

TD Economics

The Weekly Bottom Line

October 3, 2008

HIGHLIGHTS

- **TARP looks to finally get Congressional approval (and not a moment too soon)**
- **U.S. economic data confirms recession has begun...**
- **While Canadian GDP surprises...**

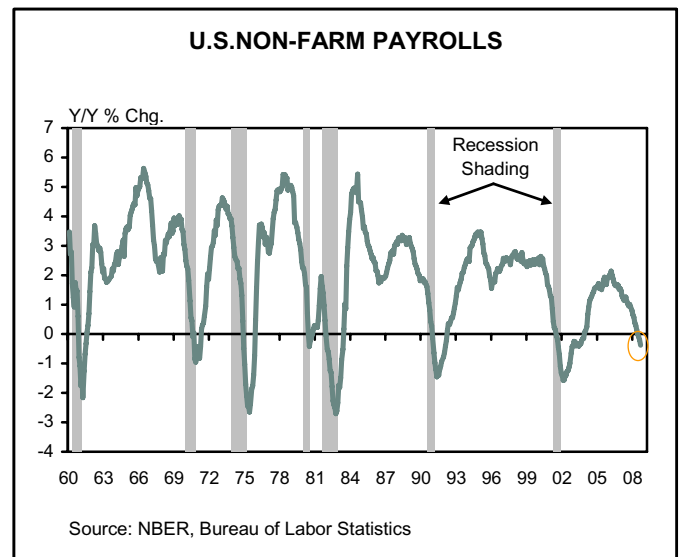
It's been said that September 2008 was a long year and it certainly felt like it. The month that changed Wall Street finally ended this week and what a ride it was. Monday started the ball rolling with a vote in the House on the \$700 billion Troubled Asset Relief Program (TARP). When the vote failed (somewhat surprisingly) by a margin of 228 to 205, global stock markets plummeted. Markets rebounded on Tuesday on word that a reworked plan would soon make its way to the Senate but the bad economic news kept on coming, pushing confidence (and stock markets) right back down. In recognition that problems in the U.S. are not confined to this side of the Atlantic, four European financial institutions were bailed out by governments and credit spreads across the globe continued to widen.

Bailout blues

The workings in Washington on the Treasury's bailout plan are now into their third week. With both parties' leadership in agreement on the terms of a bailout package, this week it was a matter of getting Congress to sign on. The

Recent TD Economics Research

October 3, 2008 - U.S. ISM Non-Manufacturing Index
 October 3, 2008 - U.S. Employment Commentary
 October 2, 2008 - ECB Interest Rate Decision
 October 1, 2008 - U.S. ISM Manufacturing Index
 September 30, 2008 - Canadian Real GDP
 September 29, 2008 - U.S. Personal Income and Spending
 September 29, 2008 - Time For A Vision Of Ontario's Economy



first attempt in the House failed quite miserably and officials were sent scrambling to re-work the plan in time to get it passed by the Senate. That was accomplished on Wednesday and with sweeteners added to the bill, the House of Representatives voted in favour of it early Friday afternoon.

It couldn't have come a moment too soon. Since Monday, credit spreads have continued their astronomic rise. Short term funding rates to banks, as measured by the London Interbank Lending Rate, rose to 4.33% by Friday morning, pushing the spread over the effective Fed Funds rate more than 200 basis points since the start of September. With funding costs continuing to rise (despite the increased liquidity injections by central banks) the downside risks to real economic growth have increased along with them. Movement on a plan that will bring some semblance of confidence to financial markets is a clear requirement for the move away from the abyss.

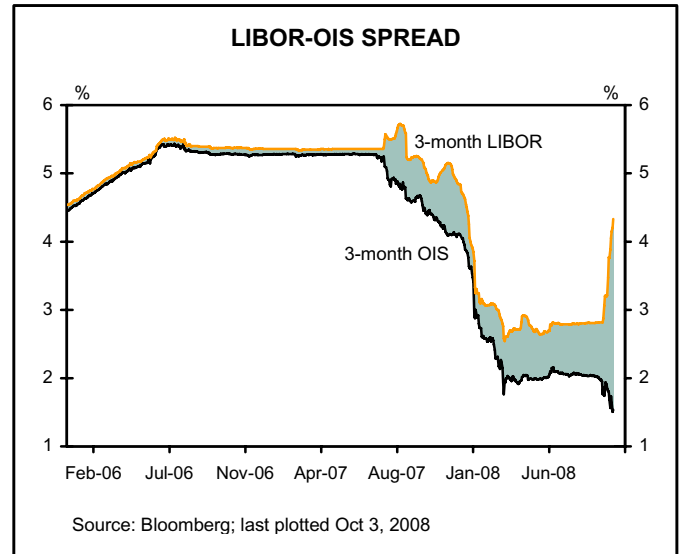
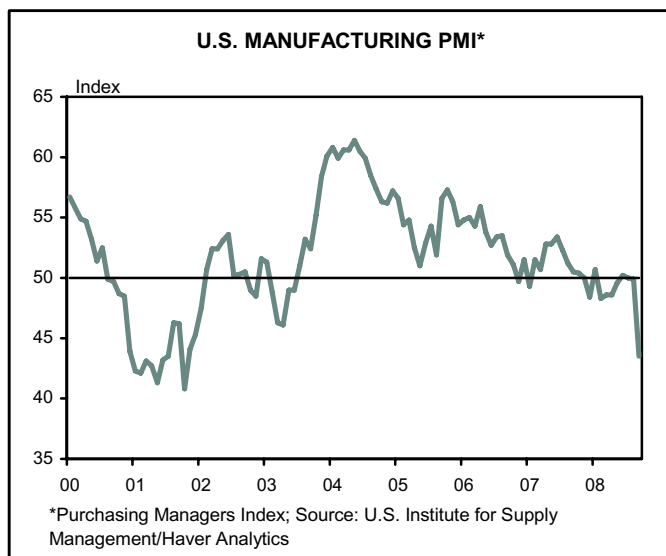
It's not just the United States that is in danger. The banking crisis has moved quickly into Europe with governments bailing French-Belgian lender Dexia and governments in the Netherlands, Belgium and Luxembourg stepping in to take control of Fortis. In Ireland and Greece,

governments moved to guarantee all bank deposits, a drastic action intended to re-instill confidence in the countries' retail banking systems. The action in Ireland actually served to increase pressure on other European countries, as savers seeking the security of the Irish guarantee moved deposits out of their own banks and into Ireland.

Bad news moves from Wall Street to Main Street

Just in case the wrangling in Washington was not enough to send world markets teetering; the string of very bad economic news throughout the week, provided the knock out punch. Early in the week, U.S. personal income and spending data confirmed that U.S. consumers have thrown in the towel. After declining in each of the last two months, real consumer spending was unchanged in August, pushing the change in the 3-month-moving-average to its lowest point since January of 1991. Personal consumption expenditure is likely to fall by over 2% in the third-quarter and at over 70% of the real U.S. economy; the fall in spending could well be enough to drag overall economic growth into negative territory as well.

Unfortunately, that wasn't the end of the bad news on Main Street America. The S&P/Case-Shiller home price index showed yet another drop in home prices and is now down 16.4% from last year. The fall in home prices has extended to all 20 cities in the index, with the worst performing cities down close to 30% from a year-ago. Outside of the housing sector, the ISM manufacturing index plummeted clear into recessionary territory in September, reaching its lowest level since mid-2001. The drop in the employment sub-index was a harbinger that more bad news is yet to come. Indeed, on Friday, the release of the September payrolls report showed a drop of 159,000 jobs. The



U.S. economy has now shed over 730,000 so far this year and at 6.1%, the unemployment rate, sits full 1.1 percentage points above where it started the year. We have not yet seen the full extent of the economic crisis implications and expect the unemployment rate to continue to rise over the course of 2009, before reaching a peak at 7.1%.

Canadian GDP growth a pleasant surprise but unlikely to stick...

North of the border the economic news was better but unfortunately it was also backward looking. While Canadian GDP growth jumped a solid 0.7% in July, led by increases in the energy, manufacturing and wholesale trade sectors, the world is a much different place than it was just two months ago. Since the strong GDP gain came in the first month of the final-half of 2008, it adds some upside risk to our forecast for third-quarter economic growth but with two months yet to come, it's too early to say by how much.

Nonetheless, the state of both the U.S. and world economies has worsened significantly since July and the credit crunch has exploded into a full blown crisis. The impact of these developments on Canada is unambiguous – higher funding costs for financial institutions will hamper the supply of credit to the domestic economy, while slower demand for commodities and manufacturing products will weigh strongly against the export sector. In the mean time enjoy the good news, while it lasts.

James Marple, Economist
416-982-2557

UPCOMING KEY ECONOMIC RELEASES

Canadian Housing Starts - September

Release Date: October 8/08

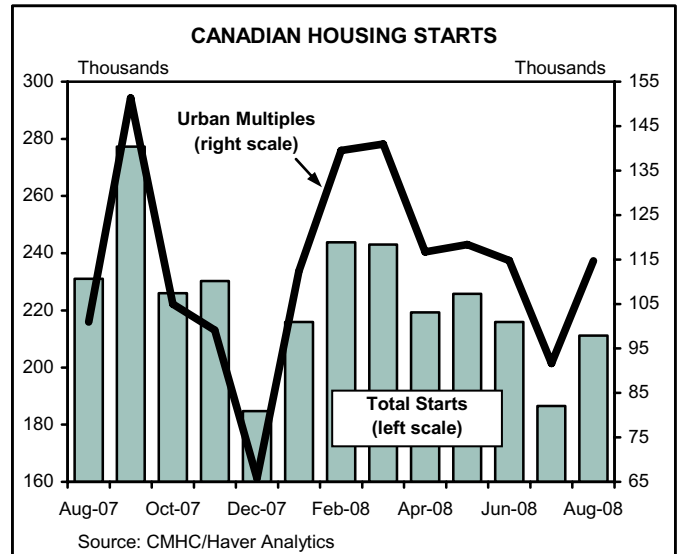
August Result: 211K

TD Forecast: 200K

Consensus: 210K

The Canadian housing market has now entered a period of moderate correction, following on the heels of the blistering pace of activity witnessed in the past few years. And with a sluggish labour market and rising mortgage rates, we expect the slowdown in residential construction activity to continue in September, with housing starts declining to 200K (from 211K in August). Much of the decline during the month will likely come from the volatile multi-units component. In the coming months, we expect residential construction activity to remain roughly within the 190K to 210K range.

Millan Mulraine 416-308-2911



Canadian Employment - September

Release Date: October 10/08

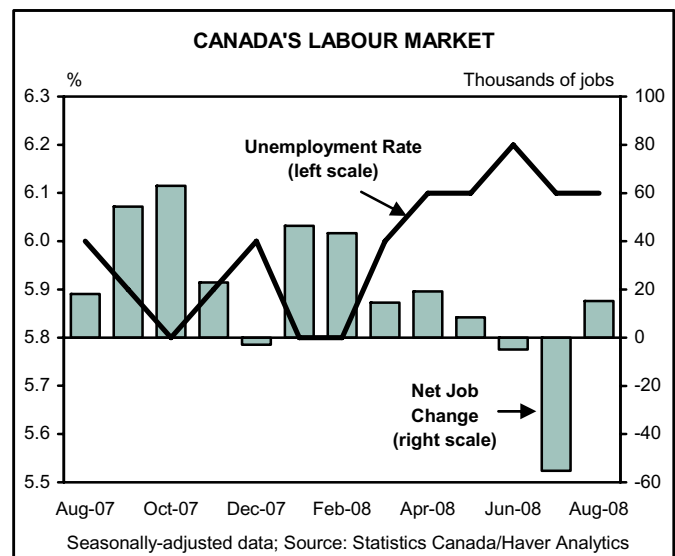
August Result: +15.2K; unemployment rate 6.1%

TD Forecast: +15K; unemployment rate 6.1%

Consensus: +12.5K; unemployment rate 6.1%

The Canadian labour market has been soft for some time, with only 87K jobs being created in the first 8 months of this year (compared to 221K jobs added during the corresponding period last year). This trend is likely to continue in September with the Canadian economy expected to add only 15K jobs, with the unemployment rate holding steady at 6.1%. Indeed, with the economic conditions appearing to have softened somewhat and the growing headwinds dampening consumer spending, job creation should remain tepid for some time. Nevertheless, with the 40th Canadian general election around the corner, temporary public sector employment is expected to provide an important offset from the weak labour market fundamentals. This boost, however, is expected to be temporary and should unwind in the coming months.

Millan Mulraine 416-308-2911



Canadian International Trade - August

Release Date: October 10/08

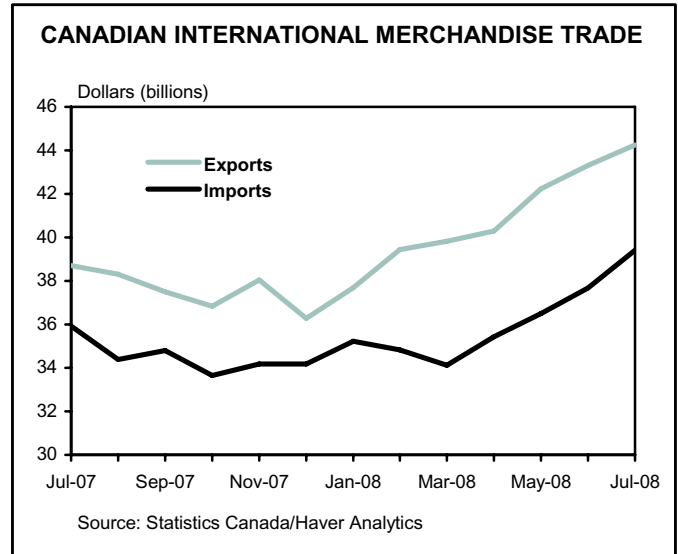
July Result: \$4.9B

TD Forecast: \$4.2B

Consensus: \$4.4B

After peaking earlier this year, the global commodity boom has come to an unceremonious end, and in its wake the commodity-driven Canadian export sector will likely take it on the chin. Consequently, we expect the Canadian international trade surplus to deteriorate for the third straight month in August, falling to \$4.2B. Given that the export of energy products accounts for over 25% of total Canadian exports, the 16.3% drop in energy prices in August is expected to be the main contributor to the expected 1.0% M/M drop in exports during the month – which will be the first monthly drop since December last year. The dramatic slowdown in the U.S. economy should also adversely affect exports. On the other hand, imports are expected to rise, but only by a small 0.5% M/M, thus ensuring that the drop in the trade surplus will be measured. Looking ahead, we expect to see further moderation in the trade surplus, though we do not foresee an outright trade deficit.

Millan Mulraine 416-308-2911



RECENT KEY ECONOMIC INDICATORS

September 29 - October 3, 2008

		Data for	Units	Current	Prior	
Canada						
Sep 30	Industrial Product Prices	Aug.	M/M % chg.	-0.2	0.6	R▲
Sep 30	Raw Materials Price Index	July	M/M % chg.	-7.7	1.6	R▲
Sep 30	Gross Domestic Product	Aug.	M/M % chg.	0.7	0.1	
United States						
Sep 29	Personal Income	Aug.	% change	0.5	-0.6	R▲
Sep 29	Personal Spending	Aug.	% change	0.0	0.1	R▼
Sep 29	PCE Deflator	Aug.	Y/Y % chg.	4.5	4.6	R▲
Sep 29	PCE Core	Aug.	Y/Y % chg.	2.6	2.5	R▲
Sep 29	<i>Fed's Hoenig Speaks in Gering, Nebraska, on Economy, Policy</i>					
Sep 30	S&P/CS Composite-20	July	Y/Y % chg.	-16.35	-15.91	R▲
Sep 30	Chicago Purchasing Managers Index	Sep.	Index	56.7	57.9	
Sep 30	Consumer Confidence	Sep.	Index	59.8	58.5	R▲
Sep 30	<i>Atlanta Fed Governor Lockhart to Speak on Economy in New Orleans</i>					
Oct 1	Domestic Vehicle Sales	Sep.	Millions	9.6	10.4	
Oct 1	Total Vehicle Sales	Sep.	Millions	12.5	13.7	
Oct 1	MBA Mortgage Applications	26-Sept.	% change	-23.0	-10.6	
Oct 1	ADP Employment Change	Sep.	Thousands	-8.0	-37.0	R▼
Oct 1	ISM Manufacturing Composite Index	Sep.	Index	43.5	49.9	
Oct 1	Construction Spending	Aug.	% change	0.0	-1.4	R▼
Oct 2	Initial Jobless Claims	27-Sept.	Thousands	497.0	496.0	R▲
Oct 2	Factory Orders	Aug.	% change	-4.0	0.7	R▼
Oct 2	<i>St. Louis Fed's Bullard To Speak at Bloomington Indiana</i>					
Oct 3	Unemployment rate	Sep.	%	6.1	6.1	
Oct 3	Change in Non-Farm Payrolls	Sep.	Thousands	-159.0	-73.0	R▼
Oct 3	ISM Non-Manufacturing Composite Index	Sep.	Index	50.2	50.6	

Source: Bloomberg, TD Economics

UPCOMING NORTH AMERICAN ECONOMIC CALENDAR
October 6 - October 10, 2008

Release Date	Economic Indicators	Data for Period	Units	Consensus Forecast	Prior
Canada					
Oct. 6	Building Permits	Aug	M/M % chg.	-1.0	1.8
Oct. 6	IVEY Purchasing Managers Index	Sep.	Index	51.0	51.5
Oct. 8	Housing Starts	Sep.	Thousands	209.0	211.0
Oct. 10	Unemployment Rate	Sep.	%	6.2	6.1
Oct. 10	Net Change in Employment	Sep.	Thousands	12.5	15.2
Oct. 10	International Merchandise Trade	Aug.	\$C, blns	4.7	4.9
Oct. 10	New Housing Price index	Aug.	M/M % chg.	0.0	0.1
United States					
Oct. 6	<i>Fed Governors Volcker, Ferguson Speak in New York on Financial Supervision</i>				
Oct. 6	<i>Fed Governor Evans Speaks on Economic Outlook in Texas</i>				
Oct. 6	<i>Fed Governor Fisher Speaks in Wichita Falls, Texas, on Fed, Economy</i>				
Oct. 7	<i>Fed Governor Stern Speaks in Chicago on Financial Shock</i>				
Oct. 7	<i>Bernanke Speaks to Economics Conference in Washington</i>				
Oct. 7	Minutes of Sept. 16 FOMC Meeting				
Oct. 7	Consumer Credit	Aug.	US\$, blns	5.8	4.6
Oct. 7	ABC Consumer Confidence	5-Oct.	Index	--	-41.0
Oct. 8	MBA Mortgage Applications	3-Oct	% change	--	-23.0
Oct. 8	<i>Philadelphia Fed Governor Plosser Speaks on Fed Policies in New York</i>				
Oct. 8	Pending Home Sales	Aug.	M/M % chg.	-1.1	-3.2
Oct. 9	Initial Jobless Claims	4-Oct	Thousands	475.0	497.0
Oct. 9	Continuing Claims	27-Sep	Thousands	--	3,591.0
Oct. 9	Wholesale Inventories	Aug.	% change	0.4	1.4
Oct. 9	<i>Fed Governor Stern Speaks in Minneapolis on Financial Shock</i>				
Oct. 9	<i>Boston Fed Governor Rosengren Speaks at University of Wisconsin</i>				
Oct. 10	Trade Balance	Aug.	US\$, blns	-59.0	-62.2
Oct. 10	Import Price Index	Sep.	Y/Y % chg.	-12.4	16.0

Source: Bloomberg, TD Economics

G-7 ECONOMIC RELEASES AND EVENTS

Date	Time*	Country	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
Oct 6	0:00	Japan	<i>BoJ Monetary Policy Meeting</i>				
	8:30	Canada	Building Permits	Aug	M/M % chg.	-1.0	1.8
	9:00	U.S.	<i>Volcker, Ferguson Speak in New York on Financial Supervision</i>				
	10:00	Canada	IVEY Purchasing Managers Index	Sept.	Index	51.0	51.5
	12:00	U.S.	<i>Fed Governor Evans Speaks on Economic Outlook in Texas</i>				
	13:30	U.S.	<i>Fed Governor Fisher Speaks in Wichita Falls, Texas, on Fed, Economy</i>				
	--	Japan	<i>Bank of Japan Rate Announcement</i>	7-Oct	%	0.50	0.50
	23:30	AU	RBA Cash target	8-Oct	%	6.5	7.0
Oct 7	1:00	Japan	Leading Index CI	Aug.	Index	89.2	91.4
	4:30	U.K.	Industrial Production	Aug	Y/Y % chg.	-2.0	-1.9
	6:00	Germany	Factory Orders	Aug.	M/M % chg.	0.5	-1.7
	11:00	U.S.	<i>Fed Governor Stern Speaks in Chicago on Financial Shock</i>				
	12:30	U.S.	<i>Bernanke Speaks to Economics Conference in Washington</i>				
	14:00	U.S.	<i>Minutes of Sept. 16 FOMC Meeting</i>				
	15:00	U.S.	Consumer Credit	Aug.	US\$, blns	5.8	4.6
	17:00	U.S.	ABC Consumer Confidence	5-Oct.	Index	--	-41.0
	19:01	U.K.	Nationwide Consumer Confidence	Sept.	Index	49.0	52.0
Oct 8	0:30	Japan	Bankruptcies	Sept.	Y/Y % chg.	--	4.2
	2:45	France	Trade Balance	Aug.	Eur, blns	-4.5	-4.8
	5:00	EU	Gross Domestic Product (advance)	Q2	Q/Q % chg.	-0.2	-0.2
	6:00	Germany	Industrial Production	Aug.	Y/Y % chg.	-2.8	-0.6
	7:00	U.S.	MBA Mortgage Applications	3-Oct	% change	--	-23
	7:45	U.S.	<i>Philadelphia Fed Governor Plosser Speaks on Fed Policies in New York</i>				
	8:15	Canada	Housing Starts	Sept.	Thousands	209.0	211.0
	10:00	U.S.	Pending Home Sales	Aug.	M/M % chg.	-1.1	-3.2
	20:30	AU	Unemployment Rate	Sept.	%	4.3	4.1
	20:30	AU	Employment Change	Sept.	Thousands	0.0	14.6
Oct 9	2:00	Germany	Wholesale Price Index	Sept.	Y/Y % chg.	5.8	7.4
	2:00	Germany	Trade Balance	Sept.	Eur, blns	12.0	13.9
	2:00	Germany	Current Account	Aug.	Eur, blns	9.0	11.8
	4:30	U.K.	Total Trade Balance	Aug.	£, mlns	-4500.0	-4585.0
	7:00	U.K.	BOE Rate Announcement	9-Oct	%	4.75	5.00
	8:30	U.S.	Initial Jobless Claims	4-Oct	Thousands	475	497
	8:30	U.S.	Continuing Claims	27-Sept	Thousands	--	3591.0
	10:00	U.S.	Wholesale Inventories	Aug.	% change	0.4	1.4
	13:30	U.S.	<i>Fed Governor Stern Speaks in Minneapolis on Financial Shock</i>				
	16:00	U.S.	<i>Boston Fed Governor Rosengren Speaks at University of Wisconsin</i>				
Oct 10	2:45	France	Industrial Production	Aug.	Y/Y % chg.	-2.6	-2.0
	2:45	France	Manufacturing Production	Aug.	Y/Y % chg.	-3.1	-2.3
	7:00	Canada	Unemployment Rate	Sept.	%	6.2	6.1
	7:00	Canada	Net Change in Employment	Sept.	Thousands	12.5	15.2
	8:30	Canada	International Merchandise Trade	Aug.	\$C, blns	4.7	4.9
	8:30	Canada	New Housing Price index	Aug.	M/M % chg.	0.0	0.1
	8:30	U.S.	Trade Balance	Aug.	US\$, blns	-59.0	-62.2
	8:30	U.S.	Import Price Index	Sept.	Y/Y % chg.	12.4	16.0

* Eastern Standard Time; Sources: Bloomberg, TD Economics

The information contained in this report has been prepared for the information of our customers by TD Bank Financial Group. The information has been drawn from sources believed to be reliable, but the accuracy or completeness of the information is not guaranteed, nor in providing it does TD Bank Financial Group assume any responsibility or liability.