Trend Chart

Greater Metropolitan Region

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Productivity: An absolute must

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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Publication director
Isabelle Hudon

Writer
Annie Vallières, économiste

Editing and coordination
Madeleine Murdock

Contributors
Michelle Courchesne, MRCI
Claude Drouin, DEC
Glen Murray. Ville de Winnipeg

Design and production
Talengo design inc.

Printer
Reprotech

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

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

Canada Post — Plublications mail agreement no. 40063203.

Our new address (as of December 15, 2003):
380 St. Antoine Street West
Suite 6000, Montreal QC H2Y 3X7
(514) 871-4000

Editorial

Productivity: An absolute must

If there is one thing that flashes red on this last *Trend Chart* of the year, it's productivity. Indeed, making improvements in this regard should be a top priority if we want Greater Montreal to avoid economic problems in the short and long terms.

The recent spectacular rise of the Canadian dollar against the greenback was a sharp reminder that success on foreign markets cannot be based solely on a weak currency. In other words, to continue being successful, Canadian exporters must first be competitive in terms of quality, innovation and cost.

As expected, this calls for certain sacrifices: more investment and R&D, efficient production processes and optimized work organization methods Until last year, the loonie's weakness allowed some companies to put off making hard decisions and that is why this sudden increase has been particularly unsettling and now requires immediate action.

Generally speaking, the productivity of the Montreal region is of course important for companies operating outside our borders. However, it bears mentioning just how important it is for the local economy and the standard of living of Montreal's residents.

The Montreal region — and the Board of Trade has made this point on a number of occasions — lags behind its North American counterparts in *per capita* gross domestic product, i.e., the GDP of the region divided by its total number of residents. In this regard, Montreal ranks 26th out of 26. To catch up to Toronto in 23rd place, our economy would have to grow by more than 5% for five consecutive years!

Unlike many urban agglomerations included in this ranking, Montreal also stands apart in terms of demographic growth, recording a relatively low birthrate and attracting and retaining few immigrants. For example, the population of Greater Montreal grew 6.8% between 1990 and 2000, while Toronto expanded 20.1%[1]. Inevitably, by growing more slowly, Montreal's population is aging faster than others.

An aging population invariably means a greater number of retirees, in other words, a growing number of individuals not participating in the workforce.

This is not good news for Montreal's *per capita* GDP. If the proportion of the working population is decreasing in relation to the total population, this means that the region's GDP will rest on the shoulders of an ever-smaller number of people.

In order for Montreal to at long last enjoy a standard of living comparable to other growing urban agglomerations, its workforce will have to compensate for the gradual retirement of the baby boomers by becoming more productive. There's no way around it.

Consequently, while there is nothing positive about slumping Canadian and Quebec exports, the abrupt flight of the loonie has jolted us back into acknowledging just how important productivity is for prosperity.

We now hope that our companies will take advantage of this stronger dollar to acquire the necessary machinery and equipment to boost productivity. And given the importance of taking action in this regard, it would certainly be all the more relevant for the Quebec and Canadian governments to concretely encourage these investments by abolishing their capital tax as soon as possible. ■

Benoit Labonté
President

1. Source: *MMC, Vision stratégique, "document déclencheur"* (October 2002)

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

Good news on two fronts: GDP and jobs

The first bit of good news is the American **GDP**, which is estimated at 7.2% (annualized rate) for Q3 2003, its best quarterly gain since 1984 and more than double the growth recorded in Q2. This growth is all the more strong and sustainable because it is being driven by the main GDP components: household, corporate and government consumption expenditures, and net exports. The deflation fears that the Federal Reserve expressed at its FOMC meeting on October 28 seem to have vanished with the publication of these figures.

Moreover, robust **retail sales** in Q3 (projected at an annualized rate of +6%) and low inventory levels (-$35.8 billion) mean companies should be hiring for the Christmas period. This means the job market could expand in the second half of the year, and the outlook for the economy in Q4 is encouraging.

The second bit of good news is on the **employment** front, where positive trends have been long awaited. With 57,000 new jobs – the first monthly increase this year – and an upward revision in August, employment is finally expanding in the U.S. During the short recession of 2001, we reported positive signs from the U.S. economy but no job creation. Companies were focusing on slashing costs (labour and machinery) in a bid to regain profitability. These efforts have paid off in improved **productivity**[2], and today it looks like these companies are headed towards expansion "with job creation".

The **construction** sector continues to surprise with its unabated growth, this time 3.4% in September to 1.89 million new units, the second highest monthly level reached since the second half of the 1980s. With a stable Federal Reserve **overnight rate** of 1%, construction, consumption and credit remain buoyant.

The blackout that hit, among other places, the North-Eastern United States in August, has left a definite mark on the automobile industry[3] and by extension, on the **trade balance**. Boosted by a decrease of 2.7% and 2.5% in exports and imports respectively, the U.S. trade deficit shrank by $39.2 billion in August, after reaching $40.0 billion a month earlier when imports fell more than exports.

The outlook for the U.S. economy has improved much since early 2003, especially in the third quarter. Although the job market lagged in the first half of the year, strides made in September, combined with gains in economic growth in Q3, signal a turning point. If this progress continues until the end of the year, consumer confidence will get a boost and consumption, housing and investment will be the winners. ■

Canada

A robust economy

As a result of the worse-than-expected blows by the unforeseen crises that shook the Canadian economy this year, growth will be weaker than projected at the beginning of 2003. However, now that it is all behind us, the Canadian economy is showing encouraging signs, leading the Bank of Canada to predict that economic growth, calculated by the **GDP**, will firm up in the last quarter to close the year at 2%.

One of the heartening signs is robust domestic demand, buoyed by a **construction** industry driven by an expansionist monetary policy. Construction remained strong in 2003, with a monthly average of more than 218,000 units (annualized seasonally-adjusted data) recorded from January to September and no signs of a slowdown are in sight. In addition, **retail sales** remained upbeat, advancing 0.3% in August and surpassing forecasts made after the blackout. This pace should continue until the end of the year and peak at Christmas.

Consequently, **business investment** (particularly in machinery and equipment first) should also pick up by the end of the year and continue into the subsequent quarters. It will be interesting to track the capacity utilization rate, which should shrink as GDP growth exceeds GDP potential (projected at 3%)[4].

Inflation died down in the country in 2003 and since April has stayed within the Bank of Canada's target range of 1 - 3%. For its part, the core CPI, which excludes the eight most volatile components, has dropped below 2% for the last three months, and inflation is expected to remain below this target for at least another year.

The improved growth outlook for the U.S. for this year and next should stimulate **demand south of the border** for our exports. However, the strong Canadian dollar will probably dampen this trend, at least in the short term. Global growth, especially in the

2. For many years, U.S. productivity has outpaced Canada's. According to National Bank Financial estimates, the productivity of the American workforce has improved 26% since 1995 against only 13% for Canadian companies.
3. The automobile industry are concentrated in areas that were hit by the blackout.
4. GDP potential designates the quantity of goods and services that the economy can generate in a sustained manner without fanning inflationary pressures.

Asian rim, including China, should also benefit Canada, which would like to double trade with that country and its 1.3 billion inhabitants to $40 billion by 2010[5]. The Chinese market is still underexploited by Canada, which accounts for only 1% of that country's imports.

Despite all these positive strides, the **appreciation of the loonie** which, according to the CIBC affects one SME out of four, is costing manufacturers dearly both in terms of profits and jobs. And this rise is all the more detrimental because exporters have not yet adjusted in order to maintain their profit margin. If they are to improve their competitiveness *vis-à-vis* their American counterparts, our exporters will have to boost **productivity**, a process already underway if we consider the 77,000 jobs lost in the manufacturing sector this year and the anticipated increase in business investment. ■

Quebec

Slower growth

In its October issue of the *Trend Chart* in which two of the three monthly results of the second quarter were published, it appeared that Quebec **GDP** growth would not be as strong as the previous quarter's. These impressions have indeed materialized as the Quebec economy shrank 0.1% in real terms in Q2 (0.6% annualized). The *Institut de la statistique du Québec* attributes this downward shift to a decrease in business investment (-1.5%) over the earlier quarter. The major banks are now forecasting economic growth of between 1.8% and 2% for the year, less than half the 4.3% achieved in 2002.

Just as for Canada as a whole, the North American context and external crises have cast a pall on Quebec's economic growth. The strength of the **Canadian dollar** since the beginning of the year also explains this slowdown. The 20% hike in the value of the loonie severely hampered Quebec exports, which account for more than 55% of our real GDP. In the first two quarters of the year, **exports** fell 2.3% and 4.8% respectively. However, this situation should improve as the U.S. economy picks up steam.

The **manufacturing sector** was especially hard hit by our currency's rise, which shows no signs of abating in the short term. And the blow was all the more painful because the dollar took off so quickly, in less than 10 months (by comparison, it took 3-1/2 years for a similar increase to materialize at the end of the 1980s), resulting in a **loss** of 36,300 manufacturing **jobs**. By aiming for productivity gains, our companies should gradually lessen their vulnerability to the soaring loonie. **Non-residential investments**, particularly in machinery and equipment, should increase.

Mirroring the rest of Canada, **domestic demand** remained strong in Quebec, fuelled by **consumption** and a robust **construction industry**, which is entering a new phase in the Montreal region: For the first time in seven years, the Canada Mortgage and Housing Corporation (CMHC) is reporting an increase in supply on the resale market (+6% in Q2 year-over-year). With prices jumping nearly 20% in some regions of Quebec, homeowners are seeking to take advantage of this upturn or simply trade up to a bigger home.

The net loss in **jobs** witnessed since the beginning of the year over last year has had little impact on housing starts. However, if the employment picture does not improve soon, people may think twice before buying a new home, in which case the shortage could quickly turn into excess supply (overconstruction).

By and large, Canada's monetary policy has increased the household debt load. Although the debt service is still manageable today, households should not dismiss the effect of an interest rate hike, which will materialize, sooner or later. ■

5. Comment made by Canadian Prime Minister Jean Chrétien in a meeting with the Prime Minister of China, Wen Jiabao, after the Asia-Pacific Economic Cooperation Forum (APEC) in October 2003.

Our economic conditions

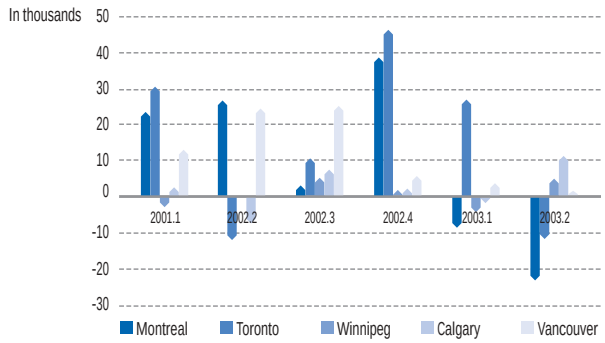
Labour market

Job situation brightens in September

The **Montreal urban agglomeration** lost a total of 45,100 jobs in August but thanks to the creation of 22,400 jobs in September, limited its total losses to 22,700 for the first nine months of the year. Considering that 50.5% of Quebec manufacturers are located in Montreal and that manufacturing exports have been particularly hard hit by the loonie's rise, it is fair to say that our dollar is largely behind the losses.

This year was not a good one for Montreal in terms of employment. Analysts are hard pressed to explain the difference between the employment picture in Montreal and Toronto, which despite the mad cow crisis, the blackout in August and the effect of the soaring loonie on the automobile industry, managed to create 6,500 jobs since January, clearly more than Montreal. During this time, Vancouver also gained 16,000 jobs. Under the circumstances, Montreal's unemployment rate is hardly more encouraging, fluctuating above 9% since March 2003 and mushrooming to 11% in August when more unemployed people were actively looking for work. Still, in September, it managed to dip to 9.9% owing to a significant decrease in the number of unemployed and a moderate increase in the working population.

Quebec statistics do not paint a rosier picture. A gain of only 7,200 jobs in September was not enough to offset the 25,500 jobs lost since the beginning of the year, mainly because of the slumping manufacturing sector, which lost 2,900 jobs in September and 36,300 in the first nine months of 2003. Obviously, the rise of the loonie has had a major impact on this sector, in which more than one million jobs are directly or indirectly related to exports (2001 data), all sectors combined. The manufacturing sector also continues feel the pinch of the ongoing downturn in the aeronautics industry (resulting from the crisis in the airline industry). One of the few sectors to post continuous growth, the construction sector gained 6,900 jobs in September and 13,600 by the end of the first nine months of the year. Unemployment is higher than in January, reaching 9.6% in September after peaking at 10% in August.



Job creation in the C5 cities

Source: Conference Board of Canada

For its part, **Canada** created 46,300 jobs in September, a better-than-expected growth (+15,000). In September, employment gains were fuelled primarily by the 39,000 new jobs created in Ontario. Nationally, healthcare (+18,000), and the retail and wholesale trades (+16,000) showed the greatest growth potential. Conversely, the manufacturing sector continues to falter, losing 15,000 jobs in September for a total of 77,000 since January. All sectors combined, Canada has created 98,200 new jobs since the beginning of 2003, in stark contrast with the 434,100 in 2002. ■

Housing market

Continued growth

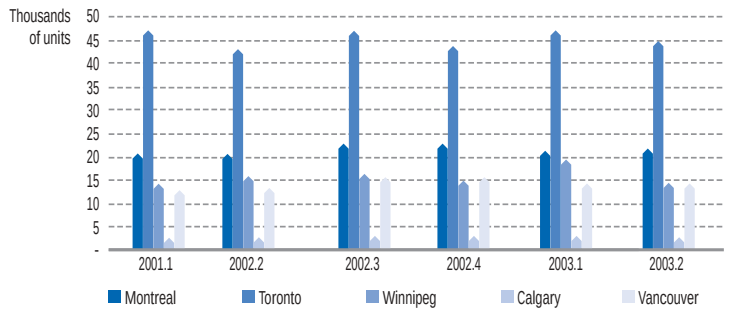
The construction sector in all the cities, regions and provinces combined continues to grow like wildfire. Relatively low mortgage rates, a scarcity in rental units and a frenetic resale market have construction firing on all cylinders.

Residential construction in **Greater Montreal** is a good example. Since the beginning of the year, housing starts (seasonally adjusted annual rate – SAAR) in Montreal have exceeded, seven times out of nine, the average monthly 20,800 SAAR units recorded last year. August and September were particularly robust with 31,400 and 27,100 SAAR starts, a level not seen since February 1990. The same can be said of Toronto and Vancouver, which have in the past few months also been recording SAAR starts above their 2003 cumulative average. In terms of actual starts, condominium construction has been the main growth engine in the residential sector. In Montreal, September was an unusual month according to the Canada Mortgage and Housing Corporation (CMHC) that saw more condominiums built than single-family homes, 913 against 905 units respectively. Nothing seems to be able to quell the heat of the construction sector except perhaps the new valuation role, made public by the City of Montreal in September and whose effect on Montrealers' property taxes for the next three years will only be known in the City's 2004 budget[6]. Once that happens, some consumers may think twice before buying a new home or trading up.

6. Information unknown at the time of publication.

Our economic conditions

Quebec housing starts have also accelerated since July 2003, reaching 52,300, 61,100 and 56,300 SAAR units in July, August and September respectively. At the end of the first nine months of 2003, Quebec is reporting a monthly average of 48,900 SAAR units, up over last year's average of 43,000. The value of residential construction permits dropped 9.5% from July to August to $584.7 million. However, the total value of residential permits delivered from January to August jumped 23.1% in comparison to the year-ago period. According to Statistics Canada, the strong demand for new housing in the Montreal and Quebec City areas is the driving force behind the strength of the Quebec residential sector. The value of residential and non-residential building permits combined reached $6.8 billion for the first eight months of the year, a year-over-year increase of 21.6%.



Housing starts in the C5 cities

Source: Conference Board of Canada

The euphoria continues in **Canada** as a whole, where actual housing starts from January to September advanced 6.7% over the comparable year-earlier period. According to the CMHS, new home construction fell from 237,200 to 234,600 SAAR units from August to September. Still, these figures are much higher than the monthly average of 218,500 recorded since the beginning of the year and are up 7.4% over the corresponding period a year earlier. The number of starts in July, August and September beat the record set in Q1 1990. It seems that nothing can slow the construction sector this year, not even rising resale prices and a sluggish job market. ■

Financial market

Inflation rate

After reaching 2% in August, the annual inflation rate in Canada crept up to 2.2% in September. This slight uptick (12-month change) in the cost of living is attributable chiefly to a rise in automobile insurance premiums (+22.2%) and the price of natural gas (+49.4%). In terms of monthly change, i.e., from August to September, tuition fees (+8.1%) and the clothing index (+4.2%) were largely behind the 0.2% rise. Excluding the eight most volatile components, the Bank of Canada's core CPI reached 1.7% in September (calculated over 12 months) and remained below the Bank's 2% inflation target for the third consecutive month. According to the Governor of the Bank of Canada, this index has been dropping since April due to a broad-based decline in the price of such products as automobiles and clothing, to the depreciation of the greenback and lower prices in the tourism sector following the SARS outbreak.

According to the most recent publication of the Bank of Canada's *Monetary Policy Report* (October 2003), inflation should hover slightly above 1.5% for the rest of 2003 and remain under the 2% target until mid 2005. By reducing exports – the main component of GDP – to the U.S., the stronger loonie would therefore keep a lid on inflation.

Interest rates

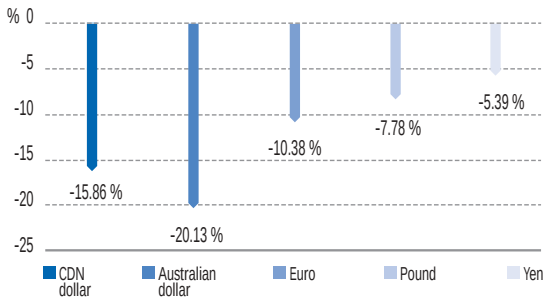
Since September 3, 2003, the Bank of Canada has kept its overnight rate at 2.75%, bringing the spread between the Canadian and American interest rates to 175 basis points. In its last monetary policy report, the central bank dismissed the possibility of reducing its overnight rate by the end of the year. Several factors that the Bank of Canada considers when establishing its target rate are improving: inflation appears to be under control, having stabilized around 2% from July to September; the fallout of SARS, mad cow disease and the Ontario blackout continue to fade; domestic demand attests to the vitality of our economy (thanks to the construction and retail sectors); and stronger international – especially U.S. – growth should boost Canadian exports. In addition, the nation's finances continue to have a positive effect on our economy and on interest rates[7]. In this regard, Canada is the only G7 country to record a **double surplus**: one in the current account and another in the budget (for the sixth consecutive year).

7. A growing government debt leads to greater demand in the capital markets, which contributes to maintaining high real interest rates.

However, there's a fly in the ointment: our strong dollar could dampen export growth. It appears that the Bank of Canada will react (its next rate-setting meeting is scheduled for December 2) to the loonie's exchange rate only to the extent that it affects the country's growth and inflation forecasts.

Interest rates

In relation to the greenback, our currency has appreciated 20% in the first 10 months of 2003. Some experts say the loonie's flight is in large measure due to the greenback's depreciation. The following graph shows the U.S. dollar's slide vis-à-vis other currencies in 2003. The U.S. government will likely stay pat in this regard in the hopes of trimming the country's trade deficit[8] without putting a damper on consumption[9].



Depreciation of US currency compared to other currencies (10 first months)

Source: Bank of Canada

Other domestic factors in Canada favour the appreciation of our currency such as the surplus in the current account, the increase in commodity prices, and higher interest rates than in the U.S. All things considered, a stronger loonie hurts exports, manufacturers and tourism, and if there is any credence to Minister Manley's comments, no relief can be expected from Ottawa.

On the other hand, our soaring currency can be viewed as an increase in real purchasing power for consumers as well as the net worth of Canadian citizens and investors.

Stock markets

After four rather disappointing years, the economic data is now pointing to a turnaround in the U.S. and global economies. During this storm, Canada found itself at the head of the Organization for Economic Cooperation and Development (OECD) ranking thanks to its unmatched growth. However, all that changed in 2003, which saw the country hobbled by temporary crises and a flying loonie that has been hurting exporters. For investors, our climbing currency has made investing in Canada more attractive, with the result that foreign investment was up $4.8 billion in Q2. The positive spread between the Canadian and U.S. overnight rates in favour of Canada also boosts demand for Canadian bonds.

After the stock market upheaval of the past few years (notably, the bursting of the speculative bubble and the revelation of financial scandals in the U.S.), investors have gotten cold feet, opting instead to put their money in bonds. But as the stock market picks up and companies return to profitability, investors will come back, a trend that has already begun with the TSX and S&P 500 posting, respectively, a 15% and nearly 16% gain since the beginning of the year. Moreover, almost 65% of the companies that make up the S&P 500 had published their Q3 results in October, and if this trend continues, analysts expect them to be the best since Q2 2000 (estimated at +19.5% to date). The outlook therefore does seem to be improving. ■

8. A weaker U.S. dollar makes exports more attractive to foreigners and imports more costly for Americans.
9. In order to limit the devaluation of the greenback, the Federal Reserve could hike its key rate. However, in the current context, such a move could dampen domestic demand, which would run counter to the U.S. policies implemented since September 11, 2001.

Our economic conditions

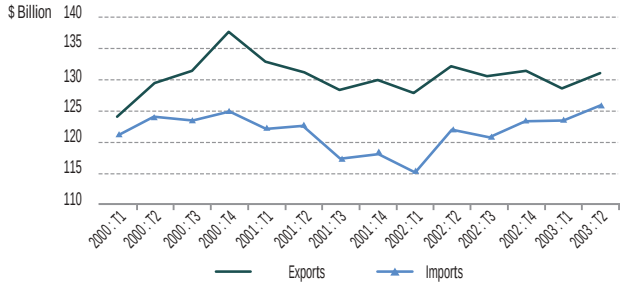
Foreign trade

Flying loonie and blackout take their toll

In Quebec, as in the rest of Canada, the 20% appreciation of the loonie since January is hurting exporters. And it seems that every time new data comes out, the situation gets a little worse. Other factors, such as the Ontario blackout in August and a case of mad cow disease have and, in the latter case, continue to cast a pall on merchandise trade. However, despite everything, on the 10th anniversary of the North American Free Trade Agreement (NAFTA), the accord received good marks notwithstanding the monthly export losses the provinces and Canada have recorded of late.

At the end of the first seven months of 2003, **Quebec's** merchandise exports slipped 1.5% over the year-earlier period. After shrinking 2.3% in Q1, exports dropped again by 4.8% in the second quarter to $16 billion, mainly owing to a decrease in demand for aircraft, aluminium, electricity and clothing. As a result of our soaring currency, the proportion of U.S. bound exports fell from the 85% level of the past two years to below 82% to the benefit of Asia. For July alone, the value of exports (seasonally adjusted and in 1977 dollars) slipped 0.8% over the previous month. Nineteen of the 25 main product groups exported by Quebec registered a decrease, including telecommunication and related equipment, softwood lumber and aircraft engines.

For their part, Quebec imports dipped 3.2% in July from June, compared with a 7.3% increase after the first seven months of 2003 year-over-year. This monthly decrease stems primarily from a downturn in the import of crude oil, aircraft parts, non-alcoholic beverages, medicinal products and automobiles. On a quarterly basis, Q2 ended with a 6.6% gain to $16.8 billion, driven by crude oil, automobiles, petroleum products, medicinal products and pharmaceutical products.



Quebec foreign trade in goods and services (Quarterly)

Source : Institut de la statistique du Québec

In **Canada**, August's international merchandise trade figures were naturally affected by the power failure that month in Ontario and certain parts of the U.S., with exports falling 3.8% to $31.9 billion and imports dropping 5.9% to $26.7 billion. The overriding factor behind the downturn was the automobile industry, concentrated in areas that were hit by the blackout. Thus in August, vehicle exports and imports tumbled 10.0% and 14.3% respectively. Also a victim of the blackout, the energy products grouping (including crude oil) recorded losses for eight months in a row, to the tune of 20.5% in imports and 3.7% in exports.

In all, the trade balance increased from $4.8 billion in July to $5.2 billion in August. However, because of the rising loonie, it dropped $497 million to $7.6 billion with the U.S. ■

Montreal and higher education: how to foot the bill

Among the pillars of Quebec's economic development, universities are expected to play an increasingly important role in the new knowledge economy. While Metropolitan Montreal is particularly fortunate to have four world-class universities, it still faces formidable challenges, making the problem of under funding all the more critical.

Montreal, a university city and a place of excellence...

There's no doubt about it, Montreal is a university city, with almost one resident out of twenty attending an institution of higher learning. Thus, with a population of 3.5 million and more than 150,000 full-time students, Montreal has almost 4.4 students per 100 residents, more than any other North-American city. The closest Canadian cities are Vancouver and Toronto, which rank 9th and 10th respectively.

All these students need teachers and it's no accident that Montreal also shines in this respect: in 2001, the Montreal region had 3,897 full-time professors for a population of 3.5 million residents while Toronto had 3,813 for a population of 4.9 million residents.

These figures clearly illustrate Montreal's exceptional critical mass in the spheres of knowledge and research. So it should come as no surprise that Montreal is home to four universities, several institutions of higher learning (HÉC Montréal, l'École de technologie supérieure, Polytechnique) and two faculties of medicine. Because of this critical mass, Montreal is the university research capital of Canada. Not only does it have more research centres than Toronto (201 compared with 154), Greater Montreal also distinguishes itself thanks to Université de Montréal and McGill University, which rank among the top three Canadian research institutions with budgets of $383 million and $316 million[10] respectively.

... but less educated

Paradoxically, Montreal's population does not directly reflect the city's strength in terms of knowledge and university research. While it ranks first in the number of students per capita (thanks, among other things, to a strong contingent of foreign students and many coming from other regions of Quebec), it lags far behind in the number of graduates. In fact, since only 21% of Montrealers age 25 and over have a degree, the city ranks 20th among the large North American agglomerations. In comparison, Boston ranks third, with a graduation rate closing in on 33%[11].

Metropolitan Montreal also lags behind when it comes to high school education: 18% of the population over 25 does not have a high school diploma, whereas Toronto and Vancouver fare much better in this regard, with 12% and 8.5% respectively[12].

Doing more with less: is there an end in sight?

In this respect, there are two challenges: how can Montreal hang on to its top position in university research and education and how canù it make sure more students graduate and fewer drop out? These are major challenges that only underscore the importance of addressing the issue of university under funding.

While Quebec universities have managed to do more with less compared to their North-American counterparts, they will soon run out of rope. They will need a lot of money if they hope to attract the best and most highly sought after teachers and researchers to replace the 50% to 60% of Quebec university professors scheduled to retire in the short and medium terms.

Cuts to fight the deficit along with tuition freezes have meant that funding of Quebec universities has lagged behind other institutions elsewhere in Canada and the U.S. According to a study conducted by the Conférence des recteurs et des principaux des universités du Québec (CRÉPUQ), our institutions need about $375 million annually to be able to compete with their Canadian analogs[13]. Moreover, the provincial government would have to boost its annual contribution from $2 billion to $3.8 billion to make conditions in Quebec universities similar to their U.S. counterparts[14].

10. *Canada's Top 50 Research Universities 2003*, Research Infosource inc.
11. *Montreal Metropolitan Community: Vision stratégique, "Document déclencheur"*, 2002, (2000 estimates based on Statistics Canada 1996 data).
12. *Montreal Metropolitan Community: Vision stratégique, "Document déclencheur"*, 2002, (Statistics Canada 1996 data).
13. Report by the CREPUQ-MEQ joint committee on resources, November 2002.
14. Picher Claude, *L'heure juste sur les droits de scolarité*, La Presse, March 15, 2003, page E3.

In light of this situation, the Board of Trade is eagerly awaiting the parliamentary commission on educational funding to be held in January 2004. Inasmuch as the government's financial resources are limited, the commission will have to identify both innovative and concrete solutions. Besides allocating additional public funds, other avenues are possible: greater financial contribution from financially able students; a form of financial participation by the employers of graduates, higher tuition fees, and loan repayments based on the graduates' income.

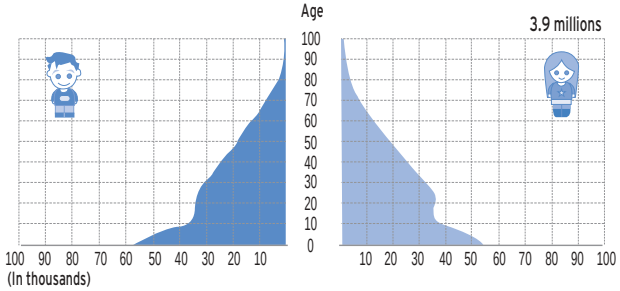
Montreal has everything to gain from increased university research, except... the desperate search for funding. ■

The aging population: a challenge for productivity

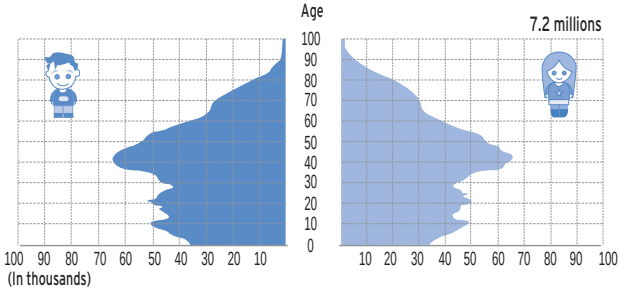
For a few years now, we have been witnessing a general awakening as to the effect of the aging population on public finances. And thinking about an **aging population** also brings up the question of its effect on health. There is no question that this phenomenon will have a major impact on healthcare costs, which account for almost 40% of the provincial government's expenditures. The productive capacity of our economy is another area that will feel the impact and will affect the **participation rate** and our **standard of living**. This matter of productivity is quite the challenge.

The demographic aspect

Many countries in the Western world are witnessing the greying of their citizens. Based on the current demographic situation, according to Statistics Canada's 2001 survey and the 1991-2046 demographic forecasts of the Institut de la statistique du Québec (ISQ), Quebec's population will likely age faster. Born in the 1940s and 1950s, the baby boom generation swelled the Quebec labour force in the '70s. However, given Quebec's plummeting birth rate since the '60s (the fertility rate tumbled from 3.1 births per woman in 1965 to 2.1 in 1970, remained steady at 1.7 from 1973 to 1979, dropped again to 1.4 from 1983 to 1988 and inched up to 1.7 in the 1990s. It is now hovering at 1.43), this trend could not be sustained. These two factors combined clearly signal a decrease in the number of workers, as illustrated in the age pyramid of the Quebec population in 1950 and 2001 beside.



Age pyramid of population of Quebec as of July 1, 1950



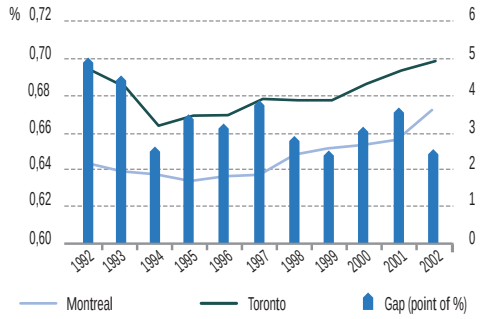
Age pyramid of population of Quebec as of July 1, 2001

Source: Statistic Canada, 2001 census.

Impact on the participation rate

The greatest impact of the aging population will likely be felt on the participation rate (total labour force expressed as a percentage of the population aged 15 and over)[15] and consequently on our productive capacity and standard of living. In this demographic context, Toronto's participation rate has been historically higher than Montreal's, 3.5 points of percentage higher than Montreal between 1992 and 2002, and nothing points to a reversal in this regard. This gap can only grow as an unprecedented number of baby boomers take retirement in the coming years.

In a study conducted by the C.D. Howe Institute[16] on the greying Canadian population, the author suggests that the nation's participation rate could fall from 61.3% to 51.7% in 2041 and that to maintain a production level comparable to 2002, productivity would have to climb almost 20%. According to Quebec's Minister of Industry and Commerce in 1997, Quebec already lagged 35% behind the U.S. and 25% behind Ontario.



Participation rate

Source: Conference Board of Canada

Impact on standard of living

An aging population not only means fewer people contributing to the economy. It also means that those still working will be less productive. As mentioned earlier, the projected decrease in the number of workers is all the more worrisome given the already significant gap between the standard of living of Montrealers, calculated in per capita GDP, and their counterparts in the other major North-American cities. Although our region's GDP places us 19th out of 26 North-American regions, our ranking tumbles to 26th in terms of per capita GDP. In other words, we owe our 19th position more to the fact that we have many workers than to our productivity as a population. It's interesting to note that in order to match Toronto (23rd place), Montreal would have to grow more than 5% per year for five consecutive years. That alone is a challenge, especially since a look at Montreal's growth rate shows that it has outpaced Toronto's only twice since 1992 and it was never more than 5%. ■

15. The Quebec labour force jumped 62% from 1971 to 2001 while the population only increased 21%.
16. C.D. Howe, Yvan Guillemette, Commentary 182, May 2003.

A New Deal for Winnipeg

by Mr. Glen Murray, mayor of Winnipeg

Montreal, Winnipeg and other Canadian cities face similar problems. Our cities are falling apart and we don't have enough money to pay for the repairs. At the same time, the global economy has forced every city to compete with every other city, not just in Canada, but around the world.

The most important resource in this new world is not capital or land, but people. As author Richard Florida has noted, bringing out the creativity in one's own population and attracting creative people from elsewhere is the imperative for the modern city that wants to grow.

For too long, cities have been governed by utilitarian principles: Postpone indefinitely all infrastructure work. If you must build it, build it cheap and ugly.

In Winnipeg, we have taken up the challenge of building the creative city. Our city has proposed a New Deal we think will help Winnipeg and other Canadian cities.

The New Deal has three objectives:

- rebuild our infrastructure;
- create a taxation system that rewards investment, promote environmental values and make taxes more equitable; and
- enrich the cultural, social and economic life of our city.

First, we propose a reduction of 50 per cent in municipal property taxes. Property taxes are a regressive form of taxation. They penalize older homeowners who must pay their taxes from fixed incomes.

When property taxes pay for repairing roads and building transit systems, we're overtaxing our homes to subsidize our transportation. When we use property taxes to pay for garbage collection, we're overtaxing our homes to pay for pollution. And when we use property taxes to hire police officers, we're overtaxing our homes to fight crime.

The New Deal proposal also includes eliminating the city's business tax to encourage businesses to expand and to attract new ones. The proposal eliminates the amusement tax, and trades our reliance on annual provincial grants for a portion of the provincial sales and income taxes. Transit fares would be cut in half.

The New Deal proposes a new approach: Tying the cost of the city's service to an appropriate source of revenue.

The city has designed a budget to show the direct relationship between the taxes our citizens pay and the services they support. That transparency, unheard of at any level of government, is the foundation of the New Deal.

Imagine that when you gas up at the pump, most of the gas tax goes to fix the potholes under the wheels of your car. Another part of that tax goes to improve public transit and pay for the cut in transit fares.

Now imagine you start to use that improved public transit more and drive less. You've now reduced your gas tax. You've had a say in what you pay, in a way you were unable to have with your property taxes. Your switch to public transit also reduced gas emissions and wear and tear on the roads.

Our New Deal includes just such a gas tax. It also includes a user-pay garbage fee that is a tax on pollution and a lever to encourage citizens to recycle and reduce the strain on our landfills.

We also envision a liquor tax that supports our police force and a hotel tax dedicated to developing better convention and tourist facilities.

As you can see, this early New Deal allows us to introduce "tax shifting", that is, using the tax system to reward positive behaviour while providing better alignment of revenue streams with specific services.

Most importantly, it gives us access to growth revenues to begin to deal with the infrastructure deficit faced by all Canadian cities, currently estimated at more than $57 billion.

Winnipeg would yield an additional $120 million a year, only two-thirds of what our engineers tell us we really need. Over time, these revenues will grow to fill the gap between what we can do and what we need to do.

As we make investments in strategic new structure, our economy will grow, paying the city a dividend on its investments.

But even if we fill every pothole, a city has to be more. We know that to encourage creative people to make Winnipeg their home, we have to build a creative city that ensures opportunities for the children and grandchildren of today's taxpayers. ■

For more information:
www.winnipeg.ca/newdeal

A glance at Montreal

Immigration underpins Montreal's economic development

By Michelle Courchesne, Minister of Relations avec les citoyens et Immigration

It's the topic of the day among business people and the most dynamic companies are already getting ready. But for what, you might ask? The fact is Montreal will require a huge number of workers in the next few years, to the tune of 345,000 in the Montreal census metropolitan area (CMA) between 2002 and 2006 according to *Emploi-Québec* projections. Well-informed managers know very well that finding the right people to fill jobs created by economic expansion or vacated by retiring workers is a formidable challenge that they have to start addressing right away, because the availability of labour is the key to business competitiveness. So is your company on track or is it standing back and watching the train go by?

If you're not quite convinced about the magnitude of the problem, you should know that without the contribution of recent immigrant arrivals, the working population of Greater Montreal would probably have declined in the past decade. In fact, the 2001 census shows that total labour force growth – pegged at 98,400 people between 1991 and 2001 in Greater Montreal – is entirely due to the contribution of the new arrivals to Quebec during this period, which grew by 116,200.

Accordingly, you should bear in mind that over the next few years, hiring immigrant workers will be one of the best ways for your company to meet its growth and labour requirements. Moreover, hiring temporary immigrants is a good way to fill a growing number of occasional labour needs and is often the first step towards permanently hiring qualified workers.

Through the human capital it supplies, immigration seeks to meet Quebec's need for a more mobile, flexible and qualified workforce. Quebec is looking for young, educated and qualified candidates who either know French or are learning the language and who are likely to easily integrate into the labour market. The selected candidates are therefore highly educated and have an adaptability profile consistent with professional mobility.

The education statistics for immigrants aged 15 and over admitted to Quebec between 1998 and 2002 and who planned to join the workforce speak volumes. For example, 31% of them have at least 17 years of schooling and 32% have completed between 14 and 16. To put these figures into perspective, an undergraduate degree typically takes 16 to 17 years of study. And more importantly, with their varied training, these people can meet the needs of Greater Montreal's diversified economy. More than a third of the qualified immigrant workforce admitted between 1998 and 2002 hold degrees in the natural and applied sciences.

Jobs are my top priority

However, the data from the 2001 census show that new arrivals on the Quebec job market do not integrate as rapidly and successfully as we would like to see. For example, in the Montreal CMA, the total unemployment rate was 7.5% in 2001 but 12% for immigrants.

In light of the government's fundamental principles and overriding objectives, I decided from the very start of my mandate to make it a priority to find jobs for new immigrants and for those who have been here for a while and have had trouble finding work.

I would like to see immigrants have an easier time integrating into our society and finding jobs in line with their education and experience acquired abroad. Although immigrants view finding a job as the most important aspect of their successful social and professional integration in Quebec, I have found that, unfortunately, there are other obstacles that still have to be overcome. We must remove the barriers, offer more support and make it easier for the new arrivals to find work. To this end, I would like to see closer ties between the Ministry of Relations with Citizens and Immigration and businesses, and more support for their hiring efforts.

A glance at Montreal

A plan of action is underway

To make sure I understand the needs and expectations of the business community, company leaders, community groups and organizations, the socioeconomic milieu and all the stakeholders, I am currently holding consultations in the main regions of Quebec.

Since last August, I have had the opportunity to meet and speak with more than 600 representatives from these milieus. In fact, on September 19, I brought together the leaders and spokespeople of most of Montreal's chambers of commerce. The meetings were productive and allowed me to come up with very interesting solutions and realistic, concrete means of action to set up in the short and medium term.

In a little while, I will present a simple, concrete and results-oriented action plan for immigration, integration and intercultural relations.

This plan will contain specific means of action to:

- harmonize the labour needs of businesses with the recruitment and selection of new immigrants;
- begin the francization process and the preparation of selected candidates for the workplace before their arrival in Quebec;
- accelerate the recognition of immigrant education and experience acquired abroad;
- make it easier for immigrants to find employment;
- encourage and promote openness to diversity.

The integration of immigrants into the workplace: a shared responsibility

In light of the key role immigrants play in the economic development of all the regions of Quebec, the host society, the various levels of government, the non-governmental organizations, employers, institutions and citizens are all responsible for identifying action paths most likely to elicit a greater contribution from them.

I am counting on you, business leaders, to hire new immigrants and facilitate their integration. I understand that this takes time, openness, energy and resources, but just like those who have already taken this path, you will find that their competencies contribute added value to your company.

At a time of market globalization, a company with employees who have international experience and knowledge of foreign markets will enjoy a definite competitive edge when attempting to penetrate new markets. You will also find that their varied experience boosts the company's capacity for innovation. And a company that employs people who reflect its diverse clientele will be better able to establish privileged contacts with its customers. A foreign accent is not an obstacle. Rather, an employee who masters several languages is an asset. ■

The importance of urban issues

By Claude Drouin, Secretary of State responsible for Canada Economic Development

Urban poles drive the economic activity and the growth of our country. Their vitality plays a key role in our international competitiveness. Major poles of attraction, urban centres dominate and significantly influence the economic, social and cultural life of regions.

Some 80% of Canadians live in communities of more than 1,000 inhabitants, 43.1% of whom are in the Quebec City – Windsor corridor. Closer to home, Greater Montreal, with nearly 50% of the population of Quebec and over 50% of its GDP, together with Quebec City, are powerful economic engines. Other smaller communities also play a key role in the economy of Quebec's regions; these include Saguenay, Trois-Rivières, Sherbrooke, Gatineau, and Rimouski.

Urban challenges are significant. They concern all levels of government, in many respects: in terms of economic and cultural development, innovation and skills development, immigration, housing, the environment (greenhouse gases, for example) and infrastructures. The Government of Canada invests a large amount of money in this regard.

Urbanization, together with other phenomena such as low birth rate and globalization, is changing the regions as well as urban dynamics and social fabric. For example:

- Since the Free Trade Agreement with the United States, north-south trade has increased substantially, which has tightened the integration of communities and trade corridors along this north-south axis. As this trend develops, the most competitive urban poles will be those with productive trade corridors and communications networks.
- International promotion should increasingly be based on the strengths of urban poles (niches of excellence, clusters, skilled labour). The main competitor will now be American urban centres.
- Quality of life will become increasingly important in attracting and retaining capital and skills.
- By 2026, Canada's demographic growth could depend entirely on immigration, which would have an impact on our major urban centres since that is where immigrants tend to settle.

These challenges go beyond the vertical expertise of organizations as well as the responsibilities of a single level of government. They raise major issues:

- in terms of funding, especially for cities
- about the ways in which governments and other public and private players could work together more effectively (e.g., setting priorities, horizontal management).

We need to change the way we do things. To meet these urban challenges, we need to look at new models and partnerships:

- patterned according to the medium and long term needs and priorities of urban areas (innovation, clusters, immigration, housing, infrastructure, etc.). **Why not consider five to ten year urban development strategies to meet all the particular challenges within the urban poles (economic, social, cultural, tourist, etc.), including the urban communities that play a central role in their regions?**
- focussing on improving interconnections between urban centres. Communications policies and infrastructures play an important part in strengthening the economic, social, synergistic and competitive cohesion of cities and regions. The international competitiveness of our urban poles depends greatly on our ability to bring communities together and improve our trade corridors' performance. **Why not, in this regard, develop medium and long term concerted strategies which would, among other things, promote the development of the communities in these corridors?**
- based on flexible implementation formulas. **Why not consider partnerships tailored to the particular context of each urban pole, respecting the interests, priorities and functions of the public and private stakeholders in these poles?**

Dynamic urban poles are essential for our individual and collective well-being. By working together, we will be better able to meet this challenge. ■

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