

# TD Economics

## The Weekly Bottom Line

January 9, 2009

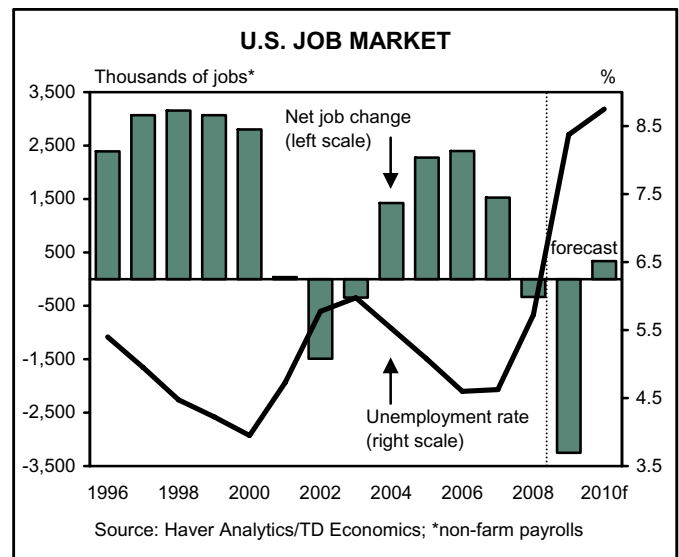
### HIGHLIGHTS

- U.S. payrolls down 524,000 in December.
- Canada posts its second month of job losses, unemployment rate surges to 6.6%.
- Fiscal stimulus all the rage on both sides of the border.

After a week of relative optimism, equity markets returned to earth this week as economic data continued to point to a grim picture of the global economy at the outset of 2009. Job losses were the story of the week in both Canada and the United States with December's data closing out 2008 on a sour note for both countries. For the U.S. the first year of the recession marked the worst year for job losses since 1945. Canada performed better; managing to create jobs in the year, but enters 2009 on a much weaker footing. With interest rates already at historic lows and economic performance continuing to deteriorate, calls for fiscal stimulus grow ever louder.

### More carnage on the job front

Friday's payrolls report confirmed the dire expectations for job losses in the U.S. The U.S. shed 524,000 jobs in December. With downward revisions, this brought total job losses in 2008 to 2.6 million. In absolute terms, this is the worst year for job losses since 1945. In percentage change terms, it amounts to the largest decline since 1982 – not exactly a benchmark to be proud of. Not only was 2008 the worst year for U.S. jobs in decades, the pace of deterioration worsened as the year went on as weakness spread



from the goods producing sector to services. The unemployment rate moved up at an astonishing pace through the year, finishing 2008 at 7.2%, 2.3 percentage points higher than it began and the highest level in 15 years. Perhaps equally troubling is the rise in underemployment. The number of persons at work part-time for economic reasons rose to over 5% of the labour force, its highest level since the peak of the early 1990s recession. Unfortunately, we're still a long way from the light at the end of the tunnel and job losses in 2009 will very likely top those in 2008.

In Canada, job losses were worse than expectations, dropping by 34,000 in December and following on the heels of a 70,600 decline in November. The losses pushed the unemployment rate up 0.3 percentage points to 6.6%, its highest level since January 2006. Over the course of the year the unemployment rate has risen 0.8 percentage points from its low in January of 5.8%.

2008 was a rollercoaster ride for the Canadian labour market. The year started out with stunning job growth – the first quarter saw employment increase by more than

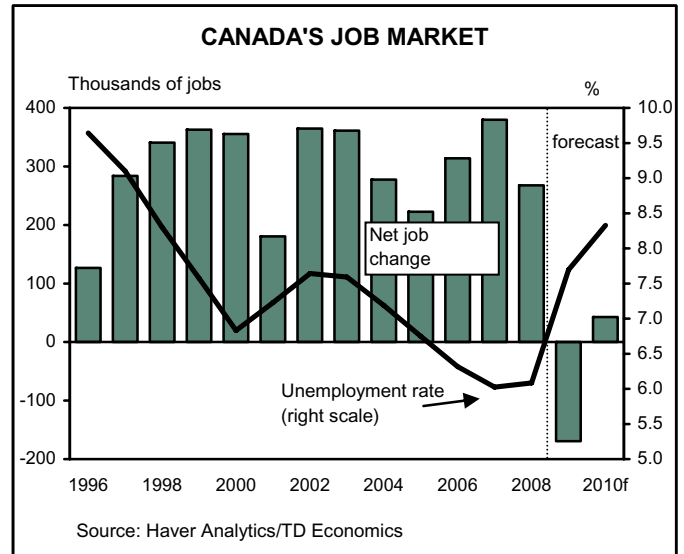
### Recent TD Economics Research

- January 9, 2009 - Canadian Employment Commentary
- January 9, 2009 - Canadian Housing Starts Commentary
- January 9, 2009 - U.S. Employment Commentary
- January 8, 2009 - Global Markets
- January 8, 2009 - BOE/ECB Rate Cuts Commentary

2.0% (annualized), while the economy as a whole contracted. Job growth cooled mid-year before jumping by a massive 107,000 jobs in September and just as quickly falling back in the final months. As the year went on it became more and more obvious that behind the headlines were some pretty weak details. Nearly all of the jobs created in the first eight months were in the construction industry, an unsustainable source of job growth, particularly as the housing market continued to cool. The job market has a way of reversing itself quickly and construction jobs dropped a stunning 44,300 in December. Nonetheless, whereas the U.S. is already a year into job losses, Canada fared much better in 2008, creating 98,000 jobs for the year as a whole. 2009 is unlikely to show a repeat. With the Canadian economy believed to have slipped into recession in the fourth quarter of 2008 job losses in 2009 will get worse before they get better. We believe about a quarter-million jobs will be lost before the year is out.

### Canada's sinking domestic economy

Evidence that the global economic recession is taking a toll on Canada's domestic economy increased this week as both the consumer picture and the housing market weakened dramatically in the final months of the year. New vehicle sales, which had held up fairly well through most of the year, plunged in December, down 21% from the previous year. Similarly, after several years of strong growth, residential construction finished the year on a sour note with housing starts falling dramatically, to their lowest level since 2001. The slowdown in residential construction echoes the trends in the employment data and highlight that the recession will not escape any region of the country. In many ways the reversal in fortunes of western economies, particularly that of Alberta, is the most astonishing. Alberta's economy, which has led the country for much of the last five years, is turning quickly as commodity prices fall, confirmed in both the employment data and housing starts data out this week. Employment growth, which after rising by 4.4% in 2007, slowed to 1.3% in 2008. Similarly, housing starts fell from 48,000 in 2007 to 30,000 in 2008. At its peak in 2006, Alberta was building over 50,000 new homes (at an annual rate); it finished 2008 with housing starts 60% lower at just above 21,000.



### Fiscal stimulus just around the corner...

Talk of fiscal stimulus rose to a feverish pitch on both sides of the border this week. In Canada, Finance Minister Flaherty on a cross country tour for pre-budget consultations gave hints that the government's January 27<sup>th</sup> budget would include both tax-cuts and increased infrastructure spending. But it won't come free. As the Finance Minister recognized, the Canadian budget deficit will be substantial. TD Economics estimates that even without the fiscal stimulus, the budget deficit in 2009 would be over \$10 billion. With increased spending it will more than likely surpass \$20 billion.

In the U.S., President-Elect Obama stressed the need for substantial fiscal stimulus, suggesting that without it, the unemployment rate would sore to double digit levels and the economy would miss its potential by over one-trillion dollars. The trillion dollar figure was popping up all over the place this week. Earlier in the week the Congressional Budget Office (CBO) released its estimates of the potential budget shortfall for the U.S. Federal Government – putting the deficit at \$1.2 trillion in 2009. Obama's plan, the "American Recovery and Reinvestment Plan," takes-over where 2008's "Economic Stimulus Act," left off and will likely approach over \$700 billion in total spending. This, on top of the already projected deficit, will make a trillion dollar deficit look like the good old days.

*James Marple, Economist 416-982-2557*

## UPCOMING KEY ECONOMIC RELEASES

### Canadian International Trade - November

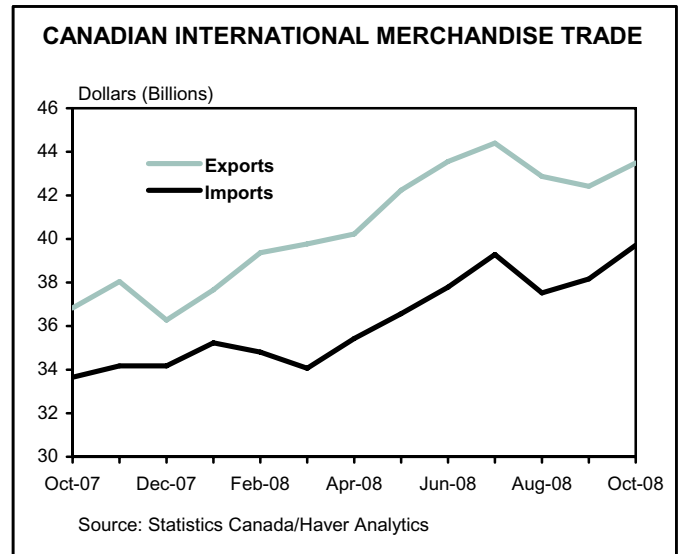
**Release Date:** January 13/09

**October Result:** \$3.8B

**TD Forecast:** \$2.8B

**Consensus:** \$3.3B

With the U.S. remaining the key destination for Canadian exports, a prolonged U.S. economic recession resulting in waning demand for foreign products will continue to depress the value of Canadian exports. Add to this the continued slump in energy prices, which have declined by a massive 15.7% M/M in November, and we expect to see total exports fall by a rather dramatic 4.0% M/M (following the 2.5% M/M gain in October). Imports are also expected to be weak, falling by a more measured 2.0% M/M. Taken together, our call is for the Canadian trade surplus to drop to \$2.8B in November, from \$3.8B in October. In the coming months, we are likely to see further moderation in the Canadian trade surplus as the continued weakness in the U.S. and global economies, and declining com-



modity prices reduce exports despite the partial offset coming from the weak Canadian dollar.

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### U.S. Retail Sales - December

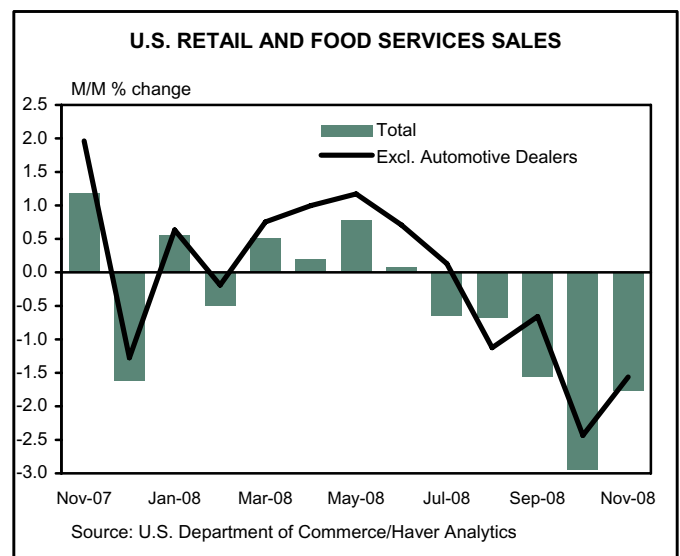
**Release Date:** January 14/09

**November Result:** total -1.8% M/M; ex-autos -1.6% M/M

**TD Forecast:** total -1.2% M/M; ex-autos -1.3% M/M

**Consensus:** total -1.2% M/M; ex-autos -1.4% M/M

There appears to be no end in sight for the distresses U.S. consumers are facing, as mounting job losses, plunging financial and housing wealth and tighter lending conditions conspire to squeeze the bottom-line of the average U.S. household. These continuing headwinds are expected to result in further retrenchment in consumer spending, and for December we expect U.S. retail sales to fall for the sixth consecutive month, with a further 1.2% M/M drop. This despite the aggressive discounting by retailers during the month to lure consumers back into their stores. Indeed, in addition to the overall economic weakness, plunging gasoline prices (which have fallen by 21% M/M in December alone) are also expected to be a source of drag for the headline number. Excluding autos, sales are expected to also be weak, falling by 1.3% M/M. Looking ahead, we



expect retail sales to remain quite soft for some time as the prolonged economic recession continues to constrain consumer spending.

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## U.S. Consumer Price Index - December

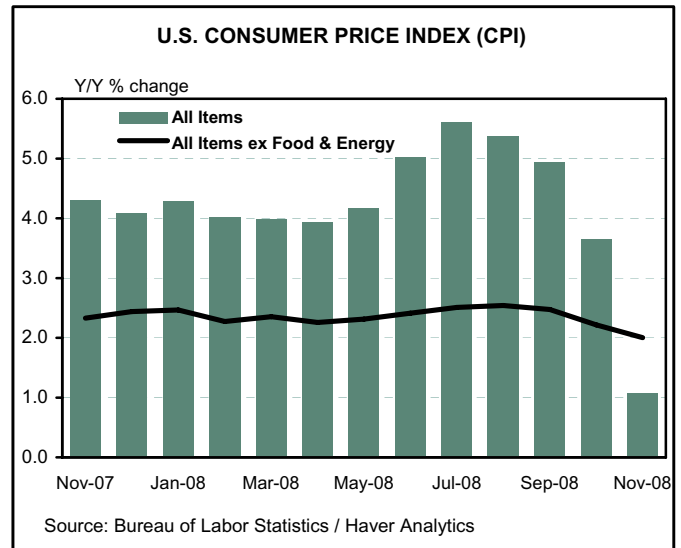
**Release Date:** January 16/09

**November Result:** core 0.0% M/M, 2.0% Y/Y; all-items -1.7% M/M, 1.1% Y/Y

**TD Forecast:** core 0.1% M/M, 1.9% Y/Y; all-items -0.9% M/M, -0.1% Y/Y

**Consensus:** core 0.1% M/M, 1.9% Y/Y; all-items -0.9% M/M, -0.1% Y/Y

Weak consumer price inflation is likely to become a feature of the U.S. economic landscape as plunging commodity prices and growing economic slack continue to place downward pressure on prices. For December, with energy prices falling by double digits across the board and the economic recession appearing to have intensified, our call is for consumer prices to fall a further 0.7% M/M, bringing the annual rate of headline inflation into slight negative territory to -0.1% Y/Y (from 1.1% Y/Y in November). This will be the first negative print on headline consumer price inflation since the mid-1950s. Core consumer prices are also expected to be soft, rising by only 0.1% M/M, with the annual rate of core consumer price inflation



falling to 1.9% Y/Y. In the coming months, we expect consumer prices to moderate even further as U.S. economic activity weakens and companies slash prices to resuscitate sales.

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## RECENT KEY ECONOMIC INDICATORS

January 5 - January 9, 2009

Release Date	Economic Indicators	Data for Period	Units	Current	Prior	
<b>Canada</b>						
Jan. 6	Industrial Product Prices	Nov.	M/M % chg.	-2.6	0.0	R▲
Jan. 6	Raw Materials Price Index	Nov.	M/M % chg.	-13.4	-12.5	R▼
Jan. 8	Ivey Purchasing Manager's index	Dec.	Index	39.1	40.2	
Jan. 9	Unemployment rate	Dec.	%	6.6	6.3	
Jan. 9	Net Change in Employment	Dec.	Thousands	-34.4	-70.6	
Jan. 9	Housing Starts	Dec.	Thousands	177.3	172.0	R▲
Jan. 9	Building Permits	Nov.	M/M % chg.	-11.8	-15.7	R▼
<b>United States</b>						
Jan. 5	Total Vehicle Sales	Dec.	Millions	10.3	10.2	
Jan. 6	ISM Non-Manufacturing Composite	Dec.	Index	40.6	37.3	
Jan. 6	Factory Orders	Nov.	% change	-4.6	-5.1	R▼
Jan. 6	Pending Home Sales	Nov.	M/M % chg.	-4.0	-0.7	R▼
Jan. 6	ABC Consumer Confidence	4-Jan	Index	-79.0	-49.0	
Jan. 7	MBA Mortgage Applications	2-Jan	% change	-8.2	0.0	
Jan. 7	ADP Employment Change	Dec.	Thousands	-693.0	-472.0	R▲
Jan. 8	Initial Jobless Claims	3-Jan	Thousands	467.0	492.0	R▼
Jan. 8	Continuing Claims	27-Dec	Thousands	4611.0	4506.0	R▲
Jan. 8	Consumer Credit	Nov.	US\$, blns	-7.9	-3.5	R▼
Jan. 9	Change in Non-Farm Payrolls	Dec.	Thousands	-524.0	-533.0	R▼
Jan. 9	Unemployment rate	Dec.	%	7.2	6.7	R▼
Jan. 9	Change in Manufacturing Payrolls	Dec.	Thousands	-149.0	-85.0	R▼
Jan. 9	Average Hourly Earnings	Dec.	Y/Y % chg.	3.7	3.7	R▲
Jan. 9	Wholesale Inventories	Nov.	% change	-0.6	-1.1	R▼

Source: Bloomberg, TD Economics

## UPCOMING NORTH AMERICAN ECONOMIC CALENDAR

### January 12 - January 16, 2009

Release Date	Economic Indicators	Data for Period	Units	Consensus Forecast	Prior
<b>Canada</b>					
Jan 12	New Housing Price Index	Nov.	M/M % chg.	--	-0.4
Jan 12	<i>Bank of Canada Business Outlook Survey release</i>				
Jan 12	<i>Bank of Canada Senior Loan Officer Survey release</i>				
Jan 13	International Merchandise Trade	Nov.	\$C, blns	3.3	3.8
Jan 15	New Motor Vehicle Sales	Nov.	M/M % chg.	-7.7	-0.9
<b>United States</b>					
Jan 12	<i>Atlanta Fed President Lockhart speaks in Atlanta on Economic Outlook</i>				
Jan 13	<i>Fed Chairman Bernanke lectures at London School of Economics</i>				
Jan 13	Trade Balance	Nov.	US\$, blns	-52.0	-57.2
Jan 13	Monthly Budget Statement	Dec.	US\$, blns	-42.5	48.3
Jan 13	ABC Consumer Confidence	11-Jan	Index	--	-49.0
Jan 13	<i>Richmond Fed President Lacker speaks in South Carolina on Economic Outlook</i>				
Jan 14	MBA Mortgage Applications	9-Jan	% change		-8.2
Jan 14	Import Price Index	Dec.	Y/Y % chg.	-5.3	-6.7
Jan 14	Advance Retail Sales	Dec.	% change		-1.8
Jan 14	Advance Retail Sales Less Auto	Dec.	% change	-1.4	-1.6
Jan 14	<i>Philadelphia Fed President Plosser speaks in Delaware on Economic Outlook</i>				
Jan 14	Business Inventories	Nov.	% change	-0.5	-0.6
Jan 14	<i>Minneapolis Fed President Stern speaks in Iowa on Economic Prospects</i>				
Jan 14	<i>Fed's Beige Book Economic Report released</i>				
Jan 15	<i>San Fransisco Fed President Yellen speaks in San Fransisco on Economic Outlook</i>				
Jan 15	Producer Price Index	Dec.	Y/Y % chg.	-1.3	0.4
Jan 15	Producer Price Index excluding Food and Energy	Dec.	Y/Y % chg.	4.1	4.2
Jan 15	Initial Jobless Claims	10-Jan	Thousands	520.0	467.0
Jan 15	Continuing Claims	3-Jan	Thousands	--	4611.0
Jan 15	Empire Manufacturing Index	Jan.	Index	-25.0	-25.8
Jan 15	<i>Fed Board Nominee Tarullo Testifies at Confirmation Hearing</i>				
Jan 15	<i>Chicago Fed President Evans speaks in Wisconsin on Economic Outlook</i>				
Jan 15	<i>Atlanta Fed President Lockhart speaks in Mississippi on Economic Outlook</i>				
Jan 15	Philadelphia Fed Index	Dec.	Index	-35.0	-32.9
Jan 16	CPI	Dec.	Y/Y % chg.	-0.1	1.1
Jan 16	CPI excluding Food and Energy	Dec.	Y/Y % chg.	1.9	2.0
Jan 16	CPI - Core (SA) Index	Dec.	Index	--	216.8
Jan 16	TIC Flows	Nov.	US\$, blns	--	286.3
Jan 16	Industrial Production	Dec.	Y/Y % chg.	-0.8	-0.6
Jan 16	Capacity Utilization	Dec.	Percent	74.7	75.4
Jan 16	U. of Michigan Confidence Index	Jan.	Index	58.9	60.1

Source: Bloomberg, TD Economics

## G-7 ECONOMIC RELEASES AND EVENTS

Date	Time*	Country	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
Jan 12	8:30	Canada	New Housing Price Index	Nov.	M/M % chg.	--	-0.4
	10:30	Canada	Bank of Canada Business Outlook Survey release				
	10:30	Canada	Bank of Canada Senior Loan Officer Survey release				
	12:40	US	Atlanta Fed President Lockhart speaks in Atlanta on Economic Outlook				
	18:50	Japan	Money Stock (M3)	Dec.	Y/Y % chg.	0.6	0.6
	18:50	Japan	Current Account Total	Nov.	¥, blns	600.0	960.5
Jan. 13	18:50	Japan	Trade Balance (BOP)	Nov.	¥, blns	-76.2	145.8
	2:45	France	Central Government Balance	Nov.	Eur, blns	--	-60.7
	8:00	US	Fed Chairman Bernanke lectures at London School of Economics				
	8:30	Canada	International Merchandise Trade	Nov.	\$C, blns	3.3	3.8
	8:30	US	Trade Balance	Nov.	US\$, blns	-52.0	-57.2
	14:00	US	Monthly Budget Statement	Dec.	US\$, blns	-42.5	48.3
Jan. 14	17:00	US	ABC Consumer Confidence	11-Jan.	Index	--	-49.0
	17:00	US	Richmond Fed President Lacker speaks in South Carolina on Economic Outlook				
	2:45	France	Current Account	Nov.	Eur, blns	--	-5.0
	2:50	France	CPI	Dec.	Y/Y % chg.	1.1	1.6
	3:15	Germany	GDP	2008	% change	1.4	2.5
	5:00	EC	Industrial Production	Nov.	Y/Y % chg.	-5.8	-5.3
	7:00	US	MBA Mortgage Applications	9-Jan.	% change	--	-8.2
	8:30	US	Import Price Index	Dec.	Y/Y % chg.	-5.3	-6.7
	8:30	US	Advance Retail Sales	Dec.	% change	-1.2	-1.8
	8:30	US	Advance Retail Sales Less Auto	Dec.	% change	-1.4	-1.6
	8:30	US	Philadelphia Fed President Plosser speaks in Delaware on Economic Outlook				
	10:00	US	Business Inventories	Nov.	% change	-0.5	-0.6
	13:00	US	Minneapolis Fed President Stern speaks in Iowa on Economic Prospects				
	14:00	US	Fed's Beige Book Economic Report released				
Jan. 15	0:00	US	San Francisco Fed President Yellen speaks in San Francisco on Economic Outlook				
	2:00	Germany	Consumer Price Index	Dec.	Y/Y % chg.	1.1	1.4
	5:00	EC	Euro-Zone CPI	Dec.	Y/Y % chg.	1.6	2.1
	5:00	EC	Euro-Zone CPI - Core	Dec.	Y/Y % chg.	1.8	1.9
	7:45	EC	European Central Bank Announces Interest Rates	15-Jan.	Percent	2.0	2.5
	8:30	Canada	New Motor Vehicle Sales	Nov.	M/M % chg.	-7.7	-0.9
	8:30	US	Producer Price Index	Dec.	Y/Y % chg.	-1.3	0.4
	8:30	US	Producer Price Index excluding Food and Energy	Dec.	Y/Y % chg.	4.1	4.2
	8:30	US	Initial Jobless Claims	10-Jan.	Thousands	520.0	467.0
	8:30	US	Continuing Claims	3-Jan.	Thousands	--	4611.0
	8:30	US	Empire Manufacturing Index	Jan.	Index	-25.0	-25.8
	10:00	US	Fed Board Nominee Tarullo Testifies at Confirmation Hearing				
	13:40	US	Chicago Fed President Evans speaks in Wisconsin on Economic Outlook				
	13:40	US	Atlanta Fed President Lockhart speaks in Mississippi on Economic Outlook				
	10:00	US	Philadelphia Fed Index	Dec.	Index	-35.0	-32.9
Jan. 16	5:00	EC	Euro-Zone Trade Balance (SA)	Nov.	Eur, blns	-4.8	-1.3
	8:30	US	CPI	Dec.	Y/Y % chg.	-0.1	1.1
	8:30	US	CPI excluding Food and Energy	Dec.	Y/Y % chg.	1.9	2.0
	8:30	US	CPI - Core (SA) Index	Dec.	Index	--	216.8
	9:00	US	TIC Flows	Nov.	US\$, blns	--	286.3
	9:15	US	Industrial Production	Dec.	Y/Y % chg.	-0.8	-0.6
	9:15	US	Capacity Utilization	Dec.	Percent	74.7	75.4
	10:00	US	U. of Michigan Confidence Index	Jan.	Index	58.9	60.1

\* Eastern Standard Time; Sources: Bloomberg, TD Economics

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