



**Bank
Financial
Group**

TD Economics

Commentary

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AUGUST GDP – PREVIEWING THE HALLOWEEN HORROR SHOW

- Real GDP drops by 0.3% in August
- Retreat was broadly based

July's stunning real GDP growth of 0.7% could very well have been, along with a lagging but equally remarkable September employment report (+107,000 jobs), the last hurrahs the Canadian economy will see for a while. Summer has come and gone, and as if in tune with the cycle of seasons, this morning's August GDP report was much more sombre. The Canadian economy contracted by 0.3% in August. In our view, it unfortunately is also more indicative of what is to come in the next few quarters. Lagging behind as usual, expect employment reports for Q4 and beyond to join in singing the blues.

The real GDP decline observed in August was broadly based and led by exactly those sectors of the economy that jumped ahead in July, namely wholesale trade (-3.1%), manufacturing (-1.1%), and the energy sector (-0.5%). Both the goods and services sides of the economy slipped, respectively by 0.6% and 0.2%. On the goods side, only agriculture and utilities recorded increased levels of activity. Construction activity posted a 0.3% drop generalized across segments but most hardly felt in residential activity (-0.7%). The decline in manufacturing was widespread, reflected in 18 of the 21 manufacturing sub-sectors. Meanwhile, the services side of the economy was more mixed with higher activity recorded in 8 sectors (led by accommodation & food, and professional & technical services) and lower activity recorded in the 5 sectors (led by wholesale trade, transportation & warehousing, and arts & entertainment). A large drop in automotive wholesaling was said to account for three quarters of the 3.1% retreat in overall wholesale trade. And the bellwether retail trade sector has been flat over the last four months.

REAL GDP AT BASIC PRICES - CANADA			
August-08			
	Level* (Billions)	% Chg. M/M	% Chg. Y/Y
All INDUSTRIES	1232.3	-0.3	0.6
GOODS INDUSTRIES	367.2	-0.6	-2.3
Manufacturing	178.1	-1.1	-4.0
Mining, oil & gas extraction	56.4	-0.5	-3.2
Construction	74.2	-0.3	1.2
Utilities	31.1	0.1	0.4
SERVICE INDUSTRIES	867.4	-0.2	1.9
Wholesale trade	70.8	-3.1	0.1
Retail trade	75.1	0.0	2.8
Transport. & warehousing	57.2	-0.6	0.5
Finance, Insurance, Real Estate	247.7	0.1	2.3
Education Services	61.0	0.3	3.2

* 2002 Chained Prices; Source: Statistics Canada / Haver Analytics.

Despite the drop in August and another likely in September, Q3 is on track to post growth near 1.0%. The Bank of Canada (BoC) expects growth of 0.8% in Q3. Would slightly better-than-expected performance in Q3 mean the BoC would hold off easing the overnight rate further? Not likely. Looking ahead, the Canadian economy is expected to experience a recession in the coming quarters. U.S. real GDP is estimated to have slipped by 0.3% in Q3, with consumer spending shrinking by a whopping 3.1%. The worst is yet to come for that economy in terms of real economic activity and job losses. We expect U.S. real GDP to record its worst performance in decades, retreating by around 3% in Q4, with the Canadian economy mirroring this performance with a 2.5-3.0% decline, the worst since 1991. Our latest detailed forecasts will be made available on our website later today.

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