



TD Economics

The Weekly Bottom Line

June 13, 2008

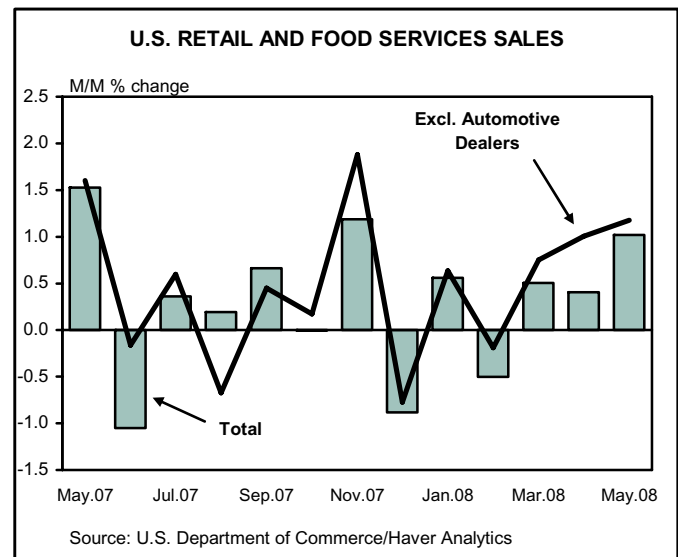
HIGHLIGHTS

- Fiscal stimulus keeps U.S. consumers spending
- U.S. inflation rises in May
- BoC leaves interest rates unchanged at 3%

As central banks around the world continue to be torn between concerns over economic growth and inflation, the scale has definitely tipped more towards the inflation side. Hawkish comments this week from central bank officials in the U.S., Canada and the Eurozone all indicated that inflationary risks remain a key concern going forward, with the latter hinting that a tightening of monetary policy may be required to bring prices under control. The North American bond market latched onto these views, as bond prices slumped early in the week. In particular, U.S. 2-year government bonds experienced the biggest sell-off in 12 years on Monday, resulting in a 33bps surge in yields. In Canada, the unexpected pause by the central bank on Tuesday led Canadian 2-year bond yields to jump by 32bps – representing the largest single day sell-off in over six years.

Fiscal stimulus buoys U.S. economy

While some sectors of the U.S. economy are taking a hit from the deterioration of the housing and financial markets, other sectors have been holding up surprisingly well. Retail sales beat market expectations on Thursday, ad-



vancing by 1% in May. The upswing was likely driven by the government rebate cheques that began to be deposited in bank accounts during the month. The timing of the fiscal stimulus was a little earlier than expected, and as such, should prove to support a higher rate of economic growth in the second quarter. However, this also means that GDP growth will be lower than initially anticipated during the second half of the year, once the impact of the rebate cheques vanishes.

On the inflation front, Fed Chairman Bernanke and regional Fed Presidents Geithner, Fisher and Plosser all expressed concerns of global inflation, hinting that tighter monetary policy may be needed to keep prices in check. And indeed after seeing the CPI numbers for May this morning, inflation worries are well warranted. Headline inflation jumped from 3.9% to 4.2% on a year-over-year basis, driven largely by a surge in energy prices. While agricultural prices have come off their peaks in recent weeks, food prices remain quite elevated compared to historical levels, also contributing to inflationary pressures. Excluding food and energy, price growth in the U.S. was tamer, with core CPI remaining at 2.3%. As such, it is

Recent TD Economics Research

June 13, 2008 - Canadian Manufacturing Shipments
 June 13, 2008 - U.S. Consumer Price Index
 June 12, 2008 - U.S. Retail Sales Commentary
 June 11, 2008 - With All The Talk About Peak Global Oil Supply, What About Peak Oil Demand?
 June 10, 2008 - Canadian International Trade
 June 10, 2008 - Bank of Canada Interest Rate Decision
 June 10, 2008 - New Brunswick: The Atlantic Tiger?
 June 9, 2008 - Canadian Housing Starts

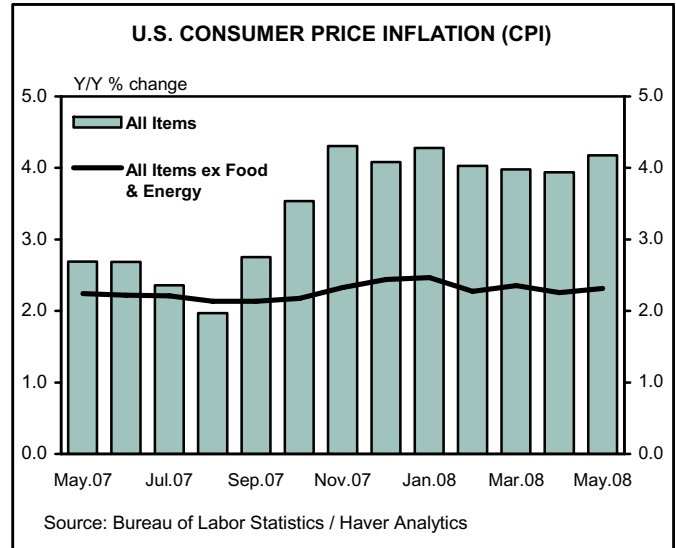
clear that energy and food prices are the key sources of price pressure in the U.S. Going forward, we expect these pressures to cool in the second half of the year, led by a pullback in oil prices.

Given the hawkish comments from Fed officials in recent weeks, it appears as though economic growth and the credit crunch have been put on the back burner, while inflation threats have moved to the forefront. And with inflation in the U.S. following an upward trend, we now expect the Fed to remain on hold at 2.00% for a sustained period of time, before beginning a rate hiking cycle in the second half of 2009.

Bank of Canada shocks the market with a pause

While the Bank of Canada’s interest rate decision stole the spotlight in Canada this week, there were some key economic data releases that warrant some attention. On the brighter side, housing starts rose back above 220,000 in May, suggesting that the housing sector is likely to hold up relatively well this year, although activity will be below the rapid pace seen in 2005-07. The manufacturing sector has also shown some resilience, with industries representing 80% of total sales posting gains in April. But while three of the first four months of this year have seen growth in the volume of manufacturing sales, the sector is unlikely to contribute much to overall growth in the coming months, if at all.

On the downside, international trade data revealed the Canadian trade surplus narrowed in April, as export volumes (-1.7%) declined for the second consecutive month. This is a trend that is likely to continue as U.S. demand for

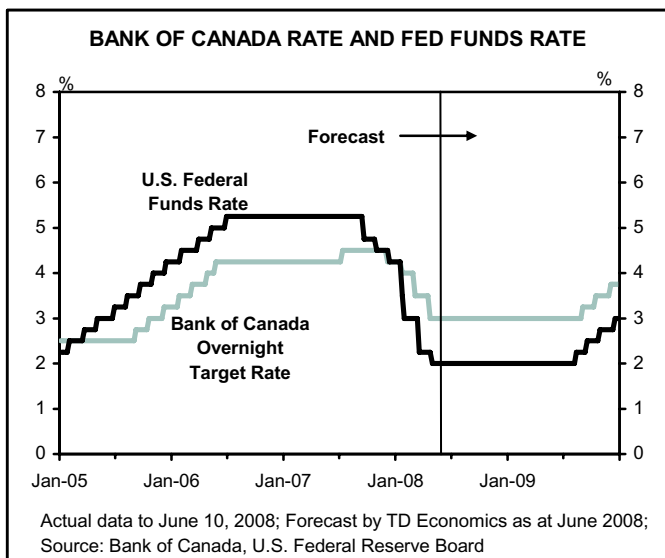


Canadian goods softens along with the economy, and the elevated loonie provides ongoing support for imports.

Despite signs of slower economic activity and a unanimous expectation in the financial markets for a quarter point interest rate cut, the Bank of Canada decided to leave the overnight rate unchanged at 3.00% on Tuesday. Moreover, the communiqué accompanying the decision stated that “the current state of monetary policy is appropriately accommodative” – implying that, barring any unexpected changes in economic conditions or inflation, the Bank of Canada is officially on hold with interest rates. While the pause is arguably justified, the decision was certainly a shocker due to lack of communication regarding the change of tone (which had originally been dovish). Like many other countries in the world, it now appears as though concerns about rising commodity prices have moved to the forefront in Canada, as the Bank warned that “if current levels of energy prices persist, total CPI inflation will rise above 3% later this year”. Indeed, inflation risks are now tilted slightly toward the upside, with the 3-month annualized trend of core CPI running at 2.9% in April. Nonetheless, we feel that a rate of GDP growth significantly below potential – about 1.0% in 2008 and 1.8% in 2009 – should keep a lid on inflation in Canada.

Given the more hawkish stance adopted by the Bank of Canada and comments signaling no further movements in monetary policy, we now expect the overnight rate to remain at 3.00% for the remainder of this year and into next, with the Bank of Canada’s next move a rate hike towards the end of 2009.

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UPCOMING KEY ECONOMIC RELEASES

U.S. Housing Starts - May

Release Date: June 17/08

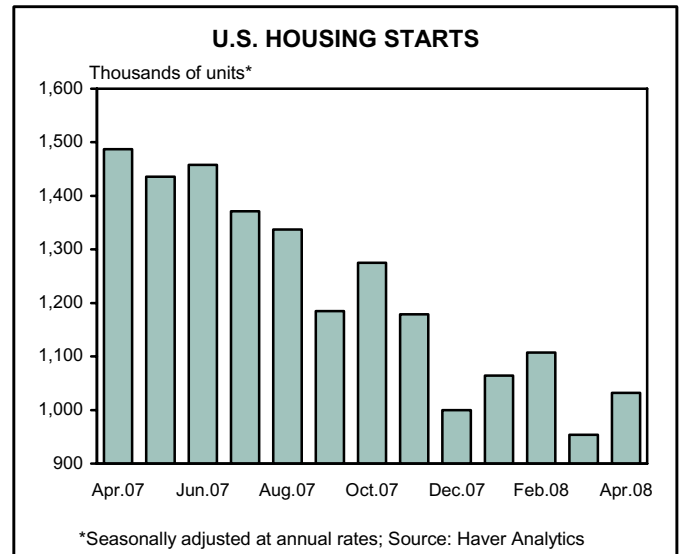
April Result: 1032K

TD Forecast: 975K

Consensus: 980K

We expect U.S. housing starts to decline modestly in May, following the strong 8.2% M/M surge in activity in April. The U.S. housing sector remains weak, with the overhang of unsold new homes - which now stands at 10.6 months - continuing to bear down on home building activity and prices. In addition, the number of building permits approved remains at a 17-year low. As a result, given the difficult environment that U.S. builders continue to face, we expect the downward trend in housing starts to continue in May.

Millan Mulraine 416-308-2911



Canadian Consumer Price Index - May

Release Date: June 19/08

April Result: core 0.3% M/M, 1.5% Y/Y;

all-items 0.8% M/M, 1.7% Y/Y

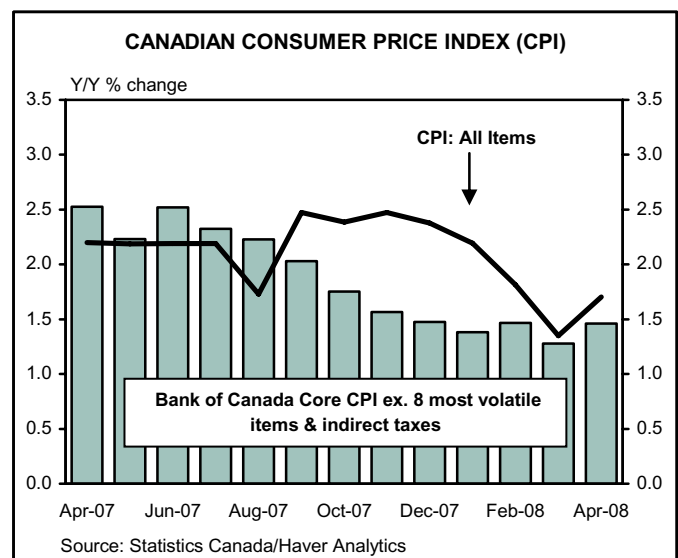
TD Forecast: core 0.3% M/M, 1.5% Y/Y;

all-items 0.6% M/M, 1.9% Y/Y

Consensus: core 0.3% M/M, 1.5% Y/Y;

all-items 0.6% M/M, 1.9% Y/Y

Our expectation is for headline consumer price inflation in Canadian to accelerate in May, rising to 1.9% on an annual basis from 1.7% Y/Y in April. After declining for four consecutive months, inflation increased modestly in April. This acceleration in consumer price inflation will likely continue for the second straight month in May, bringing the level of consumer price inflation to its highest level since January of this year – though it will remain well below the Bank of Canada's target for the fourth straight month. The core inflation measure, however, is expected to remain unchanged at 1.5% Y/Y. On a monthly basis, core inflation is expected to rise by 0.3%, with the seasonally adjusted index rising by only 0.1%. All-items CPI is expected to be stronger with a 0.6% M/M gain in May,



thanks mostly to the increase in energy prices during the month, with the seasonally adjusted index rising by a slightly lower 0.5% M/M. If there is a risk to this view, it is to the upside.

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Canadian Retail Sales - April

Release Date: June 20/08

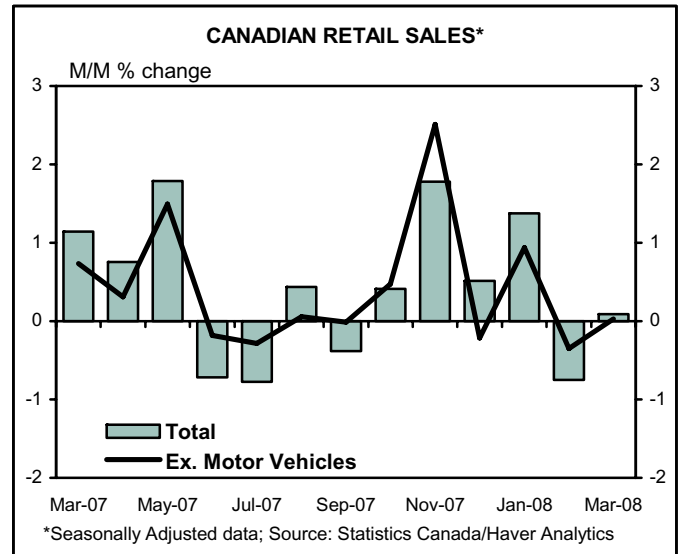
March Result: total +0.1% M/M; ex-autos +0.0% M/M

TD Forecast: total +0.7% M/M; ex-autos +0.8% M/M

Consensus: total +0.6% M/M; ex-autos +0.7% M/M

Retail trade will likely record a second consecutive monthly gain in April with a fairly robust 0.7% M/M advance, following the sluggish 0.1% M/M increase in March. With the domestic side of the economy remaining fairly strong, and the labour market continuing to create jobs, albeit at a slower pace than in the past, Canadian consumer spending will likely provide a much need boost to the economy in April. Excluding autos, retail trade is expected to rise by 0.8% M/M, due to softness in auto sales.

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RECENT KEY ECONOMIC INDICATORS June 9-June 13, 2008

Date	Economic Indicators	Data for	Units	Current	Prior	
Canada						
June 9	Housing Starts	May	Thousands	221.3	213.9	
June 10	International Merchandise Trade Balance	Apr.	C\$, blns	5.1	5.7	R ▲
June 10	Bank of Canada interest rate announcement	10-Jun	Overnight rate	3.0	3.0	
June 11	Capacity Utilization Rate	Q1-08	Per cent	79.8	81.8	
June 11	New Housing Price Index	Apr.	% Chg.	0.0	0.2	
June 13	Manufacturing Shipments	Apr.	% Chg.	2.0	-1.7	R ▼
June 13	Labour Productivity	Q1-08	Q/Q % Chg.	-0.3	-0.7	R ▲
United States						
June 10	Trade Balance	Apr.	US\$, blns	-60.9	-56.5	R ▲
June 11	MBA Mortgage Applications	6-Jun	% Chg.	10.9	-15.3	
June 12	Import Price Index	May	% Chg.	2.3	2.4	R ▲
June 12	Retail Sales	May	% Chg.	1.0	0.4	R ▲
June 12	Retail Sales ex. autos	May	% Chg.	1.2	1.0	R ▲
June 12	Weekly Initial Jobless Claims	7-Jun	Thousands	384.0	359.0	R ▲
June 12	Business Inventories	Apr.	% Chg.	0.5	0.2	R ▲
June 13	Consumer Price Index (CPI)	May	% Chg.	0.6	0.2	
June 13	CPI - excl. food and energy	May	% Chg.	0.2	0.1	
June 13	U. Michigan Consumer Confidence (prelim.)	Jun.	Index	56.7	59.8	

Source: Bloomberg, TD Economics

UPCOMING NORTH AMERICAN ECONOMIC CALENDAR June 16-June 20, 2008

Release Date	Economic Indicators	Data for Period	Units	Consensus Forecast	Prior
Canada					
June 16	New Motor Vehicle Sales	Apr.	% Chg.	0.4	-0.5
June 17	International Securities Transactions	Apr.	\$C, blns	4.5	5.3
June 18	Leading Indicators	May	% Chg.	0.1	0.1
June 19	Consumer Price Index (CPI)	May	Y/Y % chg.	1.9	1.7
June 19	CPI - excl. 8 most volatile items	May	Y/Y % chg.	1.5	1.5
June 19	Wholesale Sales	Apr.	% Chg.	--	0.6
June 19	<i>Bank of Canada Governor Carney speaks on Capitalizing on the Commodity Boom at the University of Calgary.</i>				
June 20	Retail Sales	Apr.	% Chg.	0.6	0.1
June 20	Retail Sales excl. autos	Apr.	% Chg.	0.7	0.0
United States					
June 16	Empire Manufacturing	Jun.	% Chg.	-1.5	-3.2
June 16	<i>Fed Chairman Bernanke will speak at the Senate Finance Committee's Health Reform Summit.</i>				
June 16	<i>Richmond Fed President Lacker will speak on the economic outlook to business execs in Spartanburg, SC.</i>				
June 17	Current Account Balance	Q1-08	US\$, blns	-173.5	-172.9
June 17	Producer Price Index	May	% Chg.	1.0	0.2
June 17	Producer Price Index excl. food and energy	May	% Chg.	0.2	0.4
June 17	Housing Starts	May	Thousands	980.0	1,032.0
June 17	Building Permits	May	Thousands	960.0	982.0
June 17	Industrial Production	May	% Chg.	0.1	-0.7
June 17	Capacity Utilization	May	Per cent	79.7	79.7
June 18	MBA Mortgage Applications	13-Jun	% Chg.	--	10.9
June 18	<i>San Francisco Fed President Yellen gives welcome remarks at Asian Financial Crisis Conference.</i>				
June 19	Weekly Initial Jobless Claims	14-Jun	Thousands	375.0	384.0
June 19	Philadelphia Fed Index	June	Index	-11.4	-15.6
June 19	Leading Indicators	May	% Chg.	0.0	0.1

Source: Bloomberg, TD Economics

G-7 ECONOMIC RELEASES AND EVENTS

Date	Time*	Country	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period	
June 16	5:00	EU	Euro-Zone CPI	May	Y/Y % chg.	3.6	3.6	
	8:30	Canada	New Motor Vehicle Sales	Apr.	% Chg.	0.4	-0.5	
	8:30	U.S.	Empire Manufacturing	Jun.	% Chg.	-1.5	-3.2	
	10:00	U.S.	<i>Fed Chairman Bernanke will speak at the Senate Finance Committee's Health Reform Summit.</i>					
	13:00	U.S.	<i>Richmond Fed President Lacker will speak on the economic outlook to business execs in Spartanburg, SC.</i>					
	21:30	AU	<i>Reserve Bank of Australia publishes board minutes.</i>					
June 17	--	U.S.	<i>U.S. Treasury and Chinese officials meet for fourth Strategic Economic Dialogue in Maryland.</i>					
	4:30	UK	Consumer Price Index (CPI)	May	Y/Y % chg.	3.2	3.0	
	4:30	UK	Retail Price Index excl. Mortgages (RPIX)	May	Y/Y % chg.	4.1	4.0	
	5:00	EU	ZEW Survey - Economic Sentiment	Jun.	Index	--	-43.6	
	5:00	Germany	ZEW Survey - Economic Sentiment	Jun.	Index	-42.5	-41.4	
	5:00	Germany	ZEW Survey - Current Situation	Jun.	Index	37.0	38.6	
	5:00	EU	Trade Balance (seasonally adjusted)	Apr.	Eur\$, blns	-0.5	-2.4	
	8:30	Canada	International Securities Transactions	Apr.	\$C, blns	4.5	5.3	
	8:30	U.S.	Current Account Balance	Q1-08	US\$, blns	-173.5	-172.9	
	8:30	U.S.	Producer Price Index	May	% Chg.	1.0	0.2	
	8:30	U.S.	Producer Price Index excl. food and energy	May	% Chg.	0.2	0.4	
	8:30	U.S.	Housing Starts	May	Thousands	980.0	1,032.0	
	8:30	U.S.	Building Permits	May	Thousands	960.0	982.0	
	9:15	U.S.	Industrial Production	May	% Chg.	0.1	-0.7	
	9:15	U.S.	Capacity Utilization	May	Per cent	79.7	79.7	
		19:50	Japan	<i>Bank of Japan Policy Meeting Minutes for April 30</i>				
	19:50	Japan	<i>Bank of Japan Policy Meeting Minutes for May</i>					
June 18	--	U.S.	<i>U.S. Treasury and Chinese officials meet for fourth Strategic Economic Dialogue in Maryland.</i>					
	4:30	UK	<i>Bank of England Minutes</i>					
	7:00	U.S.	MBA Mortgage Applications	13-Jun	% Chg.	--	10.9	
	8:30	Canada	Leading Indicators	May	% Chg.	0.1	0.1	
		11:45	U.S.	<i>San Francisco Fed President Yellen gives welcome remarks at Asian Financial Crisis Conference.</i>				
June 19	4:30	UK	Retail Sales	May	% Chg.	-0.1	-0.2	
	7:00	Canada	Consumer Price Index (CPI)	May	Y/Y % chg.	1.9	1.7	
	7:00	Canada	CPI - excl. 8 most volatile items	May	Y/Y % chg.	1.5	1.5	
	8:30	Canada	Wholesale Sales	Apr.	% Chg.	--	0.6	
	8:30	U.S.	Weekly Initial Jobless Claims	14-Jun	Thousands	375.0	384.0	
	10:00	U.S.	Philadelphia Fed Index	June	Index	-11.4	-15.6	
	10:00	U.S.	Leading Indicators	May	% Chg.	0.0	0.1	
	22:45	Canada	<i>Bank of Canada Governor Carney speaks on Capitalizing on the Commodity Boom at the University of Calgary.</i>					
June 20	8:30	Canada	Retail Sales	Apr.	% Chg.	0.6	0.1	
	8:30	Canada	Retail Sales excl. autos	Apr.	% Chg.	0.7	0.0	

* Eastern Standard Time; Sources: Bloomberg, TD Economics

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