PERSPECTIVE

Montreal has yet to say its last word

As Montreal recovered from the last recession, cynicism and a sense of defeat hung over the city like a dark cloud. The dissatisfaction with the city's past economic performance and outlooks for the Montreal census metropolitan area (CMA) was palpable. While the region is still not breaking any records, a newfound energy is sweeping through the city. Things have changed since 2010; the inertia that once reigned is fading and long-awaited projects are finally coming to life. The CMA can even start dreaming again, and that alone is a sign of good health. The Montreal CMA has yet to say its last word.

An economic review of 2016

Among the advances made in recent years, we now have a better grasp of the region's economic and social indicators, and by region, we are referring to the Montreal census metropolitan area, or CMA. Elected officials, business leaders, academics and public administrators at all levels of government have access to a growing number of tools to probe the data. The number of scorecards, indexes and best-of lists has exploded in recent years, and these tools help rank Montreal vis-à-vis its own development and compare the city to other large metropolitan areas in Canada, North America and around the world.

With this in mind, the Institut économique du Québec recently completed an analysis of 2016 in collaboration with Montréal International and the Chamber of Commerce of Metropolitan Montreal. The *Tableau de bord de la région métropolitaine de Montréal pour l'année 2016* (Montreal Metropolitan Region Scorecard for 2016) was used to compare the Montreal CMA with 14 other cities in North America, based on 29 socioeconomic indicators in five categories. The results of last year show few differences compared with 2015.

Montreal is No. 1 when it comes to the quality of life of its residents. However, the city is last in terms of economic vitality. It ranks 13th in the human capital category and sits slightly below average in terms of innovation. It is still a relatively attractive city for entrepreneurs and investors due to its business taxes, "which are among the most competitive in North America." The authors rightly conclude that Montreal has sizable challenges to overcome in its quest to become "one of North America's strongest economies." While it is true that many promising measures have been introduced in the past few years, more efforts are undeniably required. This worthwhile exercise covered a wide range of indicators and highlighted areas that require more immediate action.

Fighting widespread pessimism

These results feed into the belief that the Montreal CMA "has a flat economy, with zero job creation, a stagnant unemployment rate, anemic demographic growth; Montreal is getting poorer and suffering from a lack of investment." This flies in the face of the substantial efforts made in recent years as well as certain statistics.

Measuring the progress made since the end of the last recession is an interesting exercise that provides clues about the longer-term situation. The short exercise below compares Montreal with six other large CMAs in Canada since 2010. In terms of growth, the pace of real GDP growth in the Montreal CMA gradually slowed following the recovery in 2010 (graph 1 on page 2). According to the Conference Board of Canada forecast, the real GDP in the Montreal CMA gained strength in 2016. The variability of real GDP growth in the Montreal CMA is less flexible than in CMAs that rely more heavily on oil operations for their vitality (Calgary and Saskatoon). That said, the Montreal region was not as strong as Toronto and the Vancouver region, the gateway to Asia. To those who believe that Montreal is experiencing zero growth, progress is being made but it is below expectations.

The situation brightens when you consider Montreal's economic outlooks. As such, for the period from 2017 to 2021, the Conference Board estimates that Montreal will experience annual average growth of 1.9%, edging closer to the estimates for Ottawa-Gatineau (2.0%), Calgary (2.0%) and Saskatoon (2.1%).

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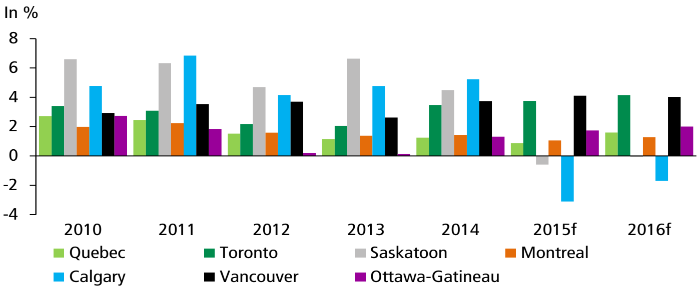
GRAPH 1
Real GDP: Montreal may not be experiencing blistering growth, but it is less vulnerable to economic ups and downs



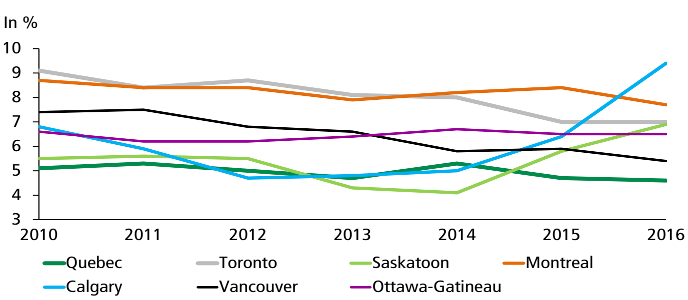
f: forecasts
Sources: Conference Board of Canada, Statistics Canada and Desjardins, Economic Studies

Major infrastructure investments and expectations on job growth in particular will boost Montreal's growth in the next few years.

"There is no job growth," is yet another criticism that is often heard. Between 2010 and 2016, total employment growth in the Montreal CMA reached 6.2%, while Ottawa-Gatineau and Quebec City recorded growth of 4.7% and 5.5%, respectively. For the same period, job growth reached 11.2% in Toronto and 13.2% in Vancouver, while Calgary and Saskatoon recorded respective increases of 14.5% and 16.1%, supported by the oil patch that was still bubbling with activity between 2010 and 2014. Once again, employment in Montreal may not have advanced at the same pace as in Central and Western Canada, but it certainly was not flat.

"The unemployment rate is stagnant," really? Graph 2 shows that this is not entirely true—unemployment fell from 8.7% to 7.7%. While the rate is still high, it is shielded from the ups and downs fuelled by changes in oil prices that affect Calgary and Saskatoon, and it did not stagnate as it did in Ottawa-Gatineau. In terms of the employment rate, Montreal has seen few changes since 2010, much like Toronto and Quebec City. Over the same period, however, this rate has fallen significantly in Ottawa-Gatineau and in Calgary and Saskatoon.

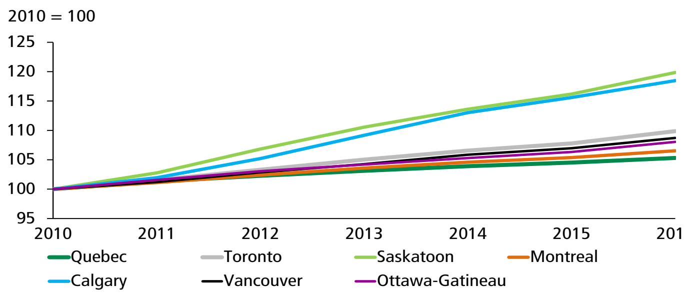
GRAPH 2
The unemployment rate is falling, but slowly in the Montreal CMA



CMA: Census metropolitan area
Sources: Statistics Canada and Desjardins, Economic Studies

"Demographic growth is anemic," is yet another complaint. Since the last recession, the population in the Montreal region has grown by 6.5%. Of the seven Canadian CMAs used to make a comparison, Montreal ranks second to last, ahead of Quebec City. Graph 3 shows comparative growth. The impact of oil is highly visible in the Western part of the country while the Montreal CMA remains within the four other CMAs taken into account.

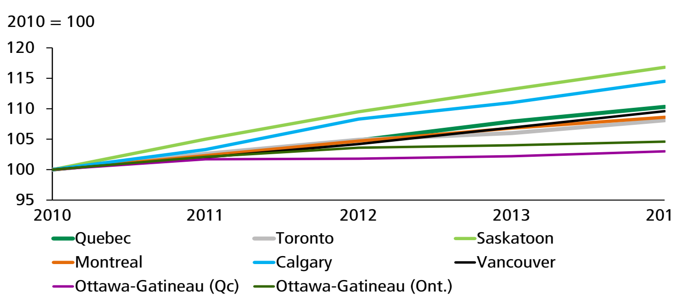
GRAPH 3
Since 2010, population growth has been much faster in CMAs tied to oil output



CMA: Census metropolitan area
Sources: Statistics Canada and Desjardins, Economic Studies

"Montreal is impoverished," say some observers. The greater prosperity of other CMAs can in some respects change Montreal's ranking on certain lists. That said, when it comes to median income, between 2010 to 2014 (the last year for which data are available), median income growth in Montreal reached 11.5%, which compares favourably with 6.5% in Ottawa-Gatineau (Quebec portion) and 7.4% in Ottawa-Gatineau (Ontario portion), 9.1% in Toronto and 11.2% in Vancouver. It is interesting to note that when comparing median employment income (graph 4), Montreal is smack in the middle of the pack. Impoverishment is indeed relative.

GRAPH 4
The Montreal CMA is in the middle of the pack for median wage growth between 2010 and 2014

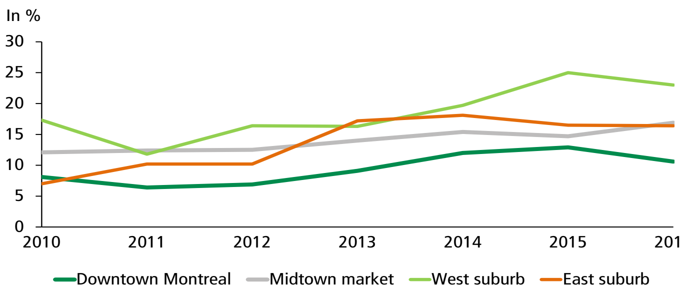


CMA: Census metropolitan area
Sources: Statistics Canada and Desjardins, Economic Studies

The lack of major investments is worth questioning, however. In December 2016, the Commission de la construction du Québec (CCQ) counted 102 ongoing projects in the greater Montreal area, each of which was valued at more than $5M—this translates into a total of $24B. A closer look shows that not all are infrastructure projects: there are 42 institutional and commercial projects, 30 residential projects, 26 civil engineering and road projects and 4 industrial projects. And these are just the projects valued at over $5M. Imagine the total value of all current projects below the $5M level!

Furthermore, while there's been a flurry of office construction in the past few years, the new spaces appear to be finding takers judging by the office vacancy rate in the Montreal area (graph 5). While most sectors have seen their vacancy rates spike since 2010 with the construction of many new office towers, the vacancy rates in downtown Montreal and in the west and east suburbs nevertheless declined in 2016.

GRAPH 5
Office vacancy rate: Montreal is gaining momentum



Sources: CB Richard Ellis (Montreal statistics) and Desjardins, Economic Studies

These indicators do not provide absolute results. We could, for each one, be tempted to present statistics that would mitigate the conclusions shown here. But we can confirm that the winds in Montreal seem to have shifted in the last few years. This optimism can also be found in the pages of the *Bilan économique 2016, Agglomération de Montréal* published in March 2017. This simple exercise confirms once again that assessing the economic health of any region is becoming increasingly complex because of the growing number of indicators and our ability to drill down the data.

What has changed since the recession

In Canada, the recession brought activity to a halt everywhere it hit, albeit to a lesser degree than elsewhere in world. There is a "before" and an "after." And how is the Montreal CMA different? Montreal did not change fundamentally. But fierce competition between metropolitan regions around the globe prompted the city to showcase its best assets: a qualified bilingual—sometimes trilingual—and creative workforce, academic leadership, access to markets, competitive operating costs and corporate tax framework, a diversified economy, well-defined areas of excellence (industrial hubs), an enviable quality of life, etc.

Much water has flowed under the bridge since 2010, and on this topic, replacing the Champlain Bridge (more than $4B) is another positive change that has contributed to the shifting winds in the Montreal area in recent years. Between 2017 and 2019, the Quebec government will spend $1.4B to repair the road network on the Island of Montreal and in Laval. Complaints about the poor state of Montreal's roads have been replaced by grievances about the growing traffic headaches caused by the roadwork. The infamous orange cones have long been a common sight in the city, but today they represent progress and upcoming improvements instead of danger or decrepitude.

The end of the hearings and the report tabled by the Commission of Inquiry on the Awarding and Management of Public Contracts in the Construction Industry have turned the spotlight on the region's more positive aspects. The start-up of the eagerly awaited CHUM (Centre hospitalier universitaire de Montréal) after 10 years of deliberations was also a shot in the arm for the Montreal CMA. Expansion work at the Montreal-Trudeau Airport (addition of an international terminal) to meet increased traffic needs, and improved air service to more destinations around the globe, address the needs expressed by business people and the tourism industry. Investments of more than $1B are planned between 2016 and 2020 to keep pace with an industry that is experiencing global growth. This, however, does not reduce the need for efficient transit to downtown Montreal or the need to redesign the entrance to the airport.

The Port of Montreal also hopes to capitalize on the uptrend in the transportation of goods and people, a trend that has gone global. The weight of merchandise has been hitting record levels since 2010. Investments have been made to expand the container terminal (Viau sector), the cargo handling capacity has been increased and, more importantly, the port is now able to welcome very large container ships. Rail management has been improved, truck access has been reviewed, the Alexandra Pier and the Iberville Terminal for cruise passengers both got facelifts, and new industrial hubs have been created in Contrecœur and Vaudreuil-Soulanges.

The five metropolitan clusters created between 2005 and 2009 (aeronautics, life sciences, information technology and communication, cinema and clean technologies) seem to have successfully demonstrated their usefulness—four other clusters officially opened between 2010 and 2016 (financial services, aluminium, logistics, transportation and fashion). Many of them have projects in the pipeline to find solutions to common problems (recruitment and training, supplies, etc.), going head to head with the competition, or identifying the most promising areas for the next few years and laying the foundations.

To round out these efforts, players in the tourism industry joined forces in recent years to promote the region of Montreal as a choice destination, long before the celebrations marking the city's 375th birthday. The momentum in residential and office construction continued throughout the recession, a reflection of the confidence investors and business people have in the region's potential. What's more, the Quebec government finally gave the City of Montreal the Status of Metropolis at the end of 2016. This acknowledgement, the outcome of a lengthy process, will provide authorities with some additional leeway in managing the city. This designation comes with $150M in financial support as set out in the last provincial budget.

Much more could be said about what has occurred in the last six years; the brief list outlined here merely touches on some of the changes that have taken place in the Montreal CMA. But they serve to illustrate that between 2010 and 2016, many projects that had been on the drawing board for years finally came to life, like a spring thaw after a long, harsh winter.

Daring to dream

The advances made by some of these projects can, however, be painful in the short term, like the infrastructure road works that will affect the region for the next few years. Beyond these very visible changes, Montreal is busy making inroads to boost its economy.

For example, the city's strength in the area of artificial intelligence was highlighted in March 2017 in more ways than one. First off, as part of its Pan-Canadian Artificial Intelligence Strategy, the federal government has set aside $40M to support research and foster talent. Granted over five years, this financial support will be used to establish a new institute. The Montreal region also became the seventh global pole for Google's cloud computing, another initiative announced in March. Lastly, in its most recent provincial budget, the Quebec government stated that it would inject an additional $100M into Quebec's artificial intelligence industry in the coming years; the Montreal CMA will surely stake its claim for its fair share.

From a situational standpoint, the outlooks for Montreal brightened with the implementation of the Canada-European Economic and Trade Agreement. This could benefit three well-established regional industries: aeronautics, pharmaceuticals and clean technologies. Will potential developments succeed in warming the possible chill in our trade with the United States due to increased protectionism? This remains to be seen.

Beyond the repairs to the road network, the region is about to break ground on a bold plan: the Réseau électrique métropolitain (REM), or light rail transit system. How long has it been since a project of this scale has been considered? While it was already amended in fall 2016 and in winter 2017, and contested by some, this is a unifying project. From the 1990s and 2000s, voices were unanimous in decrying the inaction that characterized the region. Consensus in favour of the project has finally been reached—a huge step for a dream project.

To be or not to be

While it is true that for some 20 years, Montreal has rarely made it to the top of the podium when comparing the city to other metropolitan regions, but systematically relegating the region to the back of the pack is a mistake. The Montreal CMA has the best grasp of its capacities than it ever has; the region has been examined from every angle in recent years. The region knows what needs to be done, reams of documents on the region's needs have been filed between 1990 and 2010 and much hard work lies ahead. Indeed, the Montreal CMA has no trouble saying what it "isn't" (for instance, it's not the leader in terms of employment, it's not the leader with respect to growth). How about taking a different tack and defining the region by what it "is" and what it wishes to become? Things have changed since 2010, the inertia that seemed to reign supreme has faded and long-awaited projects are finally breaking ground. The region can dare to dream and that alone is a sign of good health. The Montreal CMA has yet to say its last word.

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