LAURENTIAN BANK

Press release

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LAURENTIAN BANK ECONOMISTS SUGGEST FOUR ELEMENTS TO CONSIDER AS PART OF A 2011 RRSP INVESTMENT STRATEGY

Montréal, February 16, 2011 – According to experts with Laurentian Bank's Economic Research group, there are four key global factors that will influence the economic environment in 2011. These four decisive elements are to be considered in adopting an investment strategy so as to take advantage of the major movements that will have repercussions on the world economy, and thus, on the Canadian economy as well.

Laurentian Bank Securities (LBS) Assistant Chief Economist, Sébastien Lavoie, has identified the following crucial factors. "Two events that occurred recently in the United States — the introduction of fiscal stimulus and the program to purchase $6 billion worth of Treasury bonds — have positioned the American economy favourably. However, inflation related to the increased price of food, which is mainly affecting emerging countries, and the sovereign debt crisis will cause some turbulence within the global economic environment."

Anticipated Recovery in the U.S.

According to the latest data, all economic activity lost during the recession has now been regained in the United States. Certain tax relief measures and fiscal easing maintained from the Bush era are boosting the amount of available revenue, which, in turn, serves to stimulate household spending. Nevertheless, the American government will not be able to continue supporting the economy for long via fiscal stimulus programs. "The U.S. will reach its borrowing limit of $14.3 billion stipulated by law this spring," explains Sébastien Lavoie. "And Washington will sooner or later have to attack its structural deficit. Currently, the federal debt equals 62% of GDP, while it was hovering between 30% and 40% in the 1960s and 1970s."

To facilitate the transition from recovery to sustainable growth, new jobs must be created. However, profitable companies are delaying job creation and hiring, citing the difficulty of finding qualified workers. It is not certain that Federal Reserve Chairman Ben Bernanke will be fully satisfied with the improved conditions in the labour market once the $600 billion Treasury bond purchase program will be over at the end of June. In that regard, there are other easing measures to be envisaged. "Without the creation of new jobs," underlines Sébastien Lavoie, "American banks will not be very enthusiastic about granting loans. Ultimately, we expect the U.S. economy to show vigorous growth of 3.2% this year, which is slightly higher than the rate of 2.9% it posted in 2010."

Two Concerns Elsewhere in the World

For their part, the poor weather conditions that prevailed in several regions of the world had their own consequences, resulting in sharply increased food prices. The effects were indeed substantial in various countries, with the swollen prices accounting for inflation rates of between 4% and 9% in China, India and Brazil, where people typically spend more on food. In response to this major issue, authorities have had to begin increasing interest rates. Despite the situation, investors should not be too hasty in relinquishing their stock holdings in the raw materials sector urges Sébastien Lavoie. "The potential of emerging countries will not be derailed because of the monetary normalization underway. It will simply slow the pace of their growth slightly."

Moreover, the year 2010 clearly brought to light the scale and disastrous consequences of the immense debt accumulated in a number of European countries. After Greece, Ireland and Portugal, it was Spain's turn to take the hot seat. Investors in this market are well advised to be selective. "Fiscal constraints and high inflation have plunged the United Kingdom back into recession," continues Sébastien Lavoie. "But the strong growth of Germany is continuing within a climate of confidence and a low unemployment rate the likes of which that country has not seen in 20 years." As such, the real GDP across the European continent is expected to grow at a reasonable rate of 2.5%.

Repercussions on the Canadian Economy

The Canadian economy should benefit more from the upturn in the United States than suffer the repercussions of the events in Europe or the inflation originating from emerging countries. The increased American demand should allow export volumes in Canada to grow at their fastest pace since 2004. “We nevertheless expect that Canada’s real GDP growth will decelerate from 3% to 2.0-2.5%,” concludes Sébastien Lavoie, “given that household spending, which was the key engine of domestic growth before, is going to moderate.” Within this context, LBS Economic Research projects that the policy rate normalization process will only begin in the third quarter of 2011. Successive quarter-point increases should bring the overnight rate target near 2% by the end of 2011 and 2.75% by the end of 2012.

Increasingly threatening inflation, turbulence in the Arab world, and growing concerns about European debt could all serve to temporarily stagnate stock markets in 2011. However, when we shift our attention away from these elements that call for prudence in the short-term and focus only on the long-term, the global economic outlook favours investment in the American stock market, where the large multinationals are in an excellent position to benefit from the potential of emerging countries and depreciating currency. Without overrating the U.S. market, the S&P/TSX will nevertheless be able to gain solid ground thanks to the natural resources sector. However, Canadian household debt will not ease for some time — making for a context less favourable for discretionary consumption securities — although certain retailers will profit from the strong dollar to reduce the cost of their imported goods and maintain high profit margins. Despite the start of a monetary normalization process and some inflationary signs, interest rates remain low such that the price of bonds should continue its decline for approximately two more years. It is at that point that longer-term bond returns will become more attractive as part of an investment strategy for retirement.

About Laurentian Bank

Laurentian Bank of Canada is a banking institution operating across Canada and offering its clients diversified financial services. Distinguishing itself through excellence in service, as well as through its simplicity and proximity, the Bank serves individual consumers and small and medium-sized businesses. The Bank also offers its products to a wide network of independent financial intermediaries through B2B Trust, as well as full-service brokerage solutions through Laurentian Bank Securities.

Laurentian Bank is well established in the Province of Quebec, operating the third-largest retail branch network. Elsewhere throughout Canada, it operates in specific market segments where it holds an enviable position. Laurentian Bank of Canada has more than $23 billion in balance sheet assets and more than $15 billion in assets under administration. Founded in 1846, the Bank employs more than 3,600 people.

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