



**Bank  
Financial  
Group**

# TD Economics

## Revised Economic Forecasts

October 31, 2008

### A TALE OF TWO VIEWS

In our September 25th Quarterly Economic Forecast (QEF), we put the spotlight directly on the cost and availability of credit and its potential impact on the economic outlook. The good news is that the cost of credit has come down in recent days. This offers some hope that the increasingly bold actions of central banks and governments will work at alleviating the strains in the global financial system. The bad news is that the road to recovery has been excruciatingly slow. Funding costs are still stubbornly high and all data released in the past month suggest that the global economic costs of the credit squeeze appeared sooner and more forcefully than we had anticipated. We find it necessary to revise down our 2008 and 2009 economic forecasts for the U.S., Canada and the global economy relative to our September 25th outlook in order to incorporate recent developments. As we argued in September, we continue to believe that the necessary conditions for a gradual economic recovery are:

1. home prices bottoming
2. the cost of funds to financial institutions falling
3. the worst of institutional failures in the rear view mirror
4. the process of recapitalization of the financial system well underway

Even with the downgrade to our base-case forecast, we are still left in a heightened sense of uncertainty about

#### HIGHLIGHTS

- We have not seen a coordinated global economic shock of this magnitude since the oil shocks in the 1970s or even the Great Depression.
- Funding costs remain stubbornly high and the credit crunch continues to disrupt day-to-day financial activities.
- As a result, relative to our September 25th forecast, we now expect Canada will be in a recession by the end of this year.
- We have also reduced our forecasts for U.S. and global GDP growth in 2009 by nearly a full percentage point.
- Even with the downgrade to our base-case forecast, we are still left in a heightened sense of uncertainty about how quickly and fully credit flows will be restored and the knock-on effects to the global economy.
- We therefore attach a 30-40% chance to the possibility of a more pessimistic outcome, which produces the worst U.S. recession since 1982, and the worst G7 recession since the Great Depression.

how the world economy will fare in 2009 and 2010. Specifically, how quickly and fully credit flows will be restored and what will be the knock-on effects to the global economy from a credit squeeze that has been in place for over a year. In the face of such uncertainty we feel it prudent to examine a more pessimistic alternative scenario (not that the base case is optimistic). This scenario assumes that credit conditions remain so tight as to significantly restrict nonfinancial companies from achieving higher capital investment and employment growth. We have used some

**TABLE 1: RECENT CHANGE IN U.S. FINANCIAL INDICATORS**

Indicator	Change From 9/25-10/29
S&P 500 Index	-23.1%
Major Currency Trade-Weighted US\$	10.9%
3-Month LIBOR-OIS Spread	-35 bps

Source: Federal Reserve Board, Financial Times

previous credit squeezes to help build this scenario. In particular, the Nordic experiences carry certain similarities to that of the U.S., and it is within this context that we present a second, more pessimistic economic outlook. As yet, we are not adopting this view as our base case, but do deem it to have a reasonably high probability of occurring (30-40%).

The tipping point for us to adopt this more pessimistic view would be if we see ongoing stickiness in funding costs and a resultant further erosion in economic activity. This erosion would likely entail much worse business investment and employment trends as more and more corporations reach the point where their inability to secure credit forces them to cut capital investment and employment plans. These decisions would reinforce the slowdown already underway by starting a feedback loop into weaker future consumer spending and investment intentions of businesses and individuals.

**REVISIONS TO THE BASE CASE OUTLOOK**

Relative to the September QEF, we have lowered U.S. real GDP forecasts through the first half of 2009. The deeper economic downturn is a reflection of revisions to largely three components.

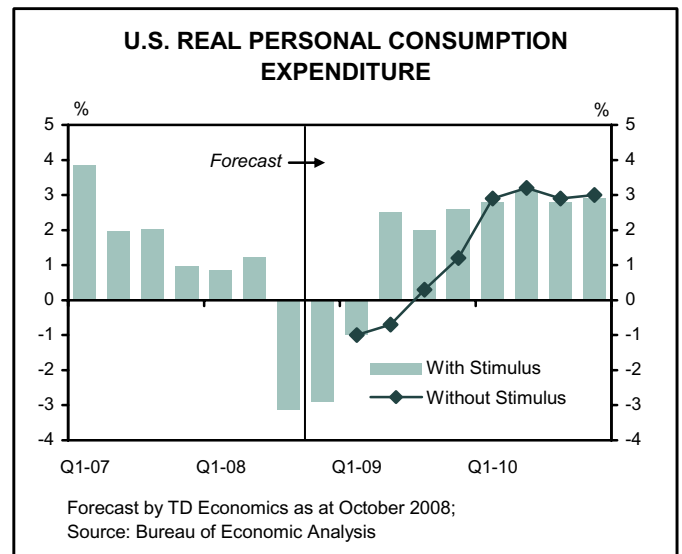
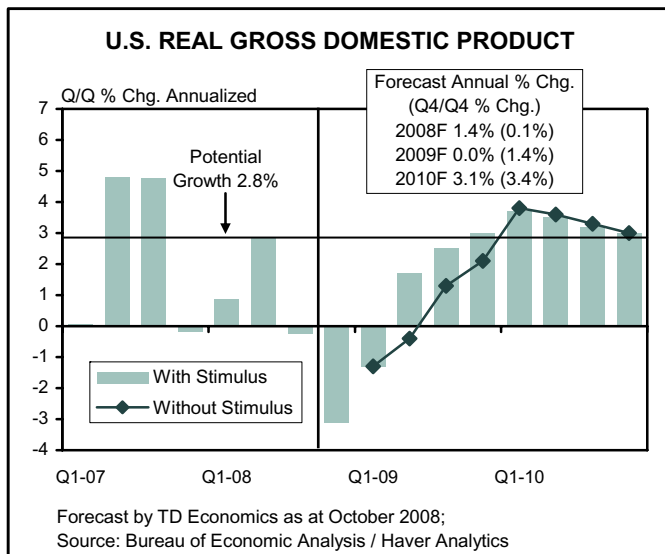
First, consumer spending is making a hastier retreat. More extensive job losses, coupled with financial market turmoil and tighter credit conditions, is taking a much greater toll on consumer confidence and household balance sheets.

Second, we believe the 5.9% boost in exports in the third quarter will be thrown in reverse in the fourth quarter. The competitive trade position of exporters has eroded

significantly since late September. Between September 25 and October 29, the trade-weighted U.S. dollar appreciated 11% against its major trading partners. Our models show that even if the greenback were to stabilize in the near term and depreciate modestly, this will lead to a contraction in U.S. exports in the fourth quarter given the rapid rise in the relative price of American shipments abroad. The U.S. dollar would have reversed 12 months of depreciation in just one quarter. Although the level of the currency is still supportive of exports, such a dramatic currency swing in a short period of time is likely to have a significant dampening effect on U.S. exports in the near term.

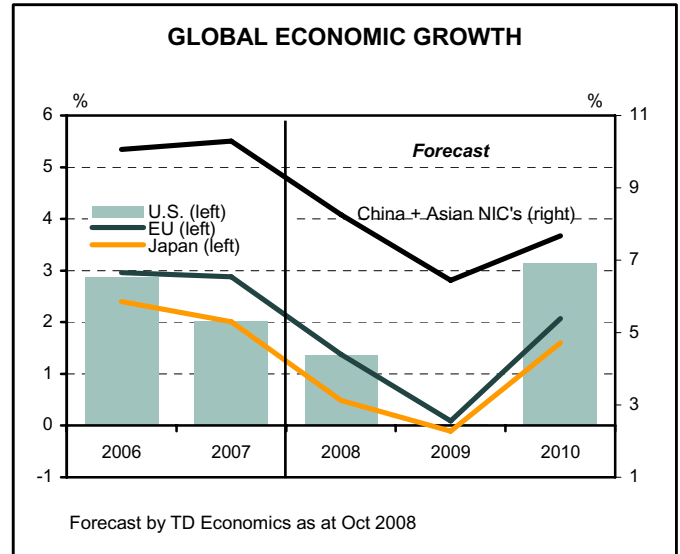
With these near-term quarter adjustments, the annual rate for U.S. real GDP growth is now projected to be 1.4% in 2008 (prior 1.7%) and 0.0% in 2009 (prior 1.1%). Lastly, while we believe the Federal Reserve will continue to be aggressive and cut the Fed Funds Rate to an unprecedented floor of 0.50%, the cost of financing remains significantly higher in October than it did in September, in spite of some improvement in recent weeks. We believe this will lead to more conservative behaviour in business investment than originally estimated. For further details on financing costs, see TD Economics Weekly/Daily Financial Indicators.

There is currently a fair bit of talk on Capitol Hill about a second fiscal stimulus package to American households. Given the rapidly deteriorating economic environment, we deem it likely to occur, but had to make some broad assumptions about the size and timing of the stimulus package. We estimate it won't be in place until the second quarter of 2009 due to the change in Presidential regime in



January. Regardless of the presidential outcome, it seems safe to assume from current discussions that any new fiscal package will include increased spending on infrastructure, financial aid to state and local governments, an extension in unemployment benefits, and personal income tax breaks. We assumed \$150 billion in stimulus, with the government doling out an annual amount of \$100 billion in income tax cuts. We believe the tax cut will be permanent through our forecast horizon, rather than a one-time rebate cheque (like the one distributed in spring of 2008). As a result, it provides a longer lasting lift to consumer spending in 2009, adding one percentage point to real GDP growth over the forecast horizon and likewise causing us to edge up our growth profile for real consumer spending.

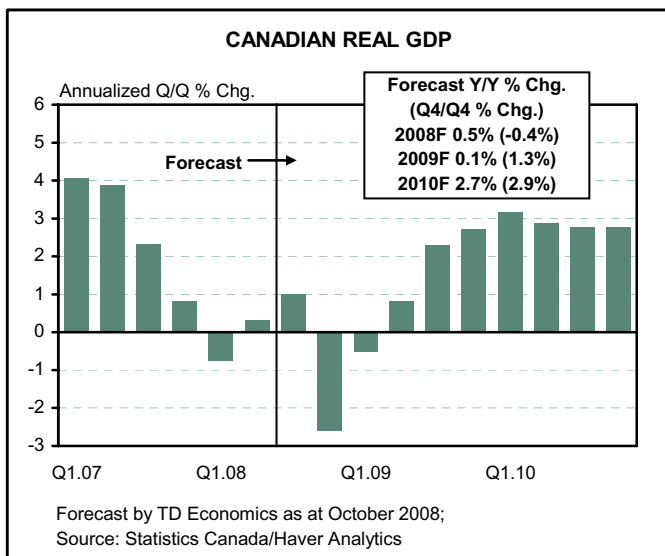
The Canadian economic outlook is a reflection of the crossfire of global financial turbulence and a deeper U.S. recession. We now deem it likely that the Canadian economy will formally tip into a recession at the end of this year, due predominantly to forecast revisions in two areas: exports and business investment. Even though the Canadian dollar has depreciated significantly in recent weeks, this is unlikely to provide much aid to exporters who now face a backdrop of rapidly deteriorating U.S. and global demand. We have marked down export activity over the next three quarters. In addition, higher financing costs, reduced profitability and a sharp drop in commodity prices will likely sideline investment intentions. There is already evidence of this. Import data for the third quarter have shown significant weakness in relation to machinery and equipment (M&E), which correlates well with investment in that area. Moreover, while we typically gauge an



economy by the change in real GDP, producer prices, are also important in determining corporate, personal, and government incomes. Attention should also be paid to the change in nominal GDP. For 2009, we project the first annual decline in nominal GDP since the Great Depression. The sharp decline in commodity prices is a major contributor to this result and will impinge significantly on corporate profits.

Lastly, although Canadian households don't have the same troubles of their American counterparts when it comes to declining incomes and deep losses in real estate wealth, more conservative spending behaviour seems to have crept into the Canadian consumer psyche. The monthly August tracking of real GDP shows that annual growth in retail sales has quickly slowed to half the pace of the prior two years. In light of the high degree of global economic and financial uncertainty, we believe Canadians will continue to show slightly more reservation in purchases, resulting in a slower pace of spending growth in the near term than we had forecasted in September. Canadian real GDP growth estimates were marked down in 2008 to 0.5% (from 0.7%) and in 2009 to 0.1% (from 1.2%).

On the global front, we have moved our 2009 global growth figures substantially lower to reflect a deeper global recession than originally presented in September. The world economy is now expected to expand by just 2.1% in 2009, revised down from 2.9%. This is, in part, a reflection of the weaker profile we now expect for the U.S. economy heading into the end of the year. However, there are also increasing signs that a number of advanced and emerging economies are fraying more rapidly at the seams. In September, we highlighted the three C's – credit, com-

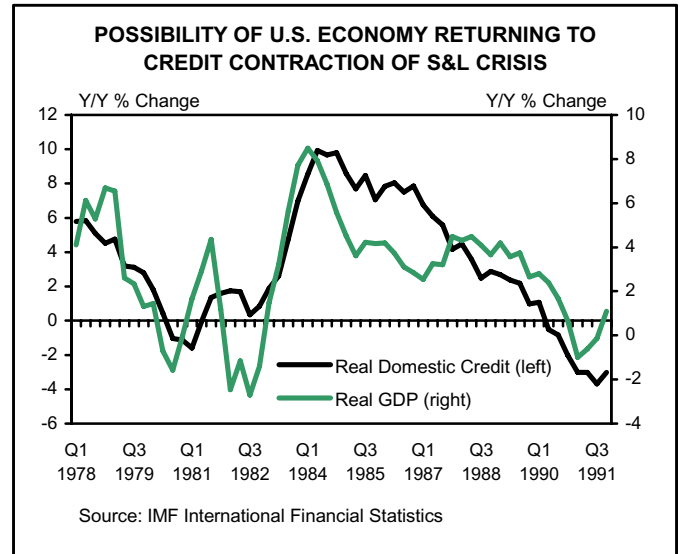


modity prices, and cross-border trade and capital flows – that would define the path of the global economy. The weaker U.S. growth seems to explain some of the softer data coming out of Asia recently, such as the Singapore economy contracting on a year-over-year basis in the third quarter. A more muted expectation for export growth from the Asian region has led to some noticeable downgrades to GDP growth there. While the Brazilian economy will perform better in 2008 than we first forecast, the ongoing and dramatic fall in commodity prices has led to sizeable downward revisions for Brazil, Russia, and other emerging market commodity exporters in 2009. At the same time, the unprecedented scale of freezing in capital flows to emerging markets like Russia and Iceland in recent weeks demonstrated a much larger tendency for contagion to EMs than we expected. So, this weighed on the forecast, as well.

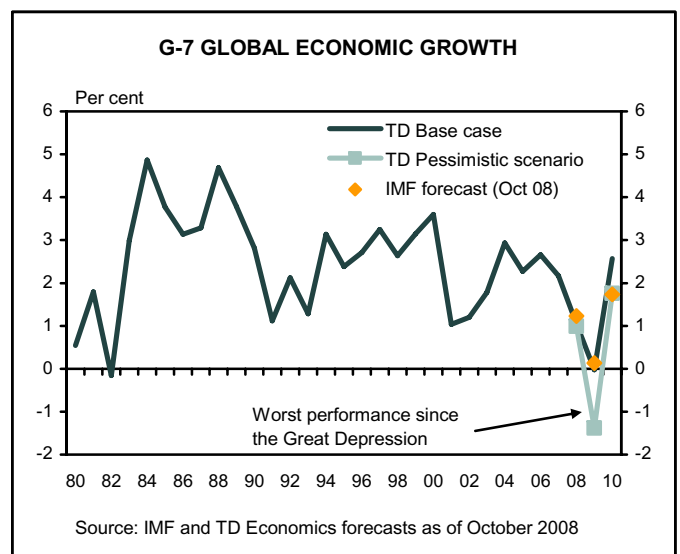
### PESSIMISTIC SCENARIO

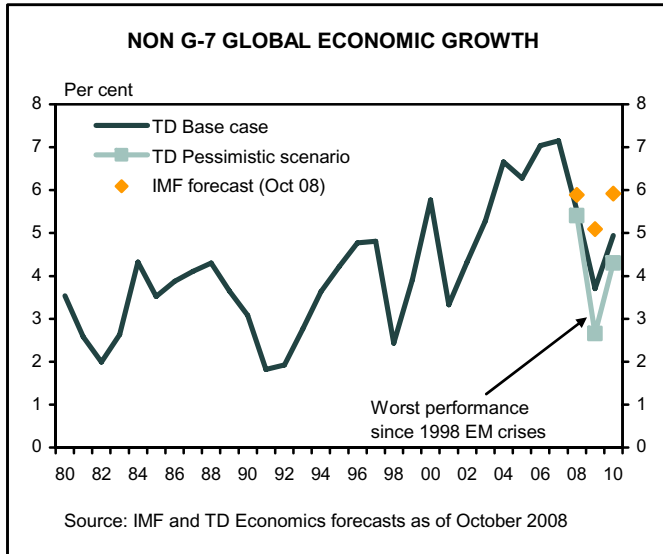
It would hardly be fair to call this revised base case forecast optimistic. After all, it would see the U.S. economy contract by 1.4% between the second quarter of 2008 and the first quarter of 2009 and be joined by a sizeable global recession in 2009. However, there are looming downside risks that the ongoing financial dislocation may pull the rug out from under the U.S. economy, with the hard thud felt around the world. If the U.S. economy follows the historical precedence of times of credit crisis, we will likely see an outright contraction in credit supply (rather than slower growth), resulting in a deeper recession. Regarding our four assumptions laid out in the base case, even if home prices bottom and the worst of institutional failures is in the rear view mirror by mid-2009, the process of bank recapitalization (and global deleveraging) could turn out to be a more extended process and this could keep the cost of funds elevated for a longer period of time.

Under this scenario, the U.S. economy would contract for five consecutive quarters and the recovery would be painfully slow. It is possible that rather than the fifth quarter of slight contraction, we could see a steeper contraction in the earlier quarters. For this reason, we would highlight the cumulative decline in economic output as the defining difference between our base case scenario and this one. From peak-to-trough, the economy would contract by 2.3 percentage points even with a helping hand from a second stimulus package. If not for that assumption, the peak-to-trough decline would be -3.1 percentage points, which puts it in the ball park of a 1980s style recession.



By comparison, the global economy would barely expand (0.9%). This would underperform what had been the worst global economic performance in 1982 when the global economy grew by only 1.1%. While the U.S. would see a similar performance now as then, in 1982, China and what is now the E.U. were already in recovery from recessions in 1980-81, while Japan and the Asian NICs were enjoying periods of rapid economic growth. We have not seen a coordinated global economic shock of this magnitude since the oil shocks in the 1970s, or arguably even the Great Depression. With such sharp contractions this time across advanced economies and rapidly decelerating growth in the emerging market universe, a pessimistic scenario could see a return to the previously unimaginable Never-Never Land – oil below \$30 per barrel and, as a





result, the Canadian dollar back below 70 U.S. cents against the greenback. As such, Canada would not be able to withstand the downward forces of plummeting commodity prices, global deleveraging and extraordinarily weak external demand. It too would experience several quarters of contraction, with real GDP receding by 1.1% in 2009.

#### How different is it this time?

In the September QEF, we highlighted the similarities and differences between the current credit environment and the Great Depression, S&L crisis and Japanese experience. This time we focus on the Nordic experiences over the late 1980s and early 1990s. Among Norway, Finland and Sweden, the latter bears a closer resemblance to events occurring in America. Regardless of the country, however, there are common themes that play out. An asset bubble pops (usually real estate), credit markets become dysfunctional, credit contracts to households and businesses, massive government involvement is required to weed out bad debt/assets from the financial system before investor confidence is restored and pent-up demand begins to prop up the economy again.

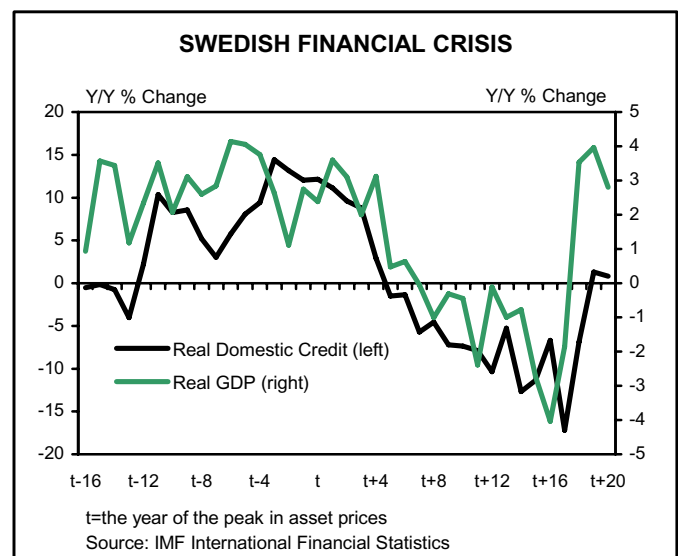
We can divide an analysis into three areas: asset imbalance, response, and economic fallout.

**Asset imbalance:** In every episode, there was an accumulation of debts which seemed manageable when times were good. In many cases, this was helped along by low interest rates and a period of deregulation that tried to make it easier to borrow and lend. In Sweden, the financial sector matured quickly in the late 1970s and early 1980s. The depth of financial markets grew with the introduction of money market funds and increasing government debt. Si-

multaneously, the supply of loans, especially mortgages, increased as restrictions on financial firms to compete were reduced. Demand for mortgages was also helped along by low interest rates and the unintended consequences of other unchanged regulations. For example, borrowers were able to fully deduct interest payments and therefore did not bear the full cost of new borrowing. The details differ, but similar scenarios played out in neighbors Finland and Norway, as well as in the U.S. S&L Crisis across the Atlantic and Japan a world away. Ultimately, too much credit was extended. An increasing amount of defaulted loans led to massive holes on the balance sheets of lenders. And the broad scope of bad debts and insolvent firms impaired the ability to extend new loans.

**Response:** The policy response in Sweden is seen as a success and is being used now as a blueprint of how to respond. In that case, firms aggressively wrote off bad debts. The government also became judge, jury, and executioner. It set up guidelines to determine which institutions were insolvent and then became the owner of bad debts and insolvent firms in order to dispose of the assets in an organized fashion, but not to bail out shareholders. The total size of government involvement in Sweden (4% of GDP) was just slightly less than the current TARP package (5% GDP). In Sweden, firms were forced to issue warrants to the government, and the return on selling these and other assets ultimately led to the government recouping 75 cents (and some estimates are as high as 100 cents) for every dollar spent.

**Economic fallout:** The lesson drawn from the history of financial crises is that the piper must be paid. A suc-



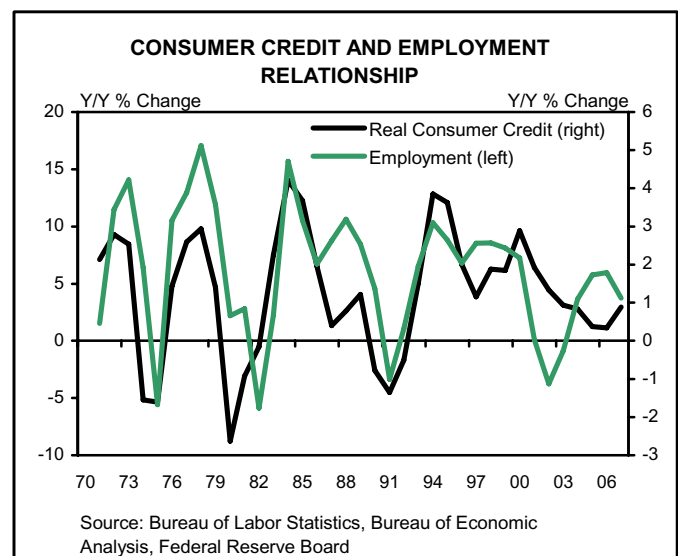
successful policy response can only reduce the collateral damage and make it easier for the economy to return to normal when the crisis has passed. In the Nordic cases, the contraction of GDP (on a y/y basis) lasted anywhere from four quarters to more than three years and the cumulative peak-to-trough decline in GDP was anywhere from 4% to 12%. Even Sweden, whose fiscal response is seen as the example of what to do, saw the economy contract by almost 6% and last for more than two years. The near-term economic slump is necessitated by reduced availability of new credit as losses are unwound and debt levels and lending return to more sustainable levels. In other words, the slump tends to be proportional to the excesses built up. On this account, there is some reason to distinguish events occurring in the United States with that of Sweden and the other Nordic countries that suggest even in the pessimistic scenario, the U.S. recession may not be as deep or extended as that experienced by Sweden and its neighbors.

1. The past rapid expansion of credit ultimately led to higher than desired inflation and the central bank – not just for the Nordics but for Japan and the two earlier U.S. financial crises as well – raised interest rates to try and reduce inflation. To varying degrees, this was responsible for really bringing the overreaching of the past to the forefront. In all of these past cases, though, interest rate easing came very late in the financial crisis. In the current context, easing came early and often.
2. The cumulative gain in home prices in the U.S. five years before prices peaked in mid-2006 was 50%, about half of the cumulative gains in Sweden, Norway, and Finland in the five years prior to their peak prices. This suggests that the overvaluation in home prices may not be as bad in the U.S. as in these Nordic cases.
3. It is also the case that construction responded to prices faster in the U.S. than in these past cases. The peak in construction for Sweden and Norway came a full year after the peak in prices. In the U.S., construction peaked one quarter before the peak in prices. All else equal, this would suggest less of an overhang of bad debts. This was specifically the issue that prevented Japan from recovering, as government money kept firms from going bankrupt by fueling loans and new debts which should have never been made.
4. There were also a number of unique factors in each of these past crises which the U.S. does not share. In the case of the Great Depression, the gold standard limited

policy responses and amplified the harm. In the case of Sweden and many emerging markets, loans existed in foreign currencies which exacerbated the problem. In the case of Finland, the simultaneous collapse in oil prices further slammed the oil exporter's economy. In contrast to the U.S. today, the drop in oil prices is tantamount to a big tax cut for households.

### And what of the U.S.?

In spite of the many important differences, we can't ignore the possibility that if history doesn't repeat for the U.S., it will at least rhyme. The risk of a dire scenario as described by the Nordic experiences has biased our forecasts towards the downside for the past year. However, as this rare event has become a real possibility, we felt it responsible to flesh-out economic scenarios for the U.S., Canadian, and global economy which demonstrated the likely implications of a serious credit-driven event. While there may be several reasons as listed above to think the U.S. might avoid a severe recession, there are also several reasons to be pessimistic. More than any financial crisis since the Great Depression, this crisis is spread around the entire world. Not just with U.S. subprime debt spread around the world, but the principles behind these assets which drove financial innovation around the world. Also, since this is the first financial crisis to involve complex derivatives and new age financial instruments, there is less transparency as to how to value many assets, what the losses could or should be, and even how to liquidate them. There is also a complex web of cross liabilities between firms, such as we saw in the collapse of Lehman, as well as between countries, such as the large amount of



loans Western Europe has extended to Eastern Europe. This further complicates the process of deleveraging. Lastly, there is the growing evidence that the credit crunch is disrupting day-to-day operations that we used to take for granted. For example, oceanic shipping costs, typically a good predictor of commodity prices, have plummeted by 90% in recent months. Rather than reflect a lack of demand, however, this in some part reflects businesses' difficulties in securing letters of credit from the strained financial system needed just to bridge the financing gap in the short time between when the exporter ships its goods and the importer actually receives them.

Government policies to help recapitalize balance sheets and smooth the credit contraction seem to be having little immediate effect on credit. In the historical context, even a response which ultimately proves successful takes time to impact the economy. That economic impact is measured in quarters, not weeks. The crucial questions are on how quickly confidence can be restored to the markets, lower cost credit can flow to businesses and consumers and financial firms can deleverage and recapitalize. Regardless of the scenario, the U.S. will suffer a recession. If our four base-case assumptions listed on page 1 fail to materialize, they may ultimately prove to be the four horsemen.

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## CANADIAN ECONOMIC OUTLOOK: BASE CASE

Period-Over-Period Annualized Per Cent Change Unless Otherwise Indicated

	2008				2009				2010				Ann. Average			4th Qtr/4th Qtr		
	Q1	Q2	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	08F	09F	10F	08F	09F	10F
<b>Real GDP</b>	-0.8	0.3	1.0	-2.6	-0.5	0.8	2.3	2.7	3.2	2.9	2.8	2.8	0.5	0.1	2.7	-0.4	1.3	2.9
<b>Consumer Expenditure</b>	3.1	2.4	1.9	1.4	1.6	2.1	2.4	2.5	2.6	2.8	2.9	3.0	3.8	1.9	2.6	2.2	2.2	2.8
Durable Goods	17.6	-1.2	-3.0	-3.7	-1.9	0.9	1.6	2.0	2.4	2.8	3.2	3.7	6.1	-1.1	2.4	2.1	0.6	3.0
<b>Business Investment</b>	2.1	-1.4	-0.8	-3.8	-1.8	0.1	2.5	2.7	3.4	3.8	3.9	4.1	1.8	-0.9	3.1	-1.0	0.8	3.8
Non-Res. Structures	3.3	-1.7	-0.8	-3.2	-0.8	1.3	2.4	2.6	2.9	3.2	3.3	3.5	-1.5	-0.3	2.8	-0.6	1.4	3.2
Machinery & Equipment	1.2	-1.2	-0.8	-4.2	-2.7	-1.0	2.5	2.7	3.9	4.4	4.4	4.6	4.6	-1.4	3.4	-1.3	0.3	4.3
<b>Residential Construction</b>	-6.7	-3.9	-2.3	-3.6	-1.6	-2.3	2.8	3.2	3.6	3.5	3.7	3.8	-1.9	-1.5	3.1	-4.2	0.5	3.6
<b>Government Expenditure on Goods &amp; Services</b>	2.4	5.1	4.2	2.9	2.7	2.7	2.6	2.6	2.5	2.5	2.5	2.5	4.4	3.1	2.5	3.7	2.6	2.5
<b>Final Domestic Demand</b>	2.3	2.0	1.7	0.7	1.3	1.7	2.5	2.6	2.8	2.9	3.0	3.2	3.3	1.1	2.7	1.7	2.0	3.0
<b>Exports</b>	-4.1	-5.9	-6.2	-9.6	-3.8	-0.8	1.5	2.7	5.2	4.8	4.7	5.0	-4.9	-3.8	3.7	-6.4	-0.1	4.9
<b>Imports</b>	-9.0	2.3	-4.2	-2.4	0.8	1.5	2.1	2.5	4.4	4.6	5.0	5.8	1.5	0.0	3.8	-3.4	1.7	5.0
<b>Change in Non-Farm Inventories (\$97 Bn)</b>	1.9	6.7	5.7	3.5	3.3	3.0	2.7	2.8	3.3	3.4	3.3	3.7	4.4	3.0	3.4	---	---	---
<b>Final Sales</b>	5.5	-1.1	1.3	-1.9	-0.4	0.9	2.3	2.7	3.0	2.9	2.8	2.7	1.1	0.2	2.7	0.9	1.4	2.8
<b>International Current Account Balance (\$Bn)</b>	17.8	27.0	11.4	-10.5	-17.9	-11.8	-13.8	-15.1	-11.4	-10.0	-9.9	-9.1	11.4	-14.7	-10.1	---	---	---
% of GDP	1.1	1.7	0.7	-0.7	-1.1	-0.7	-0.9	-0.9	-0.7	-0.6	-0.6	-0.5	0.7	-0.9	-0.6	---	---	---
<b>Pre-tax Corp. Profits</b>	9.7	37.5	-11.2	-22.4	-15.3	0.1	2.8	7.4	8.2	8.3	8.1	7.6	6.2	-7.4	6.8	1.0	-1.6	8.1
% of GDP	13.3	14.0	13.7	13.1	12.6	12.5	12.5	12.6	12.7	12.8	12.9	13.0	13.5	12.6	12.8	---	---	---
<b>GDP Deflator (Y/Y)</b>	3.1	4.5	3.9	1.7	0.4	-1.5	-0.6	1.0	1.5	1.4	1.7	2.0	3.3	-0.2	1.6	1.7	1.0	2.0
<b>Nominal GDP</b>	4.1	10.6	-1.9	-7.2	-1.0	3.4	2.8	4.0	4.8	5.0	4.8	5.0	3.9	-0.1	4.4	1.2	2.3	4.9
<b>Labour Force</b>	1.9	2.1	-0.3	2.2	1.8	0.6	0.9	1.1	1.2	1.1	1.1	1.1	1.7	1.2	1.1	1.5	1.1	1.1
<b>Employment (%)</b>	2.0	1.1	-0.2	1.5	-0.7	-0.2	0.4	0.7	1.0	1.2	1.4	1.5	1.6	0.2	0.9	1.1	0.0	1.2
<b>Employment ('000s)</b>	86	47	-10	64	-29	-9	18	28	42	51	60	63	274	35	153	187	8	0
<b>Unemployment Rate (%)</b>	5.9	6.1	6.1	6.3	6.8	7.0	7.1	7.2	7.3	7.3	7.2	7.1	6.1	7.0	7.2	---	---	---
<b>Personal Disp. Income</b>	10.0	4.6	3.7	1.5	-1.0	0.8	2.0	3.4	4.0	4.4	4.4	5.0	5.8	1.4	3.6	4.9	1.3	4.4
<b>Pers. Savings Rate (%)</b>	3.1	2.8	3.0	3.1	2.5	1.9	1.6	1.5	1.5	1.6	1.7	1.8	3.0	1.9	1.6	---	---	---
<b>Cons. Price Index (Y/Y)</b>	1.8	2.4	3.4	3.0	2.5	0.8	0.0	0.7	1.3	1.5	1.8	1.9	2.7	1.0	1.6	3.0	0.7	1.9
<b>Core CPI (Y/Y)</b>	1.4	1.5	1.6	2.1	1.7	1.2	1.0	1.0	1.3	1.5	1.8	1.8	1.6	1.2	1.6	2.1	1.0	1.8
<b>Housing Starts ('000s)</b>	234	220	210	185	180	175	170	175	180	182	185	185	212	175	183	---	---	---
<b>Productivity:</b>																		
<b>Real GDP / worker (Y/Y)</b>	-0.6	-1.4	-1.0	-1.4	-0.9	-0.4	-0.3	1.2	1.7	1.9	1.8	1.6	-1.1	-0.1	1.8	-1.4	1.2	1.6

F: Forecast by TD Economics as at October 2008

Source: Statistics Canada, Bank of Canada, Canada Mortgage and Housing Corporation, Haver Analytics

<b>CANADIAN ECONOMIC OUTLOOK: PESSIMISTIC SCENARIO</b>																		
Period-Over-Period Annualized Per Cent Change Unless Otherwise Indicated																		
	2008				2009				2010				Ann. Average			4th Qtr/4th Qtr		
	Q1	Q2	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	08F	09F	10F	08F	09F	10F
<b>Real GDP</b>	-0.8	0.3	1.0	-3.3	-2.2	-1.3	0.9	1.6	2.8	3.2	3.4	3.6	0.5	-1.1	2.3	-0.5	-0.2	3.3
<b>Consumer Expenditure</b>	3.1	2.4	1.9	1.2	-0.1	0.2	1.4	2.1	2.4	2.9	2.9	2.6	3.8	0.9	2.3	2.2	0.9	2.7
Durable Goods	17.6	-1.2	-3.0	-5.0	-3.7	-2.0	0.7	1.8	2.1	2.8	2.6	2.4	6.0	-2.5	1.8	1.7	-0.8	2.5
<b>Business Investment</b>	2.1	-1.4	-1.1	-4.1	-6.1	-4.5	-1.5	-1.0	1.5	2.3	2.6	3.3	1.7	-3.6	0.7	-1.1	-3.3	2.4
Non-Res. Structures	3.3	-1.7	-1.4	-3.7	-4.3	-3.2	-2.4	-2.6	1.6	2.2	2.4	3.2	-1.6	-3.1	0.3	-0.9	-3.1	2.3
Machinery & Equipment	1.2	-1.2	-0.9	-4.4	-7.6	-5.7	-0.7	0.5	1.4	2.3	2.7	3.4	4.6	-4.1	1.0	-1.3	-3.4	2.4
<b>Residential Construction</b>	-6.7	-3.9	-2.3	-3.8	-6.3	-5.4	-3.7	2.1	2.6	2.5	2.7	3.0	-1.9	-4.2	1.2	-4.2	-3.4	2.7
<b>Government Expenditure on Goods &amp; Services</b>	2.4	5.1	4.2	2.9	2.3	2.4	2.4	2.5	2.5	2.5	2.6	2.7	4.4	2.9	2.5	3.7	2.4	2.6
<b>Final Domestic Demand</b>	2.3	2.0	1.7	0.6	-0.7	-0.2	0.9	1.8	2.3	2.7	2.8	2.7	3.3	0.5	2.0	1.6	0.5	2.6
<b>Exports</b>	-4.1	-5.9	-6.2	-10.4	-8.0	-6.3	1.1	1.3	3.9	4.4	4.9	5.7	-5.0	-6.2	2.7	-6.7	-3.1	4.7
<b>Imports</b>	-9.0	2.3	-4.2	-2.4	-4.9	-4.0	-0.3	2.9	3.3	3.9	4.2	4.7	1.5	-2.7	2.6	-3.4	-1.6	4.0
<b>Change in Non-Farm Inventories (\$97 Bn)</b>	1.9	6.7	5.7	2.9	1.1	-0.2	-2.3	-0.8	0.8	2.7	4.5	6.9	4.3	-0.6	3.0	---	---	---
<b>Final Sales</b>	5.5	-1.1	1.2	-2.4	-1.6	-0.8	1.6	1.2	2.4	2.8	2.9	2.9	1.0	-0.7	2.0	0.8	0.1	2.7
<b>International Current Account Balance (\$Bn)</b>	17.8	27.0	11.3	-15.8	-22.2	-16.4	-15.5	-18.8	-15.5	-14.2	-12.9	-9.7	10.1	-18.2	-13.1	---	---	---
% of GDP	1.1	1.7	0.7	-1.0	-1.4	-1.1	-1.0	-1.2	-1.0	-0.9	-0.8	-0.6	0.6	-1.2	-0.8	---	---	---
<b>Pre-tax Corp. Profits</b>	9.7	37.5	-11.2	-32.6	-25.6	-3.0	1.2	6.4	8.9	9.3	8.8	9.1	5.4	-13.4	6.8	-2.5	-6.1	9.1
% of GDP	13.3	14.0	13.7	12.7	11.9	11.8	11.8	11.9	12.0	12.2	12.3	12.4	13.4	11.9	12.2	---	---	---
<b>GDP Deflator (Y/Y)</b>	3.1	4.5	3.9	1.5	0.0	-2.1	-1.3	0.5	1.1	1.2	1.6	1.8	3.3	-0.8	1.4	1.5	0.5	1.8
<b>Nominal GDP</b>	4.1	10.6	-2.0	-8.7	-3.5	0.3	1.2	2.9	4.3	5.1	5.3	5.6	3.7	-1.8	3.8	0.7	0.2	5.1
<b>Labour Force</b>	1.9	2.1	-0.3	2.2	1.8	0.9	1.0	1.2	1.0	1.1	1.1	1.1	1.7	1.3	1.1	1.5	1.2	1.1
<b>Employment (%)</b>	2.0	1.1	-0.2	1.2	-1.3	-1.0	-0.4	0.5	0.9	1.2	1.4	1.6	1.6	-0.3	0.7	1.0	-0.6	1.3
<b>Employment ('000s)</b>	86	47	-10	51	-56	-43	-17	21	38	51	60	69	271	-46	120	174	-95	0
<b>Unemployment Rate (%)</b>	5.9	6.1	6.1	6.3	7.1	7.5	7.8	8.0	8.0	8.0	7.9	7.8	6.1	7.6	7.9	---	---	---
<b>Personal Disp. Income</b>	10.0	4.6	3.7	0.1	-3.2	-1.7	0.7	2.4	3.6	4.5	4.8	5.6	5.7	-0.2	3.1	4.5	-0.5	4.6
<b>Pers. Savings Rate (%)</b>	3.1	2.8	3.0	2.8	2.1	1.4	1.0	0.8	0.8	0.8	1.0	1.3	2.9	1.3	1.0	---	---	---
<b>Cons. Price Index (Y/Y)</b>	1.8	2.4	3.4	2.7	1.9	0.1	-0.7	0.2	1.1	1.4	1.5	1.8	2.6	0.4	1.5	2.7	0.2	1.8
<b>Core CPI (Y/Y)</b>	1.4	1.5	1.6	1.8	1.3	0.6	0.3	0.4	1.0	1.3	1.4	1.6	1.6	0.6	1.3	1.8	0.4	1.6
<b>Housing Starts ('000s)</b>	234	220	210	185	170	165	160	170	175	178	180	182	212	166	179	---	---	---
<b>Productivity:</b>																		
<b>Real GDP / worker (Y/Y)</b>	-0.6	-1.4	-1.0	-1.6	-1.2	-1.1	-1.1	0.3	1.0	1.6	1.7	2.0	-1.1	0.0	1.6	-1.6	0.3	2.0

F: Forecast by TD Economics as at October 2008

Source: Statistics Canada, Bank of Canada, Canada Mortgage and Housing Corporation, Haver Analytics

<b>U.S. ECONOMIC OUTLOOK: BASE-CASE</b>																		
Period-Over-Period Annualized Per Cent Change Unless Otherwise Indicated																		
	2008				2009				2010				Annual Average			4thQtr/4th Qtr		
	Q1	Q2	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	08F	09F	10F	08F	09F	10F
<b>Real GDP</b>	0.9	2.8	-0.3	-3.1	-1.3	1.7	2.5	3.0	3.7	3.5	3.2	3.0	1.4	0.0	3.1	0.1	1.4	3.4
<b>Consumer Expenditure</b>	0.9	1.2	-3.1	-2.9	-1.0	2.5	2.0	2.6	2.8	3.1	2.8	2.9	0.4	-0.3	2.7	-1.0	1.5	2.9
Durable Goods	-4.3	-2.8	-14.1	-13.6	-6.9	7.8	6.1	6.8	7.6	8.0	6.4	6.0	-3.7	-4.0	7.1	-8.8	3.3	7.0
<b>Business Investment</b>	2.4	2.5	-1.0	-4.3	-7.6	-5.0	-1.2	1.0	2.2	2.5	3.1	3.3	3.0	-3.7	1.3	-0.1	-3.2	2.8
Non-Res. Structures	8.7	18.4	7.9	-4.2	-6.2	-3.8	-1.0	0.4	1.2	0.7	0.2	0.4	11.4	-1.2	0.2	7.4	-2.7	0.6
Machinery & Equipment	-0.5	-5.0	-5.5	-4.3	-8.3	-5.6	-1.3	1.4	2.8	3.5	4.9	4.9	-1.0	-5.1	2.0	-3.9	-3.5	4.0
<b>Residential Construction</b>	-25.0	-13.3	-19.1	-18.9	-8.1	2.7	12.8	14.4	15.3	15.8	14.1	13.6	-20.9	-6.6	13.9	-19.2	5.1	14.7
<b>Govt. Consumption &amp; Gross Investment</b>	1.9	3.9	5.8	2.4	2.5	2.2	1.8	1.5	1.3	1.1	1.0	1.0	3.0	2.8	1.4	3.5	2.0	1.1
<b>Final Domestic Demand</b>	0.1	1.3	-1.8	-2.6	-1.2	1.7	2.0	2.5	2.8	3.0	2.8	2.9	0.2	-0.2	2.6	-0.8	1.2	2.9
<b>Exports</b>	5.1	12.3	5.9	-4.1	-1.6	1.4	3.6	4.9	6.5	6.3	6.2	6.3	8.1	1.3	5.4	4.6	2.0	6.3
<b>Imports</b>	-0.8	-7.3	-1.9	-2.7	-0.5	3.5	2.9	3.3	4.0	4.5	5.1	6.5	-2.3	-0.1	4.1	-3.2	2.3	5.0
<b>Change in Non-Farm Inventories (\$96 Bn)</b>	-17.9	-55.1	-38.6	-48.0	-48.7	-39.8	-29.2	-22.9	-4.9	4.8	12.9	19.6	-39.9	-35.1	8.1	---	---	---
<b>Final Sales</b>	0.9	4.4	-0.8	-2.8	-1.4	1.3	2.0	2.7	3.1	3.2	2.9	2.7	1.7	0.0	2.8	0.4	1.2	3.0
<b>International Current Account Balance (\$Bn)</b>	-693	-723	-716	-694	-670	-680	-688	-699	-711	-725	-741	-765	-706	-684	-736	---	---	---
% of GDP	-4.9	-5.1	-5.0	-4.8	-4.7	-4.7	-4.7	-4.7	-4.7	-4.8	-4.8	-4.9	-4.9	-4.7	-4.8	---	---	---
<b>Pre-tax Corporate Profits including IVA&amp;CCA</b>	-4.3	-14.3	-11.9	-20.8	-8.4	10.1	13.7	12.9	15.2	12.5	10.1	8.2	-8.5	-4.9	12.7	-13.0	6.7	11.5
% of GDP	11.3	10.7	10.3	9.7	9.5	9.7	9.9	10.1	10.3	10.5	10.6	10.7	10.5	9.8	10.5	---	---	---
<b>GDP Deflator (Y/Y)</b>	2.3	2.0	2.7	2.4	2.2	2.3	1.6	1.5	1.5	1.5	1.6	1.6	2.3	1.9	1.5	2.4	1.5	1.6
<b>Nominal GDP</b>	3.5	4.1	3.8	-1.3	0.3	3.1	3.9	4.3	5.4	5.0	4.8	4.6	3.7	1.9	4.7	2.5	2.9	4.9
<b>Labour Force</b>	0.0	1.7	1.1	0.2	0.3	0.4	0.5	0.7	0.8	0.9	1.0	1.0	0.8	0.5	0.8	0.7	0.5	0.9
<b>Employment</b>	-0.3	-0.6	-0.7	-1.8	-1.0	-1.0	-0.5	0.7	1.2	1.4	1.7	1.9	-0.1	-0.9	0.9	-0.9	-0.5	1.5
<b>Change in Empl. ('000s)</b>	-113	-218	-251	-623	-447	-342	-171	237	407	476	579	649	-145	-1,273	1,222	-1,205	-723	2,111
<b>Unemployment Rate (%)</b>	4.9	5.3	6.0	6.4	6.8	7.2	7.3	7.5	7.4	7.3	7.3	7.1	5.7	7.2	7.3	---	---	---
<b>Personal Disp. Income</b>	2.9	16.7	-3.0	0.7	3.2	5.8	3.3	4.2	4.9	4.8	4.7	4.7	5.2	3.3	4.6	4.1	4.1	4.8
<b>Pers. Savings Rate (%)</b>	0.2	2.7	1.6	2.1	2.9	3.4	3.4	3.4	3.6	3.6	3.6	3.6	1.6	3.3	3.6	---	---	---
<b>Cons. Price Index (Y/Y)</b>	4.2	4.3	5.3	4.3	3.3	2.2	0.8	1.0	1.2	1.4	1.6	1.7	4.5	1.9	1.5	4.3	1.0	1.7
<b>Core CPI (Y/Y)</b>	2.4	2.3	2.5	2.4	2.1	1.8	1.5	1.4	1.5	1.6	1.7	1.8	2.4	1.7	1.7	2.4	1.4	1.8
<b>Housing Starts (mns)</b>	1.05	1.03	0.88	0.84	0.83	0.89	0.92	0.98	1.02	1.08	1.13	1.18	0.95	0.90	1.10	---	---	---
<b>Productivity:</b>																		
<b>Real Output per hour (y/y)</b>	2.7	2.8	1.1	0.3	0.4	0.4	1.4	2.6	3.2	3.0	2.7	2.2	2.3	1.2	2.8	0.3	2.6	2.2

F: Forecast by TD Economics as at October 2008

Source: U.S. Bureau of Labor Statistics, U.S. Bureau of Economic Analysis, TD Economics

## U.S. ECONOMIC OUTLOOK: PESSIMISTIC SCENARIO

Period-Over-Period Annualized Per Cent Change Unless Otherwise Indicated

	2008				2009				2010				Annual Average			4thQtr/4th Qtr		
	Q1	Q2	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	08F	09F	10F	08F	09F	10F
<b>Real GDP</b>	0.9	2.8	-0.3	-3.4	-3.7	-1.4	-0.4	2.2	2.8	3.5	3.2	3.0	1.3	-1.6	2.2	0.0	-0.9	3.1
<b>Consumer Expenditure</b>	0.9	1.2	-3.1	-3.1	-3.0	-1.1	-0.7	1.7	2.2	2.6	2.7	2.9	0.4	-1.8	1.7	-1.1	-0.8	2.6
Durable Goods	-4.3	-2.8	-14.1	-13.6	-10.4	2.3	1.4	3.7	6.6	8.2	7.4	9.4	-3.7	-6.6	5.7	-8.8	-0.9	7.9
<b>Business Investment</b>	2.4	2.5	-1.0	-7.3	-12.0	-8.8	-6.1	-1.9	0.7	1.5	2.3	2.8	2.8	-6.9	-0.8	-0.9	-7.3	1.8
Non-Res. Structures	8.7	18.4	7.9	-6.5	-12.3	-8.6	-7.1	-3.0	-1.4	-0.8	-0.4	0.6	11.2	-5.2	-2.6	6.7	-7.8	-0.5
Machinery & Equipment	-0.5	-5.0	-5.5	-7.7	-11.8	-8.9	-5.5	-1.2	1.8	2.8	3.9	4.1	-1.3	-7.9	0.2	-4.7	-6.9	3.1
<b>Residential Construction</b>	-25.0	-13.3	-19.1	-19.1	-10.5	-5.0	3.4	12.8	15.1	16.3	15.2	13.9	-20.9	-9.7	12.0	-19.2	-0.2	15.1
<b>Govt. Consumption &amp; Gross Investment</b>	1.9	3.9	5.8	2.4	2.5	2.2	1.8	1.5	1.4	1.1	1.0	1.0	3.0	2.8	1.4	3.5	2.0	1.1
<b>Final Domestic Demand</b>	0.1	1.3	-1.8	-3.0	-3.1	-1.3	-0.6	1.7	2.2	2.6	2.7	2.8	0.2	-1.7	1.7	-0.9	-0.9	2.6
<b>Exports</b>	5.1	12.3	5.9	-4.3	-5.8	-2.3	-1.7	3.8	5.2	5.0	5.2	5.1	8.1	-1.2	3.5	4.7	-1.6	5.1
<b>Imports</b>	-0.8	-7.3	-1.9	-3.0	-1.7	-1.3	-0.5	1.9	2.6	3.1	3.8	5.1	-2.3	-1.9	2.2	-3.3	-0.4	3.6
<b>Change in Non-Farm Inventories (\$96 Bn)</b>	-17.9	-55.1	-38.6	-48.7	-49.7	-49.5	-38.3	-28.9	-18.1	3.7	12.7	17.8	-40.1	-41.6	4.0	---	---	---
<b>Final Sales</b>	0.9	4.4	-0.8	-3.1	-3.7	-1.5	-0.8	1.9	2.6	2.8	2.9	2.8	1.6	-1.6	1.9	0.3	-1.0	2.8
<b>International Current Account Balance (\$Bn)</b>	-693	-723	-716	-690	-682	-680	-694	-701	-709	-719	-729	-747	-705	-689	-726	---	---	---
% of GDP	-4.9	-5.1	-5.0	-4.8	-4.8	-4.8	-4.9	-4.9	-4.9	-4.9	-4.9	-5.0	-4.9	-4.8	-4.9	---	---	---
<b>Pre-tax Corporate Profits including IVA&amp;CCA</b>	-4.3	-14.3	-11.9	-15.9	-18.7	-10.2	-11.0	9.6	7.5	14.6	14.5	12.3	-8.1	-13.0	6.6	-11.7	-8.1	12.2
% of GDP	11.3	10.7	10.3	9.9	9.4	9.2	8.9	9.0	9.1	9.3	9.5	9.7	10.5	9.1	9.4	---	---	---
<b>GDP Deflator (Y/Y)</b>	2.3	2.0	2.7	2.1	1.7	1.6	0.9	1.0	1.1	1.2	1.3	1.4	2.3	1.3	1.3	2.1	1.0	1.4
<b>Nominal GDP</b>	3.5	4.1	3.8	-2.7	-2.6	-0.7	0.8	3.3	4.3	4.8	4.6	4.4	3.6	-0.3	3.5	2.1	0.2	4.5
<b>Labour Force</b>	0.0	1.7	1.1	0.2	0.3	0.4	0.5	0.7	0.8	0.9	1.0	1.0	0.8	0.5	0.8	0.7	0.5	0.9
<b>Employment</b>	-0.3	-0.6	-0.7	-2.1	-2.8	-2.0	-1.5	-0.5	1.2	1.6	1.9	2.2	-0.1	-1.8	0.6	-0.9	-1.7	1.7
<b>Change in Empl. ('000s)</b>	-113	-218	-251	-727	-967	-684	-509	-169	401	536	638	742	-172	-2,503	756	-1,310	-2,329	2,317
<b>Unemployment Rate (%)</b>	4.9	5.3	6.0	6.7	7.4	8.0	8.2	8.4	8.3	8.3	8.2	8.1	5.7	8.0	8.2	---	---	---
<b>Personal Disp. Income</b>	2.9	16.7	-3.0	-0.3	1.9	4.5	2.2	3.0	4.1	4.2	3.9	4.0	5.1	2.3	3.7	3.8	2.9	4.0
<b>Pers. Savings Rate (%)</b>	0.2	2.7	1.6	1.9	2.9	4.0	4.4	4.4	4.6	4.7	4.7	4.5	1.6	3.9	4.6	---	---	---
<b>Cons. Price Index (Y/Y)</b>	4.2	4.3	5.3	3.3	1.9	0.8	-0.8	0.3	1.0	1.3	1.7	1.8	4.3	0.6	1.5	3.3	0.3	1.8
<b>Core CPI (Y/Y)</b>	2.4	2.3	2.5	2.3	1.8	1.5	0.7	0.8	1.0	1.1	1.5	1.6	2.4	1.2	1.3	2.3	0.8	1.6
<b>Housing Starts (mns)</b>	1.05	1.03	0.88	0.84	0.81	0.83	0.86	0.92	0.96	1.03	1.08	1.12	0.95	0.86	1.05	---	---	---
<b>Productivity:</b>																		
<b>Real Output per hour (y/y)</b>	2.7	2.8	1.1	0.7	0.6	0.1	0.3	0.9	1.4	1.7	2.2	1.9	2.4	0.5	1.8	0.7	0.9	1.9

F: Forecast by TD Economics as at October 2008

Source: U.S. Bureau of Labor Statistics, U.S. Bureau of Economic Analysis, TD Economics

GLOBAL ECONOMIC OUTLOOK - BASE CASE					
Annual per cent change unless otherwise indicated					
Real GDP	2007 Share* (%)	Forecast			
		2007	2008	2009	2010
<b>World</b>	99.1	4.8	3.6	2.1	3.9
<b>North America</b>	25.5	2.2	1.3	0.1	3.0
United States	21.4	2.0	1.4	0.0	3.1
Canada	2.0	2.7	0.5	0.1	2.7
Mexico	2.1	3.3	1.6	0.6	2.2
<b>European Union (EU-27)</b>	23.7	2.9	1.4	0.1	2.1
Euro-zone (EU-15)	16.1	2.6	1.1	-0.1	1.9
Germany	4.4	2.6	1.4	-0.1	2.1
France	3.2	2.1	1.0	0.3	1.9
Italy	2.8	1.4	0.1	-0.2	0.9
United Kingdom	3.3	3.1	0.8	-0.5	3.4
EU accession members	3.4	3.6	2.7	1.1	1.8
<b>Asia</b>	35.5	7.6	5.9	4.3	5.5
Japan	6.6	2.0	0.5	-0.1	1.6
Asian NIC's	3.7	5.6	3.4	1.0	3.8
Hong Kong	0.5	6.4	3.8	0.7	4.3
Korea	1.9	5.0	4.0	1.8	4.0
Singapore	0.3	7.7	2.0	-0.8	4.2
Taiwan	1.1	5.7	2.8	0.4	3.1
Russia	3.2	8.1	6.8	3.3	5.0
Australia & New Zealand	1.4	3.9	2.6	2.3	3.3
Developing Asia	20.6	9.9	8.1	6.5	7.2
ASEAN-4	3.1	6.0	5.1	3.2	4.2
China	10.9	11.9	9.9	8.3	9.0
India	4.6	9.3	7.3	6.1	6.6
<b>Central/South America</b>	6.1	6.2	5.0	2.3	3.7
Argentina	0.8	8.7	6.2	2.0	3.2
Brazil	2.8	5.4	5.2	2.2	4.0
<b>Other Developing</b>	8.4	6.2	6.1	4.3	5.6

\*Regional wts. do not sum to 100% because some countries omitted  
Forecast as at October 2008  
Source: International Monetary Fund, national statistical agencies

GLOBAL ECONOMIC OUTLOOK - PESSIMISTIC SCENARIO					
Annual per cent change unless otherwise indicated					
Real GDP	2007 Share* (%)	Forecast			
		2007	2008	2009	2010
<b>World</b>	99.1	4.8	3.5	0.9	3.2
<b>North America</b>	25.5	2.2	1.3	-1.5	2.2
United States	21.4	2.0	1.3	-1.6	2.2
Canada	2.0	2.7	0.5	-1.1	2.3
Mexico	2.1	3.3	1.6	-0.9	1.7
<b>European Union (EU-27)</b>	23.7	2.9	1.3	-0.8	1.4
Euro-zone (EU-15)	16.1	2.6	1.1	-0.7	1.5
Germany	4.4	2.6	1.3	-0.9	1.8
France	3.2	2.1	1.0	-0.2	1.3
Italy	2.8	1.4	0.0	-0.7	0.5
United Kingdom	3.3	3.1	0.7	-2.0	1.5
EU accession members	3.4	3.6	2.7	-0.2	0.9
<b>Asia</b>	35.5	7.6	5.7	3.1	4.9
Japan	6.6	2.0	0.4	-1.2	1.0
Asian NIC's	3.7	5.6	3.5	-1.1	3.1
Hong Kong	0.5	6.4	3.8	-1.3	4.1
Korea	1.9	5.0	4.1	0.3	3.3
Singapore	0.3	7.7	2.0	-3.2	2.8
Taiwan	1.1	5.7	2.8	-2.9	2.3
Russia	3.2	8.1	6.6	1.4	4.5
Australia & New Zealand	1.4	3.9	2.5	1.7	2.9
Developing Asia	20.6	9.9	7.9	5.6	6.6
ASEAN-4	3.1	6.0	5.1	1.2	3.2
China	10.9	11.9	9.5	7.6	8.4
India	4.6	9.3	7.3	5.1	5.9
<b>Central/South America</b>	6.1	6.2	4.8	1.5	3.1
Argentina	0.8	8.7	6.0	1.0	2.0
Brazil	2.8	5.4	4.9	1.1	3.2
<b>Other Developing</b>	8.4	6.2	5.9	3.3	4.6

\*Regional wts. do not sum to 100% because some countries omitted  
Forecast as at October 2008  
Source: International Monetary Fund, national statistical agencies