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Financial
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TD Economics

The Weekly Bottom Line

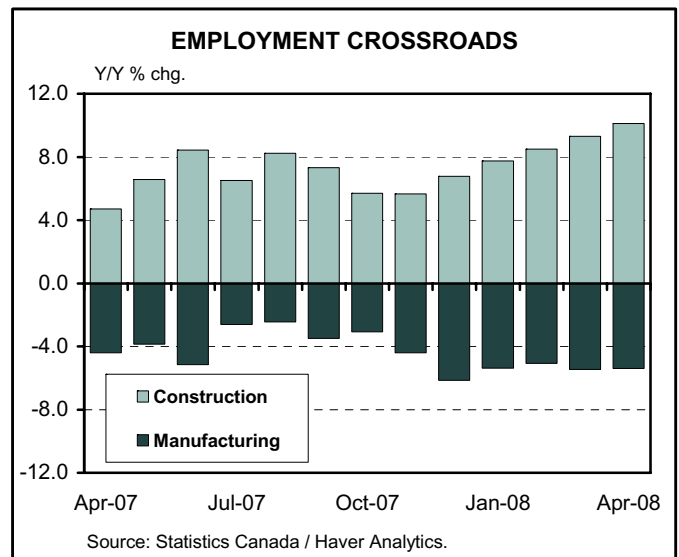
May 9, 2008

HIGHLIGHTS

- **Canadian employment ho-hum in April**
- **Canadian housing starts ease off recent highs**

After a flood of U.S. economic data releases last week, our attention was turned mostly towards Canadian data this week, with Friday's labour force survey for the month of April serving as centerpiece. Quickly recovering from mourning the elimination of the last Canadian team from the NHL playoffs, the nation's focus also turned to its fate in the IIHF World Hockey Championship – so far, so good. Canada has grown accustomed to prevailing in these competitions and touting its competitive advantage, but its blasé attitude should not be carried over into the economic realm to quickly in comparing itself to its southern neighbor.

First, any comparison to a slumping economy naturally shines a brighter light than it typically would otherwise. The U.S. data released this week was also on balance better than expected. We think this is mostly a respite before weaker data starts showing up again, but it was welcome nonetheless. The ISM non-manufacturing index broke through the 50 point contraction/expansion threshold for the first time in four months to reach 52. Most categories (business activity, new orders, and employment) are sitting just slightly above 50. However, stronger-than-expected data should not be confused with strong data. The ISM non-manufacturing has only dipped below 50 on a sustained basis once since its inception in 1997, and that was during the 2001 recession. By most measures, the U.S. is either in or on the verge of a recession. The Federal Reserve's Senior Loan Officer Survey



for Q2 revealed worsening credit conditions and further tightening in standards. Meanwhile, the U.S. trade deficit narrowed in March as a result of a dip in imports, further evidence of a challenged U.S. consumer. The only unambiguously positive bit of data for the U.S. was provided by decent Q1 nonfarm productivity figures (+2.2% Q/Q annualized) which might help ease inflationary pressures.

Mirror image

Turning to Canada, markets did not overreact to Friday morning's better-than-expected employment report for April. The trade numbers for March didn't seem to be misinterpreted on the bright side either. Canada's headline figure for the trade surplus (current \$ value) increased, but export volumes fell by 1.9% in March for an overall 4.0% (annualized) drop in Q1.

Nothing shocking was revealed in this latest data iteration of the Canadian employment landscape. The Canadian economy managed to create a net 19,200 jobs in April. While this headline number is encouraging, especially in comparison to the job losses suffered by the U.S. economy – numbered at 260,000 year-to-date – the details of the labour force survey reveal a weaker picture. Self-employment led gains with 18,300 net new jobs created and

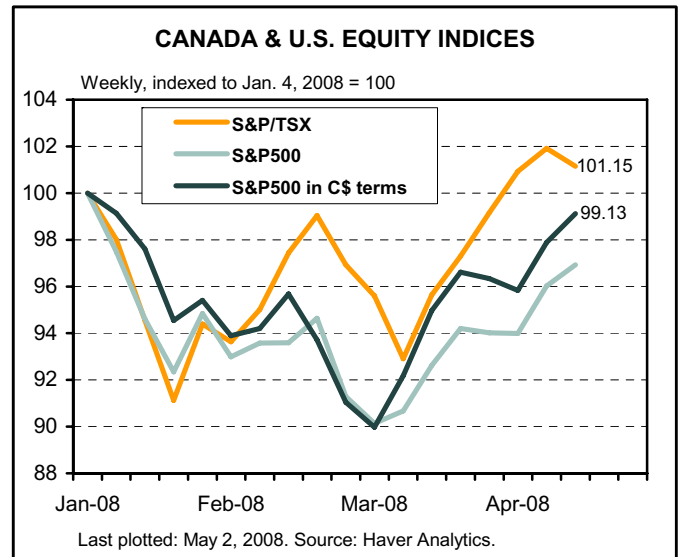
Recent TD Economics Research

May 9, 2008 - Canadian International Trade
 May 9, 2008 - Canadian Employment
 May 8, 2008 - Canadian Housing Starts
 May 5, 2008 - Global Markets (text) (pdf)
 May 5, 2008 - U.S. ISM Non-Manufacturing Index

the public sector added 9,100 workers to the tally, but private-sector employment fell by 8,100. The unemployment rate edged up 0.1 percentage points to 6.1% as new entrants into the labour force (23,800) outsized job creation. Wage gains for permanent employees (+4.2%) were still far greater than CPI inflation recorded a month prior (+1.4%), but have been easing since January, a sign that the labour market is slacking a bit.

As a whole, private sector jobs have not been shrinking on a year-over-year basis, but growth has been soft, averaging 0.9% over the last 12 months. We continue to be concerned with this particular mix of employment where softness in private sector employment – a bellwether of healthy economies – has been masked by outsized strength in public sector employment (+4.4%) and self-employment (+4.8%). What's more, year-over-year growth trends in these last two segments are not encouraging. Self-employment growth has dropped off significantly since peaking in June 2007. While public sector employment growth remains robust, it has come off its all-time high of 6.6% of February and is finally showing signs of strain, as public purses tighten up a bit.

Will private sector employment take the baton to keep Canadian employment running once public and self-employment move to the sidelines? While we do not expect the private sector to shed jobs on aggregate on a sustained basis over the next 12-18 months, Canadian firms – Walmart aside – are also unlikely to venture on a hiring spree in the current context. In other words, the current pace of private sector job creation is just about the best we can expect for Canada before the U.S. economy seriously gears up again, which isn't likely to happen (outside of a blip in spending from the fiscal stimulus) for another 16 months or so. The composition of private sector job growth also suggests further weakness could be in the cards. Over the last 12 months, construction employment (+113,000) has been able to more than offset the job losses suffered in Canadian manufacturing (-112,000). For an industry that has employed at most about 60% as many people as manufacturing does, the contribution of construction to overall employment has been nothing short of stellar. Non-residential construction activity should remain robust in the months ahead, so employment in that sector should hold up. As for residential construction, we expect it to slow and are not inclined to think it can keep adding workers at the same pace. Canadian housing starts dropped by 12% to a seasonally-adjusted annual rate of 241,000 units in April, but this comes after back-to-back strength in February and March (243,000 units). As new home and condo construc-



tion was easing in Ontario since 2003 and in Québec since 2004, the national level of housing starts has still held up well, in large part due to continued strength in Alberta and B.C. Alberta is no longer lending a hand to national figures in this regard, and cannot reasonably be expected to do so in the near term either. After playing catch-up with a large population inflow into the province, it is now adjusting to a lower, more sustainable level of housing starts. April's housing starts figures bring the year-to-date average to 229,200 units which is closer to what fundamentals suggest is an appropriate level. Our view going forward is that starts will continue to edge down on a trend basis to average 210,000-220,000 units this year. After providing a solid boost to real GDP growth in the first quarter, residential construction activity will likely take a breather, in line with many other components of the Canadian economy. Employment gains will most likely be negligible on balance for the remainder of this year.

Luckily, year-to-date Canadian dollar values of investor positions in Canadian and U.S. equities have been sheltered from stock market declines experienced in most other markets. When compared to other economies, Canada's benign inflation is another measure by which Canadians have been relatively lucky so far this year. Assuming Canada can make the best of its home ice advantage and once again claim victory in the world hockey championship, let us hope – but not expect – that the Canadian economy can replicate such a performance. Just don't be surprised if the Canadian men's hockey team falters – they are human after all – or if the Canadian economy sits this one out and pouts in the penalty box.

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UPCOMING KEY ECONOMIC RELEASES

U.S. Retail Sales - April

Release Date: May 13/08

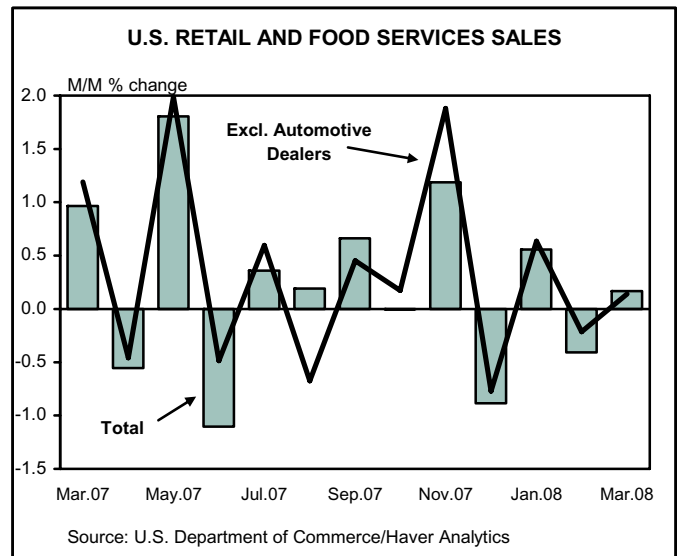
March Result: total +0.2%; ex-autos +0.1%

TD Forecast: total -0.4%; ex-autos 0.0%

Consensus: total -0.2%; ex-autos +0.2%

We're expecting to see U.S. retail sales weaken further in April, with a 0.4% decline. There are several reasons to expect weaker sales. Both wage growth and the level of employment have slipped over the last few months, giving consumers less money to spend. Furthermore, we know that same store sales fell by 1.0% M/M in April, and that auto sales were down about 5%. Ex-autos sales should be a little stronger, and we're expecting them to come in flat. However, after stripping out the inflationary effect of food and gasoline prices, it will be clear that Q2 consumer spending got off to an extremely weak start.

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U.S. Consumer Price Index - April

Release Date: May 14/08

March Result: core +0.2% M/M, 2.4% Y/Y;

all-items +0.3% M/M, 4.0% Y/Y

TD Forecast: core +0.2% M/M, 2.3% Y/Y;

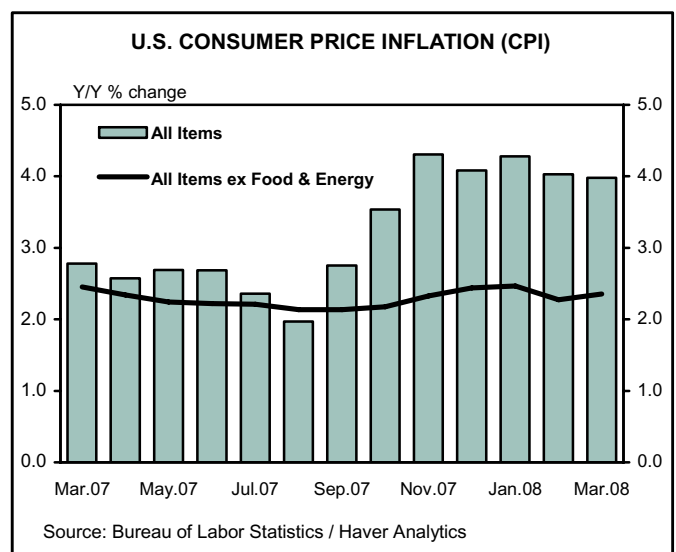
all-items +0.4% M/M, 4.0% Y/Y

Consensus: core +0.2% M/M, 2.4% Y/Y;

all-items +0.3% M/M, 4.0% Y/Y

We're not expecting to see any major changes in U.S. inflation trends in April. We're forecasting core CPI to gain another 0.2% on a monthly basis, but for the Y/Y pace of inflation to soften a bit to 2.3%. However, food and energy prices will likely keep all-items inflation extremely elevated. With food prices still high and moving higher, and with energy prices continuing to soar, we're expecting to see total inflation rise by 0.4% on the month. The Y/Y pace of all-items inflation will likely remain unchanged at 4.0%.

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Canadian Manufacturing Shipments - March

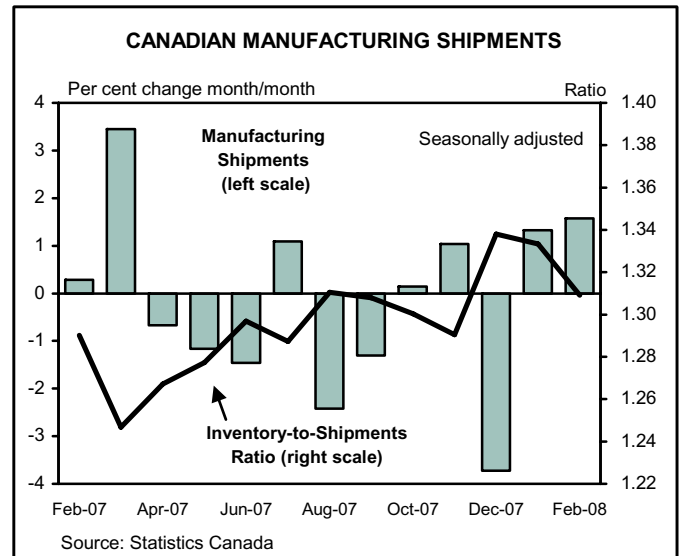
Release Date: May 15/08

February Result: +1.6%

TD Forecast: 0.0%

Consensus: -0.5%

We're expecting to see Canadian manufacturing shipments come in flat in March, after increasing in January and February. However, the number will likely be much worse in real terms, since increasing prices in March will have given the nominal figures a significant boost. Although auto exports fell in March, we think that the declines in that sector will be made up for by increases in the non-durables categories, which make up nearly 50% of manufacturing shipments. We'll likely see significant gains in sectors like food, chemicals, and petroleum and coal products, largely due to higher prices, and that should help to keep manufacturing shipments afloat in March. And, as the auto sector continues to struggle, the growth in non-durables and the decline in durables will likely be a recurring theme going forward.



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RECENT KEY ECONOMIC INDICATORS

May 5-May 9, 2008

Date	Economic Indicators	Data for	Units	Current	Prior	
Canada						
May 6	Building Permits	Mar.	% change	-4.5	0.8	R▲
May 6	Ivey Purchasing Managers Index	Apr.	Index	57.6	59.0	
May 8	Housing Starts	Apr.	Thousands	213.9	243.0	R▼
May 9	Unemployment Rate	Apr.	Per cent	6.1	6.0	
May 9	Net Change in Employment	Apr.	Thousands	19.2	14.6	
May 9	International Merchandise Trade Balance	Mar.	C\$, blns	5.5	4.8	R▼
United States						
May 5	ISM Non-Manufacturing	Apr.	Index	52.0	49.6	
May 7	Non-farm Productivity (prelim.)	Q1-08	Ann. % chg.	2.2	1.8	R▼
May 7	Unit Labour Costs (prelim.)	Q1-08	Ann. % chg.	2.2	2.8	R▲
May 8	Weekly Initial Jobless Claims	3-May	Thousands	365.0	383.0	R▲
May 8	Wholesale Inventories	Mar.	% Chg.	-0.1	0.9	R▼
May 9	Trade Balance	Mar.	US\$, blns	-58.2	-61.7	R▲

Source: Bloomberg, TD Economics

UPCOMING NORTH AMERICAN ECONOMIC CALENDAR

May 12-May 16, 2008

Release Date	Economic Indicators	Data for Period	Units	Consensus Forecast	Prior
Canada					
May 13	<i>San Francisco Fed President Yellen speaks on US economic outlook at 2008 CFA Institute Annual Conference</i>				
May 15	Manufacturing Shipments	Mar.	% change	-0.5	1.6
May 16	New Motor Vehicle Sales	Mar.	% change	0.1	-3.2
United States					
May 12	<i>Chicago Fed President Evans speaks on US economic outlook at Harper College in Illinois.</i>				
May 13	Retail Sales	Apr.	% change	-0.2	0.2
May 13	Retail Sales Less Autos	Apr.	% change	0.2	0.1
May 13	Business Inventories	Mar.	% change	0.5	0.6
May 13	<i>Kansas City Fed President Hoenig speaks on economic outlook to Rotary Club of Oklahoma City</i>				
May 13	<i>Dallas Fed President Fisher speaks about Fed & Economy at Hilton in Midland, Texas</i>				
May 14	MBA Mortgage Applications	9-May	% change	n/a	15.6
May 14	Consumer Price Index (CPI)	Apr.	% change	0.3	0.3
May 14	CPI - excl. food and energy	Apr.	% change	0.2	0.2
May 14	CPI Core Index	Apr.	Index	n/a	214.176
May 14	<i>Fed Governor Kroszner speaks on operational risk measurement and management at conference in Boston</i>				
May 15	<i>Fed Conference on Bank Structure and Competition: Credit Market Turmoil: Cause, Consequences and Cures</i>				
May 15	Initial Jobless Claims	10-May	thousands	370.0	365.0
May 15	Empire Manufacturing	May	% change	0.0	0.6
May 15	Industrial Production	Apr.	% change	-0.3	0.3
May 15	Capacity Utilization	Apr.	%	80.1	80.5
May 15	Philadelphia Fed Index	May	Index	-19.0	-24.9
May 16	Housing Starts	Apr.	Thousands	940.0	947.0
May 16	Building Permits	Apr.	Thousands	910.0	928.0
May 16	U. Michigan Consumer Confidence (prelim.)	May	Index	62.5	62.6

Source: Bloomberg, TD Economics

G-7 ECONOMIC RELEASES AND EVENTS

Date	Time*	Country	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period	
May 11	19:50	Japan	Money Supply (M2+CD)	Apr.	Y/Y % chg.	2.2	2.2	
	19:50	Japan	Broad Liquidity	Apr.	Y/Y % chg.	3.1	3.1	
May 12	0:30	Japan	Bankruptcies	Apr.	Y/Y % chg.	n/a	8.0	
	2:00	Japan	Machine Tool Orders	Apr.	Y/Y % chg.	n/a	3.3	
	4:30	UK	Merchandise Trade Balance	Mar.	£, mlns	7,500.0	7,487.0	
	4:30	UK	Merchandise Trade Balance - excl. EU	Mar.	£, mlns	-4,000.0	-4,023.0	
	9:15	US	<i>Chicago Fed President Evans speaks on US economic outlook at Harper College in Illinois.</i>					
May 13	2:45	France	Current Account	Feb.	Eur\$, blns	n/a	-0.6	
	4:30	UK	Consumer Price Index (CPI)	Apr.	Y/Y % chg.	2.6	2.5	
	4:30	UK	Retail Price Index excl. Mortgages (RPIX)	Apr.	Y/Y % chg.	3.6	3.5	
	6:10	France	<i>Cleveland Fed President Pianalto and BdF Governor Noyer speaks on monetary policy trade-offs at conference hosted by Global Interdependence Center</i>					
	8:30	US	Retail Sales	Apr.	% change	-0.2	0.2	
	8:30	US	Retail Sales Less Autos	Apr.	% change	0.2	0.1	
	10:00	US	Business Inventories	Mar.	% change	0.5	0.6	
	13:00	Canada	<i>San Francisco Fed President Yellen speaks on US economic outlook at 2008 CFA Institute Annual Conference</i>					
	13:00	US	<i>Kansas City Fed President Hoening speaks on economic outlook to Rotary Club of Oklahoma City</i>					
	13:30	US	<i>Dallas Fed President Fisher speaks about Fed & Economy at Hilton in Midland, Texas</i>					
	19:50	Japan	Current Account Total	Mar.	¥, blns	2,810.00	2,467.70	
19:50	Japan	Trade Balance	Mar.	¥, blns	1,233.00	1,035.30		
May 14	2:40	France	Consumer Price Index (CPI)	Mar.	Y/Y % chg.	3.0	3.2	
	5:00	EU	Industrial Production	Mar.	% change	-0.2	0.3	
	5:30	UK	<i>Bank of England Quarterly Inflation Report</i>					
	7:00	US	MBA Mortgage Applications	9-May	% change	n/a	15.6	
	8:30	US	Consumer Price Index (CPI)	Apr.	% change	0.3	0.3	
	8:30	US	CPI - excl. food and energy	Apr.	% change	0.2	0.2	
	8:30	US	CPI Core Index	Apr.	Index	n/a	214.176	
	9:15	US	<i>Fed Governor Kroszner speaks on operational risk measurement and management at conference in Boston</i>					
	18:45	NZ	Retail Sales	Mar.	% change	n/a	-0.7	
	19:50	Japan	Machine Orders	Mar.	Y/Y % chg.	1.0	2.4	
	20:30	AU	Consumer inflation expectations released	May	%	n/a	11.2	
May 15	--	US	<i>Fed Conference on Bank Structure and Competition: Credit Market Turmoil: Cause, Consequences and Cures</i>					
	2:00	Germany	Real Gross Domestic Product (prelim.)	Q1-08	Q/Q % chg.	0.7	0.3	
	2:00	Germany	Consumer Price Index (CPI)	Apr.	Y/Y % chg.	2.4	2.4	
	2:45	France	Gross Domestic Product (prelim.)	Q1-08	Q/Q % chg.	0.5	0.4	
	4:00	EU	<i>ECB publishes May monthly report.</i>					
	2:45	EU	Real Gross Domestic Product	Q1-08	Q/Q % chg.	0.5	0.4	
	5:00	EU	Euro-Zone CPI	Apr.	Y/Y % chg.	3.30	3.60	
	8:30	US	Initial Jobless Claims	10-May	thousands	370.00	365.00	
	8:30	Canada	Manufacturing Shipments	Mar.	% change	-0.5	1.6	
	8:30	US	Empire Manufacturing	May	% change	0.0	0.6	
	9:15	US	Industrial Production	Apr.	% change	-0.3	0.3	
	9:15	US	Capacity Utilization	Apr.	%	80.1	80.5	
	10:00	US	Philadelphia Fed Index	May	Index	-19.0	-24.9	
10:30	Canada	<i>Bank of Canada Review</i>						
19:50	Japan	Gross Domestic Product (prelim.)	1Q-08	Q/Q % chg.	0.6	0.9		
May 16	5:00	EU	Trade Balance (seasonally adjusted)	Mar.	Eur\$, blns	0.9	0.8	
	8:30	Canada	New Motor Vehicle Sales	Mar.	% change	0.1	-3.2	
	8:30	US	Housing Starts	Apr.	Thousands	940.0	947.0	
	8:30	US	Building Permits	Apr.	Thousands	910.0	928.0	
	10:00	US	U. Michigan Consumer Confidence (prelim.)	May	Index	62.5	62.6	

* Eastern Standard Time; Sources: Bloomberg, TD Economics

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