



**Bank
Financial
Group**

TD Economics

The Weekly Bottom Line

November 7, 2008

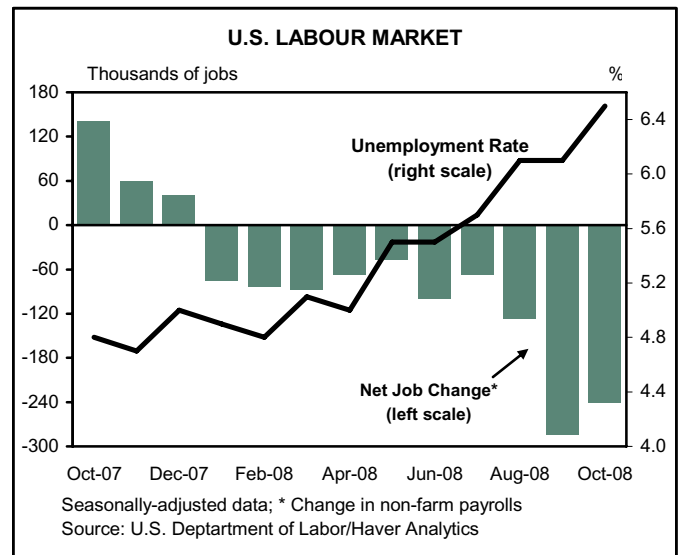
HIGHLIGHTS

- U.S. recession hitting all sectors of the economy.
- U.S. sheds 240,000 jobs in October. Unemployment rate at 6.5%.
- Canada creates 9,500 jobs, unemployment edges up to 6.2%

Economic news took second stage this week to an historic occasion in U.S. political history. 2008 has already been a memorable year but the election of Senator Barack Obama as the 44th U.S. president will certainly earn it a prominent page in the history books. Unfortunately, as much as we'd like to ignore it, the economic data were a grim reminder of the dire state of the economy that President-elect Obama will face in his first year in office. From dour reports on the state of the manufacturing sector to a dismal payrolls report led by service sector job losses, the economic data out this week painted one bleak picture after another. While Tuesday's election provided enough of a distraction for equity markets to provide for a one day rally, it was short lived and markets quickly gave up the gains (and more) as the week closed out.

U.S. manufacturing in a slump...services too...

Proof that the U.S. recession has hit every sector of the economy was on display throughout the week, no more



so than in the October results of the ISM manufacturing and non-manufacturing Purchasing Managers Indexes (PMI). With anything below 50 indicating contraction, the manufacturing headline index showed a stunning drop to 38.9, the lowest level the index has reached since 1982. Indicators of current conditions in the manufacturing sector showed deep contraction. What is more, the forward looking indicators also fell to new lows, with new-export orders showing their worst performance since inclusion in the report.

Just as worrying as the decline in the manufacturing PMI, was the performance of the larger non-manufacturing index, which reached a new all-time low in October. The details of the report foreshadowed the results of Friday's payroll report, showing a steep drop in output and employment in the U.S. service sector. Perhaps the only good news out of the report was the drop in prices, reflecting the fall in energy prices in the last few months. With prices falling and output contracting, the Federal Reserve will have an easier time adding further monetary stimulus. But with interest rates at 1.0%, their main constraint is no longer inflation but the 0.0% nominal interest rate bound.

Recent TD Economics Research

November 7, 2008 - Canadian Employment
 November 7, 2008 - U.S. Employment
 November 6, 2008 - BOE/ECB Rate Cuts
 November 6, 2008 - 2009 Prospects for Canadian Agriculture
 November 5, 2008 - U.S. ISM Non-Manufacturing Index
 November 5, 2008 - The ECB, the BoE, and the Growing European Recession
 November 3, 2008 - U.S. ISM Manufacturing Index

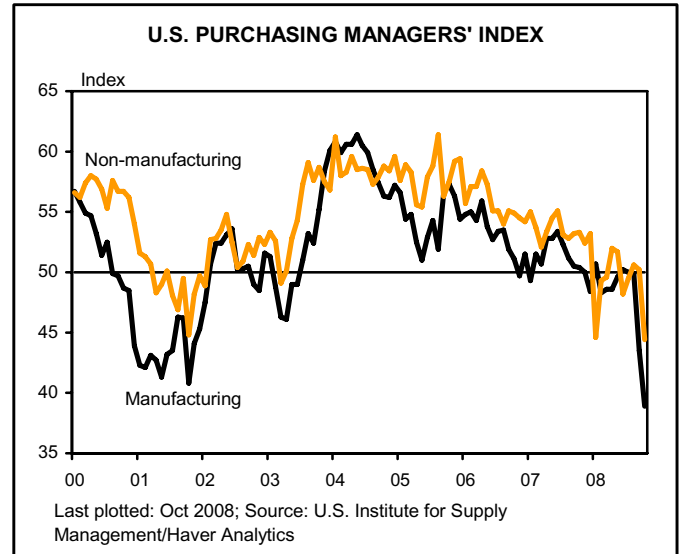
Brother can you spare a job?

If there is one statistic that President-elect Obama will certainly have in mind as he prepares his transition team, it is the state of U.S. employment. He can't be happy with what he's seeing. The U.S. economy has shed jobs every month this year and the numbers have only worsened as the year has gone on. Not only were there 240,000 jobs lost in the month of October but revisions to the previous two months added another 179,000 job losses to the ledger, moving total losses so far this year to 1.2 million. Year-to-date there are only 139,000 fewer losses so far this year than in the same period in 2001 and the worst is yet to come. Job losses, which started out in manufacturing and construction at the start of the year, have now moved to the service sector. While service sector job growth was positive over the first seven months of this year (offsetting some the substantial weakness in manufacturing and construction), they slipped into negative territory in August. Since then, job losses in services have outpaced the goods producing sector and have contributed over 56% of total job losses in the past three months.

A greater pace of job losses paired with unprecedented declines in household wealth and restricted credit conditions (illustrated once again this week by the Fed's Senior Loan Officer Survey) sets the stage for the worst contraction in consumer spending since 1980. The downward spiral of falling spending leading to greater job losses, lower production and a further deterioration in credit quality, underscores the need for government intervention. Federal Reserve Chairman Bernanke has recognized this and called once again for a second wave of fiscal stimulus. This will likely become one of the first actions of the new administration upon taking office in January. A substantial package totaling over \$150 billion and including spending on infrastructure, financial aid to state and local governments, an extension in unemployment benefits, and personal income tax breaks looks increasingly likely and necessary in order to get the economy moving once again.

Brother can you spare an election?

This week, Quebec's Liberal government also got election fever and will send Quebecers to the polls on December 8th. In an election focused on the economy, Premier Jean Charest can point to Friday's Labour Force Survey for the positive (albeit temporary) stimulus provided by an election call. The Canadian election held in October was a boon to job growth in the month, helping add 40,000 public



administration sector jobs. Unfortunately, outside of the public sector job growth was more disappointing with 11 of 15 sectors posting losses and the unemployment rate edging up to 6.2%. Going forward, outside of the likely positive contribution of the election to job growth in Quebec, employment looks to be heading lower in Canada. Real GDP likely fell in October and is expected to decline by 2.6% (annualized) in the fourth quarter of the year. With many of the previous sources of job-market strength in Canada losing steam, losses are likely just around the corner and will see the unemployment rate move up above 7% next year.

Bank of England takes a hatchet to interest rates, ECB prefers a scalpel

While all eyes were on the U.S. this week, European central bankers made every effort to make their presence felt. On Thursday both the Bank of England and the European Central Bank cut interest rates – the BoE by a whopping 1.5 percentage points and the ECB by a more measured 0.5 percentage points. The English and European economies have taken a dramatic turn for the worse and, as in the United States, inflation is no longer the boogiemanager it once was. These actions are not likely the last and as growth continues to be moribund through the remainder of this year and with more room to cut than their counterparts in North America, further and likely substantial rate cuts should be expected.

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UPCOMING KEY ECONOMIC RELEASES

Canadian Housing Starts - October

Release Date: November 10/08

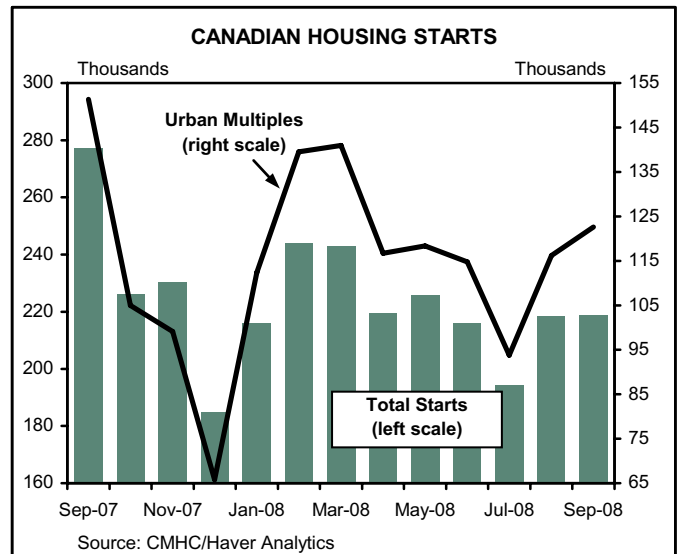
September Result: 219K

TD Forecast: 200K

Consensus: 205K

The Canadian housing market boom is over, and our forecast is for leaner times ahead. Indeed, with a sluggish domestic economy and tighter lending conditions, Canadian housing activity should continue to cool, though the moderation in activity is expected to be both measured and orderly. For October, we expect Canadian residential housing starts to fall to 200K, from 219K in September. Most of the declines are expected to come from the volatile multi-unit component, though single-unit starts are also likely to be lower. In the coming months, as builders slow down on the pace of new building activity, we expect residential housing construction to remain subdued, with starts sitting roughly within the 190K to 210K range.

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Canadian International Trade - September

Release Date: November 13/08

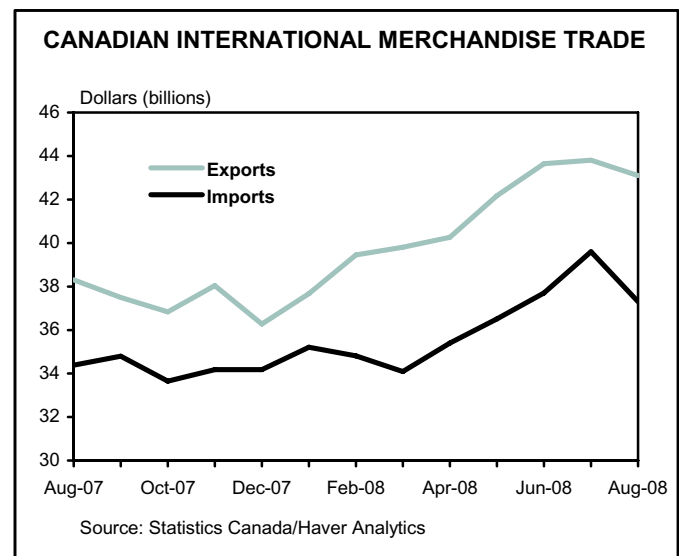
August Result: \$5.8B

TD Forecast: \$5.1B

Consensus: \$5.0B

Slumping commodity prices and diminishing export opportunities will likely weigh heavily on Canadian exports in the coming months. And in September we expect the trade surplus to decline to \$5.1B, on account of weakening exports. Declining commodity prices, which have fallen by 6.9% M/M in September, and waning export demand for auto products should be the main catalyst for the weakness in exports, which we expect to drop by 2.5% M/M. Imports are also likely to be weak, though they should fall by a more modest 1.0% M/M. In the coming months, we are likely to see further deterioration in the Canadian trade surplus, though the soft Canadian dollar will likely provide some partial offset.

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Canadian Manufacturing Shipments - September

Release Date: November 14/08

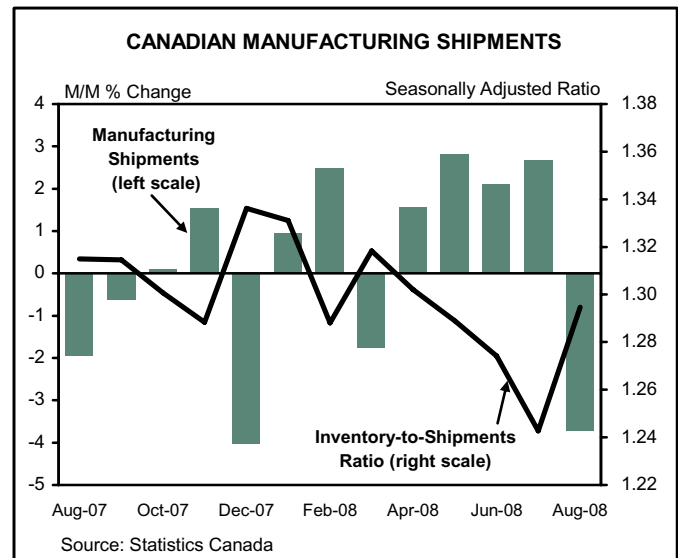
August Result: -3.7% M/M

TD Forecast: -2.5% M/M

Consensus: -2.0% M/M

After the surprisingly strong performance in the early part of the year, the Canadian manufacturing sector appears to have hit a soft patch, and may be in for some harder times ahead. For September, our call is for a further 2.5% M/M drop in manufacturing shipments, following the rather dramatic 3.7% M/M decline in August. Most of the weakness should come from the energy sector, while weakness in the auto-related sector is also likely to play a crucial role. In real terms, however, the decline is expected to be less profound, as most of the fall in the headline number is likely to be due to price effects. Over time, Canadian manufacturing sector activity should decline even further as the weakness in Canadian and the U.S. consumer spending dampens demand for Canadian manufacturing products.

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U.S. Retail Sales - October

Release Date: November 14/08

September Result: total -1.2% M/M;

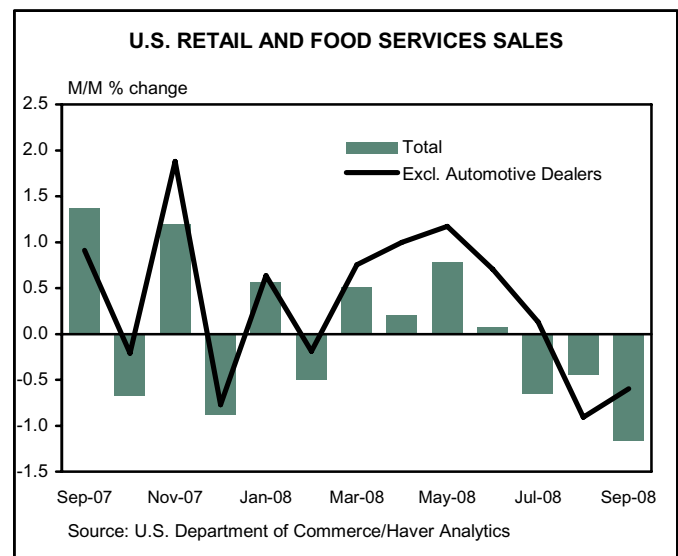
ex-autos -0.6% M/M

TD Forecast: total -2.0% M/M; ex-autos -1.0% M/M

Consensus: total -1.5% M/M; ex-autos -1.0% M/M

U.S. households have been hit hard by the weakening domestic economy, worsening labour market conditions, and continuing financial crisis. And with the plunging stock market hitting consumers particularly hard in October, we expect U.S. retail sales to fall by a sizeable 2.0% M/M in October. However, given that much of the weakness in the headline number will be due to the 15.5% M/M plunge in car purchases, sales excluding autos should post a more modest 1.0% M/M drop. In the months ahead, we expect the downward trend in retail sales to continue as U.S. consumers constrain spending further as the growing economic and financial crises take hold.

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RECENT KEY ECONOMIC INDICATORS
November 3 - November 7, 2008

		Data for	Units	Current	Prior	
Canada						
Nov 6	Building Permits	Sept	M/M % chg.	13.4	-11.7	R▲
Nov 6	IVEY Purchasing Managers Index	Oct	Index	52.2	61	
Nov 7	Unemployment Rate	Oct	%	6.2	6.1	
Nov 7	Net Change in Employment	Oct	Thousands	9.5	106.90	
United States						
Nov 3	Domestic Vehicle Sales	Oct	Millions	7.9	9.6	
Nov 3	<i>Fed's Lacker Speaks on Monetary Policy in Israel</i>					
Nov 3	Total Vehicle Sales	Oct	Millions	10.60	12.50	
Nov 3	ISM Manufacturing Composite Index	Oct	Index	38.9	43.5	
Nov 3	Construction Spending	Sept	M/M % chg.	-0.3	0.3	R▲
Nov 4	Factory Orders	Sept	% change	-2.5	-4.3	R▼
Nov 4	<i>Fed's Fisher Speaks in Grapevine, Texas on Economic Challenges</i>					
Nov 4	ABC Consumer Confidence	2-Nov	Index	-48	-49	
Nov 5	MBA Mortgage Applications	39752	% change	-20.3	16.8	
Nov 5	ADP Employment Change	Oct	Thousands	-157.0	-26.0	R▼
Nov 5	ISM Non-Manufacturing Composite Index	Oct	Index	44.4	50.2	
Nov 6	Nonfarm Productivity	3Q P	% change	1.1	3.6	R▼
Nov 6	Unit Labor Costs	3Q P	% change	3.6	-0.1	R▼
Nov 6	Initial Jobless Claims	1-Nov	Thousands	481.00	485.00	R▼
Nov 6	Continuing Claims	25-Oct	Thousands	3,843.0	3,721.0	R▼
Nov 6	<i>Fed's Warsh Speaks to Investors, Economists in New York</i>					
Nov 7	Change in Nonfarm Payrolls	Oct	Thousands	-240.0	-248.0	R▼
Nov 7	Unemployment rate	Oct	%	6.5	6.1	
Nov 7	Change in Manufacturing Payrolls	Oct	Thousands	-90.0	-56.0	R▼
Nov 7	Average Hourly Earnings	Oct	Y/Y % chg.	3.5	3.4	
Nov 7	Wholesale Inventories	Sept	% change	-0.1	0.6	
Nov 7	Pending Home Sales	Sept	M/M % chg.	-4.6	7.5	R▲
Nov 7	<i>Fed's Lockhart Speaks on U.S. Economic Outlook in Palm Beach</i>					
Nov 7	Consumer Credit	Sept	US\$, blns	--	-7.9	

Source: Bloomberg, TD Economics

UPCOMING NORTH AMERICAN ECONOMIC CALENDAR
November 10 - November 14, 2008

Release Date	Economic Indicators	Data for Period	Units	Consensus Forecast	Prior
Canada					
Nov 10	Housing Starts	Oct	Thousands	200.0	217.6
Nov 10	New Housing Price index	Sept	M/M % chg.	-0.1	0.0
Nov 13	International Merchandise Trade	Sept	\$C, blns	5.0	5.8
Nov 14	Manufacturing Shipments	Sept	M/M % chg.	-2.0	-3.7
Nov 14	New Motor Vehicle Sales	Sept	M/M % chg.	1.0	-2.3
United States					
Nov 10	<i>Treasury's Kashkari Speaks on TARP Program in New York</i>				
Nov 12	MBA Mortgage Applications	7-Nov	% change	--	-20.3
Nov 12	<i>Fed's Kohn Speaks on Financial Services in Luxembourg</i>				
Nov 12	<i>Minneapolis Fed's Stern Speaks in Minneapolis</i>				
Nov 12	ABC Consumer Confidence	9-Nov	Index	--	-48
Nov 13	Trade Balance	Sept	US\$, blns	-57.0	-59.1
Nov 13	Initial Jobless Claims	8-Nov	Thousands	--	481.0
Nov 13	Continuing Claims	1-Nov	Thousands	--	3,843.0
Nov 13	<i>Philadelphia Fed's Plosser to Speak on Economy in Pittsburgh</i>				
Nov 13	Monthly Budget Statement	Oct	US\$, blns	-89.0	-56.8
Nov 13	<i>Minneapolis Fed's Stern Speaks in Winona, Minnesota</i>				
Nov 14	Import Price Index	Oct	Y/Y % chg.	--	14.5
Nov 14	Advance Retail Sales	Oct	% change	-1.5	-1.2
Nov 14	Retail Sales Less Autos	Oct	% change	-1.0	-0.6
Nov 14	<i>Bernanke, Trichet Speak at ECB Conference in Frankfurt</i>				
Nov 14	U. of Michigan Confidence Index	Nov	Index	56.5	57.6
Nov 14	Business Inventories	Sept	% change	0.2	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	
Nov 9	18:50	Japan	Machine Orders	Sept	Y/Y % chg.	-5.3	-13.0	
	18:50	Japan	Official Reserve Assets	Oct	¥, blns	--	995.9	
	19:30	AU	Home Loans	Sept	% Chg.	-2.8	-2.2	
Nov 10	1:00	Japan	Machine Tool Orders	Oct	Y/Y % chg.	--	-20.1	
	2:00	Germany	Wholesale Price Index	Oct	Y/Y % chg.	4.3	5.8	
	2:45	France	Industrial Production	Sept	Y/Y % chg.	-1.7	-2.6	
	2:45	France	Manufacturing Production	Sept	Y/Y % chg.	-1.8	-2.9	
	4:30	U.K.	Producer Price Index Input (NSA)	Oct	Y/Y % chg.	18	24.5	
	4:30	U.K.	Producer Price Index Output (NSA)	Oct	Y/Y % chg.	7.4	8.5	
	8:15	Canada	Housing Starts	Oct	Thousands	200.0	217.6	
	8:30	Canada	New Housing Price index	Sept	M/M % chg.	-0.1	0.0	
	10:00	U.S.	<i>Treasury's Kashkari Speaks on TARP Program in New York</i>					
	18:50	Japan	Money Stock M3	Oct	Y/Y % chg.	1.0	0.9	
	18:50	Japan	Trade Balance - BoP Basis	Sept	¥, blns	236.3	-236.0	
	19:01	U.K.	RICS Home Price Balance	Oct	% change	-86.0	-84.0	
	19:30	AU	NAB Business Confidence	Oct	Index	--	-8	
Nov 11	4:30	U.K.	Total Trade Balance	Sept	£, mlns	-4700.0	-4737.0	
	5:00	EU	ZEW Survey - Economic Sentiment	Nov	Index	-60.5	-62.7	
Nov 12	0:00	Japan	Consumer Confidence	Oct	Index	--	31.8	
	4:30	U.K.	Jobless Claims Change	Oct	Thousands	40.0	31.8	
	5:00	EU	Euro-Zone Industrial Production	Sept	M/M % chg.	-1.6	1.1	
	5:30	U.K.	<i>Bank of England Quarterly Inflation Report</i>		12-Nov			
	7:00	U.S.	MBA Mortgage Applications	7-Nov	% change	--	-20.3	
	11:00	U.S.	<i>Fed's Kohn Speaks on Financial Services in Luxembourg</i>					
	13:00	U.S.	<i>Minneapolis Fed's Stern Speaks in Minneapolis</i>					
	18:45	NZ	Retail Sales	Sept	M/M % chg.	--	0.4	
	17:00	U.S.	ABC Consumer Confidence	9-Nov	Index	--	-48	
	18:50	Japan	Domestic Corporate Goods Price Index (CGPI)	Oct	Y/Y % chg.	5.5	6.8	
	23:30	Japan	Industrial Production	Sept F	Y/Y % chg.	--	0.4	
Nov 13	2:00	Germany	Gross Domestic Product (nsa)	3Q	Y/Y % chg.	1.6	3.1	
	2:45	France	Consumer Price Index	Oct	Y/Y % chg.	2.6	3.0	
	2:45	France	Consumer Price Index (EU Harmonized)	Oct	Y/Y % chg.	2.9	3.3	
	2:45	France	Current Account (EURO)	Sept	Eur, blns	--	-4.2	
	4:00	EU	<i>ECB Publishes Nov. Monthly Report (Text)</i>					
	8:30	Canada	International Merchandise Trade	Sept	\$C, blns	5.0	5.8	
	8:30	U.S.	Trade Balance	Sept	US\$, blns	-57.0	-59.1	
	8:30	U.S.	Initial Jobless Claims	8-Nov	Thousands	--	481	
	8:30	U.S.	Continuing Claims	1-Nov	Thousands	--	3843.0	
	12:00	U.S.	<i>Philadelphia Fed's Plosser to Speak on Economy in Pittsburgh</i>					
	14:00	US	Monthly Budget Statement	Oct	US\$, blns	-89.0	-56.8	
	14:00	US	<i>Minneapolis Fed's Stern Speaks in Winona, Minnesota</i>					
Nov 14	2:00	Germany	Consumer Price Index	Oct F	Y/Y % chg.	2.4	2.4	
	2:00	Germany	Consumer Price Index (EU Harmonized)	Oct F	Y/Y % chg.	2.5	2.5	
	2:45	France	Non-Farm Payrolls	3Q	Q/Q % chg.	-0.2	-0.2	
	2:45	France	Gross Domestic Product	3Q	Y/Y % chg.	0.4	1.1	
	5:00	EU	Euro-Zone CPI	Oct	Y/Y % chg.	3.2	3.6	
	8:30	Canada	Manufacturing Shipments	Sept	M/M % chg.	-2	-3.7	
	8:30	Canada	New Motor Vehicle Sales	Sept	M/M % chg.	1	-2.3	
	8:30	U.S.	Import Price Index	Oct	Y/Y % chg.	--	14.5	
	8:30	U.S.	Advance Retail Sales	Oct	% change	-1.5	-1.2	
	8:30	U.S.	Retail Sales Less Autos	Oct	% change	-1	-0.6	
	8:30	U.S.	<i>Bernanke, Trichet Speak at ECB Conference in Frankfurt</i>					
	10:00	U.S.	U. of Michigan Confidence Index	Nov	Index	56.5	57.6	
	10:00	U.S.	Business Inventories	Sept	% change	0.2	0.3	

* Eastern Standard Time; Sources: Bloomberg, TD Economics

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