Museum of Fine Arts, the west McGill addition to the musée de Pointe-à-Callière, and the École des métiers du tourisme in Old Montreal’s Viger building. So change is in the air! But, like all cities, we are going through difficult times. The biggest constraint now is the lack of functional space for fairs and exhibitions. Everyone agrees that the fair and exhibition market is expanding in North America. Unlike Toronto, which has the necessary infrastructures, Montreal does not have a satisfactory venue for large commercial events of this kind – and our clients know it. If only we could see the problem of the Olympic Stadium’s roof resolved once and for all! Soon, perhaps.

In addition, urban animation requires a boost from the occasional event – and thus financial support. It is perhaps time to think about creating a development fund for large events, which would supplement the efforts already agreed to.

I am deeply convinced that cultural products are the ones most likely to nourish Montreal as a tourist destination - and interest those visitors of greatest interest to us. I’ve said it before: the essence of urban tourism is culture!

I love Montreal and the diversity of its communities and neighbourhoods. I love its cultural life, in the broadest and most complete sense of the word, from food to fashion. Bravo to the troupes that keep us entertained and to the teams that make museums come alive. And bravo to the Montrealers who make their city, their expanded downtown core, a colourful, diverse, and friendly place – the greatest downtown in North America.

Montreal’s urban animation has become a festive label of quality. Montreal is a true city of ambiance. More than ever, it is a unique and original destination. ⁎

Charles Lapointe
President and CEO
Tourisme Montréal

CANADA ECONOMIC DEVELOPMENT REPORT

From ugly eyesores to sparkling jewels

Of the many elements involved in "Smart Growth" – effective public transportation, mixed neighbourhoods, vibrant cultural life etc. – the one aspect that has been late in receiving attention, but one that also has significant economic potential, is the reclamation of "brown fields". Brown fields are vacant, generally (although not necessary) contaminated lots in an urban centre. Since efficient land use will emerge as a vital component of a competitive city in the future, brown fields need to receive a higher level of priority from city planners and the private sector. Urban sprawl, which evades the issue of the complicated clean-up of brown fields, is not just unfashionable but also non-efficient and impacts negatively on the environment. As more and more people continue to move towards the urban centres, maximizing the usable space within the city will become a key feature of productive cities.

Although Quebec has recently expanded Revi-Sols, a funding incentive program first implemented in 1998 which provides grants to communities for brown field reclamation, this initiative is viewed as being late coming. Montreal is already well behind other Canadian cities such as Vancouver and Toronto in this initiative. Canada in general has been cited to be at least 10 years behind other countries, particularly the USA, in dealing with brown fields, due primarily to the lack of a serious example that can garner public attention (ex. Love Canal in Niagara Falls, New York, in the late 70's).

One reason brown field reclamation has not garnered sufficient support in Montreal is probably due to the perception of these lands. The public and private sectors should look towards brown fields as opportunities for economic development, rather than simply as an environmental cleanup project. For business to strongly support the reclamation of brown fields *en masse,* there needs to be clear, direct economic benefits. The city recognizes this aspect, and even referred to the $100 million re-opening project of the Lachine Canal, a perfect example of an underused site for over 30 years, as a driving force in regional and local economic development. The recent residential developments in Montreal South-West, a district that has undergone profound economic downturns in the past 20 years, lend testimony to this belief.

A second plausible explanation for the slow reaction to this concern is cost. Since decontamination is an expensive undertaking, many developers find that the value of the land is not worth the price to clean it up. Not surprisingly, Montreal's relatively low land values, compared to Toronto and Vancouver, have played a role in the delay of action. This is why reclamation needs to be viewed as not simply a project affecting solely the vacant land, but as a tool of redevelopment of the neighbouring economic region as well. The cost for the clean-up should be considered as being shared by an entire community and not just the owners of the affected tract of land. In fact, governments could increase their financial support towards the clean-up of brown fields since tax revenues would increase once the lot is transformed from vacant to productive activity. Brown fields, long since shunned from view, need to be given a wider vision.

Economic Benefits:

- creation and retention of economic opportunities
- increased competitiveness for cities
- increased export potential for Canadian clean-up technologies
- increased tax base for all three levels of government

Social Benefits:

- improved quality of life in neighbourhoods
- removal of threats to human health and safety
- protection of green fields from reduced pressure on urban sprawl

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