



TD Economics

The Weekly Bottom Line

January 2, 2009

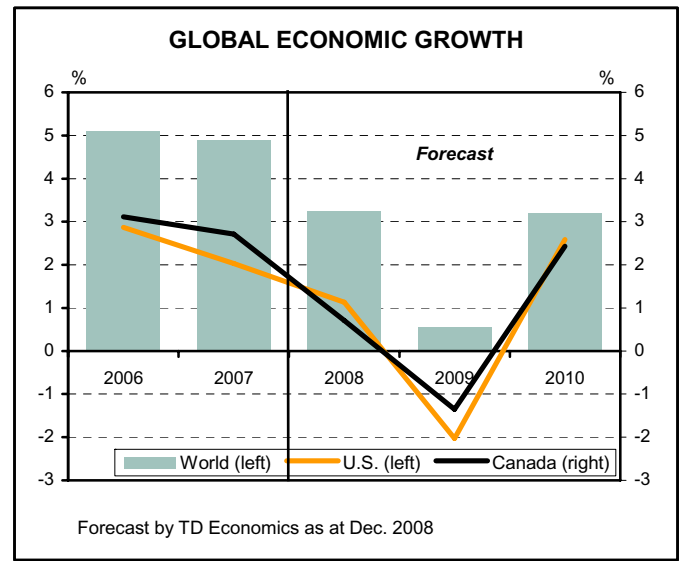
The year in review

When 2008 began, we expected the road ahead to be bumpy. But the events that actually transpired were much more extreme than anyone could have imagined. Indeed, the ups and downs in 2008 are some of the largest on record – from swings in economic indicators, to commodity prices and financial markets.

The U.S. confirms the dreaded R-word

The key driver behind these wild gyrations was the deterioration of the U.S. economy. In fact, as announced in early December, the U.S. was officially in a recession for all of 2008. Extremely tight credit conditions weighed heavily on the economy, as both businesses and consumers had difficulties obtaining loans. While several sectors of the economy weakened throughout the year, the best indicators of the economic woes in the country are perhaps the labour and housing markets. On the employment front, more than 1.9 million jobs have been lost since the start of the year, driving the unemployment rate up to 6.7% in November – the highest level since 1993. Meanwhile, housing starts fell to a record low of 625,000 units in November, as inventories of new homes remain elevated at 11.5 months. Existing home supply also remains quite lofty at 10.6 months, adding downward pressure to prices. Hence with their wealth continuously eroding, and wage growth slowing, consumers pulled their purse strings tighter and tighter as the year went on. Consequently, consumer spending contracted by nearly 4% in the third quarter, the greatest decline in almost three decades.

In an attempt to prevent the U.S. economy from sinking into a deep, prolonged recession, the monetary and fiscal bodies in the U.S. were hard at work. Earlier this year, the Federal Reserve was caught in a tug-of-war between slowing growth and soaring inflation. However, inflation pressures have since abated in the U.S. and the Fed has cut interest rates from 4.25% at the end of 2007, to an unprecedented target range of 0-0.25% in December 2008.



This is in addition to the several Wall Street bailouts that they granted, including Bear Sterns, AIG, and Fannie and Freddie. Drawing the short stick, Lehman Brothers was allowed to fail in September, which was a key turning point that hastened a steep decline in global financial markets.

On the fiscal side, the Bush Administration implemented a stimulus package during the second quarter of the year – but this proved to be temporary, providing a short-lived boost to economic growth in the second quarter. With more stimulus needed, a \$700 billion Troubled Asset Relief Program (TARP) was approved in October in order to provide liquidity in the market and to fuel the economy. Half of this package has already been allocated.

Canada better, but still heading down

Canada was quite resilient in 2008 – at least until the very end. Up until October, employment and housing starts were growing at astonishing rates – unsustainably so. Even with a loss of 70,000 jobs in November, total employment is up by almost 133,000 in Canada for the year, with the unemployment rate sitting at 6.3% – still very low compared to the past couple of decades. Meanwhile, housing

starts were averaging 220,000 units during the first 10 months of the year, before falling to 172,000 units in November. But while domestic demand held relatively firm, the dramatic slowdown south of the border was a huge drag on exports. In fact, export contribution to real GDP growth was negative in the first three quarters of the year, though this shouldn't come as a surprise given that spending in the U.S. – the largest export market – has been pared back. The Canadian dollar, which hovered around parity for the first half of the year before falling to 80 US cents, also weighed on exports.

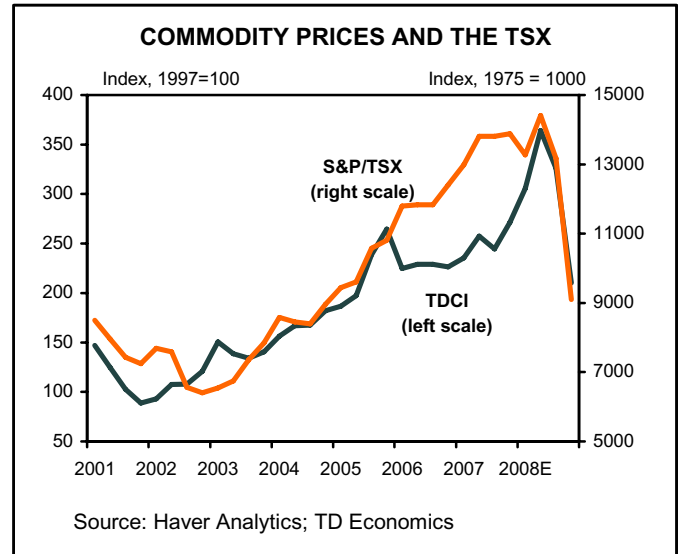
While the Canadian government has yet to announce new fiscal stimulus measures, the Bank of Canada has engaged in a monetary easing cycle. Indeed, the BoC too has ventured into untried waters, slashing the overnight rate by 3 percentage points to 1.50%. But with economic conditions expected to worsen in the near-term, Canada will likely require some sort of help from the fiscal side in the New Year.

The rest of the world shares U.S. troubles

It was only a matter of time before the rest of the world mirrored the troubles of the U.S. And in 2008, several other developed economies, notably in Europe and Japan, either fell into, or are on the brink of a recession, while emerging market growth slowed considerably. Even growth in China and India – the bellwether economies – dropped off dramatically over the past few months, which is likely to lead to a global recession in 2009. Central banks around the globe have responded by cutting interest rates and injecting liquidity, while several fiscal stimulus packages have been put into action in an attempt to shore up the local economies.

Commodities on a wild ride

Perhaps the wildest ride in 2008 was in commodity markets, which went from bull market to bear market within months. The TD Commodity Price Index (TDCI) in U.S. dollars shot up 47% during the first half of the year, driven largely by a rally in energy prices. Crude oil prices reached a record US\$147 per barrel in July, while natural gas prices peaked at US\$13 per MMBtu – levels not seen since Hurricane Katrina days. But commodity markets were unable to sustain their rally in the flagging economic environment, as concerns over a global recession, and hence demand destruction (for energy and base metals in particular), burst the bubble. Crude oil prices have plummeted to US\$30 – levels not



seen since 2003 – while natural gas and base metals are down 55-70% from highs seen earlier in the year. As a result, the TDCI fell 57% from its peak in July.

Financial markets not immune

Financial markets too were embroiled in the economic turmoil. In fact, 2008 was one of the worst years in history for several stock exchanges. In the North American markets, the S&P 500, Dow Jones, NASDAQ and TSX all plunged by about 40% between the end of 2007 and Dec 31st 2008, while stock exchanges in Europe and Japan recorded similar losses. And the bulk of these losses occurred during the last four months of the year as the economic outlook deteriorated.

Near-term outlook still bleak

While 2008 proved to be one of the worst years for several sectors, the risks going forward still lie to the downside. Weak economic data for the fourth quarter will continue to pour in over the next couple of months, further eroding market and consumer confidence. However, we do expect the U.S. and the global economy to bottom in the second quarter of 2009, before embarking on a shallow recovery towards the end of next year and into 2010. Hence financial and commodity markets are also poised for a rebound during our forecast period. For details regarding our outlook, see *TD Quarterly Economic Forecast*, available on our website.

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UPCOMING KEY ECONOMIC RELEASES

U.S. Nonfarm Payrolls - December

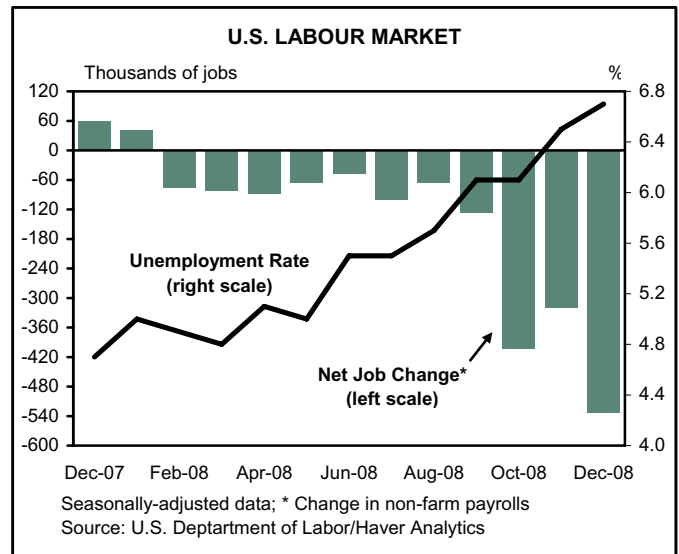
Release Date: January 9/09

November Result: -533K; unemployment rate 6.7%

TD Forecast: -500K; unemployment rate 7.0%

Consensus: -485K; unemployment rate 7.0%

The deterioration in the U.S. labour market took a turn for the worse in recent months, with well over 800K jobs being lost in October and November alone. This brisk pace of job losses is likely to continue into December, when we expect some 500K jobs to be lost. Evidence of this worsening in labour market conditions can be seen in the elevated levels of continuing claims, while the regional economic activity reports have provided further credence to this view. The distribution of the job losses are likely to be evenly split between the goods and service producing sectors as U.S. businesses reduce the size of their payrolls in the face of slumping demand. Moreover, with the displaced workers finding it increasingly difficult to find new jobs,



the unemployment rate is expected to surge to 7.0%. In the coming months, the pace of job losses is expected to remain rapid.

Millan Mulraine 416-308-2911

Canadian Employment - December

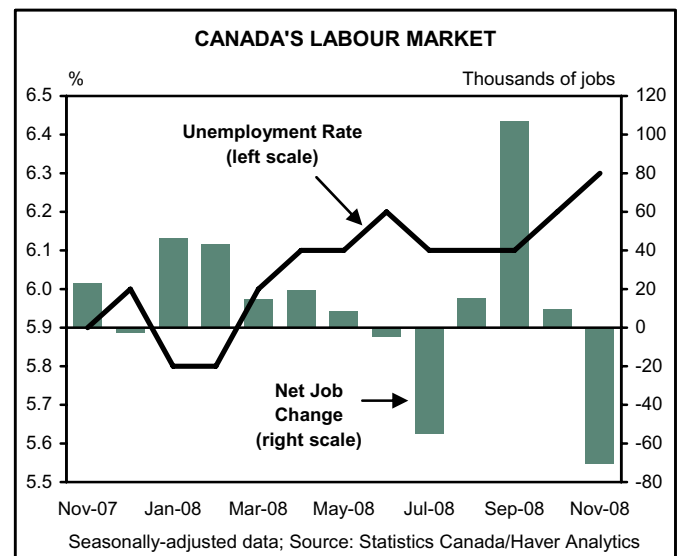
Release Date: January 9/09

November Result: -70.6K; unemployment rate 6.3%

TD Forecast: -15K; unemployment rate 6.5%

Consensus: -20K; unemployment rate 6.5%

After some surprising resiliency in the early part of this year, the Canadian labour market appeared to fall flat on its face in November, when 71K jobs were reported to have been lost. This reversal in labour market conditions is not entirely surprising, given that the Canadian economy may have slipped into a recession in Q4. For December we are likely to see a further 15K jobs lost. As has been the case in the past, the composition of these losses are likely to be heavily skewed to the goods producing sector, though we also expect the service sector to surrender some jobs. The unemployment rate should rise moderately to 6.5%. Looking ahead, we expect to see further deterioration in the Canadian labour market as the economy continues to stagnate, but this should translate into only moderate job losses and not those on par with the U.S.



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Canadian Housing Starts - December

Release Date: January 9/08

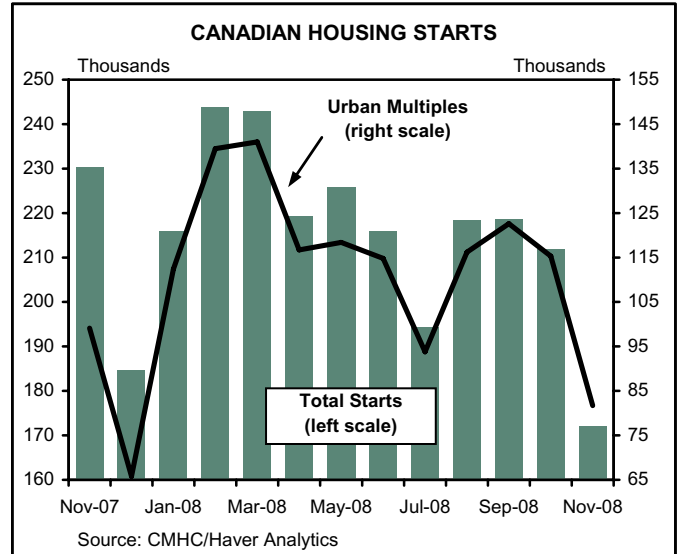
October Result: 172.0K

TD Forecast: 170K

Consensus: 175K

The Canadian housing sector correction is now well on its way, and in the months ahead further moderation in residential construction activity is expected as builders adjust their construction activity in the face of weakening demand. For December we expect Canadian housing starts to remain in the vicinity of the prior month at 170K, despite the normal inclination for a rebound after the sharp decline in the prior month. Moreover, with a weakening economy, sluggish labour market conditions and ebbing home prices, we expect Canadian housing market activity to remain subdued for some time.

Millan Mulraine, 416-308-2911



RECENT KEY ECONOMIC INDICATORS

December 22 2008 - January 2 2009

| Release Date | Economic Indicators | Data for Period | Units | Current | Prior | |
|----------------------|---|-----------------|------------|---------|--------|----|
| Canada | | | | | | |
| Dec. 24 | Gross Domestic Product | Oct | M/M % chg. | -0.1 | 0.1 | |
| United States | | | | | | |
| Dec. 23 | Gross Domestic Product (annualized) | Q3 | Q/Q % chg. | -0.5 | -0.5 | |
| Dec. 23 | Personal Consumption | Q3 | Q/Q % chg. | -3.7 | -3.7 | |
| Dec. 23 | Core Personal Consumption Expenditure | Q3 | Q/Q % chg. | 2.4 | 2.6 | |
| Dec. 23 | U. of Michigan Confidence Index | Dec. | Index | 60.1 | 59.1 | |
| Dec. 23 | New Home Sales | Nov. | Thousands | 407.0 | 419.0 | R▼ |
| Dec. 23 | Existing Home Sales | Nov. | M/M % chg. | -8.6 | -4.5 | R▼ |
| Dec. 23 | House Price Index | Oct. | M/M % chg. | -1.1 | -1.2 | R▲ |
| Dec. 23 | Richmond Fed. Manufacturing Index | Dec. | Index | -55.0 | -38.0 | |
| Dec. 23 | ABC Consumer Confidence | 21-Dec | Index | -48.0 | -51.0 | |
| Dec. 24 | Personal Income | Nov. | % change | -0.2 | 0.1 | R▼ |
| Dec. 24 | PCE Deflator | Nov. | Y/Y % chg. | 1.4 | 3.2 | |
| Dec. 24 | Durable Goods Orders | Nov. | % change | -1.0 | -8.4 | R▼ |
| Dec. 24 | Durable Goods Orders (ex. Transportation) | Nov. | % change | 1.2 | -6.8 | R▼ |
| Dec. 24 | Continuing Claims | 13-Dec | Thousands | 4370.0 | 4387.0 | R▲ |
| Dec. 30 | ABC Consumer Confidence | Dec. | Index | 38.0 | 44.7 | R▼ |
| Dec. 31 | MBA Mortgage Applications | 26-Dec | % change | 0.0 | 48.0 | |
| Dec. 31 | Initial Jobless Claims | 27-Dec | Thousands | 4506.0 | 4366.0 | R▼ |
| Jan. 1 | ISM Manufacturing | Dec. | Index | 32.4 | 36.2 | |

Source: Bloomberg, TD Economics

UPCOMING NORTH AMERICAN ECONOMIC CALENDAR

January 5 - January 9, 2009

| Release Date | Economic Indicators | Data for Period | Units | Consensus Forecast | Prior | |
|----------------------|---|-----------------|------------|--------------------|--------|--|
| Canada | | | | | | |
| Jan. 6 | Industrial Product Prices | Nov. | M/M % chg. | -1.0 | 0.0 | |
| Jan. 6 | Raw Materials Price Index | Nov. | M/M % chg. | -9.0 | -12.5 | |
| Jan. 8 | Ivey Purchasing Manager's index | Dec. | Index | 37.5 | 40.2 | |
| Jan. 9 | Unemployment rate | Dec. | % | 6.5 | 6.3 | |
| Jan. 9 | Net Change in Employment | Dec. | Thousands | -22.0 | -70.6 | |
| Jan. 9 | Housing Starts | Dec. | Thousands | 172.5 | 172.0 | |
| Jan. 9 | Building Permits | Nov. | M/M % chg. | -5.0 | -15.7 | |
| United States | | | | | | |
| Jan. 5 | <i>Fed Governor Yellen Leads Panel on Subprime-Loan Crises</i> | | | | | |
| Jan. 5 | Total Vehicle Sales | Dec. | Millions | 10.0 | 10.2 | |
| Jan. 6 | ISM Non-Manufacturing Composite | Dec. | Index | 37.0 | 37.3 | |
| Jan. 6 | Factory Orders | Nov. | % change | -2.2 | -5.1 | |
| Jan. 6 | Pending Home Sales | Nov. | M/M % chg. | -1.0 | -0.7 | |
| Jan. 6 | <i>Fed Releases Minutes from Dec. 15-16 FOMC Meeting</i> | | | | | |
| Jan. 6 | ABC Consumer Confidence | 4-Jan | Index | -- | -49.0 | |
| Jan. 7 | MBA Mortgage Applications | 2-Jan | % change | -- | 0.0 | |
| Jan. 7 | ADP Employment Change | Dec. | Thousands | -493.0 | -472.0 | |
| Jan. 8 | Initial Jobless Claims | 3-Jan | Thousands | 545.0 | 492.0 | |
| Jan. 8 | Continuing Claims | 27-Dec | Thousands | 4450.0 | 4506.0 | |
| Jan. 8 | Consumer Credit | Nov. | US\$, blns | 0.0 | -3.5 | |
| Jan. 8 | <i>Fed Governor Hoening Speaks in Colorado on Infrastructure Spending</i> | | | | | |
| Jan. 9 | Change in Non-Farm Payrolls | Dec. | Thousands | -490.0 | -533.0 | |
| Jan. 9 | Unemployment rate | Dec. | % | 7.0 | 6.7 | |
| Jan. 9 | Change in Manufacturing Payrolls | Dec. | Thousands | -100.0 | -85.0 | |
| Jan. 9 | Average Hourly Earnings | Dec. | Y/Y % chg. | -- | 3.7 | |
| Jan. 9 | Wholesale Inventories | Nov. | % change | -0.8 | -1.1 | |

Source: Bloomberg, TD Economics

G-7 ECONOMIC RELEASES AND EVENTS

| Date | Time* | Country | Economic Indicator/Event | Data for Period | Units | Consensus Forecast | Last Period |
|--------|--------|---------|---|------------------------|------------|--------------------|-------------|
| Jan 5 | 0:00 | Japan | Total Vehicle Sales | Dec. | Y/Y % chg. | -- | -27.3 |
| | 13:15 | U.S. | <i>Fed Governor Yellen Leads Panel on Subprime-Loan Crises</i> | | | | |
| | -- | U.S. | Total Vehicle Sales | Dec. | Millions | 10.0 | 10.2 |
| | 18:50 | Japan | Monetary Base | Dec. | Y/Y % chg. | -- | 1.9 |
| Jan. 6 | 2:00 | U.K. | Nationwide Housing Prices (nsa) | Dec. | Y/Y % chg. | -14.6 | -13.9 |
| | 4:00 | EU-15 | Purchasing Manager's Index (Services) | Dec. | Index | 42.0 | 42.0 |
| | 5:00 | EU-15 | Euro-Zone CPI Estimate | Dec. | Y/Y % chg. | 1.8 | 2.1 |
| | 8:30 | Canada | Industrial Product Prices | Nov. | M/M % chg. | -1.0 | 0.0 |
| | 8:30 | Canada | Raw Materials Price Index | Nov. | M/M % chg. | -9.0 | -12.5 |
| | 10:00 | U.S. | ISM Non-Manufacturing Composite | Dec. | Index | 37.0 | 37.3 |
| | 10:00 | U.S. | Factory Orders | Nov. | % change | -2.2 | -5.1 |
| | 10:00 | U.S. | Pending Home Sales | Nov. | M/M % chg. | -1.0 | -0.7 |
| | 14:00 | U.S. | <i>Fed Releases Minutes from Dec. 15-16 FOMC Meeting</i> | | | | |
| | 16:45 | NZ | Trade Balance | Nov. | NZD, mlns | -- | -942.0 |
| | 17:00 | U.S. | ABC Consumer Confidence | 4-Jan | Index | -- | -49.0 |
| | 19:30 | AU | Retail Sales (sa.) | Nov. | M/M % chg. | -- | 0.7 |
| | Jan. 7 | 3:55 | Germany | Unemployment Rate (sa) | Dec. | % | 7.5 |
| 5:00 | | EU-15 | Producer Price Index | Nov. | Y/Y % chg. | 4.5 | 6.3 |
| 7:00 | | U.S. | MBA Mortgage Applications | 2-Jan | % change | -- | 0.0 |
| 8:15 | | U.S. | ADP Employment Change | Dec. | Thousands | -493.0 | -472.0 |
| 19:30 | | AU | Trade Balance | Nov. | AUD, mlns | -- | 2,952.0 |
| Jan. 8 | 0:30 | AU | Foreign Reserves | Dec. | AUD, mlns | -- | 46.7 |
| | 2:00 | Germany | Trade Balance | Nov. | Eur, blns | -- | 16.4 |
| | 2:00 | Germany | Current Account | Nov. | Eur, blns | -- | 15.0 |
| | 5:00 | EU-15 | Gross Domestic Product (sa) | Q3 | Y/Y % chg. | 0.6 | 0.6 |
| | 7:00 | U.K. | BOE Announces Rate Decision | 8-Jan | % | 1.50 | 2.00 |
| | 8:30 | U.S. | Initial Jobless Claims | 3-Jan | Thousands | 545.0 | 492.0 |
| | 8:30 | U.S. | Continuing Claims | 27-Dec | Thousands | 4,450.0 | 4,506.0 |
| | 10:00 | Canada | Ivey Purchasing Manager's index | Dec. | Index | 37.5 | 40.2 |
| | 15:00 | U.S. | Consumer Credit | Nov. | US\$, blns | 0.0 | -3.5 |
| | 16:00 | U.S. | <i>Fed Governor Hoening Speaks in Colorado on Infrastructure Spending</i> | | | | |
| Jan. 9 | 0:00 | Japan | Leading Index (CI) | Dec. | Index | 81.4 | 85.2 |
| | 2:45 | France | Trade Balance | Nov. | Eur, blns | -5.8 | -7.1 |
| | 5:00 | EU-15 | Euro-Zone Retail Sales | Nov. | Y/Y % chg. | -1.6 | -2.1 |
| | 7:00 | Canada | Unemployment rate | Dec. | % | 6.5 | 6.3 |
| | 7:00 | Canada | Net Change in Employment | Dec. | Thousands | -22.0 | -70.6 |
| | 8:15 | Canada | Housing Starts | Dec. | Thousands | 172.5 | 172.0 |
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| | 8:30 | U.S. | Change in Non-Farm Payrolls | Dec. | Thousands | -490.0 | -533.0 |
| | 8:30 | U.S. | Unemployment rate | Dec. | % | 7.0 | 6.7 |
| | 8:30 | U.S. | Change in Manufacturing Payrolls | Dec. | Thousands | -100.0 | -85.0 |
| | 8:30 | U.S. | Average Hourly Earnings | Dec. | Y/Y % chg. | -- | 3.7 |
| | 10:00 | U.S. | Wholesale Inventories | Nov. | % change | -0.8 | -1.1 |

* Eastern Standard Time; Sources: Bloomberg, TD Economics

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