



HIGHLIGHTS

- TD Economics revises up global growth forecast for 2010 by one full percentage point to 3.8%
- A potent combination of inventory rebuilding, alongside ongoing monetary and fiscal stimulus is driving the U.S. towards its strongest post-recession recovery since the 1980s...
- ...but this recovery is still weak given the depth of the worst contraction since the Great Depression.
- U.S. real GDP is expected to post a 2.4% gain in 2010.
- Real GDP growth for Canada in 2010 is expected to nearly match at 2.5%...
- ...but Canadian domestic demand will outperform its U.S. counterpart, since the domestic economy faces fewer constraints related to depleted wealth and hampered credit flow

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THE TIDE TURNS

What a difference a year makes. In September 2008, the global financial system came under extreme distress in the wake of the collapse of Lehman Brothers and the bailout of AIG. Fear dominated financial markets and the minds of individuals and businesses. This is far from surprising given the vast number of comparisons being drawn to the terrible 1930s at the time. Over the subsequent months, the transmission mechanism between the financial system and real economy proved almost instantaneous, bringing deep economic contractions in late 2008 and early 2009.

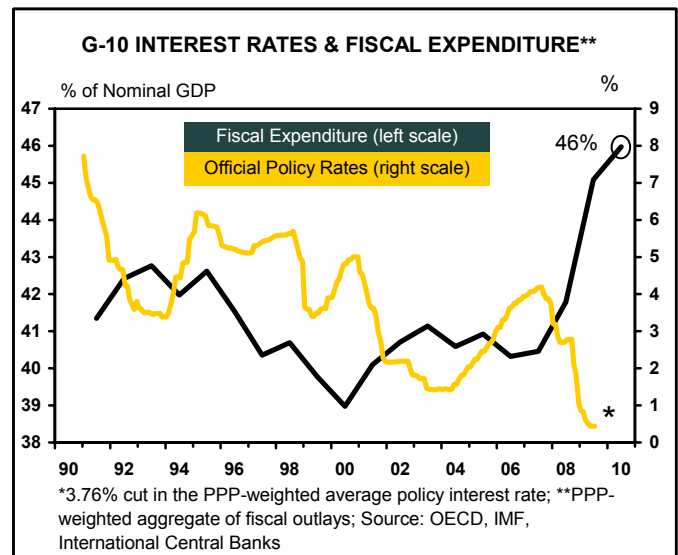
The extreme inter-connectivity of the global economy also became evident, as the most synchronous world recession since the 1930s unfolded.

Significant economic damage was done, but the worst fears were not realized. Policy makers responded with deep interest rate cuts, massive coordinated fiscal stimulus and creative

actions to help stabilize the global financial system. Although it was a rocky road, these actions paid off. By March 2009, a psychological shift had taken place. Fear became acceptance that 'just' a severe downturn was taking place. Talk went from Great Depression II to references of the 2009 Great Recession.

Another psychological change occurred in the middle of the year. Signs were materializing that the worst of the contraction had passed. The bad economic news was becoming less negative and the financial system was looking a lot healthier. By the time data on the second quarter became available, it was evident that Asia had rebounded strongly and the tide was turning in other regions as well. Indeed, the economies of Germany and France stopped contracting in the April-June period. The data for North America were also looking better. The rate of contraction diminished and everything started to point to economic growth in the United States and Canada resuming in the third quarter. The terribly synchronous global downturn was rapidly changing to a wonderfully synchronous global recovery. Acceptance of recession shifted to optimism about a better future.

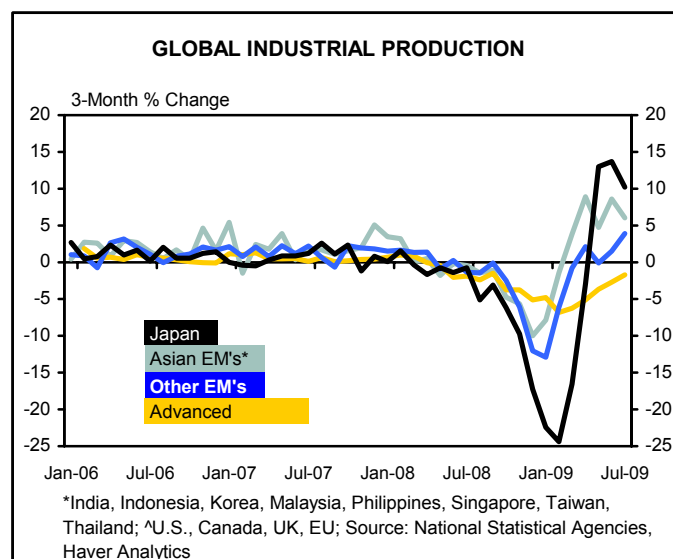
The focus is now on the shape of the recovery. The economic outlook has a very glass half full, half empty perspective to it. In terms of positives, we believe



that the recovery is for real and that worries about a double-dip will likely prove unfounded. In much of the world, inventories were run down to remarkably low levels during the recession, implying that even modest improvements in demand will lead to significant gains in production. Real estate markets, which were the epicenter for the financial problems in the U.S. and the U.K., are stabilizing – and, given the low levels reached, even a modest improvement could bring a significant boost to economic growth. The previously announced fiscal stimulus programs will continue to be a contributor to economic growth in the coming quarters, while the impact of record low interest rates should keep pushing on the economic accelerator. Unemployment rates are likely to continue to rise in the near term, but this is traditional for this lagging indicator and some of the rise will reflect workers reentering the labour market, which is actually a positive. Improved consumer and business confidence should also be reflected in a greater willingness to spend and invest. This is how economies have climbed out of recessions before, and it will play out again.

However, the pace of economic recovery is likely to prove to be quite gradual compared to the past. In the United States, the financial system is being repaired, but this will take considerable time. Loan losses are not over, as foreclosure rates are expected to rise further, while additional declines in real estate prices (of about 5%) will push more homes into negative equity position. Further weakness in commercial real estate is anticipated. A systemic shock to the financial system is highly unlikely, but the wounds from the credit crunch and the economic downturn will be slow to heal. The deleveraging of the global financial system is also not complete and the ability to securitize loans will not return to their prior level. Credit growth should improve, but not in a way to fuel booming economic conditions. Households have experienced a significant loss of wealth, and this is likely to induce a tendency towards increased savings and a slower trend rate of consumer spending growth during the recovery. The gradual nature of the economic recovery also implies that unemployment rates will be slow to decline and personal income growth will remain modest – suggesting that a consumer-led spending spree fuelled by pent-up demand is nowhere on the horizon.

The bottom line is that the U.S. economy is likely to experience a rebound to 4% annualized growth in the third quarter of 2009, but more moderate growth thereafter, with an average of 2.4% in 2010 strengthening to 3.3% in 2011. This pales in comparison to the sharp rebounds that followed the early 70s and early 80s recession. The moderate economic growth combined with only gradual improvement



in credit flows means that inflation should not be a problem in the coming year, giving the Federal Reserve the flexibility to leave rates on hold until early 2011. On the fiscal front, large deficits and mounting debt pose a significant challenge. However, this cannot be addressed while the U.S. economy is fragile. And, all of the above points to a further weakening of the U.S. dollar.

Outside of the United States, the rebound of economic growth in Asia looks to have considerable momentum, but it should start to give way to more moderate gains after the first quarter of next year. In Europe, economic growth is expected to broaden around the region; but our bet is that economic growth will be in the 2.2% to 2.5% range over 2010 and 2011.

The Canadian economy went along for the ride during the global downturn. Now it will ride the recovery wave, with real GDP growth of 2.5% in 2010 and 3.1% in 2011. The domestic side of the economy will strengthen, but while exports will be on the mend, the sector will remain challenged by a further appreciation in the Canadian dollar (which is expected to touch parity before pulling back). In the near term, a further reduction in inventories will also be a headwind for growth. The moderate pace of economic expansion implies that the output gap will be slow to close and the national unemployment will decline slowly. These trends, combined with the lagged nature of core inflation, point to the Bank of Canada being able to remain on hold until the final quarter of 2010 and then only gradually tightening monetary policy over the course of 2011.

The main conclusion is that the tide has turned. However, the waters will recede only gradually.

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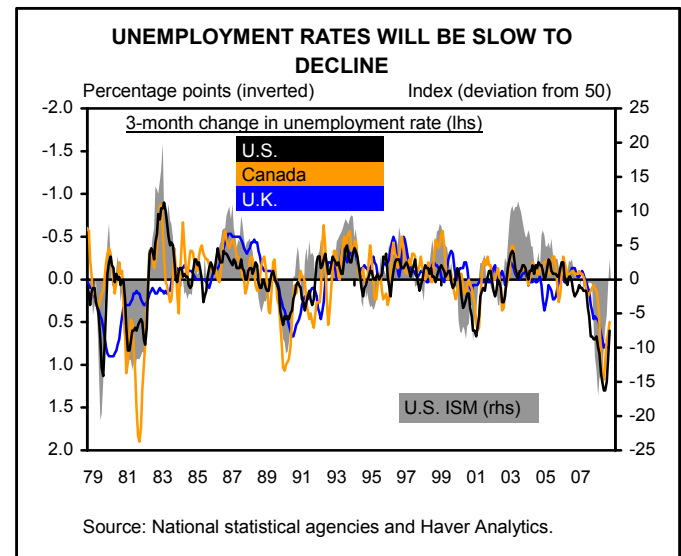
GLOBAL ECONOMIC OUTLOOK

Life is returning to the global economy. We have moved from the ‘less bad’ data that defined the second quarter to outright positive data in the third quarter. Relative to our previous forecasts, we are seeing an economic rebound coming in about one quarter earlier, twice as strong, and potentially sustained twice as long if the leading indicators are correct. For those who have forgotten what good news looks like, that is it. As a result, it looks like the global economy will contract by nearly a full percentage point less in 2009 than we forecast in June (-1.1% instead of -1.9%) and in 2010 grow by a full percentage point more than we last forecast (+3.8% instead of +2.7%). Extending our forecasts into 2011, we think the global economy extends the expansion in 2011 with a 4.0% pace.

Our previous forecasts saw Asia rebounding in the third quarter. In fact, that rebound began quite convincingly in the second quarter. The Asian NICs – Singapore, Korea, Taiwan, and Hong Kong – saw their collective economies expand by 18.6% (SAAR) in the second quarter of 2009, the second fastest quarterly pace in over twenty five years. The data available so far suggests they will continue to see double-digit growth rates in the third quarter. Both India and China managed to avoid an outright contraction in their economies in any given quarter, with each seeing decade-high growth rates in the second quarter. Like the NICs, this will probably represent the peak in their near-term growth rates, but all are likely to continue to see positive growth through at least the end of this year.

In Europe, the rebound is also coming early, with a third quarter rebound seeming to be in the works. The German and French economies actually surprised by breaking into expansion territory in the second quarter. These countries look likely to accelerate further in the third quarter, and early signs suggest the U.K., and even many of the peripheral European economies that have suffered the most such as Spain, look like they will see close to average growth in the second half of 2009.

So we saw a global economy that was horribly synchronized on the way down, but wonderfully synchronized on the way up. While the data so far suggests this will continue at least until the end of this year, the obvious question is, what then? We think this momentum is likely to carry forward through the first quarter of 2010, at which point the ‘fizzle factor’ – the rate at which the pace of global growth starts to slow though not necessarily outright contract – will be driven by two factors.



The first will be the unfortunate speed limit that now exists for economic growth as a result of damage to the global banking sector. Many U.S. and European banks are simply not yet strong enough to sustain lending demand once it starts to pick up as the expansion matures. This tug of war is likely to cap the pace of expansion in advanced economies – both directly in markets with weak banks like the U.S. or indirectly in markets such as Canada that rely in part on demand elsewhere.

The second trend will be policy-related, as central banks respond to inflationary developments. Core inflation around the world, to paraphrase John Paul Jones, has not yet begun to fall. Headline inflation, however, has bottomed and will start to rise. As a result, those central banks that target headline inflation, such as the ECB and BoE, are at more of a risk to start hiking interest rates in the middle of 2010, while those that target core inflation are more likely to remain on the sidelines until 2011. But with the large amount of spare capacity in the global system, the onus on the data will be high to justify hiking interest rates before the middle of 2010. The one risk factor here is that due to the lower speed limit of the global economy, if some of that spare capacity is destroyed forever, inflation will come quicker than we and others forecast. But this, unfortunately, is a risk that we will only know after the fact. For now, we appear to be in a temporary sweet spot where economies are once again expanding, but inflation risks – and by extension the risk of global monetary tightening – remain low.



GLOBAL ECONOMIC OUTLOOK

Annual per cent change unless otherwise indicated

Real GDP	2007 Share* (%)	Forecast			
		2008	2009	2010	2011
World	99.1	2.8	-1.1	3.8	4.0
North America	25.5	0.5	-2.8	2.5	3.2
United States	21.4	0.4	-2.5	2.4	3.3
Canada	2.0	0.4	-2.3	2.5	3.1
Mexico	2.1	1.3	-6.7	3.6	2.5
European Union (EU-27)	23.7	0.8	-4.0	2.3	2.5
Euro-zone (EU-15)	16.1	0.6	-3.7	2.0	2.3
Germany	4.4	1.0	-4.8	2.5	2.1
France	3.2	0.3	-1.8	2.4	2.3
Italy	2.8	-1.0	-5.0	0.3	0.9
United Kingdom	3.3	0.7	-4.0	2.4	2.6
EU accession members	3.4	1.5	-5.4	3.3	3.4
Asia	35.5	4.8	1.2	5.6	5.7
Japan	6.6	-0.7	-5.4	2.6	2.1
Asian NIC's	3.7	1.5	-1.6	4.8	4.4
Hong Kong	0.5	2.4	-2.2	4.8	5.0
Korea	1.9	2.2	-0.6	4.1	4.3
Singapore	0.3	1.1	-1.0	6.9	5.1
Taiwan	1.1	0.1	-3.3	5.5	4.1
Russia	3.2	5.6	-9.2	4.2	4.7
Australia & New Zealand	1.4	2.1	0.3	2.0	3.9
Developing Asia	20.6	7.2	5.5	7.2	7.4
ASEAN-4	3.1	4.7	1.1	4.2	4.2
China	10.9	9.0	8.1	8.7	9.0
India	4.6	6.1	6.3	6.8	6.5
Central/South America	6.1	4.7	-0.1	4.5	4.4
Argentina	0.8	6.8	1.3	2.6	5.1
Brazil	2.8	5.1	0.3	5.2	4.4
Other Developing	8.4	5.5	2.0	4.2	4.1

*Regional wts. do not sum to 100% because some countries omitted
Forecast as at September 2009

Source: International Monetary Fund, national statistical agencies

ECONOMIC INDICATORS FOR THE G-7 AND EUROPE

	Forecast			
	2008	2009	2010	2011
Real GDP (Annual per cent change)				
G-7 (41.17%)*	0.2	-3.4	2.3	2.7
U.S.	0.4	-2.5	2.4	3.3
Japan	-0.7	-5.4	2.6	2.1
EU-16	0.6	-3.7	2.0	2.3
Germany	1.0	-4.8	2.5	2.1
France	0.3	-1.8	2.4	2.3
Italy	-1.0	-5.0	0.3	0.9
United Kingdom	0.7	-4.0	2.4	2.6
Canada	0.4	-2.3	2.5	3.1
Consumer Price Index (Annual per cent change)				
G-7	3.2	-0.3	1.3	1.3
U.S.	3.8	-0.6	1.2	1.3
Japan	1.4	-1.3	0.3	0.9
EU-16	3.3	0.4	1.8	1.5
Germany	2.8	0.5	1.6	1.3
France	3.2	0.3	1.7	1.3
Italy	3.5	0.5	1.9	1.6
United Kingdom	3.6	2.1	2.3	1.4
Canada	2.4	0.2	1.1	1.7
Unemployment Rate (Per cent annual averages)				
U.S.	5.8	9.2	9.8	9.5
Japan	4.0	5.5	6.4	6.2
EU-16	7.6	9.5	10.0	9.2
Germany	7.3	7.7	8.1	7.9
France	7.8	9.6	10.0	9.8
Italy	6.8	8.6	9.9	9.8
United Kingdom	5.6	7.8	8.1	7.9
Canada	6.2	8.4	9.1	8.1

*Share of 2007 world gross domestic product (GDP)
Forecast as at September 2009

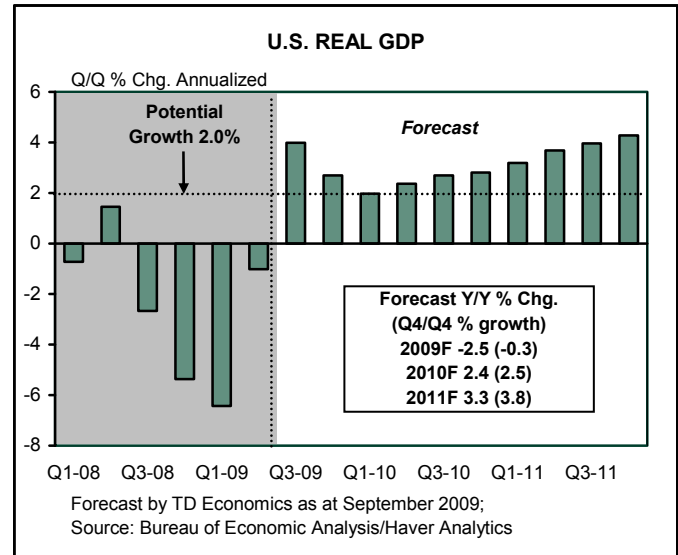
Source: National statistical agencies, TD Economics

U.S. ECONOMIC OUTLOOK

As the dust settles on the Great Recession, the key question now is what type of economic recovery will take shape. The recession was deep, erasing 3.9% of U.S. real GDP, and long, lasting from the beginning of 2008 to the second quarter of 2009. While these statistics make this the worst recession in the post-war period, compared to other financial crises, these costs weigh on the short end of the scale. In actual fact, the total cost of the U.S. financial crisis will be greater than the peak-to-trough decline in real GDP during the recession. A swift policy response prevented the recession from spiraling into depression, but the impact of the financial crisis will continue to be felt for years to come in a slower pace of recovery.

The U.S. economic recovery may be delineated into two stages. The first stage reflects the depth of the decline and the breadth of the policy response to counter it. In the midst of the financial crisis, households held off purchases and in response, businesses cut production in order to draw down inventories. The actions of the Federal Reserve to boost liquidity have been successful in causing a fairly broad based improvement in financial conditions. As confidence has returned to markets and equities have begun to rebound, pent-up demand, especially for consumer durables, aided by fiscal stimulus and cash-for-clunkers legislation will lead to a rebound in consumer spending in the year's second half. The re-emergence of the automakers from recession will help business inventory investment to give a further boost to economic growth. Finally, a trough in the housing market, which in terms of residential construction investment likely occurred in the second quarter of this year, is also central to returning growth to positive territory. As a result of these developments, the U.S. economy is expected to rebound by 3.3% (annualized) through the second half of the year.

However, the climb out of the abyss does not mean that boom times are upon us. After the initial boost to household spending and rebound in production, the second stage of the recovery in 2010 is likely to be characterized by a more contained pace of expansion. This slower pace of recovery implies a longer period of time before economic activity returns to pre-crisis levels. We do not anticipate the level of real GDP to return to its pre-recession level until the fourth quarter of 2010. The U.S. economy in 2010 will still be influenced by household's continued need to increase savings in order to repair lost net-worth. U.S. home prices, which to-date are down over 30% according to the S&P



Case-Shiller home price index, will likely trough in the second half of 2009. Nonetheless, the idea that households can count on their homes to do their saving for them has been soundly quashed by the events of the last three years.

Positive job growth will begin in the early quarters of 2010 but by then the unemployment rate will have reached a peak of 10%, its highest level in twenty-seven years, and will be slow to move down. The hangover from the credit boom makes the outlook for income growth much more important to the pace of consumer spending growth. Limited wage gains will leave households struggling to continue to rebuild their nest-eggs as well as finance current consumption. Non-residential construction is expected to lag the economic recovery and will subtract from economic growth through the forecast. Credit conditions in this sector remain tight and high vacancy rates and low capacity utilization limit the need for increased commercial and industrial space.

The recovery will gain greater traction in 2011. Consumer spending is expected to strengthen as conditions in the housing market normalize and job growth picks up. As excess capacity is reduced and corporate profits continue to improve, the pace of business investment is also expected to accelerate and improved global growth prospects will support export growth. Nonetheless, lingering economic slack will limit inflationary pressures. Core CPI is likely to remain below 2.0%, giving the Federal Reserve the time it needs to unwind its expansive monetary stimulus.



U.S. ECONOMIC OUTLOOK

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

	2009				2010				2011				Annual Average			4th Qtr/4th Qtr		
	Q1	Q2	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	09F	10F	11F	09F	10F	11F
Real GDP	-6.4	-1.0	4.0	2.7	2.0	2.4	2.7	2.8	3.2	3.7	4.0	4.3	-2.5	2.4	3.3	-0.3	2.5	3.8
Consumer Expenditure	0.6	-1.0	2.3	0.7	2.2	2.0	2.1	2.3	2.3	2.5	2.7	2.9	-0.7	1.7	2.4	0.6	2.1	2.6
Durable Goods	3.9	-5.8	19.9	-5.3	9.6	4.2	5.6	8.4	8.1	8.5	9.0	8.3	-4.4	5.2	7.8	2.7	6.9	8.5
Business Investment	-39.2	-10.9	-1.9	-2.8	-2.3	-1.0	-0.2	2.0	5.7	9.8	12.1	13.1	-18.0	-2.1	5.8	-15.2	-0.4	10.1
Non-Res. Structures	-43.6	-15.1	-9.2	-7.5	-8.7	-7.5	-6.4	-4.5	-3.2	-1.5	-1.2	-0.4	-17.8	-8.2	-3.4	-20.4	-6.8	-1.6
Machinery & Equipment	-36.4	-8.4	2.4	-0.1	1.3	2.5	3.1	5.4	10.3	15.5	18.7	19.5	-18.1	1.2	10.5	-12.1	3.1	15.9
Residential Construction	-38.2	-22.8	24.2	24.0	24.7	19.8	20.5	22.4	20.9	19.3	21.9	21.7	-19.0	19.4	20.9	-7.4	21.8	20.9
Govt. Consumption & Gross Investment	-2.6	6.4	3.1	2.2	1.1	1.1	0.5	0.3	-0.3	-0.6	-1.0	-2.7	2.1	1.7	-0.3	2.2	0.7	-1.1
Final Domestic Demand	-6.4	-1.2	2.5	1.2	2.1	2.0	2.0	2.4	2.6	3.0	3.4	3.3	-2.7	1.8	2.7	-1.0	2.1	3.1
Exports	-29.9	-5.0	14.2	10.7	5.6	6.6	8.0	8.8	9.5	10.0	10.6	11.3	-10.7	7.6	9.4	-4.2	7.2	10.4
Imports	-36.4	-15.0	14.8	10.2	8.7	7.6	6.8	7.0	6.1	6.3	6.2	6.5	-14.8	7.5	6.5	-9.1	7.5	6.3
Change in Non-Farm Inventories (\$96 Bn)	-114.9	-163.2	-105.4	-51.3	-38.5	-19.2	1.9	11.7	19.7	29.3	34.5	49.9	-108.7	-11.0	33.3	---	---	---
Final Sales	-4.1	0.4	2.1	1.0	1.6	1.7	2.0	2.5	2.9	3.4	3.8	3.8	-1.7	1.6	2.9	-0.2	2.0	3.5
International Current Account Balance (\$Bn)	-406	-375	-549	-578	-610	-634	-656	-675	-687	-683	-683	-684	-477	-644	-684	---	---	---
% of GDP	-2.9	-2.7	-3.8	-4.0	-4.2	-4.3	-4.4	-4.5	-4.5	-4.5	-4.4	-4.3	-3.3	-4.4	-4.4	---	---	---
Pre-tax Corporate Profits including IVA&CCA	22.8	24.9	3.4	12.0	7.4	8.1	9.7	6.8	6.7	10.8	11.4	13.5	-8.3	9.1	9.0	15.4	8.0	10.6
% of GDP	8.3	8.8	8.8	9.0	9.1	9.2	9.3	9.4	9.4	9.5	9.7	9.8	8.7	9.2	9.6	---	---	---
GDP Deflator (Y/Y)	1.9	1.5	0.8	1.0	1.0	1.2	1.2	1.1	1.0	1.0	1.1	1.2	1.3	1.1	1.1	1.0	1.1	1.2
Nominal GDP	-4.6	-1.0	5.3	3.7	3.6	3.4	3.6	3.6	4.4	4.9	5.1	5.5	-1.1	3.5	4.4	0.8	3.6	5.0
Labor Force	-1.7	2.4	-0.5	1.3	1.0	1.0	1.0	1.1	1.2	1.1	1.0	1.0	0.3	1.0	1.1	0.4	1.0	1.1
Employment	-5.9	-4.5	-2.8	-0.6	1.0	2.8	1.8	2.1	2.2	2.5	2.4	2.2	-3.7	0.4	2.3	-3.5	1.9	2.3
Change in Empl. ('000s)	-2,065	-1,537	-922	-187	326	910	591	692	728	830	802	754	-5,045	492	2,983	-4,711	2,519	2,922
Unemployment Rate (%)	8.1	9.3	9.6	10.0	10.0	9.9	9.8	9.7	9.7	9.6	9.5	9.3	9.2	9.8	9.5	---	---	---
Personal Disp. Income	-1.2	5.2	-1.0	2.1	3.5	3.6	3.7	3.8	4.1	3.8	4.0	4.0	0.6	2.9	3.9	1.2	3.7	4.0
Pers. Savings Rate (%)	3.8	5.0	3.7	3.6	3.6	3.6	3.7	3.9	4.1	4.2	4.2	4.2	4.0	3.7	4.2	---	---	---
Cons. Price Index (Y/Y)	-0.2	-0.9	-1.7	1.0	1.8	1.7	1.1	1.0	1.1	1.2	1.3	1.4	-0.5	1.4	1.3	1.0	1.0	1.4
Core CPI (Y/Y)	1.7	1.8	1.5	1.5	1.3	0.9	0.8	0.8	0.9	1.0	1.2	1.3	1.6	0.9	1.1	1.5	0.8	1.3
Housing Starts (mns)	0.53	0.54	0.63	0.74	0.80	0.87	0.95	1.03	1.09	1.17	1.28	1.36	0.61	0.91	1.22	---	---	---
Productivity:																		
Real Output per hour (y/y)	1.0	1.9	3.7	4.1	4.1	2.5	0.9	0.6	0.9	1.3	1.7	2.1	2.7	2.0	1.5	4.1	0.6	2.1

F: Forecast by TD Economics as at September 2009

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

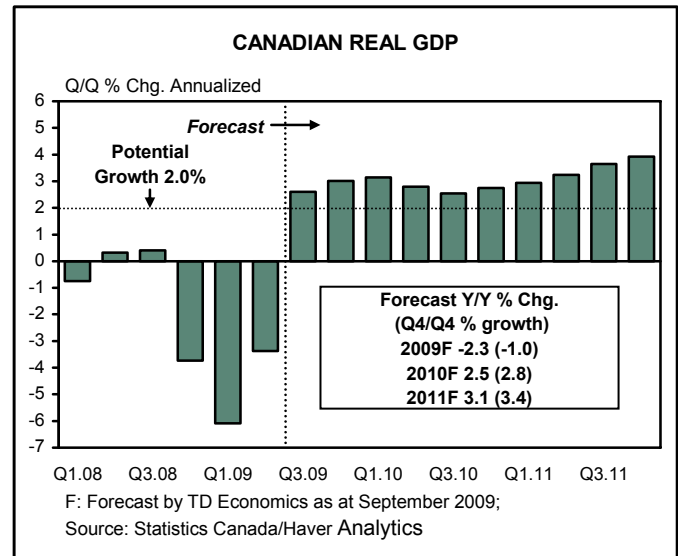


CANADA'S ECONOMIC OUTLOOK

The synchronized global recession has proven that no country is an island in a globalized world. Canada has been no exception as the dramatic fall in world trade and commodity prices resulted in a sharp pull back in exports, corporate profits, and business investment. The 25% contraction in exports and the 45% downturn in corporate profits since the start of the recession has been the worst on record for both these indicators. The export weakness fed through to the domestic side of the economy. By late 2008, the housing market began to backtrack and consumer spending began to retreat, as the unemployment rate climbed 2.5 percentage points, reaching an 11-year high by the second half of 2009.

But the worst appears to be behind us, and despite a 3.4% annualized contraction in the second quarter of 2009, there are signs of a budding recovery. First, the Canadian consumer was already on the mend in the second quarter, as spending on housing and consumer related goods and services pushed consumer spending and renovation activity up 1.8% and 6.2%, respectively. Second, the housing market sprung back to life in the spring, with existing homes sales and prices accelerating right through to August 2009. Third, the improvement in world trade has acted as a stimulus to Canadian exports over the months of June and July, which are expected to rise a sharp 25% in the third quarter, marking the first time in two years that exports contributed to economic growth. Finally, commodity prices have leveled out but remain 15% above the February bottom, and recent strength in equity markets suggest that markets are anticipating brighter profits. This has driven business investment intentions up, and Canadian firms imported 10.6% more machinery and equipment in July—suggesting a 15% annualized increase in business investment in these goods for the third quarter.

There is good reason to believe that the recovery has enough momentum to carry forward. In particular, a primary strength of the Canadian economy has been a healthy and relatively risk adverse banking system that allowed credit to flow even through the depths of the global credit crunch. Favourable borrowing conditions will continue to allow households and businesses to take advantage of record low borrowing costs to underpin spending growth, leaving the Canadian domestic economy well positioned to lead a sustained economic recovery, even as the stimulus from fiscal and monetary policy diminishes in 2010. The combination of better domestic and export demand, and a 34% appreciation in commodity prices over the rest of 2009



to 2010, will drive a more optimistic outlook for corporate profits, which, in turn, will lead to expansions in business outlays and hiring. And so the circle of economic prosperity begins, as employment growth and business activity feeds back into a stronger domestic economy.

But don't expect the recovery to be as fast and furious as you would generally expect during a post-recession recovery. First, we are not expecting consumers to return to their spendthrift ways of the five years prior to the recession. With the unemployment rate remaining sticky at high levels for the next two years, and given the past decline in household wealth, consumers will be less inclined to spend out of income, and the savings rate will continue to rise to 5.3% by the end of 2011, up from 2.5% in 2007. This means that consumption will grow at an annual pace of 3.0% over 2010 and 2011, significantly more modest than the average 4.3% pace witnessed prior to the recession in 2006 and 2007. Second, while Canadian exports of goods and commodities will benefit from a sharp rebound in global growth, the majority are still U.S.-bound with U.S. demand accounting for 73% of total Canadian exports. As such, the growth path for Canadian exports will follow the moderate recovery we expect to unfold in the U.S., and it will take up to four years for the export sector to reach the pre-recession level of sales. Moreover, a strong Canadian dollar will continue to weigh on export growth through to the first half of 2010. So, while we have revised our forecast up to 2.5% in 2010 and 3.1% in 2011, it will still make for a slow-go recovery relative to past post-recession expansions.



CANADIAN ECONOMIC OUTLOOK

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

	2009				2010				2011				Annual Average			4th Qtr/4th Qtr		
	Q1	Q2	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	09F	10F	11F	09F	10F	11F
Real GDP	-6.1	-3.4	2.6	3.0	3.1	2.8	2.5	2.7	2.9	3.2	3.6	3.9	-2.3	2.5	3.1	-1.0	2.8	3.4
Consumer Expenditure	-1.2	1.8	2.7	2.5	3.1	3.3	3.4	3.3	3.3	3.0	3.1	3.1	0.1	2.9	3.2	1.4	3.3	3.1
Durable Goods	-8.4	6.0	9.3	8.0	9.5	8.2	8.0	7.2	6.5	5.0	4.5	4.0	-2.1	8.4	6.2	3.4	8.2	5.0
Business Investment	-31.3	-17.0	9.4	4.9	3.0	3.6	3.8	4.2	5.9	6.2	7.0	7.5	-13.6	3.0	5.5	-10.0	3.6	6.7
Non-Res. Structures	-24.1	-17.8	-2.0	0.0	2.0	2.3	2.5	2.7	4.5	4.5	5.5	5.9	-9.6	-0.1	4.0	-11.6	2.4	5.1
Machinery & Equipment	-37.6	-16.1	22.0	10.0	4.0	4.9	5.0	5.6	7.2	7.9	8.5	9.0	-17.4	6.2	6.9	-8.5	4.9	8.1
Residential Investment	-21.2	6.2	5.8	3.9	1.8	2.0	2.2	2.5	5.0	5.2	6.0	7.5	-9.1	3.1	4.3	-2.1	2.1	5.9
Government Expenditure on Goods & Services	2.1	3.2	3.6	3.0	1.0	0.9	0.8	0.5	0.2	0.1	0.0	0.2	2.5	1.8	0.3	3.0	0.8	0.1
Final Domestic Demand	-6.0	0.4	3.9	3.0	2.5	2.9	2.9	2.8	2.9	2.8	3.0	3.1	-0.8	2.8	2.9	0.2	2.8	2.9
Exports	-30.4	-19.3	20.9	5.0	3.2	3.7	4.2	4.3	5.6	5.9	6.7	7.3	-13.8	4.3	5.4	-8.1	3.9	6.4
Imports	-38.9	-8.5	25.3	7.8	6.4	8.7	5.8	4.4	6.6	4.2	3.2	4.2	-14.7	8.0	5.2	-6.8	6.3	4.5
Change in Non-Farm Inventories (\$97 Bn)	-10.2	-11.0	-12.0	-9.0	-3.3	2.0	2.5	2.8	4.0	4.3	2.8	2.2	-10.6	1.0	3.3	---	---	---
Final Sales	0.2	-3.2	1.9	2.1	1.4	1.0	2.3	2.8	2.5	3.4	4.3	4.2	-0.6	1.4	2.9	0.2	1.9	3.6
International Current Account Balance (\$Bn)	-30.9	-42.3	-38.5	-38.4	-34.2	-43.6	-46.8	-49.5	-50.5	-48.5	-42.0	-35.2	-37.5	-43.5	-44.1	---	---	---
% of GDP	-2.0	-2.8	-2.5	-2.5	-2.2	-2.8	-3.0	-3.1	-3.1	-3.0	-2.5	-2.1	-2.5	-2.8	-2.7	---	---	---
Pre-tax Corp. Profits	-57.7	-37.5	6.4	8.3	12.8	23.3	22.5	22.2	17.6	13.4	14.3	18.4	-36.5	10.7	18.1	-25.7	20.1	15.9
% of GDP	9.7	8.7	8.7	8.8	9.0	9.4	9.8	10.2	10.5	10.7	10.9	11.2	9.0	9.6	10.8	---	---	---
GDP Deflator (Y/Y)	-1.3	-3.4	-3.6	-0.6	1.0	0.9	0.6	0.8	1.2	1.5	1.8	2.1	-2.3	0.8	1.7	-0.6	0.8	2.1
Nominal GDP	-11.9	-2.4	5.1	3.5	3.1	3.6	3.7	4.1	4.7	5.1	6.2	6.3	-4.5	3.3	4.8	-1.7	3.6	5.6
Labour Force	-0.5	1.7	0.4	1.7	1.7	1.4	1.4	1.2	1.1	1.0	1.0	1.0	0.8	1.4	1.1	0.8	1.4	1.0
Employment	-5.5	-1.5	-1.1	0.2	0.6	1.6	2.1	2.2	2.3	2.4	2.5	2.6	-1.7	0.6	2.3	-2.0	1.6	2.4
Employment ('000s)	-239	-63	-47	8	25	67	88	91	97	102	107	112	-285	109	385	-340	271	418
Unemployment Rate (%)	7.6	8.3	8.7	9.0	9.3	9.2	9.1	8.9	8.6	8.3	7.9	7.6	8.4	9.1	8.1	---	---	---
Personal Disp. Income	-3.1	2.3	2.4	3.5	3.5	3.8	4.2	4.6	3.9	3.5	4.0	4.8	1.2	3.5	4.1	1.2	4.0	4.1
Pers. Savings Rate (%)	4.5	4.5	4.5	4.9	5.1	5.2	5.2	5.3	5.5	5.6	5.2	5.3	4.6	5.2	5.4	---	---	---
Cons. Price Index (Y/Y)	1.2	0.1	-0.9	0.3	0.6	0.7	1.3	1.6	1.6	1.7	1.7	1.7	0.2	1.1	1.7	0.3	1.6	1.7
Core CPI (Y/Y)	1.9	1.9	1.5	1.0	0.9	0.9	1.0	1.2	1.3	1.4	1.4	1.5	1.6	1.0	1.4	1.0	1.2	1.5
Housing Starts ('000s)	140	128	141	150	151	156	150	144	150	160	170	180	140	150	165	---	---	---
Productivity:																		
Real GDP / worker (Y/Y)	-0.9	-1.3	-0.8	0.8	1.5	2.4	1.7	1.2	0.7	0.7	0.9	1.1	-0.6	1.7	0.9	0.8	1.2	1.1

F: Forecast by TD Economics as at September 2009

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

INTEREST RATE OUTLOOK													
	Spot Rate 18/09/2009	2009				2010				2011			
		Q1	Q2	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
CANADIAN FIXED INCOME													
Overnight Target Rate (%)	0.25	0.50	0.25	0.25	0.25	0.25	0.25	0.25	0.75	1.50	2.00	2.75	3.25
3-mth T-Bill Rate (%)	0.22	0.35	0.25	0.25	0.30	0.30	0.45	0.60	0.90	1.70	2.20	2.85	3.45
2-yr Govt. Bond Yield (%)	1.28	1.08	1.21	1.30	1.60	1.60	1.55	1.95	2.45	2.90	3.20	3.40	3.70
5-yr Govt. Bond Yield (%)	2.61	1.75	2.47	2.60	2.85	2.70	2.55	2.85	3.25	3.65	3.85	4.00	4.25
10-yr Govt. Bond Yield (%)	3.38	2.78	3.36	3.45	3.75	3.55	3.45	3.70	4.00	4.30	4.45	4.60	4.75
30-yr Govt. Bond Yield (%)	3.89	3.56	3.86	4.00	4.20	4.10	3.80	3.95	4.20	4.50	4.65	4.80	4.95
10-yr-2-yr Govt. Spread (%)	2.10	1.70	2.15	2.15	2.15	1.95	1.90	1.75	1.55	1.40	1.25	1.20	1.05
U.S. FIXED INCOME													
Fed Funds Target Rate (%)	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	1.00	1.75	2.50	3.00
3-mth T-Bill Rate (%)	0.09	0.18	0.18	0.20	0.25	0.30	0.35	0.40	0.50	1.25	2.00	2.75	3.25
2-yr Govt. Bond Yield (%)	0.95	0.80	1.11	1.05	1.45	1.50	1.50	1.90	2.40	2.90	3.20	3.45	3.75
5-yr Govt. Bond Yield (%)	2.40	1.66	2.55	2.40	2.75	2.65	2.60	3.00	3.45	3.85	4.10	4.30	4.50
10-yr Govt. Bond Yield (%)	3.42	2.66	3.53	3.50	3.85	3.70	3.60	4.00	4.40	4.70	4.90	5.10	5.25
30-yr Govt. Bond Yield (%)	4.19	3.53	4.33	4.40	4.70	4.60	4.30	4.50	4.90	5.20	5.40	5.60	5.75
10-yr-2-yr Govt. Spread (%)	2.47	1.86	2.42	2.45	2.40	2.20	2.10	2.10	2.00	1.80	1.70	1.65	1.50
CANADA-U.S. SPREADS													
3-mth T-Bill Rate (%)	0.13	0.17	0.07	0.05	0.05	0.00	0.10	0.20	0.40	0.45	0.20	0.10	0.20
2-yr Govt. Bond Yield (%)	0.33	0.28	0.10	0.25	0.15	0.10	0.05	0.05	0.05	0.00	0.00	-0.05	-0.05
5-yr Govt. Bond Yield (%)	0.21	0.09	-0.08	0.20	0.10	0.05	-0.05	-0.15	-0.20	-0.20	-0.25	-0.30	-0.25
10-yr Govt. Bond Yield (%)	-0.04	0.12	-0.17	-0.05	-0.10	-0.15	-0.15	-0.30	-0.40	-0.40	-0.45	-0.50	-0.50
30-yr Govt. Bond Yield (%)	-0.30	0.03	-0.47	-0.40	-0.50	-0.50	-0.50	-0.55	-0.70	-0.70	-0.75	-0.80	-0.80

f. Forecast by TD Bank Financial Group as at September 17, 2009; All forecasts are for end of period. Source: Bloomberg, TDBFG

FOREIGN EXCHANGE OUTLOOK														
Currency	Exchange Rate	Spot Price 21/09/2009	2009				2010				2011			
			Q1	Q2	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Canadian dollar	USD per CAD	0.926	0.794	0.860	0.950	1.000	1.000	0.971	0.952	0.930	0.920	0.910	0.900	0.890
Canadian dollar	CAD per USD	1.080	1.260	1.162	1.053	1.000	1.000	1.030	1.050	1.075	1.087	1.099	1.111	1.124
Japanese yen	JPY per USD	92.5	99	96	95	92	90	95	96	100	102	103	104	105
Euro	USD per EUR	1.462	1.325	1.403	1.450	1.500	1.500	1.450	1.400	1.300	1.280	1.270	1.260	1.250
U.K. pound	USD per GBP	1.615	1.432	1.646	1.686	1.765	1.786	1.747	1.707	1.646	1.610	1.588	1.556	1.524
Swiss franc	CHF per USD	1.039	1.140	1.086	1.055	1.027	1.033	1.083	1.129	1.223	1.250	1.268	1.282	1.296
Australian dollar	USD per AUD	0.859	0.691	0.806	0.860	0.880	0.840	0.830	0.820	0.780	0.775	0.770	0.765	0.760
NZ dollar	USD per NZD	0.702	0.560	0.646	0.680	0.660	0.650	0.640	0.630	0.600	0.595	0.590	0.585	0.580
Mexican peso	MXN per USD	13.34	14.17	13.19	12.50	13.00	12.50	12.20	12.00	11.80	11.80	11.60	11.50	11.50

f. Forecast by TD Bank Financial Group as at Sept 21, 2009; All forecasts are for end of period; Source: Federal Reserve Bank of New York, Bloomberg, TDBFG

For details on the financial forecasts please see the TD Economics publication entitled Global Markets at <http://www.td.com/economics/forecasts.jsp>



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