

BUSINESS

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QUEBEC CITY SLEEPY HOLLOW NO MORE



Old World charm, new-economy hustle is the byword in the provincial capital.

KNOWN AS A TOURIST
DESTINATION, LA VIEILLE
CAPITALE IS COMING INTO
ITS OWN AS A TOWN IN
WHICH TO DO BUSINESS

MARK CARDWELL SPECIAL TO THE GAZETTE

QUEBEC – With its stunning natural beauty and beguiling Old World charm, the provincial capital looks more like a resort than a place to do business. But don't let appearances fool you.

Long considered an international A-list tourist destination by travellers and a bureaucrats' backwater by many Montrealers, Quebec is now one of Canada's hottest cities in terms of economic growth.

The gross domestic product of the Quebec metropolitan area expanded by an average of 3.1 per cent annually between 2001 and 2006 – the third-best performance in Canada behind Calgary and Ottawa, according to a report this spring by the Desjardins Group, the Lévis-based banking and insurance company.

During that period, Montreal's economy grew by 1.9 per cent annually, a lacklustre showing blamed on big losses in manufacturing jobs.

"The days when Quebec was seen as a sleepy government town are long gone," said Paul-Arthur Huot, presi-

dent and general manager of Pôle Québec-Chaudière-Appalaches, this region's government- and business-supported economic development agency.

Stephen Gordon, an economics professor at Université Laval, said Quebec is enjoying a "perfect storm" of economic conditions that have helped it recapture much of the ground lost in the 1990s, when the city was mired in a deep slump.

Times are much better here now because the city is not as dependent on government, Gordon said. "And no sector is booming – they're all doing good – and that's good."

Quebec City's "broad-based growth," he said, differentiates it from other parts of the country, which tend to rely on specific sectors such as oil and gas, agriculture, fishing or, in the case of Montreal and Ontario, manufacturing – an area particularly vulnerable to fluctuations in the exchange rate.

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Commercial paper bomb is still ticking



JAY BRYAN

"There's still a huge joker in the deck."

Estimates are trickling in of the impact financial-market turbulence could have on the real economy and, for Canadians at least, they're somewhat reassuring.

Of course, it's important to remember that this is only the roughest kind of guesswork, since there's still one huge joker in the economic deck.

That's the potential impact of hidden financial bombs

planted by a subprime mortgage meltdown in the U.S. It has already devastated short-term corporate credit – in Canada as well as the U.S. – now that we know risky mortgages were sometimes repackaged into collateral for commercial paper.

But for what it's worth, this week's best guess from several analysts is that U.S. growth in the coming year will be

weakened, but not crushed, by the recent unpleasantness. Canada, not directly touched by the subprime mess and the related collapse of the U.S. housing market, could emerge nearly unscathed.

In line with this thinking, a new forecast from the Bank of Montreal has senior economist Sal Guatieri cutting back the likely path of U.S. growth next year by a quarter of a

percentage point from his bank's previous forecast, to 2.5 per cent, a fairly mild hit.

Canada remains largely unaffected, says Guatieri, since "the U.S. is ground zero for this shock," but with any U.S. weakness, our exports to U.S. customers will be trimmed, lowering growth by one-tenth of a point, to 2.8 per cent.

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