Institut du Québec

Montréal—Millstone or Driving Force?

The GMA's Importance as Quebec's Economic Metropolis

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HEC MONTRĒAL

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A partnership between The Conference Board of Canada and HEC Montréal, the Institut du Québec focuses on the socioeconomic issues facing Quebec. It strives to provide public and private sector leaders with the tools they need to make better-informed decisions and thereby build a more productive, competitive, and prosperous society.

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Preface

The world is in the midst of a period of major change. Certain realities of our day—the global marketplace, emerging social and environmental concerns, and worldwide competition for capital and knowledge—are forcing Quebec to rethink its ways. Yet, at the same time, the province's manoeuvrability is limited by the precarious state of its finances. It is a situation that calls for the creation of original, forward-thinking, and intelligent policies.

Major cities have a central and vital role to play in the necessary transformations. They are at the leading edge of social and economic evolution and offer fertile ground for the development of solutions to today's problems. In the case of Quebec, this responsibility lies with Montréal.

This report does not seek to propose solutions to all the challenges facing the metropolis. Rather, its aim is to shed a new and critical light on Montréal's unique position with respect to the Quebec economy, and to raise awareness among all political and economic stakeholders—from Montréal to Québec City, and in every region of the province—of the need to provide Montréal with the means to fulfill its role.

A paradigm shift is needed. It is possible. And everyone must contribute.

Raymond Bachand, President

Mia Homsy, Business Director

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EXECUTIVE SUMMARY

Montréal—Millstone or Driving Force? The GMA's Importance as Quebec's Economic Metropolis

At a Glance

- The Greater Montréal Area (GMA) punches above its demographic weight in terms of its contribution to GDP, tax revenues, foreign direct investment, and number of patent applications.
- There is a direct correlation between Montréal's economic growth and that of Quebec as a whole: Montréal's economic performance elevates the rest of Quebec. In fact, this "locomotive" effect is the second most powerful of all of Canada's metropolitan regions.
- However, Montréal is still punching below its weight in terms of economic growth, demographics, innovation, number of university degrees granted, business relocations, and per capita income.
- A major paradigm shift is needed in Quebec—for instance, blanket solutions in economic development policy need to be abandoned.
- Governments should use Montréal's existing resources as effectively as possible by focusing support on specific priority sectors.

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Over the past 20 years, the economic importance of large cities has increased steadily, thanks to international immigration, free trade, and the emergence of information technologies.

Many studies suggest that in today's environment, which is characterized by global competition for capital, ideas, and the most favourable economic conditions, the role of cities—especially the larger ones—is destined to become even more important.

The Greater Montréal Area (GMA) is home to 49 per cent of Quebec's population. In 2013, the GMA accounted for more than 53 per cent of Quebec's GDP, more than 50 per cent of personal taxes paid, and 53 per cent of foreign direct investment stock. Obviously, there is no question about the core role played by Montréal in the Quebec economy.

While the enormous importance of Montréal to the Quebec economy is well known, this report offers empirical evidence of a direct relationship between the economic growth of Montréal and that of the rest of Quebec. In fact, over time, Montréal's economic performance elevates the rest of Quebec. In its role as an "economic locomotive," Montréal is the second most powerful of all of Canada's metropolitan regions. No other region in Quebec possesses comparable capacity to propel the provincial economy ahead.

Contrary to some preconceptions, Montréal's economic interests and those of Quebec's regions converge and are not in conflict.

However, despite its strengths and obvious attractions, Montréal suffers from several major economic shortcomings compared with Canada's other large cities. For example, the current picture and recent trends for Montréal—in terms of economic growth, demographics, innovation, business relocations, and per capita income—are not so promising. And, due to the connection between Montréal's economic performance and that of the rest of Quebec, when Montréal slows down, the province as a whole follows suit.

If Montréal had achieved the same economic growth as the Canadian average over the past 25 years, Quebec's economy would have prospered to a far greater extent, especially outside the large urban areas.

The title of this report asks a simple question: Is Montréal a millstone or a driving force for the Quebec economy? The answer should be clear-cut and irrefutable: Montréal is indeed a powerful economic engine. But the fact that its performance is less than it could be drags all of Quebec down.

So what can be done? Regardless of the response to this question, it is clearly a matter that concerns both the government in Québec City and decision-makers in Montréal.

The Quebec government needs to acknowledge the GMA's fundamental importance to the entire provincial economy and factor in this reality when developing public policies. This would be a major paradigm shift that implies much more than the simple idea of Montréal's standing as a metropolis.

Such a paradigm shift would involve:

- recognizing the fundamental importance of the GMA to the Quebec economy, and developing public policies accordingly;
- rejecting blanket solutions when it comes to the current downsizing and suspension of new programs;
- regarding the Montréal Census Metropolitan Area as an integrated economic entity, rather than an incoherent conglomeration of administrative regions—especially when presenting economic data, development policies, and action plans;
- adopting a strategy that promotes Quebec's best economic interests by identifying certain priority sectors and avoiding a wide, but superficial, doling-out of government aid.

Similarly, the leadership in Montréal needs to plays its part by making the best use of existing resources. Greater efficiencies are necessary, given that in the current budgetary climate it is not realistic for Montréal to hope for any new financial generosity from the Quebec government.

In the short term, Montréal will need to do more with less, particularly by:

- improving its management of public monies;
- improving its most economically strategic infrastructure;
- adopting a development strategy that focuses government support on certain priority sectors.

Far from being unwilling participants in a zero-sum game, the GMA and the rest of Quebec have, as this report shows, everything to gain by joining forces to promote the economic growth and well-being of all Quebecers.

The diagnosis is candid. The analysis is thorough. The time to act is *now*.

Introduction

Montréal's situation has occupied many a mind for a number of years.

We celebrate the metropolis for its undeniable assets: its artistic and creative vitality, its rich and unique history, its cultural diversity, its green spaces, and the quality of life it offers. Montréal boasts four distinct seasons and is home to one of the world's largest symphony orchestras; world-class music, dance, comedy, and theatre festivals; big business; a number of key industries; three professional sports teams; four universities; game-changing leaders; internationally renowned researchers and filmmakers; large-scale sporting events; major industrial clusters; and beautifully maintained parks and gardens. Its *joie de vivre* and unique personality are expressed in every corner of the city from east to west—from Mile End to Mount Royal, in the Quartier Latin, the downtown core, and the Petite-Patrie—all of this in an exceptionally green, welcoming, and safe environment.

Few cities in North America, if not the world, can say as much. Yet, Montréal is not without flaws.

The state of the city's infrastructures is deplorable. The collusion and corruption that have infected various public contracts are cause for shame. Solutions to address the chasm in its finances and the increasing taxpayer burden have been lacking. At the same time, the city's ineffective political structure is disappointing, and we are witnessing an exodus of its citizens. Last, but not least, we are dismayed by the closure of businesses, the departure of head offices, and the slowdown in the economy. These problems have been the subject of numerous studies and reports over the years.

Does Montréal represent a drag on the rest of Quebec or, rather, a life force? On the economic front, is Montréal a millstone or a locomotive?

Some of the proposed solutions depend on the will of Montréal's elected officials, but others—and particularly those that hold the greatest impact—require the participation of other levels of government.

From Québec City's and Ottawa's perspectives, however, the Montréal file can be a delicate matter. Montréal's interests are sometimes depicted as being at odds with those of the province's other regions. To some, looking after Montréal means neglecting the rest of Quebec. This preconception among the general public thus forces elected officials to choose sides—either for Montréal or against the regions, or vice versa—with political consequences that aren't hard to imagine. The calculations resulting from this tug-of-war have not always led to the best decisions.

At the heart of this perpetual tension lies a key question: Does Montréal represent a drag on the rest of Quebec or, rather, a life force for the province? Are we weakening the prosperity of the regions by entertaining the metropolis's ambitions and attractions, or are we compromising Montréal by directing resources outside the city?

On the economic front, is Montréal a millstone or a locomotive? To grow Quebec's prosperity and foster economic well-being for all Quebecers, do we need to increase or cut back on government support to Montréal?

These are the questions this report attempts to answer.

Montréal, the Beating Heart and Economic Life Force of Quebec

The New, Indispensable Role of Cities

Canada's big cities are responsible for a significant share of the country's economic growth. In a 2006 study, The Conference Board of Canada found that in seven out of ten Canadian provinces, more than 40 per cent of economic activity was accounted for by either one or two census metropolitan areas (CMAs).[1] In 2013, this reality held true for nine of the ten provinces, including Quebec, where the Montréal CMA contributed to 53 per cent of the province's GDP.[2]

The economic importance of large cities has been steadily rising over the past 20 years. Several factors explain this phenomenon, including a high percentage of international immigrants settling in the major cities. This boosts domestic demand and economic growth; the decline of the primary and secondary sectors; the rise of the services sector; free trade; and the emergence of the information technology sector.[3]

1 Lefebvre and Brender, *Hub Cities*.

2 As defined by Statistics Canada, the Montréal census metropolitan area includes the cities of Laval and Longueuil as well as the municipalities of Montréal's northern and southern suburbs. See Statistics Canada, *Census Metropolitan Area of Montréal, Quebec*. In this report, unless specified otherwise, all references to the city or region of Montréal imply the Montréal census metropolitan area.

3 Lefebvre and Brender, *Hub Cities*.

In the current economic context, it seems likely that the role of cities as incubators of growth and development will continue to expand.

In the current economic context, characterized by global competition for capital, ideas, and the most favourable economic conditions, it is likely that the role of cities as incubators of growth and development will continue to expand. Urban centres are becoming increasingly fertile ground for future—and current—innovation, owing in particular to a new collaborative approach that is transforming densely populated areas into first-rate modern innovation districts.

In a recent study from the Brookings Institution,[4] researchers Bruce Katz and Julie Wagner describe the emergence of these new urban innovation districts:

> For the past 50 years, the landscape of innovation has been dominated by places like Silicon Valley—suburban corridors of spatially isolated corporate campuses, accessible only by car, with little emphasis on the quality of life or on integrating work, housing, and recreation.
>
> A new complementary urban model is now emerging, giving rise to what we and others are calling "innovation districts." […] In recent years, a rising number of innovative firms and talented workers are choosing to congregate and co-locate in compact, amenity-rich enclaves in the cores of central cities. Rather than building on green-field sites, marquee companies in knowledge-intensive sectors are locating key facilities close to other firms, research labs, and universities so that they can share ideas and practise "open innovation."
>
> […] Innovation districts represent a radical departure from traditional economic development. Unlike customary urban revitalization efforts that have emphasized the commercial aspects of development (e.g., housing, retail, sports stadiums), innovation districts help their city and metropolis move up the value chain of global competitiveness by developing the firms, networks, and traded sectors that drive broad-based prosperity.

4 Katz and Wagner, *The Rise of Innovation Districts.*

Like all major Canadian cities, Montréal does more than its share for the prosperity of its province: in 2014, Montréal's additional contribution to Quebec's GDP is nearly $14 billion.

> […] They do so by providing a strong foundation for the commercialization of ideas and the creation and expansion of firms and jobs via proximity and collaboration. They are a vehicle for both revenue growth as well as the more efficient use of existing infrastructure.

The evidence is clear: cities play a vital role in their regions' economies, and this role is destined to become increasingly important in the future. Elected officials and governments that place value on sustainable, long-term prosperity must therefore keep a close eye on the economic health of the cities they are responsible for.

The Importance of Montréal for Quebec

With approximately 3.98 million inhabitants, the Greater Montréal Area (GMA) is the second largest city in Canada. It represents close to 48.9 per cent of the Quebec population, which in 2013 numbered 8.14 million.

More to the point, the GMA's economic contribution exceeded its demographic weight in 2013, the last year for which data are available. Specifically, the GMA accounted for over 53 per cent of Quebec's GDP, and this percentage has varied between 52 and 54 in recent years.

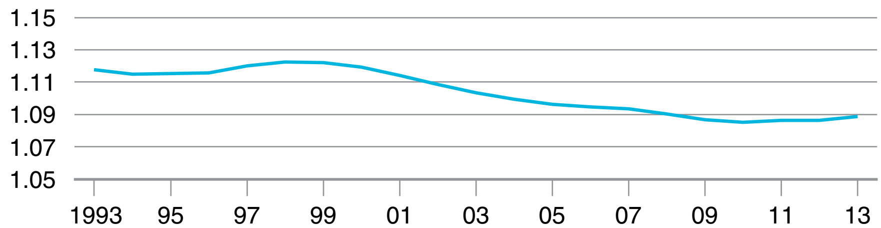
Thus, since the GMA contributed 53.4 per cent of Quebec's GDP with 48.9 per cent of the population, each citizen of Montréal can be said to have "given their 109 per cent" to the Quebec economy in 2013. Like all major Canadian cities, Montréal is a major participant in its province's growth: in 2014, Montréal's additional contribution to Quebec's GDP will equal approximately $14 billion.

As indicated in Chart 1, Montréal's per capita contribution to Quebec's GDP has never fallen below 108 per cent in the past 20 years.

Chart 1

Per Capita Contribution to Quebec's GDP, Montréal CMA, 1993 to 2013

(per cent)

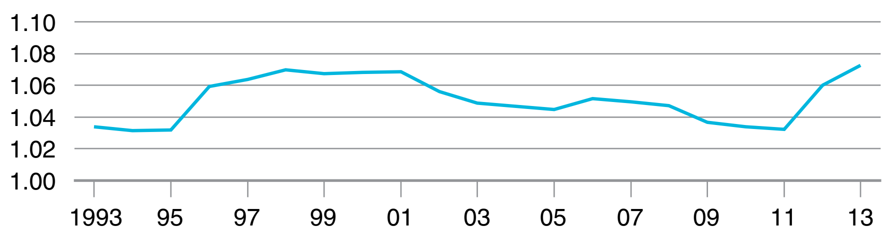


Source: The Conference Board of Canada.

Chart 2

Per Capita Personal Income Tax Contributions to Quebec, Montréal CMA, 1993 to 2013

(per cent)



Source: The Conference Board of Canada.

The GMA's major contribution to the Quebec economy is also reflected in taxes paid by individuals. In 2013, over 50 per cent of the province's personal income tax revenue came from Greater Montréal. Furthermore, with respect to per capita taxes paid, the GMA has never contributed less than 102 per cent of its demographic weight. (See Chart 2.)

Not surprisingly, the GMA is also responsible for a significant share of the province's technological innovation, as evidenced by the percentage of Quebec patents filed in Montréal versus the rest of the province in recent years.

With nearly 75 per cent of the patents registered between 2008 and 2012, Montréal is the uncontested scientific and technological hub of the province. It is essentially through Montréal that Quebec participates in the knowledge economy.

In fact, with 366 of the 490 patents (nearly 75 per cent) registered by Quebec between 2008 and 2012, Montréal is the uncontested scientific and technological hub of the province.

Major cities also play a key role in attracting foreign direct investment (FDI), the likes of which have a significant positive impact on the economic prosperity and growth of the surrounding regions.[5]

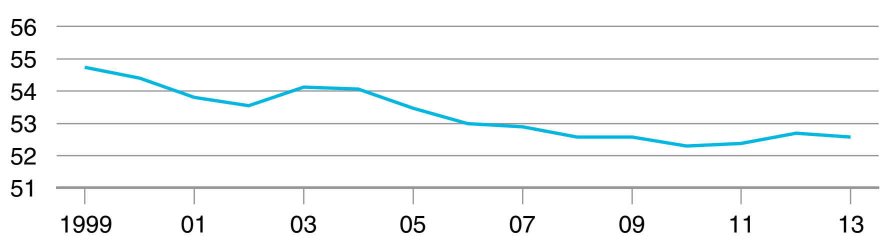
Montréal is no exception: the metropolis accounted for 52.9 per cent of the province's foreign direct investment stock between 1999 and 2013.[6]

The city's performance in FDI is all the more impressive given that, from 1999 to 2013, the percentage of FDI that poured into the mining sector doubled in Canada, rising from 10 to 20 per cent, while foreign investment in hydrocarbons rose from 7 to 16 per cent.[7]

The strong growth of the oil and mining sectors diverted billions of investment dollars away from the densely populated regions. However, as Chart 3 indicates, the share of FDI in Montréal dropped only by approximately 2 per cent during this period.

Chart 3

Montreal CMA's Share of Quebec's Foreign Direct Investment Stock, 1999 to 2013 (per cent)



Source: The Conference Board of Canada.

5 Arcand, *The Role of Canada's Major Cities in Attracting Foreign Direct Investment*.

6 As the data on foreign investments are often incomplete (they measure only the cross-border flows of capital and not investment in the economic sense), they must be interpreted with caution.

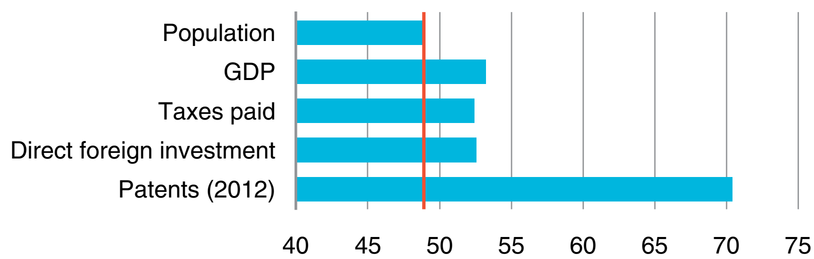
7 Arcand, *The Role of Canada's Major Cities in Attracting Foreign Direct Investment*.

As Chart 4 shows, the Montréal CMA contributes more than its share—with respect to its 48.9 per cent share of the population—across many measures of Quebec's economic activity.[8]

Chart 4

Contribution of the Montréal CMA to Various Measures of Quebec Economic Activity, 2013

(per cent)



Note: The red line indicates Montréal's percentage of the Quebec population.
Sources: The Conference Board of Canada; Statistics Canada; Institut de la statistique du Québec.

In short, whether it is through its contribution to Quebec GDP, tax revenues, the strength of its innovation, or the investments it attracts, the GMA plays a central and indispensable role in the Quebec economy.

8 For a similar comparison, see BMO Financial Group and The Boston Consulting Group, *Créer un nouvel élan à Montréal*, 2–3.

Montréal’s Locomotive Effect

While Montréal’s disproportionate importance for Quebec’s overall economy is abundantly clear, several key questions remain:

- Is there a correlation between the prosperity of Montréal and that of the rest of Quebec, or are they independent of each other?
- If such a relationship does exist, what is the nature of it? Is it positive or negative?
- Is there evidence that Montréal is profiting from the economic activity of the regions or, conversely, that Montréal is enhancing the prosperity of the latter?

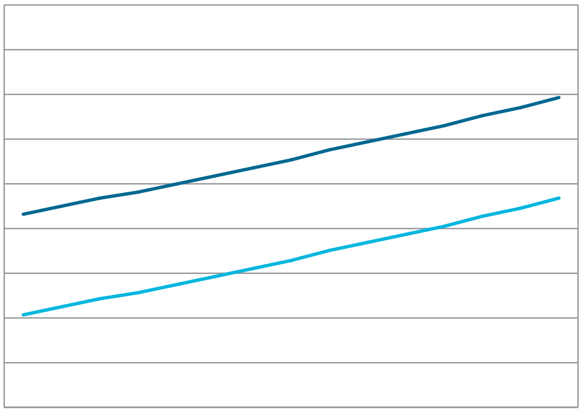
The answers to these questions can be obtained through statistical analyses comparing the per capita GDP of Montréal with that of the rest of Quebec over a given period of time.

So, what do the data tell us?

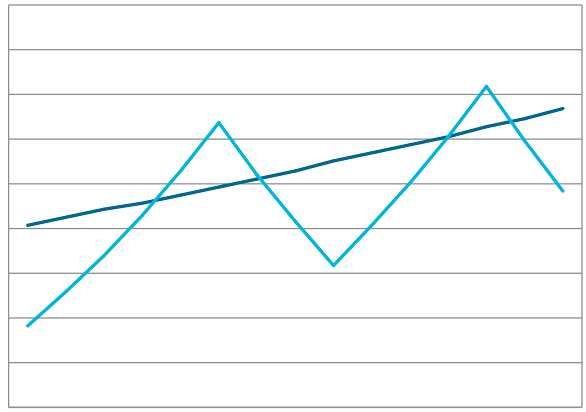
A few years ago, The Conference Board of Canada developed a methodology to identify and measure the relationship between the economic performance of a metropolis and that of the rest of its province. Exhibit 1 illustrates the correlation between the GMA and non-CMA Quebec, according to an analysis of the most recent available data:

Exhibit 1

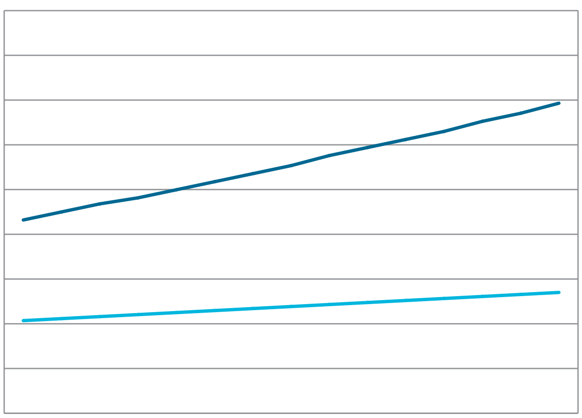
Four Possible Types of Relationships Between the Economic Growth of Montréal and That of the Rest of Quebec



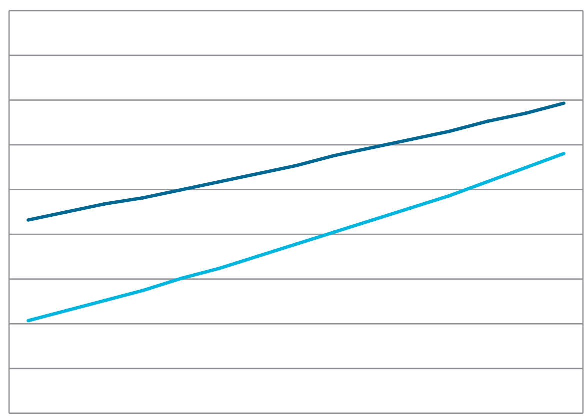
Parallel progression: The economic growth of Montréal and the rest of Quebec are advancing at the same pace. So Montréal and Quebec are benefiting simultaneously, but they don't share the same wealth. The rest of Quebec has not caught up with Montréal, contenting itself to follow at a constant distance.



Random progression: The economic growth of the Montréal region and other regions in Quebec are not connected. According to this hypothesis, Montréal's performance has no discernible bearing on that of the economy of other Quebec regions: the city and the rest of the province are following independent and unpredictable trajectories.



Divergent progression: Montréal's growth and that of other regions diverge. The more Montréal grows, the more the rest of Quebec declines. In this scenario, Montréal's economic interests are opposed with those of other regions: the growth of one hinders the other.



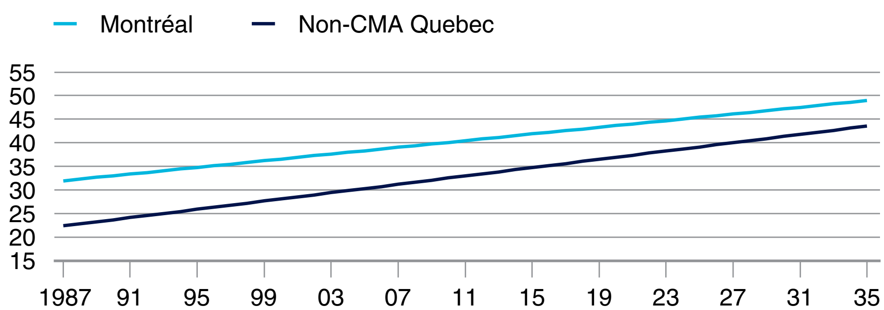
Convergent progression: Montréal's economic performance boosts that of the rest of Quebec, so that it catches up with Montréal's over time. So the city's growth benefits all of Quebec: the economic interests of Montréal and the regions are not opposed. On the contrary, they converge.

As Chart 5 demonstrates, the relationship between the prosperity of the GMA and that of non-CMA Quebec is convergent.[1] This is consistent with the hypothesis of convergence: the economic interests of Montréal and the rest of Quebec are not in conflict with each other. The regions outside the Montréal CMA benefit from Montréal's growth.

Chart 5

Real Per Capita GDP, Greater Montréal Area and Non-CMA Quebec, 1987–2013 and 2014–35 Projection

($)



Source: The Conference Board of Canada.

The Conference Board study does not stop at identifying the nature of the relationship. By attributing a convergence coefficient—which measures the strength of the "locomotive effect"—to selected Canadian cities, it is possible to compare each city's power to "pull" its respective region. The results are noteworthy. (See Table 1.)

1 Non-CMA Quebec excludes the census metropolitan areas of Montréal, Québec City, Gatineau, Sherbrooke, Saguenay, and Trois-Rivières.

Montréal places second among the cities analyzed in terms of the pull it exerts on non-CMA Quebec. Montréal's convergence coefficient is more than twice that of Québec City and almost three times that of Toronto.

Table 1
Convergence Coefficient, Selected Canadian Cities, 2014
(per cent)

City	Locomotive effect
Calgary	**0.0032**
Montréal	**0.0011**
Vancouver	**0.0007**
Québec City	**0.0005**
Toronto	**0.0004**
Ottawa-Gatineau	0.0001

Note: Bolded characters indicate convergence.
Source: The Conference Board of Canada.

As Table 1 shows, all the cities studied (except Ottawa-Gatineau) exert a certain locomotive effect—meaning that over time, they tend to reduce the wealth gap separating them from their province's non-urban areas. Analyses of the convergence coefficients suggest that the effect is one-way: non-urban areas benefit from economic growth in the locomotive cities, but not the other way around.

Moreover, the higher the convergence coefficient, the faster the "catch-up" time. Thus, we see Montréal place second among the cities studied in terms of the pull it exerts on non-CMA Quebec. Montréal's convergence coefficient is more than twice that of Québec City and almost three times that of Toronto.

In light of the above, a clear conclusion emerges: Montréal plays a vital role in the Quebec economy, both in its disproportionate contribution to the collective wealth and in its unique ability to serve as an economic engine for non-urban areas.

Insofar as the GMA's economic strength benefits a significant percentage of the provincial population, the Quebec government bears a responsibility to give careful consideration to the city's health.

A Faltering Engine of Growth

During the last decade, the GMA economy grew by 1.5 per cent on average, the lowest growth rate among major Canadian cities.

If Montréal's importance to the Quebec economy remains indisputable, the data presented in Section 1 indicate that its contribution has been declining for the last 15 years. Moreover, Montréal no longer shows up well when compared with Canada's other major cities.

Montreal's Economic Performance Compares Unfavourably With That of Other Major Canadian Cities

If Montréal's role in Quebec is similar to—or even more important than—that played by other major Canadian cities in their respective provinces, the city's economy still lags behind when compared with its counterparts across the country.

As shown in Chart 6, Montréal had the lowest per capita GDP of all cities surveyed in 2013.

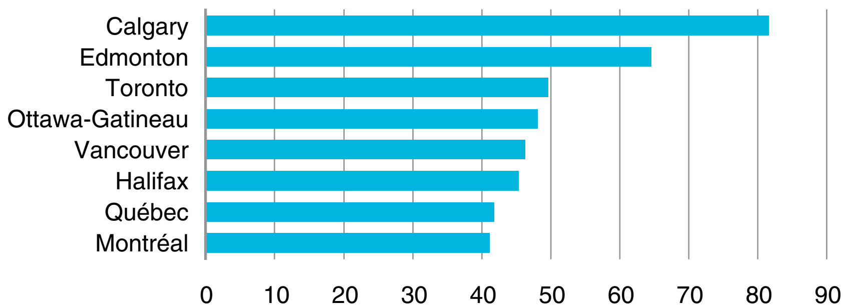
The situation isn't much better in terms of growth. Over the last decade, the GMA economy grew by 1.5 per cent on average, the lowest growth rate among major Canadian cities.

Even when omitting the outstanding growth of Calgary and Edmonton (Chart 7), Montréal's economic growth falls below the averages of other major cities surveyed (Halifax, Ottawa-Gatineau, Toronto, Québec City, and Vancouver).

Chart 6

Per Capita GDP, Selected CMAs, 2013

(2007 $)

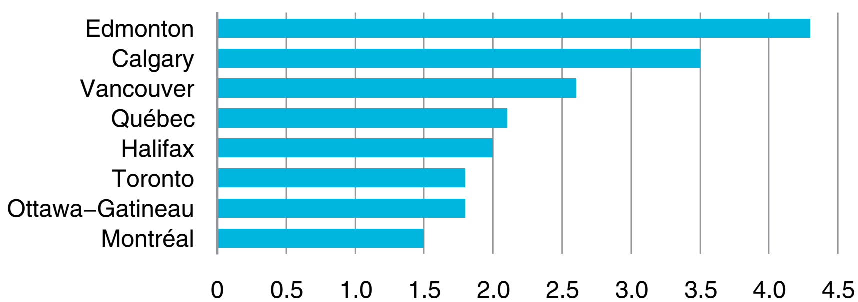


Source: The Conference Board of Canada.

Chart 7

Average Annual GDP Growth, Selected CMAs, 2004–13

(per cent)

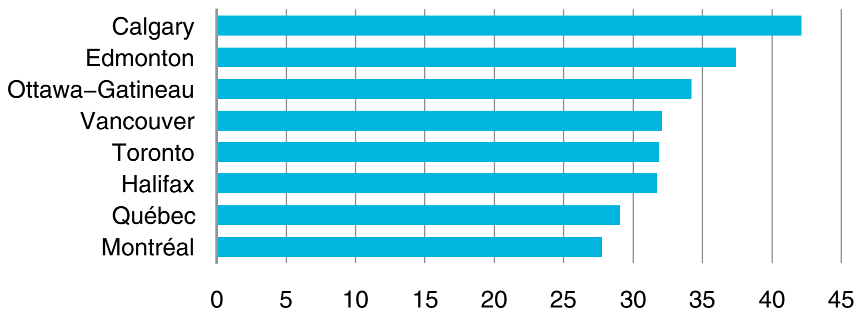


Source: Statistics Canada.

Montréal's lowest per capita GDP combined with its weak economic growth also result in a lower level of disposable income than other major Canadian cities, as shown in Chart 8.

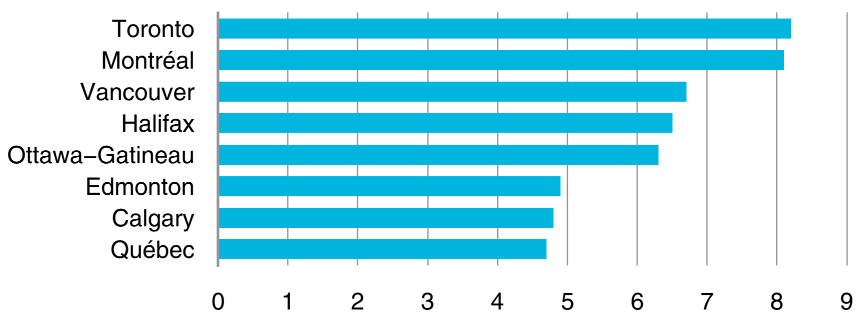
The situation isn't much better in terms of employment. As shown in Chart 9, in 2013 the GMA recorded the second-highest unemployment rate (8.1 per cent) of Canadian CMAs, falling just behind Toronto (8.2 per cent). With an unemployment rate of 4.7 per cent (the lowest of the CMAs studied), Québec City is doing far better than Montréal.

Chart 8
Per Capita Disposable Income, Selected CMAs, 2013
($)



Source: The Conference Board of Canada.

Chart 9
Unemployment Rates, Selected CMAs, 2013
(per cent)



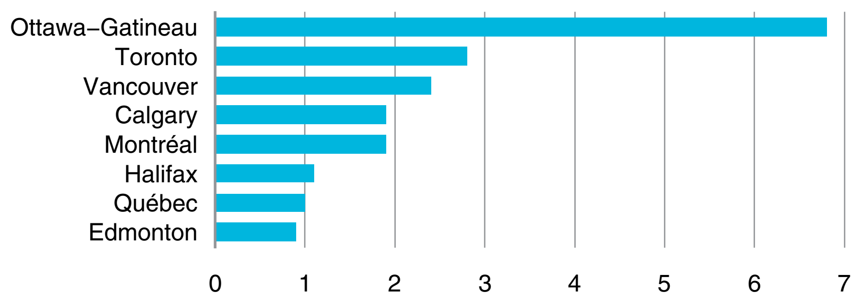
Source: Statistics Canada.

Montréal may play a decisive role in driving the Quebec knowledge-based economy, but its performance compared with other Canadian metropolitan areas is nothing remarkable. While the city can claim the lion's share of technological innovation in Quebec, other Canadian cities still come out further ahead.

While Montréal has a high number of university students, its graduate population falls below that of other major Canadian university towns.

As shown in Chart 10, Montreal shares last place with Calgary among the country's four largest metropolitan areas (Toronto, Montreal, Vancouver, and Calgary) in terms of the number of patents filed per capita.

Chart 10
Average Number of Patents Filed With the U.S. Patent and Trade Office per 100,000 Inhabitants, 2008–12
(number)



Sources: The Conference Board of Canada; Institut de la statistique du Québec.

This relatively modest performance is not unrelated to that fact that, while Montréal has a high number of university students, its graduate population falls below that of other major Canadian university towns, as shown in Chart 11.

Two factors may account for this phenomenon: 1) Montréal university students drop out before graduation; or 2) they leave the city once they graduate. Either way, Montréal loses.

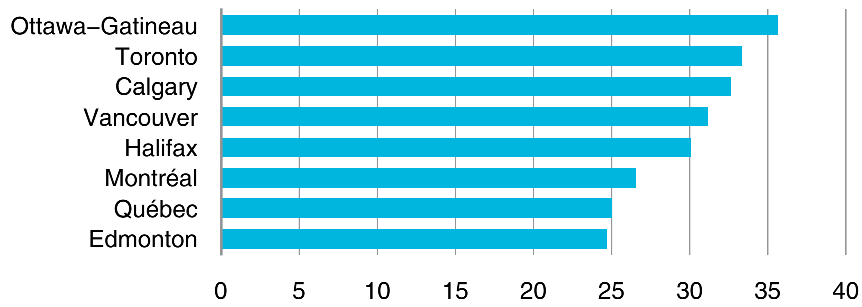
Once again, Montréal places last among Canada's main metropolitan areas. With a graduate population (undergraduate degree or higher) of 23.5 per cent, Montréal is superseded even by Halifax (27 per cent) in the percentage of residents who hold university degrees.

In the last decade, Montréal has also had one of the lowest population growth rates of Canada's metropolitan areas. In fact, as shown in Chart 12, only Halifax has recorded lower population growth since 2004.

Chart 11

Percentage of the Population Holding an Undergraduate Degree, Selected CMAs, 2011

(per cent)

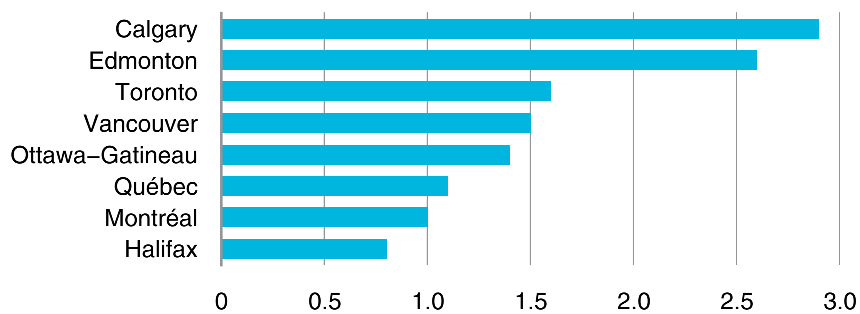


Source: Statistics Canada.

Chart 12

Average Population Growth, Selected CMAs, 2004–13

(per cent)



Source: Statistics Canada.

With an average population growth of 1 per cent per year for the past 10 years, growth in the GMA barely exceeds that of Quebec (0.9 per cent) for the same period, despite the fact that Montréal welcomes more than 75 per cent of the province's immigrants each year.

To shine light on the demographic context of the GMA, we've provided a breakdown of the sources of its population growth over the past 10 years. (See Table 2.)

Table 2

Average Annual Population Growth in Montréal, 2003–04 to 2012–13

(000s)

	Gain	Loss	Total
Natural population growth			
Births	43,010		
Deaths		-25,922	
			+17,088
International migration			
Immigrants	40,318		
Emigrants (returning)	3,960		
Emigrants (departing)		-6,324	
Temporary emigrants		-2,036	
Non-permanent residents	3,932		
			+39,850
Interprovincial migration			
Arrival in/departure from Quebec		-6,303	-6,303
Intraprovincial migration			
Arrival in/departure from Montréal		-7,424	-7,424
Total	**91,220**	**-48,009**	**+43,211**

Sources: The Conference Board of Canada; Statistics Canada.

Montréal's relative demographic stagnation is strikingly illustrated by the figures in Table 2. The figures below show the average annual number of Montréalers who, between 2003 and 2013:

- emigrated abroad (6,324 departures–3,960 returns = 2,364)
- left Quebec for another province (6,303)
- left Montréal for another part of Quebec (7,424)

This yields a total of 16,091 Montréalers who left the city per year to live in another country, province, or region of Quebec. This number is slightly below the average annual number of new Montréalers from

Without immigration—on average, there were 40,318 new arrivals per year between 2003 and 2013—Montréal can barely renew its population.

natural population growth during the same period: 17,088. In other words, without immigration—on average, there were 40,318 new arrivals per year between 2003 and 2013—Montréal can barely renew its population.

It is not just individuals who leave Montréal in large numbers. Over the past 15 years, the city has also lost a great many corporate headquarters to other regions of Canada.

As shown in Table 3, between 1999 and 2012, Montréal lost nearly 30 per cent of its head offices due to the major shift in economic activity toward Western Canada. Greater Toronto also suffered from this paradigm shift. However, with the loss of only 5 per cent of its head offices, the impact is considerably less. Greater Vancouver, which has 1.5 million fewer residents, now has as many head offices as Montréal.[1]

Table 3
Number of Head Offices, Selected CMAs
(number)

	1999	2012	Difference
Halifax	4	6	2
Québec City	13	14	1
Montréal	131	94	-37
Ottawa	12	18	6
Toronto	272	259	-13
Winnipeg	21	25	4
Calgary	93	133	40
Edmonton	14	23	9
Vancouver	77	95	18

Sources: The Conference Board of Canada; Financial Post, "FP500 and Next 300 Biggest Companies."

1 Note that, in terms of the number of head office jobs per 100,000 inhabitants, the GMA ranked third after Toronto and Calgary in 2012, based on the latest figures from Statistics Canada.

Montréal lost nearly 30 per cent of its corporate headquarters between 1999 and 2012. Toronto also suffered. However, with the loss of only 5 per cent of its head offices, the impact is considerably less.

Economic and population growth, innovation, corporate relocations, per capita income—the picture and trends of recent years haven't boded well for Quebec's economic hub. For its own benefit and that of the entire province, Montréal must pick itself up.

Simulation: What If Montréal Were to Perform on Par With the Canadian Average?

From 1987 to 2013, annual per capita GDP growth in Montreal averaged 1 per cent, rising from $36,868 to $41,112. In Quebec's non-urban areas, real GDP per capita rose from $27,547 to $32,414, thanks in part to the Montréal locomotive effect described above.

Given Montréal's relatively poor economic performance in recent years, compared with other major Canadian urban centres, the city has fallen short in its contribution to the provincial economy.

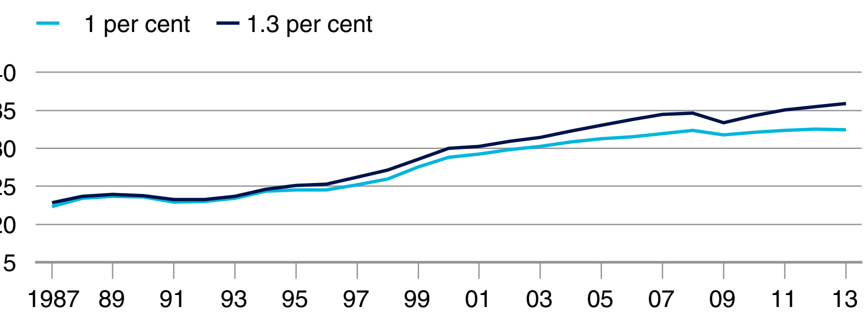
To demonstrate the potential impact of a stronger Montréal economy on that of non-CMA Quebec, The Conference Board of Canada has conducted a simulation that presumes an average annual growth in per capita GDP of 1.3 per cent for the GMA (as opposed to the real growth of 1 per cent). This corresponds to the average per capita GDP growth of Canada as a whole between 1987 and 2013.

As indicated in Chart 13, had Montréal's economic growth been on par with the national average over the last 25 years, its per capita GDP would be $3,450 higher, and that of non-CMA Quebec, $2,780 higher. Under the Montréal locomotive effect, Quebec would be billions of dollars richer today.

Chart 13

Per Capita GDP, Non-CMA Quebec, Real Average Annual Growth of 1 Per Cent and Simulated Annual Growth of 1.3 Per Cent, 1987 to 2013

(per cent)



Source: The Conference Board of Canada.

A Crucial Paradigm Shift

For Quebec, the paradigm shift would consist of recognizing the city's vital importance to the Quebec economy; rejecting blanket solutions; recognizing the Montréal CMA as an integrated economic entity; and adopting a strategy that promotes certain priority sectors while avoiding spreading resources too thinly.

Given its current difficulties along with its importance to the Quebec economy, the GMA would normally receive substantial support from the Quebec government. This support should at least correspond to Montréal's economic clout in the province.

In its original report on the driving force of Canadian cities, the Conference Board issued the following recommendation:[1]

> These convergence findings show that the best way to help cities and smaller communities across Canada is by making it a clear funding priority to help hub cities fulfil their economic potential, since that would indirectly help smaller communities achieve a faster rate of economic growth. Such a policy priority would allow for hub cities to be given a share of new funding that is based not on a per capita allotment, but rather on what these cities need to reach their economic potential.

This requirement is particularly applicable to Montréal, whose driving effect is remarkable, albeit mitigated by weak economic growth. Government bodies in Montréal and Quebec should therefore take steps to reverse the trend observed in recent years.

For Quebec, a paradigm shift is needed. This would consist of:

- recognizing the GMA's vital importance to the Quebec economy and developing public policies accordingly;

1 Lefebvre and Brender, *Hub Cities,* 18.

Montréal will need to do more with less, particularly by improving its management of public monies; improving its most economically strategic infrastructures; and adopting an economic development strategy that focuses government support on certain priority sectors.

- rejecting blanket solutions when it comes to the current downsizing and suspension of new programs;
- regarding the Montréal CMA as an integrated economic entity rather than an incoherent conglomeration of administrative regions—especially when presenting economic data, development polices, and action plans;
- adopting a strategy that promotes Quebec's best economic interests by identifying certain priority sectors and avoiding a widespread, but superficial, doling-out of government aid.

Similarly, Montréal's political and economic leaders need to play their parts by making the best use of existing resources. Greater efficiencies are necessary—including adopting the reforms needed to simplify and improve the efficiency of the municipal administration. There are gains to be had in this regard.[2]

In the current budgetary climate, it is unrealistic for Montréal to hope for any new financial assistance from the Quebec government. In the short term, Montréal will need to do more with less, particularly by:

- improving its management of public monies
- improving its most economically strategic infrastructure
- adopting an economic development strategy that focuses government support on certain priority sectors

Montréal must step up its game and better assume its role as the driver of Quebec's economic development. This stimulus project should mobilize all of the city's social and economic stakeholders; however, it falls upon Montréal's leaders to provide the necessary impetus.

2 Centre sur la productivité et la prospérité, *Palmarès annuel des municipalités du Québec*.

Conclusion

Despite its strengths and obvious attractions, Montréal suffers from major economic shortcomings compared with Canada's other large urban areas. Quebec's largest city is a radiant cultural capital with an enviable and renowned lifestyle, yet it fails to adequately fill its role as driver for the provincial economy.

This is all the more regrettable given that growth in Montréal exerts a major influence—the second most significant in Canada—on the growth of Quebec's non-urban areas. Because of this convergence, when Montréal slows down, the rest of the province follows suit. No other region has a comparable ability to drive the Quebec economy forward.

From the start, this report has asked a simple question: Is Montréal a millstone or a locomotive for the Quebec economy? The answer should be clear-cut and irrefutable: Montréal is indeed a powerful economic engine that should be supported and encouraged. Unfortunately, the engine lacks drive.

So what can be done?

The GMA's fundamental importance to the overall provincial economy must first be acknowledged. For all levels of government, Montréal's economic health should be an ongoing priority. This is an important paradigm shift, which, at the very least, involves rejecting blanket solutions.

Similarly, the city's leaders need to play their part. In the current budgetary climate, it is unreasonable for Montréal to hope for any new financial assistance from the Quebec government.

After confirming the status of Montréal as Quebec's economic driver and highlighting its current difficulties, this report aims to end on a unifying note. Far from being unwilling participants in a zero-sum game, the GMA and the rest of Quebec have, as this report shows, everything to gain by joining forces to promote the economic growth and well-being of the city to the benefit of all Quebecers.

The diagnosis is candid. The analysis is thorough. The time to act is *now*.

APPENDIX A

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