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TREND CHART

GREATER METROPOLITAN REGION

2007 PERSPECTIVES

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Chambre de commerce
du Montréal métropolitain

Board of Trade of Metropolitan Montreal

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EDITORIAL

ALWAYS REACHING HIGHER

Innovation as a prerequisite to success... Constantly reinventing yourself to stay in the game... These are two inescapable realities of doing business

in Greater Montreal. It is also a recurring theme of the Board of Trade when making suggestions to the governments on how to support innovation and when offering its services to businesses to boost their innovative capacity and productivity.

The fact is that the Board of Trade is also no stranger to this reality: we too must reinvent ourselves in order to offer our members the best tools for success.

Consequently, three years after revamping our Trend Chart, we took advantage of the summer break to tweak it again with a view to making it even more relevant. In fact, this issue marks the debut of our new and improved economic newsletter.

In this era of instant information and the Internet, the Board of Trade decided to diversify the tools it uses to inform the business community and, more importantly, to leverage the strengths of the various media at its disposal. As such, in our print publication, we chose to focus on presenting a general picture of the economy: the fall issue discusses the economic outlook for the next year while the spring publication will report the results of the previous year.

We then developed a new electronic tool to complete the informational needs of the business community: the Online Trend Chart. Scheduled to launch next winter, this site will post the latest information on many economic indicators, allowing you to keep a pulse on the Montreal economy.

We hope success-driven companies such as yours find this new tool relevant and useful. ■

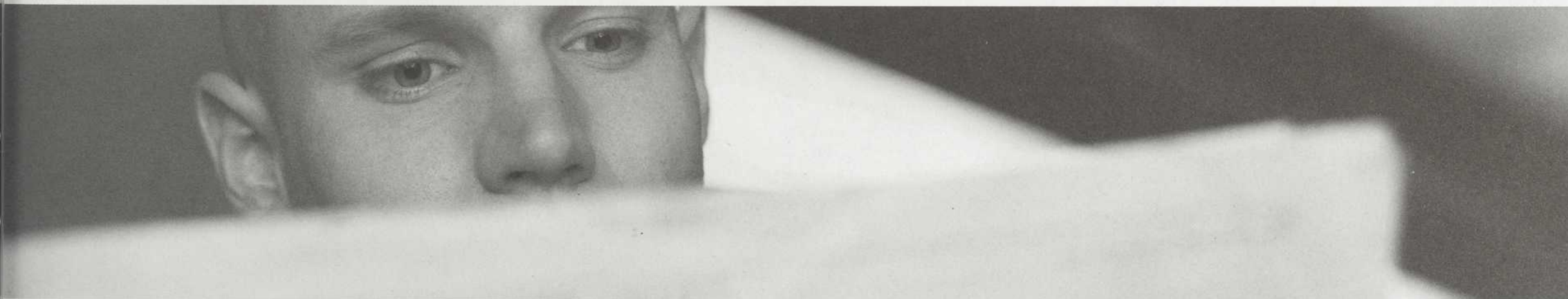
Isabelle Hudon
President and CEO

HIGHER LEARNING
ALWAYS REACHING
EDITORIAL

M. J. ...

...

OUR ECONOMIC INDICATORS



CANADA, QUEBEC AND MONTREAL

TORONTO AND VANCOUVER

OUR ECONOMIC INDICATORS

Indicators	As of	Canada	Quebec	Montreal
Economic activity				
GDP*	Q3 2006	+ 3%	+ 2.0%	+ 1.8%
Labor market				
Jobs created*	August 2006	+ 1.8%	+ 0.8%	+ 0.6%
Activity rate	August 2006	67.2%	65.4%	66.9%
Unemployment rate	August 2006	6.5%	7.9%	8.1%
Construction and Real estate				
Building permits*	July 2006	+ 8%	- 7.2%	- 14.5%
Housing starts*	Q3 2006	- 8%	- 20.8%	- 29.9%
Purchasing power and Consumption				
Inflation* (CPI 1992=100)	August 2006	+ 2.1%	+ 1.6%	+ 1.5%
Retail sales*	Q3 2006	+ 4.6%	+ 2.8%	+ 3.8%
International trade				
Exports*	July 2006	+ 2.5%	+ 3.3%	-

* These variations are relative to the same period of 2005

Source: Statistics Canada, Conference Board of Canada, Strategis

OUR ECONOMIC INDICATORS

Financial markets	September 29, 2006 value	Variation from	
		Previous month	Previous year
Bank of Canada: key interest rate	4.25%	0 basis point	+ 150 basis points
Canadian dollar (vs. US dollar)	\$0.8995	- 0.001\$	+ 0.0466\$
Oil barrel price (WTI, in US dollar)	\$62.90	- 13.88%	- 4.1%

Source: Bank of Canada, Energy Information Administration

MONTREAL: A METROPOLITAN COMPARISON



MONTREAL, CALGARY, OTTAWA, TORONTO AND VANCOUVER

2005 RESULTS

	Montreal	Calgary	Ottawa	Toronto	Vancouver
Gross domestic product (million \$1997)	109,743	47,687	40,859	196,687	69,587
Personal income <i>per capita</i> (dollars)	31,530	42,530	36,139	35,066	31,541
Personal disposable income <i>per capita</i> (dollars)	23,715	32,768	27,612	26,792	24,490
CPI (1992=100)	123.4	135.1	130.2	128.6	125.7
Employment (thousands)	1,823	606	618	2,763	1,156
Unemployment rate	8.7%	3.9%	6.6%	7.0%	5.7%
Retail sales (million \$)	38,482	17,019	12,818	53,775	22,598
Housing starts (thousands)	25.3	13.7	7.1	41.6	18.9

2006 AND 2007 FORECASTS

(Except the unemployment rate, all variations are from the previous year's results)

	Montreal		Calgary		Ottawa		Toronto		Vancouver	
	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007
	%	%	%	%	%	%	%	%	%	%
Gross domestic product	+ 1.9	+ 2.8	+ 6.6	+ 3.9	+ 3	+ 3.2	+ 3	+ 3.4	+ 3.5	+ 3.5
Personal income <i>per capita</i>	+ 4.4	+ 3.7	+ 10	+ 2.6	+ 5.8	+ 2.3	+ 3.5	+ 3.2	+ 3.8	+ 4
Personal disposable income <i>per capita</i>	+ 5.1	+ 3.6	+ 11.5	+ 2.2	+ 6.4	+ 2.0	+ 4.1	+ 2.9	+ 4.5	+ 3.7
CPI (1992=100)	+ 2.2	+ 1.8	+ 3.7	+ 2.7	+ 2.1	+ 1.8	+ 2	+ 1.7	+ 1.8	+ 1.9
Employment	+ 0.9	+ 1.5	+ 7	+ 1.9	+ 4.1	- 0.8	+ 1.5	+ 2.1	+ 2.4	+ 2.5
Unemployment rate	8.9 %	9 %	3.4 %	3.7 %	5.7 %	6.7 %	6.7 %	7.1 %	4.5 %	4.5 %
Retail sales	+ 3.6	+ 3.8	+ 13.2	+ 4.9	+ 6.2	+ 4.3	+ 4.1	+ 4.5	+ 5.7	+ 4.5
Housing starts	- 20	- 10.4	+ 28.1	- 14	+ 2.7	- 5.2	- 8.2	- 1.4	+ 5.1	- 16.5

Source: Conference Board of Canada

ON THE RADAR SCREEN

2007 FORECASTS



GROWTH WILL SLOW AROUND THE WORLD

The global economy should continue to expand in 2006, between 4.5% according to Export Development Canada (EDC) and 5.1% according to the International Monetary Fund (IMF). The Institute for International Economics (IIE) says it will be the first time since the early 1970s that the world economy has grown more than 4% for four consecutive years.

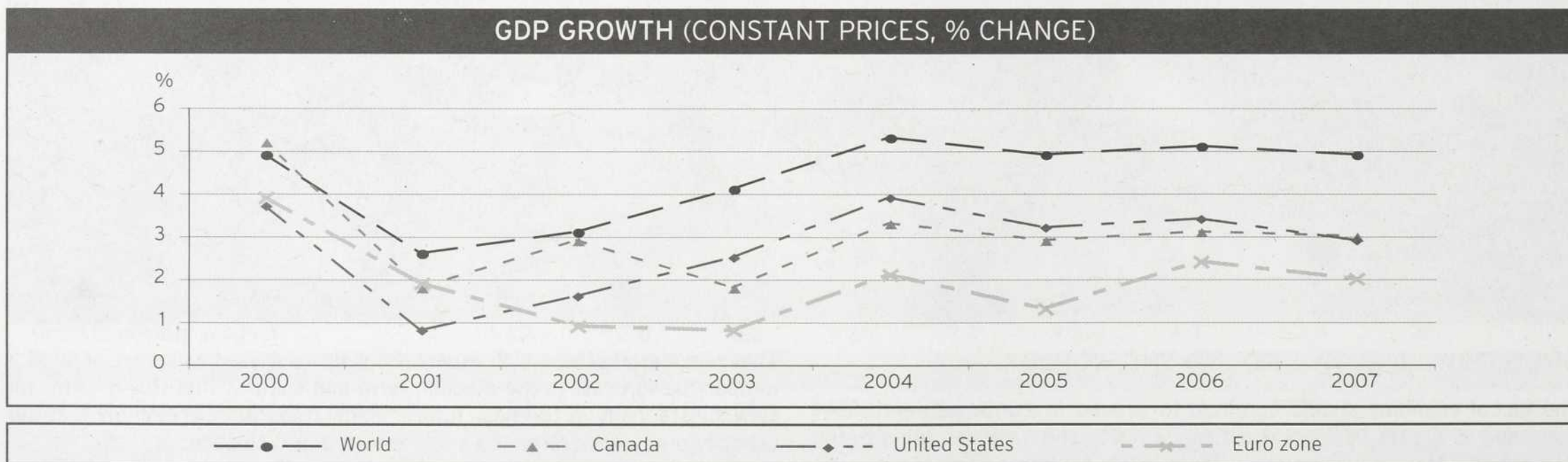
Most forecasts expect this trend to continue in 2007. EDC is projecting growth of 4.1%, while the IMF is banking on 4.9%.

That said, despite these high expectations for next year, a number of factors temper the forecast in the medium term and suggest that this growth will slow substantially in the near future. Many areas will increasingly feel the capacity pressures exerted by an accelerated growth pace.

First, faced with broad-based price hikes, the central banks of many industrialized countries have begun to **tighten the favourable credit conditions** that have reigned since 2001. The Canadian overnight rate, which has increased 175 basis points since September 2005 (the beginning of the monetary tightening cycle), reflects the attempts to contain inflation. Such monetary policies will certainly have a cooling effect on the global economy.

A second important factor is **energy price fluctuations**, which go hand-in-hand with certain **major geopolitical conflicts**, namely, political tensions in Nigeria, the situation in Iraq and the Iranian question. The IIE believes that the current price of oil reflects fears of a disruption in the supply of crude associated with, among other things, the controversy surrounding the Iranian nuclear program. These fears could result in a "geopolitical risk premium" of somewhere between US\$20-\$25 per barrel.¹ If these fears persist, the increases in the price of crude (which could reach US\$100 per barrel) will have a negative effect on global economic growth.

For its part, the **euro zone** seems to be continuing its economic recovery. The Organization for Economic Cooperation and Development (OECD) is projecting gross domestic product (GDP) growth of 2.2% for 2006 and 2.1% for 2007 (against 1.8% and 1.4% in 2004 and 2005 respectively). However, these forecasts are not unanimous: EDC projections are between 1.5% and 2% for 2006, and slightly less in 2007.



Note: 2006 and 2007 data are IMF forecasts.

Source: International Monetary Fund, *World Economy Outlook*, September 2006

The **U.S. current account deficit** is also a significant risk because of the consequences of an eventual rebalancing. In fact, given the current American situation, such an action would drive the greenback down sharply, thereby slowing domestic demand, which in turn would affect the entire world economy and particularly Canada and Quebec.

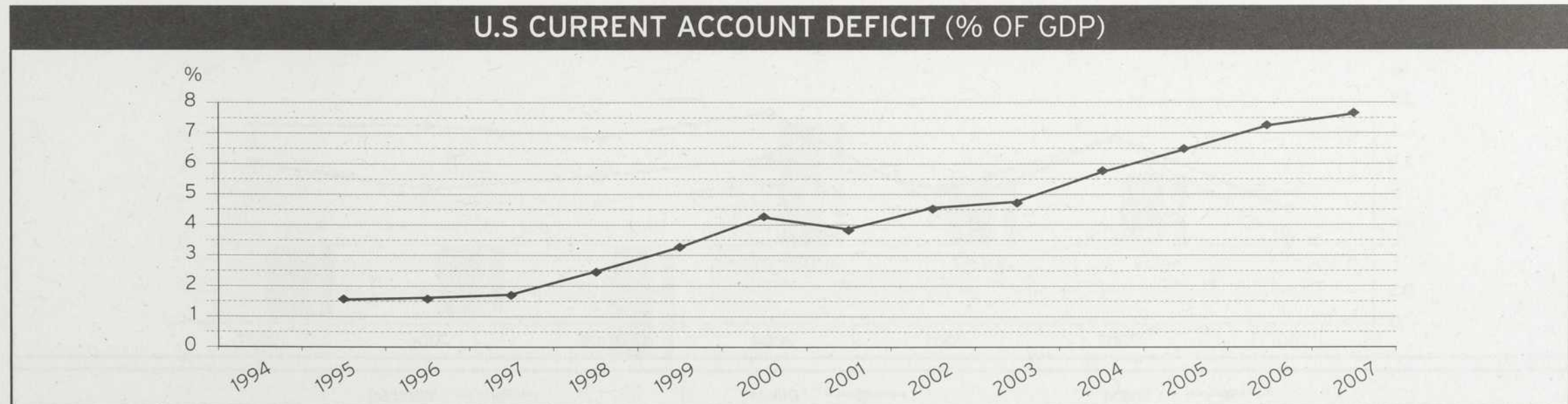
In light of the foregoing, it looks like the emerging economies, more specifically China and India, will drive global economic growth in 2007 with expected growth of 9.5% and 7.1% respectively, according to the OECD. But here again, the question as to how much longer these countries can sustain this torrid pace is fuelling the lingering uncertainty on what's in store for the global economy in 2008.

THE U.S.: SOMEWHERE BETWEEN A SOFT LANDING AND A MELTDOWN

The American economy is going through a critical phase that will invariably impact the Canadian economy. According to the *OECD Economic Outlook*, America's economic capacity is dangerously close to its limit even as the economy continues to grow above potential.

The slowdown in the **real estate market** has even prompted some observers to express greater concerns about the risk of a U.S. recession. For example, economists at the National Bank Financial put the chances of a severe slowdown at 50% and a recession at 40%.² As such, according to National Bank Financial Chief Economist Clément Gignac, the probability of a soft landing is only 10%. In light of these odds, the National Bank Financial is forecasting **U.S. GDP growth** of 1.9% in 2007 – a much lower figure than the 3.3% projected for this year.

On a macroeconomic level, the economic boom has driven up the **current account deficit** to one of its highest level in history, i.e., 6.5% of GDP. Rising oil prices in recent years, coupled with the decline of exports vis-à-vis imports, explain some of the deterioration. In fact, given that net oil imports accounted for 60% of total U.S. oil consumption in 2005, the spectacular increase in the price of crude further exacerbated this deficit. Lower oil prices would therefore ease the current balance.



Note: 2006 and 2007 data are OECD's forecasts.

Source: OECD, *OECD Economic Outlook*, June 2006

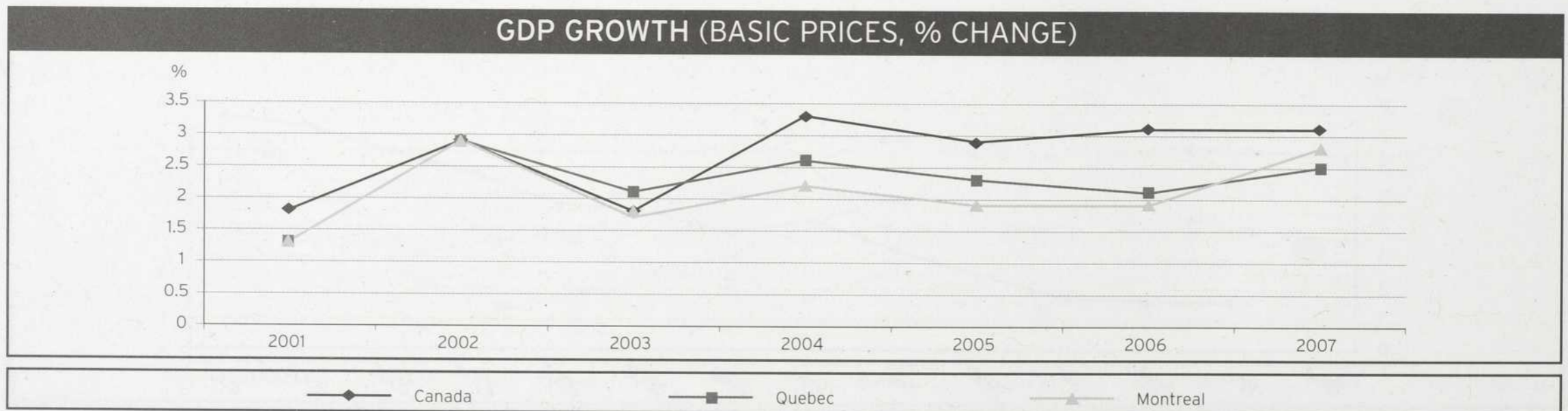
Interest rate hikes – 375 basis points since mid 2004 – is another factor, which along with the slowing real-estate market, is dragging down the U.S. economy. Moreover, according to EDC, the Federal Reserve will further raise **short-term interest rates** by 25 to 50 basis points in its ongoing effort to minimize pressures on an economy that is running at full capacity. The U.S. key rate could therefore reach 5.5% in the last part of this year, and, according to Royal Bank forecasts, drop back down to 5.25% in 2007.

Moreover, the greenback could plunge if investors lose their appetite for dollar-denominated assets due to the uncertainty created by the magnitude of this deficit. A lower dollar could therefore improve the current account balance by boosting domestic demand for locally produced goods and services making U.S. exports more affordable.

² According to the IIE's revised estimate, the probability of a recession is somewhere between 25% and 30%.

IN CANADA: SLOWING GROWTH BUT NO RECESSION

The 2007 outlook is not nearly as pessimistic for Canada. There is no talk of recession, only slowing growth. The IMF projects **Canadian real GDP growth** of 3.1% in 2006, and 3% in 2007. The EDC forecast is more conservative, i.e., 3% and 2.7% respectively. The OECD paints the rosier picture with a projection of 3.1% in 2006 and 3.3% in 2007.



Note: 2006 and 2007 data are the CBOC's forecasts.

Source: Conference Board of Canada

The Bank of Canada's monetary policy, which until now sought to contain inflation at about 2%, appears to be bearing fruit, with the result that on September 6, the Bank announced that it would leave the **target for the overnight rate** unchanged at 4.25%. However, according to the Royal Bank, the rate will rise to 4.38% in 2007, while EDC believes it will reach 4.5%.

The **loonie** should go back down to its "usual" level, i.e., in and around 80 cents U.S. Two factors explain this movement: lower demand for oil,³ which the OECD explains by the "dampening effect due to the high cost of oil," and the probability that the situation will stabilize in some parts of the

Middle East, which will cause oil prices to fall. Our dollar, which is strongly tied to fluctuations in oil prices,⁴ would therefore lose steam, dropping from the historic highs reached throughout 2006.

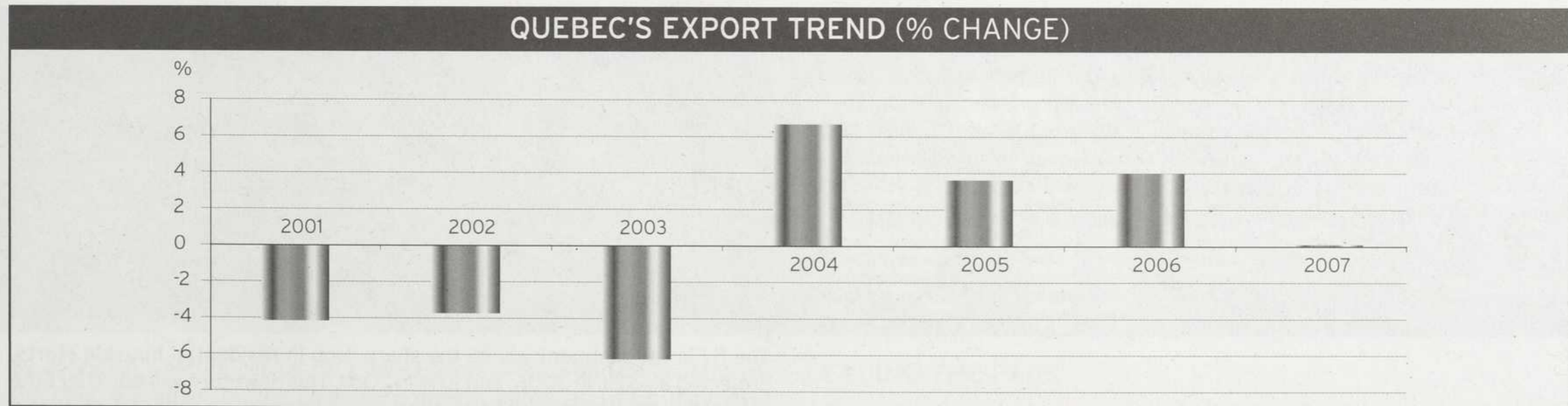
Canadian exports should grow at a slower pace, nowhere near the 2005 levels. This will be primarily due to slowing global demand, particularly from the U.S. Consequently, Canadian shipments will grow 4% in 2006 and 2% in 2007 according to EDC.

³ It is estimated that oil demand growth will increase half as fast as in 2006.

⁴ According to EDC, the Canadian dollar is a "petro dollar": their statistical model establishes that a \$10 increase in the price of oil results in a \$0.03 rise in the Canadian dollar.

QUEBEC WILL FEEL THE PINCH OF SLOWING EXPORTS

The outlook for **provincial exports** appears to be more pessimistic for Quebec than for the rest of Canada. Indeed, Quebec will be hard hit by the ebbing global demand and lower commodity prices. These two factors will translate into a decline in Quebec exports of forestry products and consumer goods, which will fall 5% and 6% respectively this year. Total export growth for 2006, in the vicinity of 4%, will nonetheless be similar to last year.



Notes: Data up to 2005 are in current prices and are provided by Strategis; 2006 et 2007 forecasts are from EDC. The % change is compared to the previous year

Source: Strategis, EDC

EDC figures paint a more sombre picture for 2007, projecting zero export growth. The main factors, besides those mentioned earlier, will be weakening business aircraft sales and unresolved difficulties in the furniture and clothing industries. This is definitely a much more pessimistic scenario than the one put forth by Finance Minister Michel Audet in the March 2006 budget, in which he projected exports to grow 4.7% next year.

Lastly, the Conference Board of Canada (CBOC) forecasts **real GDP growth for Quebec** of 2.1% in 2006 and 2.5% in 2007, placing Quebec below the Canadian average for 2006 and behind Manitoba (+2.6%), British Columbia (+2.8%), Ontario (+3.1%) and Alberta (+3.5%) in 2007.

MONTREAL: DESPITE EVERYTHING, 2007 WILL BE BETTER THAN 2006

The Montreal economy should fare reasonably well in 2007, with the Conference Board of Canada⁵ forecasting **real GDP growth** of around 1.9% in 2006 and 2.8% in 2007. The main stumbling block to growth this year is still the manufacturing sector, where the after effects of low manufacturing output (down 7.7% in the last five years) have still not dissipated; output and productivity are still paying the price.

Employment, which grew modestly in 2006 (0.9% compared to 1.1% in 2005), will advance 1.5% in 2007. As such, still according to the Conference Board, the aerospace industry will create 200 jobs to fulfill helicopter orders from Bell Helicopter Textron Canada. The most promising job outlook is in the **services sector**, expected to grow 2.3% in 2006 and 2.2% in 2007. Such growth would translate into 64,000 additional net jobs, primarily in non-commercial services (+18,300), wholesale and retail sales (+14,000), business services (+11,900) and finance, insurance and real estate (+11,700).



The fly in the ointment will be the sharp drop in **residential housing starts**, projected at 20% in 2006, and 10% in 2007. This downturn will not affect the entire construction sector given that non-residential projects will go ahead, notably, construction of the new super hospitals.

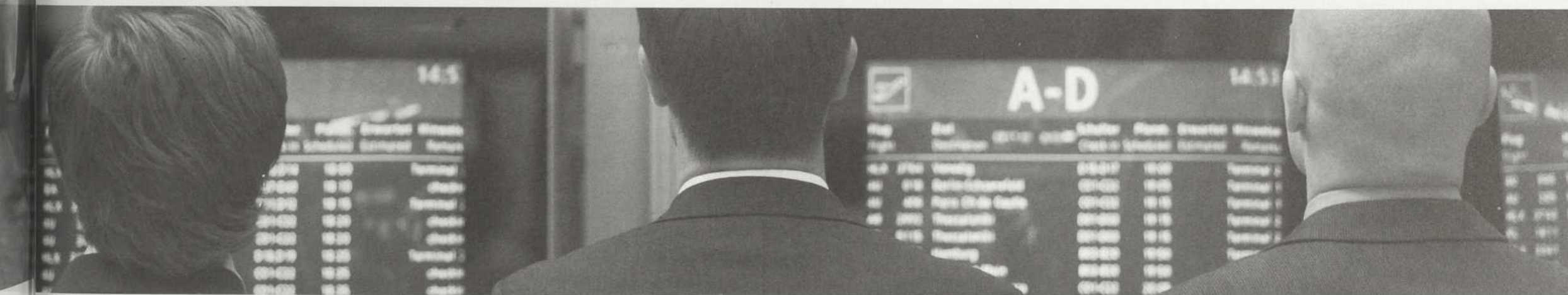
Lastly, the **sectors to watch** will be information technology and life sciences, more specifically, the communications, networking and biotechnology segments, which reaped most of the venture capital investments⁶ made in Quebec in the first half of 2006. ■

⁵ Metropolitan Outlook - Fall 2006

⁶ See "Identifying Growth Drivers" on page 13 for a more complete picture of VC investments and these sectors in particular.

IDENTIFYING MEASURES OF GROWTH DRIVERS

2006-2007



By definition, venture capital (VC) investments come with few guarantees; the risks are offset by the company's growth potential, which may yield higher returns in the long term. As such, the investment strategies of venture capitalists have a number of points in common: the targeted companies have both strong growth potential and a strategic position on the markets; and in order to maximize the company's capacity and boost shareholder return, the ROI is expected in the medium or long term (typically five to seven years).

Given these characteristics, if we look at the investment strategies employed by VC firms today, we can gain insight into the situation in some sectors of the economy, get a sense of the prevailing trends, and consequently, identify the future growth drivers.

LEADING THE PACK

An analysis of the data quickly reveals that Montreal and Quebec lead the way in Canadian VC investments. Thus, according to Thomson Financial* statistics, Quebec collected the most venture capital in the first quarter, i.e., \$155 million or 39% of the Canadian total. For the same period, Montreal outpaced all the other urban centres in the country, collecting 29% or nearly \$113 million of the total capital invested nationally and 72% of the amount invested in Quebec. In the second quarter, the city's share amounted to 74% of the provincial total.

* The first and second quarter statistics were taken from two reports published by Thomson Financial. It should be noted that the Q2 report contains revisions of some of the Q1 statistics. However, since the revision does not apply to the sector allocation of investments, we opted to present the data from the Q1 report.

In the last four years, Montreal has attracted most of the venture capital invested in Quebec and as such has outclassed its Canadian counterparts in this regard. In 2003, Montreal beat Toronto to collect one quarter of the funds invested in Canada. The following year, it ranked second with 20%, right behind Toronto (24%). The two cities swapped places in 2005, with Montreal once again taking the lead with 24%, beating out Ottawa's 22%. In the last two years, Montreal has also outpaced its Canadian counterparts in IT investments, collecting 34% and 28% respectively of the Canadian total in 2004 and 2005.

FEW GROWTH DRIVERS

Based on mid-year results, which incidentally, are consistent with the trend observed since 2000, information technology and life sciences will likely drive most of Montreal's growth in the coming years.

This conclusion is borne out by Thomson Financial's data for the first two quarters of 2006, which shows the **life sciences** sector dominating Quebec's venture capital activity, collecting \$75 million in the first quarter and \$57 million in the second or 48% and 42% of all the venture capital invested in Quebec. The **information technology** (IT) sector ranked second with \$23 million in the first quarter and \$54 million in the second, or 15% and 40% of the provincial total.

It bears mentioning that these VC investments are heavily concentrated and therefore benefit a small number of companies. For example, in the life sciences sector, 16 companies shared \$75 million invested in the first quarter, and \$63 million of that amount went to the **biopharmaceutical** industry. This concentration was even more pronounced in the second quarter with only 10 companies sharing the \$57 million invested in life sciences and 97% of the amount going to biopharmaceutical companies.

Venture capital investments in the IT sector are also concentrated. Thus, six companies operating in communications and networking shared \$15 million of the \$23 million invested in Q1. In the second quarter, the IT sector accounted for 40% of VC investments in Quebec or \$54 million. Although this time 22 companies shared the pie, four companies – once again in the **communications** and **networking** segments – collected \$25 million.

ATTRACTING HIGH-CALIBRE FOREIGN INVESTORS

Quebec and Montreal also stand out in terms of the source of the venture capital invested. In fact, tax-advantaged funds, i.e., funds that benefit from a tax advantage such as the Solidarity Fund QFL, account for a higher percentage of venture capital investments in Quebec than in the rest of the country (38% for Quebec against 29% for the country in Q1 2006). However, foreign funds only accounted for 22% and 21% of investments made in Quebec in the first and second quarters of 2006, compared with the national figures of 37% and 31% respectively. In this regard, it would of course be better if Quebec's percentage were higher since foreign investors tend to offer opportunities in their own markets and provide access to their networks, thereby potentially increasing the return on investment. It is therefore vital that Quebec find ways to attract more high-calibre international investors. ■

2006-2007

NEW BUDGET MEASURES

The measures announced in a budget often take some time before they are applied. This section therefore presents a review of the tax measures that will take effect on January 1, 2007.

GOVERNMENT OF CANADA

- > The government will increase the net business income eligible for a **reduced federal tax rate** from \$300,000 to \$400,000. As such, in accordance with the deductions granted to small businesses, the 13.12% tax rate will apply in 2007 to the first \$400,000 of eligible SME income. Earnings beyond this amount will continue to be taxed at 22.12% (these rates include the 1.12% surtax on income).
- > As for measures for individual taxpayers, the **lowest tax rate** will be 15.5% in 2007 and will apply to individuals whose taxable income is below \$36,378¹. Although this is the second increase in as many years (the first was from 15% in 2005 to 15.25% in 2006), the rate is still lower than in 2004 when it was 16%.
- > At the same time, the **basic personal amount**, i.e., the amount that each taxpayer can earn without paying federal income tax, will rise to \$8,739 in 2007. This amount, which has been increased by \$100, will also be subject to a cost of living indexation.

As for the basic personal amounts for spouses, common-law partners or dependents, they will also be increased by \$85 to \$7,420¹.

- > The RRSP contribution limit will be augmented by \$1,000, reaching \$19,000 in 2007.

GOVERNMENT OF QUEBEC

On a provincial level, the Charest government presented a number of measures in the 2006-2007 budget that will be effective next year. As such, as of January 1, 2007:

- > Businesses will benefit from a **permanent tax credit** of 30% for salaries paid to interns, apprentices and supervisors. This credit, which already existed, was to terminate on December 31, 2006. However, after seeing its positive impact, the government decided to make it permanent.
- > Furthermore, the **capital tax** – collected from companies with taxable capital in excess of \$1 million – will be reduced from 0.525% to 0.49%. This decrease is part of a series of reductions spread out over several years that should result with a capital tax rate of 0.29% in 2009.
- > As of 2007, the Government of Quebec will hand over to the municipalities all of the **property taxes** collected from museums, the *Grande Bibliothèque* and the *Grand Théâtre de Québec*. The cities affected will therefore reap almost \$8 million in additional revenues per year, including \$4 million by the City of Montreal. ■

¹ These amounts do not take into account the indexation they will be subject to later in the year.

ACCORDING TO FINANCIAL INSTITUTIONS

IN 2007, THE MONTREAL ECONOMY WILL...



- > ... Record growth of only about 2 percent, obscuring the fact that the economy will close the year on a strong note after a slow start.
- > ... See manufacturing exports and the tourist industry pick up once the U.S. economy emerges from its slump in the middle of the year.
- > ... See the housing market glide to a soft landing since there is no indication of a real estate bubble.

Don Drummond

Senior Vice President and Chief Economist
TD Bank Financial Group



Montreal will not be spared the economic slowdown that will peak next year in North America. However, its industrial diversity – the most extensive in Canada – will provide some measure of stability. Still, a loonie around US\$0.90 in 2007 will prolong the manufacturing sector's adjustment period. In this context, the focus must be on boosting Montreal's competitiveness, mainly by improving productivity through increased investments in capital, labour, innovation and R&D. If Montreal takes this direction, all of Quebec will benefit.

François Dupuis

Vice President and Chief Economist
Mouvement Desjardins



2007: The year for major projects?

With concerns of an economic slowdown south of the border and a strong Canadian dollar, the Montreal economy will not be able to rely as heavily on its manufacturing and tourism sectors (1 job out of 5). In this context, it would be a good time for the various levels of government to quickly work together to execute investment projects that build on Greater Montreal's other strengths (knowledge, health, culture and design sectors, etc.) to ensure our city's economic prosperity.

Clément Gignac

Senior Vice President,
Chief Economist and Strategist
National Bank of Canada

Montreal's housing market is in the midst of a widely expected cooling phase. Signs of a housing market slowdown continue to unfold as the annual pace of growth in residential permits and housing



starts retreated in the first half of 2006. The softening in the residential market has been partly offset by a healthy pace of expansion in the non-residential construction market. The annual pace of growth in the value of non-residential permits has gained positive momentum so far this year, signaling further strength in the pipelines. Decent job creation has outpaced growth in the labour force, driving the unemployment rate down to 8.2% in August.

Amy Goldbloom
Economist
RBC Financial Group

2007 will be a challenging year for Montreal. Without necessarily sharing the more pessimistic views regarding the outlook for the United States



next year, the fact of the matter is that the economy south of the border will slow markedly in 2007. Slower growth in the U.S. in 2007 will definitely squeeze Canadian exports of durable goods and capital equipment, two very important components of the Montreal economy. It would be naïve to assume otherwise. Fortunately, interest rates are expected to remain low and stable, which will continue to support domestic demand.

Carlos Leitao
Chief Economist
Laurentian Bank Securities

Our *Metro Monitor*, a measure to capture the rate of change in the level of economic activity in Canada's largest CMAs, ranks Montreal in the middle of the pack, but last among the large metropolitan cities due to continued weakness in the manufacturing sector. However, we expect the



SME, high tech and telecommunication sectors to perform relatively well in 2007 with some recovery in tourism. A slowing U.S. economy will likely drive slightly weaker overall economic activity in Montreal in 2007. ■

Benjamin Tal
Senior Economist
CIBC World Markets

INVESTMENTS FOR MONTREAL



The life sciences sector is the area likely to provide Montreal with the biggest investments in the short and medium terms. Construction of the new Centre hospitalier de l'Université de Montréal (CHUM) should get underway in 2007 and continue until 2010. This project is currently evaluated at \$1.5 billion, including approximately \$700 million for construction work. For its part, construction of the McGill University Hospital Centre (MUHC) on the Glen site, which began in 2005, will continue until 2011 and cost \$1.6 billion plus the eventual \$100 million private investment for the Shriners Hospital. And finally, the new Centre hospitalier universitaire Sainte-Justine will cost about \$500 million.

On the heels of these three major projects, other life science investments are taking shape. The largest will be made by Technopôle Ville-Marie, CHUM, the Palais des Congrès and Développement Télémedia, which have joined forces to create the Quartier de la santé [health district] at and around 1000 Saint-Denis Street. Promising to embellish the urban fabric by covering the Ville-Marie expressway, this project could generate \$900 million in investments.

Transportation is the other major sector that bodes well for Montreal in terms of investments. However, other than the reconfiguration of Sherbrooke Street East (\$80 million) and the Parc-des Pins interchange (\$30 million), the future of a number of other projects remains uncertain. That said, some major initiatives are currently being developed, including a \$750 million facelift to Notre-Dame Street East and a \$155 million reconfiguration of the Dorval interchange.

The Bonaventure Expressway is another road that needs a major overhaul in the short term. In its Vision 2025 development plan, Société du Havre suggests reconfiguring this road into an urban boulevard, thereby making large areas of unused land adjacent to downtown available for real estate development. Evaluated at some \$160 million, this project is particularly interesting since it could generate some \$1 billion in additional spending.

Public transit is also an important source of investment. For the moment, besides the extension of the metro to Laval, the main expenditures announced - such as renewal of the MR67 metro cars and the purchase of rolling stock for the new Montreal-Mascouche commuter train - will have an indirect impact on the Montreal economy, mainly by facilitating local travel. However, a number of new infrastructure projects are being studied, for example, a light-rail system on Park Avenue (\$475 million) and at the Montreal harbour (amount still to be determined) and a metro line to Anjou. Given the need to fight greenhouse gases, these projects could see the light of day faster than we think. ■

CANADA ECONOMIC DEVELOPMENT REPORT

VIEWS ON 2007

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It is forecast that Montreal GDP should show a 1.9%¹ rise in 2006, which is slightly less than the province of Quebec rate (2.2%²). The year 2007 will exhibit a similar progression. However, these numbers are inferior to those of Canada, since the western provinces dynamism will push the country growth rate to about 3.1% and 3%³, for 2006 and 2007 respectively.

Following recent interest rate rises, homebuilding will slow markedly in 2007 in the Montreal area. The CHMC⁴ predicts that, after a 1% and 9% drop in selling and housing starts respectively in 2006, they should further fall by about 3% and 13% respectively in 2007. This could imply a negative outcome on employment for the construction sector, which counted 80 000 workers as of the second quarter of 2006. Anyhow, it should be noted that this slowdown could be partly offset by commercial and industrial projects, such as the soon-to-be-built hospitals.

There is good reason to believe that the manufacturing sector, face by a strong dollar and further competition from emerging countries, will pursue its adaptation. The manufacturing sector related to investments, especially transportation equipment, machinery manufacturing, computer and electronic manufacturing and metal products manufacturing, should show the strongest growth among the manufacturing sector. In addition, the aeronau-

tical industry will continue its robust development. As for the pharmaceutical sector, after a few cuts in the past years, it should return to its dynamic path of growth. Also, the services industry will continue its expansion, with leaders such as professional, scientific and technical services; management of companies and administrative support; accommodation and food services; information, cultural and recreation; as well as health care and social assistance.

In the longer term, Montreal will have to tackle the productivity challenge of its firms. Regarding this, the appreciation of the dollar facilitate the acquisition of new technologies, more efficient equipments and foreign companies. Moreover, innovation is an important competitiveness factor and another challenge is to commercialize it. Although Quebec's innovating firms spend much more on R&D than their Canadian counterparts, it does not necessarily translate into higher revenue per worker. Stakeholders are working on ways to correct this situation. ■

¹ The Conference Board of Canada

² Average from a group of 7 Canadian banks

³ Canada Mortgage and Housing Corporation

⁴ Canada Mortgage and Housing Corporation, *Housing Market Outlook, Montreal, Spring 2006*.



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