



**Bank
Financial
Group**

TD Economics

TD Quarterly Economic Forecast

December 10, 2008

PESSIMISM PREVAILS

In the revised economic outlook published October 31st, we put forward two forecast scenarios: base case and pessimistic. Both scenarios incorporated a global recession, with that same fate befalling Canada and the U.S. The difference between the two scenarios, however, was in the depth of the recessions. In the pessimistic case, the U.S. recession would be similar in magnitude to that seen during the 1980s and the global economy would experience the deepest recession since the data began in 1960. This more dire scenario was given a 30-40% probability of occurring, and we noted that it would be adopted if evidence pointed to ongoing stickiness in funding costs and further erosion in economic activity. The jury is in. We have formally adopted this pessimistic scenario as our base case.

Global outlook

The world economy is expected to expand by only 0.5%

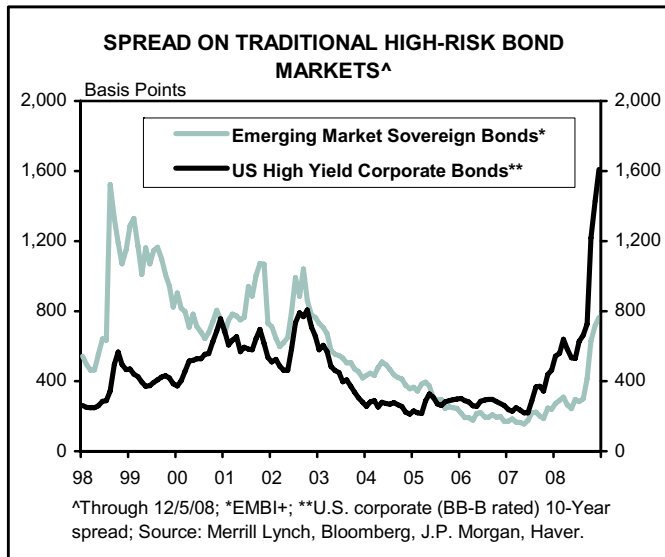


HIGHLIGHTS

- **World economy expected to expand by a meagre 0.5% in 2009. We are witnessing a rare instance in history of a synchronized global recession.**
- **The U.S. recession is one-year in progress and the hardest leg of the downturn has just begun.**
- **Canadian economy is likely to contract until mid-2009.**
- **Tumbling commodity prices will have a unique impact on the real Canadian economy, contributing to an unprecedented 3.2% contraction in nominal GDP, which is the equivalent of shaving \$51 billion from domestic income.**

in 2009 (anything below 3% is deemed a world recession). Since much of the economic weakness is expected to come over the next six months, there is a risk that global growth will come in below zero in 2009. Unlike past global recessions that are largely contained to a specific region (such as Asia or North America), or at the very least roll across different regions with a lag, this is a rare instance in history that we will see a synchronized global economic downturn.

At the heart of the global recession is the ongoing difficulties in credit markets, which know no borders. Credit conditions in North America have tightened further since this past summer (for details, see TD Financial Stress Indicator). In Europe, short-term borrowing costs have been persistently high and even exceeded their American counterparts in late-November. This will continue to impinge on the ability of firms to access credit for day-to-day op-



erations and investment. Meanwhile, as investors try to circumvent risk, emerging markets are directly in their lines of sight. Spreads for the emerging market bond index (EMBI) were bouncing in the 250-300 basis points range into August, but now sit above 750 basis points, after peaking at 850 basis points during October. This leaves little doubt that credit for emerging markets has become more expensive and difficult to obtain. On top of this, emerging markets are faced with slumping demand for their exports compounded by lower revenues due to a downward spiral in commodity prices. And, nowhere in the world have households escaped the downdraft in stock market wealth, while many countries are also faced with deterioration in real estate wealth (such as UK, US, Spain, Australia, Ireland...to name a few). It is now clear that bank recapitalization and global deleveraging will be an extended process, keeping funding costs higher for a longer period of time. We believe we are only at the half-way mark for the global downturn, with advanced and developing economies unlikely to find firmer ground until the third quarter of 2009.

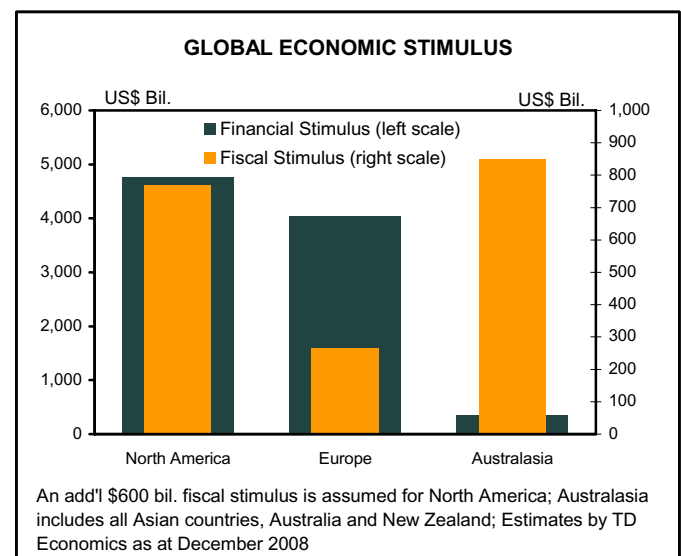
As dire as the current environment seems, the global economy will not be in a perpetual state of economic malaise. Aside from natural forces of pent-up demand that follow a long period of stagnant activity, many nations are also aggressively cutting interest rates, while undertaking fiscal and financial measures to aid households, credit markets and firms in distress. Rough estimates place the total global stimulus tally at about \$10 trillion, or 15% of world GDP. Many of these measures impact the economy with a lag, not to mention that there is likely more help to

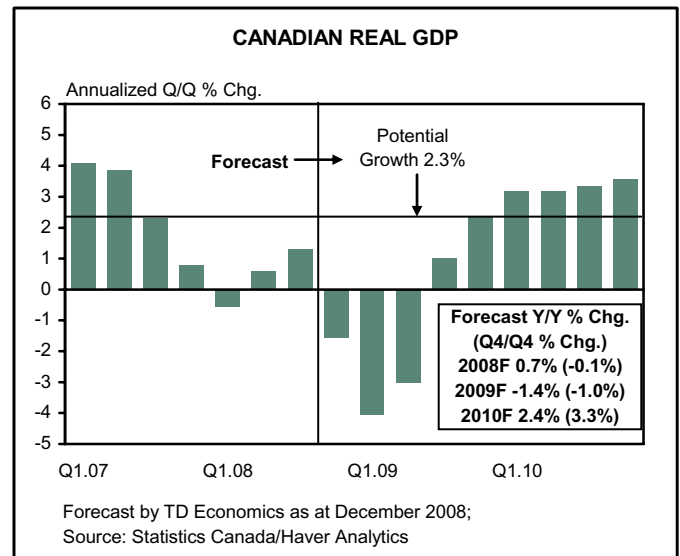
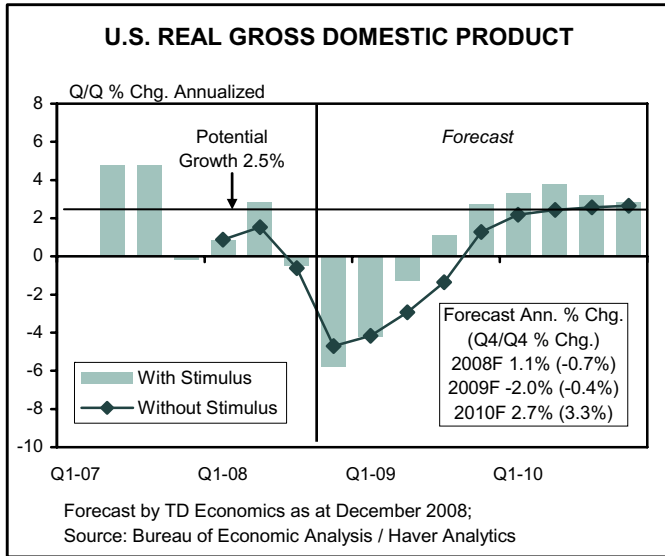
come over the next 1-3 quarters. These financial-aid measures will mitigate the dampening effect of bank recapitalization and global deleveraging, and cause global growth to rebound to 3.2% in 2010.

U.S. outlook

The U.S. economy officially entered a recession in December 2007; however, the hardest leg of the downturn has just begun. Aside from the ongoing credit turmoil impacting business operations and investment, job losses have now accelerated sharply, and not surprisingly, consumers are slamming their wallets shut. Consumer spending in the third quarter contracted by nearly 4%, the greatest decline in nearly three decades. The forward-looking indicators suggest an even steeper contraction in the fourth quarter, and a weak start to the New Year. In past quarters, the one shining light for the U.S. economy was a buoyant export market. But, this star has now burned out. Global demand is collapsing and the competitive advantage of American exporters has been thrown into reverse. The greenback has appreciated a sharp 11% against its major trading partners in the short period from the end of September to November. The combination of these two events leaves exports poised for considerable contraction over the next couple of quarters.

While American households are looking to save more, the government is becoming a big spender. Talk on Capitol Hill is of a second fiscal stimulus plan ranging from \$500 to 700 billion that will be targeted at households, state finances and infrastructure spending. We have assumed that the final bill will be \$600 billion (annualized) in new





stimulus, starting in the second quarter of 2009. This will help limit the downside to the economy thereafter. With money being dedicated to infrastructure investment and with relatively long lead times in developing such projects, this has increased the likelihood that the end of 2009 and 2010 will benefit from a relatively solid rebound. In addition, the combination of lower gasoline prices and our assumption that some of the fiscal stimulus will be directed towards permanent income tax cuts, will likely fatten the wallets of American consumers, placing them back in the driver's seat in 2010.

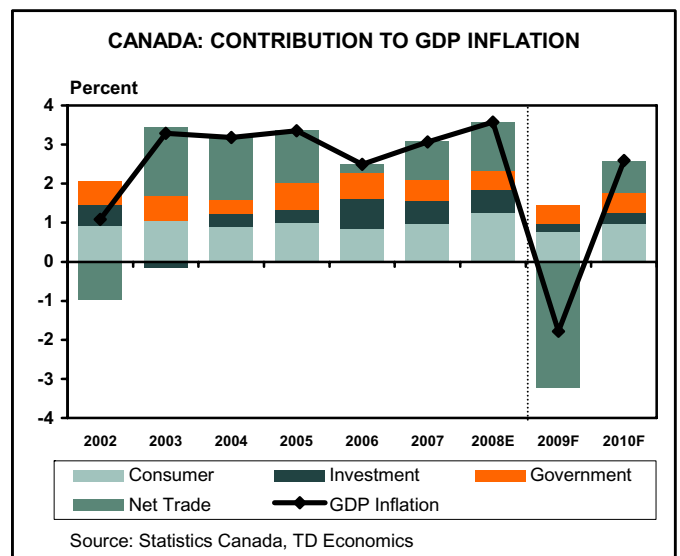
The government will need to borrow a significant amount of debt over the next two years, we estimate at 25% of GDP over 2009 and 2010. (For details see TD Economics report "Bail-out Rock – is \$4 trillion a magic number?") The long-awaited rebalancing we had expected to occur within household balance sheets as they shift from spenders to savers is being offset by the government. However, governments don't hold debt, taxpayers do. So, at some point, a rebalancing of government finances will come at a cost to taxpayers and households, via some combination of higher taxes, higher interest rates and reduced expenditures. We don't believe this is likely to occur within our forecast horizon, but it remains an issue to consider in longer term forecasts.

Canadian outlook

More expensive credit, weakened export demand, falling commodity prices, plummeting stock markets...it goes without saying that the Canadian economy will very soon start to suffer more serious collateral damage. We note

that the softening Canadian economy has been due to collateral damage, because when it comes to jobs, incomes, consumer spending and the housing market, the domestic economy has been quite resilient relative to its American and European counterparts.

However, business and consumer confidence is unlikely to continue to withstand the onslaught of negative developments occurring globally, and there is evidence that the domestic economy is in harm's way. Investment in machinery and equipment has already contracted in each of the past two quarters. Consumer spending has slowed dramatically, from an average quarterly pace of 5.3% last year to only 1.7% so far this year. Going forward, we expect these downward trends to become more pronounced as cautious behaviour permeates employment, investment



and consumer spending.

In particular, there is one major negative factor on the economy that is uniquely Canadian and will have a profound impact – the effect of tumbling commodity prices. The run-up in commodity prices, and by extension export prices, in recent years fueled profit growth for commodity-producing companies. This, in turn, jump-started capital investment, employment, wages and government tax revenues. Since the benchmark Canadian stock market (TSX) is also disproportionately weighted with commodity related firms (50%), the past rise in commodity prices also drove up stock market wealth for Canadians as a whole.

However, the opposite impact is now underway. The TD Commodity Price Index peaked in June of this year and has lost 46% of its value by late November. We expect further declines of roughly 20% as the global economic recession deepens in 2009. The combination of falling export prices – meaning falling profits for exporters to reinvest in the Canadian economy – and falling real economic activity will cause nominal GDP to contract by 3.2% in 2009. An annual contraction in national income has never before occurred in the history of the data (1961), and in

this instance, it is equivalent to subtracting a hefty \$51 billion in domestic income. (For details see TD Economics report, “When the Commodity Boom goes Bust”) So, while Canada is not yet officially in a recession, we believe history will show that this will cease to be the case in late 2008 and early 2009.

Conclusion

To sum up, there are three phases to the economic outlook. First, we project great weakness through the first half of 2009 across all major economies. Second, a solid recovery is expected in the second half of 2009 and through 2010. Third, the economic outlook can't be seen through rose-colored glasses beyond 2010. A lot of imbalances will still need to be unwound, including those that afflicted the global economy before this crisis – such as the saving imbalances between countries. In many respects the situation will have become worse, due to recapitalization, deleveraging among businesses and households and huge public sector dissaving. There is no simple solution. So while we will likely get a reprieve over the next 12-24 months, a number of broader issues will continue to exist.

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| CANADIAN ECONOMIC OUTLOOK | | | | | | | | | | | | | | | | | | |
|--|------|------|------|-------|-------|-------|-------|-------|-------|-------|-------|-------|--------------|-------|-------|-----------------|-------|------|
| Period-Over-Period Annualized Per Cent Change Unless Otherwise Indicated | | | | | | | | | | | | | | | | | | |
| | 2008 | | | | 2009 | | | | 2010 | | | | Ann. Average | | | 4th Qtr/4th Qtr | | |
| | Q1 | Q2 | Q3 | Q4F | Q1F | Q2F | Q3F | Q4F | Q1F | Q2F | Q3F | Q4F | 08F | 09F | 10F | 08F | 09F | 10F |
| Real GDP | -0.6 | 0.6 | 1.3 | -1.6 | -4.1 | -3.0 | 1.0 | 2.3 | 3.2 | 3.2 | 3.4 | 3.6 | 0.7 | -1.4 | 2.4 | -0.1 | -1.0 | 3.3 |
| Consumer Expenditure | 2.5 | 2.0 | 0.7 | 1.1 | -1.0 | -0.6 | 0.9 | 1.9 | 2.0 | 2.2 | 2.4 | 3.0 | 3.4 | 0.3 | 1.9 | 1.6 | 0.3 | 2.4 |
| Durable Goods | 17.1 | 1.0 | 0.3 | -3.7 | -6.7 | -4.2 | -0.8 | 1.2 | 3.0 | 3.2 | 3.4 | 3.6 | 6.9 | -3.1 | 1.8 | 3.4 | -2.7 | 3.3 |
| Business Investment | 3.4 | 2.6 | 0.8 | -2.7 | -8.4 | -4.4 | -1.7 | 1.9 | 3.7 | 3.9 | 4.1 | 4.6 | 3.1 | -3.3 | 2.3 | 1.0 | -3.2 | 4.1 |
| Non-Res. Structures | 4.9 | 6.0 | 2.7 | -2.1 | -7.8 | -3.5 | -2.0 | 2.6 | 3.0 | 3.2 | 3.3 | 3.6 | 0.8 | -2.5 | 2.0 | 2.8 | -2.7 | 3.3 |
| Machinery & Equipment | 2.1 | -0.3 | -0.8 | -3.2 | -8.9 | -5.2 | -1.5 | 1.2 | 4.4 | 4.6 | 4.8 | 5.4 | 5.1 | -4.1 | 2.6 | -0.6 | -3.7 | 4.8 |
| Residential Construction | -6.9 | -3.8 | -0.1 | -4.2 | -7.9 | -4.6 | -1.7 | 2.1 | 3.0 | 3.2 | 3.4 | 3.8 | -1.6 | -4.0 | 1.9 | -3.8 | -3.1 | 3.3 |
| Government Expenditure on Goods & Services | 2.2 | 3.9 | 0.5 | 1.5 | 1.7 | 2.2 | 3.0 | 3.2 | 2.5 | 2.5 | 2.5 | 2.5 | 3.6 | 2.0 | 2.7 | 2.0 | 2.5 | 2.5 |
| Final Domestic Demand | 2.0 | 2.1 | 0.6 | 0.4 | -1.8 | -0.7 | 0.9 | 2.2 | 2.5 | 2.6 | 2.8 | 3.2 | 3.1 | -0.3 | 2.1 | 1.3 | 0.2 | 2.8 |
| Exports | -4.2 | -5.2 | -5.4 | -5.5 | -8.9 | -4.8 | 1.5 | 2.3 | 3.2 | 3.5 | 3.8 | 4.2 | -4.4 | -4.9 | 2.5 | -5.1 | -2.6 | 3.7 |
| Imports | -9.0 | 2.8 | -6.1 | -5.7 | -3.0 | -0.5 | 1.4 | 2.7 | 3.2 | 3.3 | 3.5 | 3.7 | 1.1 | -2.2 | 2.7 | -4.6 | 0.1 | 3.4 |
| Change in Non-Farm Inventories (\$97 Bn) | 2.4 | 7.1 | 7.1 | 1.7 | 1.1 | -2.4 | -2.0 | -1.3 | 0.3 | 2.4 | 4.5 | 5.1 | 4.6 | -1.1 | 3.0 | --- | --- | --- |
| Final Sales | 5.2 | -1.0 | 1.3 | 0.8 | -4.1 | -2.4 | 0.9 | 2.0 | 2.5 | 2.7 | 2.9 | 3.4 | 1.2 | -1.0 | 2.0 | 1.5 | -0.9 | 2.9 |
| International Current Account Balance (\$Bn) | 19.4 | 32.8 | 22.6 | -48.5 | -77.7 | -59.8 | -43.4 | -38.0 | -29.1 | -27.2 | -25.0 | -22.7 | 6.6 | -54.7 | -26.0 | --- | --- | --- |
| % of GDP | 1.2 | 2.0 | 1.4 | -3.1 | -5.1 | -3.9 | -2.8 | -2.4 | -1.8 | -1.7 | -1.5 | -1.4 | 0.4 | -3.5 | -1.6 | --- | --- | --- |
| Pre-tax Corp. Profits | 9.5 | 39.2 | 24.6 | -44.5 | -38.3 | -25.7 | -16.3 | 5.4 | 36.3 | 29.8 | 12.9 | 9.7 | 8.9 | -22.8 | 12.3 | 1.3 | -20.3 | 21.7 |
| % of GDP | 13.3 | 14.1 | 14.7 | 13.2 | 12.0 | 11.1 | 10.5 | 10.5 | 11.2 | 11.8 | 12.0 | 12.1 | 13.8 | 11.0 | 11.8 | --- | --- | --- |
| GDP Deflator (Y/Y) | 3.1 | 4.5 | 5.8 | 0.9 | -1.8 | -3.2 | -3.2 | 1.2 | 3.3 | 2.6 | 2.3 | 2.2 | 3.6 | -1.8 | 2.6 | 0.9 | 1.2 | 2.2 |
| Nominal GDP | 4.2 | 11.4 | 5.0 | -15.3 | -9.7 | 1.5 | 4.6 | 5.4 | 5.3 | 5.3 | 5.6 | 6.1 | 4.3 | -3.2 | 5.1 | 0.8 | 0.2 | 5.6 |
| Labour Force | 1.9 | 2.1 | -0.3 | 1.5 | 0.9 | 0.1 | 0.5 | 1.0 | 1.1 | 1.1 | 1.1 | 1.1 | 1.6 | 0.7 | 0.9 | 1.3 | 0.6 | 1.1 |
| Employment (%) | 2.0 | 1.1 | -0.2 | 0.9 | -2.6 | -2.2 | -1.0 | 0.0 | 0.4 | 0.9 | 1.3 | 1.4 | 1.6 | -1.0 | 0.3 | 1.0 | -1.5 | 1.0 |
| Employment ('000s) | 86 | 47 | -10 | 38 | -113 | -95 | -43 | 0 | 17 | 38 | 55 | 59 | 268 | -169 | 43 | 162 | -250 | 0 |
| Unemployment Rate (%) | 5.9 | 6.1 | 6.1 | 6.2 | 7.1 | 7.6 | 7.9 | 8.2 | 8.3 | 8.4 | 8.3 | 8.3 | 6.1 | 7.7 | 8.3 | --- | --- | --- |
| Personal Disp. Income | 11.0 | 4.7 | 3.8 | 4.1 | -4.2 | 0.0 | 0.7 | 3.4 | 3.6 | 4.5 | 5.0 | 4.6 | 6.2 | 0.7 | 3.4 | 5.9 | -0.1 | 4.4 |
| Pers. Savings Rate (%) | 3.5 | 3.2 | 3.0 | 3.9 | 3.0 | 3.1 | 2.7 | 2.8 | 2.9 | 3.1 | 3.4 | 3.4 | 3.4 | 2.9 | 3.2 | --- | --- | --- |
| Cons. Price Index (Y/Y) | 1.8 | 2.4 | 3.4 | 2.3 | 1.7 | 0.2 | -0.5 | 0.8 | 1.3 | 1.5 | 1.7 | 1.8 | 2.5 | 0.5 | 1.6 | 2.3 | 0.8 | 1.8 |
| Core CPI (Y/Y) | 1.4 | 1.5 | 1.6 | 1.9 | 1.5 | 1.2 | 1.0 | 1.0 | 1.3 | 1.4 | 1.6 | 1.8 | 1.6 | 1.2 | 1.5 | 1.9 | 1.0 | 1.8 |
| Housing Starts ('000s) | 234 | 220 | 210 | 185 | 175 | 165 | 160 | 175 | 180 | 182 | 185 | 185 | 213 | 169 | 183 | --- | --- | --- |
| Productivity: | | | | | | | | | | | | | | | | | | |
| Real GDP / worker (Y/Y) | -0.5 | -1.3 | -0.7 | -0.7 | -0.7 | -0.9 | -1.0 | 0.2 | 1.5 | 2.5 | 2.5 | 2.5 | -0.8 | -0.6 | 2.2 | -0.7 | 0.2 | 2.5 |

F: Forecast by TD Economics as at December 2008

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

U.S. ECONOMIC OUTLOOK:

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

| | 2008 | | | | 2009 | | | | 2010 | | | | Annual Average | | | 4thQtr/4th Qtr | | | |
|--|-------|-------|-------|--------|--------|-------|-------|-------|------|------|------|------|----------------|--------|------|----------------|--------|-------|--|
| | Q1 | Q2 | Q3 | Q4F | Q1F | Q2F | Q3F | Q4F | Q1F | Q2F | Q3F | Q4F | 08F | 09F | 10F | 08F | 09F | 10F | |
| Real GDP | 0.9 | 2.8 | -0.5 | -5.8 | -4.2 | -1.3 | 1.1 | 2.7 | 3.3 | 3.8 | 3.2 | 2.9 | 1.1 | -2.0 | 2.7 | -0.7 | -0.4 | 3.3 | |
| Consumer Expenditure | 0.9 | 1.2 | -3.7 | -5.3 | -1.4 | 0.8 | 1.2 | 1.4 | 2.6 | 2.8 | 2.2 | 1.9 | 0.2 | -1.4 | 2.0 | -1.8 | 0.5 | 2.4 | |
| Durable Goods | -4.3 | -2.8 | -15.2 | -27.3 | -3.3 | 6.5 | 9.2 | 6.3 | 8.4 | 9.3 | 7.2 | 6.6 | -4.8 | -6.3 | 7.9 | -13.0 | 4.6 | 7.9 | |
| Business Investment | 2.4 | 2.5 | -1.5 | -13.3 | -12.7 | -13.8 | -9.8 | -4.7 | 1.8 | 4.1 | 4.4 | 4.7 | 2.3 | -9.9 | -1.1 | -2.7 | -10.3 | 3.7 | |
| Non-Res. Structures | 8.7 | 18.4 | 6.6 | -5.1 | -7.5 | -7.8 | -4.8 | -0.7 | 2.2 | 2.4 | 1.6 | 0.7 | 11.1 | -3.2 | 0.0 | 6.8 | -5.2 | 1.7 | |
| Machinery & Equipment | -0.5 | -5.0 | -5.6 | -17.7 | -15.7 | -17.3 | -12.9 | -7.2 | 1.5 | 5.2 | 6.3 | 7.5 | -2.0 | -13.6 | -1.8 | -7.5 | -13.3 | 5.1 | |
| Residential Construction | -25.0 | -13.3 | -17.6 | -20.3 | -31.7 | -16.7 | 21.6 | 36.3 | 26.7 | 21.8 | 13.9 | 12.6 | -20.8 | -14.9 | 21.0 | -19.2 | -1.4 | 18.6 | |
| Govt. Consumption & Gross Investment | 1.9 | 3.9 | 5.3 | 1.7 | 2.2 | 2.7 | 3.4 | 0.1 | -0.3 | 0.9 | 1.9 | 1.3 | 2.9 | 2.7 | 1.0 | 3.2 | 2.1 | 0.9 | |
| Final Domestic Demand | 0.1 | 1.3 | -2.3 | -5.4 | -2.9 | -0.9 | 1.0 | 1.4 | 2.6 | 3.1 | 2.7 | 2.4 | 0.0 | -1.9 | 2.1 | -1.6 | -0.4 | 2.7 | |
| Exports | 5.1 | 12.3 | 3.4 | -13.0 | -9.2 | -4.5 | 1.8 | 4.3 | 6.3 | 8.5 | 8.1 | 7.9 | 7.1 | -4.2 | 5.4 | 1.5 | -2.0 | 7.7 | |
| Imports | -0.8 | -7.3 | -3.2 | -8.2 | -7.3 | -2.8 | 1.5 | 5.0 | 5.7 | 6.0 | 5.7 | 5.1 | -2.8 | -4.4 | 4.5 | -4.9 | -1.0 | 5.6 | |
| Change in Non-Farm Inventories (\$96 Bn) | -17.9 | -55.1 | -29.5 | -27.1 | -59.9 | -67.7 | -66.9 | -25.4 | -6.3 | 6.4 | 13.3 | 18.7 | -32.4 | -55.0 | 8.0 | --- | --- | --- | |
| Final Sales | 0.9 | 4.4 | -1.4 | -5.9 | -3.1 | -1.1 | 1.0 | 1.2 | 2.6 | 3.3 | 3.0 | 2.7 | 1.4 | -1.8 | 2.1 | -0.6 | -0.5 | 2.9 | |
| International Current Account Balance (\$Bn) | -693 | -723 | -706 | -614 | -450 | -438 | -449 | -475 | -501 | -510 | -524 | -532 | -684 | -453 | -517 | --- | --- | --- | |
| % of GDP | -4.9 | -5.1 | -4.9 | -4.3 | -3.2 | -3.1 | -3.1 | -3.3 | -3.4 | -3.5 | -3.5 | -3.6 | -4.8 | -3.2 | -3.5 | --- | --- | --- | |
| Pre-tax Corporate Profits including IVA&CCA | -4.3 | -14.3 | -3.8 | -34.6 | -10.6 | 2.6 | 12.2 | 16.1 | 12.3 | 18.5 | 11.4 | 8.9 | -8.5 | -9.1 | 13.2 | -15.2 | 4.5 | 12.7 | |
| % of GDP | 11.3 | 10.7 | 10.5 | 9.6 | 9.3 | 9.4 | 9.6 | 9.9 | 10.1 | 10.4 | 10.6 | 10.7 | 10.5 | 9.6 | 10.5 | --- | --- | --- | |
| GDP Deflator (Y/Y) | 2.3 | 2.0 | 2.7 | 2.3 | 2.6 | 2.5 | 1.7 | 1.4 | 0.7 | 0.6 | 0.6 | 0.7 | 2.3 | 2.1 | 0.6 | 2.3 | 1.4 | 0.7 | |
| Nominal GDP | 3.5 | 4.1 | 3.6 | -4.3 | -0.8 | -0.2 | 1.9 | 3.1 | 3.9 | 4.5 | 3.9 | 3.6 | 3.4 | 0.0 | 3.3 | 1.7 | 1.0 | 4.0 | |
| Labour Force | 0.0 | 1.7 | 1.1 | 0.2 | 0.6 | 0.1 | 0.2 | 0.4 | 0.6 | 0.8 | 0.8 | 0.9 | 0.8 | 0.5 | 0.6 | 0.7 | 0.3 | 0.8 | |
| Employment | -0.3 | -0.6 | -1.0 | -3.4 | -3.1 | -2.9 | -1.8 | -0.6 | 0.9 | 1.2 | 1.6 | 1.8 | -0.2 | -2.4 | 0.3 | -1.3 | -2.1 | 1.4 | |
| Change in Empl. ('000s) | -113 | -218 | -329 | -1,178 | -1,071 | -981 | -610 | -193 | 301 | 413 | 534 | 612 | -323 | -3,262 | 336 | -1,838 | -2,854 | 1,860 | |
| Unemployment Rate (%) | 4.9 | 5.3 | 6.0 | 6.7 | 7.6 | 8.3 | 8.7 | 8.9 | 8.9 | 8.8 | 8.7 | 8.6 | 5.7 | 8.4 | 8.8 | --- | --- | --- | |
| Personal Disp. Income | 2.9 | 15.4 | -4.5 | -0.6 | 3.0 | 5.0 | 0.7 | 2.5 | 3.6 | 3.9 | 4.0 | 4.0 | 4.7 | 2.1 | 3.2 | 3.1 | 2.8 | 3.9 | |
| Pers. Savings Rate (%) | 0.2 | 2.4 | 1.1 | 3.6 | 4.9 | 5.5 | 5.1 | 5.2 | 5.2 | 5.2 | 5.3 | 5.5 | 1.8 | 5.2 | 5.3 | --- | --- | --- | |
| Cons. Price Index (Y/Y) | 4.2 | 4.3 | 5.3 | 2.8 | 1.7 | 0.7 | -0.9 | 0.4 | 0.9 | 1.2 | 1.6 | 1.8 | 4.1 | 0.5 | 1.4 | 2.8 | 0.4 | 1.8 | |
| Core CPI (Y/Y) | 2.4 | 2.3 | 2.5 | 2.0 | 1.6 | 1.4 | 0.7 | 0.9 | 1.0 | 1.2 | 1.5 | 1.7 | 2.3 | 1.1 | 1.4 | 2.0 | 0.9 | 1.7 | |
| Housing Starts (mns) | 1.05 | 1.03 | 0.88 | 0.74 | 0.65 | 0.70 | 0.88 | 0.95 | 1.03 | 1.08 | 1.11 | 1.16 | 0.92 | 0.80 | 1.09 | --- | --- | --- | |
| Productivity: | | | | | | | | | | | | | | | | | | | |
| Real Output per hour (y/y) | 2.7 | 2.8 | 3.4 | 1.0 | 0.9 | 0.7 | -0.5 | 2.3 | 3.0 | 3.2 | 2.7 | 2.1 | 3.1 | 0.9 | 2.7 | 1.0 | 2.3 | 2.1 | |

F: Forecast by TD Economics as at December 2008

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

| GLOBAL ECONOMIC OUTLOOK | | | | | |
|---|-----------------|------|----------|------|------|
| Annual per cent change unless otherwise indicated | | | | | |
| Real GDP | 2007 Share* (%) | 2007 | Forecast | | |
| | | | 2008 | 2009 | 2010 |
| World | 99.1 | 4.9 | 3.2 | 0.5 | 3.2 |
| North America | 25.5 | 2.2 | 1.1 | -1.9 | 2.5 |
| United States | 21.4 | 2.0 | 1.1 | -2.0 | 2.7 |
| Canada | 2.0 | 2.7 | 0.7 | -1.4 | 2.4 |
| Mexico | 2.1 | 3.2 | 1.6 | -0.8 | 2.1 |
| European Union (EU-27) | 23.7 | 3.1 | 1.2 | -1.6 | 1.4 |
| Euro-zone (EU-15) | 16.1 | 2.6 | 0.9 | -1.9 | 1.2 |
| Germany | 4.4 | 2.6 | 1.2 | -1.9 | 1.6 |
| France | 3.2 | 2.1 | 0.9 | -1.0 | 1.2 |
| Italy | 2.8 | 1.4 | -0.5 | -2.1 | 0.5 |
| United Kingdom | 3.3 | 3.0 | 0.8 | -2.1 | 1.5 |
| EU accession members | 3.4 | 5.0 | 2.4 | -0.1 | 1.9 |
| Asia | 35.5 | 7.6 | 5.4 | 3.0 | 4.8 |
| Japan | 6.6 | 2.1 | 0.2 | -1.8 | 0.9 |
| Asian NIC's | 3.7 | 5.6 | 3.0 | -0.8 | 2.7 |
| Hong Kong | 0.5 | 6.4 | 2.8 | -1.3 | 3.6 |
| Korea | 1.9 | 5.0 | 4.1 | 0.3 | 2.9 |
| Singapore | 0.3 | 7.7 | 1.6 | -2.6 | 2.5 |
| Taiwan | 1.1 | 5.7 | 1.7 | -2.0 | 2.1 |
| Russia | 3.2 | 8.1 | 6.7 | 1.6 | 4.5 |
| Australia & New Zealand | 1.4 | 3.9 | 2.0 | 1.1 | 2.8 |
| Developing Asia | 20.6 | 9.9 | 7.5 | 5.6 | 6.5 |
| ASEAN-4 | 3.1 | 6.0 | 5.1 | 2.1 | 3.2 |
| China | 10.9 | 11.9 | 9.1 | 7.6 | 8.4 |
| India | 4.6 | 9.3 | 6.7 | 5.0 | 5.7 |
| Central/South America | 6.1 | 6.2 | 4.9 | 1.3 | 3.0 |
| Argentina | 0.8 | 8.7 | 6.5 | 1.0 | 2.0 |
| Brazil | 2.8 | 5.4 | 5.1 | 1.4 | 3.2 |
| Other Developing | 8.4 | 6.2 | 5.5 | 3.1 | 4.0 |

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

| ECONOMIC INDICATORS FOR THE G-7 AND EUROPE | | | | |
|--|------|----------|------|------|
| | 2007 | Forecast | | |
| | | 2008 | 2009 | 2010 |
| Real GDP (Annual per cent change) | | | | |
| G-7 (41.17%)* | 2.2 | 0.8 | -1.9 | 1.9 |
| U.S. | 2.0 | 1.1 | -2.0 | 2.7 |
| Japan | 2.1 | 0.2 | -1.8 | 0.9 |
| EU-15 | 2.6 | 0.9 | -1.9 | 1.2 |
| Germany | 2.6 | 1.2 | -1.9 | 1.6 |
| France | 2.1 | 0.9 | -1.0 | 1.2 |
| Italy | 1.4 | -0.5 | -2.1 | 0.5 |
| United Kingdom | 3.0 | 0.8 | -2.1 | 1.5 |
| Canada | 2.7 | 0.7 | -1.4 | 2.4 |
| Consumer Price Index (Annual per cent change) | | | | |
| G-7 | 2.1 | 3.4 | 0.3 | 1.0 |
| U.S. | 2.9 | 4.1 | 0.5 | 1.4 |
| Japan | 0.1 | 1.4 | -0.6 | -0.1 |
| EU-15 | 2.1 | 3.3 | 0.5 | 1.1 |
| Germany | 2.3 | 2.8 | 0.3 | 1.2 |
| France | 1.6 | 3.3 | 0.8 | 1.4 |
| Italy | 2.0 | 3.5 | 0.5 | 0.6 |
| United Kingdom | 2.3 | 3.4 | 0.3 | 0.6 |
| Canada | 2.1 | 2.5 | 0.5 | 1.6 |
| Unemployment Rate (Per cent annual averages) | | | | |
| U.S. | 4.6 | 5.7 | 8.4 | 8.8 |
| Japan | 3.9 | 4.1 | 4.8 | 4.6 |
| EU-15 | 7.4 | 7.5 | 8.6 | 8.5 |
| Germany | 8.4 | 7.4 | 8.0 | 7.9 |
| France | 8.3 | 7.9 | 8.8 | 8.4 |
| Italy | 6.2 | 7.1 | 8.4 | 8.7 |
| United Kingdom | 5.3 | 5.6 | 7.0 | 7.3 |
| Canada | 6.0 | 6.1 | 7.7 | 8.3 |

*Share of 2007 world gross domestic product (GDP)
Forecast as at December 2008
Source: National statistical agencies, TD Economics

| INTEREST RATE OUTLOOK | | | | | | | | | | | | | |
|------------------------------|------------------------|-------|-------|-------|------|------|------|-------|-------|-------|-------|-------|-------|
| | Spot Rate 12/9/2008 | 2008 | | | | 2009 | | | | 2010 | | | |
| | | Q1 | Q2 | Q3 | Q4F | Q1F | Q2F | Q3F | Q4F | Q1F | Q2F | Q3F | Q4F |
| CANADIAN FIXED INCOME | | | | | | | | | | | | | |
| Overnight Target Rate (%) | 1.50 | 3.50 | 3.00 | 3.00 | 1.50 | 1.00 | 1.00 | 1.00 | 1.00 | 1.50 | 2.00 | 2.50 | 3.00 |
| 3-mth T-Bill Rate (%) | 1.32 | 1.97 | 2.52 | 1.79 | 1.20 | 1.15 | 1.15 | 1.25 | 1.35 | 1.60 | 2.10 | 2.65 | 3.25 |
| 2-yr Govt. Bond Yield (%) | 1.53 | 2.62 | 3.25 | 2.78 | 1.45 | 1.50 | 1.60 | 1.80 | 1.90 | 2.15 | 2.45 | 2.65 | 2.85 |
| 5-yr Govt. Bond Yield (%) | 2.19 | 2.91 | 3.46 | 3.16 | 2.00 | 2.00 | 2.10 | 2.35 | 2.45 | 2.70 | 2.90 | 3.00 | 3.15 |
| 10-yr Govt. Bond Yield (%) | 3.08 | 3.44 | 3.73 | 3.76 | 2.70 | 2.70 | 2.80 | 2.95 | 3.05 | 3.25 | 3.35 | 3.40 | 3.45 |
| 30-yr Govt. Bond Yield (%) | 3.74 | 3.94 | 4.08 | 4.23 | 3.25 | 3.10 | 3.10 | 3.20 | 3.25 | 3.40 | 3.45 | 3.50 | 3.50 |
| 10-yr-2-yr Govt. Spread (%) | 1.55 | 0.82 | 0.48 | 0.98 | 1.25 | 1.20 | 1.20 | 1.15 | 1.15 | 1.10 | 0.90 | 0.75 | 0.60 |
| U.S. FIXED INCOME | | | | | | | | | | | | | |
| Fed Funds Target Rate (%) | 1.00 | 2.25 | 2.00 | 2.00 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 1.00 | 1.50 | 2.00 | 2.50 |
| 3-mth T-Bill Rate (%) | 0.01 | 1.37 | 1.81 | 0.75 | 0.10 | 0.20 | 0.25 | 0.30 | 0.40 | 0.90 | 1.40 | 1.90 | 2.50 |
| 2-yr Govt. Bond Yield (%) | 0.83 | 1.58 | 2.62 | 1.96 | 0.95 | 1.00 | 1.10 | 1.40 | 1.60 | 1.95 | 2.25 | 2.45 | 2.65 |
| 5-yr Govt. Bond Yield (%) | 1.61 | 2.44 | 3.33 | 2.98 | 1.60 | 1.65 | 1.75 | 2.15 | 2.40 | 2.65 | 2.90 | 3.00 | 3.15 |
| 10-yr Govt. Bond Yield (%) | 2.65 | 3.41 | 3.97 | 3.82 | 2.50 | 2.55 | 2.65 | 2.95 | 3.15 | 3.35 | 3.50 | 3.55 | 3.65 |
| 30-yr Govt. Bond Yield (%) | 3.06 | 4.29 | 4.52 | 4.31 | 3.00 | 3.05 | 3.05 | 3.30 | 3.45 | 3.65 | 3.75 | 3.80 | 3.90 |
| 10-yr-2-yr Govt. Spread (%) | 1.82 | 1.83 | 1.35 | 1.86 | 1.55 | 1.55 | 1.55 | 1.55 | 1.55 | 1.40 | 1.25 | 1.10 | 1.00 |
| CANADA-U.S. SPREADS | | | | | | | | | | | | | |
| 3-mth T-Bill Rate (%) | 1.31 | 0.60 | 0.71 | 1.04 | 1.10 | 0.95 | 0.90 | 0.95 | 0.95 | 0.70 | 0.70 | 0.75 | 0.75 |
| 2-yr Govt. Bond Yield (%) | 0.70 | 1.04 | 0.63 | 0.82 | 0.50 | 0.50 | 0.50 | 0.40 | 0.30 | 0.20 | 0.20 | 0.20 | 0.20 |
| 5-yr Govt. Bond Yield (%) | 0.58 | 0.47 | 0.13 | 0.18 | 0.40 | 0.35 | 0.35 | 0.20 | 0.05 | 0.05 | 0.00 | 0.00 | 0.00 |
| 10-yr Govt. Bond Yield (%) | 0.43 | 0.03 | -0.24 | -0.06 | 0.20 | 0.15 | 0.15 | 0.00 | -0.10 | -0.10 | -0.15 | -0.15 | -0.20 |
| 30-yr Govt. Bond Yield (%) | 0.68 | -0.35 | -0.44 | -0.08 | 0.25 | 0.05 | 0.05 | -0.10 | -0.20 | -0.25 | -0.30 | -0.30 | -0.40 |

f: Forecast by TD Economics as at Dec 2008; All forecasts are for end of period. Source: Bloomberg, TD Economics

| FOREIGN EXCHANGE OUTLOOK | | | | | | | | | | | | | | |
|--------------------------|---------------|--------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Currency | Exchange Rate | Spot Price 12/10/2008 | 2008 | | | | 2009 | | | | 2010 | | | |
| | | | Q1 | Q2 | Q3 | Q4F | Q1F | Q2F | Q3F | Q4F | Q1F | Q2F | Q3F | Q4F |
| Canadian dollar | USD per CAD | 0.780 | 0.992 | 0.979 | 0.940 | 0.780 | 0.750 | 0.780 | 0.830 | 0.870 | 0.870 | 0.880 | 0.880 | 0.890 |
| Canadian dollar | CAD per USD | 1.282 | 1.008 | 1.021 | 1.064 | 1.282 | 1.333 | 1.282 | 1.205 | 1.149 | 1.149 | 1.136 | 1.136 | 1.124 |
| Japanese yen | JPY per USD | 92.1 | 104 | 106 | 106 | 95 | 98 | 100 | 102 | 102 | 104 | 108 | 110 | 110 |
| Euro | USD per EUR | 1.293 | 1.562 | 1.576 | 1.409 | 1.230 | 1.250 | 1.300 | 1.350 | 1.400 | 1.350 | 1.250 | 1.200 | 1.200 |
| U.K. pound | USD per GBP | 1.476 | 1.987 | 1.993 | 1.781 | 1.430 | 1.471 | 1.529 | 1.627 | 1.687 | 1.646 | 1.524 | 1.481 | 1.481 |
| Swiss franc | CHF per USD | 1.205 | 1.034 | 1.021 | 1.122 | 1.244 | 1.200 | 1.123 | 1.074 | 1.036 | 1.067 | 1.152 | 1.200 | 1.200 |
| Australian dollar | USD per AUD | 0.659 | 0.944 | 0.959 | 0.792 | 0.640 | 0.590 | 0.580 | 0.610 | 0.640 | 0.640 | 0.650 | 0.660 | 0.660 |
| NZ dollar | USD per NZD | 0.542 | 0.786 | 0.762 | 0.670 | 0.530 | 0.510 | 0.470 | 0.490 | 0.520 | 0.520 | 0.530 | 0.550 | 0.550 |
| Mexican peso | MXN per USD | 13.57 | 10.47 | 10.31 | 10.94 | 13.00 | 13.00 | 12.00 | 11.50 | 11.50 | 11.50 | 11.00 | 10.50 | 10.50 |

f: Forecast by TD Economics as at December 10, 2008; All forecasts are for end of period; Source: Federal Reserve of New York, TD Economics

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