

2000-2001
BUDGET

Budget

Plan

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Review of the Economic Situation in 1999 and Outlook

This section presents the highlights of the economic situation in Québec in 1999 as well as the economic outlook used to prepare the Budget Plan.

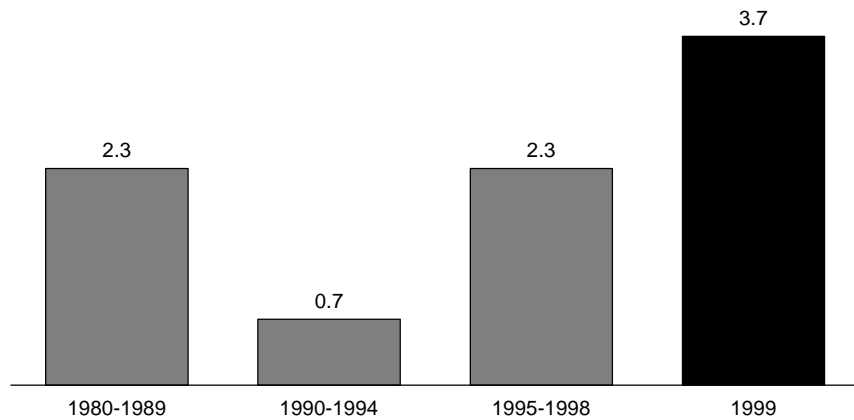
The economic situation in 1999

Vigorous economic growth

At 3.7%, economic growth was particularly vigorous in Québec last year. This rate, which outpaced that observed in 1998 (2.6 %), was one of the best performances since 1988 and substantially higher than the average rate recorded over the past 20 years (2.0%).

GRAPH 1.1

REAL GDP IN QUÉBEC (average annual percentage change)



Sources: Institut de la statistique du Québec and ministère des Finances du Québec.

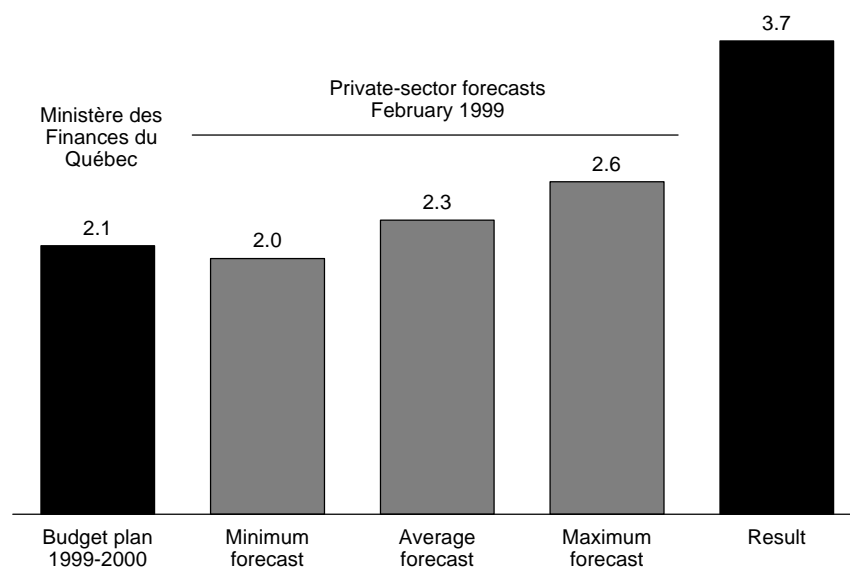
At the time of last year's Budget Speech, experts did not anticipate that economic growth would be as strong as actually observed. Even the most optimistic forecast did not exceed 2.6%. This situation was attributable to, among other things, the uncertainty associated with the financial crisis in Southeast Asian countries and the slowdown expected in the United States. Forecasts were thus outpaced by an average of about one and a half percentage points.

This better-than-anticipated performance is due mainly to:

- dynamic domestic demand by both households and enterprises;
- a more vigorous world economy than initially expected.

GRAPH 1.2

HIGHER-THAN-ANTICIPATED GROWTH LAST YEAR – 1999
(as a percentage)



Source: Ministère des Finances du Québec.

TABLE 1.1

OVERVIEW – 1999
(percentage change)

	1999-2000 Budget forecast	Results	Difference
OUTPUT			
— Gross domestic product (constant dollars)	2.1	3.7	1.6
— Gross domestic product	2.9	4.8	1.9
LABOUR MARKET			
— Employment	1.6	2.3	0.7
- in thousands	54.0	75.9	21.9
— Unemployment rate (%)	9.9	9.3	-0.6

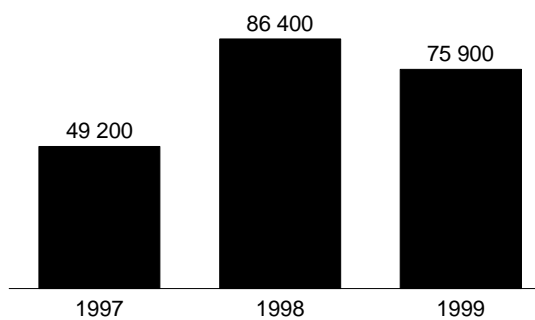
Sources: Institut de la statistique du Québec and Statistics Canada.

Exceptional spin-offs for the labour market

On account of the very good performance of the Québec economy over the past two years, labour market conditions have improved substantially. In 1999, 75 900 jobs were created in Québec. This is the best performance since 1987, after that observed in 1998 (86 400 jobs).

GRAPH 1.3

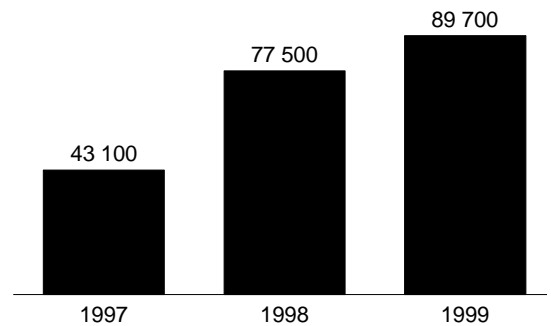
JOB CREATION – QUÉBEC
(number)



Source: Statistics Canada.

GRAPH 1.4

CREATION OF FULL-TIME JOBS – QUÉBEC
(number)



Source: Statistics Canada.

Another sign of improved labour market conditions is the fact that all of the jobs created last year were full-time jobs (89 700). Furthermore, nearly 14 000 part-time jobs were replaced by full-time positions.

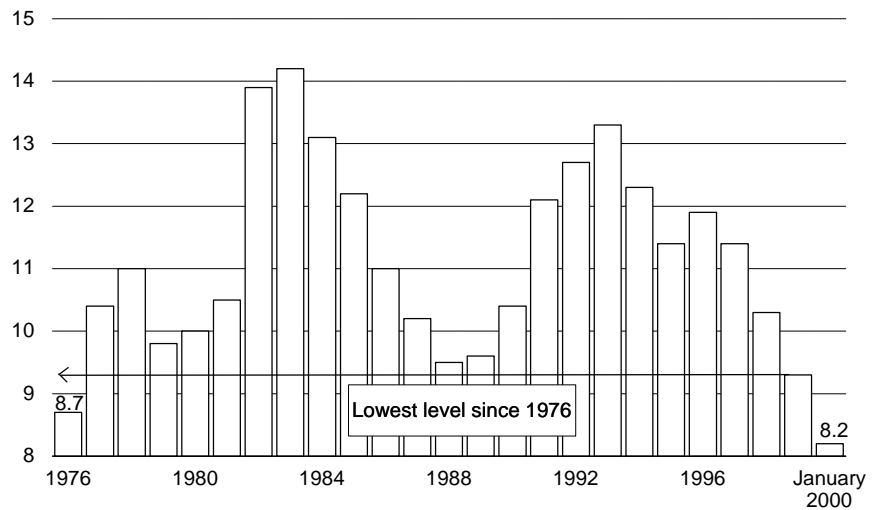
For the second year in a row, young people aged 15 to 24 benefited the most from job creation in Québec, obtaining more than one third of the 75 900 new jobs created, i.e. 28 100. For this age group, this was the highest annual increase since 1973. Filling 52 300 new jobs in two years, young people obtained one third of all new jobs created in Québec even though they account for only 16% of the working-age population.

The unemployment rate fell below a 23-year-old threshold

Overall, Québec's unemployment rate fell to its lowest levels in 23 years, averaging 9.3% in 1999, the lowest rate since 1976 (8.7%). It decreased by one percentage point compared with 1998 and by four percentage points between 1993 and 1999. Moreover, it has declined even further in recent months, to 8.2% in January 2000, the lowest level since May 1976.

GRAPH 1.5

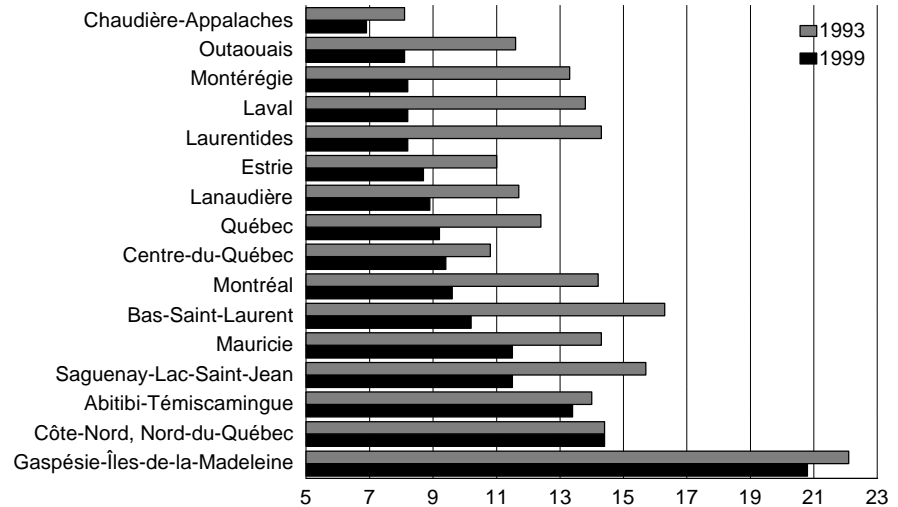
LOWEST UNEMPLOYMENT RATE SINCE 1976
(as a percentage)



Source: Statistics Canada.

GRAPH 1.6

UNEMPLOYMENT RATE BY ADMINISTRATIVE REGION
(as a percentage)



Source: Statistics Canada.

Compared with 1993, the unemployment rate declined in all Québec regions, except the Côte-Nord and Nord-du-Québec. Major reductions were recorded in the Bas-Saint-Laurent (-6.1 points), Saguenay-Lac-Saint-Jean (-4.2), the Outaouais (-3.5), the Québec City region (-3.2) and Montréal (-4.6) and in the regions around Montréal, particularly the Laurentides (-6.1), Laval (-5.6) and the Montérégie (-5.1).

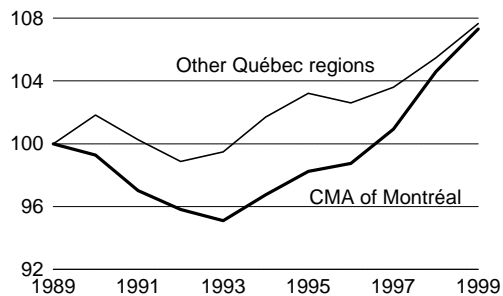
In several regions, the unemployment rate is now similar to that which prevailed in the late 1980s, while in a few regions, such as the Bas-Saint-Laurent, Montréal, the Laurentides and Saguenay-Lac-Saint-Jean, it is already lower.

After being harder hit than other Québec regions by the 1990-1991 recession, the Census Metropolitan Area of Montréal, hereinafter referred to as the CMA of Montréal, has made considerable progress. As a result of the recession, the unemployment rate in the CMA of Montréal rose to 13.9% in 1993, compared with an average of 12.7% in other Québec regions. Since that time, Montréal has not only recovered the jobs lost during the recession but has caught up with other parts of Québec. On account of the progress made between 1995 and 1999, employment growth in the CMA of Montréal for the decade as a whole was almost the same as the average rate observed in other Québec regions. In 1999, the unemployment rate in the CMA of Montréal was 8.6%, seven tenths less than the Québec average.

Over the past six months, there has been a further, particularly rapid, reduction in the unemployment rate in the Montréal region. In January 2000, it amounted to only 6.5%, 1.7 percentage points less than the Québec average and the lowest rate observed since July 1976. Montréal's unemployment rate thus fell below the Canadian average for the first time since 1984.

GRAPH 1.7

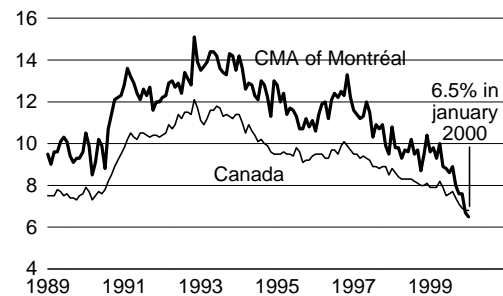
EMPLOYMENT: MONTRÉAL HAS CAUGHT UP WITH OTHER QUÉBEC REGIONS
(Indices 1989 = 100)



Source: Statistics Canada.

GRAPH 1.8

UNEMPLOYMENT RATE: MONTRÉAL'S RATE IS BELOW THE CANADIAN AVERAGE
(as a percentage)



Source: Statistics Canada.

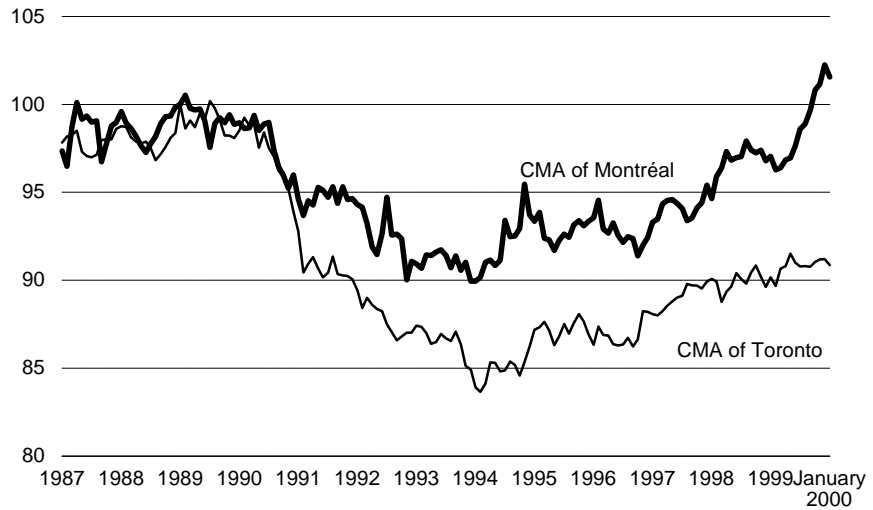
Montréal catches up with Toronto

Over the past decade, the performance of Montréal's labour market has been much better than that of Toronto's, when demography is taken into account. Given the major difference in population growth between these two regions, any comparison of relative change must obviously be made on a per capita basis if it is to be valid. The employment rate, that is, the employment/population ratio, is one of the two main labour market indicators, the other being the unemployment rate.

The results in this regard speak for themselves: the proportion of Montrealers who now have a job is higher than it was in 1989, while the proportion of Torontonians who are currently employed is 9% less than it was 10 years ago. This relative progress is reflected by a substantial reduction in the gap between unemployment rates in Montréal and Toronto, from 5.6 percentage points in 1989 to 2.5 points in 1999 and only 1.1 point in January 2000.

GRAPH 1.9

EMPLOYMENT RATE: MONTRÉAL HAS IMPROVED ITS POSITION IN RELATION TO TORONTO
(Indices January 1989 = 100)



Source: Statistics Canada.

TABLE 1.2

UNEMPLOYMENT RATE: GAP BETWEEN MONTRÉAL AND TORONTO
(as a percentage)

	1989	1999	January 2000
Montréal	9.6	8.6	6.5
Toronto	4.0	6.1	5.4
Difference	5.6	2.5	1.1

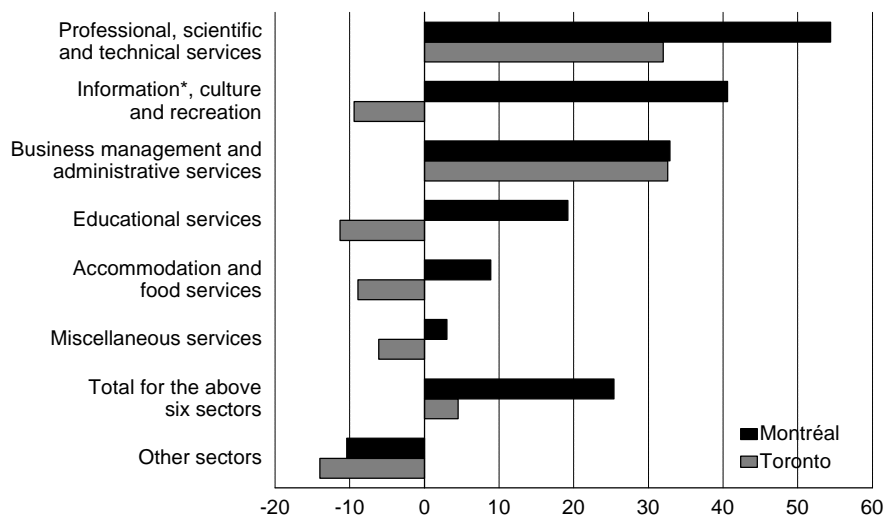
Source: Statistics Canada.

Montréal’s performance is attributable to the development of sectors based primarily on knowledge, such as professional, scientific and technical services, business management and administrative services, educational services and services related to information,¹ culture and recreation.

1 Including notably telecommunications.

GRAPH 1.10

**EMPLOYMENT GROWTH HIGHER IN MONTRÉAL THAN IN TORONTO
OWING TO SIX SECTORS OF ACTIVITY**
(percentage change between 1989 and 1999)



* Including notably telecommunications.
Source: Statistics Canada.

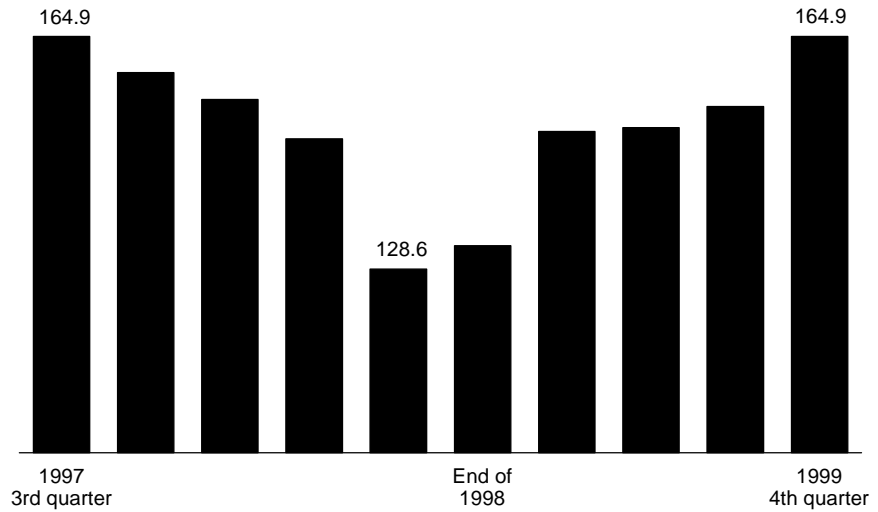
Sustained growth in domestic demand

Relatively low interest rates and rapidly growing household and business confidence sustained growth in domestic demand by both consumers and enterprises. Matching the rate in 1998, domestic demand rose 3.4% in 1999, the best result observed since 1988.

The Business Confidence Index, after declining substantially from mid 1997 to late 1998, began to climb again rapidly. By the end of 1999, after recovering all of the ground lost owing to the uncertainty caused by the Asian crisis, it returned to the level recorded in the third quarter of 1997, a level not seen since 1979.

GRAPH 1.11

SHARP INCREASE IN BUSINESS CONFIDENCE
(Index 1991 = 100)



Source: Conference Board of Canada.

This renewed confidence coincided with the better world outlook for economic growth, the recovery in the price of raw materials and the substantial rise in profits (13.4% in 1999). These factors resulted in a 5.4% growth in investment by private-sector enterprises.

In addition, improved labour market conditions and relatively low interest rates had an impact on household confidence, which reached its highest level since 1988.

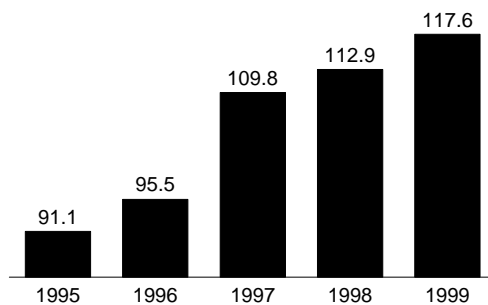
According to a survey by the Conference Board of Canada, 1999 was the best time for a record number of consumers to make a major purchase, such as a house or an automobile.

Feeling confident, households increased their spending more rapidly than their income, bringing about a major decline in the household savings rate, which fell close to zero, an unprecedented low.

In 1999, real consumer spending rose by 2.6%. Purchases of durable goods, such as automobiles, furniture and household appliances, which are usually expensive, recorded the most substantial gains.

GRAPH 1.12

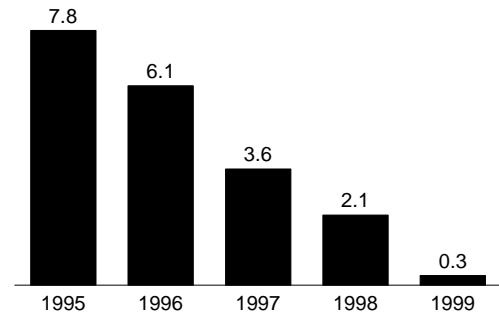
HOUSEHOLD CONFIDENCE – QUÉBEC
(Index 1991 = 100)



Source: Conference Board of Canada.

GRAPH 1.13

HOUSEHOLD SAVINGS – QUÉBEC
(as a percentage of disposable personal income)



Sources: Institut de la statistique du Québec and ministère des Finances du Québec.

Moreover, a strong rebound was observed in the residential sector in 1999. Residential investment, in constant dollars, grew by 9.2%, owing to renovation work (11.7%) and the incipient recovery in new housing construction. The number of housing starts rose from 23 100 in 1998 to 25 700 in 1999.

Expanding world economy

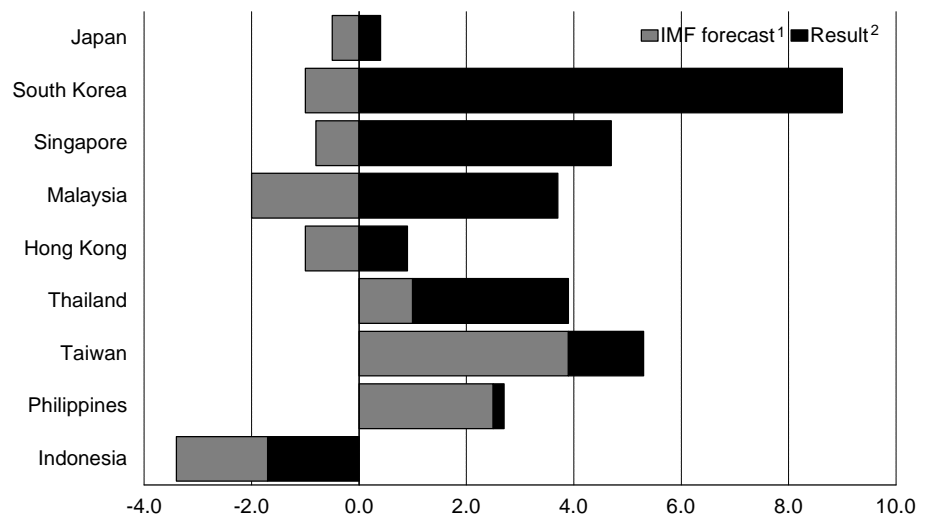
The Québec economy benefited from an external environment that was favourable to trade. The year 1999 was marked by rapid economic recovery in the Asian countries and by an exceptionally vigorous economy in the United States.

Faster-than-anticipated economic recovery in Asia

At the time of the 1999-2000 Budget Speech, most experts anticipated that the economic recovery in Asian countries would be slow and that the situation in emerging countries would remain fragile. In addition, the IMF forecast a downturn in economic activity in several Southeast Asian countries and Japan.

GRAPH 1.14

GROWTH IN REAL GDP IN 1999 – VARIOUS ASIAN COUNTRIES
(as a percentage)



1 IMF forecast of December 1998.

2 Result for the first three quarters of 1999.

Sources: International Monetary Fund and Datastream.

However, nothing of the sort occurred. On the contrary, the Asian countries experienced a major economic recovery on account of demand stimulation programs, a decline in interest rates made possible by the stabilization of financial markets, and renewed world-wide demand for electronic products.

The Japanese economy remains fragile even though it has now emerged from the worst recession since the end of World War II. It continues to be paralyzed by major structural problems. Overall, the results of the first three quarters of 1999 indicate an annual growth rate in the order of half a percentage point.

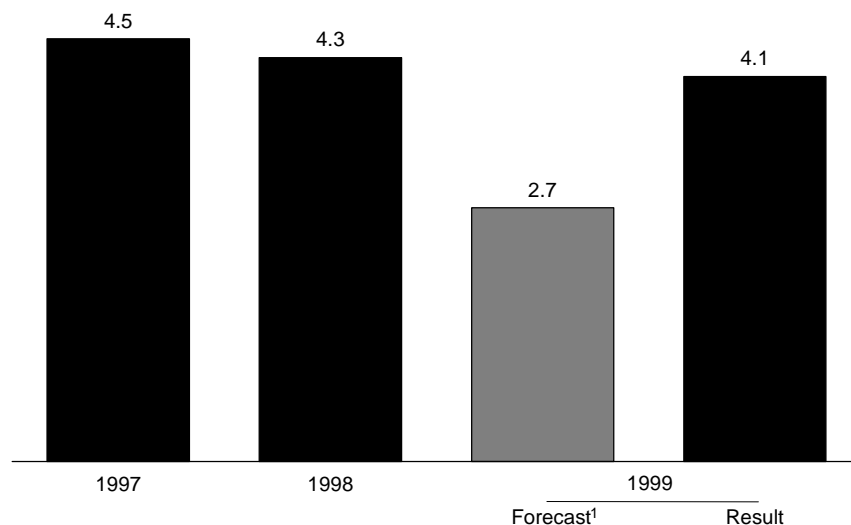
Another outstanding year for the US economy

The US economy ended the decade on a strong note. In 1999, it grew by 4.1%, nearly one and a half percentage points higher than forecast by US experts a year ago. For the third consecutive year, the United States has seen its economy expand by over 4.0%.

GRAPH 1.15

GROWTH IN REAL GDP – UNITED STATES

(as a percentage)



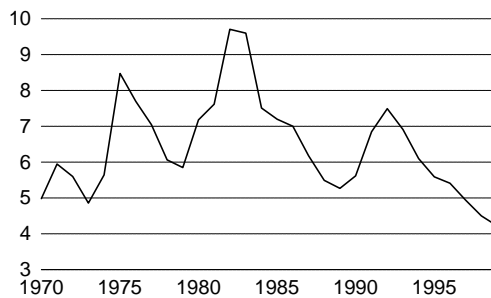
¹ At the time of the 1999-2000 Budget.

Sources: United States Bureau of Economic Analysis and Data Resources Inc.

On account of the vitality of the US economy, the unemployment rate declined again in 1999, reaching its lowest level in 30 years (4.2%). Nevertheless, inflationary pressures remained weak because growth in the Consumer Price Index (CPI) for commodities other than food and energy fell slightly, from 2.3% in 1998 to 2.1% in 1999. However, the overall inflation rate rose by 0.6 percentage points, to 2.2%, owing to the sharp increase (34% on average in 1999) in the price of oil.

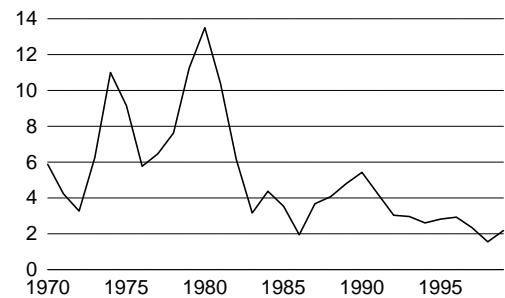
GRAPH 1.16

UNEMPLOYMENT RATE – UNITED STATES
(as a percentage)



GRAPH 1.17

INFLATION RATE – UNITED STATES
(as a percentage)



Source: United States Bureau of Labor Statistics.

Source: Data Resources Inc.

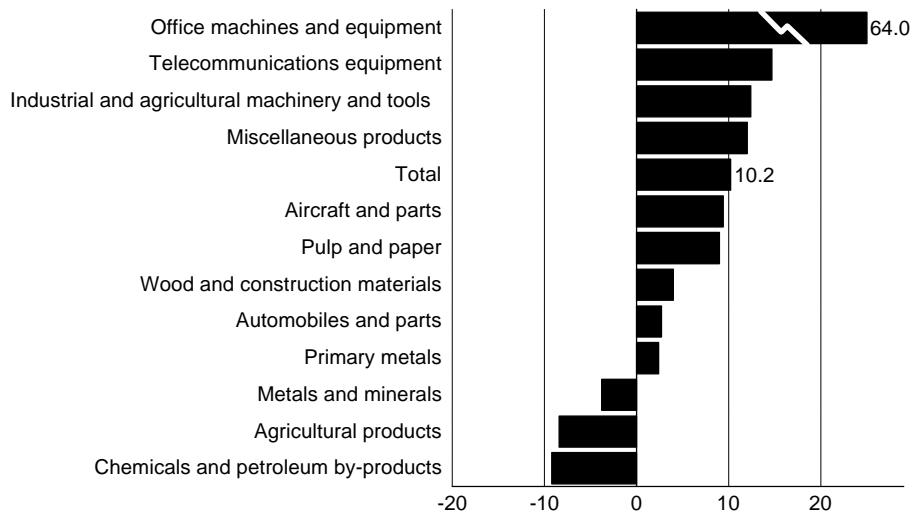
Acceleration in the growth of Québec’s international exports

Given the good performance of the US economy, growth in exports accelerated in 1999. The volume of international exports of goods rose by 10.2% in 1999 (6.4% in 1998).

Exports of high-value-added manufactured products, such as office machines and equipment, telecommunications equipment and aircraft and parts recorded the most substantial gains. However, the growth in exports was partly offset by a decline in certain sectors, such as agricultural products, metals and minerals, and chemicals and petroleum by-products, which were still affected by weak world demand for these products following the financial crisis in Asia.

GRAPH 1.18

**QUÉBEC'S INTERNATIONAL EXPORTS OF GOODS IN CONSTANT DOLLARS
– 1999**
(percentage change)



Source: Institut de la statistique du Québec.

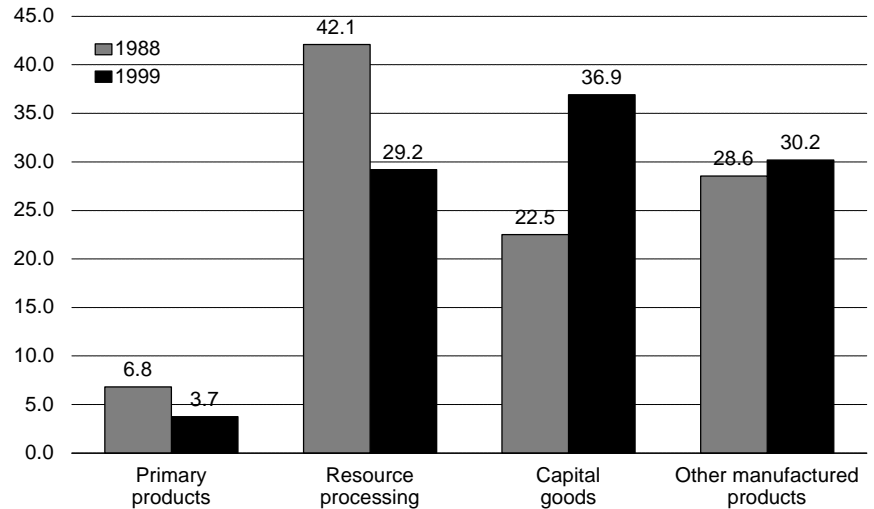
The vigorous growth in international exports last year follows a trend that emerged several years ago. Since the conclusion of the Canada-United States Free Trade Agreement, the relative importance of international exports of goods has doubled, from 17.9% of GDP in 1988 to 33.6% in 1999.

Québec's growing openness to international markets has been accompanied by a change in the structure of its exports to the benefit of goods from sectors that use advanced technology and require a high level of knowledge. As a result, exports are based less and less on natural resources, and high-value-added goods (capital goods² and other manufactured products³) now account for more than two thirds of international exports of goods, compared with less than half in 1988.

2 Telecommunications equipment, office machines, tools and equipment, aeronautical equipment and other transportation equipment, except for that relating to automobiles.

3 Including notably chemicals, plastics and petroleum by-products, automobile products and consumer products.

GRAPH 1.19

STRUCTURE OF INTERNATIONAL EXPORTS OF GOODS - QUÉBEC
 (as a percentage of total exports)


Sources: Institut de la statistique du Québec and ministère des Finances du Québec.

More restrictive monetary conditions

The more favourable economic context world-wide, particularly in North America, prompted central banks to reorient their monetary policies during the year.

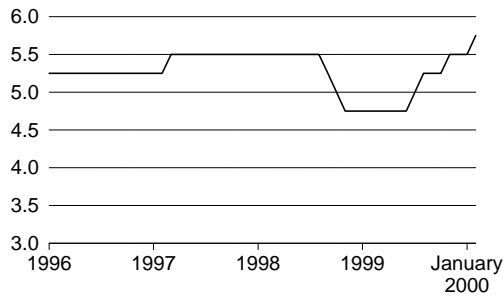
On account of the stabilization of financial markets at the international level and the tight labour market in the United States, the US Federal Reserve adopted a more restrictive monetary policy in 1999. To prevent possible inflationary pressures, it raised the federal funds rate by 100 basis points between June 1999 and February 2000, to its current rate of 5.75%.

Interest rates also increased in Canada, although to a lesser extent. The discount rate has edged up by 50 basis points since last fall, reaching 5.25% in early March 2000.

These interest rate hikes, coupled with the improvement in the price of raw materials observed over the past year, raised the value of the Canadian dollar by about 6%, i.e. approximately US 4 cents, between the beginning and the end of 1999.

GRAPH 1.20

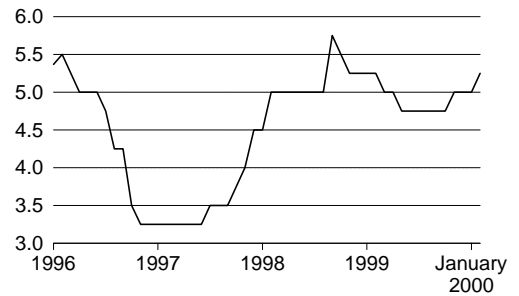
FEDERAL FUNDS RATE – UNITED STATES
(as a percentage)



Source: United States Federal Reserve.

GRAPH 1.21

DISCOUNT RATE – CANADA
(as a percentage)



Source: Bank of Canada.

Economic outlook for 2000

Foreign markets should continue to expand

Stronger European economy, but uncertainty in Japan

European countries should experience more robust growth in 2000 owing to changes in the world economy that are favourable to exports and more vigorous domestic demand.

TABLE 1.3

GROWTH OF REAL GDP – EUROPE (as a percentage)

	1999	2000
Euro zone	2.2	3.0
United Kingdom	1.9	2.9

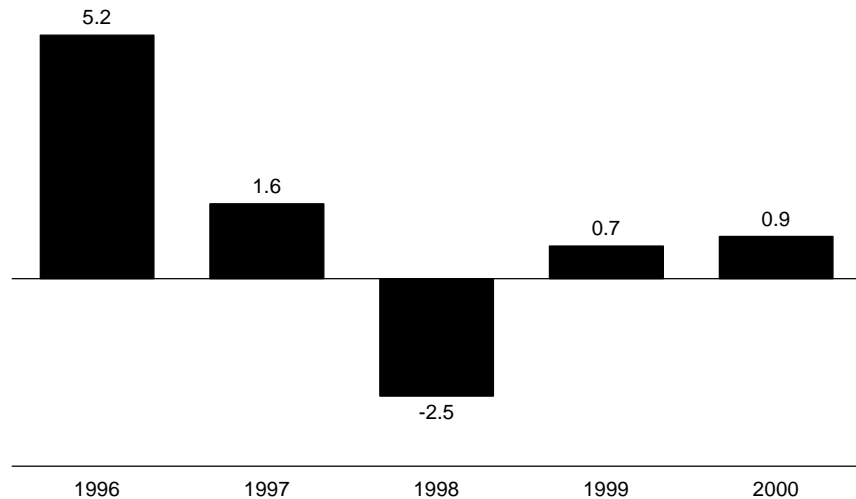
Sources: Data Resources Inc. and Datastream.

The economy of euro zone countries and the United Kingdom will expand by approximately 3%, one percentage point more than last year.

The recovery will continue this year in most Southeast Asian countries. However, the growth of the Japanese economy will continue to be curtailed by the major structural problems that still affect it.

Consequently, the Bank of Japan will have to keep its interest rate policy at 0%. In late 1999, the Japanese government had to introduce a new macroeconomic recovery plan, its ninth since 1992. This plan worth ¥18 trillion (US\$172 billion) is equal to about 4% of GDP. Despite these efforts, experts anticipate that Japan's economic growth will remain below 1% over the next few years.

GRAPH 1.22

GROWTH IN REAL GDP – JAPAN
(as a percentage)

Source: Data Resources Inc.

Sustained growth of the US economy

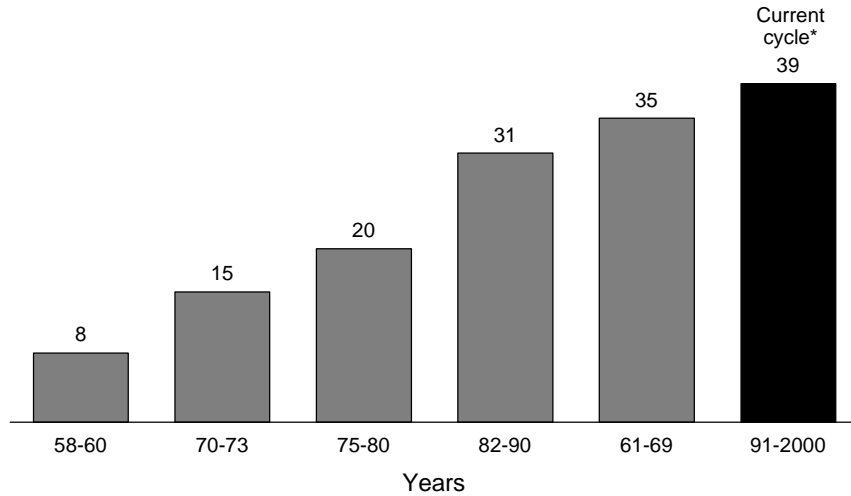
According to experts, economic activity should grow by 3.6% in the United States this year. The unemployment rate should remain low, around 4% on average.

The US economy is currently experiencing its longest expansionary cycle since World War II. By the end of 2000, the cycle will have lasted 39 quarters.

Despite the vitality of the economy, analysts anticipate that inflationary pressures will be contained and that the inflation rate will amount to approximately 2.4%.

GRAPH 1.23

LENGTH OF ECONOMIC CYCLES IN THE UNITED STATES
(number of quarters)



* As at December 31, 2000.

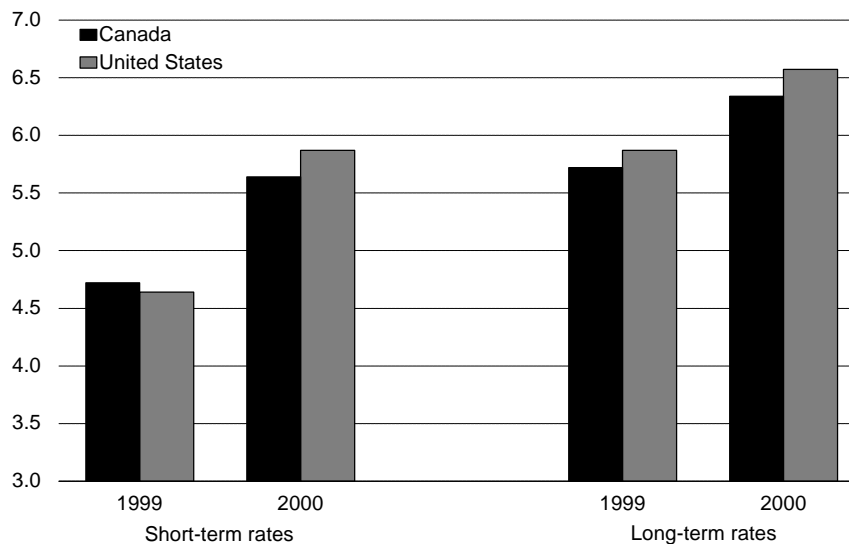
Sources: United States Bureau of Economic Analysis and Data Resources Inc.

Interest rates will continue to rise

Sustained economic growth and a growing risk of inflation will push up interest rates in all industrialized countries. In the United States and Canada, more restrictive monetary policies will continue to be implemented. Consequently, it is estimated that in Canada short-term interest rates will be about 90 basis points higher than in 1999, while long-term interest rates will increase by roughly 60 basis points.

GRAPH 1.24

INTEREST RATES – UNITED STATES AND CANADA (as a percentage)



Sources: Bank of Canada, United States Federal Reserve and ministère des Finances du Québec.

Continued growth in Québec

Overall, the economic context will be conducive to continued economic growth in Québec. The Québec economy will not only be able to count on a vigorous US economy and economic recovery in Europe and Asia, but will also be supported by fiscal and budgetary policies favourable to growth.

However, the economy will have to contend with more restrictive monetary policies and a reduction in the purchasing power of consumers stemming from the increase in the price of oil. In this context, real GDP should grow by 3.3% in 2000 and 2.7% in 2001.

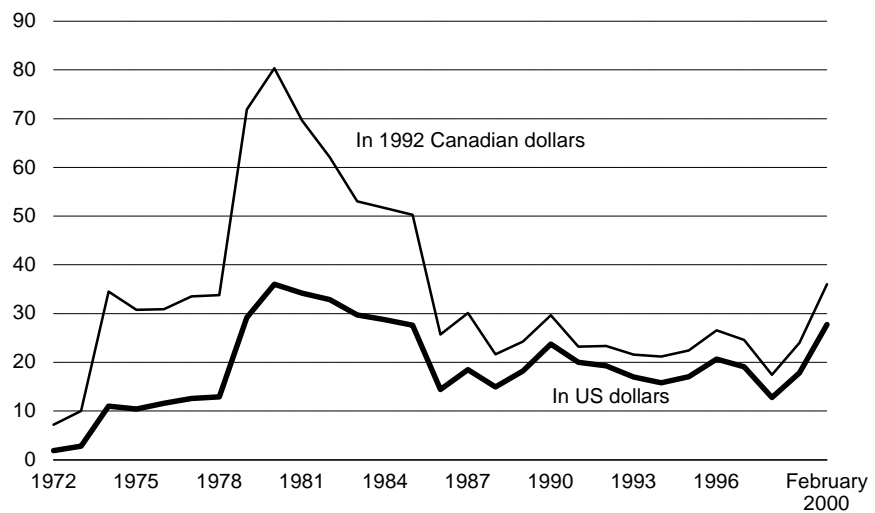
This year, labour market conditions should continue to improve with the addition of 70 000 new jobs and a further decrease of one percentage point in the unemployment rate, to 8.3%. In 2001, the unemployment rate should fall to 7.9%.

Temporary acceleration of inflation

Despite the absence of domestically generated inflationary pressures, the inflation rate has risen in Québec in recent months. This increase, which has also been observed in Canada, the United States and other industrialized countries, is attributable mainly to the rapid rise in crude oil prices world-wide. In February 2000, even though these prices were half what they were in the early 1980s in 1992 Canadian dollars, they were at their highest level since the Gulf War in late 1990.

GRAPH 1.25

PRICE OF A BARREL OF OIL¹ (in dollars)



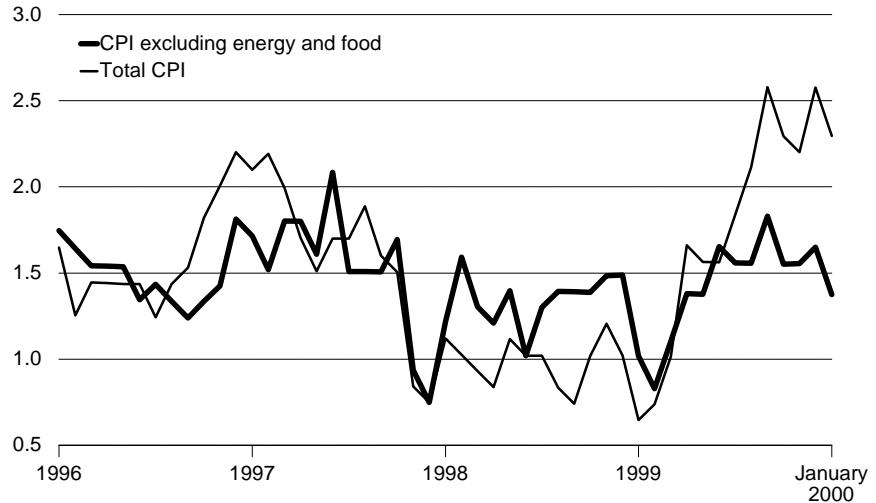
1 Price of North Sea oil beginning in 1982 and of Arab light oil prior to that date.
Sources: International Energy Agency, Statistics Canada and Bank of Canada.

Between January 1999 and January 2000, the price of a barrel of oil more than doubled, from US\$11.07 to US\$25.44 (crude oil from the North Sea). This sharp increase had an impact on the price of fuel and heating oil. Over the same period, the CPI for gasoline and fuel oil rose by over 20% in Québec and Canada.

However, between January 1999 and January 2000, the price index for commodities other than energy and food increased by only 1.4% in Canada (1.7% in Québec). This rate is lower than the midpoint of the target band (1% to 3%) set by the Bank of Canada.

GRAPH 1.26

CONSUMER PRICE INDEX - CANADA
(annual percentage change)



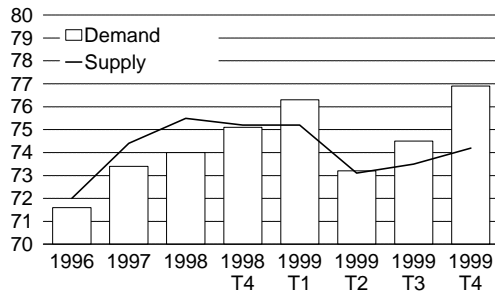
Source: Statistics Canada.

According to experts, part of the rise in the price of oil should be temporary. Most foresee a gradual decline, particularly because of an increase in the output of OPEC and non-OPEC countries during the year. Based on the current average private-sector forecast, the price of oil is expected to fall in 2001 to nearly US\$21. This would be equivalent to the price that prevailed in the mid 1990s, before the Asian crisis led to the lows reached in early 1999.

The anticipated decrease in the price of oil will be reflected in the prices paid by consumers, which will help to reduce inflation in 2001.

GRAPH 1.27

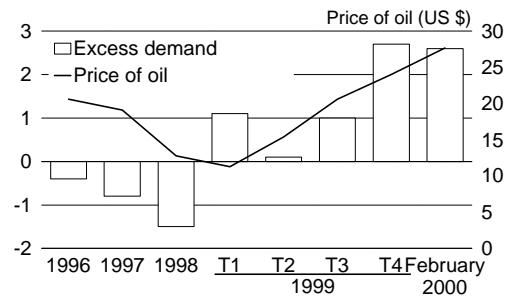
WORLD OIL SUPPLY AND DEMAND
(in millions of barrels per day)



Source: International Energy Agency.

GRAPH 1.28

EXCESS OIL DEMAND
(in millions of barrels per day)



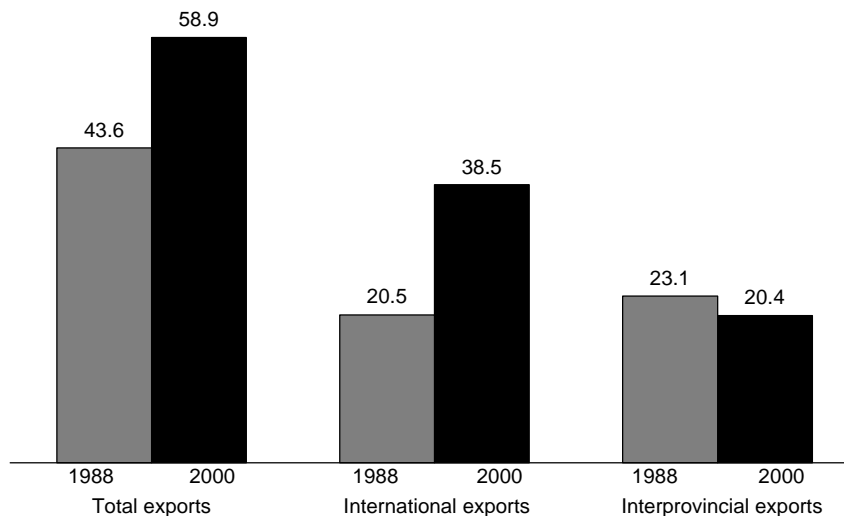
Source: International Energy Agency.

Additional growth in exports

International exports of goods should grow more rapidly than GDP again this year on account of free trade, slow growth in unit labour costs and the favourable Canadian dollar.

International exports of goods should thus increase by 6.1% in 2000 and 5.4% in 2001 (constant dollars).

GRAPH 1.29

QUÉBEC'S INTERNATIONAL AND INTERPROVINCIAL EXPORTS
(as a percentage of GDP)

Sources: Statistics Canada and ministère des Finances du Québec.

Domestic demand

The considerable improvement in labour market conditions in late 1999, the income tax reductions announced for this year and additional government spending will all support household consumer demand in 2000. However, households, which are deeply indebted, will have to contend with higher interest rates and less purchasing power on account of the rise in energy prices.

This year consumer spending should grow by 3.0% in constant dollars and by 4.5% in current dollars, rates higher than those observed last year (2.6% in constant dollars and 3.8% in current dollars).

Residential investment should continue to increase this year owing notably to the decline in the number of unsold new housing units and the vacancy rate for rental housing. In this context, real residential spending should climb by 4.7% this year, while housing starts should reach 26 400 units.

The context will remain favourable to the growth of non-residential investment this year, while work on major construction sites, such as the Alcan and Magnola projects in Alma and Asbestos respectively, will be pursued.

The financial health of enterprises improved substantially in 1999. Corporate profits rose by 13% last year after falling slightly in 1998 on account of the weak raw material prices generated by the financial crisis in Southeast Asia. However, many enterprises, which are operating at close to full production capacity, will have to boost their investments if they are to meet sustained domestic and foreign demand. Consequently, non-residential investment should grow by 4.7% this year.

TABLE 1.4

ECONOMIC OUTLOOK
 (percentage change)

	1999	2000	2001
OUTPUT			
— Real gross domestic product	3.7	3.3	2.7
— Gross domestic product	4.8	5.3	4.0
COMPONENTS OF EXPENDITURE			
— Consumption	3.8	4.5	4.2
— Housing starts ('000)	25.7	26.4	27.4
— Non-residential investment	3.0 ¹	4.7	2.1
— International exports of goods ²	10.2	6.1	5.4
COMPONENTS OF INCOME AND PRICES			
— Wages and salaries	3.5	4.2	3.6
— Personal income	2.8	4.0	4.1
— Corporate profits	13.4	14.0	3.7
— Consumer prices	1.5	1.9	1.4
LABOUR MARKET			
— Labour force	1.1	1.0	1.0
— Employment	2.3	2.1	1.6
— in thousands	76	70	54
— Unemployment rate (%)	9.3	8.3	7.9
INTEREST RATES – CANADA (%)			
— 3-month Treasury bills	4.7	5.6	5.8
— 30-year Canada bonds	5.7	6.3	6.4

1 Statistics Canada, Private and public investment.

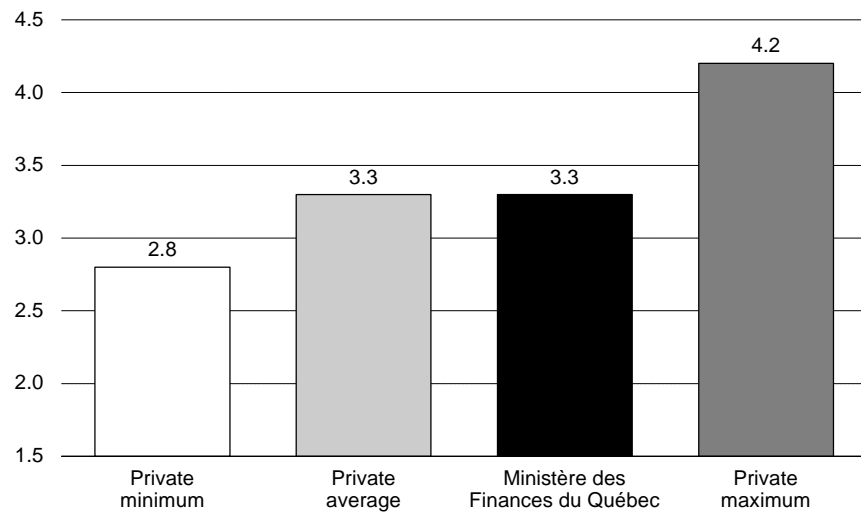
2 Constant 1992 dollars.

Comparison with private-sector forecasts

The forecasts used to prepare the financial framework are comparable to the average rate that emerged from a recent survey of private-sector forecasts. The economic growth forecasts included in this Budget are identical to those of the private sector, for both 2000 (3.3%) and 2001 (2.7%).

GRAPH 1.30

ECONOMIC GROWTH IN QUÉBEC – 2000 COMPARISON WITH PRIVATE-SECTOR FORECASTS (percentage change)



Source: According to a ministère des Finances du Québec survey.

As for the interest rate assumptions used to prepare the Budget, they are not very different from the average private-sector forecasts for 2000 and slightly higher than those for 2001.

TABLE 1.5

COMPARISON WITH PRIVATE-SECTOR FORECASTS - QUÉBEC
 (as a percentage)

	Private sector	Ministère des Finances du Québec
REAL GROSS DOMESTIC PRODUCT		
2000	3.3	3.3
2001	2.7	2.7
CONSUMER PRICES		
2000	2.1	1.9
2001	2.0	1.4
INTEREST RATES		
Short-term		
2000	5.4	5.6
2001	5.4	5.8
Long-term		
2000	6.4	6.3
2001	6.2	6.4

Source: According to a ministère des Finances du Québec survey.