Trend Chart
Greater Metropolitan Region

volume 6 > no 1 > october 2003

No margin for error!

a publication of the Board of Trade of Metropolitan Montreal

Exclusive partner

Canada Economic Development
Développement économique Canada

Canada

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

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This document pertains to data before September 4, 2003

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

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Canada Post – Plublications mail agreement no. 40063203.

Editorial

No margin for error!

The data in this *Trend Chart* reflects in more ways than one the somewhat difficult year experienced by the Montreal, Quebec and Canadian economies to date.

Given that the list of events, situations and decisions that worked against our economy's growth is rather long, we will limit ourselves to mentioning the principal ones: SARS and its impact on the tourist industry; the lumber conflict; the slow recovery in the U.S., our main economic partner; the meteoric rise of the loony and its effect on our exporters; and the closure of the Biochem laboratory and the resulting loss of a leading-edge research team in Laval. Most of these calamities, it must be said, were in many respects beyond the control of decision makers and it is therefore hard to imagine how they could have been avoided.

This does not mean to say that government decisions and interventions are not important for our economy. What it does show, however, is the fact that when we are going through tough times, as is the case right now, our governments simply do not have any margin for error. They must take action, and the right action at that.

In this context, the presentation of draft Bill 9 on "Territorial reorganization of certain municipalities" does little to reassure observers of the Montreal and metropolitan economy.

As indicated in the brief it presented to the Parliamentary Commission on September 11, the Board of Trade is hard pressed to object to public consultation on an issue that affects peoples' sense of belonging to a community and its organization. Still, the potentially devastating consequences of the possible de-mergers have diverted the attention of many, including the Board of Trade, to this draft bill. It appears that Bill 9 has mobilized – and will continue to mobilize – many decision makers who would otherwise be devoting their time to the economic development of the Montreal metropolitan region.

This situation places the Board of Trade in a serious dilemma: on the one hand, the desire to finish with this issue once and for all and move on to more constructive matters; and on the other, the desire to hold on to what the new cities of Montreal and Longueuil have acquired for the economic development of the region.

This is yet another situation where there is no room for error: we cannot go back to the status quo nor to the model responsible for the metropolitan region's stagnation in 26th and last place among the major North American agglomerations in terms of per capita GDP. We must also not end up with a deficient structure, or worse, additional structures. In short, the consultation must allow citizens to express their support of the new cities, if only for lack of a better option.

* * *

The last election put in power a government committed to change. This change – as the data in this Trend Chart shows – should stem from good decisions.

This means that our elected officials have an important and delicate responsibility: They must demonstrate, at all times, that the changes they are proposing are in effect the right changes. In this vein, the Board of Trade requested in its brief on Bill 9 that comprehensive impact studies be conducted and made public before any public consultation.

At a time when there is little room for error, it makes good sense to be more cautious and require better explanations. And this is precisely what the Board of Trade intends to do.

Benoit Labonté
President

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

Trends and overview

United States

A recovery but no new jobs

Despite all the incentives — tax cuts, expansionist monetary policy, 0% financing on durable goods — America's recovery comes without any new jobs. From January to July 2003, the country lost 328,000 jobs and un employment continues to hover above 6% despite falling 0.2 points to 6.2% in July over June, mostly because some of the unemployed simply stopped looking for work. These figures continue to tarnish the Conference Board's **Consumer Confidence Index,** which dropped 6.9% in July to 76.6%, its lowest level since March. For its part, **manufacturing employment** slipped 2.7% in the first seven months of the year. However, the second half of the year could be different insofar as the **indicator of manufacturing conditions**[1] (Philadelphia Federal Reserve) jumped 22% in July, against 8.3% in June, signalling an impending upturn in this sector in the coming months.

Despite this bleak employment picture, **real GDP** posted a surprising gain of 3.1% in Q2 2003. The construction sector also continued to perform well, with **housing starts** increasing 1.5% to 1.87 million units in July, a figure unmatched since 1986. The third increase in as many months (+7.3% and +5.7% in May and June respectively) and the gains of the last few months signal strong activity in this sector until the end of the year. With the Federal Reserve's **overnight rate** at 1%, the outlook for home ownership remains very good.

Since September 11, 2001, consumers have been holding the American economy at arms' length. Although the Federal Reserve's expansionist[2] **monetary policy** continues to stimulate consumption, it may reach a ceiling by the end of the year since low interest rates and zero percent financing cannot alone sustain **consumption** for much longer. In the end, signs of the turnaround are found in the better than expected gains in retail, which edged up 1.4% in July, and in the upward correction of May's and June's figures. At 2.1% in July, **inflation** remains low, and the Federal Reserve should maintain its expansionist monetary policy until year-end. Based on Q2 results, which show a 6.9% gain in **non-residential fixed investments** and on projections for the next two quarters, some analysts believe that it's time for companies to begin investing again.

The fly in the ointment is the deteriorating U.S. public purse, which is worrying many analysts. First, the federal **deficit** has been revised upward to $475 billion for 2003, while the **current account deficit**[3] is now in excess of $500 billion (or 5% of GDP). These two increases combined are putting upward pressure on real long-term interest rates that will end up reducing investment spending, a phenomenon known as the **crowding out effect.** Much to the consternation of the International Monetary Fund, the Bush administration does not appear to have any plans to rectify this untenable situation. Inaction in this regard will severely affect the Canadian economy given its dependence on the U.S.

The power failure that hit North America in mid-August will also upset industrial production, but it is still too early to assess the extent.

Canada

The economy shows signs of slowing

Although the first quarter ended with solid **GDP** growth of 2.4%, the various events that followed, notably SARS, the loony's climb and the embargo on Canadian beef, have cast a shadow on the Canadian economy, so much so that GDP shrank 0.3% in Q2. On the heels of this news, the Federal Minister of Finance revised the country's growth forecast downward to 2.2% for 2003, a rate below the OECD's projected 2.7%. Moreover, it remains to be seen how the power failure in Ontario will hinder growth in that province and in Canada as a whole. According to the TD Bank's estimates, this outage could end up shaving 1.4% (non-annualized rate) and 0.6% from Ontario's and Canada's GDP respectively.

While the impact of these events on the Canadian and provincial economies will gradually fade, the appreciation of the loony against the greenback (+12% in seven months) will, for its part, have a longer-term impact on the national economy, severely hobbling its competitiveness. Ontario and Quebec will shoulder the brunt because they depend so heavily on import and export trade with our southern neighbour. Already, the loony's appreciation, combined with the U.S.'s slow recovery, has contributed to a 5.7% (annualized rate) drop in **exports** in Q1 over the last quarter. Imports advanced 3.8% while the **trade balance** remained positive but lower than the comparable year-earlier figure.

1. The indicator for manufacturing conditions is a measurement of manufacturing activity in the Philadelphia region.
2. A monetary policy is said to be expansionist when the Central Bank reduces the discount rate and relaxes the availability of money and credit.
3. The current account measures a country's transactions associated with net exports, net interest payments and other transfers.

Trends and overview

Although less robust than in 2002, the **labour market** managed to create 70,900 new jobs between January and July. The employment picture is less rosy in Quebec, where the manufacturing sector was hard hit (see next section Quebec). In light of what is happening at the national and provincial levels, the industries most likely to suffer are agriculture, forestry, manufacturing, tourism and accommodation, which may be reflected in our next publication.

Notwithstanding the preceding indicators, which present a bleaker picture of the Canadian economy, construction and investments are faring better. Canada's solid economic performance of the past few years continues to positively affect construction. Thus, **housing starts** once again forged ahead in 2003, with 214,000 units monthly, explaining the 22,000 new jobs created in this sector. According to Statistics Canada's revised intentions, **private and public investments** should climb 4.0% in 2003 to $212.5 billion. This growth should be fuelled by investments in housing (+4.2%) and manufacturing (+13.7%).

On another positive note, **inflation** fell in the country (in terms of 12-month change) after peaking in February. The Bank of Canada's core CPI even slipped below the 2% mark in July — the midpoint of the index's target range — for the first time since January 2002, and the Central Bank is confident that this is where it will remain for the rest of the year. Inflation, along with other economic indicators, will be carefully looked at by the Bank at their next rate-setting meetings. However, given the frailty of the Canadian economy, another cut in the overnight rate is likely to be announced this fall.

Quebec

A mixed but encouraging report

Quebec's economic performance, like Canada's, is positive but not as stellar as last year. Thus Quebec began the year with a growth rate of 0.3% in Q1, compared with a 0.9% increase in Q4 2002. However, the beginning of the second quarter does not bode well, with **GDP** shrinking 0.1% and 0.3% in April and May respectively. Suffering the fallout of the weak American economy and strengthening Canadian dollar, **manufacturing production** declined 0.7% in May, its fifth decrease in six months.

Just like the rest of the country, the slow recovery of our southern neighbour and the appreciation of the loony against the greenback have both wreaked havoc on Quebec **foreign trade,** which shrank over the same quarter a year earlier (see Foreign Trade, p. 9). According to TD Bank economists, our currency's appreciation in the first seven months of 2003 could trim a full 1.4% off our real GDP this year, not counting the effect of any further gains in the second half of the year. All this will no doubt cause Quebec's Minister of Finance one big headache as he tries to **balance the budget,** which was built around a growth forecast of 2.5%. Although realistic at the time, Quebec will be hard pressed to achieve this performance if we are to believe the latest revised growth forecasts published by the major banks.

The same situation is unfolding on the **employment** front, which saw 20,000 jobs disappear from January to July as a result of a sluggish manufacturing sector and a surging loony. And it goes without saying that since manufacturing is so important to Montreal, the city will also feel the pinch.

Although Quebec has escaped the direct impact of SARS and mad cow disease, it is nevertheless being indirectly affected as foreign tourists (more European than American) cross Montreal along with Toronto off their destination list. According to Tourisme Montréal, **lost tourist revenues** for spring 2003 could reach as much as $45 million for Montreal and $519 million for the country for the whole year. Given this reality, we can expect this industry to finish the year below projections.

On the positive side, **private and public investments** (revised intentions) should advance 9.9%, the third highest growth in the country. Moreover, the residential construction industry will probably be one of the only economic sectors to fare better in 2003 than 2002.

Our economic conditions

Labour market

Weak employment report

Employment in 2003 is plugging along at a much slower pace than last year. According to Statistics Canada, **Greater Montreal** has shed nearly 40,000 jobs since the beginning of the year (January to July). Although the trend appeared to have stabilized in June with the creation of 11,000 new jobs, the Montreal economy once again lost 3,000 positions in July. Due to the loony's surge and the manufacturing sector's strong concentration in the city, the job losses in Montreal are much greater than elsewhere in the province. Moreover, the restructuring of the aeronautics sector continues to affect job creation in Quebec, particularly in Montreal. And the downturn in the manufacturing sector is not helping matters either. For the fifth consecutive month, Montreal's unemployment rate has been stuck above the 9% mark, at 9.4%, after reaching a high of 10.2% in May. Montreal has lagged far behind Canada's other major cities in terms of job creation for the first seven months of 2003: Toronto generated 700 new positions and Vancouver created 5,900 (according to the Institut de la statistique du Québec).

The figures are hardly more encouraging in **Quebec,** where 13,200 jobs disappeared in July after increasing by 10,300 in June. In all, Quebec has lost 20,000 positions in the first seven months of the year, compared with a gain of 112,400 for the same period last year, pointing to an ailing job market. The reason is not hard to find: the manufacturing sector, last year's job creation engine, is now struggling, having shed 24,000 jobs since January despite a gain of 10,000 in July. The lumber conflict, the appreciation of the Canadian dollar and the tenuous U.S. economy have also taken their toll on the Quebec labour market. As a result, the jobless rate has been climbing steadily since the beginning of the year (0.7%) and in July once again surpassed 9% (9.1%).

A look at the employment performance of all the provinces combined shows that **Canada** shed 13,300 jobs in July, and only British Columbia fared well (+9,800) during this time. Although employment in Canada fell for the third time in four months, the country has nevertheless created 70,900 new jobs since January 2003. In comparison with the first seven months of 2002, jobs are up a meagre 0.5 percentage points over the year-earlier gain of 2.3%. The private sector appears to be chiefly responsible for this sluggish growth, advancing only 0.1%. Two industries fuelled employment growth in July: construction with 22,000 new jobs and the finance, insurance, real estate and leasing industry, which added 27,000 new positions. Despite slight growth in July, the manufacturing sector still lost 61,000 jobs in the first seven months of the year due to this sector's continued weakness in Ontario. The national unemployment rate stood at 7.8% in July, up a slight 0.1% since June. ⁂

Job Creation, July 2003

Since	Montreal	Quebec	Canada
1 month	- 3,300	- 13,200	- 13,300
3 months	- 3,500	- 12,200	+ 22,400
7 months	- 39,600	- 20,000	+ 70,900
1 year	+ 13,700	+ 34,200	+ 289,700

Source: Statistics Canada

Housing market

Construction vitality

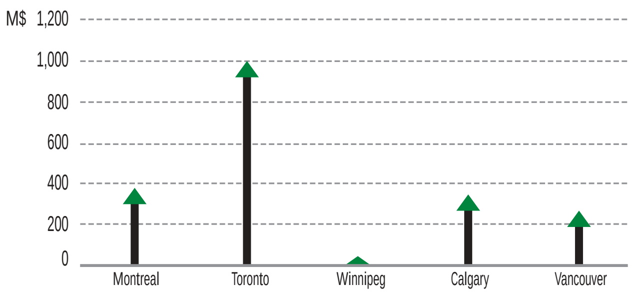
Construction figures show that economic conditions remain favourable for increased activity in this sector this year since the public seems to believe that the recent job losses are probably transitional. Despite the construction holiday, residential construction surged 33% in the **Montreal area,** compared with the same period a year earlier. With a total of 1,941 housing starts for the region in July, this is the highest rate observed in 12 years according to the Canada Housing and Mortgage Corporation (CHMC). This performance was fuelled by all types of properties but the greatest growth was posted by semi-detached houses and townhouses (+127%), followed by rental units (+68%). At the end of the first seven months of 2003, new home construction in Montreal rose 7%. The resale market, however, declined 12% in the first two quarters of 2003 over 2002 owing to the fact that properties are increasingly expensive and hard to find. The greater Montreal market therefore continues to be a seller's market.

Our economic conditions

In **Quebec,** housing starts continue to roll along, jumping 14.1% in July over the previous month to reach a peak of 49,300 (seasonally adjusted annual rate – SAAR). For the first seven months of the year, Quebec has added 45,600 SAAR units, a solid performance. The total value of permits issued in the province rose 6% in June to $810 million after decreasing 10.1% in May. Year-to-date gains are 15.9% over the same period (January to June) in 2002 and should contribute to maintaining a strong growth pace in general construction for the next few months.

Housing starts in **Canada** also continue to fuel the national economy, reaching 223,500 SAAR units in July, an increase of 8.5% over June's 205,900 units. July's level is the second highest since March 1990 and after February 2003 (254,900 SAAR starts). This respectable performance is all the more surprising given the difficult employment situation and that statistically, construction was slower in July. Interest rates and financing conditions remain enticing across the country, offsetting the substantial rise in housing prices recorded in all the provinces and working in favour of an increase in national starts.

The value of building permits rose 4.3% to $4.3 billion in June, an increase of 8.0% for the first six months of the year over the year-earlier period that signals continued vitality in the construction sector in the coming months. Although both residential construction (+4.6%) and non-residential construction (+3.9%) enjoyed good results in June, the increase in construction permits for the first six months of the year was fuelled by the non-residential sector, which advanced 14.3%. ⁂



Value of building permits in the C5 Cities

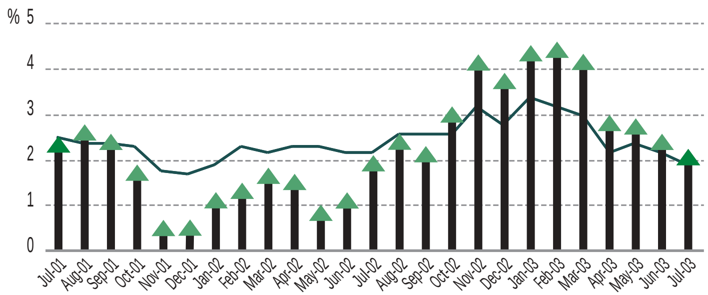
Source: Statistics Canada

Financial market

Inflation rate

As a result of the economic slowdown in Canada in the first half of the year – the outcome of, among other things, SARS, mad cow disease and the loony's surge – inflation has declined every month after reaching a peak (the 12-month change in prices as calculated by the total Consumer Price Index) in February. After reaching rather high levels in response to Canadian monetary policy, inflation has been hovering since May between the 1% and 3% inflation control target set by the Bank of Canada.

The overall rate of inflation in July reached 2.2%, compared with 2.6% in June. During this same period, the Bank of Canada's core CPI (which excludes the eight most volatile components of the CPI) caught many by surprise. At 1.8%, core inflation in July dipped for the first time since January 2002 below the 2% target set by the Central Bank. Overall inflation is therefore now less of a concern, giving the Central Bank a lot of latitude in its monetary policy. However, automobile insurance premiums continue to exert upward pressure on the index. Their increase is so strong and the impact so persistent that if this weight were excluded, the core index would be 0.7 percentage points lower. In its last monetary policy update, the Bank of Canada hinted that this index should fall below its 2% target by the end of the year.



Consumer Price Index
12-Month Change

Source: Bank of Canada Total CPI — Core CPI

Our economic conditions

Interest rates

By trimming its overnight rate by 25 basis points to 2 3/4% in September, the Bank of Canada is hoping to boost the national economy in the second half of the year. Although July's announcement surprised many analysts, September's decrease was quite expected. The Central Bank announced its intentions in July: "inflation, and importantly, inflation expectations have eased. And more slack is developing in the economy than was previously expected." Its action showed that the Bank was taking into account the difficulties faced by Canadians following the hefty rise of the Canadian dollar against the greenback and the negative effects of SARS on tourism and of mad cow disease on agricultural exports. With this new decrease in September, the Central Bank is laying the groundwork for an upturn in economic activity.

Exchange rates

After lying dormant for years, the Canadian dollar has taken off. In the first seven months of 2003, the dollar rose 12.3% against its U.S. counterpart, sparking concern about the competitiveness of Canadian companies. The dollar's meteoric rise has clearly had a negative impact on heavy export industries. Although the shock of the gain was immediate, its effects will be spread out over several months since forward exchange contracts are often established in advance. We thus have some measure of protection against short-term shocks.

After peaking at US 74.95 cents in June, the loony has once again been slipping since July (until August 20) in relation to the U.S. currency. This decrease stems from a technical correction, which has seen investors liquidate their positions in Canadian dollars in order to take their profits and from an upward trend in the U.S. dollar. The rise of the greenback cannot persist much longer for two reasons: the federal budget deficit has been revised upward to $475 billion for 2003, while the current account[4] deficit has surpassed $500 billion (or 5% of GDP), an unsustainable situation that must be adjusted. Although foreign central banks are for the moment supporting the sliding American dollar, this too cannot continue for much longer. In light of all this information, our currency should continue to appreciate. Moreover, its value in relation to the principal currencies has been rising since the beginning of the year.

Stock markets

Optimism seems to have returned to the stock market since the beginning of the year, with Standard & Poor's 500 gaining 1.3% and the TSX 11%. As well, the leading stock indices have been posting positive returns for the last four months. In the U.S., the economy has been boosted by tax cuts announced after September 11, an expansionist monetary policy and a recent rise in their currency. In Canada, the past year has seen Canadian bonds become more attractive to foreign investors. Three factors are behind the greater demand, which in turn boosts demand for our currency. First, the positive spread in the long-term return of Canadian bonds versus U.S. treasuries makes ours more attractive. Second, there is a positive spread of 175 points between the Canadian and American overnight rate. And finally, the current account surplus and the positive report on the country's public finances are also encouraging investors to buy Canadian rather than American securities.

Foreign trade

Trade exchange in Canada pummelled by crisis after crisis

The first quarter of 2003 saw **Quebec** international merchandise exports slip 2.3% over the previous quarter to $16.8 billion. Although aircraft and aluminium sales abroad continued to advance, the gains were not enough to offset the losses in telecom equipment and hardware and aircraft engine sales. The sluggish global economy continues to hold back our export growth. Still, exports to our principal trading partner, the United States, remained stable at $14 billion in Q1 after having declined slightly in the fourth quarter of 2002. On a monthly basis, seasonally adjusted to 1997 prices, Quebec exports dipped 1.7% in May over April, while 17 of the 25 main products declined in May according to the ISQ. At the end of the first

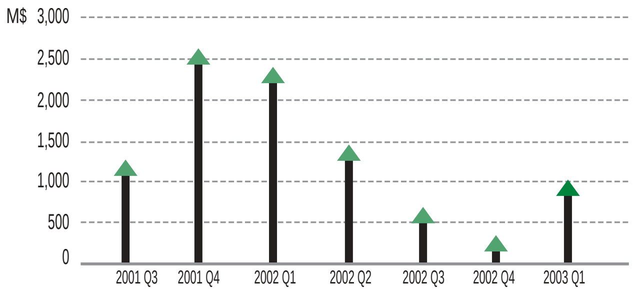
4. The current account measures a country's transactions associated with net exports, net interest payments and other transfers.

Our economic conditions

five months of 2003, exports thus fell 2.5% over the comparable year-earlier period. And the impact on Montreal is all the more significant given that the city accounts for over 50% of Quebec's shipments out of the country.

Q1 imports also contracted 6.4% over the fourth quarter 2002. The products responsible for this decrease are petroleum, automobiles and electronic products (computers, telecommunications equipment and hardware). On a monthly basis, Quebec's international imports (seasonally adjusted to 1997 prices) slowed 4.2% in May over April, when 14 of the 25 main products imported to Quebec declined. However, the cumulated value of imports for the first five months exceeded that of the comparable period in 2002 by 7.6%.

Although both exports and imports fell, the trade balance improved in Q1 2003 over the comparable year-earlier period as a result of a greater decrease in imports than in exports. At $1.0 billion, the trade balance regained the ground lost in the last two quarters of 2002 but still remains below its level in Q4 2001.



Quebec Quarterly Trade Balance

Source: Institut de la statistique du Qu bec

The situation in **Canada** is even more critical, especially since a single case of mad cow disease in May caused 34 countries to close their borders to Canadian beef imports, slashing exports by 3.2% to $31.6 billion or their lowest level since September 1999. This closure also caused agricultural exports to slide 6.4%. Weak demand for aeronautical and automotive products also contributed to the downturn in June. While very minimal, only the automotive products grouping posted gains out of the nine principal export commodity groupings. Imports shrank 2.2%, and only energy and forestry products were spared in May. Automobile imports dropped 6.1% in June because of excess supply in Canada and because carmakers had trouble selling off their inventory.

Canada's trade balance was $3.6 billion, down for the third consecutive month and its lowest level since October 1999. The appreciation of the Canadian dollar against the greenback continues to affect the trade balance. ⋇

Greater Montreal economy

Mass transit: The road to competitiveness

Most large cities in the world are grappling with too much traffic on their roads and its consequences. Governments, businesses and the general public are becoming aware of the problem mostly due to the Kyoto Protocol. London, which is now charging drivers $12 to gain access to downtown, underscores the severity of the problem, which is further exacerbated as people converge and concentrate in urban areas for work, study and entertainment. How is traffic affecting Montreal and how much is it costing the city? What are the advantages of mass transit for our metropolis? And finally, what solutions are available to finance mass transit?

The price of traffic congestion

For many people, driving their car during rush hour is a test of patience. Various studies conducted here and elsewhere in North America have detailed the economic impact of traffic. In the U.S., the cost of traffic congestion is estimated at US$75 billion each year (more than 1% of GDP) or US$8 billion for New York. According to Transport Canada, the annual cost of traffic congestion is estimated at $600 million for Montreal businesses. And the Ontario Department of Transport estimates at $3 billion the time and productivity loss annually for the goods transportation industry in Toronto, Montreal, Ottawa and Vancouver. Given the enormous amount of money traffic congestion costs our growing urban aeras, it's time to find solutions once and for all.

The advantages of mass transit

Mass transit is the best way to overcome the negative effects of traffic congestion. There are many advantages to using public transit more extensively. A study conducted earlier this year by the Canadian Urban Transit Association (CUTA) showed mass transit to be an important economic engine of Canadian cities and an investment of choice. "To a large degree, the economic competitiveness of Canada's cities depends on our ability to expand public transit's role in improving mobility, air quality and alleviating traffic congestion,"[5] contends CUTA president and CEO Michael Roschlau.

The following four major benefits have been identified. First, an investment in mass transit is an investment in **efficiency.** The CUTA study showed the average cost of a passenger-kilometer of travel in the five most populous Canadian cities (Montreal, Toronto, Ottawa, Vancouver and Calgary) to be $0.12 compared with $0.46 for car travel, clearly demonstrating that public transit is substantially less expensive and more efficient. Cost-benefit analyses conducted on behalf of Transport Canada concluded that the benefits associated with mass transit projects exceeded their costs by between 40% and 110%. Costing less than $220 million, these projects generated economic benefits in the vicinity of $500 million on average.

Second, investments in mass transit have a positive direct and indirect impact on **job creation.** The first thing these investments do is generate jobs within the transportation system. Canadian transit systems employ over 40,000 workers and their $2.1-billion payroll supports local economies and creates jobs both directly and indirectly. One need only look at the small businesses located along the major transit routes, for example, the Gare Centrale in Montreal and Montreal's underground city that employ thousands of people and that serve as models for other large cities on how to make good use of tunnels.

Third, mass transit is closely tied to **user mobility.** In large Canadian cities, about 22% of people take transit to work. In Montreal, this rate is as high as 44% during rush hour according to the Enquête Origine-Destination 1998, carried out by the Société de transport de Montréal (STM). We know our transit system is efficient when 50% of users who say they use public transit do so rather than take their cars. For those who don't have cars, public transit becomes an essential service. A case in point are some industrial parks, to which many employees – often low-wage workers – would have trouble getting to without mass transit. In this regard, the *allégo* initiative spearheaded by the Agence métropolitaine de transport in a bid to develop and promote alternatives to driving to work alone, shows that innovative solutions can be found.

Lastly, mass transit improves **air quality** by reducing traffic congestion on our roads and contributes to better public health and road safety. By extension, the efficiency gains realized by its widespread use would enable the governments to redirect the surplus funds to other areas such as healthcare and education. Beyond that, some of the other advantages include an increase in the value of properties located close to bus, metro or train routes. In short, public transit makes it possible to, among other things, move towards achieving the objectives

5. "The Economic Case for Public Transit in Canada," Canadian Urban Transit Association (May 2003).

Greater Montreal economy

set by the Kyoto Protocol and in so doing, improve the quality of life for society as a whole.

Solutions

Our existing transit systems are showing signs of wear even as traffic is increasing: in Canada, ridership has climbed more than 10% since 1996 according to CUTA. In Montreal, like elsewhere in the country, one thing is for sure: we must renovate and modernize our infrastructures and improve services. Such ambitious projects require money. The STM estimates the price tag at $1.674 billion over 10 years (see Table 1) and $30 million over 3 years to improve services. These service improvements will range from reviewing service schedules to implementing the rapid transit system during off-peak periods in certain areas, to developing new routes and new serving areas. The STM is ready to invest but in conjunction with other partners, notably, the different levels of government.

Maintaining existing infrastructures

Renovation and modernization costs	
Replace 336 original metro cars	$850 M
Replace and modernize metro's fixed equipment (Réno-Systèmes project)	$706 M
Proceed with Phase 2 of Réno-Métro	$81 M
Renovate the Crémazie shop (bus repair facility)	$37 M
Total	**1,674 M**

Source: Société de Transport de Montréal

Across the country, it costs $3.1 billion per year to operate the various mass transit systems. Of this amount, 63% is paid by users and the balance by the municipal and provincial governments. Unlike other G7 nations, Canada (at the federal level) is the only country that does not make a substantial and direct contribution to its cities' mass transit systems.[6] Consequently, the municipal level is in a bind: its transit needs keep increasing but its revenues cannot keep pace. In Montreal, the situation is all the more critical since its citizens (through user fees, property taxes and license fees – of which a portion is allocated to mass transit) contribute 81% to mass transit financing.

2002 Fares

Cities	Cash	Tickets	Monthly Pass
Montreal	**$2.25**	**$1.50**	**$50.00**
Longueuil	$2.80	$2.02	$59.50
Laval	$2.75	$2.22	$57.00
Québec	$2.25	$1.90	$58.60
Ottawa	$2.50	$1.70	$60.50
Toronto	$2.25	$1.80	$93.50
Winnipeg	$1.70	$1.65	$63.55
Calgary	$1.75	$1.65	$60.00
Edmonton	$2.00	$1.50	$55.00
Vancouver	$2.00	$1.80	$63.00

Source: Société de Transport de Montréal

Although the federal government stated in its 2001 Speech from the Throne that it was committed to working with the provincial and municipal levels to improve mass transit infrastructures, it has yet to provide adequate funding in this regard. Users already contribute a substantial amount and asking for more would certainly not be welcome. Indeed, studies clearly show that fares and traffic are inversely proportional: according to the STM, a 10% fare hike causes transit use to decrease by between 2% and 5%.

As for the funding problem, there is a solution: make mass transit profitable and more appealing. To do so, accessibility and comfort must at least be maintained and the travel schedule and speed improved, all without compromising profitability and at the lowest possible cost for the user (see table Fares). As in many large cities, mass transit in Montreal is an essential tool to boost our competitiveness. As such, all the parties involved – users as well as the federal, provincial and municipal governments – must pay their fair share. Transportation mobility and the competitiveness of cities depend on it. And these are the tools Montreal needs to effectively compete in the global arena.

6. The zero deficit achieved by the federal and provincial governments has had a disastrous impact on municipal funding. According to the OECD, the fiscal decentralization of the last few decades seems to have provided the provinces with adequate funding for their public services. However, the same is not true for the municipalities.

Greater Montreal economy

Economic development: Economies need stable environments to grow

Like many cities in the world, Montreal has been the subject of federally and provincially mandated studies to examine its economic development and governance structure. These studies have revealed that Montreal needs economic and structural reorganization. Indeed, the drawing power of urban areas is becoming increasingly apparent. For example, 50% of the Quebec population lives in the Greater Montreal area, which accounts for 50% of the province's GDP and some 70% of its exports. These figures are comparable with those of other large cities in the world. According to the Montreal Metropolitan Community (MMC), "We are witnessing, on the one hand, the consolidation of large supranational economic blocks, and on the other, the 'metropolization' of the economy: The convergence of knowledge and creativity, the proximity to decision-making centres and services, access to global exchange networks and economic separation allow large cities to offer the environment required for innovation and competitiveness." This means that cities are at the forefront of wealth creation and as such compete fiercely to attract workers and individuals. For Richard Florida, the key factor is "the quality-of-place," i.e., the make-up of the "total package," plus various amenities that make the difference and allow successful cities to attract investments and knowledge workers.

The increasingly fierce competition between urban areas presents Quebec with an opportunity it cannot pass up. However, economic development requires a stable environment with minimal uncertainty so that the players, read companies (especially SMEs), can develop to their full potential. Since early fall, we have been witnessing a debate in the Quebec National Assembly surrounding Bill 9 regarding public consultation on the territorial reorganization of certain municipalities from which we hope to see a consensus emerge regarding the importance of the new merged cities for economic development, especially in metropolitan Montreal – Quebec's economic engine. The truth is that Bill 9 has created much uncertainty about the final form of the municipal territorial reorganization, not to mention the legislative and functional amendments that will then be required. Unfortunately, the focus is now on territorial organization rather than on the economic development of our agglomeration.

Although Montreal's economic performance of the past few years has outpaced that of its Canadian counterparts, our city has historically lagged behind. MMC data published in October 2002 provide striking examples in this regard, ranking Metropolitan Montreal in 26th place among the major North American urban centres in terms of *per capita* GDP (see following chart). In actual fact, we simply cannot stand by and watch Montreal veer off path because we didn't do our share to support its growth.

Per capita gross domestic product			
Metropolitan regions			
Boston	$73,470	Portland – Vancouver	$38,279
San Francisco	$64,836	Baltimore	$38,242
Seattle	$50,241	Cleveland	$37,479
New York	$48,562	Philadelphia	$36,837
Dallas	$46,584	Detroit	$36,376
Washington	$44,750	Phoenix	$35,400
Denver	$44,113	Pittsburgh	$35,378
Houston	$42,838	St-Louis	$35,318
Atlanta	$41,478	Tampa – St-Petersburg	$35,198
Chicago	$41,285	Toronto	$33,581
Los Angeles	$40,031	Miami	$32,695
San Diego	$39,318	Vancouver	$28,545
Minneapolis – St-Paul	$38,587	**Montreal**	**$26,629**

Source: Metropolitan Montreal Community

If we add to these considerations the numerous major urban challenges facing Quebec's large cities – a tenuous financial situation, overdependence on property taxes, aging infrastructures (roads, waterworks, etc.) requiring massive reinvestments and a housing crisis, to name just a few – the cost of a conclusion that is too long in coming in the matter of municipal reorganization is extremely high.

In our view, the process launched by the Bill 9 debate must minimize uncertainty and promote the stability and continuity of the existing municipal structures in order to put economic development back at the top of the list of our city's decision makers. This is why the fifth recommendation of our brief on Bill 9 suggests that the consultation focus on the existing situation rather than on de-mergers and build support for the new cities.

Greater Montreal economy

For our enterprises, uncertainty costs dearly both in time and money. The economic and political climates greatly influence business, and historically, changes in government or economic policy have had an impact on public and private investment in Quebec. The same is true when it comes to uncertainty. The decision of whether or not to invest in a company, a sector or an economy is closely tied to what we know about them. If the economic outlook is unsure, investment will likely be affected.

Similarly, regulations and administrative red tape represent a cost for companies and SMEs. In Quebec, the Report of the Advisory Panel on Regulatory Reform, referred to as the "Lemaire Report," published in June 2000, demonstrated this burden for businesses of all sizes. Although the report lacked a comprehensive, statistical evaluation, the authors maintained: "These effects are especially felt by start-ups and affect the growth and competitiveness of businesses, particularly SMEs." Administrative and regulatory burdens are therefore clearly heavier for SMEs than for large companies because they are shouldered by fewer people and because access to support such as legal services is more difficult. The following chart is very telling of the regulatory load borne by small- and mid-sized enterprises. Taking into account the fact that SMEs are by definition companies with fewer than 100 employees, the regulatory burden they assume is about five times heavier than for large businesses.

Regulatory unit cost by company size
– average of 10 countries (1999)

Company Size	$ per employee
0-19 employees	$6.835
20-49 employees	$2.229
50-500 employees	$1.337

Source: OECD

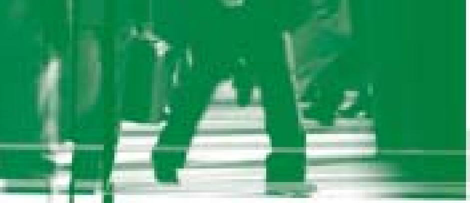
This chart becomes all the more significant given the economic weight of SMEs in the Quebec economy. According to a recent article in *Policy Options*, a magazine published by the Institute for Research on Public Policy (Les grands enjeux économiques du Québec – August 2003) 75% of Quebec companies have one to four employees, and when you consider companies with 50 or fewer employees, the figure climbs to 97%. Clearly, SMEs are the mainspring of the Quebec economy, accounting for 50% of the labour force, creating more than 8 out of 10 jobs and generating half the province's annual GDP.

Adding to the already cumbersome load of our businesses are taxes. We remain the most heavily taxed provincial jurisdiction in North America, with taxes and income taxes representing 40.3% of GDP, compared with 35.7% for Canada (Department of Finance 2000 estimates). This is a competitive hindrance that affects our economic development at all levels: regional, provincial and national.

The new provincial government has brought a fresh approach to economic policies. Indeed, the government has committed to reducing, during its first mandate, the tax burden of businesses, particularly SMEs by, among other things, eliminating the capital tax, a known hindrance to job creation and investment. Moreover, a review of all business assistance programs and tax credits is already underway. The outcome of this review should be reflected in the next provincial budget, planned for spring 2004.

This government has also put forth proposals to ease the regulatory and legislative burden. Essentially, it proposes to streamline economic and tax regulations by simplifying business assistance programs and cutting red tape. Entrepreneurs argue that the time spent completing the endless government forms, questionnaires and other documents is time taken away from growing their company. This is all the more palpable in a small company. In the same vein, a review of all labour-related Quebec legislation would also be welcome in order to make it more flexible and more conducive to job creation without, however, compromising job security. In this regard, the government has signalled a possible revision of Section 45 of the Labour Code with a view to facilitating subcontracting.

In short, all this streamlining and improvements, whether organizational or fiscal in nature, must be carried out with the competitiveness and economic development of Montreal and Quebec in mind. The Board of Trade believes that the economic climate must remain stable and allow all the economic agents to play a role in the collaborative development of our united and competitive agglomeration. While convinced that the streamlining initiatives require adjustments, the Board of Trade would like to see them made not in haste but after careful reflection.



A glance at Montreal

Passing the business mantle: Winning strategies

By Louise St-Cyr, holder of the Chaire de développement et de relève de la PME, HEC Montréal

The main objective of the Chaire is to provide insights into the phenomenon of SME continuity. Research on this topic is divided into two main areas: the development, sound management and growth of SMEs and the passing of the torch by the founder, both of which are essential for continuity.

Since everyone recognizes the importance of SMEs in the economic and social fibre[7], it is only natural that we be concerned about their continuity. Two facts stand out in this regard. First, the high number of projected business transfers that will take place in the short and medium terms: more than 50% of Quebec business owners are expected to retire within 5 to 10 years.[8] Second is the survival rate of those companies handed over to new owners which, according to U.S. studies, is no more than 30%. Of course, it's to be expected that some companies will disappear through mergers, acquisitions and voluntary closures; however, many SME experts believe the survival rate could be much higher if owners spent more time planning their company's succession.

Authors on the subject agree that succession planning is not a one-time event but rather a several-year process that begins with the training of the successors and ends with the predecessor's complete disengagement. Although the duration of the process varies with the characteristics of the business (such as size and whether it is family owned), the fact that a process is required reinforces the importance of planning. Unfortunately, it seems that entrepreneurs spend little time planning in this regard, providing yet another reason to be concerned about the many transfers that will take place in the near future.

We at the Chaire de développement et de relève de la PME at HEC Montréal[9] wanted to know more about business succession in Quebec so we found businesspeople who have already gone through the process and asked them: What were your strategies? Did you plan the transfer? Up to what point?

Conducted in spring 2002, the study collected data from 173 Quebec business owners who had lived through a transfer. The baseline sample was compiled using data provided by the Centre de recherche industriel du Québec (CRIQ) from which we selected all companies created before 1974 with between 10 and 500 employees and sales over $1 million.[10]

The respondents

The 173 companies that participated in the survey came from all the regions of Quebec and more than 25% were based in the Montreal area. It was clear they were all SMEs: 69% reported sales of between 1 and 10 million dollars and 66% had between 10 and 50 employees. The Montreal companies were only slightly larger than those in the other regions. Most were manufacturers, which stands to reason given that wholesalers and distributors have a strong presence in Montreal and because we used CRIQ data to compile the sample. The companies had been in existence for 43 years on average, a high number that stems from the requirement to have undergone at least one transfer in order to participate in this study. More than 80% of the companies were family owned (78% in Montreal and 86% in the other regions). Ownership was determined based on information provided by the respondents.

Success

All the participating companies can claim success since they have survived at least one transfer. But beyond the simple concept of survival, 65% saw their sales and number of employees increase after the handover; 92% stated that their company was in relatively good financial health; and 73% had conquered new markets. According to the entrepreneurs themselves, the handover was a success 90% of the time. The difference between the Montreal respondents and the others was not very significant: slightly less growth in terms of employment in Montreal but more opportunities in new markets.

7. In Quebec, according to statistics compiled by the MIC in 1996, 98% of employers hire 100 people or less.
8. According to a survey conducted by Campbell Expertise in 2000. See: St-Cyr, L. and F. Richer, "*La planification de la relève dans les entreprises* – Statistiques et réflexions," Revue Gestion, Vol. 26, no. 2, 2001, p.19-26.
9. The Chaire's financial partners are the Fonds de Solidarité FTQ, the Ordre des Administrateurs agréés, Canada Economic Development – Quebec region, Hydro-Québec, Bell Canada and PriceWaterhouseCoopers. The funds for this research were also obtained from the Quebec Ministère du développement économique régional (previously the Ministère de l'Industrie et du Commerce du Québec).
   This sample comprised 2,003 companies.
10. For more than half of these respondents, the experience was acquired over more than four years.

A glance at Montreal

The strategies

How did the successful companies go about it? What means did they use? We will look at the transfer of ownership first, followed by the transfer of management.

Transfer of ownership

The transfer of ownership was spread over a fair number of years: five on average, although half the participants reported only two years. The specialists most often enlisted to assist with handover were accountants and tax experts.

Were the financing terms advantageous? This is an important question because studies conducted in the U.S. have shown that inadequate financing at the time of transfer can precipitate the company's bankruptcy.

While most of the participants (81%) used only one method of financing to acquire ownership, the sources were varied. Personal resources (savings, personal loan from financial institutions, parents or friends) were by far the most frequently used (40%). In 19% of the cases, the successor donated some of his shares, a form of financing that is considerably more advantageous for the successors. However, personal loans from a financial institution cause the most problems. The Montreal region stood apart in certain respects from the other regions of Quebec, for example, the transfer of ownership is much faster (50% of companies take one year or less). Given that the donation of shares is more frequent and personal loans from financial institutions less so, the respondents in Montreal claimed to have fewer difficulties than the others.

Handing over management functions

The literature on succession planning stresses the importance of the level of education and work experience acquired both in and outside the company. They also discuss the benefit of joining the company in an entry-level or at least in an intermediate position so as to gain certain legitimacy. The literature also points out that the predecessor and successor should run the company together for a sufficient period of time to ensure an adequate transfer of knowledge. And finally, structures such as a family board and a board of directors — the latter with outside members — are considered assets.

The participants in our study fulfilled many of the criteria proposed in the literature and therefore their success does not surprise us. Three-quarters of them had received post-secondary education, more than half came with outside experience, and two-thirds[11] joined the company in an entry-level position and spent an average of 12 years acquiring experience alongside the predecessor. However, few benefited from the services of a family board (16%) and a board of directors with outside members (28%). Two variables set the Montreal respondents apart: their level of education was higher, and more of them had held a job outside the company.

Planning

While most of the research conducted with entrepreneurs shows that they do little to prepare for succession, most of the respondents in our study had at least done some planning. Almost two-thirds had drafted a will, taken out personal life insurance, planned an estate freeze or set up a trust, and allowed the successor to acquire experience within the company. More than a third had also taken out insurance to cover the taxes upon their death and made sure the predecessor had a satisfactory role once the transfer was completed. While these may be basic steps, they are enough to ensure a company's continuity.

Conclusion

The results of this research are encouraging, showing that many companies can successfully pass on the mantle by setting up basic strategies, among others, in terms of education, experience, entry position into the company and duration of joint management. Financial support (share donation, reduced sale price) is also an asset that lessens the difficulties. It bears mentioning that two-thirds of the respondents involved in family-owned businesses qualified communication within the family as very good or excellent, a condition that favours a successful transfer. Of course, under the surface of these 173 successful handovers, we have no way of knowing the number of failures. However, if the trend observed in our sample continues, we can relax about the future of Quebec's SMEs.

Louise St-Cyr

10. For more than half of these respondents, the experience was acquired over more than four years.

Montreal and the new economy: Vibrant and diversified

Much has been discussed in the last decade about the need to transform the economic environment to adapt to the "new economy". The new economy is simply a designation given to an economy which focuses on scientific and technological knowledge rather than on the traditional labour- and resource-based industries. Although these new economy industries are currently experiencing difficult times lately – which should be simply considered as growing pains – evidence that these industries grew too quickly, they nonetheless continue to have an important role to play.

A recent study by Statistics Canada[12] has shed some interesting light on the new economy industries across Canada and it contains positive news for the economy of Greater Montreal and those positioned in the science and technology sectors. Although the study ended with data for 2000, which might arguably have been the recent peak in many of the new economy industries, a number of interesting points are raised about the place of Montreal in the new economy across Canada.

One point to highlight is the fact that Montreal was the most diversified Census Metropolitan Area (CMA) in Canada with regards to the number of industries classified as either science-based (SB) or belonging to information and communications technologies (ICT). Montreal businesses were operating in all 19 ICT industries and 37 (of a maximum 56) SB industries, tying Toronto and Calgary for the most in each category. As an interesting side note, Montreal was in fact the most diverse CMA overall, with 819 (out of a total 860) separate industries being reported to be active in the city. Toronto was second on the list with 809 different industries.

A second interesting point is that, as of 2000, Montreal had the highest share of employment within these two categories as a measure of total employment. Of all employment within the CMA, 5.7% was engaged in the ICT sector while 6.5% of all workers could be found within SB industries. This combined total of 12.2% matched that of Ottawa-Hull as the highest percentage of workers in these two categories. Ranked by employment share for each category separately, Montreal placed second on the list of CMAs in the SB sector, and 5th on the list for the ICT sector An important aspect to this is that between 1990 and 2000, the share of workers in these two sectors climbed from only 9% to 12.2%, a gain of 3.2 percentage points (representing a gain of 47,500 jobs) which was the third highest relative growth, behind Ottawa-Hull (3.5 points) and Hamilton (4.6 points). Conversely, with such a high percentage of employment in these sectors, it is no surprise that the labour market of Montreal is suffering at this time of re-organization in these sectors.

Despite the recent hardships suffered by these relatively young industries, the statistics show that Montreal has two advantages for a quick recovery when the time comes. The first advantage is that it already has a highly qualified labour force, whose absolute size is second only to that of Toronto's, and second to none in terms of relative size to the local economy The second advantage is that Montreal has shown that it is able to quickly adapt to new demands and new expectations that the changing tide of the economy dictates. With a solid combination of diversification and large mass of skilled labour, Montreal will be ready for the second coming of the new economy to arrive. ⁕

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12. See Beckstead, D., M. Brown, G. Gellatly and C. Seaborn. 2003. *A Decade of Growth: The emerging geography of new economy industries in the 1990s.* Catalogue No. 11-622-MIE2003003. Micro-economic Analysis Division. Ottawa: Statistics Canada