



**Bank
Financial
Group**

TD Economics

The Weekly Bottom Line

March 28, 2008

HIGHLIGHTS

- U.S. housing market yet to reach bottom
- Consumer confidence Stateside plunges
- Commodity bubble still intact

A sprinkling of data releases this week did little to alter the widespread view among investors that the U.S. economy is in recession. The beleaguered U.S. housing market continues to be a major source of weakness in the economy, and it has yet to reach a bottom. Despite an unexpected 2.9% M/M jump in existing home sales in February, new home sales continued on their downward trend, and inventory levels of both new and existing homes remain at double their historical averages. The elevated inventory levels have accelerated the rate of decline in home prices, which now stand 10.7% below their year-earlier level as measured by the S&P/Case-Shiller home price index. All of this suggests that the improvement in existing home sales is not an indication that the U.S. housing market is recovering. In its latest attempt to revitalize confidence in the mortgage market, for the first time ever, the Federal Reserve auctioned off US\$75 billion worth of Treasury securities to investment houses on Thursday, and another auction is set to follow on April 3rd. U.S. bonds sold off in response, as investors showed only a tepid appetite for the Fed liquidity.

U.S. consumer and business confidence worsens

Notwithstanding the numerous attempts by the Fed and the government to stimulate the economy, consumer confidence continues to worsen. Indeed, U.S. personal income and spending data released this morning showed that per-

Recent TD Economics Research

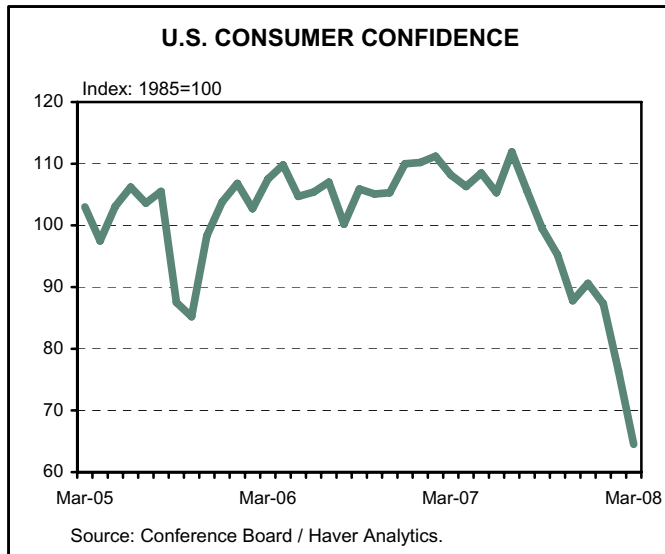
March 28, 2008 - U.S. Personal Income and Spending
 March 26, 2008 - U.S. Durable Goods Orders
 March 25, 2008 - The 2008 Ontario Budget
 March 25, 2008 - Canadian Retail Sales



sonal spending was flat in February, despite an increase in personal income of about 0.5% M/M. Furthermore, the consumer confidence index slumped by over 10 points in March, falling to 64.5, while the expectations index plummeted to 47.9 – the lowest level since 1973, when the economy experienced a 16-month recession.

Similarly, sentiment in the business sector has also dampened as evidenced by the unexpected drop in U.S. durable goods orders in February. More importantly, core capital goods orders – a good indication of future investment – slumped 2.6% on the month. And downward pressure on orders may persist in coming months, as the inventory-to-shipments ratio hit a cyclical high of 1.54 months, hinting that a drawdown in inventories could be in store for the near term. The increasing pessimism among both U.S. consumers and businesses, coupled with the ongoing weakness in the labour market, will likely translate into less spending in the economy, and consequently slower growth this year.

While economic growth is expected to be anemic this year, inflation risks still persist, as noted by Dallas Fed President Fisher this week. The Fed remains in a tight spot

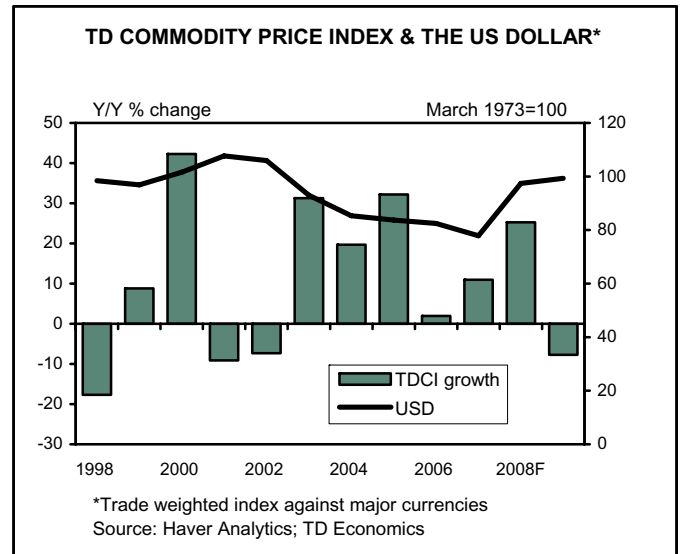


when it comes to interest rate decisions, particularly when voting members – 2 at the last FOMC meeting – are becoming increasingly concerned about inflation. However, the year-over-year change in the core PCE, the Fed's favored measure of inflation, came in below expectations this morning at 2%, supporting the view that further significant Fed rate cuts remain forthcoming. As such, we project a 50 basis point cut at each of the next two meetings and another 25 basis point cut thereafter.

In contrast, Canadian consumers seem to be immune from any slowdown south of the border, as retail sales were up 1.5% in January. While the 1% decline in the GST likely had a hand in boosting sales – particularly on bigger-ticket items – consumer confidence seems to be holding up quite well. Nonetheless, with employment expected to moderate, and the U.S. likely in a recession, this is likely to be the strongest turnout in Canadian retail sales we see in a while.

Is the commodity bubble bursting?

While many export-oriented sectors of the Canadian economy are feeling the impact of a slowing U.S. economy, commodity-based companies are faring better as a result of the recent run-up in prices. Over the past few months, the trend in commodity prices has largely reflected fluctuations in the U.S. dollar against the euro. And last week was no exception. A massive sell-off in commodities occurred as the greenback showed some signs of life, rising from the record lows reached earlier in the week. The



4.5% drop in commodity prices as measured by TD's commodity price index was widely spread, spurring some chatter that the commodity bubble was bursting. In particular, crude oil prices fell from their recent high of US\$110 to about US\$101. All base and precious metals prices also took a hit, as investors began to fear that the slowdown in the U.S. economy would filter through to demand for commodities. Even prices of the supercharged agricultural products, namely wheat and canola, retreated as investors hit the sell button.

However, the bubble-bursting chatter was silenced this week, when the U.S. dollar reversed course, thus pulling crude back up to above US\$105 by week's end. While some fundamental factors were also at play, it is clear that the strong link between the U.S. dollar and commodity prices has not been broken and that speculators remain a major force in the market. In the near term, large swings in commodity prices are likely to continue as investor focus shifts between hedging against the weak U.S. dollar and/or inflation, and the impact of the slowing economy on demand. However, we expect prices of most commodities to remain range-bound throughout the second quarter, before pulling back in the third quarter. Even with this outcome, prices will still be high relative to historical averages. For more details on our commodity price forecast, see the *Quarterly Commodity Price Report* available on our website.

Dina Cover, Economist
416-982-2555

UPCOMING KEY ECONOMIC RELEASES

Canadian Real GDP - January

Release Date: March 31/08

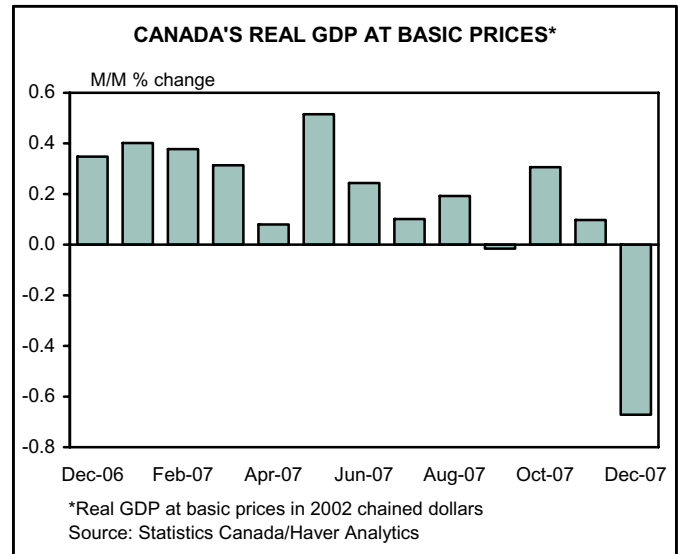
December Result: -0.7%

TD Forecast: +0.6%

Consensus: +0.5%

We're expecting to see GDP bounce back strongly in January with a 0.6% increase, nearly undoing the 0.7% plunge that we saw in December. Just about every single sector seems to have rebounded in January after some serious weakness in December. Real manufacturing shipments increased by 2.0%, real wholesale sales gained 3.5%, and real retail sales were up 1.0%. Furthermore, most export sectors rebounded as well, with the exception of automotive products, where real exports have seen two consecutive double-digit monthly declines. However, we'll likely see Canadian GDP weaken in February and March, as the contraction in U.S. economic growth takes a big bite out of demand for Canadian products.

Jacqui Douglas 416-982-7784



U.S. ISM Manufacturing Report - March

Release Date: April 1/08

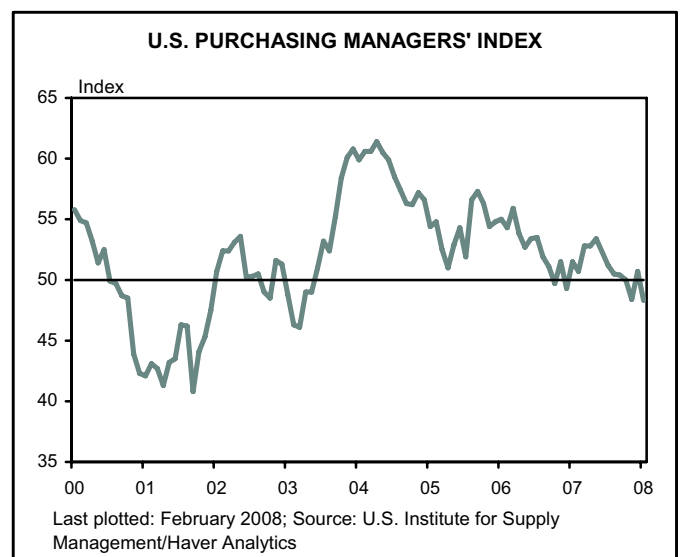
February Result: 48.3

TD Forecast: 47.3

Consensus: 47.5

We're expecting to see the ISM manufacturing index drop by another point in March, down to 47.3. Judging from what we've already seen, the manufacturing sector hasn't shown any signs of turning around in March, and if anything appears worse off than before. The Empire Fed index fell further from -11.7 to -22.2, its lowest level ever. And while the Philly Fed index did improve a bit, at -17.4 it's still well below the break-even level of zero. Furthermore, new orders of durables goods fell by 1.7% M/M in February, and the February ISM's new orders sub-index fell from 49.5 to 49.1. If the ISM manufacturing index does indeed come in below 50, as nearly every analyst is expecting, this would be the first time that it has posted back to back sub-50 readings since 2003, when the economy was in its "jobless recovery" period. This would be yet another recession signal for the U.S.

Jacqui Douglas 416-982-7784



U.S. Nonfarm Payrolls - March

Release Date: April 4/08

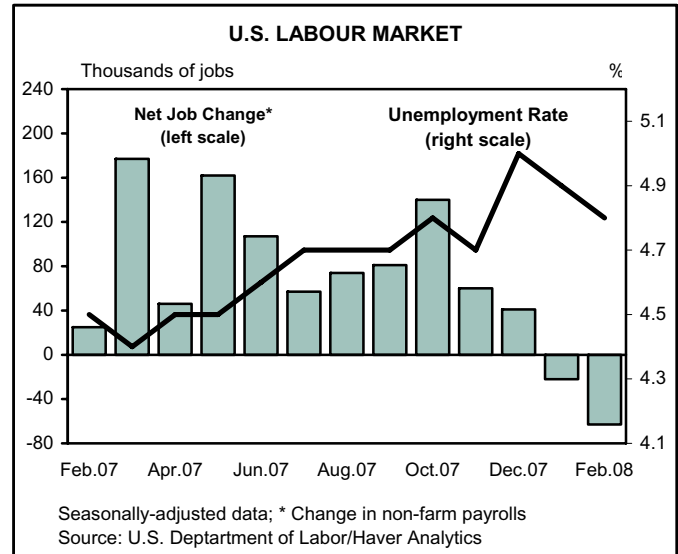
February Result: -63K; unemployment rate 4.8%

TD Forecast: -80K; unemployment rate 5.0%

Consensus: -50K; unemployment rate 5.0%

We're expecting to see U.S. employment fall again in March, with an 80K drop in nonfarm payrolls. In this case, the trend is not your friend, as job creation has been on a steady descent for the last few months. Private sector job growth has been particularly weak, coming in negative for each of the last three months (which was the first three-month negative run since mid-2002), for a 3-month average of -47K. Furthermore, the job losses in the U.S. are becoming more widespread, and the weakness is no longer confined to the manufacturing and construction sectors. And with both initial and continuing jobless claims continuing to climb and consumer confidence continuing to fall, we can expect to see further weakness in payrolls going forward. The unemployment rate is likely to rise again in March to 5.0% after the small improvement in February, which was likely just a blip in the data.

Jacqui Douglas 416-982-7784



Canadian Employment - March

Release Date: April 4/08

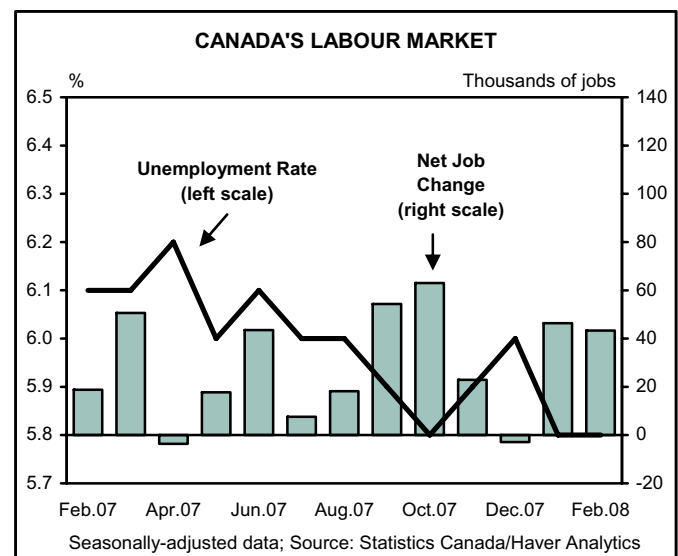
February Result: 43.3K; unemployment rate 5.8%

TD Forecast: 5K; unemployment rate 5.8%

Consensus: 15K; unemployment rate 5.8%

We're expecting to see the pace of Canadian employment growth stagnate in March, after what we think was its last hurrah in February. With the U.S. likely currently in recession, and with Canadian economic growth expected to slow accordingly in the first half of 2008, the job market just cannot continue to grow at such a frantic pace, having created over 40K jobs in each of the last two months. Assuming that the participation rate edges down a bit from February's record high level, the unemployment rate will likely remain unchanged at 5.8% in March.

Jacqui Douglas 416-982-7784



RECENT KEY ECONOMIC INDICATORS
March 24-28, 2008

Date	Economic Indicators	Data for	Units	Current	Prior	
Canada						
Mar. 24	Retail Sales	Jan.	% change	1.5	0.8	R▲
Mar. 24	Retail Sales - excl. autos	Jan.	% change	1.3	-0.3	R▲
United States						
Mar. 24	Existing Home Sales	Feb.	Millions	5.03	4.89	
Mar. 25	S&P/CS Composite-20	Jan.	Y/Y % chg.	-10.7	-9.0	R▲
Mar. 25	Consumer Confidence	Mar.	Index	64.5	76.4	R▲
Mar. 25	Richmond Fed Index	Mar.	Index	6	-5	
Mar. 26	Durable Goods Orders	Feb.	% change	-1.7	-4.7	R▲
Mar. 26	New Home Sales	Feb.	Thousands	590.0	601.0	R▲
Mar. 27	Weekly Initial Jobless Claims	22-Mar	Thousands	366.0	375.0	R▼
Mar. 28	Personal Income	Feb.	% chg.	0.5	0.3	
Mar. 28	Personal Spending	Feb.	% chg.	0.1	0.4	
Mar. 28	PCE Deflator	Feb.	Y/Y % chg.	3.4	3.5	R▼
Mar. 28	PCE Core	Feb.	Y/Y % chg.	2.0	2.0	R▼

Source: Bloomberg, TD Economics

UPCOMING NORTH AMERICAN ECONOMIC CALENDAR
March 31 - April 4, 2008

Release Date	Economic Indicators	Data for Period	Units	Consensus Forecast	Prior
Canada					
Mar. 31	Real GDP at Basic Prices	Jan.	% change	46.5	44.5
Apr. 1	Industrial Product Price Index	Feb.	% change	0.7	0.9
Apr. 1	Raw Materials Price Index	Feb.	% change	1.9	3.4
Apr. 4	Unemployment Rate	Mar.	Per cent	5.8	5.8
Apr. 4	Net Change in Employment	Mar.	Thousands	15.0	43.3
Apr. 4	Ivey Purchasing Managers Index	Mar.	Index	59.0	62.0
United States					
Mar. 31	Chicago Purchasing Managers Index	Mar.	Index	46.5	44.5
Apr. 1	ISM Index (manufacturing)	Mar.	Index	47.5	48.3
Apr. 1	Construction Spending	Feb.	% change	-1.0	-1.7
Apr. 1	Total Vehicle Sales	Mar.	Millions	15.3	15.4
Apr. 1	Domestic Vehicle Sales	Mar.	Millions	11.7	11.7
Apr. 2	ADP Employment Change	Mar.	Thousands	-30	-23
Apr. 2	Factory Orders	Feb.	% change	0.6	-2.5
Apr. 3	Weekly Initial Jobless Claims	29-Mar.	Thousands	365.0	366.0
Apr. 4	Change in Non-farm Payrolls	Mar.	Thousands	-50.0	-63.0
Apr. 4	Unemployment Rate	Mar.	Per cent	5.0	4.8
Apr. 4	Average Hourly Earnings	Mar.	% change	0.3	0.3

Source: Bloomberg, TD Economics

G-7 ECONOMIC RELEASES AND EVENTS

Date	Time*	Country	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period	
Mar. 30	19:50	Japan	Industrial Production (prelim.)	Feb.	% change	-2.0	-2.2	
Mar. 31	0:00	Japan	Vehicle Production	Feb.	Y/Y % chg.	N/A	8.7	
	1:00	Japan	Housing Starts	Feb.	Y/Y % chg.	-1.0	-5.7	
	4:00	EU	M3 Money Supply Growth	Feb.	Y/Y % chg.	11.5	11.5	
	5:00	EU	Consumer Price Index	Mar.	Y/Y % chg.	3.3	3.2	
	5:00	EU	Industrial Confidence Index	Mar.	Index	1	0	
	5:00	EU	Consumer Confidence Index	Mar.	Index	-12	-12	
	5:00	EU	Business Climate Indicator	Mar.	Index	0.70	0.72	
	5:00	EU	Economic Confidence Index	Mar.	Index	100.0	100.1	
	5:00	EU	Services Confidence Index	Mar.	Index	10	10	
	8:30	Canada	Real GDP at Basic Prices	Jan.	% change	0.5	-0.7	
	9:45	U.S.	Chicago Purchasing Managers Index	Mar.	Index	46.5	44.5	
	12:00	U.S.	<i>San Francisco Fed President Yellen speaks on foreclosures at 2008 National Interagency Community</i>					
	22:30	AU	RBA Cash Target	Apr. 2	Cash Rate	7.25	7.25	
Apr. 1	1:00	Japan	Vehicle Sales	Mar.	Y/Y % chg.	N/A	0.1	
	3:50	France	Purchasing Managers Index (Man.)	Mar.	Index	52.0	52.0	
	3:55	Germany	Unemployment Rate (SA)	Mar.	Per cent	7.9	8.0	
	3:55	Germany	Unemployment Change	Mar.	Thousands	-45.0	-75.0	
	4:00	Germany	Purchasing Managers Index (Man.)	Mar.	Index	52.0	52.0	
	4:00	EU	Purchasing Managers Index (Man.)	Mar.	Index	54.9	54.9	
	4:30	U.K.	Purchasing Managers Index (Man.)	Mar.	Index	51.0	51.3	
	5:00	EU	Unemployment Rate	Feb.	Per cent	7.1	7.1	
	8:30	Canada	Industrial Product Price Index	Feb.	% change	0.7	0.9	
	8:30	Canada	Raw Materials Price Index	Feb.	% change	1.9	3.4	
	10:00	U.S.	ISM Index (manufacturing)	Mar.	Index	47.5	48.3	
	10:00	U.S.	Construction Spending	Feb.	% change	-1.0	-1.7	
	---	U.S.	Total Vehicle Sales	Mar.	Millions	15.3	15.4	
---	U.S.	Domestic Vehicle Sales	Mar.	Millions	11.7	11.7		
Apr. 2	5:00	EU	Euro-Zone PPI	Feb.	% change	0.6	0.8	
	8:15	U.S.	ADP Employment Change	Mar.	Thousands	-30	-23	
	9:30	U.S.	<i>Fed Chairman Bernanke testifies on economic outlook before Joint Economic Committee of Congress</i>					
	10:00	U.S.	Factory Orders	Feb.	% change	0.6	-2.5	
Apr. 3	4:00	EU	Purchasing Managers Index (Ser.)	Mar.	Index	51.7	51.7	
	5:00	EU	Retail Sales	Feb.	% change	0.2	0.4	
	8:30	U.S.	Weekly Initial Jobless Claims	29-Mar.	Thousands	365.0	366.0	
	19:30	U.S.	<i>Fed Governor Mishkin speaks at Princeton's Center for Economic Policy Studies</i>					
	21:30	AU	Retail Sales	Feb.	% change	0.3	0.0	
Apr. 4	7:00	Canada	Unemployment Rate	Mar.	Per cent	5.8	5.8	
	7:00	Canada	Net Change in Employment	Mar.	Thousands	15.0	43.3	
	8:30	U.S.	Change in Non-farm Payrolls	Mar.	Thousands	-50.0	-63.0	
	8:30	U.S.	Unemployment Rate	Mar.	Per cent	5.0	4.8	
	8:30	U.S.	Average Hourly Earnings	Mar.	% change	0.3	0.3	
	10:00	Canada	Ivey Purchasing Managers Index	Mar.	Index	59.0	62.0	
	20:00	U.S.	<i>San Francisco Fed President Yellen speaks on the U.S. economy at Stanford</i>					

* Eastern Standard Time; Sources: Bloomberg, TD Economics

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