TD Economics

The Weekly Bottom Line

April 17, 2009

HIGHLIGHTS

- **U.S. economy contracting, but at a slightly reduced pace.**
- **Canadian manufacturing sees an auto-led monthly rebound, and the business outlook is still grim...but less grim.**
- **Upcoming Bank of Canada report will unveil framework for quantitative/credit easing.**

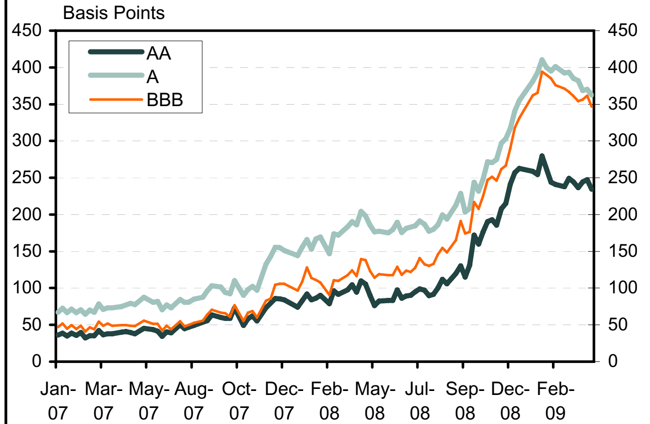
Remembering back to Calculus 101, the "second derivative" is the change in a rate of change. While one could hardly characterize them as "robust", data out this week show signs of a positive "second derivative" signal that the bottom may not be that far off. As these expectations gelled, equity markets held their own this week. Thursday-to-Thursday the Dow edged up 0.5% and the S&P 500 gained 1.0%, buoyed by bank profits. Wagged by glimmers south of the border, the TSX Composite gained consistently through the week, rising 1.7% in the week to Thursday. That stocks have gained over 20% from their troughs in early March shows some cautious optimism about business prospects. The alleviation of spreads on corporate debt evidences that financial stress is subsiding.

Beige Book shows lighter shade of red

The Federal Reserve's Beige Book is published eight times a year and conveys anecdotal information on business conditions in the 12 Fed districts. The release on Tuesday relayed the sense of a slowing deterioration. Manufacturing is still reeling but the pace of decline has slowed in some districts. Consumer spending remains tight and, while big ticket purchases are on hold, the outlook for spending on food and necessities has at least improved. As well, there is indication that improved affordability and mortgage rates are opening an albeit-trickling tap on home sales. Nonetheless, job markets are very slack, with fierce competition for any openings, and downward wage pressures remain.

Other indicators echoed this story. After two months of gains, March retail sales plunged 1.1% M/M with particular retreats of vehicle purchases, furnishings and clothing. However, spending on food and personal care items gained slightly. Despite the overall retreat in U.S. retail sales, the 3-month annualized trend had its first positive print since July. In housing, residential construction continued to slow, and, led by volatility in multi-unit building, the contraction exceeded expectations. However, single family dwellings remained stable, having seen a rebound from their trough in December. As continuing jobless claims breached 6 million, job losses continue to well outpace new

CANADIAN CORPORATE BOND SPREADS WITH 5-YEAR GOV'T OF CANADA BOND



Source: Haver Analytics, Bank of Canada, and Bloomberg

Recent TD Economics Research
April 17, 2009 - Monetary Policy Monitor
April 17, 2009 - Canadian Consumer Price Index
April 16, 2009 - Canadian Manufacturing Shipments
April 16, 2009 - U.S. Housing Starts
April 15, 2009 - U.S. Consumer Price Index
April 14, 2009 - Global Markets
April 14, 2009 - U.S. Retail Sales

employment, but, at 610K last week, new jobless claims slowed slightly and beat consensus. Unemployment is still rising quickly but the pace of lay-off may be easing – if ever so slightly.

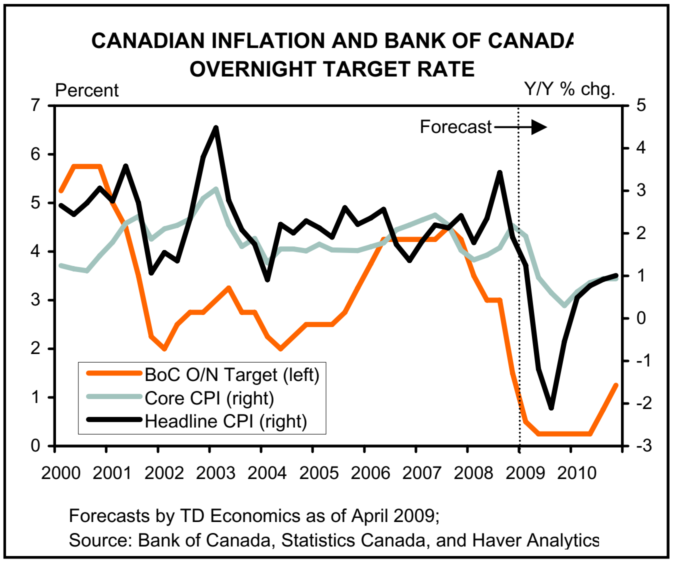
However, the tunnel's end is still a few quarters away. And, with slack mounting, many observers are still wringing their hands over the specter of deflation. The negative turn in year-over-year U.S. CPI inflation – the first negative print since 1955 – gave some press to these concerns. Indeed, price weakness was widespread and we expect continuing downward pressures over the coming months. Nonetheless, a notorious deflationary spiral should be avoided: albeit not quite dropping bills from helicopters, the Fed is purchasing treasuries and taking other actions to expand the U.S. money supply directly. By announcing its own "central tendency" in its January minutes, the Fed has done the best thing next to inflation targeting and market expectations for U.S. CPI still appear anchored.

…And so goes Canada

Canadian data this week paint a similar picture to that Stateside: an economy continuing to lose ground but not as fast as before. We estimate that the first quarter witnessed the brunt of the contraction (around 6% annualized), in part reflecting downward momentum from Q4/2008. The pace of contraction will ease in subsequent quarters. Edging back from the brink, the Bank of Canada's Business Outlook Survey observed that, while still not optimistic, businesses were less negative about making investments and future sales growth.

Thursday's report on Canadian manufacturing shipments, which climbed 2.2% M/M in February thanks, provided potential cause for less pessimistic pessimism. While the report had definite signs of stress (the year-over-year contraction in shipments accelerated), inventory overhangs alleviated from January and unfilled orders rose. The monthly uptick was thanks to a rebound in auto shipments, which follows a January of plant closures by the Big Three. Preliminary U.S. auto sales data suggest that the uptick for Canadian auto manufacturing may persist into March, but a sustained rebound seems unlikely until U.S. demand for durables recovers.

With this growing slack, there are significant downward price pressures. Canadian CPI inflation slowed to 1.2% Y/Y in March from 1.4% Y/Y in February. The robustness of core, which actually rose to 2.0% Y/Y in March, bodes well for underlying price stability and the Bank of Canada's 2% target. Rising food and shelter costs are still the drivers of the upward movement in core, and the major downdraft on headline inflation are transportation costs – particularly the plunge in gasoline. Looking ahead, as unemployment mounts and slack builds, core will swing downwards and we expect a negative year-over-year print on headline CPI before year's end.



All eyes on the Bank of Canada

Despite some positive economic news, these downward risks to inflation point to further monetary easing next week. The Bank of Canada's rate announcement on Tuesday will be closely watched and, while a close call, we anticipate a 25 basis point cut to leave the overnight rate at 0.25%. However, a cut would cause collateral damage, such as to money markets and bank margins, so an unchanged rate is certainly possible and likely desirable.

In addition, all Bank watchers are eagerly anticipating Thursday's Monetary Policy Report (MPR), which will not only provide an updated economic assessment but unveil the Bank's framework for quantitative/credit easing (QE/CE). QE seeks to expand the monetary supply directly, while CE implies intervening to lower spreads in specific gummed-up markets. In its March announcement, the Bank advised that it "is refining the approach it would take to provide additional monetary stimulus, if required" promising such a QE/CE framework in its April MPR. The improvements in credit conditions dampen expectations that QE/CE is imminent, but, with the rate functionally at its minimum, the bank is very wise to have a framework in-place for further stimulus.

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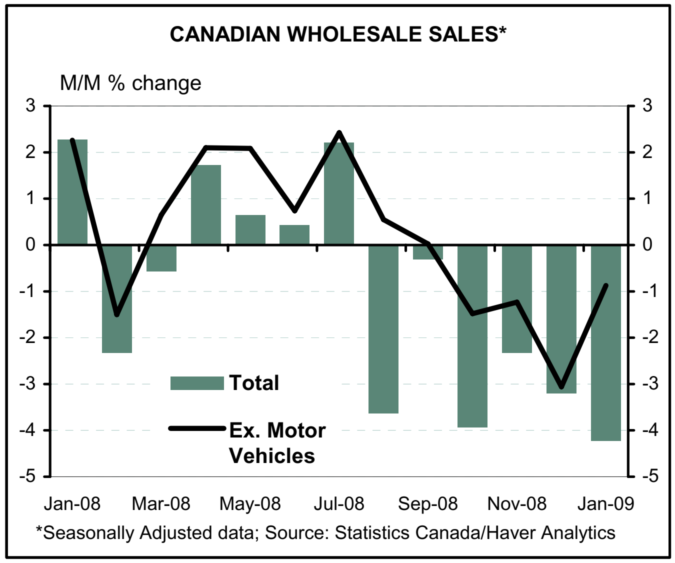
UPCOMING KEY ECONOMIC RELEASES

Canadian Wholesale Sales - February

Release Date: April 21/09
January Result: -4.2% M/M
TD Forecast: 2.5% M/M
Consensus: 1.0% M/M



Weak domestic consumer spending and softening U.S. demand have continued to weigh heavily on the Canadian wholesale sales sector, where activity has declined in 5 of the last 6 months (including the last 4). Moreover, with the Canadian economy appearing to have taken a turn for the worse this year, we expect wholesale sales activity to remain soft during the first half of this year. Nevertheless, the strength in merchandise exports and manufacturing shipments in February suggest that Canadian wholesale sales will also post some reasonable gains in February. As such, our call is for Canadian wholesale sales to rise by 2.5% M/M in February. The gains are expected to be mostly concentrated among the auto-related components. Real wholesale activity should also post gains on the month. While this rebound will end four consecutive months of declines in this sector, it is unlikely to mark the beginning of a turnaround in the sector as the Canadian economic backdrop remains very weak. Indeed, in the coming months we expect wholesale sales to remain soft as the weakness in the Canadian economy dampens demand.

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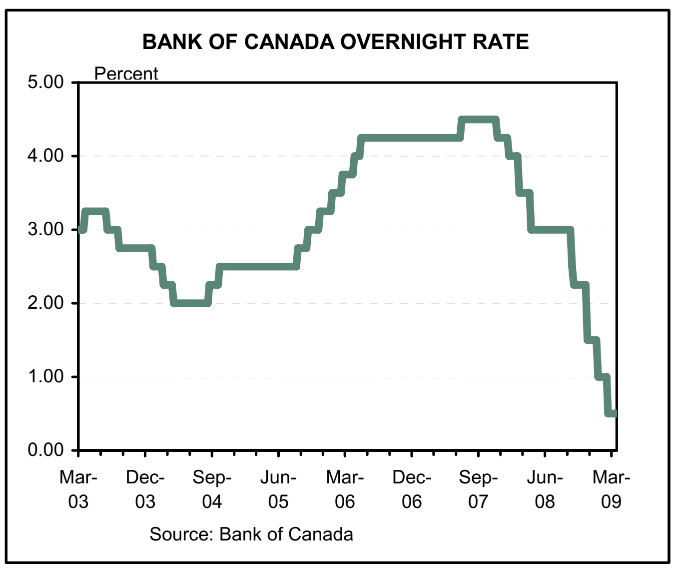
Bank of Canada Interest Rate Decision

Release Date: April 21/09
Current Rate: 0.50%
TD Forecast: 0.25%
Consensus: 0.50%



As the second quarter of 2009 progresses, the Canadian data continues to reveal an economy that is unwinding at a rather alarming pace. Rates are nearing rock bottom, but given the severity of the economic contraction plus signals from the BoC, there is a case for a last rate cut of 25 bps to leave the overnight rate at 0.25%. Inflation metrics also bolster the case for further easing. Headline CPI has been below the Bank of Canada's 2% target since November 2008 and was most recently just 1.2% Y/Y in March. Therefore, the April 21 meeting, therefore, is likely to mark the end of the easing cycle. With that in mind, there will be more focus on the BoC's statement and what kind of verbiage they provide on the possibility of quantitative easing. We think that the Bank will ultimately follow a path of QE, but it will not be implemented immediately, though we expect significant detail in the accompanying MPR.

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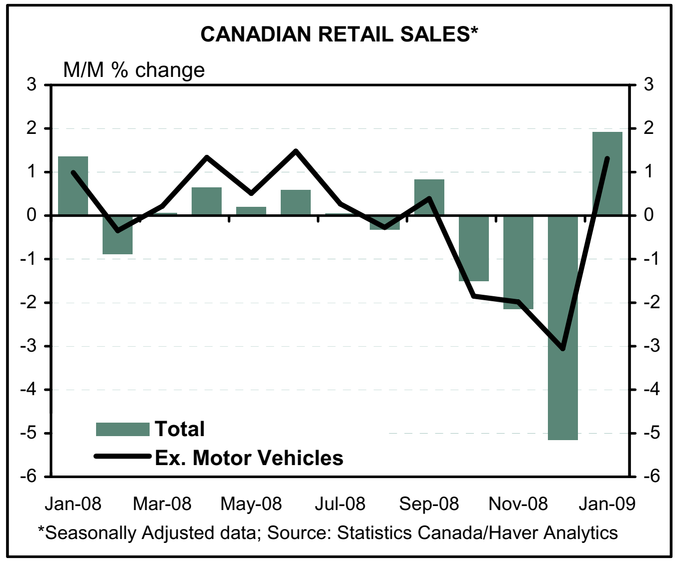
Canadian Retail Sales - February

Release Date: April 23/09
January Result: total 1.9% M/M; ex-autos 1.3% M/M
TD Forecast: total 0.2% M/M; ex-autos 0.5% M/M
Consensus: total -0.3% M/M; ex-autos 0.2% M/M

Canadian households appear to be facing a perfect storm as the worsening labour market conditions, lower housing and financial wealth, and tighter lending conditions have combined to push consumers firmly onto their back foot. Notwithstanding the weak backdrop for Canadian consumers, we expect retail sales to eke out a 0.2% M/M gain in February, coming on the heels of the strong performance the month before. Much of the gain should be on account of higher gasoline prices, and the continuation of bargain-hunting by Canadian consumers following the abysmal Christmas shopping season. Stronger home sales during the months should spur shopping activity, though soft auto sales will be a drag on overall sales. Excluding autos, sales are expected to rise by a 0.5% M/M. Real retail sales, however, are likely to be soft as the gain in sales is likely to be the result of higher prices. In the months ahead, we expect retail sales to revert to regular negatives, as Canadian consumers moderate spending in the face of the very difficult economic environment.



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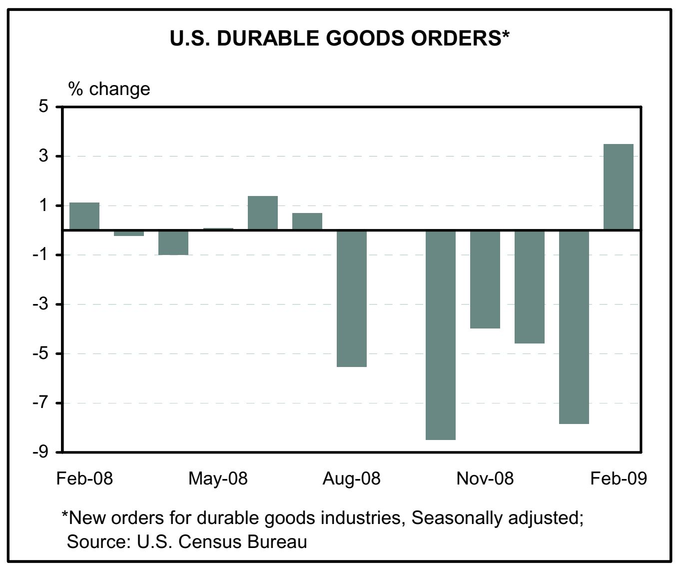
U.S. Durable Goods Orders – March

Release Date: April 24/09
February Result: total 3.5% M/M; ex-transportation 3.7% M/M
TD Forecast: total -1.0% M/M; ex-transportation -0.5% M/M
Consensus: total -1.5% M/M; ex-transportation -1.2% M/M

Manufacturing sector activity has become a major casualty of the ongoing U.S. economic recession, as both businesses and households continue to be more conservative in their spending. The retrenchment in capital expenditure has been particularly sharp, with new durable goods orders falling in 6 of the last 7 months. This pattern should continue into March. This much has become apparent in the raft of regional indicators that continue to show weakening manufacturing sector activity, though they suggest that the pace of contraction is easing. As such, we expect durable goods orders to decline 1.0% M/M in March, undoing some of the gains posted the month before. Boeing aircraft orders, which form a key component of the headline index, were weaker on the month and should be a source of drag on the headline number. As such, excluding transportation equipment, the decline should be a more modest 0.5% M/M. In the coming months, we should see new orders fall even further though recent regional surveys argue that the downward trend should slow.



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RECENT KEY ECONOMIC INDICATORS
April 13 - April 17, 2009

Release Date	Economic Indicators	Data for Period	Units	Current	Prior	
Canada						
Apr. 13	Business Outlook Future Sales	Q1	Index	-22	-34	
Apr. 15	New Motor Vehicles Sales	Feb.	M/M % chg.	-2.2	4.3	R▼
Apr. 16	Manufacturing Shipments	Feb.	M/M % chg.	2.2	-5.3	R▲
Apr. 17	Consumer Price Index	Mar.	Y/Y % chg.	1.2	1.4	
Apr. 17	Bank of Canada Core Consumer Price Index	Mar.	Y/Y % chg.	2.0	1.9	
United States						
Apr. 14	Producer Price Index	Mar.	Y/Y % chg.	-1.2	0.1	
Apr. 14	Producer Price Index Ex Food and Energy	Mar.	Y/Y % chg.	3.8	4.0	
Apr. 14	Advance Retail Sales	Mar.	M/M % chg.	-1.1	0.3	R▲
Apr. 14	Retail Sales Less Auto	Mar.	M/M % chg.	-0.9	1.0	R▲
Apr. 14	Business Inventories	Feb.	M/M % chg.	-1.3	-1.3	R▼
Apr. 14	ABC Consumer Confidence	12 Apr.	Index	-51	-50	
Apr. 15	MBA Mortgage Applications	10 Apr.	% change	-11.0	4.7	
Apr. 15	Consumer Price Index	Mar.	Y/Y % chg.	-0.4	0.2	
Apr. 15	Core Consumer Price Index	Mar.	Y/Y % chg.	1.8	1.8	
Apr. 15	Empire Manufacturing	Mar.	Index	-14.7	-38.2	
Apr. 15	Total Net TIC Flows	Feb.	US$, blns	-97.0	-146.8	R▲
Apr. 15	Industrial Production	Mar.	M/M % chg.	-1.5	-1.5	R▼
Apr. 15	Capacity Utilization	Mar.	Percent	69.3	70.3	R▼
Apr. 15	NAHB Housing Market Index	April	Index	14	9	
Apr. 16	Housing Starts	Mar.	Thousands	510	572	R▼
Apr. 16	Building Permits	Mar.	Thousands	513	564	R▲
Apr. 16	Initial Jobless Claims	11 Apr.	Thousands	610	663	R▲
Apr. 16	Continuing Claims	4 Apr.	Thousands	6022	5850	R▲
Apr. 16	Philadelphia Fed Index	Apr.	Index	-24.4	-35.0	
Apr. 17	University of Michigan Confidence Index	Apr.	Index	61.9	57.3	

Source: Bloomberg, TD Economics

UPCOMING NORTH AMERICAN ECONOMIC CALENDAR
April 20 - April 24, 2009

Release Date	Economic Indicators	Data for Period	Units	Consensus Forecast	Prior
Canada					
Apr. 20	International Securities Transactions	Mar	$C, blns	--	10.4
Apr. 21	Wholesale Sales	Feb.	M/M % chg.	1.0	-4.2
Apr. 22	Leading Indicators	Mar.	M/M % chg.	0.3	-1.1
Apr. 23	Retail Sales	Feb.	M/M % chg.	-0.3	1.9
Apr. 23	Retail Sales Less Autos	Feb.	M/M % chg.	0.2	1.3
United States					
Apr. 20	Leading Indicators	Mar	M/M % chg.	-0.2	-0.4
Apr. 21	ABC Consumer Confidence	19 Apr.	Index	--	-51.0
Apr. 22	MBA Mortgage Applications	17-Apr	% change	--	-11.0
Apr. 22	Housing Price Index	Feb.	M/M % chg.	-1.0	1.7
Apr. 23	Initial Jobless Claims	18 Apr.	Thousands	650	610
Apr. 23	Continuing Claims	11 Apr.	Thousands	6100	6022
Apr. 23	Existing Home Sales	Mar.	M/M % chg.	-1.5	5.1
Apr. 24	Durable Goods Orders	Mar.	M/M % chg.	-1.5	3.4
Apr. 24	Durable Goods Orders Ex Transportation	Mar.	M/M % chg.	-1.2	3.9
Apr. 24	New Home Sales	Mar.	M/M % chg.	0.9	4.7

Source: Bloomberg, TD Economics

G-7 ECONOMIC RELEASES AND EVENTS

Date	Time*	Country	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
Apr. 20	1:00	Japan	Leading Index	Feb.	Index	75.2	75.2
	1:00	Japan	Coincident Index	Feb.	Index	86.0	86.8
	8:30	Canada	International Securities Transactions	Mar	$C, blns	--	10.4
	9:00	*U.S.*	*Chicago Fed President Evans speaks in Chicago*				
	10:00	U.S.	Leading Indicators	Mar	M/M % chg.	-0.2	-0.4
	19:00	*U.S.*	*Fed Governor Kohn speaks in Delaware on economic outlook*				
Apr. 21	2:00	Germany	Producer Price	Mar.	Y/Y % chg.	0.1	0.9
	4:30	U.K.	Consumer Price Index	Mar.	Y/Y % chg.	2.9	3.2
	4:30	U.K.	Core Consumer Price Index	Mar.	Y/Y % chg.	1.5	1.6
	4:30	U.K.	Retail Price Index	Mar.	Y/Y % chg.	-0.5	0.0
	5:00	Germany	ZEW Survey - Economic Sentiment	Apr.	Index	2.0	-3.5
	5:00	Germany	ZEW Survey - Current Situation	Apr.	Index	-90.0	-89.4
	5:00	E.C.	ZEW Survey - Economic Sentiment	Apr.	Index	0.0	-6.5
	8:30	Canada	Wholesale Sales	Feb.	M/M % chg.	1.0	-4.2
	9:00	*Canada*	*Bank of Canada Interest Rate Announcement*		*Percent*	*0.50*	*0.50*
	10:00	*U.S.*	*Kansas City Fed President Hoenig testifies before Joint Economic Committee*				
	17:00	U.S.	ABC Consumer Confidence	19 Apr.	Index	--	-51
	19:50	Japan	Merchandise Trade Balance	Mar.	¥, blns	-9.8	82.1
Apr. 22	*4:30*	*U.K.*	*Bank of England Minutes*				
	4:30	U.K.	Claimant Count Rate	Mar.	M/M % chg.	4.6	4.3
	4:30	U.K.	Jobless Claim Change	Mar.	Thousands	116	138.4
	4:30	U.K.	Money Supply	Mar.	Y/Y % chg.	19.2	18.7
	5:00	E.C.	Debt-to-GDP Ratio	2008	Percent	--	66.3
	7:00	U.S.	MBA Mortgage Applications	17-Apr	% change	--	-11.0
	7:30	*U.K.*	*Chancellor of Exchequer makes budget statement*				
	8:30	Canada	Leading Indicators	Mar.	M/M % chg.	0.3	-1.1
	10:00	U.S.	Housing Price Index	Feb.	M/M % chg.	-1.0	1.7
Apr. 23	2:45	France	Business Confidence Indicator	Apr.	Index	69	68
	4:00	E.C.	Current Account SA	Feb.	Eur, blns	-10.7	-12.7
	4:00	E.C.	Purchasing Managers Index Manufacturing	Apr.	Index	34.7	33.9
	4:00	E.C.	Purchasing Managers Index Services	Apr.	Index	43.8	43.6
	4:00	E.C.	Purchasing Managers Index Composite	Apr.	Index	38.9	38.3
	5:00	E.C.	Industrial New Orders	Feb.	Y/Y % chg.	-34.8	-34.1
	6:00	*U.K.*	*CBI Industrial Trends Total Orders Released*				
	8:30	Canada	Retail Sales	Feb.	M/M % chg.	-0.3	1.9
	8:30	Canada	Retail Sales Less Autos	Feb.	M/M % chg.	0.2	1.3
	8:30	U.S.	Initial Jobless Claims	18 Apr.	Thousands	650	610
	8:30	U.S.	Continuing Claims	11 Apr.	Thousands	6100	6022
	10:00	U.S.	Existing Home Sales	Mar.	M/M % chg.	-1.5	5.1
	10:30	*Canada*	*Bank of Canada Monetary Policy Report Released*				
	19:50	Japan	All Industry Activity Index	Feb.	M/M % chg.	-2.1	-1.7
Apr. 24	--	*U.S.*	*Treasury Secretary Geithner Hosts G7 Finance Ministers in Washington*				
	2:45	France	Consumer Spending	Mar.	Y/Y % chg.	-0.4	-2.0
	4:00	Germany	IFO Business Climate Survey	Apr.	Index	82.3	82.1
	4:00	Germany	IFO Survey - Current Assessment	Apr.	Index	82.1	82.7
	4:00	Germany	IFO Survey - Business Expectations	Apr.	Index	82.6	81.6
	4:30	U.K.	GDP	Q1	Q/Q % chg.	-1.5	-1.6
	4:30	U.K.	Retail Sales	Mar.	Y/Y % chg.	1.1	0.4
	8:30	U.S.	Durable Goods Orders	Mar.	M/M % chg.	-1.5	3.4
	8:30	U.S.	Durable Goods Orders Ex Transportation	Mar.	M/M % chg.	-1.2	3.9
	10:00	U.S.	New Home Sales	Mar.	M/M % chg.	0.9	4.7

* Eastern Standard Time; Sources: Bloomberg, TD Economics