TD Bank Financial Group

TD Economics

The Weekly Bottom Line

September 5, 2008

HIGHLIGHTS

- **BoC, ECB, BoE, remain on hold**
- **Job market in Canada improves; worsens in U.S.**
- **Stock markets plunge**

As the battle between economic growth and inflation continues, most central banks around the world are caught on the fence. Indeed, central banks in Canada, Europe and the U.K. all left interest rates unchanged this week, as they wait to see which risks materialize. Australia's central bank, however, succumbed to the downward pressure on economic growth, and cut rates by 25 basis points this week. This was the first cut Australia has seen since 2001, but policy makers tempered market expectations when they signaled that it is not an indication that more cuts are in the pipeline.

Inflation concerns prevent rate cuts in the U.K. and Eurozone

Despite an economy flirting dangerously with a recession, the Bank of England held interest rates steady yesterday, as inflation – at 4.4% – is more than double the target rate, and upside risks remain. Still, with oil prices well off their July highs, we feel that the deteriorating economy will soon outweigh inflation concerns and lead to rate cuts in the U.K. – perhaps even by next month.

Similarly, the European Central Bank (ECB) stood pat yesterday in spite of a second quarter contraction in economic growth and the bank's subsequent lowering of GDP growth forecasts for 2008 and 2009. ECB President Trichet cited upside risks to inflation as the motivation behind the decision, as price stability is the bank's primary objective. While the upper bounds of the bank's inflation forecast for this year and next did not increase, we still feel that high inflation levels will prevent the ECB from beginning an easing cycle before March of 2009.

Recent TD Economics Research
September 5, 2008 - U.S. Employment
September 5, 2008 - Canadian Employment
September 4, 2008 - Global Markets
September 4, 2008 - ECB Interest Rate Decision
September 4, 2008 - U.S. ISM Non-Manufacturing Index
September 4, 2008 - ECB Dissection
September 3, 2008 - BoC Interest Rate Decision
September 2, 2008 - U.S. ISM Manufacturing Index

Bank of Canada holds rates steady at 3.00%

In Canada, the decision to hold rates steady at 3.00% was widely expected by analysts. Still, the futures market was pricing in a 30-40% chance of a rate cut after second quarter GDP growth came in at a meager 0.3% following a contraction in the first quarter. However, the BoC did not feel that flat economic growth was enough to warrant a rate cut. In fact, they argued that the current level is "appropriately accommodative", suggesting that they are in no hurry to cut rates.

The communiqué that accompanied the decision suggests that the BoC views the upside and downside risks as roughly balanced. While upside risks to inflation still exist, they seem to have been tamed by the recent pullback in commodity prices – which also implies that inflationary pressures will be less-than-expected. The BoC maintained the view that core and headline inflation will converge to the 2% target rate by the second half of next year. On the growth front, the Bank deemed economic growth in Canada to be lower than anticipated, but still "close to production capacity". However, concerns over the interplay between the U.S. economy and tight credit conditions hinted that the central bank will likely downgrade their U.S. growth forecast for 2009.

Overall, we view the Bank's comments to be relatively neutral, which will likely reduce market expectations for future rate cuts. And unless significant and unexpected weakness seeps into the labour and/or housing markets, or the stress on Canadian financial markets worsens, we feel that the next move by the BoC will be a rate hike – but not until the second half of 2009.

Canada adds 15,000 jobs in August

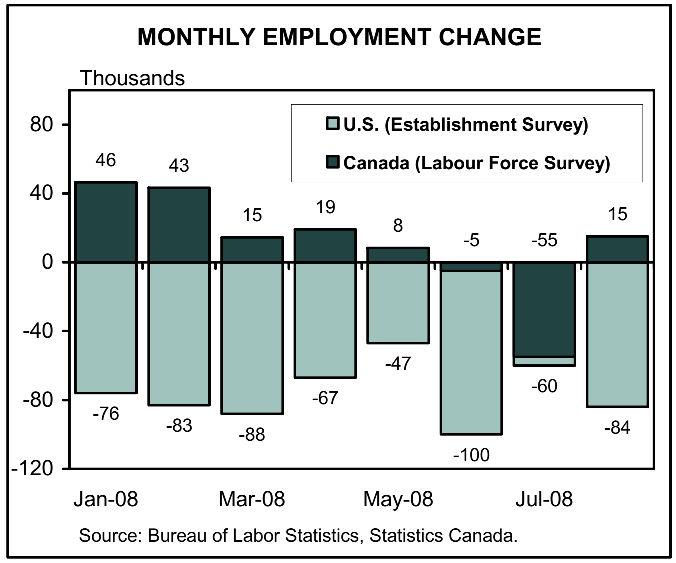
This morning's better-than-expected employment report offered some support for the BoC's decision to leave rates unchanged. After shedding 55,000 jobs in July, the Canadian labour market rebounded modestly in August, adding 15,000. The gains were fairly broad based, with educational services, construction, and accommodation and food services leading the way. Wage growth fell to 3.8% Y/Y, the slowest pace since July 2007. While still slightly above July's inflation rate of 3.4%, the deceleration will ease wage-push inflation fears.

While job growth in Canada has certainly slowed from the rapid pace seen in 2006-07, August's report provides some reassurance that the labour market is not as weak as July's data would suggest. Even with two months of declines, the average monthly growth rate for this year as a whole is 10,900 – which is consistent with an economy expected to grow by less than 1.0%.

U.S. labour market worsens

The same cannot be said for this morning's U.S. employment report. Not only did the U.S. lose 84,000 jobs in August, but July's loss was revised down to 60,000 from 51,000, and June's loss was revised down to 100,000 from 51,000. This brings the total number of job losses for this year to 605,000, and we wouldn't be surprised to see at least another 200,000 jobs shed before the year is out. And, if the combined 142,000 job cuts reported this morning weren't enough, the unemployment rate jumped to 6.1% in August – up from 5.7% in July and the highest level in 5 years. The 8-month string of job losses reaffirms that U.S. consumers have quite a bumpy road ahead, which does not bode well for economic growth in the coming quarters.

Other data out of the U.S. this week was not much better. Sentiment indicators for both the manufacturing and non-manufacturing sectors came in relatively flat in August, suggesting that the economy continues to struggle with sluggish demand. In addition, the Fed's Beige Book provided anecdotal evidence that economic conditions remain quite weak. Consumer spending was reported to be slower in most districts, particularly in the auto sector, while real estate activity in both residential and non-residential markets appears to have weakened further. Inflation pressures remain a sore spot for producers, and some have managed to push some of the cost increases onto consumers. From every angle, it seems as though the slowdown in the U.S. economy has yet to bottom out and the Federal Reserve will have to remain vigilant, watching out for the upside risks to inflation.



Stock markets take a dive

This week's dismal U.S. economic data had a disheartening effect on stock markets. Despite a shortened week, all U.S. exchanges were in the red. But it wasn't just the U.S. – stock markets around the world have all plunged this week, led by a 13% decline the Oslo Stock Exchange in Norway. Ranking among the top 10 worst performers in the world, the TSX was hit especially hard, thanks to an oil-led commodity selloff. Crude oil prices plunged as low as US$105 per barrel in intraday trading this week – US$10 below last Friday's close. The oil price correction was largely due to the fact that Hurricane Gustav failed to cause as much damage in the Gulf of Mexico as was feared. But the losses weren't limited to just oil. A U.S. dollar rally against the euro, combined with the sharp pullback in oil prices, reduced demand for commodities as an alternative investment. As such, prices of other commodities, particularly precious metals and raw materials also took a dive. And given that the TSX is stacked with commodity producers, it comes as no shock that the index has dropped nearly 9% between last Friday's close and midday today. Going forward, we expect most commodity prices, while highly volatile, to continue to retreat in the near term, which could lead to further bouts of downward pressure on stock markets.

Dina Cover, Economist 416-982-2555

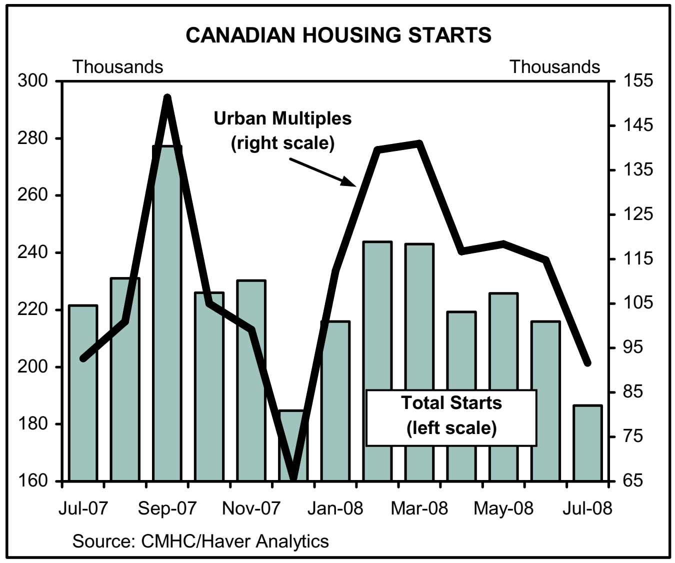
UPCOMING KEY ECONOMIC RELEASES

Canadian Housing Starts - August

Release Date: September 9/08
July Result: 187K
TD Forecast: 200K
Consensus: 190K

There is little doubt now that the Canadian housing market is losing its magic, and all signs are pointing to a moderation in activity as the sector adjusts to the new reality of a softer labour market, sluggish economic activity, and the shift away from a seller's market. Nevertheless, we believe that the outsized correction in housing starts in July was an anomaly, and would expect to see a modest rebound in residential construction. For August, we are looking for housing starts to rise to 200K (from 187K in July), with most of the increases coming from the volatile multiple-units component. Nevertheless, we believe that the level of activity is unlikely to return to the blistering 225K+ pace witnessed during the glory days of not too long ago.

Millan Mulraine 416-308-2911

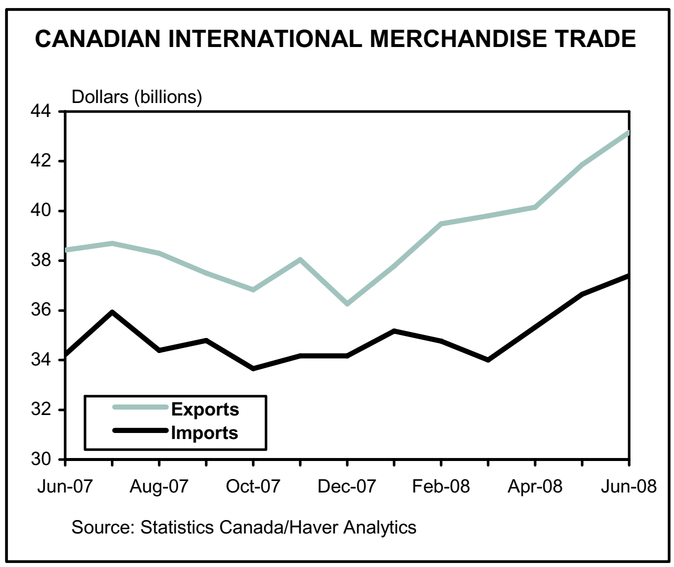


Canadian International Trade - July

Release Date: September 11/08
June Result: $5.8B
TD Forecast: $5.7B
Consensus: $5.7B

After riding on the unrelenting boom in commodity prices in the first half of this year, the first signs of a reversal in fortune for the Canadian merchandise trade balance are expected to emerge in July, with the surplus falling to $5.7B. Indeed, with exports of energy products accounting for over 30% of total merchandise exports, the 4.1% M/M decline in energy prices will certainly not go unnoticed. Nonetheless, during the month, we expect exports to grow by 1.5% M/M, while imports should rise by more meaningful 2.0% M/M. Indeed, although commodity prices have began to fall, Canadian dollar softness should cushion the blow, and there is reason to think that trade in autos – for both imports and exports – could grow. If commodity prices continue to decline, we would expect to see further moderation in the merchandise trade surplus, though some of this will likely be offset by the weaker Canadian dollar.

Millan Mulraine 416-308-2911



U.S. Retail Sales - August

Release Date: September 12/08
July Result: total -0.1% M/M; ex-autos +0.4% M/M
TD Forecast: total 0.0% M/M; ex-autos -0.3% M/M
Consensus: total +0.2% M/M; ex-autos -0.2% M/M

With the impact of the fiscal stimulus package now behind us, the unwinding of consumer spending to more sustainable levels is now underway. Retail sales are expected to be sluggish in the coming months as U.S. consumers contend with the considerable headwinds coming from deteriorating labour market conditions, tighter lending conditions, elevated gas prices, and declining home prices. Moreover, with other ancillary indicators (such as same store sales and Redbook sales) pointing to slower consumer spending in August, we expect retail sales to be roughly flat, despite the massive boost coming from the 9.3% M/M surge in motor vehicle sales. Excluding autos, we should see sales falling by a modest 0.3% M/M.

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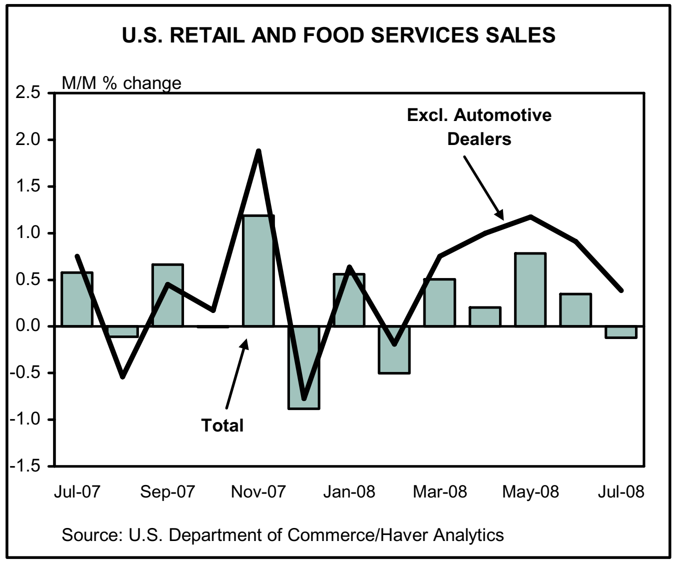

RECENT KEY ECONOMIC INDICATORS
September 1 - September 5, 2008

Date	Economic Indicators	Data for	Units	Current	Prior	
Canada						
Sep 3	Bank of Canada Rate	3-Sep	%	3.00	3.00	
Sep 5	Unemployment Rate	Aug	%	6.1	6.1	
Sep 5	Net Change in Employment	Aug	Thousands	15.2	-55.2	
Sep 5	IVEY Purchasing Managers Index	Aug	Index	51.5	65.5	
United States						
Sep 1	*Fed Governor Kroszner Speaks in Buenos Aires on the Financial System*					
Sep 1	*Fed Governor Hoeing Speaks in Argentina on Financial Turmoil*					
Sep 2	ISM Manufacturing	Aug.	Index	49.9	50.0	
Sep 2	Construction Spending	Jul.	M/M % chg.	-0.6	0.3	R▲
Sep 2	ABC Consumer Confidence	31-Aug	Index	-47.0	-50.0	
Sep 3	Total Vehicle Sales	Aug.	Millions	13.7	12.5	
Sep 3	MBA Mortgage Applications	29-Aug	% change	7.5	0.5	
Sep 3	Factory Orders	Jul.	% change	1.3	2.1	R▲
Sep 3	*Boston Fed Governor Rosengren Speaks in Manchester, New Hampshire*					
Sep 3	*Fed Releases Beige Book Economic Report*					
Sep 4	ADP Employment Change	Aug.	Thousands	-33.0	1.0	R▼
Sep 4	Non-Farm Productivity	Q2	% change	4.3	2.2	
Sep 4	Unit Labour Costs	Q2	% change	-0.5	1.3	
Sep 4	Initial Jobless Claims	30-Aug	Thousands	444.0	429.0	
Sep 4	Continuing Claims	23-Aug	Thousands	3434.0	3429.0	R▲
Sep 4	ISM Non-Manufacturing Composite Index	Aug.	Index	50.6	49.5	
Sep 4	*Fed Governor Fisher Speaks in Houston on U.S. Economic Challenges*					
Sep 4	*Fed Governor Yellen Speaks in Salt Lake City on U.S. Economy*					
Sep 5	Change in Nonfarm Payrolls	Aug	Thousands	-84.0	-60.0	R▼
Sep 5	Unemployment rate	Aug	%	6.1	5.7	
Sep 5	Change in Manufacturing Payrolls	Aug	Thousands	-61.0	-38.0	R▼
Sep 5	Average Hourly Earnings	Aug	Y/Y % chg.	3.6	3.4	
Sep 5	Mortgage Delinquencies	Q2	% change	6.4	6.4	
Sep 5	*Fed Governor Yellen Speaks in Los Angeles on U.S. Economy*					

Source: Bloomberg, TD Economics

UPCOMING NORTH AMERICAN ECONOMIC CALENDAR
September 8 - September 12, 2008

Release Date	Economic Indicators	Data for Period	Units	Consensus Forecast	Prior
Canada					
Sep 8	Building Permits	Jul.	M/M % chg.	-0.5	-5.3
Sep 9	Housing Starts	Aug.	Thousands	190.0	186.5
Sep 10	Labour Productivity	Q2	Q/Q % chg.	0.3	-0.3
Sep 11	International Merchandise Trade	Jul.	$C, blns	5.7	5.8
Sep 11	New Housing Price index	Jul.	M/M % chg.	--	0.1
Sep 12	Capacity Utiilization Rate	Q2	%	79.5	79.8
United States					
Sep 8	*Fed Governor Fisher Speaks in Austin at Community Forum*				
Sep 8	Consumer Credit	Jul.	US$, blns	8.6	14.3
Sep 9	Pending Home Sales	Jul.	M/M % chg.	-1.0	5.3
Sep 9	Wholesale Inventories	Jul.	% change	0.8	1.1
Sep 9	ABC Consumer Confidence	7-Sep	Index	--	-47.0
Sep 10	MBA Mortgage Applications	Sep 5	% change	--	7.5
Sep 11	Trade Balance	Jul.	US$, blns	-58.0	-56.8
Sep 11	Import Price Index	Aug.	Y/Y % chg.	--	21.6
Sep 11	Initial Jobless Claims	6-Sep	Thousands	--	444.0
Sep 11	Continuing Claims	30-Aug	Thousands	--	3435.0
Sep 11	*Fed Governor Kohn Comments on Financial Regulation at Brookings*				
Sep 12	Producer Price Index	Aug.	Y/Y % chg.	10.2	9.8
Sep 12	Producer Price Index (Ex. Food & Energy)	Aug.	Y/Y % chg.	3.7	3.5
Sep 12	Advance Retail Sales	Aug.	% change	0.2	-0.1
Sep 12	Retail Sales Less Autos	Aug.	% change	-0.2	0.4
Sep 12	U. of Michigan Confidence Index	Sep.	Index	63.5	63.0
Sep 12	Business Inventories	Jul.	% change	0.5	0.7

Source: Bloomberg, TD Economics

G-7 ECONOMIC RELEASES AND EVENTS

Date	Time*	Country	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
Sep 8	--	Japan	Money Stock M3	Aug.	% change	0.8	0.8
	4:30	U.K.	Producer Price Index Input (NSA)	Aug.	Y/Y % chg.	29.2	30.1
	4:30	U.K.	Producer Price Index Output (NSA)	Aug.	Y/Y % chg.	9.8	10.2
	8:30	Canada	Building Permits	Jul.	M/M % chg.	-0.5	-5.3
	13:00	*U.S.*	*Fed Governor Fisher Speaks in Austin at Community Forum*				
	15:00	U.S.	Consumer Credit	Jul.	US$, blns	8.6	14.3
	19:01	U.K.	RICS Home Price Balance	Aug.	% change	-83.0	-83.9
	21:30	AU	NAB Business Confidence	Aug.	Index	--	-9.0
	21:30	AU	Retail Sales	Jul.	M/M % chg.	--	-1.0
Sep 9	2:00	Germany	Trade Balance	Jul.	Eur, blns	17.8	19.7
	2:00	Germany	Current Account	Jul.	Eur, blns	15.3	18.5
	4:30	U.K.	Industrial Production	Jul.	Y/Y % chg.	-1.5	-1.6
	4:30	U.K.	Manufacturing Production	Jul.	Y/Y % chg.	-1.2	-1.3
	8:15	Canada	Housing Starts	Aug.	Thousands	190.0	186.5
	10:00	U.S.	Pending Home Sales	Jul.	M/M % chg.	-1.0	5.3
	10:00	U.S.	Wholesale Inventories	Jul.	% change	0.8	1.1
	17:00	U.S.	ABC Consumer Confidence	7-Sep	Index	--	-47.0
	--	NZ	REINZ House Sales	Aug.	Y/Y % chg.	--	-32.6
	19:50	Japan	Current Account Total	Jul.	¥, blns	1,367.4	493.9
	19:50	Japan	Trade Balance - BoP Basis	Jul.	¥, blns	227.1	252.1
Sep 10	2:45	France	Industrial Production	Jul.	Y/Y % chg.	-2.7	-1.6
	2:45	France	Manufacturing Production	Jul.	Y/Y % chg.	-3.0	-2.1
	2:45	France	Trade Balance	Jul.	Eur, blns	-5.0	5.6
	4:30	U.K.	Total Trade Balance	Jul.	GBP, mlns	-4200.0	-4414.0
	7:00	U.S.	MBA Mortgage Applications	Sep 5	% change	--	7.5
	8:30	Canada	Labour Productivity	Q2	Q/Q % chg.	0.3	-0.3
	21:30	AU	Unemployment Rate	Aug.	%	4.4	4.3
	21:30	AU	Employment Change	Aug.	Thousands	5.9	10.9
Sep 11	2:45	France	Nonfarm Payrolls	Q2	Q/Q % chg.	-0.1	-0.1
	8:30	Canada	International Merchandise Trade	Jul.	$C, blns	5.7	5.8
	8:30	Canada	New Housing Price index	Jul.	M/M % chg.	--	0.1
	8:30	U.S.	Trade Balance	Jul.	US$, blns	-58.0	-56.8
	8:30	U.S.	Import Price Index	Aug.	Y/Y % chg.	20.2	21.6
	8:30	U.S.	Initial Jobless Claims	6-Sep	Thousands	438.0	444.0
	8:30	U.S.	Continuing Claims	30-Aug	Thousands	--	3,435.0
	14:45	*U.S.*	*Fed Governor Kohn Comments on Financial Regulation at Brookings*				
	18:45	NZ	Retail Sales	Jul.	M/M % chg.	--	0.9
	19:50	Japan	Gross Domestic Product (Annualized)	Q2	Q/Q % chg.	-3.5	-2.4
Sep 12	0:30	Japan	Industrial Production	Jul.	Y/Y % chg.	--	2.0
	2:45	France	Consumer Price Index	Aug.	Y/Y % chg.	3.3	3.6
	2:45	France	Consumer Price Index (EU Harmonized)	Aug.	Y/Y % chg.	3.7	4.0
	5:00	EU-12	Eurozone Employment	Q2	Y/Y % chg.	--	1.6
	5:00	EU-12	Industrial Production (wda)	Jul.	Y/Y % chg.	-0.4	-0.8
	8:30	Canada	Capacity Utilization Rate	Q2	%	79.5	79.8
	8:30	U.S.	Producer Price Index	Aug.	Y/Y % chg.	10.2	9.8
	8:30	U.S.	Producer Price Index (Ex. Food & Energy)	Aug.	Y/Y % chg.	3.7	3.5
	8:30	U.S.	Advance Retail Sales	Aug.	% change	0.2	-0.1
	8:30	U.S.	Retail Sales Less Autos	Aug.	% change	-0.2	0.4
	10:00	U.S.	U. of Michigan Confidence Index	Sep.	Index	63.5	63.00
	10:00	U.S.	Business Inventories	Jul.	% change	0.5	0.7

* Eastern Standard Time; Sources: Bloomberg, TD Economics