



TD Economics

The Weekly Bottom Line

October 31, 2008

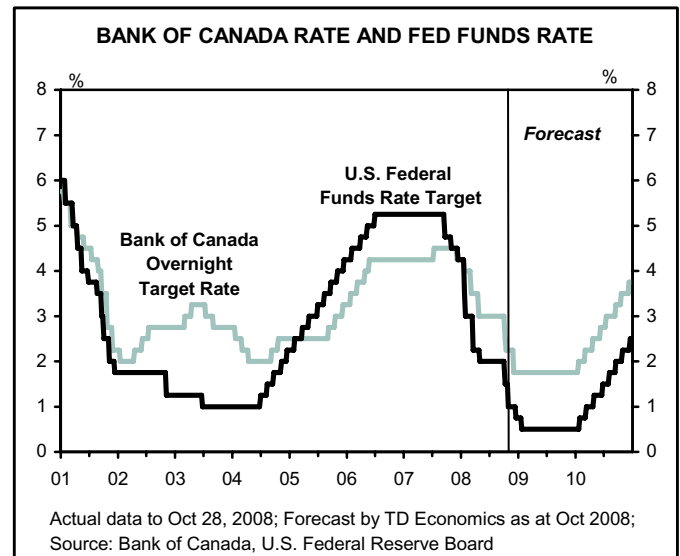
HIGHLIGHTS

- US economy contracts in Q3
- Fed cuts by 50 bps to 1.00%
- TD Economics revises economic growth forecasts

Another week, another roller coaster ride in the stock markets. But this time, there was much more green on the boards, with all North American markets (barring a sharp drop this afternoon) finishing the week well above last Friday's close. As of noon today, the Dow, NASDAQ and S&P 500 were up 9%, and the TSX was up 5%.

U.S. economy continues to show weakness

But even with these recent advances, market confidence is still quite fragile. And the string of weak U.S. economic data this week did nothing to improve it. Despite most signs pointing to a recession, the U.S. economy had managed to post real GDP growth in the first half of the year. However, the U.S. economy slipped into the red in the third quarter. Indeed, real GDP fell by an annualized 0.3% Q/Q, which was a little better than expected, but still represented a contraction. Consumption was the biggest drag on economic growth, falling by a massive 3.1% Q/Q. This is the first decline since 1991 and the largest quarterly slide since the second quarter of 1980. And with personal income and expenditure data released this morning showing a 0.3% M/M decline in consumer spending in September –



ber – the first monthly drop in this indicator since September of 2006 – the U.S. entered the fourth quarter with a very weak handoff.

Furthermore, the first glance at October data suggests that this retrenchment is a trend that will likely continue for some time. The consumer confidence index for October plummeted from 61 to 38 in October – the lowest level ever reported and the biggest monthly drop in the history of the survey. While deterioration in consumer sentiment was to be expected during the month given the dramatic declines in wealth, and further weakness in the financial and labour markets, the magnitude of the drop in confidence is quite alarming.

Investment activity also weighed heavily on economic growth in the U.S., led by a 19% Q/Q drop in residential investment – another trend that is expected to continue. There has been little evidence to suggest that the housing market has hit a bottom. New home prices, as measured by the S&P/Case-Shiller home price index, fell by nearly 17% Y/Y in August, extending the 16% Y/Y drop in July. However, this sharp decline in prices stimulated some buying in September, as new home sales rose 2.7%. While this

Recent TD Economics Research

October 31, 2008 - Revised Economic Forecasts
 October 31, 2008 - Canadian Real GDP
 October 31, 2008 - U.S. Personal Income & Spending
 October 30, 2008 - U.S. Real GDP
 October 29, 2008 - U.S. FOMC Interest Rate Decision
 October 29, 2008 - U.S. Durable Goods Orders
 October 27, 2008 - Presidents, The Economy and Financial Markets

appears to be a good sign, September's increase came off a plunge of about 13% in August, thus we caution against reading too much into this one data point. Non-residential investment, which has been holding up well thus far, is also beginning to feel the strain of the credit crunch, as the indicator fell 1% Q/Q in the third quarter.

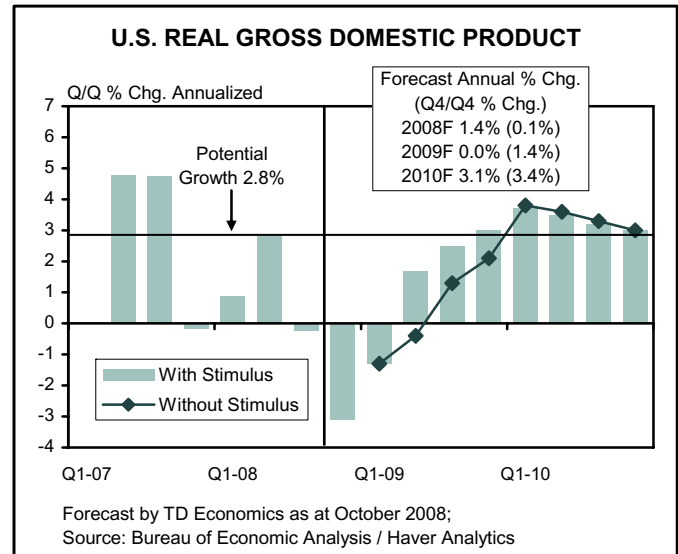
On the flip side, growth in net exports and government spending prevented the GDP figure from looking much worse. But given that the global economy is headed for a recession, exports are not likely to be a source of strength for economic growth going forward.

Fed cuts by 50 bps

Ongoing signs of deterioration in the U.S. economy augur for additional easing in monetary policy. And on Wednesday, that's just what the Fed delivered. After participating in a coordinated 50 basis point rate cut three weeks ago, the Fed cut interest rates by another 50 basis points this week, bringing the Fed Fund's rate down to match the recent historical low of 1.00%. And the communiqué that accompanied the decision left the door wide open for further rate cuts by stating that the committee "will monitor economic and financial developments carefully and will act as needed to promote sustainable economic growth and price stability". While not a done deal, this transparent statement, in addition to the gloomy economic outlook, has prompted us to revise our outlook for the Fed Fund's rate. We now call for a floor of 0.50%, via two 25 basis point rate cuts in December and January. However, we do highlight the risk that the Fed could do the full 50 basis point cut in one fell swoop in December.

Canadian economy contracts in August

Canadian GDP data were released this week for August, providing us with some indication of how the Canadian economy was fairing late in the summer. And on that front, it appears as though we were holding up better than our southern counterparts. While economic growth was fairly weak in August, contracting by 0.3% M/M, it comes off a +0.7% M/M gain in July. As such, making reasonable assumptions for September, Canadian real GDP growth is on track for a gain of about 1.0% in the third quarter – slightly above the Bank of Canada's forecast for 0.8%. But even if growth comes in slightly better-than-expected, the more timely U.S. data attest to the fact that the headwinds facing Canada will only pick up. Indeed, with real GDP expected to contract again in September, the economy will likely shrink by 2.5-3.0% in the fourth quar-



ter as it is only a matter of time before employment growth weakens considerably. Accordingly, the Bank of Canada will not likely be able to hold off easing the overnight rate further. We continue to expect a 50 basis point cut at the next meeting in December.

TD Economics revises growth forecasts

Each quarter, TD Economics produces a *Quarterly Economic Forecast*, of which our latest was published on September 25th. However, given the events that have taken place in the credit and financial markets, as well as the global economy since then, we find it necessary to downgrade our 2008 and 2009 forecasts for the U.S., Canada and the global economy accordingly. For the U.S., we have lowered real GDP forecasts to 1.4% in 2008 (previously 1.7%) and to 0.0% in 2009 (previously 1.1%). In Canada, we are now expecting the economy to formally slip into a recession at the end of this year, with overall growth of 0.5% in 2008 (previously 0.7%) and of 0.5% in 2009 (previously 1.2%). We are also forecasting a deeper global recession, with the world economy expected to expand by only 3.6% in 2008 (previously 3.7%) and 2.1% in 2009 (previously 2.9%).

In addition to downward revisions to our base case scenario, we have also created a pessimistic scenario, which we deem to have a 30-40% probability of occurring. The details underpinning these revisions can be found in the report entitled *Revised Economic Forecasts* available on our website.

Dina Cover, Economist
416-982-2555

UPCOMING KEY ECONOMIC RELEASES

U.S. ISM Manufacturing Report - October

Release Date: November 3/08

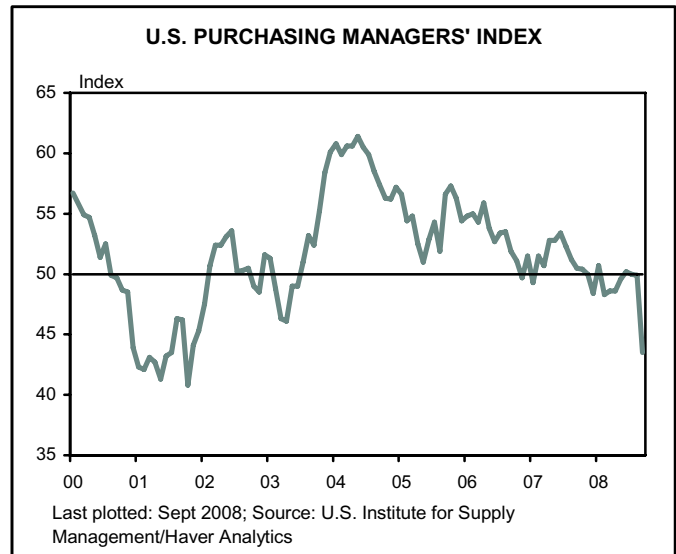
September Result: 43.5

TD Forecast: 41.0

Consensus: 42.0

Sluggish domestic demand and diminishing export opportunities have kept the U.S. manufacturing sector on its back foot from some time. And with the economy appearing to have entered a consumer-led recession and the dollar strengthening at a break-neck pace, there is little to suggest a turnaround in its fortune anytime soon. As such, we expect the U.S. ISM manufacturing index to fall to 41.0 in October, following the dramatic decline in September. Moreover, with almost all of the regional manufacturing indices worsening recently, there remain some downside risks to this call. Looking ahead, we expect the ISM manufacturing index to remain well below the 50-threshold for some time as the contraction in the U.S. manufacturing sector accelerates.

Millan Mulraine 416-308-2911



U.S. Nonfarm Payrolls - October

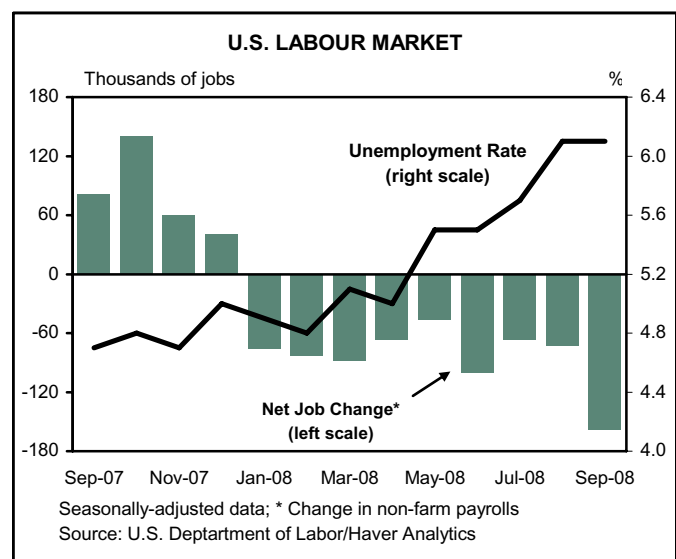
Release Date: November 7/08

September Result: -159K; unemployment rate 6.1%

TD Forecast: -225K; unemployment rate 6.3%

Consensus: -180K; unemployment rate 6.3%

The U.S. economy has undoubtedly entered into a consumer-led recession, and this will most likely mean an accelerated pace of deterioration in labour market conditions in the coming months, as businesses reduce their payrolls in the face of sluggish demand for their products. Jobless claims have continued to blow wider, underscoring the weak state of the labour market. For October, we expect U.S. nonfarm payrolls to decline by a rather significant 225K, coming on the heels of the 159K jobs lost in September. Much of the decline should come from services-related industries, with the job cuts in the ailing financial sector and beleaguered consumer-spending dependant industries such as retail trade leading the way. The unemployment rate is expected to rise to 6.3% from 6.1% in September. In the months ahead, we will likely to see further triple-digit job losses, as the economy continues to



struggle against the headwinds of weak domestic fundamentals and sluggish global demand. We also expect the unemployment rate to continue rising.

Millan Mulraine 416-308-2911

Canadian Employment - October

Release Date: November 7/08

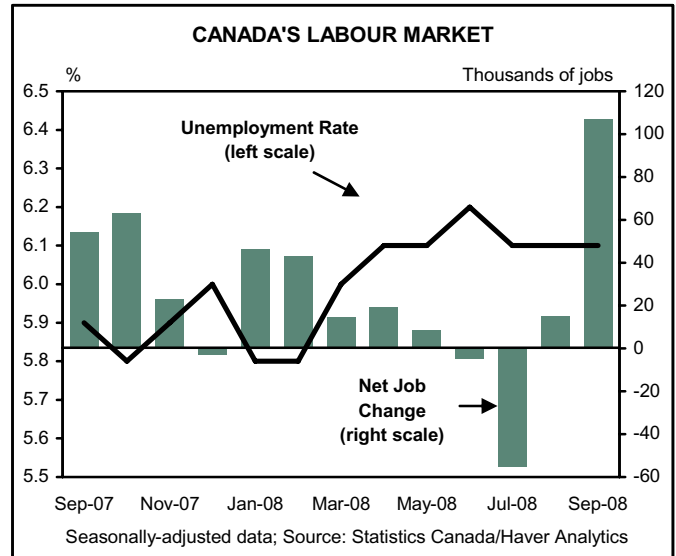
September Result: +106.9K; unemployment rate 6.1%

TD Forecast: -10K; unemployment rate 6.2%

Consensus: -10K; unemployment rate 6.2%

Putting aside the whopping 106K gain in Canadian employment in September (which we suspect may be a statistical outlier), most economic fundamental indicators are pointing to a Canadian labour market that remains quite soft. Indeed, with the U.S. economy appearing to have entered a recession, slumping commodity prices and a sluggish domestic economy, the weak backdrop for the Canadian labour market is apparent. As such, we expect the economy to shed jobs for the third time this year, with some 10K jobs being lost. Most of the job losses will likely come from the goods-producing sectors, with employment losses in the manufacturing sector leading the way. The unemployment rate should rise marginally to 6.2%. In the coming months, we expect the Canadian labour market to remain weak.

Millan Mulraine, 416-308-2911



RECENT KEY ECONOMIC INDICATORS
October 20 - October 24, 2008

		Data for	Units	Current	Prior	
Canada						
Oct 30	Industrial Product Price Index	Sept	M/M % chg.	-1.2	-0.1	R▲
Oct 30	Raw Materials Price Index	Sept	M/M % chg.	-7.2	-7.7	
Oct 31	Gross Domestic Product	Aug	M/M % chg.	-0.3	0.70	
United States						
Oct 27	New Home Sales	Sept	Thousands	464	452.0	R▼
Oct 28	<i>Former Fed's Volcker to Speak on Economy in Miami Beach</i>					
Oct 28	S&P/C-S Composite-20	Aug	Y/Y % chg.	-16.62	-16.32	R▲
Oct 28	S&P/CaseShiller Home Price Index	Aug	Index	164.57	166.29	R▲
Oct 28	Consumer Confidence	Oct	Index	38	61.4	R▲
Oct 28	Richmond Fed. Manufacturing Index	Oct	Index	-26	-18.0	
Oct 28	<i>Treasury's Ryan Speaks At SIFMA Annual Meeting</i>					
Oct 28	<i>U.S. Federal Reserve Open Market Committee Meeting</i>					
Oct 28	ABC Consumer Confidence	26-Oct	Index	-49.0	-50.0	
Oct 29	MBA Mortgage Applications	24-Oct	% change	16.8	-16.6	
Oct 29	Durable Goods Orders	Sept	% change	0.8	-5.5	R▼
Oct 29	<i>Fed's Open Market Committee Meets on Interest Rates, Economy</i>					
Oct 29	<i>Former Fed's Volcker to Speak at IADI Conference in Washington</i>					
Oct 29	<i>FOMC Rate Decision</i>	29-Oct	%	1.00	1.50	
Oct 30	Gross Domestic Product (GDP) (Annualized)	3Q A	Q/Q % change	-0.3	2.8	
Oct 30	Personal Consumption	3Q A	% change	-3.1	1.2	
Oct 30	Initial Jobless Claims	25-Oct	Thousands	479.0	479.0	R▲
Oct 30	Continuing Claims	18-Oct	Thousands	3,715.0	3,727.0	R▲
Oct 30	<i>Fed's Kroszner Speaks on Risk Management in New York</i>					
Oct 30	<i>Fed's Yellen Speaks in Berkeley, California</i>					
Oct 31	Personal Income	Sept	% change	0.2	0.4	R▼
Oct 31	PCE Deflator	Sept	Y/Y % chg.	4.2	4.5	
Oct 31	Personal Spending	Sept	% change	-0.3	0.0	
Oct 31	PCE Core	Sept	Y/Y % chg.	2.4	2.5	R▼
Oct 31	Employment Cost Index	3Q	%	0.7	0.7	
Oct 31	Chicago Purchasing Managers Index	Oct	Index	48.0	56.7	
Oct 31	U. of Michigan Confidence Index	Oct F	Index	57.5	57.5	
Oct 31	<i>Fed's Bernanke Speaks at UC Berkeley</i>					

Source: Bloomberg, TD Economics

UPCOMING NORTH AMERICAN ECONOMIC CALENDAR
November 3 - November 7, 2008

Release Date	Economic Indicators	Data for Period	Units	Consensus Forecast	Prior
Canada					
Nov 6	Building Permits	Sept	M/M % chg.	-1.5	-13.5
Nov 6	IVEY Purchasing Managers Index	Oct	Index	56.0	61
Nov 7	Unemployment Rate	Oct	%	6.2	6.1
Nov 7	Net Change in Employment	Oct	Thousands	-10.0	106.9
United States					
Nov 3	Domestic Vehicle Sales	Oct	Millions	9.1	9.6
Nov 3	<i>Fed's Lacker Speaks on Monetary Policy in Israel</i>				
Nov 3	Total Vehicle Sales	Oct	Millions	12.0	12.5
Nov 3	ISM Manufacturing Composite Index	Oct	Index	41.8	43.5
Nov 3	Construction Spending	Sept	M/M % chg.	-0.8	0.0
Nov 4	Factory Orders	Sept	% change	-1.0	-4.0
Nov 4	<i>Fed's Fisher Speaks in Grapevine, Texas on Economic Challenges</i>				
Nov 4	ABC Consumer Confidence	2-Nov	Index	--	-49
Nov 5	MBA Mortgage Applications	39752	% change	--	16.8
Nov 5	ADP Employment Change	Oct	Thousands	-100.0	-8.0
Nov 5	ISM Non-Manufacturing Composite Index	Oct	Index	47.5	50.2
Nov 6	Nonfarm Productivity	3Q P	% change	1.0	4.3
Nov 6	Unit Labor Costs	3Q P	% change	2.7	-0.5
Nov 6	Initial Jobless Claims	1-Nov	Thousands	476	479
Nov 6	Continuing Claims	25-Oct	Thousands	3,750	3,715
Nov 6	<i>Fed's Warsh Speaks to Investors, Economists in New York</i>				
Nov 7	Change in Nonfarm Payrolls	Oct	Thousands	-190.0	-159.0
Nov 7	Unemployment rate	Oct	%	6.3	6.1
Nov 7	Change in Manufacturing Payrolls	Oct	Thousands	-61.0	-51.0
Nov 7	Average Hourly Earnings	Oct	Y/Y % chg.	3.5	3.4
Nov 7	Wholesale Inventories	Sept	% change	0.2	0.8
Nov 7	Pending Home Sales	Sept	M/M % chg.	-3.7	7.4
Nov 7	<i>Fed's Lockhart Speaks on U.S. Economic Outlook in Palm Beach</i>				
Nov 7	Consumer Credit	Sept	US\$, blns	-0.2	-7.9

Source: Bloomberg, TD Economics

G-7 ECONOMIC RELEASES AND EVENTS

Date	Time*	Country	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
Nov 3	---	U.S.	Domestic Vehicle Sales	Oct	Millions	9.1	9.6
	3:45	U.S.	<i>Fed Governor Lacker Speaks on Monetary Policy in Israel</i>				
	4:00	EU	Purchasing Manager's Index (Manufacturing)	Oct	Index	41.3	41.3
	--	U.S.	Total Vehicle Sales	Oct	Millions	12.0	12.5
	10:00	U.S.	ISM Manufacturing Composite Index	Oct	Index	41.8	43.5
	10:00	U.S.	Construction Spending	Sept	M/M % chg.	-0.8	0.0
	22:30	AU	RBA Cash target	4-Nov	%	5.50	6.00
Nov 4	1:00	Japan	Vehicle Sales	Oct	Y/Y % chg.	--	-5.3
	4:30	UK	Purchasing Manager's Index (Construction)	Oct	Index	37.8	38.8
	5:00	EU	Euro-Zone PPI	Sept	Y/Y % chg.	8.0	8.5
	10:00	U.S.	Factory Orders	Sept	% change	-1.0	-4.0
	11:45	U.S.	<i>Fed Governor Fisher Speaks in Grapevine, Texas on Economic Challenges</i>				
	17:00	U.S.	ABC Consumer Confidence	2-Nov	Index	--	-49
	18:50	Japan	Monetary Base	Oct	Y/Y % chg.	--	0.9
	19:01	U.K.	Nationwide Consumer Confidence	Oct	Index	47.0	50
	19:30	AU	Trade Balance	Sept	Millions	500	1364.0
Nov 5	4:00	EU	Purchasing Managers Index (Services)	Oct	Index	46.9	46.9
	4:00	EU	Purchasing Managers Index (Composite)	Oct	Index	44.6	44.6
	4:30	U.K.	Industrial Production	Sept	Y/Y % chg.	-2.2	-2.3
	4:30	U.K.	Manufacturing Production	Sept	Y/Y % chg.	-1.6	-1.9
	5:00	EU	Euro-Zone Retail Sales	Sept	Y/Y % chg.	-2.2	-1.8
	7:00	U.S.	MBA Mortgage Applications	31-Oct	% change	--	16.8
	8:15	U.S.	ADP Employment Change	Oct	Thousands	-100.0	-8.0
	10:00	U.S.	ISM Non-Manufacturing Composite Index	Oct	Index	47.5	50.2
	16:45	N.Z.	Unemployment Rate	3Q	%	4.3	3.9
	19:50	Japan	<i>BoJ Monetary Policy Meeting Minutes for October</i>				
	19:01	U.K.	NIESR Gross Domestic Product Estimate	Oct	% change	--	-0.2
	19:30	AU	Unemployment Rate	Oct	%	4.4	4.3
Nov 6	0:00	Japan	Leading Index CI	Sept P	Index	89.2	89
	6:00	Germany	Factory Orders n.s.a.	Sept	Y/Y % chg.	-3.2	-7.6
	7:00	U.K.	BOE Rate Announcement	6-Nov	%	4.00	4.50
	7:45	EU	ECB Rate Announcement	6-Nov	%	3.25	3.75
	8:30	Canada	Building Permits	Sept	M/M % chg.	-1.5	-13.5
	8:30	U.S.	Nonfarm Productivity	3Q P	% change	1.0	4.3
	8:30	U.S.	Unit Labor Costs	3Q P	% change	2.7	-0.5
	8:30	U.S.	Initial Jobless Claims	1-Nov	Thousands	476	479
	8:30	U.S.	Continuing Claims	25-Oct	Thousands	3750	3715.0
	10:00	Canada	IVEY Purchasing Managers Index	Oct	Index	56.0	61
	19:00	U.S.	<i>Fed Governor Warsh Speaks to Investors, Economists in New York</i>				
Nov 7	2:00	Germany	Wholesale Price Index	Oct	Y/Y % chg.	4.3	5.8
	2:00	Germany	Trade Balance	Sept	Eur, blns	13.5	10.6
	2:00	Germany	Current Account	Sept	Eur, blns	10.3	7.3
	2:45	France	Trade Balance	Sept	Eur, blns	-5.0	-5.4
	6:00	Germany	Industrial Production	Sept	Y/Y % chg.	-0.5	1.7
	7:00	Canada	Unemployment Rate	Oct	%	6.2	6.1
	7:00	Canada	Net Change in Employment	Oct	Thousands	-10.0	106.9
	8:30	U.S.	Change in Nonfarm Payrolls	Oct	Thousands	-190.0	-159.0
	8:30	U.S.	Unemployment rate	Oct	%	6.3	6.1
	8:30	U.S.	Change in Manufacturing Payrolls	Oct	Thousands	-61.0	-51.0
	8:30	U.S.	Average Hourly Earnings	Oct	Y/Y % chg.	3.5	3.4
	10:00	U.S.	Wholesale Inventories	Sept	% change	0.2	0.8
	10:00	U.S.	Pending Home Sales	Sept	M/M % chg.	-3.7	7.4
	12:00	U.S.	<i>Fed's Lockhart Speaks on U.S. Economic Outlook in Palm Beach</i>				
	15:00	U.S.	Consumer Credit	Sept	US\$, blns	-0.2	-7.9

* Eastern Standard Time; Sources: Bloomberg, TD Economics

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