



## PRESS RELEASE



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## Canada's growing popularity with foreign investors has

### Strategic advantages over many advanced economies increasingly well recognized

**TORONTO, Ontario, July 14, 2010** — Canada's outperformance versus many advanced economies is creating "staying power" for the country's growing popularity with foreign investors, notes a new report from CIBC World Markets Inc.

"Canada is increasingly on the lips and minds of international investors," says Warren Lovely, government strategist with CIBC's Macro Strategy group, fresh back from meetings with investors across the U.S. and Asia. "Those we've talked to are getting religion on Canada's potential outperformance versus a growing list of advanced economies. Indeed, it's hard to recall a time when the country possessed such relative, if not absolute, strength."

In CIBC's latest Global Positioning Strategy report, Mr. Lovely identifies a growing list of "strategic advantages" that are boosting interest in Canada and its weighting in global investment portfolios.

Central to Canada's strong story is its fiscal advantage, says Mr. Lovely. He points first to Canada's much smaller need for fiscal adjustments to stabilize debt ratios. "Canada's provinces are not feeling the same heat as some U.S. states, are less prone to severe program cuts or increased revenue measures, and are therefore putting their regional economies at less risk."

In addition, the revenue picture for Canada's federal and provincial governments is also "brightening materially" with \$15 billion in extra revenue projected for the year.

Mr. Lovely says the fiscal improvement will serve to reduce borrowing requirements and protect federal and provincial credit ratings. It also means less bond issuance from Ottawa which will "leave plenty of room in the long end for provincial and corporate issuers."

Other distinguishing advantages for Canada noted in the report include the following:

- Years of fiscal outperformance and surpluses in Canada have created budgetary room to slash corporate taxes. This result combined with important tax reforms have given Canada a growing advantage over competing tax jurisdictions.
- Canada has emerged as a growth leader in the developed world, with the IMF the latest forecaster to see the country leading the G7 in terms of average real GDP growth during 2010-11. While Canada's growth rate is only modestly above that of the U.S., its indicators of domestic economic health, such as employment, are substantially brighter.
- Canada has a well-capitalized banking sector with a less dramatic adjustment to regulation in store.
- Canadian exporters have limited direct exposure to slow-growing Europe and at the same time have had success in increasing exports to the faster-growing BRIC region.

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- Healthy international and interprovincial migration, particularly in western Canada has created less onerous demographic pressures which in turn support a faster potential economic growth rate.
- But Mr. Lovely also sees some challenges to Canada's continuing outperformance. He notes that three quarters of Canada's exports go south of the border, meaning a "U.S. slowdown will leave its mark on Canada."

"Canadian and U.S. real GDP growth has never been more tightly correlated than during the past five years. So the end of an American inventory rebuilding process will sap demand for Canadian wares," adds Mr. Lovely.

Other risks to Canada's economic prospects include the impact of a continuing strong Canadian dollar on manufacturing, an overheated housing market and highly indebted household sector.

"Notwithstanding these challenges, Canadian governments are courting international investors from a position of strength, hardly beholden to foreign capital, but happy to take full advantage of a healthy appetite for Canadian fixed income product," says Mr. Lovely. "The message is getting through, and there's every reason to believe that today's strong foreign investor interest in Canada will have staying power."

The complete CIBC World Markets report is available at:

[http://research.cibcwm.com/economic\\_public/download/gps\\_jul10.pdf](http://research.cibcwm.com/economic_public/download/gps_jul10.pdf)

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