



TD Economics

The Weekly Bottom Line

October 17, 2008

HIGHLIGHTS

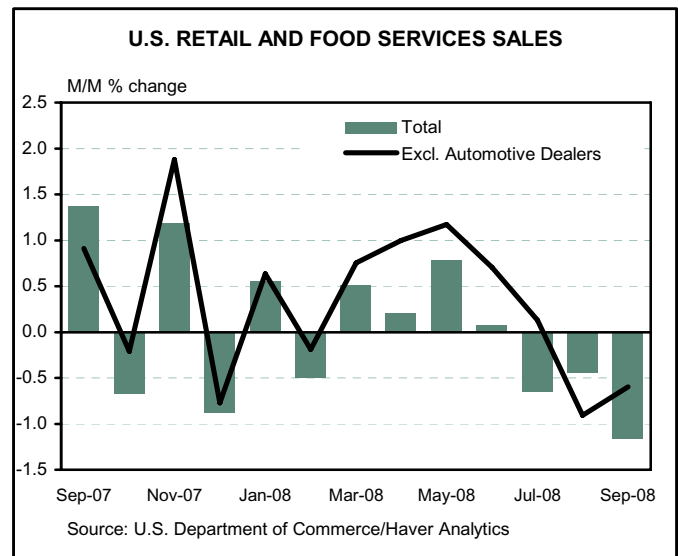
- Stock markets continue to slip despite government rescue plans
- U.S. economic data point to further deterioration in economy
- Canadian economy showing signs of weakness

After stock markets around the world suffered one of their worst weeks in history last week, the G-7 held a meeting to come up with a plan to overcome the deepening credit crunch and restore confidence in financial markets. Governments in Europe, North America and Asia are showing a united front in their efforts to combat this ongoing crisis in the global financial system.

Rescue plans trigger early rally in stock markets

European countries, whose previous attempts had been uncoordinated, agreed to undertake a more concerted effort to deal with the crisis. The plan announced at the start of the week includes guaranteeing bank debt and allowing governments to purchase stakes in troubled financial companies.

Following Europe's lead, on Tuesday the U.S. government unveiled a plan to buy \$250 billion worth (out of the \$700 billion bailout bill) of preferred equity stakes in U.S. banks – half of which would go to nine big banks – in an attempt to unfreeze the U.S. lending market. Furthermore,



the FDIC, which already agreed to increase the U.S. deposit insurance to \$250,000, revealed that it will also grant a blanket guarantee for new senior unsecured debt issued by U.S. banks and full protection for deposits in non-interest bearing deposit accounts. It will take some time before the results of these measures have a full impact on the market, however it is clear that governments and central banks around the world are making every attempt possible to restore confidence in financial markets.

And indeed, the results of this weekend's meeting were immediately welcomed with open arms, as life was brought back into the stock markets on Monday. In fact, North American markets surged the most since the 1930's with the Dow Jones and the S&P 500 closing the trading day up 11%. The LIBOR-OIS spread fell slightly, however it still remains exceptionally high. But the euphoria that hit the markets on Monday was short-lived. In spite of the U.S. government's announcement on Tuesday, stock markets could not sustain their rally, as investors turned their attention back to the dismal state of the U.S. economy.

U.S. economy continues to spiral down

Economic data out of the U.S. this week was down-

Recent TD Economics Research

October 17, 2008 - Monetary Policy Monitor
 October 17, 2008 - U.S. Housing Starts
 October 16, 2008 - Canada's Federal Government Facing Significant Deficits
 October 16, 2008 - Canadian Manufacturing Shipments
 October 16, 2008 - U.S. Consumer Price Index
 October 16, 2008 - Provincial Economic Outlook
 October 15, 2008 - U.S. Retail Sales Commentary

right dreadful. Retail sales sank 1.2% in September, which was well below expectations and marks the third consecutive monthly decline. Moreover, for the first time in 6 years, sales declined on a year-over-year basis. This decline in retail sales provides evidence that U.S. consumers are feeling the pinch of the credit crunch in addition to a weakening labour market and falling home prices. As such, our latest tracking for real consumer spending is in the -3% to -3.5% range. And with the financial market continuing to deteriorate in October, the worst is yet to come for U.S. consumers.

For those who were wondering if the U.S. housing market had hit bottom, September's housing report offers a clear answer: No. Housing starts plummeted 6.3% on the month, to the lowest level since 1991. Starts are now down by a whopping 62% from the peak seen in 2005. What's more, building permits slid 8.3% on the month, suggesting further declines in housing starts are likely in store. The ongoing weakness in U.S. housing activity, in addition to softer consumer spending – which accounts for about 70% of economic growth – suggests that real GDP will likely slip into the red in the third quarter.

While still far from bright, the little bit of brighter news revealed this week in the U.S. was that inflation pressures appear to be easing. Headline CPI was flat in September, bringing the annual rate of inflation down to 4.9% – the slowest pace since May of this year. Core CPI edged up 0.1% on the month, but remained at 2.5% year-over-year for the third straight month. With commodity prices still on their downward trend, the U.S. should see a further significant moderation in price pressures going forward.

Accordingly, the Fed will have a little extra wiggle room when it comes to monetary policy decisions. In a speech this week, Fed chairman Bernanke stated that “expected inflation...has held steady or eased, and the prices of imports now appear to be decelerating. These developments, together with the recent declines in prices of oil and other commodities as well as the likelihood that economic activity will fall for a time, should lead to rates of inflation more consistent with price stability”. With respect to the economy, Bernanke noted that even if financial markets stabilize, it will take time for a broader economic recovery to take place. Although Bernanke did not provide any indication as to the Fed's next move, the grim outlook for the economy and easing inflation pressures augur for further rate cuts. As such, we expect the Fed to cut interest rates by 50 basis points at their meeting later this month.

What goes up must come down

In Canada, the Thanksgiving holiday prevented the TSX from enjoying the massive run-up seen in other markets on Monday. However, the TSX did play catch up on Tuesday, shooting up by 10% on the day. But similar to other markets around the world, those gains were pared back as the week went on. Given that the TSX is heavily tied to commodity prices, it comes as no shock that the freefall in the energy and materials sectors dragged the index down this week. Oil prices alone plummeted 14% after Monday's rally, slipping below the US\$70 per barrel mark for the first time since August 2007. Oil prices are now more than 50% below their peak reached in July. The downward momentum in the commodity market does not seem to be losing any steam, which doesn't bode well for the TSX.

Canadian economy shows weakness

While some parts of the Canadian economy have been holding up quite well recently, others are showing signs of weakness. After exhibiting surprising resilience over the four months prior, with growth ranging from 1.6-2.7%, the manufacturing sector took a turn for the worse in August, as shipments slipped 3.7%. Not only was this decline far greater than market expectations, but it was the largest drop since December 2007. This report, while awfully dismal, is only the beginning of what we expect to see going forward. Slowing global economic growth, coupled with softening domestic demand, creates a recipe for further downward pressure on manufacturers. Moreover, with inventories increasing on the month, there exists some risk that manufacturers could scale back production in the coming months. Either way, the outlook for the sector is quite bleak.

Futhermore, some of the powerful domestic offsets are fading. Housing prices slid 6.2% year-over-year in September and the federal government is facing a deficit of about \$10 billion next year (for more information see TD Economics report: *Canada's Federal Government Facing Significant Deficits* available on our website). With weaker global economic growth in store and commodity prices lowering inflationary pressures, the Bank of Canada certainly has more room to cut rates. Accordingly, we are calling for a 50 basis point cut next week, which would bring the overnight rate down to 2.00%.

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UPCOMING KEY ECONOMIC RELEASES

Canadian Wholesale Sales - August

Release Date: October 20/08

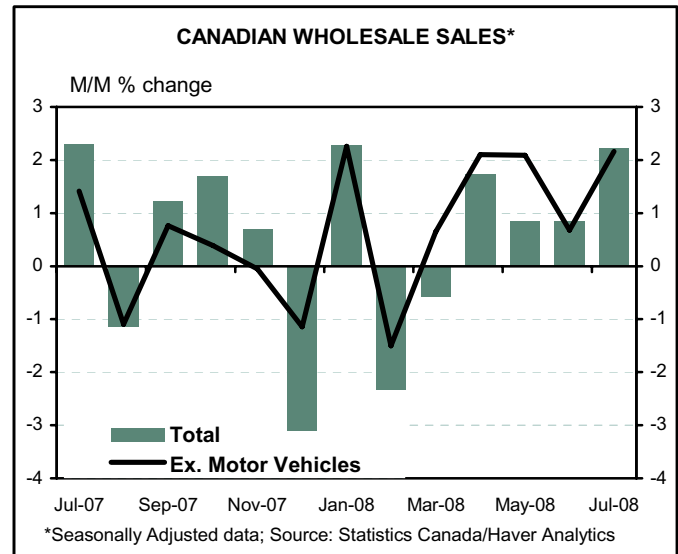
July Result: total +2.3% M/M

TD Forecast: total -1.2% M/M

Consensus: total +0.3% M/M

After the surprising resiliency in the past few months, we expect Canadian wholesale sales to decline by 1.2% M/M in August. Much of the decline is expected to come from the slowdown in demand for auto-related products by U.S. car manufacturers, as a result of the recent dramatic decline in auto sales. Recent manufacturing and export weakness may also hurt the performance. As such, wholesale sales excluding autos should post some meagre gains on the month. In the coming months, we could see further moderation in Canadian wholesale sales, on account of the slowing demand due to the weakening domestic and U.S. economies.

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Bank of Canada Interest Rate Decision

Release Date: October 21/08

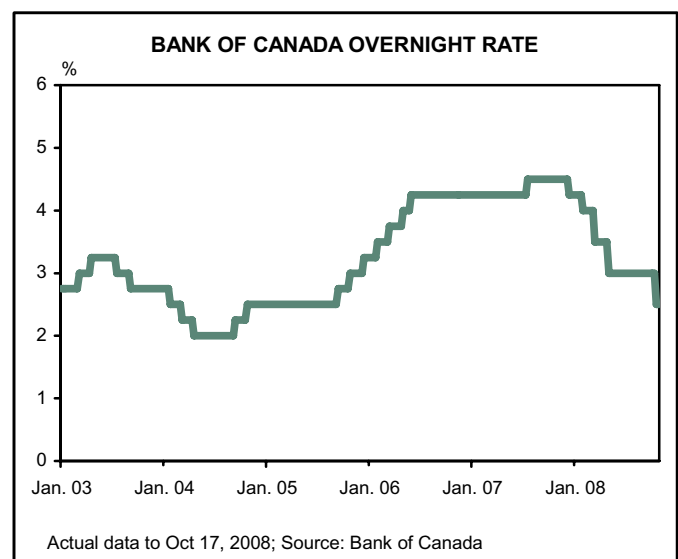
Current Rate: 2.50%

TD Forecast: 2.00%

Consensus: 2.00%

The Bank of Canada comes into its next scheduled rate decision having conducted a 50bp inter-meeting rate cut less than two weeks before. The most recent Bank of Canada statement mused on the possibility of “further action”, signalling that additional rate cuts are at least on the table for discussion. Simultaneously, three key factors — the U.S. economy, commodity prices, and credit conditions — have all deteriorated both over the past few months and also since that last rate cut just a few weeks ago, leaving the Bank of Canada likely inclined towards additional easing. TD forecasts a 50bp cut, which will put the overnight rate at 2.00% — tied for an all-time low with the level reached during the prior economic correction.

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Canadian Retail Sales - August

Release Date: October 22/08

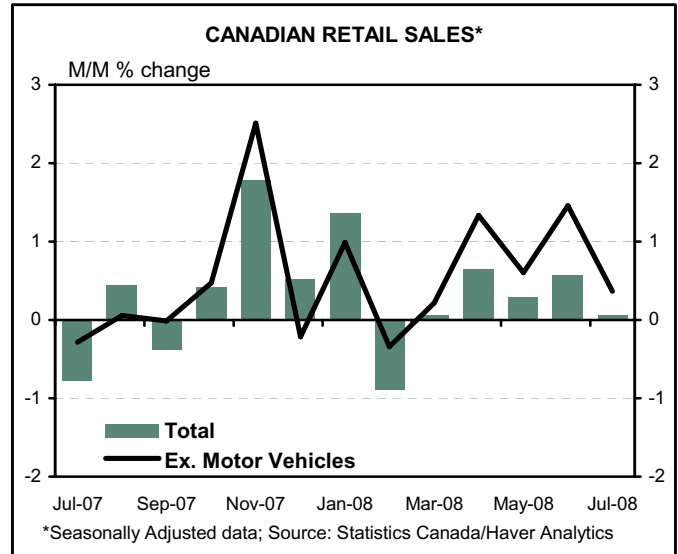
July Result: total +0.1% M/M; ex-autos +0.4% M/M

TD Forecast: total -0.5% M/M; ex-autos -0.1% M/M

Consensus: total +0.2% M/M; ex-autos +0.5% M/M

The dramatic decline in energy prices (since mid-July), sluggish housing market activity, the infiltration of consumer pessimism from the U.S., and the continued decline in car sales should drive Canadian retail sales lower by 0.5% M/M in August – which will be the first dip in this indicator since February this year. However, with much of the decline in the headline number being accounted for by auto-related factors, we expect sales excluding autos and gas to fall by a more modest 0.1% M/M. In the coming months, with Canadian consumers’ budgets continuing to be squeezed, as a result of the slowing domestic economy and tighter lending conditions, we expect retail sales to remain tepid.

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Canadian CPI - September

Release Date: October 24/08

August Result: core 0.3% M/M, 1.7% Y/Y;

all-items -0.2% M/M, 3.5% Y/Y

TD Forecast: core 0.3% M/M, 1.6% Y/Y;

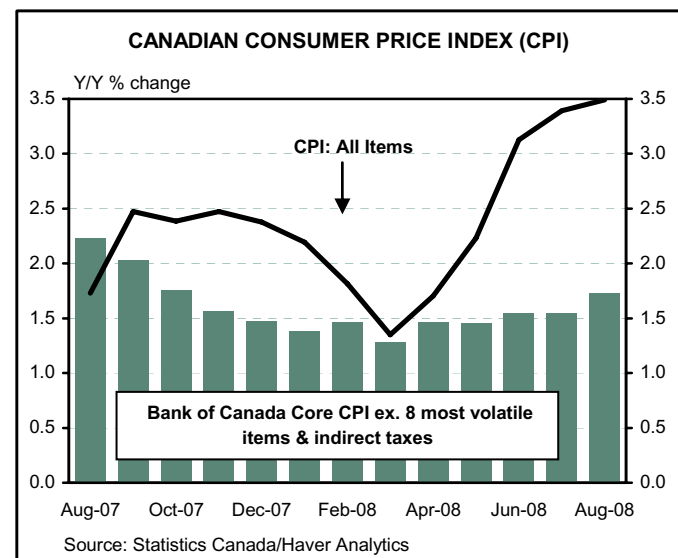
all-items 0.0% M/M, 3.3% Y/Y

Consensus: core 0.3% M/M, 1.7% Y/Y;

all-items -0.1% M/M, 3.2% Y/Y

Declining energy prices and growing domestic economic slack will continue to dampen Canadian price pressures, and in September consumer prices should moderate further on account of these two factors. During the month, we expect the headline CPI index to remain flat on a seasonally and non-seasonally adjusted basis, with the annual rate of inflation easing to 3.3% Y/Y (from 3.5% Y/Y in August). The Bank of Canada’s core consumer price index should rise by a more profound 0.3% M/M (but just by 0.1% M/M seasonally adjusted), with the core inflation rate falling to 1.6% Y/Y. In the coming months, with both moderating forces likely to remain in place, consumer price pressures should remain tame.

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RECENT KEY ECONOMIC INDICATORS
October 13 - October 17, 2008

		Data for	Units	Current	Prior	
Canada						
Oct 14	New Motor Vehicle Sales	Aug.	M/M % chg.	-2.3	-1.3	R▼
Oct 16	Manufacturing Shipments	Aug.	M/M % chg.	-3.7	2.7	
United States						
Oct 12	<i>Dallas Fed's Fisher to Speak on Financial Crisis in Washington</i>					
Oct 13	<i>Kansas City Fed's Hoenig to Speak on Regulation in Washington</i>					
Oct 14	<i>Fed's Plosser Introduces Zambia Gov. Fundanga in Philadelphia</i>					
Oct 14	Monthly Budget Statement	Sept.	US\$, blns	45.7	112.9	
Oct 14	ABC Consumer Confidence	12-Oct	Index	-48.0	-43.0	
Oct 14	<i>St. Louis Fed's Bullard To Speak at Economic Club of Memphis</i>					
Oct 14	<i>Fed's Yellen Speaks on Economic Outlook in Palo Alto</i>					
Oct 15	MBA Mortgage Applications	10-Oct	% change	5.1	2.2	
Oct 15	<i>Boston Fed's Rosengren Speaks on Economic Outlook in Boston</i>					
Oct 15	Producer Price Index	Sept.	Y/Y % chg.	8.7	9.6	
Oct 15	Producer Price Index (Ex. Food & Energy)	Sept.	Y/Y % chg.	4.0	3.6	
Oct 15	Advance Retail Sales	Sept.	% change	-1.2	-0.4	R▼
Oct 15	Retail Sales Less Autos	Sept.	% change	-0.6	-0.9	R▼
Oct 15	Empire Manufacturing	Oct.	% change	-24.6	-7.4	
Oct 15	Business Inventories	Aug.	% change	0.3	1.1	
Oct 15	<i>Bernanke Speaks to Economic Club of New York</i>					
Oct 15	<i>Fed Releases Beige Book Economic Report</i>					
Oct 15	<i>Fed Vice Chairman Donald Kohn Speaks on Economy in New York</i>					
Oct 16	<i>Fed's Stern Speaks in Houghton, Michigan</i>					
Oct 16	Consumer Price Index (CPI)	Sept.	Y/Y % chg.	4.9	5.4	
Oct 16	CPI Ex Food and Energy	Sept.	Y/Y % chg.	2.5	2.5	
Oct 16	Initial Jobless Claims	11-Oct	Thousands	461.0	477.0	R▼
Oct 16	Continuing Claims	4-Oct	Thousands	3,711.0	3,671.0	R▲
Oct 16	Industrial Production	Sept.	Y/Y % chg.	-2.8	-1.0	R▲
Oct 16	Capacity Utilization Rate	Sept.	%	76.4	78.7	
Oct 16	<i>St. Louis Fed's Bullard To Speak on U.S. Growth Potential</i>					
Oct 16	Philadelphia Fed Index	Oct.	Index	-37.5	3.8	
Oct 16	NAHB Housing Market Index	Oct.	Index	14.0	17.0	R▼
Oct 16	<i>Boston Fed's Rosengren Speaks About Foreclosures in Boston</i>					
Oct 17	Housing Starts	Sept.	Thousands	817.0	872.0	R▼
Oct 17	Building Permits	Sept.	Thousands	786.0	857.0	R▲
Oct 17	U. of Michigan Confidence Index	Oct. P	Index	57.5	70.3	
Oct 17	<i>St. Louis Fed's Bullard To Moderate Panel on Economic Policy</i>					
Oct 17	<i>Fed's Evans Speaks on Economic Outlook in Wisconsin</i>					

Source: Bloomberg, TD Economics

UPCOMING NORTH AMERICAN ECONOMIC CALENDAR
October 20 - October 24, 2008

Release Date	Economic Indicators	Data for Period	Units	Consensus Forecast	Prior
Canada					
Oct 20	International Securities Transactions	Aug.	\$C, blns	1.0	-5.6
Oct 20	Wholesale Sales	Aug.	M/M % chg.	0.3	2.3
Oct 21	<i>Bank of Canada Rate</i>		%	2.00	2.50
Oct 22	Leading Indicators	Sept.	M/M % chg.	0.1	0.2
Oct 22	Retail Sales	Aug.	M/M % chg.	0.1	0.1
Oct 22	Retail Sales (Ex. Autos)	Aug.	M/M % chg.	0.5	0.4
Oct 23	<i>Bank of Canada Monetary Policy Report</i>				
Oct 24	Consumer Price Index	Sept.	Y/Y % chg.	3.2	3.5
Oct 24	Bank of Canada CPI Core	Sept.	Y/Y % chg.	1.7	1.7
United States					
Oct 20	Leading Indicators	Sept.	% change	-0.2	-0.5
Oct 20	<i>Bernanke Testifies at House Budget Committee on Economy</i>				
Oct 20	<i>Atlanta Fed Governor Lockhart To Speak on U.S. Economic Outlook</i>				
Oct 20	<i>Fed Governor Kroszner Speaks on Risk Management in Baltimore</i>				
Oct 21	ABC Consumer Confidence	19-Oct	Index	--	-48.0
Oct 21	<i>Fed Governor Stern Speaks in Escanaba, Michigan</i>				
Oct 22	MBA Mortgage Applications	17-Oct	% change	--	5.1
Oct 23	Initial Jobless Claims	18-Oct	Thousands	465.0	461.0
Oct 23	Continuing Claims	11-Oct	Thousands	--	3,711.0
Oct 23	House Price Index	Aug.	M/M % chg.	-0.4	-0.6
Oct 24	Existing Home Sales	Sept.	Millions	4.98	4.91

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 19	-- 20:30	Germany	Import Price Index	Sept.	Y/Y % chg.	7.9	9.3	
		AU	Producer Price Index	Q3	Y/Y % chg.	--	4.7	
Oct 20	1:00	Japan	Leading Index CI	Aug. F	Index	--	89.3	
	1:00	Japan	Coincident Index CI	Aug. F	Index	--	100.7	
	2:00	Germany	Producer Prices	Sept.	Y/Y % chg.	7.5	8.1	
	4:30	U.K.	M4 Money Supply	Sept.	Y/Y % chg.	11.0	11.5	
	8:30	Canada	International Securities Transactions	Aug.	\$C, blns	1.0	-5.6	
	8:30	Canada	Wholesale Sales	Aug.	M/M % chg.	0.3	2.3	
	10:00	U.S.	Leading Indicators	Sept.	% change	-0.2	-0.5	
	10:00	U.S.	<i>Bernanke Testifies at House Budget Committee on Economy</i>					
	12:45	U.S.	<i>Atlanta Fed Governor Lockhart To Speak on U.S. Economic Outlook</i>					
	12:45	U.S.	<i>Fed Governor Kroszner Speaks on Risk Management in Baltimore</i>					
	18:45	NZ	Consumer Prices	3Q	Y/Y % chg.	5.1	4.0	
	20:30	AU	New Motor Vehicle Sales	Sept.	Y/Y % chg.	--	-7.2	
	Oct 21	9:00	Canada	Bank of Canada Rate		%	2.00	2.50
17:00		U.S.	ABC Consumer Confidence	19-Oct	Index	--	-48.0	
19:45		U.S.	<i>Fed Governor Stern Speaks in Escanaba, Michigan</i>					
19:50		Japan	All Industry Activity Index	Aug.	% change	-1.7	0.8	
	21:30	AU	Consumer Prices	3Q	Q/Q % chg.	--	1.5	
Oct 22	4:30	U.K.	<i>Bank of England Minutes</i>					
	4:00	EU	Euro-Zone Budget Def/GDP Ratio	31-Dec	Per Cent	-0.6	-0.6	
	6:00	EU	Euro-Zone Govt. Debt/GDP Ratio	31-Dec	Per Cent	--	66.3	
	7:00	U.S.	MBA Mortgage Applications	17-Oct	% change	--	5.1	
	8:30	Canada	Leading Indicators	Sept.	M/M % chg.	0.1	0.2	
	8:30	Canada	Retail Sales	Aug.	M/M % chg.	0.1	0.1	
	8:30	Canada	Retail Sales (Ex. Autos)	Aug.	M/M % chg.	0.5	0.4	
	16:00	NZ	<i>RBNZ Official Cash Rate</i>	22-Oct	<i>Cash Rate</i>	6.50	7.50	
19:50	Japan	Merchandise Trade Balance total	Sept.	¥, blns	600.0	-327.6		
Oct 23	2:45	France	Business Confidence Indicator	Oct.	Index	89	92	
	2:45	France	Production Outlook Indicator	Oct.	Index	-45	-42	
	2:45	France	Consumer Spending	Sept.	Y/Y % chg.	0.5	-0.1	
	4:00	EU	ECB Euro-Zone Current Account SA	Aug.	Eur, blns	--	-1.7	
	4:30	U.K.	Retail Sales	Sept.	Y/Y % chg.	2.0	3.3	
	8:30	U.S.	Initial Jobless Claims	18-Oct	Thousands	465	461	
	8:30	U.S.	Continuing Claims	11-Oct	Thousands	--	3711.0	
	10:00	U.S.	House Price Index	Aug.	M/M % chg.	-0.4	-0.6	
	10:30	Canada	<i>Bank of Canada Monetary Policy Report</i>					
Oct 24	3:00	France	Purchasing Manager's Index (Services)	Oct.	Index	49.0	50.1	
	3:00	Germany	Purchasing Manager's Index (Services)	Oct.	Index	48.8	50.2	
	4:00	EU	Purchasing Manager's Index (Services)	Oct.	Index	47.0	48.4	
	4:00	EU	Purchasing Manager's Index (Manufacturing)	Oct.	Index	44.0	45.0	
	4:00	EU	Purchasing Manager's Index (Composite)	Oct.	Index	45.4	46.9	
	4:30	UK	Gross Domestic Product (GDP)	3Q	Q/Q % change	-0.2	0.0	
	7:00	Canada	Consumer Price Index	Sept.	Y/Y % chg.	3.2	3.5	
	7:00	Canada	Bank of Canada CPI Core	Sept.	Y/Y % chg.	1.7	1.7	
	10:00	U.S.	Existing Home Sales	Sept.	Millions	4.98	4.91	

* Eastern Standard Time; Sources: Bloomberg, TD Economics

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