Trend Chart

Greater Metropolitan Region

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Ottawa: an inspirational success story and reason for partnership

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 April 27, 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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Editorial

Ottawa: An inspirational success story and reason for partnership

One of the observations in our recently published *Montreal Health Report* that attracted the most attention was without a doubt the excellent ranking by the Ottawa region – including Gatineau – in the MACADAM INDEX. Indeed, among the 12 North American city-regions studied and compared by the Board of Trade in this report, Ottawa ranked second in this new exploratory index of metropolitan development (for a summary of the content, observations and methodology used in this study, see pages 10, 11 and 12 in the present issue of the *Trend Chart* or visit the Board of Trade's website www.ccmm.qc.ca for the complete version).

While such an exercise admittedly has its limitations, the MACADAM INDEX is of particular interest because it evaluates a number of factors that contribute to the appeal and competitiveness of an urban centre: per capita income adjusted to the cost of living, the homicide rate, the percentage of the population holding a university degree, and the number of jobs in the cultural and arts sectors. The idea is to recognize that many complex ingredients go into making a city or region stand out and to identify what Montreal needs to do to improve its ranking. Given that Montreal placed 9^{th} out of 12, it is clear that we have a lot of work to do.

That said, the fact that Ottawa ranked second is, in some respects, good news for Montreal and all Canadian cities. In fact, the *Health Report* shows that when elements such as cost of living and quality of life are factored in, a Canadian city does not necessarily have to be at the back of the pack. As Ottawa shows, a city can be both Canadian and competitive on the continental scene. Consequently, if a city located less than 200 kilometres upstream from the Ottawa River can succeed, there is no reason Montreal can't compete to attract and retain talent and investment.

Still, the question of how to do better must still be answered. The panel of experts invited by the Board of Trade to comment on Montreal's health and the resulting conclusions identified very interesting areas of action that we invite you to read about in page 10 of this *Trend Chart*. Beyond that, we believe that developing greater cooperation between Canadian cities is a particularly important avenue to explore. Indeed, developing a privileged relationship with Ottawa is certainly an interesting possibility.

Modern cities can both compete with each other and, at the same time, share a relationship of cooperation and partnership. This is especially true in the Canadian context for no other reason than to acquire the powers and financial resources commensurate with the increased responsibilities of cities. In fact, by banding together, cities would be better able to elicit prompt and effective action from the higher levels of government.

Besides sharing numerous political interests, Canadian cities often possess surprising complementarities that should be better exploited such as tourism for example. Once they land on Canadian soil, overseas tourists rarely confine their stay to one city. In fact, the *Health Report* made specific reference to the number of complementarities between Montreal and Ottawa in various sectors. The time has come to capitalize on them.

On the North American scene – and even more so on a global scale – Montreal and Ottawa are considered close to each other in such a way that their respective characteristics and assets can also be perceived as part of one and the same large economic region. This would make us a real powerhouse in the realm of knowledge: seven universities, some 300 research centres, and almost 200,000 students! Now here's a convincing argument for a "Montawa" region...

Just as they share many activities in the areas of research and knowledge, the regions of Ottawa and Montreal also both shone in the quality-of-life indicators (air quality, homicide rate, cultural activities). Because of their size, however, they offer quite different living experiences: Montreal, with its bustling urban lifestyle, is at the forefront of culture and entertainment while Ottawa sets itself apart by its tranquil surroundings, abundant green spaces and impressive number of major cultural institutions. In other words, together, Montreal and Ottawa can, within a 200-kilometre corridor, offer tremendous quality of life for all tastes.

While only suggestions, these avenues all lead to one conclusion: the potential for cooperation between Canadian cities is immense... and untapped. And in this context, it is a good idea for Montreal to see how it can learn from and work with the Ottawa region. ■

Benoit Labonté
President and CEO

Trends and overview

United States

Job gains at long last

After many months of waiting, March finally brought good news, posting the best monthly gain since April 2000 with the creation of 308,000 **jobs**. Far exceeding expectations, these results were fuelled by the service-producing sector – rather than the goods-producing sector – which created 230,000 new jobs. Although the **jobless rate** rose 0.1%, to 5.7% due to an improved outlook that has prompted discouraged unemployed workers to once again actively seek employment, the first quarter ended with over 517,000 new jobs.

With 1.85 million starts in 2003, the **housing sector** was a major driver of **economic growth**, which at 3.1% was the best performance recorded since 2000 (prior to 9/11 and before the tech bubble burst). Despite a slowdown in January and February, the figures for March – slightly more than 2 million starts (annualized average) or an increase of 6.4% over February and the strongest gain in the past year – confirm ongoing strong potential for this sector.

The job gains and **inflation** rate in March (1.8%, compared with the same period in 2003) has analysts predicting an end to the 1% federal-funds rate. As job creation become more widespread in the coming months, the Federal Reserve will be tempted to tighten its monetary policy, a move that could dampen consumption and housing construction.

The U.S. economic recovery – which now includes job gains – could be good news for Canada as demand for Canadian products picks up south of the border. For its part, the global, and more specifically, Asian recovery, will continue to sustain the price of raw materials, a major export commodity for Canada. It therefore looks like the U.S. and global recoveries will have a positive impact on our exports. And as part of this improvement trend, we can also expect enhanced profitability for American companies that continue to boost their productivity (up 4.2% in 2003). ■

Canada

A chilly beginning

Canada was hit with such a cold snap in early 2004 that it literally made the **GDP** dip 0.1% in January. These arctic conditions adversely affected output, in among others, the wholesale industry (-3.4%), mining, oil and gas extraction (-1.1%), manufacturing (-0.7%) and construction (-0.4%). Moreover, manufacturing output continued to be hampered by weak new automobile sales in North America.

Despite the downturn in **residential construction** in January, housing starts largely rebounded in March, to 247,000 units. For the same month, urban starts increased almost everywhere in the country except for the Prairie Provinces (-2.4%). The strongest gains were in urban centres in Ontario (+22.7%) and Quebec (16.6%). The housing sector (residential construction, renovation and resale market) continues to drive the Canadian economy this year. Historically low **interest** and **mortgage rates** are making current consumption and real estate spending more attractive than saving and investment with the result that the **savings rate** in 2003 dipped to a low of 2%.

In order for residential construction to remain buoyant, the long-term job outlook must remain positive. However, the short-term situation in this regard does not bode well. After picking up 278,200 jobs in 2003, the Canadian **labour market** lost 19,600 positions in the first quarter of 2004, primarily in the goods producing sectors. Ontario lost 24,500 jobs in March, mainly in the building services and other support services sectors, while the employment situation remained virtually unchanged in the rest of the country. At 7.5% nationally, unemployment has remained at about the same level since last November.

Trends and overview

The reason for this job stagnation may have something to do with the loony's 17% rise in nearly 16 months. To hedge against the negative effects of the **dollar's appreciation**, many exporters purchased forward exchange contracts.[1] Most of these contracts, signed at the beginning of the loony's rise, are now coming to term, putting an end to the hedging activities of Canadian companies and forcing them to address the need for greater **productivity**, in other words, doing more with less. For some, this means reducing their payroll. Reflecting this quest for improved productivity, international merchandise trade figures for February show a clear increase in **corporate investments**. Machinery and equipment imports advanced 9.3%, the best growth in a decade. Productivity in the first quarter should therefore show an improvement over 2003, when it edged up a mere 0.1% (the lowest growth since 1996).

Although exporters feared the outcome of a rising loony in 2003, the overall impact on our economy has not been as devastating as initially expected. In fact, according to a Statistics Canada study, the overall effects have been positive. For example, in terms of economic performance, Canada's **terms of trade**[2] increased our purchasing power on the international market by 10.6% in 2003. These results are definitely more encouraging than the 2003 **Canadian International Merchandise Trade Report**, which showed exports down 3.1% for the third time in as many years, and a 4.2% decline in imports. During this period, only energy products (natural gas, electricity, crude oil, coal, etc.) recorded increases in both exports and imports.

According to StatCan, the industry hardest hit by the loony's rise in 2003 was **tourism**. Sensitive to an appreciation in our currency and already suffering the fallout of 9/11, the industry has fallen on hard times that have persisted with tighter security measures less international travel. Thus, tourism spending was down for the third consecutive year, dropping 2.7% in 2003 over 2002. The second quarter was particularly difficult, with a decrease of 4.7% and for the year as a whole, the industry lost $1.3 billion. ■

Quebec
2003 report

Employment in the **manufacturing sector** continues to lag in 2004 after losing 16,700 jobs in 2003. Of this number, 15,800 were in Greater Montreal. The situation has much to do with the fact that the **loony** has appreciated 17% since January 2003. Just like U.S. manufacturers did last year after a tough period, Quebec companies will have to boost **productivity**, which means doing more with less for the next few months, and as a result, creating fewer jobs. But once they re-engineer their production processes and take advantage of a stronger dollar to purchase machinery and equipment – most often imported from the U.S. – their productivity should improve. Indeed, the Conference Board of Canada mentioned in its *Metropolitan Outlook Spring 2004* that the U.S. recovery will be good for manufacturing production by fuelling job creation and consumer spending. According to this organization, the Montreal economy, projected to grow 2.8% in 2004, could still see 29,000 jobs created, mainly in the aerospace sector.

Quebec **GDP** increased 1.6% in 2003 after advancing 4.0% the year before. The weak performance of the first two quarters (+0.1% and +0.0%) stems from the provincial trade results. The loony's rise hampered **international merchandise trade** in 2003, with the result that total exports fell 6.1% to $64.2 billion while imports barely changed over 2002, inching up a mere 0.3% to $63.6 billion. In terms of exports, it bears mentioning that aircraft sales climbed more than 10% over 2002, a new peak according to the Institut de la statistique du Québec.

Despite the sluggish labour market (+1.6% against a gain of 3.4% in 2002) and a smaller increase in per capita personal income than in 2002 (+1.9% to $27,592, after rising 3.1% in 2002), **consumer spending** was the second biggest contributor to GDP, with an increase of 3.5%, after **fixed-capital investment** (+5.7%) by businesses and public administrations. As a result of very low interest and mortgage rates, the housing market enjoyed another excellent year, recording slightly over 50,000 **housing starts** in 2003, a level not seen since 1988. All this activity spilled over to **retail sales** (+4.4%) and especially furniture (+6.0%). However, on the downside, low interest rates caused the **savings rate** to drop for the first time since 1999, from 5.5% in 2002 to 3.8%. In all, the housing sector should remain buoyant this year, fuelling job creation, consumer spending and fixed-capital investments. ■

1. Forward exchange contracts are used to fix the buying or selling exchange rate in advance of the settlement date. It is important to know that these contracts are firm, meaning an exporter or importer cannot benefit from a subsequent appreciation in the currency. This instrument makes it possible to more accurately project cash flow, thereby facilitating budget management.
2. The terms of trade are the relationship between the prices of exports and the prices of imports.

Our economic conditions

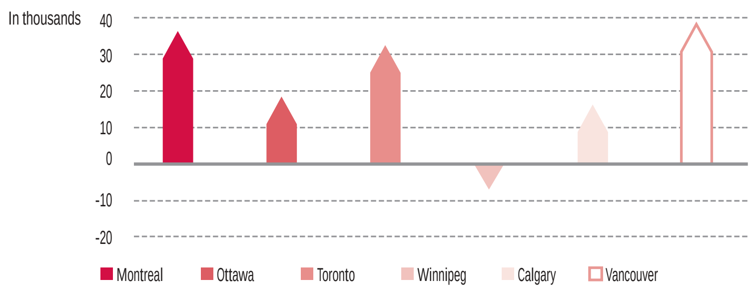
Labour Market

A difficult start to the year

After a mediocre performance last year, **Greater Montreal** kicked off 2004 in the red, losing 22,600 jobs in the first quarter. The manufacturing sector once again took one of the biggest hits, eliminating 2,500 jobs since January. The announcement of foreign outsourcing plans by some Montreal manufacturers, combined with job cuts by CAE and Celestica, to name just a few, and the effect of a rising loony, which will be accentuated as hedging activities come to an end in 2004, will continue to negatively impact this sector. And the employment situation is not likely to improve in the immediate future unless our manufacturers consolidate their productivity in order to effectively compete with their more productive U.S. counterparts.

The unemployment rate in Montreal dropped below 9% in January and reached 8.6% in March, most likely due to the number of discouraged unemployed people who stopped looking for work.

According to data compiled by the Institut de la statistique du Québec, Metropolitan Toronto has created 9,900 jobs since early 2004, in contrast with Vancouver and Montreal, which have lost 4,100 and 22,600 respectively.



Job creation in 2003 - Canadian cities

Source: Conference Board of Canada

Employment in **Quebec** stagnated for a third consecutive month, with total gains of only 4,200 jobs since January. In March, the professional services, scientific and technical (+10,600), and manufacturing (+8,700) sectors compensated for losses in the teaching sector (-7,800), resulting in a total gain of 4,500 jobs, all sectors combined, for the month. Despite the increase recorded in March, Quebec's manufacturing industry is still having a tough time, with 17,000 jobs eliminated since November. As our currency continues to appreciate, there will be a trend effect on Quebec and Ontario, two economies that rely very heavily on exports and their manufacturing sector. Just as for the Montreal region, the Quebec unemployment rate has been dropping since the beginning of the year, reaching 8.6% in March as fewer people looked for work.

Canada's employment statistics hardly fared better, with a loss of 19,600 jobs in the first quarter of 2004 and another 21,200 and 13,300 positions in February and March. Although full-time jobs have increased this year, this gain has been offset by a loss of 80,500 part-time jobs, a departure from the figures presented in our last edition of the *Trend Chart*, when full- and part-time job creation was positive during the last quarter of 2003 and especially since full-time jobs accounted for 90% of the positions created in 2003.

The following sectors lost a significant number of jobs in March: building and other support services (-19,700), teaching (-19,100), and information, cultural and recreational services (-13,600). Finance, insurance and real estate added 14,600 positions, while the manufacturing sector picked up 7,100 (contrary to Quebec). Despite the fact that manufacturing jobs have not fluctuated significantly in the past few months, StatCan points out that this sector is still down 76,000 jobs since November 2002, when the trough cycle began. ■

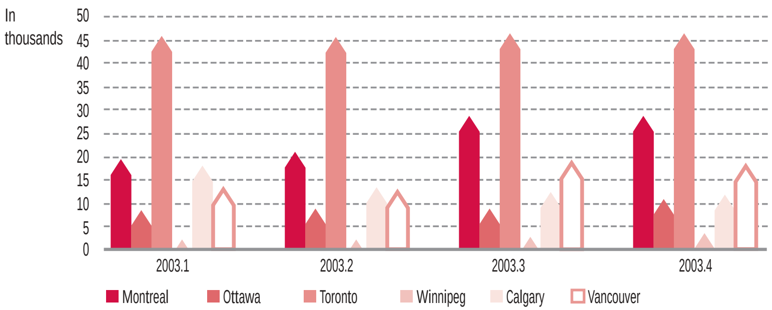
Housing Market

Excellent prognosis for 2004

Historically low mortgage rates, strong consumer confidence and fewer property listings are propelling residential construction towards new heights in 2004.

Housing starts in March almost doubled in **Metropolitan Montreal**, to 2,692 units year-over-year, signalling a rosy spring for the residential construction industry. The Canada Mortgage and Housing Corporation (CMHC) stated in a press release that this was the best monthly performance since February 1989. March's figure brings the total starts for the first three months of the year to 5,492 units, or a 33% increase over the year-earlier period.

Unlike the monthly trends in 2003, when Montreal's North and South shores led the way, the island of Montreal stole the show in March with an eight-fold increase in housing starts (1,175 units against 152) over the same month last year. Multiples set the tone for construction on the island with 568 starts, accounting for 85% of all new additions to the Montreal rental market. The Ville-Marie borough saw 338 rental units built on its territory. Condominiums also fared very well with 572 new starts, concentrated primarily on Nun's Island and downtown, compared with 95 in March 2003. The paucity of rental dwellings combined with the popularity of condos among baby-boomers and first time buyers explain the increase in Montreal.



Housing starts - Canadian cities

Source: Conference Board of Canada

Housing starts in **Quebec** remained robust with 64,600 SAAR units (seasonally adjusted annual rate) in March, an increase over the 56,700 units recorded in February and the best monthly result since June 1990 (67,700). Besides Montreal, other metropolitan regions in Quebec also performed well in March, including Sherbrooke, which is growing again (+120%), and the Gatineau region, which after an incredible February that saw housing starts jump from 34 to 434, returned to more moderate growth of 12%.

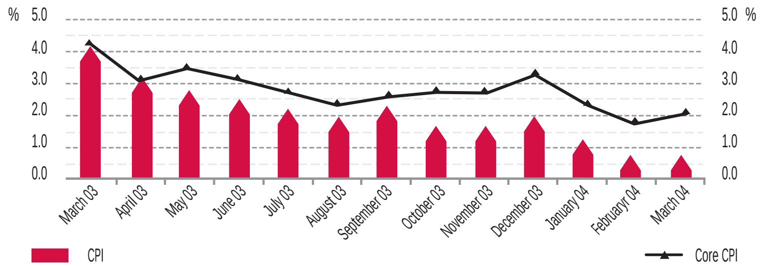
Although fewer than 200,000 SAAR units were built in January, housing starts in **Canada** were stronger in February and March, with 216,200 and 247,000 units respectively. According to CMHC figures, March's figure is the best monthly result achieved since August 1987. For the first time since early 2004, multiple starts were higher than single starts. All sectors combined, the gains registered in the first quarter of 2004 augur well for the rest of the year, and if this trend continues, residential construction could fare as well, if not better, than last year. ■

Financial Market

Inflation rate

Canada's level of inflation (calculated by the Total Consumer Price Index – CPI) no longer seems to be as much of a concern for the central bank as it was in 2002 and 2003 when it exceeded 3% for seven months in a row (October 2002 to April 2003). Both the CPI and the core CPI (a Bank of Canada measure of inflation) – which excludes the eight most volatile components –, showed increases of 0.3% in March 2004, compared with February. However, even if the level of inflation remains well below the target, this latest increase constitutes the largest monthly change since last year. It seems that much of the price increases from February to March stem from a seasonal movement that is normal for this time of year. Price hikes in gasoline (+2.7%), travel tours (+5.5%), women's clothing (+2.0%) and automotive vehicles (+0.3%) also explain the increase in March.

The 12-month CPI, as recorded in March, rose 0.7% or the smallest 12-month increase since December 2001 according to the central bank. In this case, lower energy prices (-4.1%) largely explain the smaller increase in March 2004 over the corresponding year-earlier period while the factors that contributed to the increase in inflation are cigarette prices (+7.8%), tuition fees (+8.1%) and insurance premiums (+10.8%). In this context, inflation over the next few months should remain comfortably below the 2% target set by the Bank of Canada.



Inflation – year over year CPI change

Source: Bank of Canada

Our economic conditions

Interest rates

In response to the publication of various indicators in the last quarter of 2003 and the first month of 2004 (GDP, consumption, employment, inflation, exports) showing signs of weakness despite evidence of stronger economic activity elsewhere in the world and especially in the U.S., the Bank of Canada decided to reduce the overnight rate by 25 basis points to 2% on April 13. The new rate – the lowest in the past few decades and the fifth decrease since July 2003 – is intended to stimulate domestic demand and offset the export losses of the past year. The loony's 22% rise in 2003 remains a thorn in the side of many Canadian exporters. These companies need to adapt to the new reality, which will be facilitated by the Bank of Canada's accommodating monetary policy.

Some economic analysts believe that in the current context, the Bank of Canada has probably dropped its overnight rate for the last time. Unless the economic signals deteriorate, the Canadian monetary authorities will likely adopt a neutral attitude so long as it deems that "the risks to the outlook appear balanced."

Exchange rate

After a dramatic rise against the greenback last year, the Canadian dollar seems to be taking a breather since the beginning of 2004 (valued at US74.28 cents in mid-April). The recent narrowing of the gap between the Canadian and U.S. overnight rates has made our currency less appealing to foreign investors, to the benefit of the U.S. dollar.

While the short-term outlook for the greenback is encouraging (the U.S. CPI rose 0.5% higher than expected in March – inflationary trend – and 308,000 jobs were created in March), concerns about the current account and budget deficits are very real according to analysts. These fears could push the U.S. dollar down and send our currency higher still. The underlying trends of the Canadian dollar therefore remain positive and experts believe it will continue to appreciate during the year.

Recent StatCan analyses show that this appreciation has had a positive effect on our purchasing power. Calculated according to the *Command GDP* – a summary measure of the impact of the terms of trade on an economy's purchasing power –, our purchasing power increased 10.6% last year in Canada. However, not all Canadian and Quebec industries were affected in the same way since some are more sensitive to currency fluctuations. Export oriented, the automobile, chemical products and machine industries bore the brunt of the loony's appreciation. But according to Statistics Canada, the **tourism industry** was the hardest hit. Sensitive to the appreciation of our currency and already suffering the fallout of 9/11, the industry went through a difficult period that has been exacerbated by tighter security measures and a downturn in international travel (as a result of the war in Iraq, SARS, the Ontario blackout, fires in British Columbia and the dollar's appreciation).

Stock markets

The gap between the Canadian and U.S. overnight rates has narrowed to one point since the Bank of Canada cut its overnight rate to 2% in mid-April (the Federal Reserve rate has been at 1% since spring 2003), making Canadian investments less attractive. Moreover, in February, foreign investors reduced their holdings in Canadian securities by $7.6 billion, the largest decrease in two and a half years[3]. Three quarters of this disinvestment involved the sale of debt securities, i.e., bonds and money market instruments.

As the U.S. and global recoveries takes hold, American companies are boosting productivity and becoming more profitable. Despite the fact that U.S. companies were more profitable than their Canadian counterparts in the first quarter of 2004, the TSX Index outperformed the S&P 500 by 3.1 basis points. This performance is explained in large part by the fact that the TSX is more heavily weighted in the materials and energies sectors, which have soared (due to rising demand and an increase in market price) thanks to the global and Asian recoveries. ■

3. In February, the spread between Canadian and U.S. short-term interest rates was 1.20%.

Our economic conditions

Foreign Trade

Exports on the rise

Quebec international merchandise exports dipped 0.43% in the last quarter of 2003[4] for the fourth time in a row. No one product declined substantially. Within the major export groups, aircraft rose 2% while aluminium slipped 1.5%. Electricity, lumber, clothing and wood pulp sales also decreased. For their part, imports expanded 5% over last quarter to $15.9 billion, driven by automobile, truck, aircraft and electronic material purchases (computers, electronic parts and telecommunications hardware).

Exports kicked off the new year with a 4.2% increase in January, bringing the total to $5.2 billion dollars (current dollars). Led by aircraft and aircraft engines, electricity, fresh meat, and copper and its alloys, 13 of the 25 main export groups advanced in January 2004, compared with December 2003. U.S.-bound exports, propelled by aircraft and electricity sales improved as well, picking up 3.9% after declining for two consecutive months. Also fuelling the upturn in exports to Europe, which had contracted for three consecutive months, aircraft sales compensated for a poor performance by the telecommunications equipment and hardware, newsprint and aluminium groups.

Imports tumbled 19.5% from December to January, to $4.3 billion (current dollars). Eleven of the twenty-five import groups declined, with crude oil, automobiles, medication and computers taking the biggest hit. Although chemical products, clothing and shoes posted gains, they were far from enough to offset the losses. Imports from the U.S. also contracted nearly 14% during that same period, in contrast to European imports, which jumped some 20%.

After a poor performance in January, international merchandise trade in **Canada** recovered in the second month of 2004[5]. Exports bounced back 7% in February, to $34.1 billion, after declining 4.7% in January, a month Statistics Canada calls "the weakest in five years." The most active sectors were automobile products (+11.7%) – especially trucks – and forestry products (+8.1%). Imports jumped 6.1% in February to $28.4 billion after losing 5% in January. Machinery and equipment imports rose a solid 9.3%, proof positive that companies are reviewing their production processes with a view to boosting productivity. According to StatCan, this increase is the best one yet since 1993. In February, all the export and import groups recorded gains over the previous month.

Growing $619 million to $5.7 billion, Canada's trade balance could not have fared better in February. Trade with the United States, which accounted for 81% of the country's exports in February, expanded 7%, creating a trade surplus of nearly $8 billion with our neighbours to the south. Trade with the other main trade zones also increased, except for the zone comprised of "other OECD countries." ■

Canadian fereign trade in goods – Quartely

Source: Statistics Canada

4. For more information on Quebec's trade record for 2003, see "Quebec Highlights" on page 5.
5. For more information on Canada's trade record for 2003, see "Canada Highlights" on page 4.

Greater Montreal economy

Health Report: Montreal, far from our perceptions

The *Montreal Health Report* is an initiative of the Board of Trade of Metropolitan Montreal and was prepared as a result of the commitment the organization made at the *Montreal Symposium 2017: A 375-Year Old City of the World* held on April 30 and May 1, 2002. At the end of this forum, the president and CEO of the Board of Trade, **Benoit Labonté**, had in fact stated his organization would "promote the interests of the metropolitan business community by using performance indicators to annually compare the city with other metropolitan regions".

The *Montreal Health Report*[6] is essentially a development tool based on the latest statistical indicators, the total of which presents a profile of the competitiveness of 12 large North American cities and how Montreal community perceive the city's ranking in this regard. The cities were selected according to demographic, economic and geographic criteria (see list page 11). The approach consists in three steps.

Step 1: Survey of the Montreal

First, the Board of Trade commissioned *Impact Recherche* to conduct an opinion survey of a representative sample of the Montreal community. The purpose of this survey, in which nearly 600 executives participated, was to rank the Montreal census metropolitan area in relation to other North American cities based on the perception of the respondents and then compare it with objective data.

Survey results: Perception of Montreal

As a first observation, this survey indicates that Montreal is very well perceived in general: on five of the ten indicators (safety, urban quality, presence of high-tech jobs, costs and public-private sector relations), the probed people classify it first. On a ranking of ten development factors presented to Montreal business leaders by Impact Recherche, three factors are unanimously considered to be very important:

- **An educated population**: over 52% of respondents rank this factor in the top three;
- **A cost-competitive environment**: here again, over 53% of respondents rank this factor in the top three;
- **Adequate infrastructures**: over 57% of respondents rank this factor between the second and fourth most important.

On the other hand, only one factor is unanimously considered to be of little importance:

- **The presence of a large pool of artistic and creative talent**: more than 63% of respondents rank this factor among the three least important. However, this result should be interpreted with caution: it could be that the business leaders misinterpreted the question, i.e., that the artistic and creative talent represent corporate development factors. A different turn of phrase, that would have emphasized Montreal's cultural life – and its importance in retaining a skilled workforce – could have produced different results. However, the question asked was clear and the ranking is therefore unambiguous.

Other factors are qualified as having average importance (a healthy environment with little pollution and positive relations between the business community and the public sector), while others weren't unanimous (a safe environment, an adequate urban quality – greenery, downtown... –, a dominant new economy and an environment favorable for conducting international business). That being said, the primary purpose of a business is to generate a profit. Thus, the factors with a direct impact on operating costs are considered to be important by business leaders.

Step 2: Statistical study

Concurrently, the Board of Trade enlisted the assistance of the *Institut national de recherche scientifique, Urbanisation, Culture et Société (INRS-UCS)*[7] to conduct a comparative analysis of the leading performance indicators of Montreal and 11 other North American urban centers. The statistics presented below were compiled with two objectives in mind: comparability and complementarity.

The following indicators were used in this comparative analysis:

1. Per capita income
2. Salaries in three high-tech professions
3. Homicide rate
4. Social inequality index
5. Air quality index
6. Percentage of cultural and artistic jobs
7. Percentage of high-tech manufacturing jobs
8. Percentage of high-tech services jobs
9. Patents issued per capita
10. Population aged 65 and over
11. Percentage of graduates
12. International flights

6. For the complete study and methodology, it may be found at: http://www.ccmm.qc.ca/documents/bulletinDeSante/BulletinSante_Ang.pdf
7. To conduct this exercise, the *INRS-UCS* researchers were professors Mario Polèse and Richard Shearmur.

Greater Montreal economy

Collective wealth/ economic drawing power	
1.	Seattle
2.	Boston
3.	Ottawa
4.	Atlanta
5.	Philadelphia
6.	Chicago
7.	Calgary
8.	Toronto
9.	**Montreal**
10.	Vancouver
11.	New York
12.	Miami

Quality of life/ social cohesion	
1.	Vancouver
2.	Ottawa
3.	**Montreal**
4.	Seattle
5.	Calgary
6.	Toronto
7.	New York
8.	Atlanta
9.	Boston
10.	Miami
11.	Philadelphia
12.	Chicago

New economy/ growth potential	
1.	Boston
2.	Ottawa
3.	Seattle
4.	Atlanta
5.	Toronto
6.	Chicago
7.	Calgary
8.	Philadelphia
9.	New York
10.	**Montreal**
11.	Vancouver
12.	Miami

Together with the *INRS-UCS* researchers, the *Board of Trade* developed an exploratory index of metropolitan development, named MACADAM INDEX. This new index serves as a tool for reflection and discussion on Montreal's position vis-à-vis some of the North American cities with which it competes.

To arrive at these results, three groups of indicators were created. In a certain fashion, these three indices represent the strategic development issues of a city or region. The *Collective wealth and economic drawing power index*[8] shows the means available to a community to fulfill its needs and achieve its development objectives. The *Quality of life and social cohesion index*[9] shows a community's ability to create a pleasant, equitable environment for its citizens. Lastly, the *New economy and growth potential index*[10] assesses a community's potential for economic growth and for tapping into a knowledge-based economy. An average ranking for each city studied was calculated for each of these composite indices. At this stage, Montreal is 9th in the final ranking.

Step 3: Panel of experts

The panel of experts were given a summary of the survey and statistical indicator results and asked to identify priority areas of action for the Board of Trade and its partners over the next year. The panel members come from all areas of economic, social and cultural activity in Montreal and have distinguished themselves in the last few years by their commitment to our city's development and visibility.

MACADAM INDEX/ Final rating	
1.	Seattle
2.	Ottawa
3.	Boston
4.	Atlanta
5.	Calgary
6.	Toronto
7.	Vancouver
8.	Philadelphia
9.	**Montreal**
10.	Chicago
11.	New York
12.	Miami

Panel discussion summary

In general, the perception of the respondents moderately corresponds to our statistical measurements. We mean that in general, there is a weak but positive correlation between the ranking of urban centres based on the perception by Montreal leaders and the ranking of urban centres according to a more objective measurement.

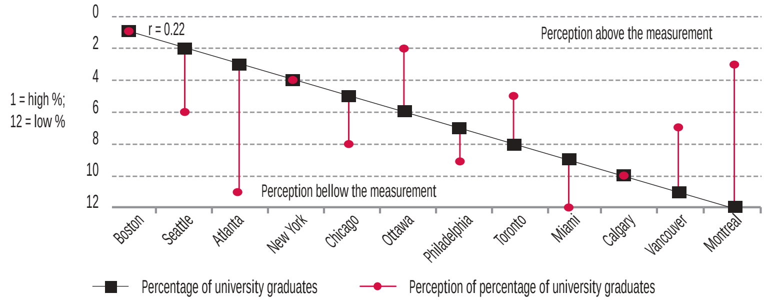
However, Montreal is almost systematically overrated by the city's leaders. This is one of Montreal's strengths, in that it indicates that business people believe in their city. Conversely, this can also be a weakness if this positive perception prevents awareness of certain striking deficiencies – such as low educational level and low standard of living (see graphic p. 12). Aside from lack of knowledge of certain American cities, particularly those farthest from Montreal, the attachment of people to their city was suggested as a possible explanation for this discrepancy.

Each panel member was asked to mention his or her action priorities and the four most important priorities mentioned were: education, costs and salaries, quality of life and Montreal leadership. The panelists noted the need to

8. This group of indicators is composed of: income per capita adjusted to the cost of living; adjusted salary of chemists; adjusted salary of computer scientists; adjusted salary of electrical engineers.
9. This group of indicators is composed of: air quality; homicide rate; social inequality; percentage of cultural and artistic jobs.
10. This group of indicators is composed of: high-tech services jobs; high-tech manufacturing jobs; patents issued per capita; percentage of PhDs; percentage of people aged under 65.
11. The panel members come from all areas of economic, social and cultural activity in Montreal and have distinguished themselves in the last few years by their commitment to our city's development and visibility.

Greater Montreal economy

attract, educate and retain new talent, as much from other Quebec regions as from elsewhere, to endow the metropolitan region with a sizable pool of skilled labor for new corporations and new economy.



Percentage of university graduates

Conclusions

The *INRS-UCS* researchers reported and commented the survey's results. Three main findings emerge from this detailed analysis. The first indicates that Montreal is well perceived by the business people who are established there and this is an advantage for Montreal. To the extent that this positive perception of the city does not correspond to reality, it could also hinder efforts for promotion and improvement of certain facets of the urban centre.

The second finding deals with quality of life indicators in Montreal. Despite a fairly low standard of living (salaries adjusted to the cost of living), the quality of life measured in terms of pollution, social inequality, safety and jobs in the arts and cultural industries is good, even high, compared to the other urban centres studied. This is a considerable advantage for Montreal.

The third finding is somewhat negative. Based on a set of statistical indicators along with one or two perception variables (notably infrastructures), Montreal ranks near the bottom of the 12 cities studied. Salaries are the lowest and the standard of living is among the lowest, the population is the least educated, very few patents are produced (despite the presence of high-tech manufacturing jobs), a significant minority of business people lament the quality of infrastructures, and so forth. Although KPMG (2004), in its annual report on the competitiveness of cities, once again awarded Montreal the prize for large North American city where installation costs are the lowest[12], the results presented in this report seem to indicate that the low installation costs reflect deeper causes in Montreal. The flip side of the coin of low costs – which can be advantageous for some investors – is very often a low standard of living for inhabitants and a certain lack of competitiveness in other factors less tangible than costs such as innovation.

If Montreal manages to maintain a modest standard of living – but barely acceptable compared to other metropolitan areas – it is in large part because its cost of living is low. Yet certain important indicators, such as residential real estate prices, especially rental, are rising sharply. Certain segments of the population would face financial insecurity. We are not there yet; however, in our opinion, this question of balance between standard of living, salaries and the cost of living should be closely monitored.

Our challenges

The first *Montreal Health Report* shows that the Montreal urban centre still has many challenges to overcome to become the leader among North American cities. But this study has the merit of not only offering an accurate picture of the situation in relation to North America, but also clearly indicating the priority areas of action required. Moreover, the *Montreal Health Report* also very clearly identifies the assets on which the Montreal urban centre can now count on to improve its position.

But beyond the sector-based initiatives to undertake in the short or long term, the *Montreal Health Report* especially calls for identifying an overall vision of Montreal's development and future. However, for this vision to capture the hearts of all Montrealers, and inspire action, the city's dynamic forces must assume strong leadership, in which case the possibilities become limitless.

We hope that the 2005 and future editions of the *Health Report* will show an improvement in Montreal's performance vis-à-vis its competition. ■

12. According to KPMG, Canada is the G7 country where operating costs (including salaries) are the lowest. In Canada, among the five major urban centres studied here, Montreal is the cheapest.

A glance at Montreal

The Port of Montreal: A thriving economic hub

By Dominic J. Taddeo, President and Chief executive Officer, Montreal Port Authority (MPA)

Few people are aware of the true mandate and mission of the Montreal Port Authority. This is understandable if we consider just how busy we all are.

It is perhaps easy to guess at what this mandate and mission might entail. Our mandate essentially involves facilitating domestic and international trade and contributing to the attainment of local, regional and national socio-economic objectives. Our mission is to provide highly efficient facilities and services, while respecting the environment, and to enhance and promote the competitive advantages of the Port of Montreal.

We can proudly claim that the MPA satisfies both its mandate and its mission. We are fully aware of the importance of port activities for the Montreal economy, and as such, we are committed to ensuring the sustained development of the Port of Montreal and to making it increasingly competitive. We are proud to provide our clients with a state-of-the-art infrastructure. Over the past quarter-century, we have invested $384 million in improving and expanding our facilities, and in acquiring new technologies.

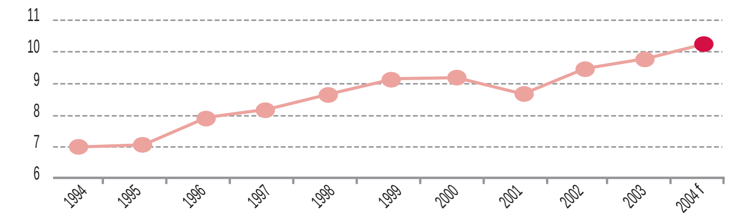
Each and every year, port operations in Montreal generate business income of close to two billion dollars and create more than 17,600 direct and indirect jobs. Even more importantly, the Port of Montreal enhances the competitiveness of exporters in addition to helping supply local industries and businesses with all types of raw materials and finished products.

Our industries and businesses are able to rely on a world-class port that is connected to some one hundred countries around the globe by "door-to-door" high-frequency services provided by highly reputable shipping lines.

Another significant advantage is that the Port of Montreal operates year-round (yes – even in winter!), handling some 20 million tonnes of containerized and non-containerized cargo, as well as dry and liquid bulk, every year.

Over the years, in addition to remaining highly versatile, the Port of Montreal has stood out as a leader among the container ports serving the North Atlantic market. The Port's success in the container sector has enabled Montreal to preserve its status as a leading international transshipment centre.

In 2003, container traffic at the Port of Montreal reached an historic high, totalling 9.8 million tonnes or 1,108,837 TEU containers. This year promises to be even better. It is expected that 10.2 million tonnes of cargo will be handled at the Port in 2004, breaking the 10-million-tonne level for the first time ever and setting yet another record.



Container traffic in Montreal – in million metric tonnes

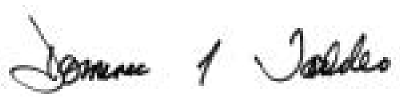
Source: Port of Montreal

Taking into consideration a rise in container traffic and increases in other activities, total cargo handled at the port in 2004 is expected to stand at 21.6 million tonnes, compared with 20.8 million last year.

International trade represents economic activity valued at US$6 trillion, or nearly one quarter of the annual global economy. Some 60% of this, representing US$3.5 trillion in cargo, passes through the world's ports.

From a geographic perspective, the Port of Montreal benefits from a strategic advantage in that it is located at the crossroads of two major economies, specifically those of North America and the European Union. Quite simply, the Port of Montreal is part of the new economy, and a promising future lies ahead.

In closing, I would like to offer the reminder that the Montreal Port Authority is an autonomous federal agency whose board of directors is made up of businesspeople from the Montreal area. We receive no subsidies or public funding. We recently reported a net profit for the 24th consecutive year, and we constantly reinvest our profits in our facilities. Clearly, we are not a burden to taxpayers. Quite the contrary! ■



Guest economist

High Tide

The following text is an excerpt from a speech delivered by Stephen S. Poloz, in front of the World Trade Centre Montréal, on May 13th, 2004.

A rising tide lifts all boats...

The world economy is running pretty fast, actually, with growth likely to exceed 4% this year. This makes it the first synchronized global expansion since 1995-96. Asia is leading the way, with China and India competing for first place. Commodity prices are up, most of them to profitable levels, and that is generating good growth all over the place. And, perhaps most important of all, the U.S. economy continues to defy the pessimists among us.

Even the major exchange rates have returned to more normal levels, and that has always been an important barometer of world economic health. Interest rates remain at emergency lows, but the emergency is over, so they are heading back up (notably in China, in the U.K. and Australia) – another sign of improving financial and economic health.

What more can an exporter hope for? Maybe all this great news and a 65 cent dollar too. But apart from that, it really does not get any better than this – the global economy is at high tide. High tide is good. It means strong order books across the board. It means a return to profitability after a period of stress. But there is another thing about high tide – it can't last forever.

During 1997-2001 it was just one bad shock after another. The world looked like a riskier place, and global investors – pension funds and the like – pulled a lot of money out of the emerging world and parked it in the U.S. This flow of money into the U.S. produced a major updraft for the American eagle, which soared against all other currencies. This included our loonie, which actually dove underwater for a time. But the world began to heal itself about a year ago, and investors put their money back to work in developing markets.

... a combination that promises good for our exports

In other words, last year's decline in the U.S. dollar did not reflect a loss in confidence in the U.S., but rather a restoration in confidence in the rest of the world. And part of this adjustment back to normal has been a return of the Canadian dollar to its 1996 level, too – around 75 cents.

Export revenues have fallen for the past three years in a row, mainly because the world economy has been through so much trauma. During the past year, the situation was complicated further by the recovery in the Canadian dollar. It was our belief, though, that most Canadian exporters would internalise the exchange rate effect to protect their customers from a price increase. This is why Canada's export volumes, have been strengthening, even though headline export revenues have been weak. World demand is stronger, the U.S. dollar price is about the same, so foreign buyers buy more Canadian exports. This all adds up to a very good story for Canadian exporting companies.

... although the sea remains risky

This means that exporter profits are squeezed by the stronger dollar, although not uniformly across industries. The big profit picture is actually quite good in Canada, but these stressed sectors are working very hard to cope with the situation. We expect that a higher volume of export sales will be critical to improved profitability in manufacturing this year and next. Yet it is being held back by three things.

First, even though we expect the Canadian dollar to remain in the 73-76 cent range, its average value this year will be around 75-76 cents, as opposed to 71 cents last year. Therefore, the arithmetic effects of the dollar on export revenues will last until well into 2004.

Second, we expect oil prices to drift down a little, to average $30 this year. This is a contentious issue, but on our analysis it looks like holding recent prices will require some big production cuts in the next few months, and it is hard to see who will actually do the cutting.

Third, we are expecting no growth in automotive exports this year. This category represents nearly 20% of Canada's total exports, so it plays heavily in our headline numbers. The rest of Canada's export sector should see growth in sales closer to 10% in 2004.

Guest economist

Export growth will continue into 2005, but the pace will moderate as economic growth gears back. Also, commodity prices will plateau and oil prices will probably retreat a little further, giving us 2% further growth in export revenues, but stronger volumes beneath the surface.

Rocks to avoid

Two good years of export growth will be welcome after what we have been through. High tide sounds good, but you can't always tell if the tide is coming in or going out in a near future. There are probably four big rockers to avoid.

The biggest rock that some people think could snag our boat is a sudden drop in the U.S. dollar. The U.S. has a huge international trade deficit, and a massive fiscal deficit. In the case of the international trade deficit, it seems bearable knowing that 80 % of this deficit reflects trade by US companies with their own foreign subsidiaries, leaving only $US 100 billion to be financed by global capital markets. In the case of their fiscal deficit, we expect the deficit to diminish by itself, to about half its current level by 2006, since it is almost totally attributable to increased military and security spending.

The second big rock that we should worry about is high energy prices. We remain of the view that recent oil prices are not sustainable, but admit to being surprised at how effective OPEC has been at maintaining them. If high prices persist, we will have another reason to expect slower growth next year.

The third big rock is more political in nature — the spectre of trade protectionism. The combination of election tension and continuing U.S. labour market weakness is making protectionism the flavour of the year. We remain hopeful that cooler heads will prevail in the end, for the U.S. economy has become much more trade dependent — in both directions — in recent years. We also expect the U.S. jobs picture to improve steadily this year — only a few months of positive employment growth would be required to take most of the wind out of protectionists' sails.

The fourth big rock sounds like a good thing, at first pass, because it is the risk that business will turn out to be too good, and the moderation I am calling for in 2005 does not materialise. Too much business is usually something we dream of, not fret over. But almost every time the world has gone into such a synchronized expansion in the past it has gathered too much momentum, and interest rates have risen quickly to keep the lid on. The last time it occurred was in 1994. Can 1994 happen again? Inflation risks seem to be much lower this time — we have barely put the risk of deflation behind us. But we should not be complacent about the possibility.

Conclusion

The world economy is at high tide, and there is no better time for Canadian exporters to venture into new foreign markets. Geopolitical risks are still elevated, to be sure, but they are likely to remain a part of the business environment for the foreseeable future, so we might as well get used to it. The Canadian dollar should maintain an average level between 73-76 cents, but we should be prepared for more major fluctuations, either way.

We expect export growth to be much better this year and next, and this should help improve corporate profitability in Canada. Companies whose profits are stressed now will get no outside relief, so they will have to continue to find ways to increase their competitiveness internally.

High tide, yes, and only a slightly lower tide in 2005 — but let's not forget all the rocks that lie just beneath the surface. ■

Stephen S. Poloz
Senior V.P. and Chief Economist, EDC

Canada Economic Development report

Offshoring: Menace or opportunity?

Offshoring has become a larger topic of discussion in the past few years as part of the drive towards the globalization of the economy. With the growing media coverage, the outsourcing of business activities is raising a lot of questions that need to be addressed. What's the story?

Background

In the strict sense, offshoring refers to the displacement of the production activity of a good or service to another jurisdiction, generally another country. The range of degree of offshoring can vary from simply sub-contracting a part of the company's activity to the complete relocation of the company itself. It can be accompanied with an investment in the new jurisdiction. The desired goal of undertaking this action can be, in a purely defensive situation, to lower production costs or, in a offensive oriented strategy, to become closer at the same time to another market.

The offshoring of companies to foreign locations is not a new phenomenon – it started when the economy began to open up to foreign trade. However, the relocation of the production of a good or service from Country A to Country B, while the final destination market remains Country A, is quite new and very threatening. All production is now susceptible to being offshored to countries where current labour costs are significantly lower than they are in Canada, or in any other country whether it is developed or not. For Montreal, the sectors which face the biggest current threat arising from offshoring include the manufacturing of clothing, textile, furniture, metal products and electronics industries, as well as some services related to the information and technology fields. These sectors account for over 10% of the jobs in the Montreal CMA.

Outlook

Offshoring has turned out to be more of an adjustment to the competition (either direct or indirect) of countries with low labour costs. There are many possible ways that industry can deal with this phenomenon in order to remain competitive with foreign companies: innovation, increased productivity, more personalized customer service, more intensive research and development, promotion of niche markets, professional development and a boost in sales through e-commerce.

Labour costs are not the only consideration in choosing to offshore production. Other factors which come into play in the decision to locate a business include: the market potential of a given area, infrastructure, especially transportation, and skilled labour are also drawing cards. A recent study conducted by A. T. Kearney found that Canada was one of the most sought after countries for establishing a business. It also indicated that Canada has an excellent business environment and highly qualified workers. Sound infrastructure and linguistic and cultural affinities with the United States also contribute to Canada's good performance. In a metropolis like Montreal, in competition with other large cities around the world, factors such as low electricity costs and relatively low rental costs are attractive to energy-consuming manufacturing firms.

It is important to understand the offshoring phenomenon because although the metropolitan area is losing jobs with the offshoring of activities abroad, it is gaining others with the arrival of new foreign companies, which is nothing but reverse offshoring. For instance, multinationals such as Electronic Arts and Ubisoft have relocated some of their production to Montreal. These multinationals sell products designed in Greater Montreal to the whole world, including the countries where these companies are based. In this sense, Greater Montreal is working to increase its desirability in order to attract foreign investment.

There are no official public statistics on offshoring. However, if Montreal businesses concentrate on non-specialized manufacturing, it is certain that the city stands to lose a lot. By demonstrating the value added of locally designed products and services, these companies could be winners in the globalization game. With a highly skilled labour force and our stable socio-political environment which is accommodating to business, offshoring becomes an issue a little less menacing.

A subject to certainly follow … ■

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Canada

13. See *Making Offshore Decisions: A.T. Kearney's 2004 Offshore Location Attractiveness Index.* Available at www.atkearney.com/shared_res/pdf/Making_Offshore_S.pdf