



**Bank
Financial
Group**

TD Economics

TD Quarterly Economic Forecast

September 25, 2008

FORECASTING IN UNCERTAIN TIMES

The global financial system has suffered a severe and virtually unprecedented blow in recent weeks, leading to the failure, bail-out or acquisition of a number of large and venerable institutions. Events have taken the U.S. economy and indeed the world economy to that proverbial “fork in the road”. Very recent market events highlight the extreme uncertainty among investors as to which path will be taken. Markets around the world crashed following the September 13-14th weekend of financial horror that saw Lehman Brothers file for bankruptcy and Merrill Lynch sold to Bank of America. The massive U.S. government support package for AIG didn’t go far in lifting the gloom. Clearly the market assessment was that economies would go down a path to ruin. But then rumours of still bolder U.S. government action to come led to massive rallies September 18th and 19th. Markets were voting with their money that the path forward would lead to a much brighter place. It is in this environment of extreme uncertainty that we are updating our economic forecast. It is with some comfort that we note that as shocking as recent financial events have been, their general nature has hardly been surprising given the economic and financial imbalances that had developed in the first half of the decade. None of the events in recent weeks have altered the core beliefs that have shaped our economic outlook over the past two years:

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HIGHLIGHTS

- **Over the next 12 months, home prices will have bottomed, the cost of funds to financial institutions will have fallen, the worst in institutional failures will be in the rear view mirror, and the process of recapitalizing the financial system will be well underway ...**
 - **...but don’t expect a return to the status quo.**
 - **Relative to the past decade, the cost of financing will remain higher and less credit will be available.**
 - **A convincing and sustainable recovery in consumption and investment won’t materialize in the U.S. until 2010.**
 - **The world economy will be in a mild recession in 2009 before bouncing back in 2010.**
 - **The Canadian economy will resemble the American, moving sideways on output with only a shallow recovery in late 2009.**
- U.S. housing prices would fall until a large number of households conclude housing is a bargain
 - Housing price declines would cause stress to household and financial institution balance sheets
 - Credit would be tight and remain expensive despite rate cuts of central banks
 - U.S. consumption would weaken with a short lag after housing prices started to fall
 - The notion that the economies of the rest of the world would completely “de-couple” from the U.S. economy was bogus and the global economy would experience a material slowing
 - Slackening world growth along with some supply re-

sponses would bring commodity prices down, at least temporarily

- Lower commodity prices and building slack would cap inflation pressures in most countries and prove that the sudden and shrill concerns over inflation were unfounded

The basic storyline flowing from these beliefs has recently been falling into place. So, we will retain our fundamental economic assumptions. The question is then under these assumptions, what path are the world's economies most likely to follow? Over the next twelve months, we believe home prices will have bottomed, the cost of funds to financial institutions will have fallen, the worst in institutional failures will be in the rear view mirror, and the process of recapitalizing the financial system will be well underway. However, don't expect a return to the status quo; at least as we had come to understand that condition prior to the summer of 2007. In all probability, the cost of financing will remain higher than the inappropriately low levels that prevailed earlier in the decade. In addition, while the balance sheets of financial firms will be much improved, they will likely also be far less leveraged than in the past, which means less availability of credit. Under these assumptions, the financial constraints on the real economy will gradually abate, but a convincing and sustainable recovery in consumption and investment won't necessarily materialize until 2010.

The bottom line is that the path forward for economies

from this "fork in the road" will look much like the one we have described in previous forecasts. Economies will, however, be slightly weaker. And the fact that economies have never quite been in this place before makes the degree of uncertainty over any point forecast much higher than normal.

History a poor guide to the future

Economists often look to past experience as a guide, but history is of limited use this time around. There have been financial calamities in the past, but nothing that quite mirrors the current financial crisis in scale and scope.

Some draw parallels between the current situation and the Great Depression. However, making this comparison is a stretch. First, the onset of the Great Depression owed to a tightening of monetary policy. The Fed raised rates in 1928 to stem what they deemed excessive speculation fueling a stock market bubble. In contrast, over the past year the Fed has unquestionably pursued a loosening in financial conditions to inject liquidity into financial markets. Second, the Fed of the early 1930s abdicated its lender-of-last-resort responsibility, allowing widespread failure of banks and undermining confidence in the system. Bernanke's Fed has lent aggressively and introduced new facilities to better target lending (see Box 1). Third, at the onset of the contraction in the Great Depression, the Fed failed to maintain price stability, inducing deflation. It later reaped what it sowed: policies of low nominal interest rates

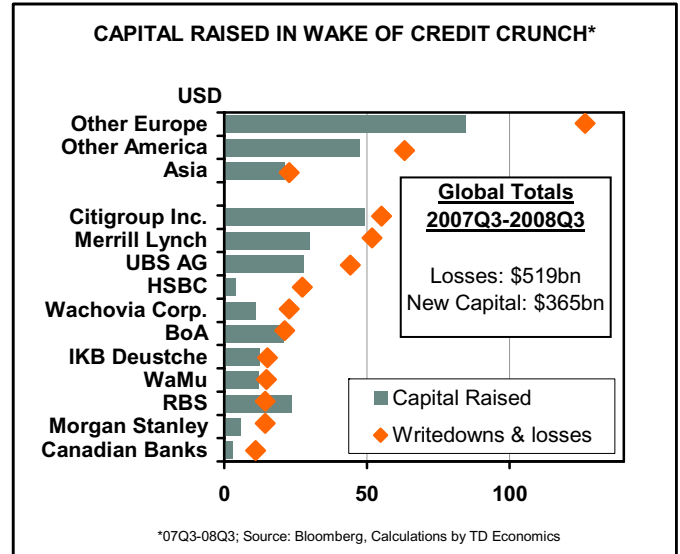
Box 1: Federal Reserve and U.S. Treasury Liquidity Measures Since March 17, 2008

Date	Measure	Amount (US\$)
Mar 17	Bear Stearns is purchased by rival firm JPMorgan Chase. The Federal Reserve extends loan to JPMorgan to help absorb Bear Stearns' bad debt.	\$30 billion
Sept 7	Freddie Mac and Fannie Mae are put under conservatorship. The Treasury establishes a secured lending facility to the other 12 Federal Home Loan Banks with an undisclosed amount available for loans.	\$255 billion minimum
Sept 16	The Federal Reserve, with support from the Treasury, issued a loan to insurance firm AIG	\$85 billion
Sept 18	The SEC bans the practice of short-selling of 800 financial companies until Oct 3, 2008.	--
Sept 18	Efforts to inject liquidity in U.S. financial markets in currency swaps is coordinated by the Federal Reserve with the central banks of Canada, Japan, and England, the European Central Bank, and the Swiss National Bank.	\$180 billion
Sept 19	The U.S. Treasury establishes a temporary guaranty program for participating U.S. money market mutual fund companies, insuring all holdings in these funds until Sept 19, 2009. On Sept 21, 2008, the Treasury modified the plan to only cover investments made before the 21st to protect banks from losing depositors.	\$50 billion
Sept 20	A proposal is put through to Congress giving the Treasury Department the authority to issue up to \$700 billion in treasury securities to finance the purchases of troubled assets within the U.S.	\$700 billion
Sept 22	Morgan Stanley & Goldman Sachs become bank holding companies. With the purchases of Merrill Lynch & Bear Stearns and the bankruptcy of Lehman Brothers, none of the original investment banks remain in that structure.	--
Sept 24	Additional currency swap agreements are coordinated with the the Reserve Bank of Australia, Sweden's Riksbank, Denmark's Nationalbank, and Norway's Norges Bank.	\$30 billion
Ongoing	Within the past year, the Federal Reserve has established 3 new facilities, in addition to the discount window, to provide short-term liquidity to the financial sector: the TAF, the TSLF, and the PDCF.	average \$373 billion

faced the “zero-bound” problem while deflationary expectations kept real interest rates high. Today, the Fed explicitly has price stability as a cornerstone of its mandate and the inflation outlook rightly factors in any rate decision. Central banks around the world have learned from the mistakes of the Great Depression, which is why we’re seeing more aggressive and coordinated efforts around the world to ensure the global financial system has access to sufficient funds to weather the crisis.

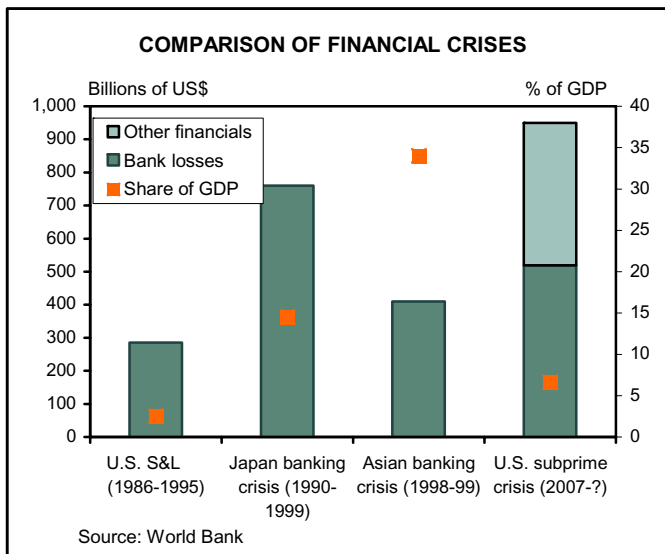
There are some disturbing similarities between today and the Japanese experience of a bursting real estate bubble in 1989 that left carnage in the Japanese financial system for much of the next decade. But again, guidance from this period is very limited. The Bank of Japan (BoJ) committed a similar policy error to that seen during the Great Depression. Due to concerns about re-inflating asset bubbles, the BoJ hiked rates 200 basis points after the stock market peaked and didn’t embark on an easing cycle until 18 months after asset prices were in decline. The central bank tried to play catch-up, pushing rates from 6% down to zero, but this rate adjustment came too late to restore market confidence. Initiatives were also not in place to promote a quick and necessary restructuring of the financial system. It wasn’t until 1998 that the government announced the Obuchi Plan to provide the equivalent of US\$500 billion in public funds for loan losses, bank recapitalization and depositor protection.

The U.S. Savings and Loan Crisis (S&L) of the 1980s may be the most similar to the current situation. But, it was much smaller in scale, in part because it did not have the international reach of today’s financial crisis. During



the S&L crisis, the government established a Resolution Trust Corporation (RTC) at just over \$400 billion. The purpose was to purchase the bad debts of financial institutions and over time sell them back into the market as financial conditions improved. The RTC was able to sell over 95% of the assets they had initially seized with a recovery rate of over 85%. That left the taxpayer ultimately footing a bill of \$124 billion, while corporations absorbed \$29 billion in losses. The current financial crisis is carrying a bigger price tag. Corporate write-downs and losses have already mounted to over \$500 billion, with about half of that being borne by non-American firms.

The U.S. government recently announced an S&L-style fund being dubbed TARP (Troubled Asset Relief Program), which, according to the most recent discussions, will make \$700 billion available to purchase residential and commercial mortgage related assets or any other corporate assets deemed necessary to restore financial market operations. When adjusted for inflation, the RTC and TARP funds are similar in size, however, not when one considers the corporate losses that have already occurred in the current cycle in addition to other government initiatives such as placing Freddie Mac and Fannie Mae into conservatorship. The total public and private tally will greatly exceed that of the S&L crisis. While this may seem daunting, at this stage in the cycle, it is more important to head off a more painful deep and extended economic downturn by enacting measures that can quickly restore market confidence and financial market operations in order to prevent a complete freezing up of credit supply.



Go big or Go home

Two key lessons came out of these past experiences that the Fed and other global central bankers have learned well. Firstly, procrastination in easing monetary policy and pumping in liquidity is costly to the real economy. A lengthy period of financial institution failures and dysfunctional credit markets that chokes off credit availability ensures consumers and businesses pay the ultimate price. Secondly, liquidity injections by the central bank and government must be sufficiently larger than the underlying problem. Partial solutions generally just lead to that money being wasted, as market participants find loopholes and oversights. The problem of frozen or dysfunctional credit markets is not cured.

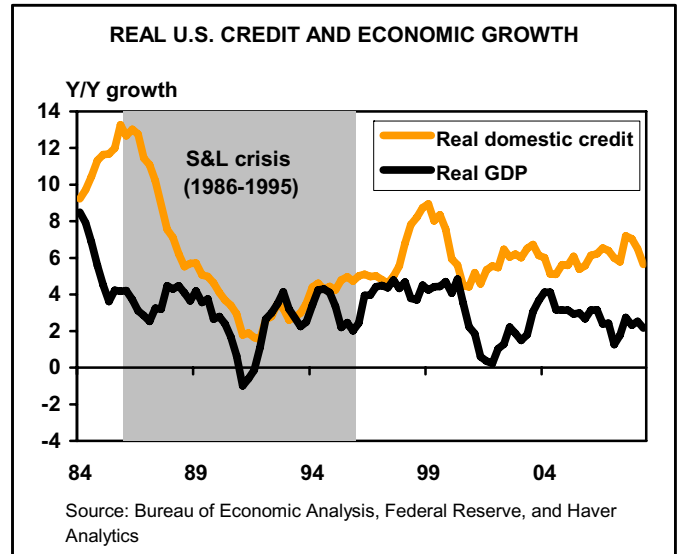
The Federal Reserve has taken aggressive action this time around to avoid the mistakes of the past. Box 1 highlights the liquidity measures put in place since the collapse of the first major U.S. financial institution – Bear Stearns – in mid-March. We believe the Fed is on the right track; however it is important to recognize that TARP and other measures will not act as a magic wand that will make the problems go away instantly.

U.S. will not return to business as usual

The RTC during the S&L crisis remained in existence for six years (until 1995). Although TARP will buy assets for only two years, that doesn't mean it won't be around for longer than that. The two years is just the acquisition phase. It may take a long time to dispose of the assets, as was the case in the post S&L phase.

In addition, even with the recent liquidity measures and a restoration in market confidence, it will not be business as usual in credit supply. Once again using the S&L episode as guidance, credit growth continued to slow dramatically two years after the RTC was in place and the economy still tipped into recession. We believe similar events will unfold in the current cycle, the TARP will take considerable time to have its full effect, and the U.S. economy will struggle to gain traction over the next year.

The increasingly bold action of the U.S. government and the central banks around the world has likely capped a lot of the downside risks. But the root problems haven't gone away. The bad debt is being shifted from private institutions to public balance sheets and it will be easier to handle there. But, capital will still be in short supply for financial institutions and their cost of funds should come down but remain relatively high. Credit will still be tight

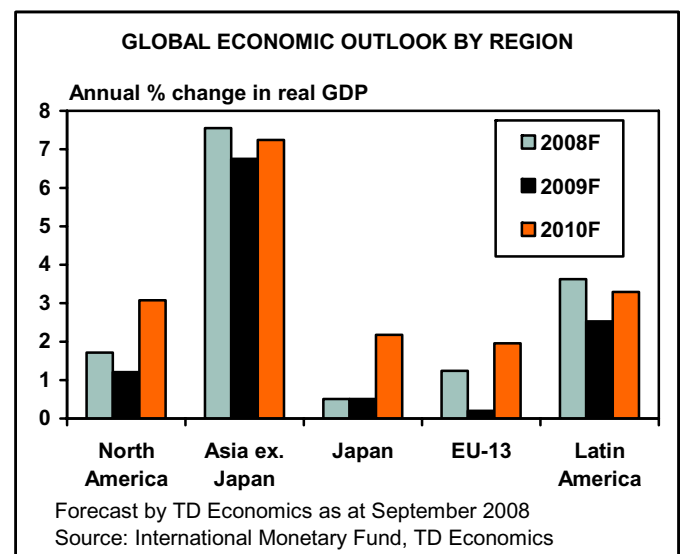


and somewhat expensive. Further asset devaluation will arise as U.S. housing prices fall further. In order to pay for recent measures, the U.S. Treasury will have to issue a lot more debt in the short-term and that should push up yields.

The general shape of our September 2008 forecast is similar although marginally more pessimistic than that in June. The projection for U.S. real GDP in 2009 has been lowered only marginally by 0.1 percentage points to 1.1%. In 2010, U.S. economic growth finally starts to recover, but only back to 3.2%, as opposed to the traditional 4-5% pops in growth that follow extended periods of economic weakness.

We're all in this together

Much of the above has focused on the U.S. economy,



but the financial turmoil is in fact a global event and the weakness in the U.S. is being transmitted abroad. In recognition of this, global economic growth for next year has been reduced by 0.3 percentage points to 2.9% in 2009, which implies a mild world recession, but the tide turns in 2010 with a recovery to 4.2%. The downgrade in 2009 reflects the fact that several economies are already in or on the brink of recession – U.K., Spain, Ireland, Italy, Japan, U.S., Germany, and France. We have argued for more than a year that speculation of a global ‘decoupling’ from the U.S. recession would be disappointed. This has now occurred and it has led to the commodity price correction for which we were calling.

All of these developments have profound implications for the Canadian economy. Three-quarters of Canadian international trade is with the U.S. And two of Canada’s largest export markets — forestry products and autos — are the most vulnerable to housing and consumption weakness south of the border. Almost a third of Canadian corporate funding comes from the U.S. market so credit tightness there has a direct impact here. The cost to Canadian financial institutions to raise funds has also soared, just not to the full extent as for U.S. banks. Lower commodity prices will reverse much of the extraordinary income gains of recent years, particularly in Western Canada. And if the cross-border effects were not enough, there are some domestic headwinds. Notably, while not crashing American style, Canadian real estate has come off the boil. It is almost inconceivable that painful adjustments in our manufacturing sector have been completed. In all, these factors lead us to a profile for the Canadian economy that

resembles the American. Essentially, more sideways movement on output with only a shallow recovery in late 2009. Our forecast for Canadian real GDP growth was edged down to 0.7% (from 1.0%) for 2008, while the 2009 forecast is 1.2%. In 2010, a meaningful economic recovery finally takes hold with 2.7% growth.

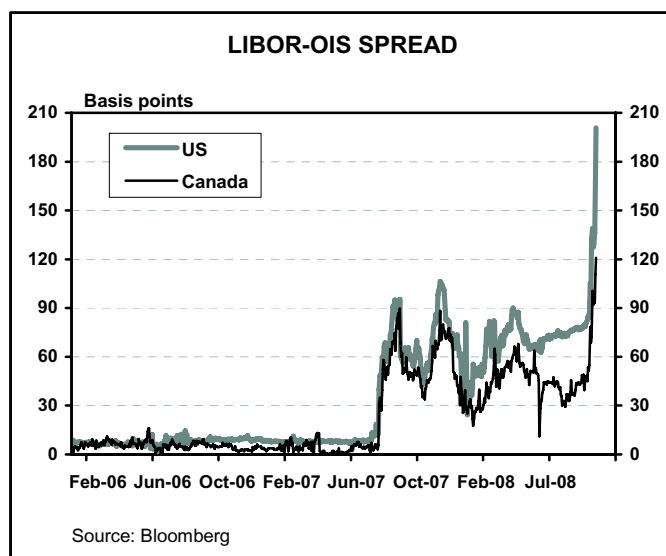
Conclusion

We have been on the pessimistic side of the “consensus” of publicly available forecasts for some time. Perhaps a key distinguishing feature was our focus on credit conditions and the probability that they would remain tight. Neither the recent failure of large financial institutions nor the increasingly bold actions of Governments and central banks have caused us to fundamentally change our views. Recent financial events confirm the coming weakness in U.S. domestic demand. The reaction of policy authorities provides assurance that financial markets will not free fall, but it does not give an instantaneous or significant lift to economies being dragged down by the battered balance sheets of financial institutions, households and increasingly, governments. On balance, our September 2008 forecasts are similar in shape but slightly weaker on growth prospects than our previous outlook of June.

Since credit conditions are front and centre in determining our outlook, recent events do widen the range of uncertainty around a point forecast. Confidence and financial stability could be restored sooner than we imagine, leading to an earlier and sharper recovery. However, just as likely in our view is that the financial sector woes and the interaction with the economy will prove more intractable than we have assumed. In other words, the risks to the forecast are balanced. Like us, users of forecasts will have to pay extraordinary attention to economic and policy developments to determine what course will be taken through these uncharted waters. Scenarios must be considered. We will shortly publish thoughts on these. But for now, key elements of our storyline are falling in place and our base case is sticking rather closely to the views we presented in June.

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GLOBAL ECONOMIC OUTLOOK

Credit, cross-border flows, and commodity prices – these are the three C's that hold the fate of the global economy in the balance. Credit is king. Cross-border flows of capital and trade keep economies inter-connected. And, commodity prices are the echo of global economic growth. The precise importance of each can be debated, but unfortunately, all three appear to be losing steam as we near the end of this year. As a result, while we have left our forecast for global economic growth for 2008 unchanged at 3.7%, we have lowered our forecast for 2009 by three-tenths of a per cent to just 2.9%. We now expect a significantly weak end to 2008 and start of 2009 across a broad swath of industrialized economies, which will drag the global economy into a shallow recession – commonly defined as global GDP growth below 3.0% – before recovering to a 4.2% pace in 2010. This would be slightly faster than the recovery from the 2001-2002 global recession, reflecting the slow head of steam industrialized economies will gain through 2009 and the expectation that emerging market economies will broadly avoid financial crises.

The Global Drivers

Domestic credit expansion has been cooling or contracting broadly across the industrialized world, as well as in China and several other major emerging markets. With simultaneous slumps in several housing markets around the world, household credit has generally evaporated quicker than business credit. To some extent, this reflects the fact that alternative, cheaper sources of corporate funding have dried up. At the end of the day, this means less fuel to support economic growth. This also means a reduced flow of capital between countries, whether because the cost of funds is too high or slower economic growth means the returns are now too low. Deleveraging is simply another way of saying exposures to currency risk and foreign economies are being scaled back. Once again, this is less fuel for the engine. At the same time, the pace of global exports was still near its peak in June and July. Given the moves in crude oil since July, though, the pace of global export growth by the end of this year could be just half of the ebullient level seen in the early summer. This would put it close to the weak pace seen in mid-2002 and mean the external engine of global growth is temporarily offline. Coupled with weaker – but by no means low – commodity prices, emerging markets and commodity exporters will see less spring in their step. There will certainly be important differences around the globe.

Industrialized Economies Slump

Issues for the American economy have been covered to death elsewhere, but needless to say, the U.S. has reinvented the Olympic motto “faster, higher, stronger” to read “weaker, softer, feebler.” Among the remaining industrialized countries, a footrace is underway as to who will be first to join the U.S. in recession. It appears the Japanese and U.K. economies are in recession already – but we will have to wait for the data to come in to confirm this – and the Eurozone could slip into one by early next year. Like the U.S., the United Kingdom economy has been dealing with a sharp crash in its housing market. Unlike the U.S., though, there has been no fiscal stimulus to support U.K. consumers and no cheap currency to leverage export growth. As a result, all cylinders of the U.K.

GLOBAL ECONOMIC OUTLOOK					
Annual per cent change unless otherwise indicated					
Real GDP	2007 Share*	2007	Forecast		
	(%)		2008	2009	2010
World	99.1	4.8	3.7	2.9	4.2
North America	25.5	2.2	1.7	1.2	3.1
United States	21.4	2.0	1.7	1.1	3.2
Canada	2.0	2.7	0.7	1.2	2.7
Mexico	2.1	3.3	2.4	2.0	2.5
European Union (EU-27)	23.7	2.9	1.5	0.6	2.2
Euro-zone (EU-15)	16.1	2.6	1.2	0.2	2.0
Germany	4.4	2.6	1.6	0.2	1.9
France	3.2	2.1	1.0	0.3	1.8
Italy	2.8	1.4	0.1	-0.1	0.9
United Kingdom	3.3	3.1	1.0	0.4	2.1
EU accession members	3.4	3.6	2.8	2.1	3.0
Asia	35.5	7.6	6.0	5.3	6.1
Japan	6.6	2.0	0.5	0.5	2.2
Asian NIC's	3.7	5.6	4.3	3.7	4.3
Hong Kong	0.5	6.4	5.0	3.5	4.5
Korea	1.9	5.0	4.1	3.6	4.4
Singapore	0.3	7.7	5.0	4.3	4.7
Taiwan	1.1	5.7	4.0	3.8	3.8
Russia	3.2	8.1	7.0	5.6	6.2
Australia & New Zealand	1.4	3.9	2.6	2.5	3.6
Developing Asia	20.6	9.9	8.1	7.3	7.8
ASEAN-4	3.1	6.0	5.0	4.4	4.9
China	10.9	11.9	9.9	8.8	9.2
India	4.6	9.3	7.5	7.0	7.6
Central/South America	6.1	6.2	4.9	3.2	4.2
Argentina	0.8	8.7	6.0	3.5	4.8
Brazil	2.8	5.4	4.6	3.6	4.3
Other Developing	8.4	6.2	6.1	5.1	6.2

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

economy are losing steam. The economy stagnated in the second quarter and we now forecast the second half of the year will see it contract outright. Across the channel, the Eurozone economy grew by just 0.9% in the first half of 2008, and looks likely to see growth of less than 1.0% in the second half of the year, as well. After contracting in the second quarter of 2008, this would mean the Eurozone could avoid the technical moniker of recession this year, but the bigger risks for the Eurozone seem to lie in the first half of next year. With high inflation, the ECB has been reluctant to lower interest rates. As we expect them to remain on hold into the spring of 2009, this will mean no additional boost for the economy until the greatest need has passed. Once those cuts start to take effect, though, we expect a better economic performance from the Eurozone heading into 2010.

Perhaps the broadest-based slowdown has been in Japan. Second quarter GDP growth was abysmal, contracting by 2.4%, with every category contracting – i.e. consumer spending, government spending, residential investment, capital equipment, exports and imports. Since then, investment spending has remained extremely weak, and there is little room for policy offsets. The Bank of Japan's policy interest rate doesn't have far to fall from its current 0.50%, and with national elections and a high government debt, fiscal tools are of limited use. The Japanese recession likely won't be very deep, but it could muddle on with minimal economic growth until early summer of 2009.

Emerging Markets Slow

Emerging markets account for 40 per cent of the global economy. However, they now make up nearly 80 per cent of the annual global economic growth rate, rather than just 50 per cent of the growth rate in 2000, when the global economy was last heading into a recession. Half of that share is China and India alone. Through this slowdown, the emerging market outperformance should continue, but it is losing steam. Commodity exporters like Brazil and Russia aren't helped by the fall in commodity prices. Manufacturing centers like China and India aren't helped by weaker global consumers. But these and many other critical emerging markets are enjoying firm domestic demand and little direct fallout from the credit crunch. Without the rash of emerging market financial crises pulling economic growth to unreasonably low levels, these regions will see slower growth, but this need not be as slow as in the past. So while both industrialized economies and emerging markets should see GDP growth slow by nearly a percentage point a year from 2007 to 2009, this means slowing from

2.6% to 1.0% in industrialized economies but from 7.6% to 5.4% for developing economies.

There are certainly risks. South Africa, Turkey, South Korea, Iceland, Kazakhstan, Russia, and Romania have a high reliance on market funding which is harder to come by, and Eastern Europe in general has a high reliance on investment funding flowing from Western Europe. Additionally, South Korea, Romania, Hungary and some of the smaller Baltic economies have a higher amount of external debts. With the fluid nature of economic developments recently, these would be the areas we would suggest to keep a close eye on in the near-term not because crises are likely, but simply because they have one or more risk factors.

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ECONOMIC INDICATORS FOR THE G-7 AND EUROPE					
	2006	2007	Forecast		
			2008	2009	2010
Real GDP (Annual per cent change)					
G-7 (41.17%)*	2.7	2.1	1.3	0.7	2.5
U.S.	2.9	2.0	1.7	1.1	3.2
Japan	2.4	2.0	0.5	0.5	2.2
EU-15	2.9	2.6	1.2	0.2	2.0
Germany	3.1	2.6	1.6	0.2	1.9
France	2.4	2.1	1.0	0.3	1.8
Italy	1.9	1.4	0.1	-0.1	0.9
United Kingdom	2.9	3.1	1.0	0.4	2.1
Canada	3.1	2.7	0.7	1.2	2.7
Consumer Price Index (Annual per cent change)					
G-7	2.3	2.1	3.7	2.1	1.5
U.S.	3.2	2.9	4.6	2.4	1.9
Japan	0.2	0.1	1.6	0.7	0.4
EU-15	2.2	2.1	3.5	2.1	1.7
Germany	1.8	2.3	3.0	1.9	1.7
France	1.9	1.6	3.4	2.0	1.6
Italy	2.2	2.0	3.7	2.4	1.7
United Kingdom	2.3	2.3	4.2	3.3	1.6
Canada	2.0	2.1	2.8	2.1	2.0
Unemployment Rate (Per cent annual averages)					
U.S.	4.6	4.6	5.6	6.9	6.9
Japan	4.1	3.9	4.1	4.6	4.5
EU-15	8.2	7.4	7.3	8.0	7.9
Germany	9.8	8.4	7.5	7.9	7.8
France	9.2	8.3	7.5	8.0	8.0
Italy	6.8	6.1	6.8	7.5	7.4
United Kingdom	5.3	5.3	5.4	6.2	5.9
Canada	6.3	6.0	6.1	6.7	6.6
*Share of 2007 world gross domestic product (GDP)					
Forecast as at September 2008					
Source: National statistical agencies, TD Economics					

U.S. ECONOMIC OUTLOOK

The U.S. economy came out of the first half of 2008 looking quite a bit better than most analysts had expected. After contracting in the final quarter of last year and tepid growth in the first quarter, a surge in exports and a strong dose of fiscal stimulus helped push second quarter growth to a stunning 3.3%. Despite the better than expected first half, the U.S. economy's woes are far from over. Even before the recent crisis on Wall Street, U.S. consumers, buckling under the weight of higher energy prices and falling household wealth, appeared ready to close their wallets. With credit standards tightening even further and confidence in financial markets plummeting, consumer spending over the second half of the year is set to fall for the first time since the early 1990s. And while exports will continue to provide some offset to the retrenching con-



U.S. ECONOMIC INDICATORS				
Annual per cent change unless otherwise indicated				
	2007	Forecast		
		2008	2009	2010
Real GDP	2.0	1.7	1.1	3.2
Consumer Expenditure	2.8	0.8	0.2	2.7
Durable Goods	4.8	-2.3	-1.6	7.9
Business Investment	4.9	3.5	-0.9	1.6
Non-Residential Structures	12.7	10.1	-0.6	0.4
Machinery & Equipment	1.7	0.4	-1.1	2.2
Residential Construction	-17.9	-20.4	-5.8	12.9
Govt. Exp. on Goods & Svcs.	2.1	2.5	2.1	1.4
Final Domestic Demand	1.8	0.5	0.3	2.6
Exports	8.4	9.7	4.1	5.5
Imports	2.2	-1.4	-0.1	3.1
Change in Non-Farm Inventories (\$00 Bn.)	-3.7	-32.6	-2.8	16.6
Final Sales	2.4	2.0	0.8	3.0
Int'l Curr. Acct. Bal. (\$Bn.)	-731	-741	-739	-751
% of GDP	-5.3	-5.2	-5.0	-4.8
Pre-tax Corporate Profits	-1.6	-6.3	-1.3	8.1
GDP Chain-type Deflator	2.7	2.3	1.8	1.7
Employment	1.1	0.0	-0.5	1.1
Unemployment Rate (%)	4.6	5.6	6.9	6.9
Productivity *	1.3	2.9	2.5	2.8
Real Pers. Disp. Inc. (PDI) **	2.8	1.2	0.5	3.2
Real PDI ** Per Person	2.0	0.2	-0.5	2.2
Consumer Price Index (CPI)	2.9	3.3	3.7	4.5
Housing Starts (mn units)	1.34	0.96	0.91	1.10

Real GDP: Real gross domestic product; * Real private non-farm business output per hour; ** After-tax income adjusted for inflation; Forecast by TD Economics as at September 2008; Source: Bureau of Labor Statistics, Bureau of Economic Analysis, TD Economics

sumer, the economic slowdown has gone global and will not provide the kick to net-trade it once did. Moreover, the epicenter of the current crisis – the U.S. housing market – will continue to subtract from growth into early 2009. As a result, the U.S. economy will move sideways over the next 12 months and will improve only slowly through the second half of 2009. By the end of 2008 the bottom in the housing market and a return to normalcy in financial markets will sow the seeds for a rebound in consumer spending and economic growth in 2010.

Consumers set to pull back spending

The challenges facing U.S. consumers even before the recent financial market meltdown were well known - falling household wealth, rising unemployment, tightening consumer credit conditions and soaring energy prices. The distribution of over \$100 billion in fiscal stimulus checks to U.S. households was intended to offset these pressures and keep household spending growing long enough to keep the overall U.S. economy above water. Unfortunately, just as the tax rebate checks were reaching households, gasoline prices were reaching new heights – topping \$4.00 a gallon in several jurisdictions. While the injection of funds to households did lead to a rebound in consumer spending growth in the quarter, in many ways the impact of stimulus was disappointing. For one, even with such a large injection of funds over this short period of time, consumer spending failed to keep pace with growth rates observed just a year earlier. In addition, the stimulus did little to lift durable

goods spending which, led by declining purchases of motor vehicles, fell for a second straight quarter. Finally and most importantly for the forecast, any notion that the stimulus might be large enough to keep consumer spending afloat in the third quarter has been quashed by dour retail sales since the last of the stimulus checks were sent out.

In all probability, a loss of consumer confidence will be precipitated by the recent financial market meltdown (on top of all the other headwinds facing households), causing spending to decline in both the third and fourth quarters of this year. While the outset of 2009 will see a slow return to consumer spending growth, the rebound will prove underwhelming as households struggle to rebuild their battered balance sheets and credit conditions remain tight. Already household wealth has fallen by close to \$3 trillion dollars in the last three quarters. Even assuming a relatively conservative estimate of the wealth effect of 5 cents reduction in spending for every 1 dollar of wealth, this is enough to subtract a full 2 percentage points from consumer spending over the course of the year. Spending growth will not show much improvement until the final quarter of 2009 before rebounding soundly in 2010.

Is there a light at the end of the long, dark housing tunnel?

A prerequisite for the U.S. economy escaping the grips of its financial market malaise and consumer led economic doldrums is a bottom in the housing market. The question is how close to a bottom are we? Before the recent bout of illiquidity and crisis of confidence in financial markets, there had been preliminary signs that this bottom was not too far off. New home sales increased for the first time in July and perhaps more importantly, the increase was enough to cause the inventory of new unsold homes to fall for the second straight month. In addition, the pace of home price declines, as measured by the S&P/Case-Shiller home price index, has also decelerated. Month-over-month declines, which, at their trough in February reached -2.5%, and have since improved to a pace above -1%.

Home prices likely have at least another 10% to fall before affordability has been restored to a place where demand can rise in a significant way to sop up excess supply. While recent events have added a whole new layer of uncertainty as to exactly when the floor will be reached, after more than two years of price declines and housing starts falling to a level 60% below their peak, we believe we are only a few quarters away. U.S. housing starts are expected to trough in the final quarter of this year at 850,000

U.S. ECONOMIC INDICATORS				
Fourth-quarter-over-fourth-quarter per cent change				
	Q4-07	Forecast		
		Q4-08	Q4-09	Q4-10
Real GDP	2.3	1.0	2.0	3.4
Real Final Sales	2.5	1.2	1.6	3.3
Employment	0.9	-0.7	-0.1	1.6

Real GDP: Real gross domestic product; Forecast by TD Economics as at September 2008; Source: Bureau of Labor Statistics, Bureau of Economic Analysis, TD Economics

units - the lowest level in the 50 year history of the series even though there are two-and-a-half times more households today. Starts will improve only gradually through the course of 2009 as inventories of unsold homes continue to be worked off. Given the very low levels from which it is starting, residential construction will become a significant contributor to economic growth by the end of the forecast period in 2010.

Struggling global economy means U.S. exporters will have harder time finding buyers

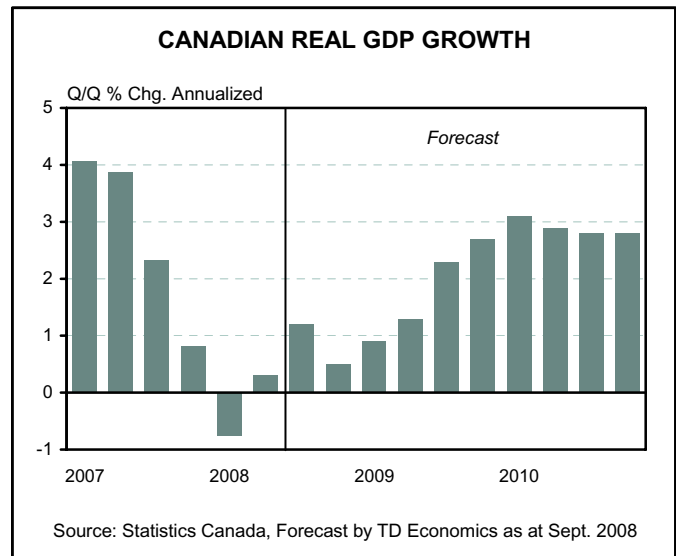
The saving grace for the U.S. economy up to this point has been the net-trade sector. Exports have themselves contributed close to 1% to economic growth in each of the last four years and are on pace to top this in 2008. In the last several quarters, this strength in exports has been compounded by weaker imports (a function of the slower growing domestic economy), resulting in the longest string of net-exports contributing to economic growth since 1991. However, while import growth will continue to cool, exports look to slow considerably over the next several quarters.

World economic growth is faltering, and even in spite of weakness in the U.S. dollar, will result in much slower demand for U.S. exports. Downgrades to our global economic forecast and an expectation that global growth will continue to weaken through the final quarter of this year before troughing in early 2009, will lead to a much slower pace of U.S. export growth than we have observed in the recent past. As world economic growth improves in the later half of the year, so too will U.S. export growth, but by this point a resurgent domestic economy will also lead to higher imports. As a result, the current accounts deficit will show only marginal improvement over the course of the forecast horizon, moving from -5.0% of GDP to -4.8% by the end of 2010.

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CANADA'S ECONOMIC OUTLOOK

With GDP growth in the second quarter at a mere 0.3% annualized and growth in the first quarter revised down to -0.8%, we now estimate that real GDP growth will come in at a slight 0.7% in 2008. In 2009, economic activity is expected to expand at a tepid 1.2%. There are three main contributing factors to this continued weakness in the Canadian economy. First, we believe the global economy is on the brink of a mild recession. This, in addition to weakened demand from the U.S., will eat into Canadian exports. Second, a cooling in housing and employment will undermine domestic demand growth. Lastly, tighter credit conditions will likely slow both business and consumer expenditures. Once a world recovery takes hold in late 2009, we can expect a sustained recovery in Canada with real GDP growth of 2.7% in 2010.



CANADA'S ECONOMIC INDICATORS				
Annual per cent change unless otherwise indicated				
	2007	Forecast		
		2008	2009	2010
Real GDP	2.7	0.7	1.2	2.7
Consumer Expenditure	4.5	3.9	2.2	2.7
Durable Goods	7.1	6.3	-0.5	2.4
Business Investment	3.5	2.9	2.2	3.3
Non-Residential Structures	-0.4	-0.6	2.0	2.9
Machinery & Equipment	7.1	5.9	2.5	3.6
Residential Construction	3.0	-1.8	-1.2	3.1
Govt. Exp. on Goods & Svcs.	3.7	4.4	3.3	2.7
Final Domestic Demand	4.2	3.5	2.3	2.8
Exports	1.0	-3.7	-1.2	3.7
Imports	5.5	2.9	1.9	3.8
Change in Non-Farm Inventories				
(\$97 Bn.)	12.6	5.8	6.8	6.9
Final Sales	2.6	1.2	1.1	2.8
Int'l Curr. Acct. Bal. (\$Bn.)	13.6	15.0	4.4	16.4
% of GDP	0.9	0.9	0.3	0.9
Pre-tax Corporate Profits	3.3	8.2	2.1	5.8
GDP Chain-type Deflator	3.1	4.0	1.7	2.1
Employment (%)	2.3	1.5	0.3	1.0
Employment ('000)	380	251	44	179
Unemployment Rate (%)	6.0	6.1	6.7	6.6
Productivity*	0.3	-0.8	0.9	1.7
Real Pers. Disp. Income (PDI)**	4.1	3.8	1.0	2.7
Real PDI** Per Person	3.1	2.8	0.1	1.8
Consumer Price Index	2.1	2.8	2.2	2.0
Core CPI	2.1	1.6	1.8	2.0
Housing Starts ('000 units)	228	212	185	193

Real GDP: Real gross domestic product; *Real GDP per employee
 **After-tax income adjusted for inflation; Forecast by TD Economics as at September 2008; Source: Statistics Canada, Bank of Canada, Canada Mortgage and Housing Corporation, Haver Analytics

Consumer spending set to slow in coming quarters

Robust income growth and a booming labour market created a backdrop for strong domestic demand in Canada over the past four years. It was largely expected that this wouldn't last and that consumer spending would slow from an unsustainable pace of 4-5%. However, an average quarterly growth rate of 2.8% in the first half of the year was weaker than expected suggesting a steeper slowdown in consumer spending may be in store.

Why are consumers showing less inclination to spend? The job market has cooled considerably since last year. So far this year, only 87,000 jobs have been created, compared to 221,000 new positions this time last year. We believe this softer employment trend will remain in place over the next 12-18 months, with 2009 likely to tack on only 44,000 new positions. With that, income growth is expected to slow from 5.6% in 2008 to 2.5% in 2009, which will be a headwind to consumer spending.

In addition to a softer job market, the cooling already underway in the housing market will have a direct impact on consumer spending via fewer big-ticket purchases related to furnishings, building supplies, and home design. Existing home sales will likely have fallen by 14.8% by the end of 2008 and this will directly impact renovation spending for the next one to two years. Meanwhile, housing starts are expected to decline by 18% to a trough of 180,000 annualized units by mid 2009 and neither of these events bode well for consumer purchases of home supplies. On the upside, the Canadian housing market remains funda-

mentally sound, so any price correction will be relatively minor. As such, Canadians will not face the same housing market turmoil led deterioration to wealth as experienced by their neighbours to the south.

Lastly, the lingering impact of tighter credit crunch conditions relative to past years will continue to impinge on consumer spending, especially when it comes to big-ticket purchases that may require some financial assistance.

As a result, we believe consumption growth will moderate through the first half of 2009, however still remain slightly above a 2% pace in that year. By 2010, a sturdier economic recovery should be underway, mirrored by a faster 2.7% clip in consumer spending – however this will still not rival the pace of spending seen during the heydays of 2003 to 2007.

Export weakness to continue in global recession

The largest drag to real economic growth is continued weakness in the export sector, which accounts for about 40% of the real economy. U.S. demand for Canadian goods is not what it once was, and exports have shaved an average of two percentage points from real GDP growth over the last three quarters. Near term, recent strength in real manufacturing shipments suggests that third quarter export growth will make a slight recovery, but this will be short lived. With worsening global conditions and a recession in the U.S., things are definitely not going to get better any time soon.

With 77% of exports going south of the border, slower consumer consumption in the U.S. will continue to eat into Canadian export demand. We expect weaker exports to cut on average 0.7 percentage points off quarterly growth rates until mid 2009. In addition, with the world economy on the brink of a mild recession, Canadian exporters won't have anywhere else to turn over the next year. As a result, we believe exports will contract by 3.7% in 2008, the weakest performance since 1975. 2009 will extend further losses in the export sector before a welcomed U.S. and global recovery in 2010 finally put the books back in the black with a 3.7% gain.

Canadian corporate support fraying

While it was largely expected that domestic demand growth would slow, the new twist to the forecast is the 'surprise' element coming from developments in business investment. After five years of exceptional growth in machinery and equipment (M&E) investment, momentum has stalled. In the first half of 2008, the quarterly growth

CANADA'S ECONOMIC INDICATORS				
Fourth-quarter-over-fourth-quarter per cent change				
	Q4-07	Forecast		
		Q4-08	Q4-09	Q4-10
Real GDP	2.8	0.5	1.8	2.9
Real Final Sales	1.1	1.4	1.9	2.9
Employment (%)	2.4	0.7	0.5	1.3
Real GDP: Real gross domestic product; Forecast by TD Economics as at September 2008; Source: Statistics Canada, Haver Analytics				

rate practically came to a standstill from mostly a double-digit pace in the prior years. This was one area in the economy where we had expected momentum to hold fairly robust, especially since Canada imports about 80% of its M&E and the high Canadian dollar has cheapened the cost of investment. We have not given up hope, however. The Business Outlook Survey conducted by the Bank of Canada in July indicated that there was a sharp increase in the balance of opinion on investment in machinery investment. Perhaps counterintuitive at first glance, the increase was driven by firms based in Central and Eastern Canada, with many planning higher investment spending for reasons related to restructuring. Meanwhile, the report indicated that intentions to increase investment remain strong in Western Canada, where firms are looking to alleviate capacity pressures. There is a reasonable correlation between stated intentions in this report and actual investment activity, with a lag that extends one to four quarters. So, we do not believe M&E investment is in a permanent holding pattern, but rather expect some revival in growth to a 2.0-2.7% quarterly pace through 2009, though this is still a weaker pace than what we had predicted in the prior forecast publication. As the economic uncertainty lessens and corporate profitability improves, investment should pick up more noticeably in 2010.

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FINANCIAL OUTLOOK

Credit market troubles came to a rapid-fire crescendo in early September with a number of important bailouts, failures, and regulatory changes that seemed to avert imminent disaster. But even with the tectonic shift in the structure of U.S. financial markets, the credit crunch is far from over. Rather, recent events may prove to be a turning point as it has become crystal clear that the pain of deleveraging has become much deeper and wider than expected.

Triage in the Banking System

The sequence of events that followed the early September Fannie Mae and Freddie Mac bailout came fast and furious, and within the span of just two weeks, Wall Street became a fundamentally different place. First, the government made it clear that some simply are not “too big to fail” and made it clear that they would not be throwing a lifeline to everyone. Lehman Brothers was the first real casualty of the credit crunch as it closed its doors in mid-September. Merrill Lynch narrowly averted the same fate after being purchased by Bank of America for \$50

For monthly updates and a more in-depth discussion of the interest rate and foreign exchange rate forecasts, please see the monthly Global Markets report, available at www.td.com/economics.

billion. In the wake of these massive changes, Goldman Sachs and Morgan Stanley were granted the right to become bank holding companies. The benefit of coming under the umbrella of the Fed includes being able to take deposits and tap the discount window, rather than just the primary dealer credit facility, though it must clearly give up the old investment banking model of using leverage.

The problems were not only contained to U.S. investment banks. The systemic risk posed to the global financial system by insurance giant AIG paved the way for the \$85 billion bailout package, but at a significant cost to AIG—three-month Libor plus 850 basis points. Even so, short term money markets remained frozen. By mid-September, yields on the 3-month T-Bill fell to nearly 0.0%, which pushed

INTEREST RATE OUTLOOK													
	Spot Rate 9/23/2008	2008				2009				2010			
		Q1	Q2	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
CANADIAN FIXED INCOME													
Overnight Target Rate (%)	3.00	3.50	3.00	3.00	3.00	3.00	3.00	3.25	3.75	4.25	4.50	4.50	4.50
3-mth T-Bill Rate (%)	2.19	1.97	2.52	2.15	2.55	2.70	3.00	3.25	3.85	4.35	4.45	4.45	4.50
2-yr Govt. Bond Yield (%)	2.85	2.62	3.25	2.75	2.95	3.15	3.40	3.65	4.05	4.20	4.25	4.30	4.30
5-yr Govt. Bond Yield (%)	3.13	2.91	3.46	3.10	3.25	3.45	3.70	3.95	4.35	4.45	4.45	4.50	4.50
10-yr Govt. Bond Yield (%)	3.67	3.44	3.73	3.65	3.65	3.80	4.00	4.25	4.60	4.65	4.65	4.65	4.65
30-yr Govt. Bond Yield (%)	4.11	3.94	4.08	4.10	4.15	4.15	4.30	4.50	4.75	4.75	4.70	4.75	4.75
10-yr-2-yr Govt. Spread (%)	0.82	0.82	0.48	0.90	0.70	0.65	0.60	0.60	0.55	0.45	0.40	0.35	0.35
U.S. FIXED INCOME													
Fed Funds Target Rate (%)	2.00	2.25	2.00	2.00	2.00	2.00	2.00	2.50	3.25	4.00	4.50	4.50	4.50
3-mth T-Bill Rate (%)	0.86	1.37	1.81	0.80	1.20	1.40	1.80	2.40	3.30	4.05	4.40	4.40	4.45
2-yr Govt. Bond Yield (%)	2.03	1.58	2.62	1.90	2.00	2.30	2.65	3.10	3.75	4.10	4.25	4.30	4.30
5-yr Govt. Bond Yield (%)	2.95	2.44	3.33	2.85	2.90	3.05	3.35	3.70	4.25	4.50	4.55	4.60	4.60
10-yr Govt. Bond Yield (%)	3.78	3.41	3.97	3.70	3.70	3.80	4.05	4.30	4.70	4.85	4.85	4.90	4.90
30-yr Govt. Bond Yield (%)	4.38	4.29	4.52	4.30	4.30	4.30	4.45	4.65	4.95	5.10	5.10	5.15	5.15
10-yr-2-yr Govt. Spread (%)	1.75	1.83	1.35	1.80	1.70	1.50	1.40	1.20	0.95	0.75	0.60	0.60	0.60
CANADA-U.S. SPREADS													
3-mth T-Bill Rate (%)	1.33	0.60	0.71	1.35	1.35	1.30	1.20	0.85	0.55	0.30	0.05	0.05	0.05
2-yr Govt. Bond Yield (%)	0.82	1.04	0.63	0.85	0.95	0.85	0.75	0.55	0.30	0.10	0.00	0.00	0.00
5-yr Govt. Bond Yield (%)	0.18	0.47	0.13	0.25	0.35	0.40	0.35	0.25	0.10	-0.05	-0.10	-0.10	-0.10
10-yr Govt. Bond Yield (%)	-0.11	0.03	-0.24	-0.05	-0.05	0.00	-0.05	-0.05	-0.10	-0.20	-0.20	-0.25	-0.25
30-yr Govt. Bond Yield (%)	-0.27	-0.35	-0.44	-0.20	-0.15	-0.15	-0.15	-0.15	-0.20	-0.35	-0.40	-0.40	-0.40

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

out the TED spread to the highest level since the 1987 stock market crash. Investors preferred to receive virtually no return on their money, rather than put it in any other market and risk losing it. Recognizing the ongoing constriction in liquidity, the Fed added massive amounts of extra liquidity and created swap lines with all the major central banks to assure access to U.S. dollars.

Stabilizing the Patient

The Treasury announced a \$700 billion package called the Troubled Asset Relief Program (TARP), which was a salvo that stabilized yields and equity markets with the promise of creating a structure that would buy the underperforming, hard-to-sell assets that have been creating the plaque in Wall Street's arteries.

But the TARP is by no means a panacea. The estimated cost of this, in addition to the many other liquidity measures, are anywhere from \$1-\$2 trillion, thus having massive implications for the U.S. federal deficit. How this will affect the yield curve is still in question, but there is the possibility of bringing back the 3-yr and 7-yr maturities, as well as issuing debt across the entire curve.

Against this backdrop, the Fed made it clear that it would prefer to reliquefy financial markets through the money markets, not via the real economy. The FOMC unanimously keep rates on hold at 2% on September 16. Barring a massive change in macro economic conditions, the Fed is unlikely to change course any time soon. Though core CPI is still above the Fed's comfort zone, commodity prices have come off the boil and weak economic growth will take care of any froth in prices. As such, the risk is tilted toward rate cuts, as rate hikes are off the table for now.

As such, the shape of the yield curve is expected to remain quite steep. This is good news for the banking system, which relies on a steep yield curve to make money, as

it borrows short and lends long. In this environment, the primary risk tilts toward a steeper, not flatter yield curve, especially if yet another shoe drops on this multi-legged beast of a credit crunch. Moreover, volatility might not be put to bed quite yet. As financial markets unwind their Lehman positions, the bid tone in Treasuries could be a mainstay in the near term.

Canada Preparing for the Spillover

Canadian markets have undergone a good deal of volatility along side their U.S. counterparts. The Canadian economy is unambiguously weak and the slowing economic activity has had some impact on inflation, which has pushed the output gap further into excess supply. Core CPI on a three-month annualized trend was 1.7% in August and has been below the Bank's 2% target for nearly a year. Other sources of price pressure from the product and labour markets are also moderating. So inflation seems to be less of a risk than before. Instead, it is Canada's exposure to the U.S, from a financial markets perspective, which raises downside risks.

Renewed volatility in financial market conditions in Canada prompted the Bank of Canada to reinstate the Term PRA in mid-September. The Bank of Canada acknowledged the volatility in financial markets when it met on September 3, even as it elected to keep rates on hold at 3%. The tone of the communiqué and a subsequent speech by Deputy Governor Murray suggest steady rates unless there is a fundamental deterioration in the economy. Therefore, we remain of the view that the Bank of Canada will remain on hold through mid-2009. As such, the Canadian yield curve should remain steep, though not as much as the U.S. with the risks tilted toward rate cuts. That argues for a steeper, not flatter yield curve in the near term.

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FOREIGN EXCHANGE OUTLOOK														
Currency	Exchange Rate	Spot Price 9/23/2008	2008				2009				2010			
			Q1	Q2	Q3	Q4F	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Canadian dollar	USD per CAD	0.968	0.992	0.979	0.968	0.950	0.950	0.960	0.970	0.970	0.960	0.930	0.910	0.910
Canadian dollar	CAD per USD	1.033	1.008	1.021	1.033	1.053	1.053	1.042	1.031	1.031	1.042	1.075	1.099	1.099
Japanese yen	JPY per USD	105.5	104	106	106	106	106	104	102	102	104	108	110	110
Euro	USD per EUR	1.480	1.562	1.576	1.480	1.500	1.520	1.550	1.570	1.550	1.520	1.500	1.470	1.450
U.K. pound	USD per GBP	1.862	1.987	1.993	1.862	1.875	1.900	1.938	1.987	1.962	1.900	1.875	1.861	1.859
Swiss franc	CHF per USD	1.077	1.034	1.021	1.077	1.047	1.020	1.000	0.981	0.994	1.007	1.020	1.027	1.041
Australian dollar	USD per AUD	0.842	0.944	0.959	0.842	0.850	0.860	0.860	0.880	0.880	0.860	0.850	0.830	0.800
Mexican peso	MXN per USD	10.68	10.47	10.31	10.68	10.90	10.30	10.40	10.40	10.50	10.50	10.50	10.50	10.50

f: Forecast by TD Economics as at September 23, 2008; All forecasts are for end of period; Source: Federal Reserve of New York, TD Economics

CANADIAN ECONOMIC OUTLOOK

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
Real GDP	-0.8	0.3	1.2	0.5	0.9	1.3	2.3	2.7	3.1	2.9	2.8	2.8	0.7	1.2	2.7	0.5	1.8	2.9
Consumer Expenditure	3.1	2.4	2.3	1.8	2.0	2.5	2.5	2.6	2.6	2.7	2.9	3.0	3.9	2.2	2.7	2.4	2.4	2.8
Durable Goods	17.6	-1.2	-1.8	-2.7	-0.9	1.2	1.6	2.0	2.4	2.8	3.2	3.7	6.3	-0.5	2.4	2.7	1.0	3.0
Business Investment	2.1	-1.4	5.6	1.5	2.0	2.2	2.5	2.7	3.4	3.8	3.9	4.1	2.9	2.2	3.3	1.9	2.3	3.8
Non-Res. Structures	3.3	-1.7	4.4	1.2	1.8	2.0	2.4	2.6	2.9	3.2	3.3	3.5	-0.6	2.0	2.9	1.8	2.2	3.2
Machinery & Equipment	1.2	-1.2	6.6	1.8	2.1	2.3	2.5	2.7	3.9	4.4	4.4	4.6	5.9	2.5	3.6	2.1	2.4	4.3
Residential Construction	-6.7	-3.9	-2.8	-1.4	-1.6	-2.3	2.8	3.2	3.6	3.5	3.7	3.8	-1.8	-1.2	3.1	-3.7	0.5	3.6
Government Expenditure on Goods & Services	2.4	5.1	4.2	3.5	2.9	2.9	2.8	2.8	2.6	2.6	2.6	2.6	4.4	3.3	2.7	3.8	2.8	2.6
Final Domestic Demand	2.3	2.0	2.8	2.0	2.0	2.2	2.6	2.7	2.8	3.0	3.1	3.2	3.5	2.3	2.8	2.3	2.4	3.0
Exports	-4.1	-5.9	0.7	-3.3	-2.0	-0.9	1.5	2.7	5.2	4.8	4.7	5.0	-3.7	-1.2	3.7	-3.2	0.3	4.9
Imports	-9.0	2.3	5.3	0.4	1.2	1.5	2.1	2.5	4.4	4.6	5.0	5.8	2.9	1.9	3.8	-0.4	1.8	5.0
Change in Non-Farm Inventories (\$97 Bn)	1.9	6.7	7.5	7.2	7.3	6.9	6.5	6.3	6.6	6.8	6.9	7.2	5.8	6.8	6.9	---	---	---
Final Sales	5.5	-1.1	0.9	0.6	0.9	1.5	2.4	2.8	3.0	2.9	2.8	2.7	1.2	1.1	2.8	1.4	1.9	2.9
International Current Account Balance (\$Bn)	17.8	27.0	9.9	5.3	-0.8	2.8	6.7	8.9	14.0	16.1	17.1	18.4	15.0	4.4	16.4	---	---	---
% of GDP	1.1	1.7	0.6	0.3	-0.1	0.2	0.4	0.5	0.8	0.9	1.0	1.0	0.9	0.3	0.9	---	---	---
Pre-tax Corp. Profits	9.7	37.5	-9.6	0.4	1.2	1.5	2.6	6.5	6.8	6.8	6.7	6.6	8.2	2.1	5.8	8.2	2.9	6.7
% of GDP	13.3	14.0	13.7	13.6	13.6	13.6	13.5	13.6	13.6	13.7	13.7	13.8	13.7	13.6	13.7	---	---	---
GDP Deflator (Y/Y)	3.1	4.5	4.6	3.8	2.8	0.8	1.4	1.8	1.7	2.1	2.1	2.1	4.0	1.7	2.1	3.8	1.8	2.2
Nominal GDP	4.1	10.6	0.9	1.2	1.8	3.3	4.4	4.9	5.2	5.2	5.1	5.1	4.8	2.9	4.9	4.1	3.6	5.1
Labour Force	1.9	2.1	-0.5	1.1	1.1	0.9	0.8	0.9	1.0	1.1	1.1	1.1	1.6	0.9	1.0	1.1	0.9	1.1
Employment (%)	2.0	1.1	-0.7	0.2	0.1	0.4	0.7	0.8	1.1	1.3	1.4	1.5	1.5	0.3	1.0	0.7	0.5	1.3
Employment ('000s)	86	47	-28	8	5	17	28	34	47	56	60	65	251	44	179	113	84	0
Unemployment Rate (%)	5.9	6.1	6.1	6.4	6.6	6.6	6.7	6.7	6.7	6.6	6.6	6.5	6.1	6.7	6.6	---	---	---
Personal Disp. Income	10.0	4.6	2.1	1.6	1.9	2.8	3.4	4.1	4.4	4.6	4.7	5.1	5.6	2.5	4.2	4.5	3.1	4.7
Pers. Savings Rate (%)	3.1	2.8	2.2	1.8	1.6	1.4	1.4	1.5	1.6	1.7	1.8	1.9	2.5	1.5	1.7	---	---	---
Cons. Price Index (Y/Y)	1.8	2.4	3.5	3.4	3.3	1.9	1.5	1.9	1.9	2.0	2.0	2.1	2.8	2.2	2.0	3.4	1.9	2.1
Core CPI (Y/Y)	1.4	1.5	1.6	1.9	1.8	1.6	1.8	1.9	2.0	2.1	2.0	2.0	1.6	1.8	2.0	1.9	1.9	2.0
Housing Starts ('000s)	234	220	200	195	190	185	180	185	190	192	195	195	212	185	193	---	---	---
Productivity:																		
Real GDP / worker (Y/Y)	-0.6	-1.4	-0.9	-0.2	0.5	1.0	0.9	1.3	1.6	1.8	1.7	1.6	-0.8	0.9	1.7	-0.2	1.3	1.6

F: Forecast by TD Economics as at September 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	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	08F	09F	10F	08F	09F	10F
Real GDP	0.9	3.3	1.2	-1.4	1.0	1.8	2.1	3.1	3.8	3.6	3.2	3.0	1.7	1.1	3.2	1.0	2.0	3.4
Consumer Expenditure	0.9	1.7	-1.0	-2.2	0.4	1.1	1.4	2.7	3.3	3.2	2.8	2.9	0.8	0.2	2.7	-0.2	1.4	3.1
Durable Goods	-4.3	-2.5	-6.3	-9.4	-0.3	2.3	3.6	6.8	11.3	9.6	8.0	7.6	-2.3	-1.6	7.9	-5.7	3.0	9.1
Business Investment	2.4	2.2	2.0	-1.7	-2.5	-2.3	-0.2	1.0	1.9	2.5	3.2	3.3	3.5	-0.9	1.6	1.2	-1.0	2.7
Non-Res. Structures	8.6	13.7	3.6	-2.5	-3.2	-2.3	-1.0	0.4	0.8	0.9	1.1	1.2	10.1	-0.6	0.4	5.7	-1.5	1.0
Machinery & Equipment	-0.5	-3.2	1.2	-1.3	-2.1	-2.3	0.3	1.3	2.5	3.4	4.4	4.5	0.4	-1.1	2.2	-1.0	-0.7	3.7
Residential Construction	-25.0	-15.7	-12.7	-15.9	-8.1	2.5	8.6	12.3	15.2	15.8	13.2	14.9	-20.4	-5.8	12.9	-17.5	3.5	14.8
Govt. Consumption & Gross Investment	1.9	3.9	2.5	2.0	2.1	1.7	1.7	1.6	1.4	1.1	1.2	1.2	2.5	2.1	1.4	2.6	1.7	1.2
Final Domestic Demand	0.1	1.5	-0.4	-1.8	0.2	0.9	1.5	2.6	3.1	3.1	2.8	2.9	0.5	0.3	2.6	-0.2	1.3	3.0
Exports	5.1	13.2	14.6	1.7	0.8	1.9	3.6	4.9	6.5	6.3	6.2	6.3	9.7	4.1	5.5	8.5	2.8	6.3
Imports	-0.8	-7.6	6.0	-2.9	-0.5	0.4	1.2	2.3	3.4	3.8	4.4	5.7	-1.4	-0.1	3.1	-1.4	0.9	4.3
Change in Non-Farm Inventories (\$96 Bn)	-17.9	-52.9	-25.6	-33.9	-18.2	-2.5	3.6	5.7	10.3	14.8	19.4	22.0	-32.6	-2.8	16.6	---	---	---
Final Sales	0.9	4.8	0.3	-1.1	0.4	1.1	1.8	3.0	3.6	3.4	3.0	2.9	2.0	0.8	3.0	1.2	1.6	3.3
International Current Account Balance (\$Bn)	-706	-722	-787	-749	-734	-738	-741	-742	-744	-748	-751	-762	-741	-739	-751	---	---	---
% of GDP	-5.0	-5.0	-5.4	-5.2	-5.0	-5.0	-5.0	-4.9	-4.9	-4.8	-4.8	-4.8	-5.2	-5.0	-4.8	---	---	---
Pre-tax Corporate Profits including IVA&CCA	-4.3	-9.2	-6.3	-13.1	3.7	3.5	5.5	9.2	11.1	9.0	6.1	4.4	-6.3	-1.3	8.1	-8.3	5.4	7.6
% of GDP	11.3	10.9	10.6	10.2	10.2	10.2	10.3	10.4	10.5	10.6	10.6	10.6	10.7	10.3	10.6	---	---	---
GDP Deflator (Y/Y)	2.3	2.0	2.6	2.4	2.1	2.2	1.6	1.5	1.6	1.7	1.8	1.8	2.3	1.8	1.7	2.4	1.5	1.8
Nominal GDP	3.5	4.6	5.4	0.5	2.4	3.3	3.6	4.7	5.6	5.5	5.1	4.9	4.1	3.0	4.9	3.5	3.5	5.3
Labour Force	0.0	1.7	2.0	0.2	0.3	0.4	0.5	0.6	0.7	0.8	0.8	0.9	0.9	0.6	0.7	1.0	0.4	0.8
Employment	-0.3	-0.6	-0.7	-1.1	-0.7	-0.4	-0.1	0.9	1.3	1.5	1.7	1.8	0.0	-0.5	1.1	-0.7	-0.1	1.6
Change in Empl. ('000s)	-113	-218	-225	-376	-241	-137	-34	307	443	513	566	619	-67	-737	1,444	-933	-105	2,140
Unemployment Rate (%)	4.9	5.3	6.0	6.3	6.7	6.9	7.0	7.1	7.1	7.0	6.8	6.8	5.6	6.9	6.9	---	---	---
Personal Disp. Income	2.9	16.1	-2.2	-1.4	2.1	3.4	4.1	4.3	5.1	4.8	4.5	4.4	5.0	2.3	4.5	3.6	3.4	4.7
Pers. Savings Rate (%)	0.2	2.6	1.1	0.9	1.2	1.4	1.6	1.7	1.8	1.9	2.0	2.1	1.2	1.5	2.0	---	---	---
Cons. Price Index (Y/Y)	4.2	4.3	5.5	4.6	3.7	2.8	1.4	1.6	1.7	1.8	1.9	2.0	4.6	2.4	1.9	4.6	1.6	2.0
Core CPI (Y/Y)	2.4	2.3	2.5	2.4	2.2	2.1	1.7	1.7	1.8	1.8	1.9	2.0	2.4	1.9	1.9	2.4	1.7	2.0
Housing Starts (mns)	1.05	1.02	0.92	0.85	0.86	0.89	0.92	0.97	1.02	1.07	1.12	1.18	0.96	0.91	1.10	---	---	---
Productivity:																		
Real Output per hour (y/y)	2.5	2.9	2.0	1.6	2.5	2.2	2.2	3.1	3.1	3.0	2.8	2.5	2.9	2.5	2.8	1.6	3.1	2.5

F: Forecast by TD Economics as at September 2008

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

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