



**Bank
Financial
Group**

TD Economics

The Weekly Bottom Line

November 28, 2008

HIGHLIGHTS

- **U.S. economic data still bleak**
- **U.S. Treasury and Federal Reserve continuing to shore up credit markets**
- **Canadians were still shopping in September**
- **Federal fiscal update: no deficit, no stimulus, no confidence**

Not to be outdone by previous weeks, this last week of November offered up another full serving of noteworthy data and dramatic events. Pinch yourself if it does not feel that way; you might understandably have become numb in an unconscious bid to protect yourself from the swarm of negative news.

Another bailout Sunday

Citigroup was rightly judged too big to fail. This time around though, authorities got ahead of the curve and intervened before a potential imminent collapse of a financial behemoth. The U.S. Treasury will inject \$20B worth of capital into Citigroup via an extension of the TARP program, in exchange for \$7B in preferred shares at 8% yield. Furthermore, the Treasury, Federal Reserve (Fed), and FDIC will guarantee \$306B worth of bad assets with Citigroup on the hook for an initial \$29B of losses and the trio of regulators on the hook for \$9 out of every \$10 in losses above-and-beyond that. The bottom line for markets here is that through improvisation and/or nimbleness (take your pick), authorities are making good on their word to do whatever needs to be done to shore up financial markets. In the process, they are helping to stem the massive erosion of wealth in equity markets. North American equity markets mostly shrugged off bad economic data. As

of midday Friday, the S&P500 and S&P/TSX were up respectively 10.5% and 6.5% from their previous Friday close.

TALF Tuesday

Another major intervention took place on Tuesday as the Fed continues to weave an ever larger web of bailouts and liquidity measures. In this latest move, in an effort to rein in spreads on GSE debt and GSE-guaranteed mortgages, the Fed will start buying up \$100B in GSE (Fannie Mae, Freddie Mac, and Federal Home Loan Banks) direct obligations through primary dealers as early as next week. Concurrently, the Fed intends to start buying up to \$500B of GSE-backed mortgage-backed securities (MBS). Expected to span over several quarters, these purchases, if fully implemented, would amount to nearly 10% of the overall U.S. MBS market. And that's not all. We also got a new acronym on Tuesday, the TALF (Term Asset-Backed Securities Loan Facility). More importantly, this New York Fed (FRBNY) managed facility will make up to \$200B in one-year non-recourse loans to certain holders of AAA-rated asset-backed securities (ABS), to help grease the wheels of student, auto, small business, and credit card loans issuance. The U.S. Treasury will tap the TARP for \$20B worth of credit protection for the FRBNY. New issuance of ABS had literally ground to a halt in October, threatening a substantial channel of consumer and small business loans. The jury is still out, but the TALF and other measures taken this week should ultimately help improve credit availability at more reasonable spreads. However, this will not occur overnight, and signs of financial market stress remain omnipresent. After showing significant improvement in October, many of the financial market stress indicators we track daily failed to improve this week, as did the TD Risk Radar – our concise measure of perceived risk in financial markets.

Horrible bads orders

As for the real U.S. economy, Q4 and the first half of 2009 are unfortunately shaping up to look much more like our 'pessimistic' scenario from Oct. 31 rather than our

Recent TD Economics Research

November 27, 2008 - 2008 Fall Federal Economic & Fiscal Update

November 25, 2008 - Canadian Retail Sales

November 24, 2008 - Could Deflation Derail De Fed?

November 24, 2008 - Weekly Commodity Price Report

base case, not that the latter was optimistic by any means. U.S. durable good orders for October were nothing short of dismal. Orders fell 6.2% M/M from a downwardly revised September (original +0.8 M/M, revised -0.2% M/M), and there was simply no slice of the data that looked pretty as every component was down, many significantly. Even more telling when combined with the shipments picture was an increase in the inventory-to-shipments ratio to 1.68, the highest level since 1996. This all bodes poorly for U.S. industrial production and business investment, which is under great duress in the thick of a recession we expect to last until late 2009.

Happy Thanksgiving, but expect a red Friday

The consumer side of the U.S. economy is not faring any better either. The prevailing theory on the origin of the expression ‘black Friday’ is that it came from Philadelphia’s massive traffic jams and overcrowded sidewalks on that day after Thanksgiving. An alternative theory suggests that the day got its name in reference to an old accounting practice of showing losses in red, said to run from Jan. to Oct. for retailers. On that day retailers are said to tilt into black ink. Whatever the case may be, you certainly always see a bounce in sales as door-crasher sales abound, especially in a year where prices are no doubt ‘consumer friendly’ and no one in his right mind should expect to pay retail. The adequate benchmark, however, is how the Holiday season fares overall when compared to previous years. That picture is not expected to be pretty. The latest servicing of housing, income, spending, and consumer confidence data can attest to that.

First, signs of a bottom in U.S. housing markets were nowhere to be found this week. The latest data even suggests an accelerated correction, which is definitely worrisome given how far markets have fallen already. Existing and new home sales were down in October, respectively by 3.1% and 5.5% M/M. Inventories of unsold homes even notched up, to 10.2 months (from 10.0 months in September) for existing homes and 11.1 months (from 10.9 months in Sept.) for new homes. The S&P/Case-Shiller home price index was down 17.4% Y/Y in September, roughly 2% lower than August. On a level basis, home price have essentially turned back the clock to March-April 2004. Despite a significant improvement in home affordability as a result of price drops, access to credit remains difficult and is expected to continue to weigh on home sales and housing starts for a while longer. Second, while personal income rose 0.3% M/M in October, spending dropped by a whopping 1.0% M/M. Spend less and save more to pay

off your debt is not a fad, but rather a U.S. consumer theme with some strong traction. Expect more of the same, which is painful for the economy in the near-term but bodes well for the future.

Canadians still shopping

The only pieces of economic data for Canada this week were September retail sales, which fared better than expected, and the Q3 current account figures. Retail sales values grew by 1.1% M/M, the most since January, while volumes were up 0.7% M/M. The gains were fairly broad-based as the Y/Y pace of retail spending at 3.8% in real terms and 5.6% in nominal terms, remained healthy. Hence Canadian shoppers had not thrown in the towel as of the end of Q3, during which real GDP is tracking a decent 1.5% growth rate (Q/Q annualized). Even heading into Q4, new auto sales in particular stood in stark contrast in Canada (+1.5% Y/Y) and the U.S. (-31.9% Y/Y) in October. We do not expect Canadian consumers to recoil as much as their American counterparts in this recession. However, bearish sentiment and low consumer confidence knows no geopolitical boundaries in this information age. Equity wealth destruction is also just as real on both sides of the border.

Fall(ing?) fiscal update

A bit of drama is unfolding in Canadian parliamentary politics. The government’s Economic & Fiscal Statement left the opposition wanting. So much so that they have threatened a vote of no confidence on announced plans. Budget 2008 had projected a surplus of \$1.3B for next fiscal year. The latest outlook was for a \$5.9B shortfall prior any spending changes, mostly on the count of a weaker revenue intake as economic projections have been ratcheted down significantly since February 2008. Spending compression measures, in the form of capping public sector compensation and equalization payments growth, are expected to plug as much \$6B of the shortfall, leaving a small \$100M surplus. Ultimately, even prior to any stimulus package, a deficit is likely to creep in as nominal GDP takes a hard hit in 2009. The government has hinted that a stimulus package may be forthcoming in the February Budget without providing details. It remains to be seen if the government will fall on the measures introduced in this bill or if a compromise will be found before then on some of the specific measures. Our fiscal update commentary is available on our website.

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UPCOMING KEY ECONOMIC RELEASES

U.S. ISM Manufacturing Report - November

Release Date: December 1/08

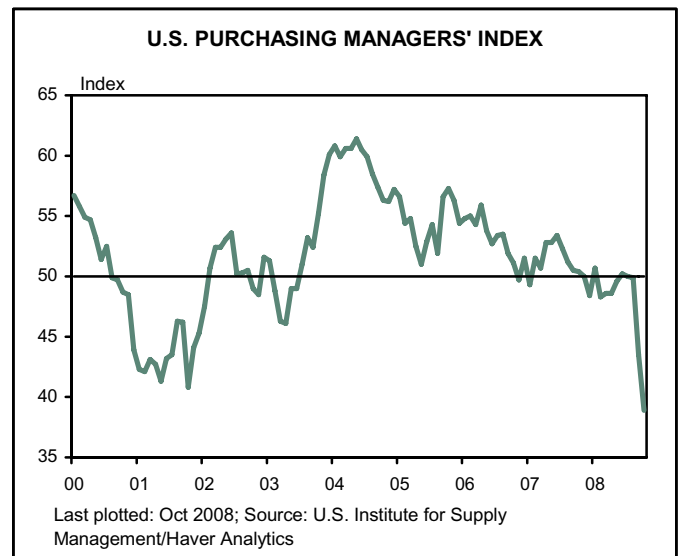
October Result: 38.9

TD Forecast: 36.0

Consensus: 37.5

The ISM manufacturing index has been hovering at basement levels for the past few months, and with the U.S. manufacturing sector recession appearing to have intensified in the past month we expect this indicator to drop even further. In November, our call is for the index to fall to 36, underscoring the bleak outlook for U.S. manufacturing production given weakening domestic and export demand. Indeed, with the U.S. economy softening at a very rapid pace in Q4 and all the regional manufacturing and business activity indicators worsening, we believe that the risks to this call are to the downside. In the coming months, the ISM manufacturing index should remain well below the 50-threshold level as the contraction in U.S. manufacturing activity take hold.

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Canadian Real GDP - Q3/08

Release Date: December 1/08

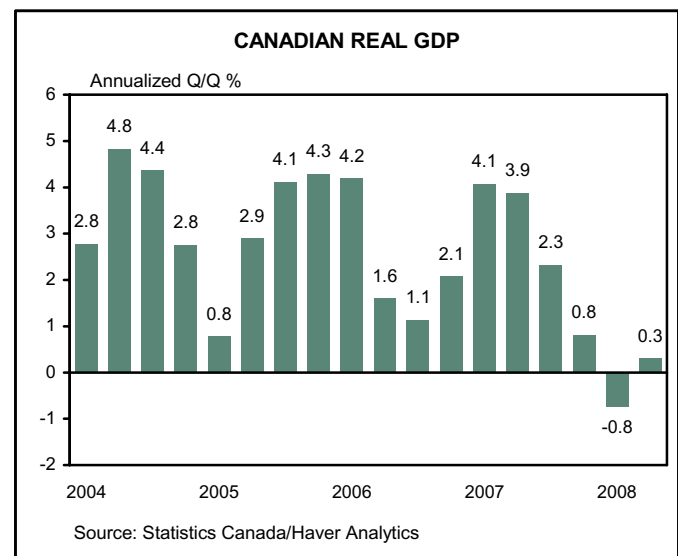
Q2 Result: -0.3%

TD Forecast: 1.5%

Consensus: 0.9%

After some fairly sluggish performance in the past three quarters, the Canadian economy appears set to surprisingly post its best performance this year, with a reasonable 1.5% Q/Q annualized rate of growth. Personal consumption expenditure (which has remained fairly resilient) is expected to be the main catalyst for this increase in Q3 activity, while slumping net exports and residential investments will likely continue to be a drag on growth. However, the bounce-back should be fleeting, as the recent dramatic deterioration in U.S. and global economic activity may mean that Canadian GDP growth in the coming quarters will be non-existent. In the final analysis, while this quarter's performance will mean that the Canadian economy has avoided a technical recession this year, it is unlikely to be as lucky next year, when we expect the economy to slip into a recession.

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Canadian Employment - November

Release Date: December 5/08

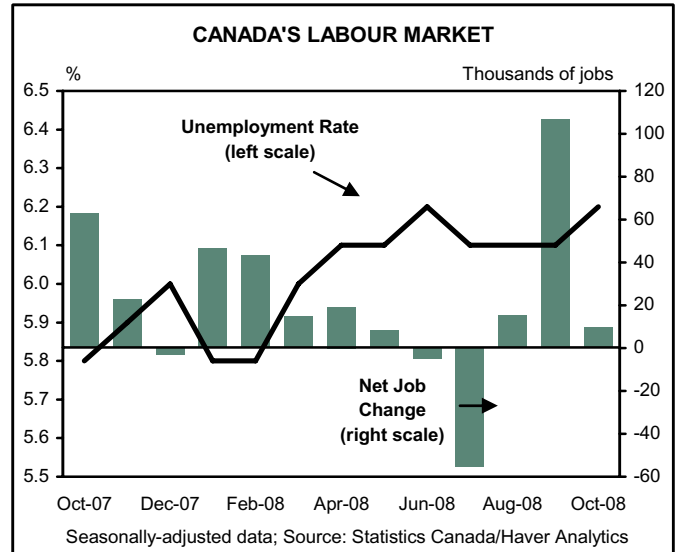
October Result: 9.5K; unemployment rate 6.2%

TD Forecast: -25K; unemployment rate 6.4%

Consensus: -15K; unemployment rate 6.4%

Despite the rather difficult economic environment, the Canadian labour market has been surprisingly resilient, creating a whopping 132K jobs in the past three months. This resiliency should come to an end, and we expect the Canadian economy to shed 25K jobs in November as employers reduce their payrolls to contend with slackening demand. Much of the job losses are likely to come from the ailing manufacturing sector, though we also expect to see some declines in service sector employment. The unemployment rate should climb to 6.4%, which will be the highest rate of unemployment in Canada in over a year. In the coming months, we are likely to see further deterioration in labour market conditions as the Canadian economy softens in the face of a major U.S. and global economic recession.

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U.S. Nonfarm Payrolls - November

Release Date: December 5/08

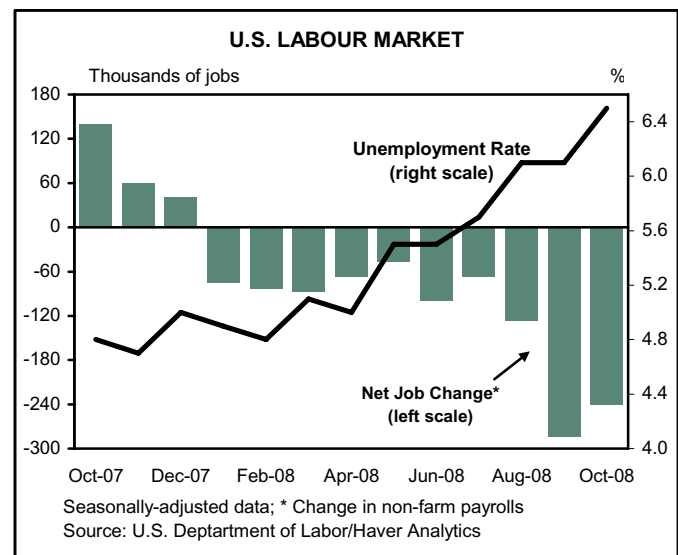
October Result: -240K; unemployment rate 6.5%

TD Forecast: -300K; unemployment rate 6.8%

Consensus:

The backdrop for U.S. workers has been quite bleak for some time, as employers continue to chop jobs at a fairly brisk clip. Moreover, with the economy appearing to have taken a turn for the worse in the past few months, things will perhaps get worse for the U.S. labour market before they get any better. In November, we expect the U.S. economy to shed a further 300K jobs, following the 240K jobs lost the month before. The decline in employment is likely to be fairly broadly based, with both the goods and services producing sectors posting sizeable losses. The unemployment rate should rise further, climbing to 6.8%. In the months ahead, we expect the pace of deterioration in the U.S. labour market to remain quick as employers continue to economize on their use of labour services in the face of slumping demand for their products.

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RECENT KEY ECONOMIC INDICATORS

November 24 - November 28, 2008

Release Date	Economic Indicators	Data for Period	Units	Current	Prior	
Canada						
Nov. 25	Retail Sales	Sept.	M/M % chg.	1.1	-0.3	
Nov. 25	Retail Sales (Ex. Autos)	Sept.	M/M % chg.	0.8	-0.2	R▲
Nov. 28	Current Account	Q3-08	\$C, blns	5.6	8.2	R▲
Nov. 28	Industrial Product Prices	Oct.	M/M % chg.	0.0	-1.2	
Nov. 28	Raw Materials Price Index	Oct.	M/M % chg.	-12.5	-7.3	R▼
United States						
Nov. 24	Existing Home Sales	Oct.	M/M % chg.	-3.1	4.7	R▼
Nov. 25	S&P/CS Composite-20	Sept.	Y/Y % chg.	-17.4	-16.6	
Nov. 25	Consumer Confidence	Nov.	Index	44.9	38.8	R▲
Nov. 25	Richmond Fed. Manufacturing Index	Nov.	Index	-38	-26	
Nov. 25	House Price Index	Sept.	M/M % chg.	-1.3	-0.8	R▼
Nov. 26	Durable Goods Orders	Oct.	% Chg.	-6.2	-0.2	R▼
Nov. 26	Personal Income	Oct.	% change	0.3	0.1	R▼
Nov. 26	Personal Spending	Oct.	% change	-1.0	-0.3	
Nov. 26	PCE Core	oct.	Y/Y % chg.	2.1	2.3	R▼
Nov. 26	PCE Deflator	Oct.	Y/Y % chg.	3.2	4.1	R▼
Nov. 26	Chicago Purchasing Managers Index	Nov.	Index	33.8	37.8	
Nov. 26	New Home Sales	Oct.	Thousands	433	457	R▼

Source: Bloomberg, TD Economics

UPCOMING NORTH AMERICAN ECONOMIC CALENDAR

December 1 - December 5, 2008

Release Date	Economic Indicators	Data for Period	Units	Consensus Forecast	Prior
Canada					
Dec. 1	Real GDP at Basic Prices	Sept.	% Chg.	0.2	-0.3
Dec. 1	Gross Domestic Product (annualized)	Q3-08	Q/Q % chg.	0.8	0.3
Dec. 4	Building Permits	Oct.	M/M % chg.	-5.0	13.4
Dec. 4	IVEY Purchasing Managers Index	Nov.	Index	50.5	52.2
Dec. 5	Unemployment Rate	Nov.	Per cent	6.4	6.2
Dec. 5	Net Change in Employment	Nov.	Thousands	-15.0	9.5
United States					
Dec. 1	ISM Manufacturing	Nov.	Index	37.5	38.9
Dec. 1	Construction Spending	Nov.	M/M % chg.	-0.9	-0.3
Dec. 1	<i>Fed Chairman Bernanke and Dallas Fed President Fisher to speak on outlook of U.S. Economy in Austin.</i>				
Dec. 1	<i>Treasury Secretary Paulson to speak on economy and financial markets in Washington.</i>				
Dec. 2	<i>Treasury Secretary Paulson to speak on U.S.-China Strategic Economic Dialogue in Washington.</i>				
Dec. 2	<i>Philadelphia Fed President Plosser to speak on economic outlook in Rochester.</i>				
Dec. 3	ADP Employment Change	Nov.	Thousands	-195.0	--
Dec. 3	ISM Non-Manufacturing Composite Index	Nov.	Index	42.0	44.4
Dec. 3	<i>Fed Governor Kroszner speaks on Community Reinvestment Act and the mortgage crisis in Washington.</i>				
Dec. 3	<i>Richmond Fed President Lacker to speak as part of a panel on the U.S. economic outlook in Charlotte.</i>				
Dec. 3	<i>Fed's Beige book released</i>				
Dec. 4	Factory Orders	Oct.	% change	-4.0	-2.5
Dec. 4	<i>Chicago Fed President Evans to speak to Michigan Bankers Association in Dearborn.</i>				
Dec. 4	<i>Fed Chairman Bernanke to speak on housing and housing finance at Fed conference in Washington.</i>				
Dec. 4	<i>Fed Governor Kroszner to speak on mortgage-backed securities at Fed conference in Washington.</i>				
Dec. 5	Change in Non-farm Payrolls	Nov.	Thousands	-323	-240
Dec. 5	Unemployment Rate	Nov.	Per cent	6.8	6.5
Dec. 5	Average Hourly Earnings	Nov.	Y/Y % chg.	--	3.5
Dec. 5	Consumer Credit	Oct.	US\$, blns	1.5	6.9

Source: Bloomberg, TD Economics

G-7 ECONOMIC RELEASES AND EVENTS

Date	Time*	Country	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period	
Dec. 1	0:00	Japan	Vehicle Sales	Nov.	Y/Y % chg.	--	-13.1	
	2:00	Germany	Retail Sales	Oct.	Y/Y % chg.	-0.3	1.2	
	8:30	Canada	Real GDP at Basic Prices	Sept.	% Chg.	0.2	-0.3	
	8:30	Canada	Gross Domestic Product (annualized)	Q3-08	Q/Q % chg.	0.9	0.3	
	10:00	U.S.	ISM Manufacturing	Nov.	Index	37.5	38.9	
	10:00	U.S.	Construction Spending	Nov.	M/M % chg.	-0.9	-0.3	
	13:45	U.S.	<i>Fed Chairman Bernanke and Dallas Fed President Fisher to speak on outlook of U.S. Economy in Austin.</i>					
	15:00	U.S.	<i>Treasury Secretary Paulson to speak on economy and financial markets in Washington.</i>					
	18:50	Japan	Monetary Base	Nov.	Y/Y % chg.	--	1.4	
	19:30	AU	Current Account Balance	Q3-08	\$AU, blns	-11.1	-12.8	
	19:30	AU	Retail Sales	Oct.	M/M % chg.	-0.2	-1.1	
	22:30	AU	RBA Cash Target	2-Dec	Cash Rate	4.50	5.25	
Dec. 2	--	U.S.	Total Vehicle Sales	Nov.	Millions	10.4	10.6	
	5:00	EU	Euro-Zone PPI	Oct.	% change	-0.3	-0.2	
	11:30	U.S.	<i>Treasury Secretary Paulson to speak on U.S.-China Strategic Economic Dialogue in Washington.</i>					
	12:30	U.S.	<i>Philadelphia Fed President Plosser to speak on economic outlook in Rochester.</i>					
	19:30	AU	Gross Domestic Product	Q3-08	Q/Q % chg.	0.2	0.3	
Dec. 3	5:00	EU-12	Euro-Zone Retail Sales	Oct.	Y/Y % chg.	-1.5	-1.6	
	8:15	U.S.	ADP Employment Change	Nov.	Thousands	-195.0	--	
	10:00	U.S.	ISM Non-Manufacturing Composite Index	Nov.	Index	42.0	44.4	
	10:15	U.S.	<i>Fed Governor Kroszner speaks on Community Reinvestment Act and the mortgage crisis in Washington.</i>					
	12:30	U.S.	<i>Richmond Fed President Lacker to speak as part of a panel on the U.S. economic outlook in Charlotte.</i>					
	14:00	U.S.	<i>Fed's Beige book released</i>					
	15:00	NZ	RBNZ Cash Target	3-Dec	Cash Rate	5.00	6.50	
Dec. 4	5:00	EU-12	Euro-Zone Gross Domestic Product	Q3-08	Q/Q % chg.	-0.2	--	
	7:00	UK	Bank of England Announces Rates	4-Dec	Per cent	2.00	3.00	
	7:45	EU	European Central Bank Announces Interest Rates	4-Dec	Per cent	2.75	3.25	
	8:30	Canada	Building Permits	Oct.	M/M % chg.	-5.0	13.4	
	10:00	Canada	IVEY Purchasing Managers Index	Nov.	Index	50.5	52.2	
	10:00	U.S.	Factory Orders	Oct.	% change	-4.0	-2.5	
	10:45	U.S.	<i>Chicago Fed President Evans to speak to Michigan Bankers Association in Dearborn.</i>					
	11:15	U.S.	<i>Fed Chairman Bernanke to speak on housing and housing finance at Fed conference in Washington.</i>					
	16:30	U.S.	<i>Fed Governor Kroszner to speak on mortgage-backed securities at Fed conference in Washington.</i>					
	Dec. 5	6:00	Germany	Factory Orders	Oct.	Y/Y % chg.	-12.1	-2.7
7:00		Canada	Unemployment Rate	Nov.	Per cent	6.4	6.2	
7:00		Canada	Net Change in Employment	Nov.	Thousands	-15.0	9.5	
8:30		U.S.	Change in Non-farm Payrolls	Nov.	Thousands	-323	-240	
8:30		U.S.	Unemployment Rate	Nov.	Per cent	6.8	6.5	
8:30		U.S.	Average Hourly Earnings	Nov.	Y/Y % chg.	--	3.5	
15:00		U.S.	Consumer Credit	Oct.	US\$, blns	1.5	6.9	

* Eastern Standard Time; Sources: Bloomberg, TD Economics

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