Trend Chart

Greater Metropolitan Region

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Beyond economic cycles: The need for Montreal to leverage all its assets

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 January 31, 2004.

For more statistical information, read the section "Extra Trend Chart" of the *Board of Trade*'s monthly e-bulletin *La Cité*, at the following address: www.btmm.qc.ca/extra-tc

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Publication director
Isabelle Hudon

Writer
Annie Vallières, economist

Editing and coordination
Madeleine Murdock

Contributors
Robert Lacroix, CREPUQ
Mario Pezzini, OCDE
Caroline Ranger, DEC

Design and production
Talengo design inc.

Printer
Reprotech

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To contact us:
380 St. Antoine Street West
Suite 6000, Montreal QC H2Y 3X7
Phone: (514) 871-4000
Fax: (514) 871-1255

Editorial

Beyond economic cycles: The need for Montreal to leverage all its assets

The first Trend Chart of the year gives us a look at most of the data needed to compile an economic report for 2003. In many respects, this data confirms what we already knew: 2003 fell below expectations. This lacklustre performance was partially due to outside reasons: a slow economic recovery in the U.S., a soaring loonie, SARS, the blackout... But the year was also hampered by internal problems: uncertainty about the future of the new cities, job stagnation and calling into question needed and expected investments (notably, the City Contract and modernization of Notre-Dame Street).

The starting year is looking better, thanks in large part to a more favourable economic cycle. Indeed, things are improving all the time, not only for our neighbours to the south but pretty well everywhere in the world. For the first time since 1996, the whole world should enjoy a year of simultaneous growth. In addition to the Unites States, Asia, and to a lesser extent Europe, are all optimistic about 2004. This recovery will undoubtedly help our exporters and should lessen the impact of the strong dollar. As such, according to the Conference Board of Canada, Metropolitan Montreal should see its GDP advance 3.4% in 2004 and create 28,000 jobs. This growth should be fuelled in large part by the manufacturing sector.

However, despite the good news, trouble looms on the horizon: the Greater Montreal economy is not performing to capacity. For the Board of Trade, this is the main message that we should be retaining from the "territorial review" of the Montreal region conducted by the OECD (Organization for Economic Co-operation and Development). Mario Pezzini, head of the study and of the Public Governance and Territorial Development Directorate, presents the results on pages 14 and 15.

Consequently, even if 2004 is looking promising economically, the OECD tells us that we could maximize these good economic times if, among other things, we improve the economic development governance in the metropolitan region and boost innovation and productivity. Failure to do so will see the Montreal economy continue to lag behind in terms of per capita GDP and remain in 44th place out of the 65 major international metropolitan regions in the OECD zone.

This OECD study should give us pause and perhaps even a sense of déjà vu, since many of the shortcomings observed by the OECD have already been pointed out in reports prepared by Laurent Picard (1986) and Claude Pichette (1993). This makes it all the more urgent to act, because there is no worse mistake than having history repeat itself.

Fortunately, 2004 could give us the opportunity to take some serious action. First, because the new Prime Minister, Paul Martin, seems intent on bringing the issue of cities and their social and cultural development to the forefront of the political debate. The full reimbursement of the GST to cities — announced in February and requested by the Board of Trade for the past two years — is supposed to be a sign of things to come rather than the government's final contribution to city financing. Second, it seems that the Quebec government will honour the commitment it made in last June's budget speech "to establish a new approach with all the municipalities aimed at meeting their needs through more structuring and empowering financial policies."[1] We therefore have every reason to hope for a significant improvement in how urban centres are financed.

Thus, if 2004 is to live up to the Board of Trade's expectations, the metropolitan economy must not only keep up with the cycle, it must leverage all its assets. For us, this means greater coherence in planning and developing the metropolitan region; greater cohesion between the strategic players involved; and lastly, developing the creativity of workers and businesses so as to boost our relative productivity and innovativeness.

These are major but not insurmountable challenges. Because ultimately the issue is simply to be the best that we can be. ■

Benoit Labonté
President

1. *Budget speech*, delivered before the National Assembly by Minister of Finance Yves Séguin, June 12, 2003, p. 17.

Trends and overview

United States

A year of ups and downs

Two thousand three was flat for **job creation** in the U.S. December added a mere 1,000 net positions, far from the projected 100,000, and October and November estimates also had to be revised downward. Notwithstanding the fact that the last five months of 2003 ended with net employment gains, December's performance mirrors the rest of the year, i.e., growth way below expectations. The **manufacturing sector** was partially responsible for the losses, eliminating 26,000 jobs in December for the 41st month in a row. These job cuts are the result of a concerted effort by the American economy to boost productivity, an effort that translated into output gains of 7.0% and 8.1% in the second and third quarters of 2003 (unrevised data at time of writing).

On an annual basis, **U.S. GDP** still advanced by 3.1% in 2003. Last year's Q4 data showed gains of 4.0%, a slight decrease from the blistering 8.2% pace recorded in the previous quarter. GDP growth was driven by **business investment**, which increased in the last three quarters of the year due to productivity gains; **exports**, which soared 19.1% in Q4 thanks to the sagging greenback; and **residential construction**, which continues to ride the wave of favourable monetary conditions with a 10.6% increase in the last quarter of 2003 following a 21.9% jump in Q3.

In light of the foregoing, leading bank analysts are forecasting a strong economy for 2004. Still, a number of factors must be closely monitored, particularly, the high **current account deficit**[2] and the U.S. budget deficit. In the first case, the deficit for 2003 should amount to $550 billion (i.e., 5% of U.S. GDP). On the eve of the next U.S. election campaign, one can only hope that the budget deficit does not get worse since it is already staggeringly high as a result of the tax cuts implemented after September 11. ■

Canada

A rather grey horizon

Although 2003 began on a favourable note, a series of unforeseen blows ultimately cast a shadow on the Canadian economy. The **employment** situation was less than encouraging, and the annual gain of 270,800 jobs, or 1.7% increase over 2002 was mostly due to activity in the last four months of the year. A look at the results shows an increased presence of workers aged 55 and over (up 8.6%) in December 2003 over the comparable year-earlier period.

Canadian GDP growth, which was initially expected to reach 3.4%, also fell short. After advancing 2% in the first quarter and slipping 0.7% in the second, GDP posted growth of 1.1% in Q3 over the previous quarter, but still remained below the Bank of Canada's projections. During that quarter, manufacturers and retailers trimmed their inventories, usually a sign of a future decrease in demand. According to the figures published in January for the fourth quarter, i.e. October and November, we can expect the results to be below forecast.

Notwithstanding the foregoing, certain sectors continue to generate significant economic spin-offs. The residential **construction** sector is a case in point, where monthly starts reached 215,000 and 217,600 units (seasonally adjusted annual results) in November and December and averaged 217,800 units per month for the year, compared to 207,500 in 2002.

This construction boom, however, is affecting household credit. According to a recently published study by Scotia Bank on the evolution of North American **household debt**, although low interest rates have opened up access to ownership, the resulting increased debt (current consumption, housing, loans) could become problematic in the future because it makes families more vulnerable to a downturn in the economy. In fact, Canadian household debt amounted to 101.2% of personal disposable income in 2003, against 98% a year earlier. Although it doesn't look like the Bank of Canada will raise its **overnight rate** (2.5% in January 2004) in the immediate future, an increase is expected in the medium term, meaning it will cost Canadians more to repay their debt.

2. The current account balance consists of the trade balance (merchandise transactions only) and the balance of invisibles (services, net investment revenues and transfers).

Trends and overview

Another drain on the Canadian economy is the **rising loonie**. The loonie has lost some steam since the beginning of the year, following the publication of a second monthly report showing a decline in manufacturing shipments of 0.5% in November and 1.2% in October over the previous month. After appreciating 22% in 2003, our currency lost 2.14 U.S. cents in January 2004 alone. Despite the variations of the past month, a number of analysts believe that the effect of the dollar's appreciation on business profits will become more visible in the next few months as **currency protections** (forward exchange contracts) signed at the beginning of the appreciation cycle come to term.

The global economic outlook shows some very encouraging signs. The American, European and especially Asian economic recoveries continue to hold up **raw material prices**. Given that Canada is a major exporter[3] and a leading producer[4] of raw materials, its currency will likely follow the growing global demand for these products. ■

Quebec

Good news again

In terms of **job creation**, Quebec created 57,200 jobs in 2003, up 1.6% over last year. However, this increase is two times less than the one recorded in 2002, mainly due to the loss of 17,000 jobs in the mùanufacturing sector (compared with a gain of 13,000 in 2002). Practically all of the nation's losses in this industry were recorded in Quebec and Ontario, two provinces with a strong concentration of manufacturing firms.

For the fourth time in five months, Quebec's **GDP** posted positive growth, advancing 0.3% in October over the previous month and driven by residential construction (+1.9%), manufacturing (+0.3%), retail sales (+1.2%), and lodging and restaurant services (+4.2%). Although GDP growth for the first 10 months of 2003 was positive, it was nevertheless weaker than in 2002 (+2.1% for the first 10 months of the year, against +4.1% for the all of 2002).

Residential construction continues to enjoy an excellent year in all regions of Quebec, and based on monthly data, should end 2003 with an average of 50,000 housing starts. Low mortgage rates and a scarcity of rental units fuelled this sector. For its part, the resale market continues to boom.

In October, for only the second time in six months and the fourth time since January 2003, the **manufacturing sector** recorded an increase in output. Thanks to strong residential construction, lumber products, whose output improved 3.9% in October, contributed to the industry's performance. Still, weak U.S. demand, which has persisted since 2001, and the 18% **rise of the loonie** from January to October 2003, have left marks on both the manufacturing sector and exports. In this regard, **manufacturing exports** dropped 1.8% during this same period.

As for domestic demand, the annual trend remains positive. This is especially true for the **retail trade**, which advanced 1.2% in October for the eighth time in twelve months after declining 0.7% in September. For its part, **wholesale trade** suffered its first drop in five months, contracting 0.1% in October. Nevertheless, for the most part, the trend in this sector has been positive since early October, registering a gain of 7.2% over the first 10 months of 2002. Sustained activity in the housing market continues to fuel the sale of household items and construction materials, thus stimulating the wholesale trade. ■

3. Raw materials account for between 30% and 40% of our exports. Information taken from a speech by Gordon Thiessen, September 23, 1998.
4. Raw materials account for approximately 25% of Canadian GDP. Information taken from an article by Marian Stinson, in *Globe and Mail*, January 7, 2004.

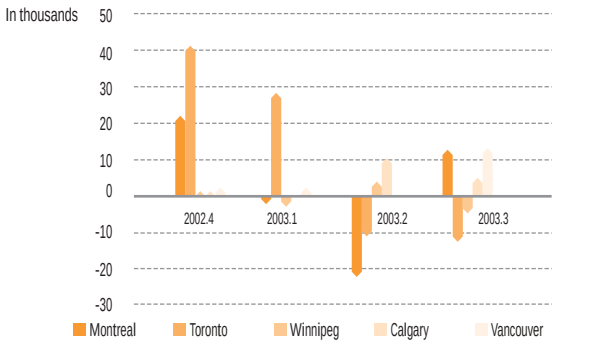
Our economic conditions

Labour Market

Paradoxical job situations in Quebec and Canada

In 2003, the **Greater Montreal area** managed to create only 14,000 jobs thanks to job gains realized from September to November. Just like the rest of the province, Montreal, which is home to 50.5% of Quebec's manufacturers, was especially hard hit by the loonie's rise.

As stated in December, the job creation situation was rather paradoxical. Despite the various crises that directly hit Ontario and indirectly affected Quebec, Toronto created 37,700 new jobs, or more than twice the number created in Montreal. However, it bears mentioning that after the tech bubble burst, Montreal lost only 2,000 jobs (variation calculated from 2001-2003), whereas Toronto, Vancouver and Ottawa each suffered losses of 38,800, 15,800 and 11,800 jobs respectively.



Job creation - Canadian cities

Source: Conference Board of Canada

On the heels of **Quebec**'s phenomenal job creation performance in 2002 (+166,100 jobs), 2003 proved to be rather disappointing with gains of 27,300 positions, all part-time. Once again, the manufacturing sector was partially responsible for the job losses. According to Statistics Canada, since November 2002, when this industry last enjoyed a peak, it lost 44,000 jobs in Quebec. These losses, however, were offset by gains in the health care, social assistance, finance, insurance, real estate and construction sectors. After successive increases of 25,500 and 54,200 jobs since October, employment closed the year in December on a sour note, with a loss of 26,900 jobs that nudged the unemployment rate up 0.3%, to 9.4% (for December).

Thanks to job gains in the fourth quarter, the **Canadian** economy created 270,800 jobs in 2003, most of which (90%) were full-time. When compared with the previous year's figures, this number may appear small, but when the shocks that rattled the country are factored in – SARS, mad cow disease, forest fires, the power failure in August, hurricane Juan, the loonie's rise – this performance is quite good. A look at the statistics by age group shows that people aged 55 and over benefited most from the job gains in 2003, picking up some 60% of the new jobs. Unlike last year, the 15-24 year old group benefited the least, filling only 5.3% of all new positions. All in all, the percentage of the labour force currently working or looking for work reached 67.7% in December, an unprecedented number according to Statistics Canada. The employment rate[5] also reached a peak of 62.7% for the same period. ■

Housing Market

A banner year

Right across the country, it was another banner year for the construction industry. Low mortgage rates, low rental vacancy rates, and a tight resale market set the tone for this sector once again this year.

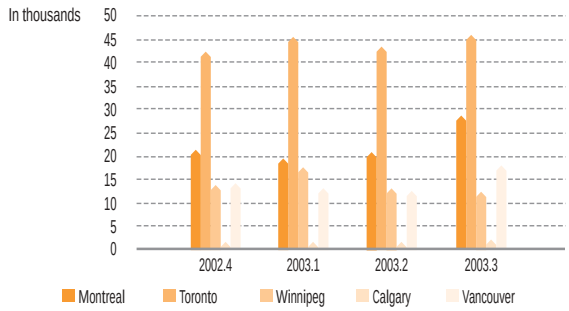
In December 2003, residential construction in the **Greater Montreal area** recorded its sixth consecutive gain. The ongoing, sustained increase resulted in 18% more housing starts in 2003 over 2002. New home construction in Greater Montreal advanced 26% in December thanks to a red-hot performance on the South Shore, where housing starts skyrocketed 92%. In terms of housing types, condos stole the show in December, posting growth of 50% across Metropolitan Montreal. Rental units followed with 25% growth, driven by construction on the South Shore. The intensity of housing starts continued unfettered in large part because vacancy rates in Greater Montreal rose only slightly from 0.7% in 2002 to 1% in 2003.

Housing starts in Greater Montreal increased 18% in 2003 to 24,321 units. According to the Canada Mortgage Housing Corporation (CMHC), 2003 was a banner year in terms of condo construction, which accounted for 32% of all starts (see graphic).

For its part, **Quebec's** construction sector was also robust in December, with an increase of 26% year-over-year, fuelled in large part by Gatineau, Trois-Rivières and Montreal. All

5. The employment rate is the percentage of people of working age who currently hold a job.

Our economic conditions



Housing starts - Canadian cities

Source: Conference Board of Canada

market types (individual houses and multi-family housing of all kinds) enjoyed solid growth. The province recorded 39,857 housing starts in 2003, a gain of 19% over 2002. Like in Montreal, multi-family housing – including, among others, condos – was the bright star, posting the strongest gains in Quebec with an increase of 29% in one year, fuelled by a 49% jump in condo construction (9,391 units). The boom in this type of housing comes as no surprise to the CMHC given demographic changes and economic and monetary conditions. Indeed, the federal agency expects housing starts to reach 48,000 units in Quebec in 2004 (seasonally adjusted annual rate – SAAR), compared to 49,000 SAAR units in 2003.

In **Canada**, housing starts in December rose 1.2% to 217,600 SAAR units over November. Urban multiple starts were strongest, advancing 5.9% to 88,200 SAAR units while single-family homes slipped 2.2% to 103,500 SAAR units. According to the CMHC, although single starts decreased 2.7% in 2003, this is no cause for concern given the 30% growth this category enjoyed in 2002.

According to the CMHC, housing starts reached a peak of 217,800 in 2003, its highest since 1998 and way above the 189,000 units forecasted at the beginning of the year. Expecting the pace of new home construction to ease in the coming years as the Bank of Canada tightens monetary policy, the Corporation is forecasting 204,000 units in 2004. ■

Financial Market

Inflation rate

From July to November 2003, the Bank of Canada's core CPI – the Consumer Price Index excluding the eight most volatile components[6] and the effect of indirect tax changes on the other components – remained slightly below the inflation target of 2%. According to the central Bank, the inflation rate and core CPI for December were 2% and 2.2% respectively. This is no cause for concern because rather than reflecting upward pressure on prices, this rise in inflation is the result of discounts applied by the Ontario government to electricity rates a year ago (in December 2002, i.e., the comparable period). As for the factors specific to December 2003, the monthly change in the CPI was caused by more expensive fruits and vegetables, energy, alcoholic beverages and tobacco (in this last case, due to the tax increase imposed by the Quebec and Ontario governments).

While the inflation rate is slightly above its target, in the short term, the central Bank expects that "the core CPI will likely persist below the target late into 2005."

Interest rates

After hinting on December 2, 2003 that it might drop its target for the overnight rate in the near future, the Bank of Canada waited for other economic news to be published before making a decision. Data on domestic demand in the third quarter, which was below forecast, set the tone for the announcement on January 20, which saw the central Bank reduce its official rate by 25 basis points, to 2.50%. The Bank stated that the rapid appreciation of the Canadian dollar against the U.S. currency had cut into the overall growth of aggregate demand for goods and services through weaker exports and increased imports.

The Bank of Canada is now signalling further decreases to its overnight rate, which is music to exporters' ears but disconcerting to supporters of a neutral monetary policy[7] who would prefer to see the central Bank apply a long-term vision to monetary policy decisions. While the loonie's rise is having a negative impact on the economy, they believe that these repercussions are temporary and will abate as exporters adjust and become more productive. In a context where the effects of monetary policy measures only affect inflation and the

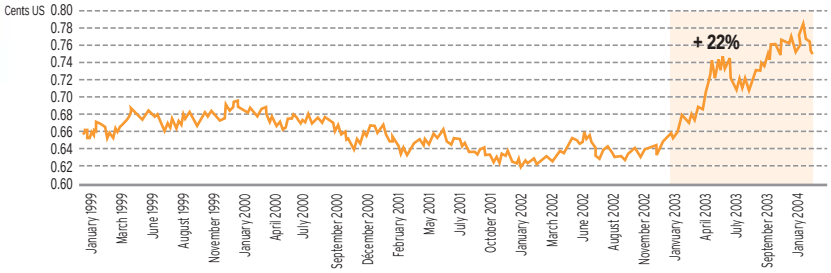
6. The eight most volatile components are fruits, vegetables, gasoline, fuel oil, natural gas, mortgage interest, inter-city transportation and tobacco products.
7. According to a neutral monetary policy, when the inflation rate is 2%, the overnight rate target should be 4.75%, for a real official rate of 2.75%.
In the current context where inflation is approximately 1.7%, the nominal overnight rate should be 4.45% (rather than 2.50%, as it was at the time of printing).

economy 18-24 months later, the short-term effects of the Bank of Canada's latest decisions will be more perceived than real.

Rate of exchange

The Canadian dollar climbed 22% against the greenback in 2003 and even touched a 10_-year high of 78.67 cents U.S on January 9. This appreciation stems in large part from the fact that investors have deserted the U.S. currency, scared off by the country's abnormally high budget and current account deficits. As for the fiscal deficit, it will soon reach 4.5% of GDP.

However, the drop in the overnight rate announced on January 20, combined with a lower economic forecast on January 22 (in the *Monetary Policy Report Update*) caused our dollar to slip to 76.16 cents U.S. the next day – a decrease of 1.04 cents, or the biggest one-day drop since 1987. This slide signals that the markets are anticipating further cuts in the Canadian overnight rate. The loonie continued to tumble down to 75.45 cents U.S. after the Federal Reserve decided on January 28 to leave its key rate at 1%. It seems that despite the latest U.S. economic news, which could justify decreasing the American key interest rate, the monetary authority is now focusing instead on an eventual tightening of its monetary policy, which pushed the U.S. currency up against the loonie.



Canadian exchange rate development

Source: Bank of Canada

The Canadian dollar should continue to rise in 2004, fuelled mainly by the Asian recovery as well as a global recovery that will increase demand for natural resources. In practice, the Canadian dollar is gaining in relation to the price of raw materials (see *Overview – Canada*, page 4). The Scotia Bank is forecasting that raw material prices will increase at least 10% in 2004, compared with 17% and 18% in 2002 and 2003 respectively.

All in all, the rapid and sustained appreciation of the Canadian dollar is a wake-up call for Canadian exporters to improve their production processes. Our companies would do well to take advantage of a stronger loonie to purchase machinery and equipment, most often imported from the United States.

Stock markets

During the third quarter of 2003 and for the 26th consecutive quarter, direct foreign investments increased by $2 billion, to $360.7 billion. The still positive variance between the Canadian and U.S. overnight rates (approximately 200 basis points in favour of Canada during this period) has prompted foreign investors to put their money into Canadian equities. However, foreign stocks have also grown in popularity thanks to firming global stock markets, translating into a gain of about 6% during the third quarter and some 20% in 2003.

Based on the decisions of the Canadian and American central banks, chances are that the two countries will not tighten their monetary policies in the first half of the year. Some leading bank analysts are forecasting that as the overnight rates rise, investments will shift from stocks to bonds since the risk/return ratio will be better once rates increase. ■

Our economic conditions

Foreign Trade

The loonie's rise casts a pall on foreign trade

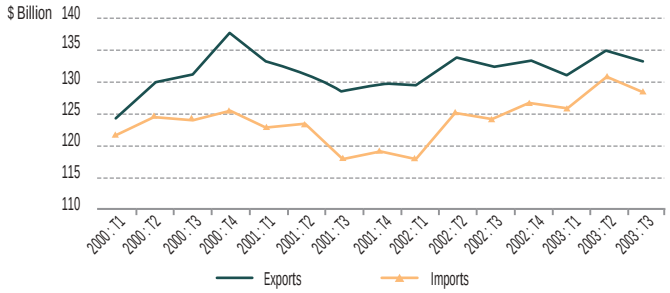
A number of events thwarted exporters last year: a 22% increase in the loonie against the greenback, unstable U.S. demand, the discovery of a case of mad cow disease and the blackout in Ontario.

In terms of international merchandise exports from Quebec, data published in October showed a gain of 0.7% (current dollars) over the previous month. Among the 10 sectors that improved in October, aircraft, automobile parts and newsprint led the way. At the end of the first 10 months of the year, the upward trend reversed with exports plunging 5.5% over the same period in 2002. Moreover, U.S.-bound exports dropped 6.5% for the first 10 months of 2003 over the year-earlier period, proof positive that our exporters' fears regarding the loonie's strength were well founded.

Although imports barely inched up 0.1% in October, merchandise imports rose 1.4% for the first 10 months of 2003. In October, 13 of the 25 main import groups posted growth, including medicinal products, automobiles and organic chemical products. According to the Institut de la statistique du Québec, imports from the U.S. (in current dollars, not seasonally adjusted) climbed 4.5% in October, for the third consecutive month. After reaching $898 million in September, the cumulative trade surplus in 2003 decreased to $855.7 million in October.

Down 1.1%, **Canadian** merchandise exports amounted to $32.1 billion (current dollars, seasonally adjusted) in November, compared with October. The three main export sectors – machinery and equipment, automotive products and industrial goods and materials – all contracted in November. November's biggest export decline was seen in the automotive sector, where the value of shipments fell 5.7%. According to Statistics Canada, the production and sales of new motor vehicles were weak throughout North America in November as incentives ended. In contrast, energy product exports rose, including oil, which jumped 9.3% in November. The export of agricultural and fish products also registered gains (+4.9%) after borders were re-opened to Canadian beef. However, the Canadian beef industry was again rattled in November when a case of mad cow disease was announced in the U.S. (the animal coming from a Canadian herd). This last case should affect beef exports, which will be reflected in the December and January data.

Canadian imports advanced 1.7% in November over October 2003. With a monthly gain of 3.6%, machinery and equipment drove imports to more than $8 billion, after a period of losses (-7%) that spanned from January to November. All in all, the trade surplus in Canada dropped from $5.1 billion in October to $4.3 billion a month later due to export weakness and a slight increase in imports. At the end of the first 11 months of 2003, the situation was slightly better than in 2002, with exports and imports both suffering losses of over 3% over the same period last year. Canada's trade surplus with the United States declined $334 million to $6.9 billion after imports from south of the border rose 1.6%. ■



Quebec foreign trade in goods and services (Quarterly)

Source: Institut de la statistique du Québec

Montreal's manufacturing sector: getting ready for growth!

Regardless of all the talk about the rise of the knowledge economy, the success of the Montreal economy still remains inextricably linked to the vitality and continued growth of its manufacturing sector. Fortunately, despite recent challenges to growth in this area, the manufacturing sector is poised to make substantial gains in 2004, and in so doing, contribute to the overall economic strength of the Montreal region.

Quebec is widely regarded as one of the most "manufacturing-intensive" province in Canada. Overall, manufacturing activity accounts for approximately one quarter of all economic activity in the province[8]. As part of the province's economic engine, the Montreal's manufacturing sector is particularly important to the long-term economic health of Quebec.

The most important manufacturing industries in the Montreal region include clothing, food and beverage, printing and publishing, transportation equipment (including aeronautics), and plastics. As such, the manufacturing sector accounts for more employment in the region than any other sector of the economy (see table) – 18% of Montreal's total employment, which represents 316,100 workers (2002)[9]. This substantial concentration of employment speaks to the integral role that the manufacturing sector will play in a general economic revitalization of the Greater Montreal region.

With the rise of the Canadian dollar in 2003, and the corresponding effect on U.S. demand, the manufacturing sector suffered a slight setback. But with the improvement in economic conditions south of the border, 2004 holds the promise of manufacturing growth, and the associated positive effect on the economy as a whole. In its *Metropolitan Outlook – Winter 2004*, the Conference Board of Canada suggests that Montreal's forecasted 3.4% GDP growth for 2004 will be in large part driven by the U.S. economic recovery, and the associated increased "demand for Quebec-based goods."[10]

However, in order for the manufacturing sector to grow in the medium term, it will have to become more productive and adopt new, innovative manufacturing processes. Indeed, the traditional sectors of the economy cannot avoid making the shift to the knowledge economy. In their case, the move does not involve changing their products but rather the way they are made. In this regard, the Board of Trade emphasized to the National Assembly's Public Finances Commission, chaired by Pierre Brunet, in its response to the *Working Group report on the Québec government's role in venture capital*, the importance for manufacturers to have access to the financing they need to modernize their manufacturing processes.

As the next article on the clothing industry shows, at a time when competition from countries like China and India is increasingly fierce, the challenge for Quebec manufacturers is to be among the most creative and productive in the world, which means first leveraging our niches of excellence where we have a comparative advantage.[11] As such, we hope that the growth forecasted for 2004 will allow the manufacturing sector to invest even more in its productivity and the competitiveness of our economy. ■

Jobs per sector in Montreal

Non-Agricultural Employment 2002	Total employment (in thousands)	%
Mineral	2.0	–
Construction	70.0	4.0
Manufacturing	**316.1**	**18.0**
Transportation & Public Utilities	123.6	7.0
Wholesale Trade	91.6	5.2
Retail Trade	305.8	17.4
Finance Insurance and Real Estate	101.5	5.8
Service	652.6	37.2
Public Administration	92.3	5.3
Total	**1 755.4**	**100**

Source: Statistics Canada

8. Achieving Excellence: http://innovation.gc.ca/gol/innovation/interface.nsf/vSSGFBasic/in04289e.htm
9. Government of Canada: http://investincanada.gc.ebdata.ca/Table2-CMA_f.asp?ID=14&ProvinceNameEn=Quebec#2E
10. Conference Board of Canada: http://www.conferenceboard.ca/press/2004/qc_mo_winter04.asp
11. The principle of comparative advantage, also referred to as the principle of comparative costs, may be stated as follows: provided the costs of self-sufficiency differ sufficiently between nations, it is more efficient for each country to specialize in and export the goods in which it has the greatest comparative advantage or the least comparative disadvantage, and in exchange, import other goods from its partners.

The apparel industry and the application of permanent sector-based labour standards

It's no secret that the apparel industry plays an important role in the Quebec and Canadian economies. With over 46,000 workers in Quebec and 55% of the industry's jobs in the country, the apparel industry is the third largest manufacturing employer in the province. And clearly setting itself apart from the other North American regions, Montreal ranks third among clothing manufacturing centres in North America after Los Angeles and New York. What is even more surprising is that in 1999, the Island of Montreal alone accounted for some 50% of all clothing shipments in the country and over 75% of Quebec's shipments.[12] As well, of the 18 metropolitan regions surveyed by the ministère du Développement économique et régional, Montreal has the strongest concentration of jobs in the apparel industry."[13]

Despite its importance in Quebec and Canada, this industry has a hard time making a name for itself on the international scene where it is not very well known and remains marginal. Our clothing industry has no shortage of obstacles to overcome before it can enhance its visibility on the global market, not least of all the cheap labour in such countries as India and China. However, besides these external factors, the industry today must also contend with an internal challenge: permanent labour standards.

January 1, 2004 was a milestone for the working conditions of some 17,000 workers in the Quebec apparel industry targeted by new measures. Indeed, on December 5, 2003, Labour Minister Michel Després announced the government's decision to implement, as of the new year, permanent labour conditions superior to those found in the *Labour Standards Act* for workers in women's clothing, men's clothing, men's and boys' shirts, and leather gloves.

This decision finally brings to an end the transition period that began with the abolition on July 1, 2000 of four collective agreement decrees for these sectors. During this pe-riod, minimum standards stemming from these decrees were applied.[14] These decrees have in effect been abolished because they were thwarting the diversification of production. Indeed, they were blamed for hindering manufacturing flexibility and a good product mix.

Because a regulatory framework was not agreed upon during the transition period, the industry expected the government to put an end to the specific conditions, which would have seen the entire industry subject to the *Labour Standards Act*. The Deputy Minister signalled to the organizations on November 28, 2003, that the government had no intention of protecting the labour conditions of these 17,000 workers beyond December 31."[15] The consequence of the government's about-face means that the minimum wage for these four segments was set at $8 per hour and the workweek kept at 39 hours instead of increasing to 40.

While certain organizations applaud this decision, industry employers and other parties involved see potentially devastating effects: the de-localization of jobs, layoffs and an immediate increase in production costs. Metropolitan Montreal must therefore now find ways to consolidate its strengths in North America and improve its performance on the international scene. As stated by the Ministère du Développement économique et régional, it is clear that "to set yourself apart in a tight market, companies must also find niches and systematically innovate not only in terms of the products they offer and production methods, but also in how they take them to market."[16] ■

12. Taken from the Ministère du Développement économique et régional, *La filière industrielle de l'habillement au Québec, Gouvernement du Québec*, 2003, p. 5 and 80.
13. *Ibid*., p. 81.
14. This transition period lasted 42months. A transition period of 18 months was planned under Bill 47, but it was extended another 24 months with the sanction of Bill 46, on December 18, 2001.
15. Mathieu Boivin, "Conditions de travail dans le vêtement : Québec recule," *Journal de Montréal,* December 6, 2003, p. 52
16. Ministère du Développement économique et régional, *op. cit.*, p. 152.

Taxing Montreal airports: a break on investment?

As if it didn't have enough problems, the Canadian air transport industry is bracing itself for yet more turbulence. After travellers were scared off by 9/11, the war in Iraq, and SARS, now the country's main airports are preparing themselves for a rent increase. Montreal will not escape this fate, which will be further compounded by a hike in compensation in lieu of taxes".

Under a 50-year agreement signed with Transport Canada in 1992, Aéroports de Montréal (ADM) – the independent entity responsible for managing, operating and developing Montreal's Trudeau and Mirabel airports – must pay an annual rent of some $6.4 million to Transport Canada for the federally-owned land on which the airports are located. The amount depends on the number of passengers handled by ADM during the year, the number of aircraft movements, capital spending and operating expenses pre-determined in the lease, other rental income collected by ADM, and airport improvement fees (AIF). Under this formula, the airports are therefore faced with the contradiction of having to pay higher rent when they undertake projects to improve their infrastructures and without Transport Canada providing additional services.

At the time of writing, it appears that in 2004, Canadian airports will be faced with an increase to their rent. For ADM, this is not good news.

Necessary reinvestments

As ADM President and CEO James C. Cherry wrote in a February 9 *La Presse* article, the equipment at Aéroport Montréal-Trudeau is outdated and the facility lacks space. Consequently, with the impending repatriation of all passenger flights to this airport, ADM began major work to improve its infrastructure with a view to meeting the air transport needs of the Greater Montreal area. ADM has spent over $300 million in the past two years, notably, on the construction of a new transborder finger.

However, given that ADM's investments systematically lead to an increase in the airport's property value, and by extension, its compensation in lieu of taxes – ADM paid over $17.8 million in such taxes in 2002 –, the organization will not be at all surprised to see its compensation rise in 2004.

In all, ADM spends $24.2 million, or more than 14% of its expenses, on compensation in lieu of taxes and rent, despite the fact that it takes care of many services usually provided by the municipalities, such as snow removal and police services. Compared with the rest of Canada, Montreal's airports are the highest taxed per passenger, $1.60 per person, against a mere $0.94 in Toronto (see table). In a competitive environment like air transport, it seems rather odd that when airports spend their own money to expand their infrastructures in order to better serve passengers, they end up having to pay higher compensation in lieu of taxes and rent.

Cost per passenger

Montreal –Dorval	**$1.60 (in 2002)**
Toronto	$0.94 (in 2002)
Calgary	$0.42 (in 2001)
Vancouver	$1.00 (in 2001)

Source: Aéroports de Montréal

Major infrastructures for the City

As trade between North America and the world continues to grow, airports find themselves playing a key role, transporting business passengers, tourists and cargo. In 2002 alone, Montreal's airports handled 8.8 million passengers and 223,000 tons of cargo.

Although essential for the economic development of Greater Montreal and Quebec, ADM is hampered by serious tax constraints. This raises the question of the "collateral" effect of the airport compensation in lieu of taxes and rent collection mechanism. One option that would allow ADM to make the investments required to boost its competitiveness in the long term is for Transport Canada to permanently transfer the airport land to ADM. This option would have the double advantage of allowing the organization to reduce its tax burden and to eliminate the present formula of calculating rent which is a disincentive to the development of airports. ■

A glance at Montreal

Under-funding of Quebec universities: a tight pinch

By Robert Lacroix, president of the Conference of Rectors and Principals of Quebec Universities, and rector of Université de Montréal

Montreal is a goldmine of grey matter in Canada. With 4.17 students per 100 residents, the city ranks second among North American university cities, just behind Boston. Its network of higher education boasts, in the same golden square of knowledge, four universities and four professional schools, with 5,000 professors and 160,000 students, including 14,000 foreign students and 21,000 Masters and PhD students. Close to 75% of all university research in Quebec is conducted in Montreal, which ranks ninth in terms of university R&D in North America, ahead of Toronto. According to a recent study, academic activity in Montreal accounts for 65,200 jobs per year and generates $3.83 billion in social and economic spinoffs.

However, this outstanding performance obscures the extreme precariousness of our universities. The truth is that the Quebec university system is at the end of its rope. For the past decade, despite substantial reinvestments, the system does not have what it needs to do what is expected of it: transmit knowledge through teaching and make scientific breakthroughs through research.

According to a joint study conducted by the Ministère de l'Éducation and the Conference of Rectors and Principals of Quebec Universities (CREPUQ), our universities needed another $375 million last year to be funded on par with their counterparts in the rest of Canada. Calculated from 1994 to 2003, this cumulative shortfall amounts to $2.9 billion, or 1 1/2 times the amount the Ministère de l'Éducation du Québec allocates each year to university operations! And the hole is getting deeper.

But it gets worse. What is even more disconcerting is what this deficit has done to the system over the past decade. For a few years, the impact of the under-funding was beneath the surface. But now that our institutions are growing again, these effects are out in broad daylight and affecting all aspects of university life.

For example, Université de Montréal spends two times less on educating a lawyer than the University of Toronto. With a ratio of 129 books per student, the U of M's collections are among the most meagre in the country, way below the average of its Canadian rivals, which boast 252 books per student. Between 1996 and 2002, the student-teacher ratio, considered the primary criterion for evaluating program quality, skyrocketed from 17 to 21 students per professor, such that U of M now unfortunately ranks dead last among the top 10 Canadian universities in terms of student-teacher ratio at the graduate levels.

According to conventional wisdom, you can "always" find someone worse off than you are. However, for our universities, the exact opposite is true. Regardless of the parameters analyzed, the comparisons with universities in other provinces is damning. And no, the grass is not greener on the other side: it's just that our grass is not as green. And it is even less so in Montreal than elsewhere in Quebec because of the enormous teaching and research infrastructures on the Island whose sky-high maintenance must be borne by the institutions themselves.

In the 1960s, Quebec launched major hydroelectric projects and fully assumed the associated costs. Today, projects of such magnitude take place in the knowledge economy. In this new millennium, we are witnessing the fascinating shift from an industrial society to a knowledge civilization, from the assembly line to the chain of innovation. And our universities are the main conductors of this transition. Denying them the means to fulfil their mission is to condemn us to the back roads of the knowledge society for a very long time to come. ■

Robert Lacroix

Guest economist

OECD Territorial Review: Montreal, a strategy to boost competitiveness

By Mario Pezzini, head of Division, Territorial Reviews and Governance of the Organization for Economic Co-operation and Development

The metropolitan region of Montreal (Metropolitan Montreal) is Canada's second most populous area after Toronto, and is home to almost 3.5 million people. Benefiting from impressive specialization, high quality of life, and wide range of industrial, cultural, and social strengths, Montreal has a vibrant and dynamic economy. However, its diversity and complexity can lead to institutional isolation and fragmented decision-making.

If Montreal wants to pursue its expansion on foreign markets and continue to strengthen its economic growth and employment, it has to increase productivity, support existing regional clusters through policies that favour innovation, facilitate relations between universities and companies, and attract high-skilled talents.

To do so, the City must take into account both the metropolitan area's problems and opportunities and then mobilize local institutional and economic actors around a coordinated plan. Recent institutional reforms, such as the merger of municipalities in Montreal and Longueuil or the creation of a Metropolitan Community, have started to address problems such as urban sprawl, fiscal disparities and inadequate public services or lack of regional co-ordination. But beyond these issues, in Montreal, as in other metropolitan regions of OECD member countries, consolidating local and metropolitan governance is an essential component of an economic development strategy.

Streamlining institutional structures and fiscal resources will however not be enough. The main challenge facing Montreal in the next few years is not just to elaborate a comprehensive economic strategy for the whole metropolitan region, but to implement it successfully.

What are Montreal's strengths and weaknesses?

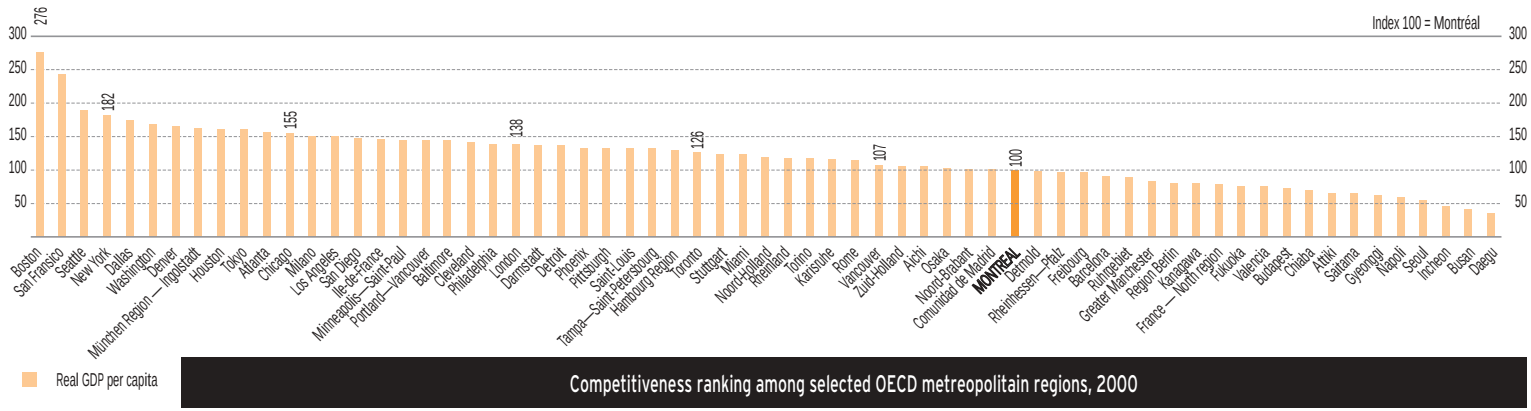
Despite the economic turbulence of the early 1990s, Montreal has maintained its position as one of the leading contributors to Canada's economy, accounting for 9.8% of the country's gross domestic product (GDP) in 2002. Within the context of increasing international integration, Metropolitan Montreal has strengthened its position in leading sectors of the knowledge-based economy and benefited from increasing foreign trade and investment. This positive performance has resulted in a high rate of job creation. Montreal's economy appears to be on a track of increased growth.

Moreover, Montreal's economic performance remains lacking when compared to other regions. Out of a selection of 65 OECD metropolitan regions of more than two million inhabitants, Metropolitan Montreal was ranked 44th with regards to real GDP per capita for 2001 (see figure). On average, nearly two thirds of the difference between Montreal and the comparison regions is explained by lower average productivity.

Montreal's low productivity is also related to insufficient investment in equipment and research and development (R&D), especially within small-and medium-sized enterprises which constitute an important share of the regional fabric. This lower productivity is linked to its relatively lower level of educational attainment (only 21% of the labour force having pursued higher education). This lag is especially pronounced in the 45-64 year old age group.

High participation in the labour market is a key factor in Montreal's competitiveness, but the region's elderly population is expected to increase considerably over the next few decades, leading to a decrease in the activity rate. In light of the lower educational attainment and ageing population, Montreal could increase migration inflows in order to maintain a high activity rate. Currently, international immigration accounts for over half of the population growth in the area. Yet, immigrants represent only 18% of the area's total population compared to 42% in Toronto and 35% in Vancouver. Targeting high skilled immigrants should be part of the strategy to upgrade the skill profile of Montreal's workforce and thus its productivity.

Guest economist



Competitiveness ranking among selected OECD metreopolitain regions, 2000

Source: Territorial Database, OECD

What are the challenges for a major institutional initiative?

A comprehensive economic development strategy for the whole metropolitan region is required to face the above-mentioned challenges. To respond to the territorial fragmentation and lack of regional co-ordination that characterizes most metropolitan regions, the province of Quebec has undergone one of the most important institutional reforms in OECD countries in recent years. This reform gave birth to the creation of a new metropolitan authority, the Metropolitan Montreal Community (MMC) in 2000[17] and a municipal reorganisation of the metropolitan region that resulted in the amalgamation of 28 cities in Montreal and seven cities in Longueuil in 2002.

In the short term challenges, the MMC is responsible for elaborating an economic development strategy for the whole metropolitan region. Streamlining sub-metropolitan institutional structures and clarifying competencies will certainly help meet this challenge. The question of metropolitan fiscal resources should also be assessed in view of the MMC's increasing responsibilities. Although the reform was intended to ensure more equal distribution of financial resources across the metropolitan area, it did not address the issues pertaining to long term, local fiscal sustainability. In fact, the property tax (76 % of total local revenue) remains nearly the only source of revenue for Quebec's municipalities.

How to co-ordinate economic development initiatives?

Implementing a clear and coherent strategy for the economic development of the whole metropolitan region requires a collaborative framework. Relations amongst companies and between companies and universities are essential. The Metropolitan Montreal Community (MMC) is the organization responsible for region-wide planning, coordination and financing for a range of socio-economic development functions, and thus obviously needs to play a leading role in co-ordinating the development of a regional economic strategy. However, given the multiple actors presently entitled to implement economic development strategies – sometimes with overlapping mandates – better co-ordination devices at the operational level remain to be developed. Now that the verdict on Montreal has been given, the time has come to act. ■

17. The MMC is a co-ordinating, planning and financing body for metropolitan-wide strategic functions, including spatial planning, economic development, social housing, public transport and infrastructure, environment and culture.

Canada Economic Development report

The Economic Challenges of Montreal

Even though the recently published OECD study on Montreal, for which Canada Economic Development was a partner, has governance as its main focus, many of the recommendations it proposes relate to the economy and business perspective of the region.

The OECD underlines metropolitan Montreal's important contribution to Canada's economy. Montreal reinforced its position in key sectors of the knowledge-based economy and seems well positioned to pursue its growth path. However, progress is still needed. Montreal's economic performance remains insufficient compared to other major international metropolitan areas. The main weakness resides in lower productivity, explained by a limited capital stock (human, physical, etc). These limitations arise from a smaller upper-level educational attainment and insufficient investment in equipment and research and development, in particular for small- and medium-sized enterprises. The study points out another obstacle to Montreal's economic development: shortage of private capital, particularly venture capital, to support commercialization of innovation.

The study also emphasizes the important role strengthening the industrial clusters could play in Montreal's economic growth. The development of clusters is closely linked to quality of relationships between businesses. Networking of key actors within a cluster and within Montreal's economy is required to consolidate industrial clusters.

The OECD also suggests a clearer focus to reinforce international exports potential. First, Montreal should further exploit the United States market by focusing on new, high demand niches in which Montreal has competitive advantages (ex. aircraft and aerospace parts, rail parts, telecommunication equipment). Second, the metropolitan region should diversify its export markets by increasing international trade with countries other than the United States. Lastly, Montreal should strengthen its position on value-added high technology products.

The Government of Canada acknowledges these different economic challenges. It engaged itself to build an economy of the 21st century and provide the country with strong economic foundations in its recent Speech from the Throne. In this context, it will continue to support economic development through federal regional agencies (such as Canada Economic Development for Quebec regions). The government will help small, innovative enterprises in getting appropriate funds for initial steps and research and development activities to get their ideas to the market. This will be possible through, among other things, venture capital capacities of the Development Bank of Canada and National Research Council Canada's services. Concerning exports, the government will facilitate trade between Canada and the United States by investing in infrastructures in the main corridors. It also expects to strengthen links with other regions of the world by targeting the new economic giants such as Brazil, China and India.

These orientations constitute a clear engagement of the government of Canada towards economic development and businesses of Canadian regions, and will contribute to respond to economic challenges faced by enterprises and regions. ■

Caroline Ranger
Canada Economic Development

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

Canada Economic Development
Développement économique Canada
Canada