

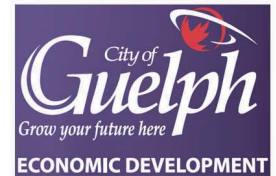
Canada's Technology Triangle

**WATERLOO REGION AND GUELPH
FEBRUARY 2008**



Canada's
Technology
Triangle

Waterloo Region
Cambridge
Kitchener
Waterloo



This report was prepared by BMO Capital Markets with input from Canada's Technology Triangle: Waterloo Region, Cambridge, Kitchener, Waterloo; and City of Guelph Economic Development

<http://www.bmonesbittburns.com/economics>

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WATERLOO REGION AND GUELPH: SHORT-TERM PAIN, LONG-TERM GAINS

EXECUTIVE SUMMARY

The Waterloo Region and Guelph area is one of the brightest stars in the Canadian economic skies. But this star has shone a little less brightly recently, as the strong Canadian dollar and now weakening U.S. demand have posed challenges for the area's manufacturing base. Fortunately, the service sector remains resilient and the fast-growing high-tech sector is an increasingly important source of strength. While the pace of economic growth has slowed during the past couple of years, business conditions should begin to improve in 2008 and move onto an even stronger footing in 2009.

Regional profile

The Waterloo Region and Guelph area (Waterloo-Guelph) includes the cities of Kitchener, Waterloo, Cambridge and Guelph, as well as their surrounding areas. Its population is about 622,000 and growing quickly. The population is relatively young compared to Ontario and Canada, and its median family income is higher.

Waterloo-Guelph is part of the manufacturing heartland of Ontario. Manufacturing is a key sector in the area, with the automotive industry representing the largest component. Toyota and Guelph-based auto parts maker Linamar are two of the largest

employers in the area. Manufacturing accounts for a larger share of employment in the area than in both Ontario and Canada. Other manufacturing sectors in which the area is particularly strong include fabricated metal products, machinery, and computer, electronic and electrical equipment.

Waterloo-Guelph's high tech sector is growing by leaps and bounds. Drawing on the strength of its excellent post-secondary educational institutions, the area has spawned such leading edge companies as Research In Motion, COM DEV, DALSA and Christie Digital Systems. Research In Motion, maker of the world-famous BlackBerry, is based in Waterloo. In the space of a few short years, it has become the second largest employer in the area (and will likely become the largest in the not too distant future). In addition to information and communications technology, the high tech sector is becoming increasingly diversified with companies in the advanced manufacturing, biotech/health sciences and energy fields.

The area is also an important financial centre, with many insurance company head offices and/or major operations centres. The headquarters for Manulife Financial's Canadian operations is in Waterloo. Manulife and Sun Life each employ thousands in the area.

Waterloo-Guelph has enjoyed strong employment growth over the last ten years, though its performance has been weaker more recently. Its unemployment rate is typically below those of Ontario and Canada. Residential construction peaked earlier in the decade, and is now well below previous highs, but the resale housing market continues to show solid growth in both volumes and prices. House prices remain affordable compared to the national average.

Economic Outlook

	Waterloo-Guelph	Ontario	Canada
Real GDP (% change)			
2005	5.5	2.9	3.1
2006	2.0	2.1	2.8
2007	0.5	2.1	2.6
2008	1.5	0.9	1.5
2009-12	2.7	2.4	2.5
Employment (% change)			
2005	4.0	1.3	1.4
2006	0.9	1.5	2.0
2007	-0.4	1.6	2.3
2008	0.5	0.1	0.8
2009-12	1.5	1.0	1.0
Unemployment rate (%)			
2005	5.5	6.6	6.8
2006	5.3	6.3	6.3
2007	5.6	6.4	6.0
2008	6.1	7.2	6.6
2009-12	5.5	6.6	6.3
Housing starts (units)			
2005	4,714	77,800	224,000
2006	3,463	74,200	228,400
2007	3,681	68,100	228,100
2008	3,800	60,500	200,000
2009-12	4,000	57,000	175,000

Figures in **bold italics** are BMO Capital Markets estimates or forecasts.

This document is based on information available as of January 31, 2008.

Economic performance

Following impressive real GDP growth of 5.5% in 2005, economic momentum in the region slowed to an estimated 2% in 2006 and 0.5% in 2007. With manufacturing under stress, there have been a number of plant closures. This, plus weaker construction, contributed to a 0.4% decline in employment last year and a corresponding up-tick in the jobless rate. On the plus side, employment in the services sector has remained strong.

In 2008, the area's economy will continue to face the challenges of a high Canadian dollar and even weaker U.S. demand. Nonetheless, economic conditions should begin to turn around, supported by a new Toyota plant in nearby Woodstock and continued expansion at Research In Motion. Overall, we expect real GDP growth to improve moderately to 1.5% in 2008. But it will likely be 2009 before strong growth returns. By then, most of the painful adjustments to the higher Canadian dollar will have been made and the U.S. economy should be back in full flight.

Over the medium term, the short-term pain will give way to long-term gains, thanks to the area's strength in sectors such as advanced manufacturing, biotechnology, and information and communications technology. With projected economic growth of 2.7% during the

2009-2012 interval, Waterloo Region and Guelph should outpace both the Ontario and Canadian economies.

Five factors contribute to this above-average growth outlook over the medium term: 1) a more stable Canadian dollar will not be as detrimental, 2) a rebounding U.S. economy will boost demand for the area's exports, 3) solid population growth will support residential construction and retail sales, 4) spillovers from the excellent educational institutions in the area will fuel new business creation, and 5) the area's industrial mix (including the burgeoning high-tech sector) offers tremendous growth prospects.

Challenges facing Waterloo-Guelph over the medium term include the continuing adjustment to the strong Canadian dollar, and keeping more of its university and college graduates in the area.

As development leapfrogs the protected greenbelt around the Greater Toronto area, the population of Waterloo-Guelph will expand rapidly over the next twenty-five years. The population of the area is projected to exceed 1 million by 2031. A number of transportation projects are being planned to accommodate such growth.

The area's current economic challenges need to be put in perspective. Despite the growth

slowdown, the economy still enjoys solid underpinnings, with unemployment below, and incomes above, the provincial and national benchmarks. Waterloo-Guelph has developed a reputation for innovation. Its entrepreneurial spirit has allowed it to reinvent itself over the years. Old companies close their doors, but new ones are opening up. Waterloo-Guelph is leading the charge from the old economy based on traditional manufacturing to the new economy based on high technology and services.

The main risks to the outlook relate to exports. A further unexpected strengthening of the Canadian dollar or a longer-than-expected slump in the U.S. economy would adversely affect the region's manufacturing activity.

Structure of the report

In this report, we provide a detailed review of the economy of the Waterloo Region and Guelph area, including its geography, population, demographics, industries and major employers. We then examine the economic performance of the area over the last several years. Next, we turn our attention to the economic outlook for the North American economy. Finally, we look at the economic outlook for the Waterloo Region and Guelph area for 2008 and for the medium and longer terms.

Waterloo Region and Guelph: An Economic Profile

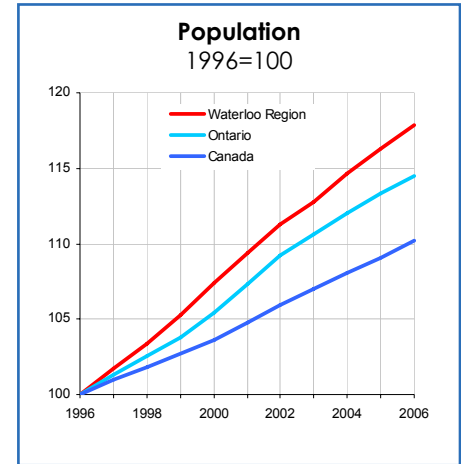
Geography

The geographic area covered in this report is what we will call the Waterloo Region and Guelph area or, to be more concise, Waterloo-Guelph. It consists of the Regional Municipality of Waterloo, more commonly known as Waterloo Region, and the Guelph census metropolitan area (Guelph CMA). (Census metropolitan areas are defined by Statistics Canada and do not necessarily follow municipal boundaries. A CMA includes a large urban core and the surrounding area with strong links to the urban core.) The Guelph CMA consists of the city of Guelph and the township of Guelph/Eramosa. Waterloo Region includes the cities of Kitchener, Waterloo and Cambridge, as well as the townships of Woolwich, North Dumfries, Wilmot and Wellesley. Waterloo Region is sometimes referred to as "Canada's Technology Triangle," because of the large number of advanced technology businesses and educational

institutions in the region.

In this report, data are provided for all of Waterloo-Guelph where possible. However, in some cases, data are provided only for the Kitchener census metropolitan area (Kitchener CMA) or for Waterloo Region. The Kitchener CMA includes the cities of Kitchener, Waterloo and Cambridge, and the townships of Woolwich and North Dumfries (i.e. it does not include the city of Guelph and the townships of Guelph/Eramosa, Wilmot and Wellesley). More detailed data are sometimes available for the Kitchener CMA and/or Waterloo Region than for all of Waterloo-Guelph.

In the previous version of this report, released January 2006, we referred to the Guelph census agglomeration (Guelph CA). The Guelph CA was upgraded to a CMA in the 2006 census as the population of its urban core exceeded 100,000 in the 2001 census. In general, more data are available for CMAs than for CAs, but



since the Guelph CA became a CMA only recently, much of that data are not yet available.

Population

The latest census counted 605,000 people in Waterloo-Guelph in 2006. This was up about 49,000, or 8.9%, from 2001, representing an average annual growth rate of 1.7% over that period.

Statistics Canada also produces population estimates, which are larger than the census counts because they include an estimate of the number of people missed by the census. By this measure, we estimate Waterloo-Guelph's population at about 622,000 in 2006.

The Kitchener CMA accounts for about 75% of the population of Waterloo-Guelph. Similarly, Waterloo Region accounts for about 79% of the population of Waterloo-Guelph. Therefore, statements made about the Kitchener CMA or Waterloo Region can usually be taken as approximately true for Waterloo-Guelph as a whole.

	Population					
	Census counts			Population estimates		
	1996	2001	2006	1996	2001	2006
City of Kitchener	178,420	190,399	204,668	183,655	198,232	210,296
City of Cambridge	101,429	110,372	120,371	104,405	114,913	123,681
City of Waterloo	77,949	86,543	97,475	80,236	90,103	100,156
Township of North Dumfries	7,817	8,769	9,063	8,046	9,130	9,312
Township of Woolwich	17,325	18,201	19,658	17,833	18,950	20,199
Kitchener CMA	382,940	414,284	451,235	394,176	431,328	463,644
Township of Wilmot	13,831	14,866	17,097	14,107	15,351	17,800
Township of Wellesley	8,664	9,365	9,789	8,837	9,670	10,191
Waterloo Region	405,435	438,515	478,121	417,120	456,349	491,635
City of Guelph	95,821	106,170	114,943	98,583	110,488	118,192
Township of Guelph/Eramosa	10,176	11,174	12,066	10,469	11,628	12,407
Guelph CMA	105,997	117,344	127,009	109,052	122,116	130,599
Waterloo Region and Guelph	511,432	555,859	605,130	526,172	578,465	622,234

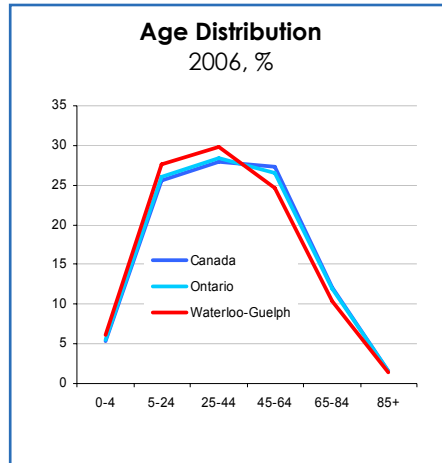
Figures in *italics* are BMO Capital Markets estimates

Waterloo-Guelph has experienced significantly stronger population growth than both Ontario and Canada. Between 2001 and 2006, as noted above, the population of Waterloo-Guelph rose 8.9%. Over the same period, Ontario's population rose 6.6% and Canada's only 5.4%.

Of the four cities in the area, population growth between 2001 and 2006 was fastest in Waterloo at 12.6%, followed by Cambridge at 9.1%, Guelph at 8.3%, and Kitchener at 7.5%.

Demographics

Compared to Ontario and Canada, the population of Waterloo-Guelph is relatively young. The median age was 36.4 in Waterloo Region and 36.8 in the Guelph CMA in 2006. This compares to 39.0 for Ontario and 39.5 for Canada.



Thanks to the youthful skew of its population, the area enjoys a healthy rate of natural population increase. Over the last five years, the birth rate in Waterloo Region has averaged 1.15 per hundred population per year, compared to 1.06 for Ontario and 1.05 for Canada. The natural rate of population increase (births minus deaths) has averaged 0.54% per year in Waterloo Region over the last five years, compared to 0.38% for Ontario

and 0.34% for Canada.

The area is an attractive place to live and work, as demonstrated by the number of people who move in each year. Over the past five years, net international in-migration into Waterloo Region (the number of people moving into the region from other countries less the number moving out of the region to other countries) has averaged 2,724 per year. Net intra-provincial in-migration (the number of people moving into the region from other areas of Ontario less the number moving out of the region to other areas of Ontario) has averaged 1,844 per year. However, net interprovincial in-migration has become negative, reflecting the closing of several manufacturing plants in the area and the draw of the booming Alberta economy. On average over the past five years, 91 more people per year left the region for other provinces than moved to the region from other provinces.

Combining natural population increase with net in-migration results in an overall average rate of population increase in Waterloo Region of 1.5% per year over the past five years. This compares to 1.3% for Ontario and 1.0% for Canada.

Median family income in 2005 was \$71,100 in the Kitchener CMA, compared to \$64,500 for Ontario and \$60,600 for Canada. Kitchener was fifth among all 27 CMAs in Canada, behind only Ottawa, Oshawa, Calgary and Edmonton.

Employment by Industry
% of total

	2001		2007	
	Guelph CMA	Kitchener CMA	Ontario	Canada
Goods-producing sector	31.3	30.5	23.5	23.7
Agriculture	1.0	0.9	1.5	2.0
Forestry, fishing, mining, oil and gas	0.2	—	0.5	2.0
Utilities	0.6	0.6	0.9	0.8
Construction	4.5	5.6	6.3	6.7
Manufacturing	25.1	23.4	14.4	12.1
Services-producing sector	68.7	69.5	76.5	76.3
Trade	14.0	14.6	15.6	15.9
Transportation and warehousing	3.5	3.6	4.6	4.9
Finance, insurance, real estate, leasing	5.2	7.4	7.2	6.3
Prof., scientific and technical services	5.8	5.4	7.2	6.7
Business, building, other support services	3.0	4.4	4.5	4.2
Educational services	11.1	8.7	7.1	7.0
Health care and social assistance	8.8	9.7	10.2	10.9
Information, culture and recreation	3.9	4.0	5.0	4.6
Accommodation and food services	5.9	5.6	6.1	6.3
Other services	3.8	3.3	4.1	4.3
Public administration	3.7	2.9	5.0	5.1
Total	100.0	100.0	100.0	100.0

Note: The data for the Guelph CMA on the one hand, and the Kitchener CMA, Ontario and Canada on the other hand, are not directly comparable. The data for the Guelph CMA are from the 2001 census and use 1997 industry classifications. The data for the Kitchener CMA, Ontario and Canada are for 2007 and use 2002 industry classifications.

Manufacturing Employment 2001 Census, % of total

	Guelph CA	Kitchener CMA	Ontario	Canada
Food, beverage and tobacco	11.3	10.8	10.0	13.0
Textiles, clothing and leather	2.5	6.9	5.0	7.9
Wood and paper products	3.6	2.5	6.9	12.2
Printing	1.8	2.7	4.2	4.4
Petroleum, coal and chemical products	5.1	2.9	5.7	5.3
Plastics and rubber	3.7	7.8	6.7	5.5
Non-metallic mineral processing	4.0	2.0	2.4	2.7
Primary metal products	1.4	1.7	5.0	4.4
Fabricated metal products	15.4	14.3	9.7	8.5
Machinery	11.5	11.7	7.3	6.3
Computer, electronic and electrical equip.	12.3	11.8	10.4	8.4
Motor vehicles and parts	23.3	16.9	16.3	8.8
Other transportation equipment	0.7	1.1	2.4	3.9
Furniture	1.6	4.5	4.4	5.0
Other	1.9	2.4	3.7	3.8
Total	100.0	100.0	100.0	100.0

Industry profile

One of the distinguishing features of Waterloo-Guelph is its large and diversified manufacturing sector. The well-educated and skilled labour force in the area and its prime location near major population centres and along Ontario's main transportation corridor (Highway 401) are two of the features that make this area attractive to manufacturers.

The manufacturing sector accounted for 23.4% of employment in the Kitchener CMA in 2007 compared to 14.4% for Ontario and 12.1% for Canada.

Because it became a CMA only recently, annual and monthly employment by industry data are not yet available for the Guelph CMA. For this, we must turn to census data. However, employment by industry data from the 2006 census will not be released until March 2008. The most recent data available are from the 2001 census. Manufacturing accounted for 25.1% of employment in the Guelph CMA in 2001, compared to 26.0% for the Kitchener

CMA, 16.4% for Ontario, and 14.0% for Canada. It is likely that manufacturing employment in the Guelph CMA is now around 22% of total employment.

The percentage of the workforce in the area that is employed in manufacturing has been declining for decades, as is the case for most provinces and, indeed, most developed countries. In 1987, 32% of jobs were in manufacturing in the Kitchener CMA. This dropped to 27% in 1997 and to 23% in 2007.

Within manufacturing, employment in Waterloo-Guelph is, relative to Ontario and Canada, weighted toward fabricated metal products; machinery; computer, electronic and electrical equipment; and motor vehicles and parts. At 16.9% and 23.3% respectively, the percentage of manufacturing employment in motor vehicles and parts in the Kitchener CMA and the Guelph CMA in 2001 (the most recent year for which data is available) exceeded both the Ontario and Canada percentages of 16.3% and 8.8%, respectively.

Fabricated metal products represented 14.3% of manufacturing employment in the Kitchener CMA and 15.4% of manufacturing employment in the Guelph CMA in 2001, compared to only 9.7% for Ontario and 8.5% for Canada. Machinery represented 11.7% of manufacturing employment in the Kitchener CMA and 11.5% in the Guelph CMA, but only 7.3% in Ontario and 6.3% in Canada. Computer, electronic and electrical equipment accounted for 11.8% of manufacturing employment in the Kitchener CMA and 12.3% in the Guelph CMA, while the Ontario and Canada numbers were only 10.4% and 8.4%, respectively. Employment in computer, electronic and electrical equipment is likely significantly higher now than in 2001, with the growth of companies like Research In Motion.

In addition to manufacturing, other sectors in which the area has a high weighting relative to Ontario or Canada include finance, insurance, real estate and leasing (FIRE) and educational services. FIRE accounts for 7.4% of employment in the Kitchener CMA compared to 7.2% in Ontario and 6.3% in Canada. The relatively high weighting in educational services reflects the presence of four major post-secondary institutions in the area — three universities and one college.

Industrial clusters and major employers

Waterloo-Guelph has a number of industrial clusters in which it has particular strength. Clusters differ from sectors in that the former may span

many of the latter. For example, the automotive cluster includes not only the motor vehicle and parts sector, but also businesses in other industries which supply this sector, including manufacturers of plastics and rubber products, machinery, and fabricated metal products.

Below we outline some of the most significant industrial clusters in the area and the major employers in each cluster.

Advanced manufacturing

ATS Automation Tooling Systems has its headquarters in Cambridge. It designs and manufactures turn-key automated manufacturing and test systems, highly engineered sub-assemblies and component parts, and photovoltaic products. **Rockwell Automation Canada** in Cambridge manufactures industrial automation power, control and information solutions. **Babcock & Wilcox** in Cambridge produces nuclear steam generators, pressure vessels and heat exchanger units, utility and industrial fossil fuel boilers, and coal pulverizers.

Other advanced manufacturing businesses include: **Raytheon Canada** in Waterloo, which produces radar systems for air traffic control and other applications; **DALSA** in Waterloo, which produces digital imaging components (including state of the art digital motion picture cameras) and specialized semiconductors; and **Engel Canada** in Guelph, which produces injection molding machinery and automated manufacturing systems.

Automotive

Waterloo-Guelph is home to a large number of auto assemblers, parts producers and other auto industry suppliers. **Linamar**, a multinational auto parts producer, has its headquarters in Guelph and is the largest employer in the Waterloo-Guelph area. **Toyota** has an assembly plant in Cambridge where it produces the Corolla, Matrix and Lexus RX models. **Polycon Industries** in Guelph (part of the Magna group) produces plastic fascias for the auto industry. **Guelph Tool** manufactures metal components for the auto industry. **Kitchener Frame** (formerly ThyssenKrupp Budd) in Kitchener specializes in stamping and assembly of chassis components and light truck frames, as well as painting and hot-melt wax capability. **Bend All Automotive** in the town of Ayr is a leading supplier of fluid handling and structural automotive components, specializing in tube and metal forming.

Canadian General Tower produces interior automotive trim components in Cambridge (as well as many non-automotive, construction and industrial products). **Kuntz Electroplating** of Kitchener produces polished and plated aluminum wheels, bumpers, aluminum die-cast parts, aluminum extrusions and other automotive components. There are a large number of other, smaller businesses in the automotive cluster.

BioTech

The biotech cluster includes many types of businesses including agri-food, bioinformatics, medical devices, nutraceuticals, pharmaceuticals, and

others. Although none of the biotech businesses in the Waterloo-Guelph area are among the major employers (500 or more employees), this is an important and growing cluster. Some of the largest biotech employers in the area include **Agfa Health Informatics** in Waterloo, **McNeil Consumer Healthcare** in Guelph, and **Novocol** Pharmaceutical in Cambridge. There are also emerging companies like **CoaGel** in Guelph, which has applied bio-research to create a zero transfat, low cholesterol shortening.

Customer contact

iQor (formerly CBCL Outsourcing) operates a collections call centre in Cambridge. **Arvato Services** has a customer call centre in Kitchener. Other customer contact centres include **Teleperformace** (formerly Marusa Marketing) in Cambridge, and **Nordia** in Kitchener. In addition to these outsourcing customer contact centres, **Rogers Communications** operates a large in-house call centre in Kitchener.

Educational services

As well as the local school boards, Waterloo-Guelph is home to three universities and one college. The **University of Guelph** has built a solid reputation in the world of biotechnology, with expertise in agriculture, veterinary medicine, animal biotechnology, molecular biology, food technology, biochemistry and genetics. The **University of Waterloo** is world-renowned for its computer science, mathematics and engineering programs. The university is home to the Institute for Quantum Computing,

and is associated with the Perimeter Institute for Theoretical Physics, two of the world's top research institutes in their fields. **Wilfrid Laurier University** is best known for its business and economics, entrepreneurship, and innovative science programs. **Conestoga College** is consistently the top-ranked college in Ontario.

Financial services

Waterloo-Guelph is a major Canadian financial centre, particularly in insurance. **Sun Life** (including its subsidiary Clarica, formerly Mutual Life) and **Manulife Financial** are among the largest employers in the area. **The Co-operators** is headquartered in Guelph, while **Economical Insurance** has its headquarters in Waterloo. In addition, several smaller insurance companies are based in the area, including **FaithLife Financial** (Waterloo), **Gore Mutual** (Cambridge), and **Equitable Life** (Waterloo).

Food, beverages and tobacco

Kitchener-based meat processor **Schneider Foods** is the largest food processing business in the area. **Cargill Better Beef** in Guelph is one of the largest beef-processing companies in Canada (but laid off 300 in July 2007). **Dare Foods** in Kitchener makes cookies, crackers, candies and other food items. Chip and snack food maker **Frito Lay** has a plant in Cambridge. Other food and beverage companies operating in the area include **A&M Cookie Company** in Kitchener, **Weston Bakeries** in Kitchener, and **Piller Sausages & Delicatessens** in Waterloo. **Sleeman Breweries** operates in Guelph, and **Brick Brewing Company**

operates in Kitchener-Waterloo.

Imperial Tobacco closed its cigarette plant in Guelph in 2006.

Health and social services

There are four hospitals in the Waterloo-Guelph area: **Grand River Hospital**, **Cambridge Memorial Hospital**, **Guelph General Hospital**, and **St. Mary's General Hospital**. In addition, **The Homewood Corporation** operates an addiction and mental health centre in Guelph, offers employee health programs, and runs several retirement homes and long-term care facilities.

Information and communications technology

Research In Motion, maker of the world-famous BlackBerry, is headquartered in Waterloo. The company has grown rapidly and is now the second largest employer in the area. Cambridge-based **COM DEV** designs and manufactures space-qualified microwave, optical and battery sub-systems for communications and science satellites. Other large information and communications technology firms include **eSolutions Group**, **Open Text**, **MKS Inc.**, **Sybase**, **iAnywhere Solutions**, **Descartes Systems**, **Sandvine**, and **McAfee**. Kitchener-based **Christie Digital** produces large-scale projection systems, and is the world leader in digital cinema projectors. In addition, both **Rogers Communications** and **Bell Canada** have operations in the area. **NCR Canada** recently stopped production of automated banking machines and self-service checkout terminals in Waterloo, but it still maintains a research and engineering centre.

Other manufacturing

W.C. Wood produces freezers, refrigerators, compact kitchens and dehumidifiers in Guelph. **Blount Canada** in Guelph is the manufacturer of the Oregon brand of chain saws. Kitchener-based **Krug** manufactures office furniture. **Hammond Manufacturing** in Guelph produces electrical equipment. Other companies in the sector include **Closeit Maid** (formerly Stack-A-Shelf) in Cambridge (home storage and organizational products), **Northfield Metal Products** of Waterloo (office furniture components), **Bangor Metals** in Cambridge (steel fabrication), **Tigercat Industries** in Cambridge (logging equipment), **Dimplex North America** in Cambridge (electric heating products), **AirBoss Rubber Compounding** in Kitchener, **Hammond Power Solutions** in Guelph (transformers), and **CompX Waterloo** of Kitchener (office furniture components).

MTD Products Canada, which manufactures lawn mowers, snow blowers and other outdoor power equipment, recently downsized, but still has about 250 employees in Kitchener.

Public administration

In addition to the regional and municipal governments, a number of provincial and federal government departments have major operations in Waterloo-Guelph. The **Ontario Ministry of Agriculture, Food and Rural Affairs** has its main office in Guelph. The **Canada Revenue Agency** has a tax services office in Kitchener. The **Canada Food Inspection Agency** has its Ontario area office in Guelph.

Major Employers 500 employees or more

Industry cluster Company/institution	Location	Employees	Industry cluster Company/institution	Location	Employees
Advanced manufacturing			Food, beverage and tobacco		
ATS Automation Tooling Systems	Cambridge	1,700	Scheider Foods	Kitchener	1,688
Rockwell Automation Canada	Cambridge	904	Cargill Better Beef	Guelph	800
Babcock & Wilcox	Cambridge	825	Dare Foods	Kitchener	590
Automotive			Frito-Lay	Cambridge	500
Linamar	Guelph	6,000	Health services		
Toyota	Cambridge	4,500	Grand River Hospital	Kitchener	2,500
Polycon Industries (Magna)	Guelph	1,000	Guelph General Hospital	Guelph	1,300
Guelph Tool	Guelph	800	Cambridge Memorial Hospital	Cambridge	1,200
Kitchener Frame (Martinrea)	Kitchener	750	St. Mary's General Hospital	Kitchener	930
Bend All Automotive	Ayr	750	The Homewood Corporation	Guelph	650
Canadian General-Tower	Cambridge	650	Information and communications technology		
Kuntz Electroplating	Kitchener	650	Research In Motion	Waterloo	5,200
Customer contact			COM DEV International	Cambridge	900
iQor	Cambridge	1,000	Other manufacturing		
Arvato Services	Kitchener	900	W.C. Wood	Guelph	750
Rogers Communications	Kitchener	600	Blount Canada	Guelph	750
Educational services			Krug	Kitchener	600
Waterloo Region District School Board	Region of Waterloo	3,710	Hammond Manufacturing	Guelph	500
University of Waterloo	Waterloo/Kitchener	3,130	Public administration		
University of Guelph	Guelph	2,922	Region of Waterloo	Region of Waterloo	3,214
Upper Grand District School Board	Guelph	1,985	City of Kitchener	Kitchener	1,430
Waterloo Catholic District School Board	Region of Waterloo	1,705	City of Guelph	Guelph	1,281
Wilfred Laurier University	Waterloo/Kitchener	1,248	City of Waterloo	Waterloo	700
Conestoga College	Kitchener/Waterloo/ Cambridge/Guelph	696	Ontario Ministry of Agriculture & Food	Guelph	588
Wellington Catholic District School Board	Guelph	521	Canada Revenue Agency	Kitchener	550
Financial services			City of Cambridge	Cambridge	544
Sun Life/Clarica Life	Waterloo	3,250	Retail distribution centres		
Manulife Financial	Waterloo/Kitchener	3,200	Loblaws (Maple Grove Distribution Centre)	Cambridge	1,205
The Co-operators	Guelph	920	Home Hardware	St. Jacobs/Elmira	1,172
Economical Insurance	Waterloo	800	Transportation and logistics		
			Challenger Motor Freight	Cambridge	1,000
			Schneider National Carriers	Guelph	750
			BLM Transportation	Kitchener	500

Sources: Canada's Technology Triangle, on-line Business Directory www.techtriangle.com, City of Guelph on-line Business Directory, www.guelph.ca, company websites.

Retail distribution centres

Loblaws has a major distribution facility in Cambridge. **Home Hardware** has its headquarters and a large distribution centre in St. Jacobs, and another distribution centre in Elmira. In addition, **Tim Horton's** has a major distribution centre in Guelph.

Transportation and logistics

With its location along Ontario's main transportation corridor, Highway 401,

Waterloo-Guelph is a major centre for a number of transportation and logistics firms, including Cambridge-based **Challenger Motor Freight**, **Schneider National** in Guelph, and Kitchener-based **BLM Transportation**. Other companies in the sector include **Erb Group** (based in New Hamburg in the Township of Wilmot), **Celadon Canada** in Kitchener, Guelph-based **MacKinnon Transport**, and **Transfreight** in Cambridge.

Waterloo Region and Guelph: Economic Trends

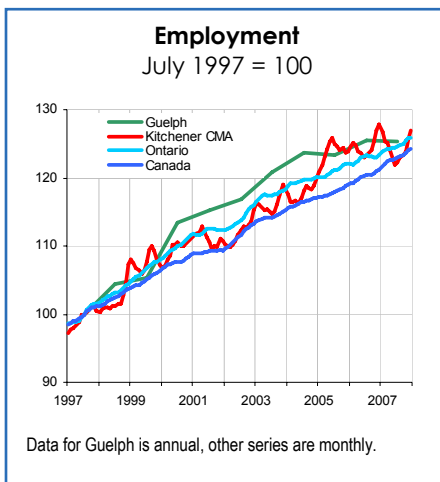
Labour markets

The employment performance of Waterloo-Guelph has been similar to that of Ontario as a whole over the past decade.

Employment growth in Guelph averaged 2.3% per year over the past ten years, slightly exceeding that of Ontario (2.2%) and Canada (2.1%). However, Guelph's performance has been rather uneven, with stronger growth from 1997 to 2002 (3.2%) and weaker growth more recently (1.4% from 2002 to 2007).

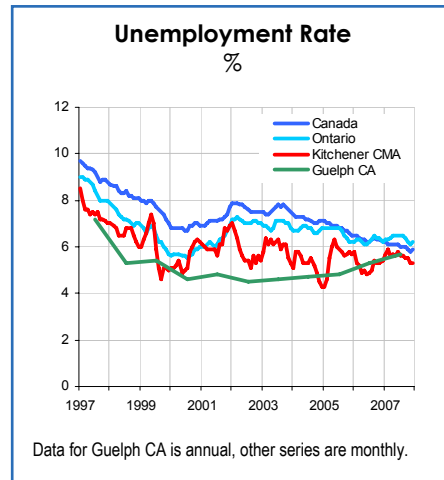
Employment growth in the Kitchener CMA over the last ten years has been more even: 2.4% per year from 1997 to 2002 and 2.1% from 2002 to 2007, for a ten-year average of 2.2%.

In the Kitchener CMA, employment rose at an annual average rate of only 0.2% in goods-producing industries over the past five years. Employment in the manufacturing sector shrank at an average annual rate of 1.0%, but this was more than offset by 5.3% annual average growth in the construction sector.



Employment in services-producing industries rose at an average annual rate of 2.9%, with the strongest gains in public administration (7.1%), health and social assistance (5.7%), finance, insurance, real estate and leasing (5.0%), information, culture and recreation (4.8%), education (4.3%) and professional, scientific and technical services (3.8%).

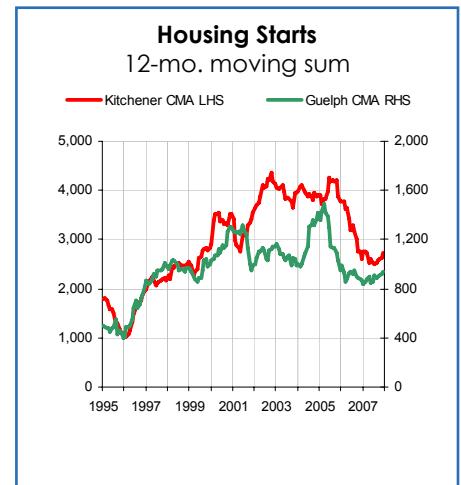
The unemployment rate in Waterloo-Guelph has generally been below that for Ontario and Canada, but the



gap is narrowing. The Canadian and Ontario unemployment rates have trended downward over the last five years, while the Kitchener rate has remained about the same and the Guelph rate has nudged up a little.

Construction

After bottoming out in 1995, residential construction gained strength through the late 1990s and early 2000s. House construction peaked in 2002 in the Kitchener CMA at 4,130 units, and in 2004 in Guelph at 1,420 units. Since then, new residential construction has fallen



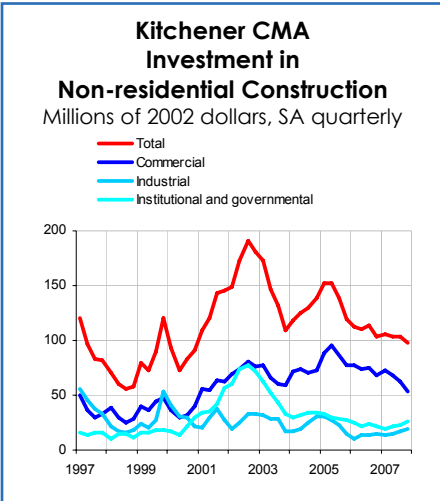
sharply, though it is still running at more than double the pace of 1995. Housing starts in the area in 2007 were below both the ten and twenty year averages.

There has been a general trend toward fewer single family units, as a percentage of total housing starts, and more multiple units. In 2007, only 42.3% of housing starts in the Kitchener CMA were single family, compared to 72.8% five years earlier and 70.9% a decade earlier. In Guelph, 61.1% of housing starts in 2007 were single family vs. 64.0% in 2002 and 71.2% in 1997.

Non-residential construction in the Kitchener CMA has shown a declining trend since peaking in 2002 (see chart).

Residential real estate

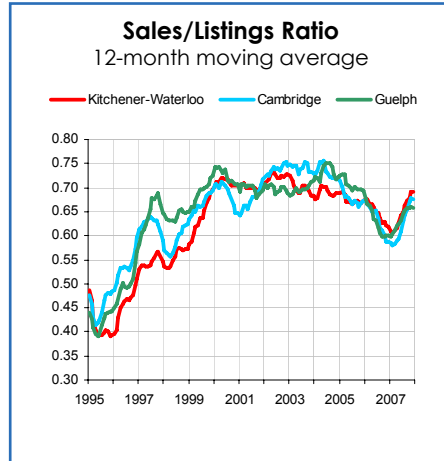
The area's residential real estate market has performed well since the market bottom in 1995. Over the past ten years (1997 to 2007), existing home sales grew at an average annual rate of 5.0% in Kitchener-



Waterloo, 4.5% in Cambridge, and 4.1% in Guelph. The pace of growth was faster over the last five years in Kitchener-Waterloo (6.0%), but slower in Cambridge (1.2%) and Guelph (3.1%).

The market has been particularly tight since 2000, with the sales/listings ratio hovering around 0.7 in all three markets (except for a weaker period in 2006). A sales/listings ratio in this range is indicative of a sellers' market, where sellers often receive several offers, and homes often sell for higher-than-listing price.

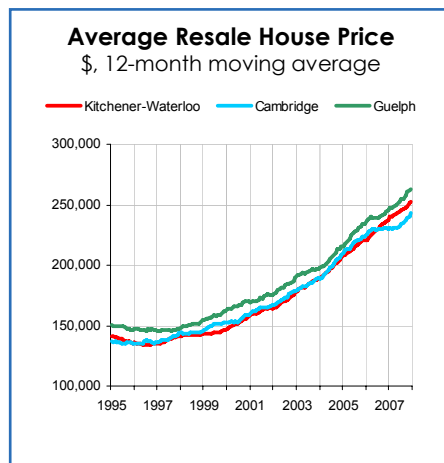
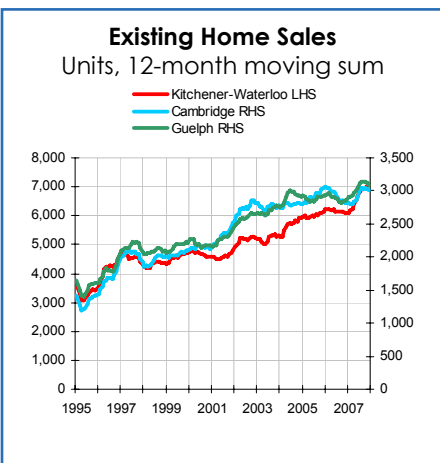
The strength of the residential real estate market can also be seen in the



average transaction prices for resale homes. Average resale prices have climbed at an annual average rate of 6.0% over the past ten years in Kitchener-Waterloo, 5.4% in Cambridge, and 5.9% in Guelph. The rate of increase over the past five years was even faster, at 7.3% in Kitchener-Waterloo, 6.4% in Cambridge, and 6.7% in Guelph. The rise in prices was almost uninterrupted over that period, with the notable exception of 2006.

Despite climbing home prices, housing remains relatively affordable. The average resale home price in December 2007 (seasonally adjusted) was \$258,300 in Kitchener-Waterloo, \$254,100 in Cambridge and \$256,600

in Guelph. This compares to \$323,800 in Ontario and \$325,700 in Canada. With lower house prices and higher incomes, housing is more affordable in the area than in Ontario, on average, or Canada.



North American Outlook

Waterloo Region and Guelph is highly integrated into the North American economy. As a first step toward evaluating the area's economic outlook, we look at the outlook for the United States, Canada and Ontario.

United States

After three years of growth of around 3%, the momentum of the U.S. economy slowed to only 2.2% in 2007. Growth in 2008 is projected to weaken further to only 1.2%, before bouncing back to 2.5% in 2009. The economy is stumbling under the weight of the subprime mortgage crisis, high oil prices and a deep slump in the housing market.

Indeed, we believe the U.S. economy is currently in a recession. We expect real GDP to decline in the first and second quarters of this year, before a recovery begins in the third quarter. But it will be 2009 before the U.S. economy is back on its feet.

Weakening economic and financial conditions prompted the Federal Reserve Bank to slash the federal funds rate by three-quarters of a percentage point to 3.5% on January 22, in a rare between-meetings rate cut. (Ordinarily, fed funds rate announcements are made at regularly scheduled meetings. The last time the Fed cut rates other than at a regularly scheduled meeting was following the September 11, 2001 terrorist attacks.) The Fed followed up with a further half percentage point cut to 3.0% at its meeting on January 30. We expect the Fed to keep on

loosening the monetary strings, with the fed funds rate falling as low as 2% by mid-year.

In addition, the Bush Administration's \$150 billion fiscal stimulus package should provide a boost to consumer spending by the third quarter.

Despite these monetary and fiscal policy efforts, the U.S. economy is unlikely to avoid a recession. The fallout from the subprime mortgage meltdown has tightened credit conditions. The debt write-down at global banks is now well in excess of \$100 billion. Some analysts, including former Federal Reserve Bank chief Alan Greenspan, see write-downs totaling two to four times this amount when all is said and done.

U.S. auto sales, which are of particular interest to the Waterloo-Guelph area, have been on a declining trend over the past few years and look set to deteriorate further as the economy weakens. After peaking at 17.4 million in 2000, sales fell to 16.5 million in 2006 and 16.1 million in 2007. We expect sales to decline further to just 15.0 million in 2008 before recovering moderately to 15.8 million in 2009. Rising oil prices have particularly blunted the appeal of large SUVs, which were until recently the main profit source for the domestic auto manufacturers.

Housing starts have dropped off even more dramatically. After peaking at over 2 million in 2005, starts dropped to 1.81 million in 2006 and then fell through the floor in 2007 to only 1.34

million. Existing house prices are down 9% from peak levels. Housing starts are expected to continue their freefall in 2008, falling to 0.95 million. 2009 will be a little better (or a little less bad) at 1.15 million.

This is now affecting the broader economy. Manufacturing contracted in the fourth quarter of 2007. While consumers remain somewhat resilient, the holiday shopping season ended in Scrooge-like fashion. This likely reflects a slide in consumer confidence to recession levels and a weakening trend in employment. In December, growth in nonfarm payrolls was the slowest in nearly five years, sending the jobless rate to a two-year high of 5.0%, up 0.6 percentage points from its trough. Since 1948, an increase of this magnitude has never occurred outside of a recession.

U.S. growth slowed to only 0.6% in the fourth quarter of 2007 from nearly 5% in the third. We now expect a mild recession during the first half of the year as mortgage rate resets peak and the housing overhang is worked down. Consumer spending will soften amid declining wealth and weaker labour markets, and business spending will slow until confidence in the economic outlook returns. International trade will provide ongoing, albeit limited, support to the economy, as a result of the U.S. dollar's 7% decline last year. But the export sector simply isn't big enough to pull the economy out of the subprime swamp.

Despite a weakening economy and falling home values, U.S. inflation continues to be whipped up by the double-whammy of a falling currency and rising energy and food costs. Consumer price inflation has topped 4%. But with the economy so weak, inflation should drift downward as excess capacity develops.

Canada

Canada's economy has been singing pretty much the same tune over the last few years: rising oil and other commodity prices have boosted incomes and fueled strong domestic demand. Final domestic demand rose in the neighbourhood of 4% in each of the past four years. But strong commodity prices have also pushed the Canadian dollar to new heights, resulting in a poor export performance. Weak exports and strong imports restrained overall economic growth to under 3% in 2006 and 2007.

Considering the storm south the border, the Canadian economy held up rather well in 2007. Growth dipped to an estimated 2.6% in Canada compared to 2.2% in the U.S. In 2008, Canada's growth is forecast to slip further to 1.5%, but this would exceed the U.S. pace of 1.2%. Growth will be similar in Canada and the U.S. in 2009, at 2.5%.

The Canadian economy continues to chug along, with GDP up a respectable 2.9% in the third quarter of 2007. Domestic demand remains a bulwark for growth as export revenues from lofty commodity prices pump national income. There is scant evidence that the credit squeeze is

having an impact on loan growth or spending. In fact, household credit growth is at a 17-year high. Home sales and starts remain strong (despite a weather-related drop in starts in December) and existing home prices were up 14% (year-over-year) in December.

External trade is the big soft spot in Canada's economy as a consequence of the Canadian dollar's 17% surge against the U.S. dollar in 2007. Amid softening exports and double digit gains in imports, trade subtracted a hefty five percentage points from GDP growth in the third quarter.

With the U.S. economy slowing sharply, the trade anchor will curtail Canadian GDP growth. As well, residential construction is expected to soften in the face of declining affordability and ebbing pent-up demand. But, unlike the U.S., Canada will likely manage to skirt a recession. Business investment will provide support for the expansion, as firms take advantage of the loonie's heft to add new machinery and enhance competitiveness. Consumer spending will remain well supported by declines in interest rates and personal income taxes, price cuts and the 1% drop in the GST.

The mighty loonie is working to dampen inflationary pressures. Despite large wage gains and dreary productivity growth, inflation remains moderate. At 1.5%, the core inflation rate is now comfortably below the central bank's 2% target and down from 2.5% last summer. Nowhere is discounting more prevalent than in

the auto industry, where prices have fallen nearly 4% in the past year. Because the loonie's value is well above that which would equalize prices in the two nations, Canadian retailers will remain under the competitive gun. Further discounting should keep core inflation comfortably below the 2% target in 2008.

Despite the rapidly improving inflation picture, the Bank of Canada will continue to lag the Federal Reserve's easing cycle. With two quarter-point cuts already in the bag (the last one on January 22 bringing the overnight rate down from a recent peak of 4.5% to 4%), we look for another full percentage point reduction over the first half of the year, taking the rate down to 3%, for a total reduction of 1.5 percentage points. In the U.S., we expect the Fed to reduce the fed funds rate from a recent peak of 5.25% to 2% by mid-year, for a total decline of 3.25 percentage points.

The Canadian dollar is trading near parity with the U.S. dollar, well shy of its modern-day high of US\$1.103 set in November. Concern that a U.S. recession will reduce commodity prices has led to the currency's reversal. We see the Canadian dollar depreciating toward 95 cents U.S. by year's end as resource prices moderate and the country posts its first current account deficit in nine years.

Ontario

Ontario's economic growth has lagged the Canadian average since 2003. This relative underperformance coincided with the abrupt rise in the

value of the Canadian dollar and in energy prices. In the face of these factors, GDP growth was likely only about 2% in 2007. And now, as the U.S. economy sputters, growth should fall to 0.9% in 2008, and a technical recession (two consecutive quarters of negative growth) cannot be ruled out. The provincial economy should recover to growth of 2.4% in 2009.

Weakness in manufacturing, particularly in the auto sector, continues to drag down growth in the province, with shipments set to finish flat in 2007. While the surging Canadian dollar has reduced the competitiveness of Ontario's exports, a flagging U.S. consumer is also crimping demand. Ontario did manage a 0.3% increase in vehicle production in 2007 over 2006, but the more recent trends are less encouraging. Vehicle production in December 2007 fell 28% from December 2006. While the new Toyota plant in Woodstock is to commence production this year, employing about 2,000, the underlying fundamentals remain poor in the sector. Longer term, Ontario's attractiveness for new investment in the sector looks to be diminishing with the Canadian dollar close to par and the United Auto Workers concessions in the U.S. (specifically on health care costs and two-tier pay levels) reducing Ontario's labour cost advantage.

Meanwhile, residential construction activity is cooling, with housing starts down about 8% in 2007. However, the Ontario real estate market continues to perform well, with existing home prices up 17% in December 2007 from

a year earlier. While sales were strong in 2007, new listings were flat, adding upward pressure to prices. Some cooling early in 2008 is expected.

Despite the many areas of weakness, the Ontario job market remains healthy, though it is losing some lustre relative to the rest of Canada. The jobless rate, at 6.5% in December, rose above the national average for the first time on record last year. Underneath the surface lies a great disparity between the crippled manufacturing and sturdy services sectors. While the former shed 55,000 jobs in 2007, the latter added 146,000, helping to buffer the Ontario consumer in a challenging environment. But as growth stalls in 2008, Ontario labour markets will slacken.

As the provincial economy adjusts to the stronger Canadian dollar (and, indeed, the Canadian dollar weakens off toward 95 cents U.S.) and as the U.S. and Canadian economies recover, Ontario's growth will move back toward its potential rate of around 2.5% by 2010.

Waterloo Region and Guelph: Economic Outlook

Waterloo-Guelph has endured a couple of challenging years, as the Canadian dollar surged in value and U.S. auto demand dipped. As a result, employment in the area declined in 2007, and the unemployment rate inched higher. But the area's economy still enjoys solid underpinnings, with unemployment below and incomes above the provincial and national benchmarks.

Given its relatively youthful demographics, its strong educational institutions, its industrial mix and an improving North American economy, the area should perform well over the medium term. Once the current weakness passes, we expect growth in Waterloo-Guelph to exceed both the Ontario and Canadian rates over the 2009-12 period.

2007 in review

The economy of Waterloo-Guelph continued to stumble in 2007 as it did in 2006. We estimate real GDP growth at 0.5% in the area in 2007, down from 2.0% in 2006 and 5.5% in 2005.

After rising only 0.6% in 2006, employment in the Kitchener CMA actually fell in 2007 by 0.4%.

Employment in Guelph fell 0.1% in 2007 after rising 1.8% in 2006.

Employment in the area as a whole fell 0.4% in 2007. In contrast, employment rose 1.6% in Ontario and 2.3% in Canada in 2007.

The unemployment rate bumped up a few notches in both the Kitchener CMA and Guelph. In the Kitchener CMA, the jobless rate rose from 5.2%

in 2006 to 5.5% in 2007, and in Guelph it rose from 5.3% to 5.7%. Nonetheless, unemployment remained below the Ontario and Canada figures of 6.4% and 6.0%, respectively.

By industry, employment gains were concentrated in the service sector, with employment losses in the goods sector. In the Kitchener CMA, employment in the goods sector fell 5.7%, while employment in the larger service sector rose 2.1%. Within the goods sector, employment dropped 11.3% in construction and 5.5% in manufacturing. Manufacturing, the area's largest sector, has been hit hard by the sharp rise in the value of the Canadian dollar and weakening U.S. demand, particularly for autos.

Plant closures have eroded the area's manufacturing base over the last couple of years, including ABB, American Standard, BF Goodrich, Image Craft, Imperial Tobacco and La-Z-Boy. In addition, a number of other companies continue to operate in the area, but have laid off large numbers of workers, including Cargill Better Beef, Lear, MTD Products and NCR.

Employment growth in the service sector was led by education (up 24.0%), information, culture and recreation (up 13.5%), accommodation and food services (up 13.0%) and health and social assistance (up 10.5%).

After a 30.9% plunge in housing starts in the Kitchener CMA and a 9.1% drop in Guelph in 2006, new home

construction showed some signs of life in 2007. There were 2,740 housing starts in the Kitchener CMA in 2007, up 5.4% over 2006. In Guelph, starts rose 8.9% to 941. Despite the increases in 2007, housing starts are running well below the pace of earlier in the decade.

Investment in non-residential construction in the Kitchener CMA fell 6.7% in 2007. Industrial construction rose 20.9%, but commercial construction fell 12.8% and institutional and governmental construction dipped 3.4%. By contrast, non-residential construction boomed in Guelph in 2007, surging 53%. Industrial construction rose 137%,

Economic Outlook

	Waterloo-Guelph	Ontario	Canada
Real GDP (% change)			
2005	5.5	2.9	3.1
2006	2.0	2.1	2.8
2007	0.5	2.1	2.6
2008	1.5	0.9	1.5
2009-12	2.7	2.4	2.5
Employment (% change)			
2005	4.0	1.3	1.4
2006	0.9	1.5	2.0
2007	-0.4	1.6	2.3
2008	0.5	0.1	0.8
2009-12	1.5	1.0	1.0
Unemployment rate (%)			
2005	5.5	6.6	6.8
2006	5.3	6.3	6.3
2007	5.6	6.4	6.0
2008	6.1	7.2	6.6
2009-12	5.5	6.6	6.3
Housing starts (units)			
2005	4,714	77,800	224,000
2006	3,463	74,200	228,400
2007	3,681	68,100	228,100
2008	3,800	60,500	200,000
2009-12	4,000	57,000	175,000

Figure in **bold italics** are BMO Capital Markets estimates or forecasts.

commercial construction 25%, and institutional and government construction 133%. For the Waterloo-Guelph area as a whole, investment in non-residential construction rose 4.3% in 2007.

Outlook for 2008

In 2008, the area's economy will continue to face the challenges of a high Canadian dollar and weak U.S. demand. Nonetheless, the economy should see the start of a turnaround in 2008, and then enter a period of strong growth by next year. We expect real GDP growth of 1.5% in 2008.

The manufacturing sector will face a difficult year in 2008 as it adjusts to the strong Canadian dollar and copes with weak U.S. demand. Collins & Aikman announced in January 2008 that it is closing its auto parts plant in Guelph, with 500 jobs. Also, Engel Canada announced in January that it will cease production in Guelph in May, affecting 225 jobs. But the manufacturing sector may eke out a gain in employment in 2008 due to the opening of the new Toyota plant in Woodstock, which will employ 2,000. Although the new plant is not in the Waterloo-Guelph area, it is only 45 km down the road from Cambridge. Many of the workers at the new plant will live in the Waterloo-Guelph area. The new plant will be managed from Cambridge, and Toyota will bring in many workers from its existing plant in Cambridge to work in Woodstock.

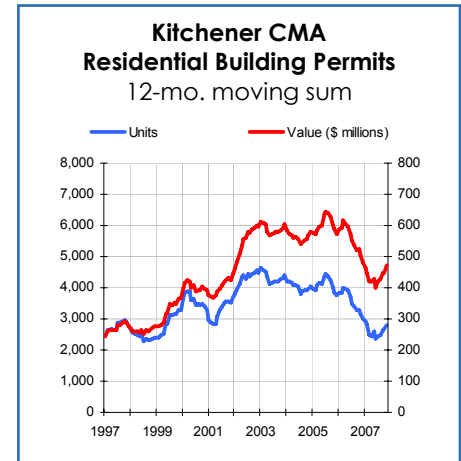
Research In Motion will again be a huge source of strength for the area in 2008. With 5,200 employees in

Waterloo already, the company is adding hundreds of jobs per year at its Waterloo head office and manufacturing facilities.

There are other encouraging signs on the job creation front. Japanese auto parts maker Denso Manufacturing (which supplies to Toyota) is doubling its workforce in Guelph over the next three years to 600. Tim Horton's will ramp up operations at its distribution centre in Guelph, bringing its workforce to about 800 from 425 currently. Google has moved into the University of Waterloo's Research Park, with plans to eventually have 200 employees there, up from about 20 currently. The Province of Ontario's new data centre in Guelph will initially employ 120 when it opens in 2010, with plans for double that in phase two.

While employment fell in the Kitchener CMA in 2007 on an annual average basis, the more recent monthly numbers are more encouraging going into 2008. After hitting a recent low in June 2007, employment has since risen 4.2% (non-annualized to December 2007). Similarly, after peaking at 5.9% in February 2007, the unemployment rate dropped to 5.3% by December.

In the Kitchener CMA, residential building permits for 2,635 units were issued in the first eleven months of 2007 with a value of \$393 million. This was down 6.2% by volume and 5.1% by value from the first eleven months of 2006. However, there has been strength in the last few months, pointing to slightly higher housing starts in 2008 than in 2007. We expect

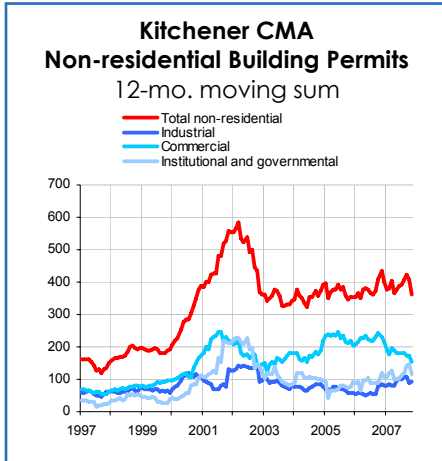


starts to rise slightly to about 2,800 in 2008 from 2,740 in 2007.

In the Guelph CMA, residential building permits for 1,050 units valued at \$144 million were issued in the first eleven months of 2007. This is up sharply from 827 units and \$113 million in the first eleven months of 2006, and the recent monthly numbers have been strong. This suggests that housing starts in Guelph will be significantly higher in 2008, at about 1,000.

Our expectation of higher housing starts in Waterloo-Guelph is contrary to the national outlook. Nationally, we expect housing starts to decline from 228,100 in 2007 to about 200,000 in 2008. The difference between the local and national outlook arises because local housing starts are currently running well below their peaks earlier in the decade, while national starts in 2007 were still close to their peaks.

Non-residential building permits in the Kitchener CMA, though off their peaks of late 2001 and early 2002, remain strong. Non-residential permits in the Kitchener CMA over the first



eleven months of 2007 totaled \$347 million, down 9.4% from the same period a year earlier. While this is a significant decline, the series is very volatile. It is too early to conclude that this is a sign of further declines.

In the Guelph CMA, non-residential permits valued at \$127 million were issued in the first eleven months of 2007, down from \$169 million a year earlier.

There are several non-residential construction highlights in **Guelph**. The \$25 million Delta Guelph Hotel & Conference Centre is opening in February. The Stone Road Mall was recently expanded and renovated. The new \$51 million civic administration building is expected to open in the autumn. Denso Manufacturing is investing \$73 million to double production at its auto parts plant, with new production beginning in 2009. Construction will begin late this year or early 2009 on the Ontario government's new 120,000 square foot data centre, which will be the largest data centre in the province. Further developments are planned near the Clairfields shopping centre. Linamar has secured a site in Guelph

to build its new technology and training centre in 2009. This is part of the Guelph-based company's 5-year, \$1.1 billion investment in training, innovation, research and development announced in 2006. In addition, possible future projects in Guelph include a new central library, which could range in cost from \$16 million for the library only to \$50 million if commercial, office, residential space and a parking garage are included; a \$19 million redevelopment of the former Loretto Convent as the new home of the Guelph Civic Museum; and a new \$35 million community centre in the south end of the city.

In **Cambridge**, a new Homewood Suites by Hilton opened recently. City staff will soon be moving in to the new \$30 million city office building. Construction on a \$40 million expansion of Cambridge Memorial Hospital began in October and will take three years. This is part of a planned \$100 million multi-year expansion. A new \$15 million office for the Ontario Mutual Insurance Association and the Farm Mutual Reinsurance Plan is to be completed in 2009. Construction is expected to start soon on the \$120 million twin-tower Waterscape condo development. Possible future projects in Cambridge include a \$65 million convention centre, hotel, condo and retail development, and a \$47 million expansion of Conestoga College.

In **Kitchener**, the University of Waterloo's School of Pharmacy building will open this year, and construction will start this year on a new medical school. Both are part of

the University of Waterloo's new Health Sciences Campus in downtown Kitchener. A new recreation centre with twin ice pads, boxing facilities and indoor walking track will open in 2008. Fairview Park Mall recently received a \$33 million makeover. St. Mary's General Hospital will complete a 115,000 square foot addition this year, part of a multi-year \$90 million renovation and expansion program. Grand River Hospital will renovate its intensive care unit and construct a new mental health unit, starting this year. The City of Kitchener is spending \$46 million to convert the former BF Goodrich plant into its new central maintenance facility. It is hoped that work will begin this year on the \$90 million Centre Block redevelopment. This project would include two residential towers, public parking and retail shops. Also, there is a \$100 million proposal to redevelop the former Sportsworld site, with offices and small retail shops. After abandoning plans to build a new main public library after its estimated cost skyrocketed from \$33 million to \$65 million, the City of Kitchener is now considering renovating and expanding its existing main library.

In **Waterloo**, Conestoga Mall is undergoing a \$50 million renovation and expansion. Construction will begin this year on the Balsillie School of International Affairs in downtown Waterloo. Two new buildings are being built at the University of Waterloo's Research Park: the \$8 million first phase of the Research Accelerator Centre and the \$20 million InnoTECH building. The University of Waterloo's School of

Optometry is getting an addition to be completed in 2009. There are also a number of other building projects at the University of Waterloo. Future projects include a \$25 million joint city/YMCA library and recreation centre. A proposal has been made to redevelop the Canbar site — a \$200-250 million project including a 280-room hotel, apartment and condo towers, and office and retail space. Preliminary discussions are taking place about a possible new law school in downtown Waterloo.

Outside of the four cities, the largest project is a \$29 million arena and recreation centre in Elmira, which is to be completed in 2009. A \$200 million gas-fired power plant in Waterloo Region southeast of Cambridge has been proposed.

Municipalities within the region are rushing to make more industrial land available. In Guelph, the first phases of the city's Hanlon Creek Business Park, which will eventually have more than 350 acres of serviced land, will be available in 2008. In Cambridge, the city plans to start bringing the Boxwood subdivision in the Cambridge Business Park to market in 2008, with 150 to 170 acres of developable land. In Kitchener, an additional 30 acres will be available at the Huron Business Park in late 2008. Meanwhile, in Waterloo, there are no city-owned industrial lands available as the city conducts a strategic review.

Also encouraging is the fact that recently vacated industrial properties are being snapped up for redevelopment. Computer distributor

Synnex Canada moved into the former Imperial Tobacco facility in Guelph. The City of Kitchener is redeveloping the former BF Goodrich site into a new central maintenance facility. The former NCR plant in Waterloo and Image Craft plant in Cambridge are being redeveloped into industrial/office space. Plans are proceeding to convert the former American Standard building into condominiums. In addition, properties which were sitting idle for longer periods are now being redeveloped into condos, such as the former Arrow shirt factory in Kitchener, the former Tiger Brands knitting factory in Cambridge, and the former Bauer Industries plant in Waterloo. There are also plans in the making to redevelop the former Canbar (Canada Barrel) property in Waterloo into mixed use (hotel, residential, office, retail) and the former Lafarge property in Guelph into commercial space.

Medium-term outlook

Once the area gets past the current economic turbulence, the medium-term outlook for Waterloo-Guelph is positive. We expect the economy to grow at an average annual rate of 2.7% over the 2009-2012 period — slightly faster than both Ontario and Canada. Five factors contribute to this positive outlook.

First, we believe that appreciation of the Canadian dollar has largely run its course. The Canadian dollar is now below parity and we expect it to drift down toward 95 cents U.S. by the end of 2008. Manufacturers will be able to focus on improving efficiency without increases in the value of the loonie wiping out those competitive

gains.

Second, the U.S. economy will rebound from its current difficulties, which will improve markets for the area's exports over the medium term.

Third, the area has a relatively youthful population and strong net immigration. The population of the area is expected to continue to grow faster than both Ontario and Canada over the medium term. This, in turn, will support residential construction and retail sales.

Fourth, the excellent educational institutions in the area are a source of strength. The University of Guelph, the University of Waterloo, Wilfrid Laurier University and Conestoga College are all top-ranked institutions in Canada and, in some fields, the world. All have strong connections to the business community through their co-operative education programs. Further, these educational institutions have been good incubators for new companies through their research programs.

Fifth, the area's industrial mix positions it for growth. The advanced manufacturing, information and communications technology (including computer and electronic equipment), and biotech clusters, in particular, have strong growth prospects.

The government of Ontario has targeted advanced manufacturing, in which the Waterloo-Guelph area has particular strength, as a priority with its \$500 million Advanced Manufacturing Investment Strategy.

Aircraft landing gear maker Héroux-Devtek, in Kitchener, was a recent recipient of funding under this program.

The main risks to the medium-term outlook relate to exports. An unexpected further strengthening of the Canadian dollar or longer-than-anticipated slump in the U.S. economy would adversely affect the area's manufacturing exports.

The auto industry continues to be a major risk factor for the area. The stronger Canadian dollar and lower labour costs in the U.S. (as a result of the recent agreement between the United Auto Workers and the Big Three auto makers) have eroded some of Canada's cost advantage. On the other hand, the strength of Toyota, which has an assembly plant in the area and, soon, another nearby, is a positive for the region.

The main challenges facing Waterloo-Guelph over the medium term include the adjustment to the stronger Canadian dollar, increased competition from low-cost countries like China, and the challenge of keeping more of its university and college graduates in the area. Though we believe that the appreciation of the loonie has largely run its course, the adjustment to a new higher level will take time and more manufacturing jobs will be lost. However, the area has demonstrated its ability to absorb these shocks in the past by moving up the value chain. Despite cyclical ups and downs, manufacturing employment in the area has changed little in the past twenty years. Yet the area put in a

solid overall economic performance over that period. The recent story of plant closings is really one that has been going on for decades, as old factories close and new ones start up.

With such strong educational institutions in the area, many graduates are lured away by large companies like Microsoft. In this regard, it is encouraging to see locally-based companies like Research In Motion expanding rapidly, and other companies like Google setting up shop in the area.

Longer-term outlook

The Province of Ontario recently passed the Places to Grow Act, which provides a legal framework for growth planning in Ontario. A *Growth Plan for the Greater Golden Horseshoe* was released in 2006. Waterloo-Guelph is part of what is called the outer ring of the Greater Golden Horseshoe. There is limited room for growth in the inner ring of the Greater Golden Horseshoe. Surrounding the inner ring is a greenbelt, which the province plans to maintain with limited development. Therefore, growth in the Greater Golden Horseshoe will leapfrog the greenbelt over the next twenty-five years into the outer ring.

As development leapfrogs the greenbelt, the population of Waterloo-Guelph will expand rapidly. The population of the Greater Golden Horseshoe is projected to rise 48% between 2001 and 2031, from 7.8 million to 11.5 million. The population of Waterloo Region is projected to rise 60% from 456,000 in 2001 to 729,000 in 2031. The population of

Wellington County, including the City of Guelph,¹ is projected to rise 65% from 195,000 to 321,000.

As the area expands, major transportation projects are already in the planning stages. A new Highway 7 between Kitchener-Waterloo and Guelph is being planned, at a cost of \$300-400 million. Construction could start as early as 2011. Also, Waterloo Region is considering a rapid transit rail line. The first phase, at a cost of over \$300 million, would run from Waterloo to Kitchener. A second later phase would continue on to Cambridge.

Conclusion

Waterloo-Guelph has developed a reputation for innovation. Its entrepreneurial spirit has allowed it to reinvent itself over the years. Old companies close their doors, but new ones are continually opening up. Waterloo-Guelph is leading the charge from the old economy based on traditional manufacturing to the new economy based on high technology and services.

¹ The City of Guelph is not part of Wellington County, but the City of Guelph is geographically surrounded by Wellington County. In the population projections, Wellington County and the City of Guelph are combined into one unit. The Guelph CMA consists of the Township of Guelph/Eramosa, which is part of Wellington County, and the City of Guelph, which is not. In the 2006 census, the Guelph CMA accounted for 63% of the population of the combined Wellington County and the City of Guelph.