



l'exclusif

FCCQ Member Newsletter

LIFE AND HEALTH SCIENCES



- Public spending related to the health care system continues to rise.
- Québec is not immune from the move by pharmaceutical multinationals to restructure. These companies no longer manage to produce enough new drugs to make up for the decline in revenues associated with the loss of protection for their major patents and the arrival on the market of generic drugs.
- The aging of the population, advances in medical technologies and increased spending by health care institutions are exerting growing pressure on the demand for medical equipment.

THE FCCQ IS MONITORING

- ▶ the Biopharmaceutical Industry Development Strategy
- ▶ the establishment of a National Institute for Health and Social Services Excellence
- ▶ the financing crisis affecting biotech firms

INFORMATION TECHNOLOGIES AND ELECTRONICS



- The IT system design industry continues to grow, although the shortage of skilled workers remains a major concern, despite the job losses recorded in this industry in 2008.
- As in North America as a whole, Québec manufacturers of IT and electronics products have continued to experience a decline, as witnessed by many plant closures and restructurings.

THE FCCQ IS MONITORING

- ▶ tax credits for the development of e-business
- ▶ the availability of skilled labour
- ▶ the WTO Doha negotiations

FINANCIAL AND REAL ESTATE SERVICES



- The collapse of the real estate market and the subprime mortgage crisis in the U.S. have resulted in a lack of liquidity and a financial crisis around the world. Against this backdrop, Canadian and Québec financial institutions have proved very resilient.
- During the first half of the year, real estate brokers reaped the benefits of stock market growth, low interest rates and a robust job market. By the end of the year, however, the deterioration in consumer confidence and tightened credit conditions brought about a marked slowdown in housing sales.

THE FCCQ IS MONITORING

- ▶ the establishment of a national securities commission
- ▶ the TSX Group's compliance with the commitments made as part of the merger with the Montreal Exchange
- ▶ the review of the legal framework applicable to aggressive tax planning

TOURISM



- Boosted by the 400th anniversary celebrations, business tourism attracted 22 international events to Québec City, which in turn has boosted the lodging industry. Spending by foreign tourists, however, decreased.
- The strength of the Canadian dollar in the first half of the year and the tight job market seem to have played in favour of travel agencies, which saw their volume of business increase in spite of the start of the recession at year-end.

THE FCCQ IS MONITORING

- ▶ the impact of the Western Hemisphere Travel Initiative
- ▶ the realization of negotiations for the signing of a Canada-European Union "open skies" agreement
- ▶ the upgrading of transportation infrastructure

About the FCCQ

With its extensive network of 162 chambers of commerce, the FCCQ represents more than 40,000 businesses and 100,000 business people involved in every sector of the economy across Québec. The FCCQ promotes an innovative and competitive business environment through its tireless advocacy on behalf of the interests of its members in matters of public policy.

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➤ "Less sorely affected by the economic downturn than most industrialized societies, Québec is well-positioned to take advantage of a recovery."

This is the main conclusion drawn in the second edition of the *FCCQ Sectoral Indicator* published May 14 by the Federation of Québec Chambers of Commerce. This 2009 edition looks at the economic performance of the year just ended, based on 2008 data.

"Less sorely affected by the economic downturn than most industrialized societies, Québec is well-positioned to take advantage of a recovery. Nonetheless, it is experiencing a recession and the economic situation remains troubling. It should be remembered, however, that Québec went into this recession better prepared than most due to its diversified economy, many infrastructure projects, tight labour market and solid financial institutions,"

considers Françoise Bertrand, President and CEO of the Federation of Québec Chambers of Commerce.

According to the *FCCQ Sectoral Indicator*, in spite of a slowdown in the rate of growth, Québec's economy performed relatively

well in 2008. Construction and Transportation Equipment Manufacturing lead the way among the sectors with the best results. This energetic performance can be explained by the large number of infrastructure public works projects and strong activity in the aerospace industry.

The sectors recording losses were the same to have experienced a slowdown in recent years, i.e., Forestry and Pulp and Paper, as well as Consumer Products. The weakening of the U.S. housing market and loss of confidence among American consumers were partly responsible for this trend.

Overall, adjustments to counter the rise in the value of the Canadian dollar and competition from emerging countries, as well as efforts made by the manufacturing sector in the last few years, seem to have finally had a beneficial effect on the Québec economy, which now appears more resilient.

"To benefit fully from the recovery, Québec needs to be prepared. This requires vision, planning, strategic decision making and rebuilding trust among all economic players. By tapping into the determination, ingenuity and drive of our business people and taking action now, Québec will be at the forefront when the recovery comes," concludes Ms. Bertrand.



Françoise Bertrand
President and CEO



Jean Laneville
Senior Economist

Why an FCCQ Indicator?

In 2006, the FCCQ developed a vision for the Québec economy, which it called "Building a Successful Québec." This vision revolves around eight priority areas of intervention and identifies those sectors that will drive Québec's economic growth. The Federation is committed to measuring the progress of these sectors. Over time, the Indicator (sectoral and regional) will provide an increasingly exact picture of our economic development. "More importantly," states Françoise Bertrand, "the results of these first years show that we have made the right decision in choosing to act in four key areas: growth and productivity, labour, globalization, and sustainable economic development."

Highlights:

- ▶ The growth of Québec's real GDP slowed from 2.6% in 2007 to 1.0% in 2008. This rate of growth was, nevertheless, twice that of Canada.
- ▶ In spite of only a modest 2008 increase in the number of jobs in Québec, the unemployment rate remained at an historic yearly low of 7.2%. The Trade, Consumer Products and Information Technologies and Electronics sectors put a damper on job creation in 2008.
- ▶ The deterioration of the trade balance continued, with the trade deficit now at \$25.3 billion. The real value of exports destined for international markets and other Canadian provinces increased along with imports from overseas and the rest of Canada.

- ▶ Thanks to the Québec government's Infrastructure Plan, total capital assets spending rose by 8.9% in 2008, compared with 5.2% in the rest of Canada. Private investment growth was also higher in Québec (2.1%) than in other Canadian provinces (1.6%).

- ▶ Overall corporate profits rose during the first half of 2008 due to the high price of energy and other commodities. This situation deteriorated, however, in the last quarter of 2008, which recorded the sharpest quarterly drop in earnings in 16 years.

- ▶ The first half of the year was profitable for several sectors of the Québec economy. But, as with all industrialized countries, Québec fell into a recession at the end of 2008.

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THE FCCQ SECTORAL INDICATOR

How Québec's economic sectors performed in 2008

The FCCQ Indicator (Regional and Sectoral Editions)

The FCCQ assesses Québec's progress in achieving its economic vision twice annually. First, in its FCCQ Indicator, the organization presents a macroeconomic analysis of the province as a whole and of each administrative region. Second, in the FCCQ Sectoral Indicator, it provides a sectoral analysis of the Québec economy. This spring sees the publication of the second edition of the FCCQ Sectoral Indicator.

AGRICULTURE AND AGRI-FOOD



- Farmers and breeders cut back on production and reduced the number of workers they employed to counter a steep rise in production costs.
- Since demand for food varies little despite the economic situation, producers were barely affected by the U.S. recession.
- Restaurant owners continued to see growth and to hire staff.

THE FCCQ IS MONITORING

- ▶ the impact of the Pronovost Commission report
- ▶ implementation of the Growth Strategy for the Purchase of Québec Food Products
- ▶ the future of supply management systems within the framework of the WTO negotiations

TRADE



- Wholesale distributors experienced weak growth and cut staff in order to weather the economic slowdown.
- Retailers continued to experience growth but also cut back on staff. The trend to larger stores partly explains job cuts among retailers.

THE FCCQ IS MONITORING

- ▶ the long-term availability of workers
- ▶ illegal trade
- ▶ measures to counter the tightening of credit

CONSTRUCTION



- Engineering work rose significantly, which will shore up this sector in the next few years. Between 2008 and 2013, the Québec government will invest \$42 billion in infrastructure projects.
- While residential construction experienced zero growth, non-residential construction held steady.
- In spite of the recession, demand for renovation work should continue to grow. The governments of Québec and Canada are offering tax credits in order to support this sector.

THE FCCQ IS MONITORING

- ▶ progress on major economic projects
- ▶ the Québec Infrastructure Plan
- ▶ the labour shortage

ENERGY



- Hydro-Québec exports grew and investments in hydroelectric and wind power continued. The Québec government's Energy Development Strategy provides for investments of over \$30 billion between 2006 and 2015.
- Refiners benefited from the high price of oil in the first half of the year, but suffered from the sharp drop in prices in the second. The price of a barrel of oil plummeted from US\$143 in mid-July to US\$38 at the end of December.
- The natural gas industry could be on the verge of expansion in Québec with the discovery of natural gas reserves (from shale) under the St. Lawrence Lowlands.

THE FCCQ IS MONITORING

- ▶ major projects (e.g., the Romaine dams, the Rabaska project and the St. Lawrence Pipeline)
- ▶ the regulatory framework in respect to atmospheric pollutants and climate change
- ▶ the development of an emissions cap and rights system

TRANSPORTATION EQUIPMENT MANUFACTURING



- The aerospace industry registered strong production and job growth. In spite of an anticipated drop in the delivery of aircraft, major investments that had already been announced continued to flow in.
- In spite of the problems faced by American carmakers and low demand for new vehicles, Québec manufacturers of vehicles, parts and bodies held their own. Their presence was strongest in the public transit segment, where demand has been strengthened.

THE FCCQ IS MONITORING

- ▶ the maintenance of competitive equity for Canadian companies
- ▶ government assistance for the automotive industry
- ▶ improvements to R & D tax credit programs

FORESTRY AND PULP & PAPER



- After having suffered from the rise in the value of the Canadian dollar, the softwood lumber dispute and a reduction in cutting rights, forestry companies and wood products manufacturers were forced to adjust their production due to the collapse of the U.S. real estate market.
- North American demand for pulp and paper stagnated. The popularity of the Internet and the decrease in advertising revenues have put the continued publication of many newspapers and magazines in jeopardy, while South American and Asian countries are cornering an ever-larger share of the market.

THE FCCQ IS MONITORING

- ▶ government assistance to forestry companies in trouble
- ▶ the continuing Canadian-American legal battles concerning softwood lumber
- ▶ the bill stemming from the reform of Québec's forestry regime

INFORMATION, CULTURE AND RECREATION



- Several broadcasters turned to staff cutbacks to counter the drop in advertising revenues: TQS closed its news department and Radio-Canada eliminated approximately 250 positions in Montréal alone.
- New communications technologies and platforms, the convergence of existing players and the arrival of new ones are changing business models and services in the telecommunications industry.
- Thanks to the positive outlook for growth, investments continue to flood into the video game industry. By offering a good entertainment/cost ratio, this industry has withstood the economic slowdown.

THE FCCQ IS MONITORING

- ▶ intellectual property and copyrights
- ▶ regulation of the Internet
- ▶ the availability of high-speed Internet connections in the regions

LOGISTICS AND SUPPLY CHAIN



- The U.S. recession had little impact on the transportation of goods. The decline in Québec exports was counterbalanced, in part, by an increase in imports.
- The growing popularity of e-commerce is stimulating demand for courier services.

THE FCCQ IS MONITORING

- ▶ negotiations toward an expanded trade agreement between Québec and Ontario
- ▶ negotiations toward a comprehensive economic agreement between the European Union and Canada
- ▶ transportation infrastructure public works projects

MINING AND METALS



- Investments in the mining industry jumped as a result of major exploration activities during the first half of the year.
- Primary processing and metal products manufacturing companies cut back on production due to the slowdown and the sharp drop in metal prices in the second half of the year.

THE FCCQ IS MONITORING

- ▶ the unveiling of the Québec Mineral Strategy
- ▶ implementation of the Northern Plan
- ▶ financing problems related to exploration activities

CONSUMER PRODUCTS



- The current U.S. recession is the most serious of the postwar era.
- Exports of clothing, furniture and household appliances fell.
- In the Consumer Products sector, only exports and production of hygiene and household cleaning products were up, since demand for these types of products is less "elastic."

THE FCCQ IS MONITORING

- ▶ compliance of imported products with Canadian business standards and practices
- ▶ the WTO Doha negotiations
- ▶ negotiations toward a comprehensive economic agreement between the European Union and Canada

INDUSTRIAL PRODUCTS



- Industries whose production is directly tied to the level of manufacturing activity, for example, manufacturers of textiles, chemical products, plastics and glass, cut back on production and exports.
- Only machinery and electrical equipment exports and production increased. As competitive forces intensify, companies are feeling the need to invest in productivity improvements.

THE FCCQ IS MONITORING

- ▶ the Action Plan to help the manufacturing sector
- ▶ the WTO Doha negotiations
- ▶ negotiations toward a comprehensive economic agreement between the European Union and Canada