



**Bank  
Financial  
Group**

# TD Economics

## The Weekly Bottom Line

April 11, 2008

### HIGHLIGHTS

- **Canadian housing starts strength is timely**
- **U.S. focus shifts to “how deep, how long?”**

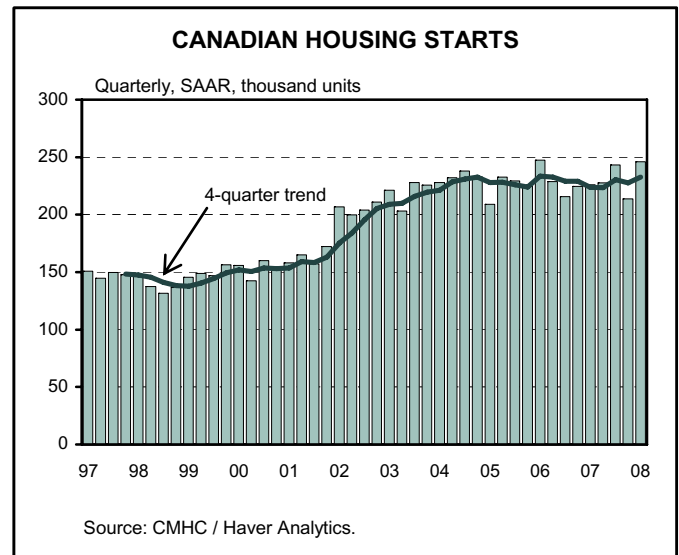
Canadian economic data did not disappoint this week, far from it. For starters, total building permits shot back above 230,000 units in February after trending mostly down since the middle of last year. Then, housing starts for March closed out the quarter on a strong note, barely budging from February’s astonishingly high level of around 255,000 units. The level of first quarter housing starts (246,000 units) ranks close to the highest ever on record, which dates back to 1977. Even after adjusting for population growth and trends in household formation, we judge the current pace of home construction to be unsustainably high. In particular, the volatile multiple-unit segment is vulnerable to a second quarter payback, after shooting through the roof in the first quarter. Nonetheless, current momentum has led us to increase our 2008 forecast to 221,000 starts, a 3% decline from 2007. [More in “*Canada’s Red Hot Real Estate Markets to Cool*”, available on our website.] Fortunately, in the current cycle where the Canadian economy does its best to weather the U.S. downturn, strength in construction activity could not have come at a better time. The construction sector has certainly done its part in recent months. It has been a significant direct and indirect contributor to Canadian economic growth and employment, and shows, as of yet, little sign of relinquishing that role.

### Even trade lent a hand

Another positive surprise this week was that even the weakest spot for the Canadian economy in the current

#### Recent TD Economics Research

April 10, 2008 - The 2008 Manitoba Budget  
 April 10, 2008 - BOE/ECB Interest Rate Decision  
 April 10, 2008 - Canadian International Trade  
 April 10, 2008 - Canada’s Real Estate Outlook  
 April 8, 2008 - Canadian Housing Starts



cycle, namely exports, fared much better than expected in February. On a month-over-month basis, the volume of exports shot up 3.6% while import volumes were down 1.9%, which combined imply that net exports will have lent a significant hand to growth accounting for February. As a consequence of unexpected strength in construction and exports, overall first quarter growth is not looking nearly as weak as we forecast in March, and will surely be positive. However, for a multitude of reasons which still hold – in particular a strong Canadian dollar, emerging market competition, and mostly, weak U.S. demand – we still hold firm the view that exports will remain the weak spot for the Canadian economy going forward. They will likely continue to exert a significant drag on Canadian growth in upcoming months, with February written off as a blip when all is said and done.

### Sombre Frenchmen

On the other side of the Atlantic, the French seem to be in no mood to kid these days, despite the usual comic antics to come out of Sarkozy’s press conferences. Between virulent protests - what else is new? - in Paris over the Olympic torch relay and the decidedly somber mood from top men at the IMF (Dominique Strauss-Kahn) and

the ECB (Claude Trichet), “*joie de vivre*” seems to be in short supply these days. They are not alone in feeling bearish of course. The little data for the U.S. economy that was released this week did little to change our or central bankers’ views on the U.S. outlook, so allow us to editorialize a bit more than usual this week.

Concerns over the U.S. economy have shifted in recent weeks. The focus up to recently seemed to have been an understandable, but misguided, fixation on whether or not the U.S. is technically in a recession. The jury on this, which is the cycle dating committee of the National Bureau of Economic Research, doesn’t offer its verdict until much later after events have unfolded. Much confusion arises in the meantime as the only thing anyone can provide until then is a forecast, be it theirs or someone else’s. Anyone claiming the U.S. economy is currently in a recession is providing you with their forecast, not a statement of fact. By the same token, anyone claiming the U.S. is not in recession is offering, you guessed it, their forecast. As time passes and more data comes in, uncertainty surrounding the forecast dissipates and the likelihood of it being correct improves – nothing more, nothing less. Think of the NBER as the Pope (insert alternative authoritative religious figure here as needed) of recessions, but given the huge lag, we don’t advise waiting around for the ‘final’ word.

TD Economics’ forecast is that the U.S. economy is indeed currently in the midst of a recession, which will record two non-consecutive quarters of real GDP contraction. By itself, the fact the quarterly contractions are not expected to be consecutive would make this an atypical recession. But there are other more substantive issues which would also make the current recession unlike those past. Overall, our U.S. forecast stands on the slightly pessimistic side of consensus, but is not currently quite as bearish as that of the IMF. The accompanying table compares the IMF forecast from April to ours from March.

### Loud and clear

After slashing their U.S. forecast by a full percentage point for 2008 and 1.2 percentage points for 2009, the organization has now come out clearly on the gloomy side of things. Interestingly, it would seem hard to remain poised if one lines up this week’s simultaneous alarm bells rung off by the IMF. First, their latest Economic Outlook has world growth slowing considerably this year – agreed. Second, the IMF thinks there’s a 1 in 4 chance of a worldwide recession (less than 3% growth) – again, we’d agree that the current uncertainty means a wider range of potential outcomes with higher-than-usual probability, so we would

REAL GDP GROWTH (%)				
	2008		2009	
	IMF	TDE <sup>^</sup>	IMF	TDE <sup>^</sup>
<b>World</b>	<b>3.7</b>	<b>3.6</b>	<b>3.8</b>	<b>3.3</b>
Euro area	1.4	1.4	1.2	1.2
United Kingdom	1.6	1.4	1.6	1.9
<b>United States</b>	<b>0.5</b>	<b>1.1</b>	<b>0.6</b>	<b>1.1</b>
<b>Canada</b>	<b>1.3</b>	<b>1.1</b>	<b>1.9</b>	<b>1.8</b>
Japan	1.4	1.0	1.5	1.7
ROW*	6.3	6.2	6.2	5.3

\* World outside countries listed above  
Source: IMF, *World Economic Outlook* (April 2008),  
<sup>^</sup>TD Economics, *Quarterly Economic Forecast* (March 2008).

not quibble with that figure. According to another IMF report, we are currently facing the worst financial crisis since the great depression, with financial losses forecast at \$945 billion. Maybe, but comparisons to the great depression are off the mark in both scope and depth. Specific estimates as to aggregate financial losses vary greatly and depend on market outcomes. Any such calculation is fraught with uncertainty, and the IMF’s estimate is certainly as good as any, if not better than most. Third, food price inflation is causing riots in some developing countries and threatens to seriously compromise efforts to fight poverty in many regions of the developing world. Every one of these concerns is valid, even if slightly over-hyped by the media at times.

But without dismissing any of the aforementioned concerns, dare we remain cautious pessimists while at the same time putting things in perspective and say that the world is not coming to an end? Dare we say that the same financial players in the U.S. which originated much of the currently toxic asset-backed securities (ABS) are also the fastest, certainly with a lot of help from the Federal Reserve, to adjust their books and clear out the mess? Dare we remind observers how many times the American economy has been written off, bound for the heap of history, only to lead the world economy into another decade of growth? None of this means the U.S. economy will fare well in the near term, far from it. It will at best move sideways until mid-2009, at worse face a deeper recession. And we are nowhere near done with alleviating financial markets stresses worldwide, as credit spreads can attest. But it might serve as a friendly reminder that gloom is in part self-fulfilling, and that the remarkably flexible U.S. economy has consistently shown an ability to land on its feet. Just something to keep in mind if your time horizon is longer than 18 months...

*Pascal Gauthier, Economist 416-944-5730*

## UPCOMING KEY ECONOMIC RELEASES

### U.S. Retail Sales - March

**Release Date:** April 14/08

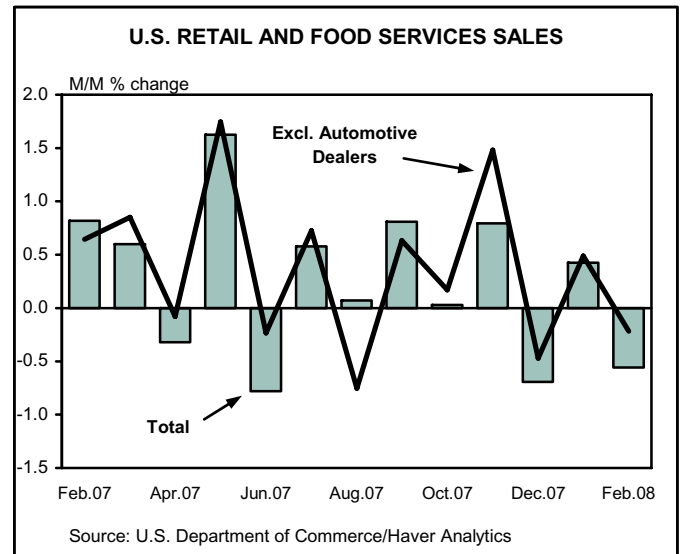
**February Result:** total -0.6%, ex-autos -0.2%

**TD Forecast:** total -0.3%, ex-autos 0.0%

**Consensus:** total +0.1%, ex-autos +0.2%

We expect to see U.S. retail sales come in weak once again in March, with a 0.3% M/M decline. And, the fall should be even worse once the upward effect from the massive increase in gasoline prices during the month (+7.1%) is stripped out. With three months in a row of falling employment and plunging consumer confidence, retail spending is likely to weaken substantially going forward. And the signs of weakness don't end there, with the ISM non-manufacturing index sitting below 50 for three consecutive months, and same store sales falling in March. The 1.7% decline in car sales during the month means that ex-autos sales should perform a little better, coming in flat for March, but ex-autos, ex-gasoline sales will likely be abysmal.

*Jacqui Douglas 416-982-7784*



### U.S. Consumer Price Index - March

**Release Date:** April 16/08

**February Result:** core 0.0% M/M, 2.3% Y/Y;

all-items 0.0% M/M, 4.0% Y/Y

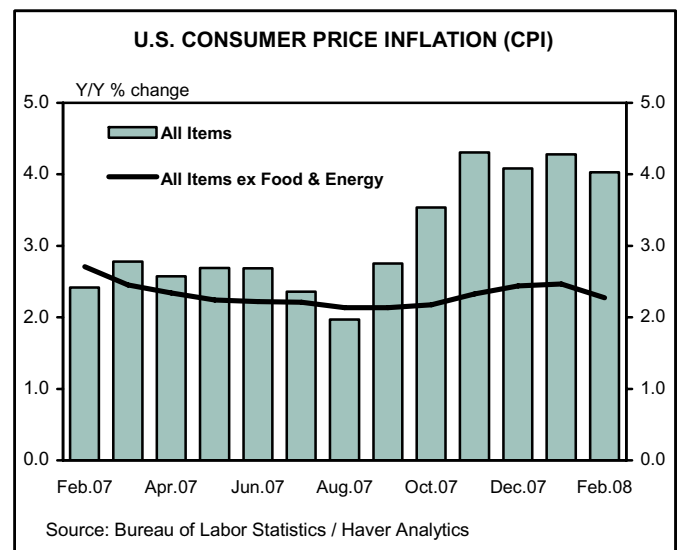
**TD Forecast:** core +0.2% M/M, 2.4% Y/Y;

all-items +0.4% M/M, 4.1% Y/Y

**Consensus:** core +0.2% M/M, 2.4% Y/Y;

all-items +0.3% M/M, 4.0% Y/Y

We expect to see U.S. inflation pick up a bit in March, with core CPI increasing to 2.4% Y/Y and all-items CPI to 4.1% Y/Y. After coming in flat on a monthly basis in February, we expect core CPI to return to a more normal monthly growth rate of 0.2% in March. And all-items CPI is especially unlikely to repeat its flat monthly performance from February, given the increase in energy prices that we saw in March. All three components that feed into the energy sub-index – fuel oil, natural gas, and gasoline – saw big increases during the month. And since food prices continue to surge, we'll likely see a boost to all-items inflation from the food category as well. So while core CPI is likely to abate going forward as the U.S. economy growth



slows and economic slack begins to build, all-items CPI is the bigger wild card, and will depend largely on what happens to commodity prices going forward.

*Jacqui Douglas 416-982-7784*

## Canadian Manufacturing Shipments - February

**Release Date:** April 16/08

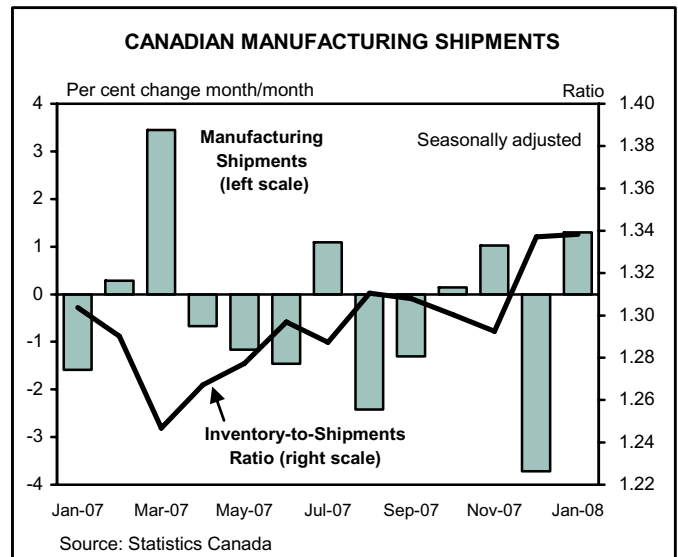
**January Result:** +1.3%

**TD Forecast:** +1.5%

**Consensus:** +0.5%

We're expecting to see another strong month for Canadian manufacturing shipments, with a 1.5% M/M gain. Exports of manufactured products were surprisingly strong in February, and suggest that manufacturing activity continued to recover from extended factory shutdowns in December and January. Exports of automotive products were up 11.4%, partially undoing big losses in the two prior months, and exports of machinery and equipment gained 1.5%. However, U.S. manufacturing activity is already showing serious signs of strain, with shipments down 2.1% and new orders down 1.3% during the month. Therefore, we don't expect the strength in Canadian manufacturing shipments to last.

*Jacqui Douglas 416-982-7784*



## Canadian Consumer Price Index - March

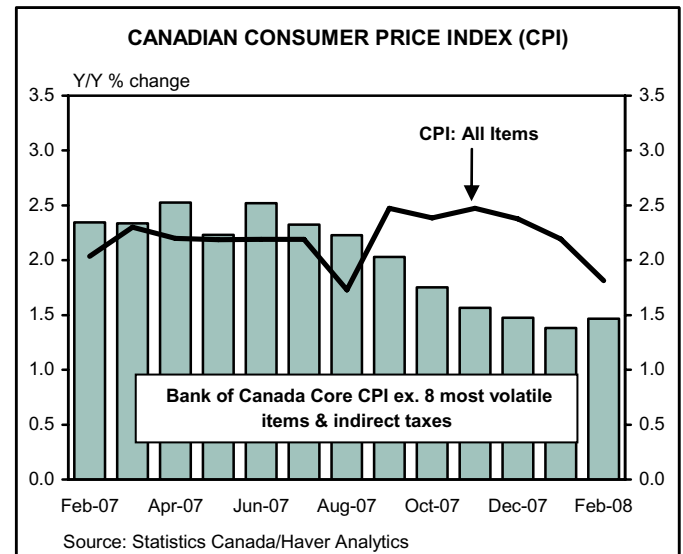
**Release Date:** April 17/08

**February Result:** core +0.5% M/M, 1.5% Y/Y;  
all-items +0.4% M/M, 1.8% Y/Y

**TD Forecast:** core +0.3% M/M, 1.4% Y/Y;  
all-items +0.6% M/M, 1.6% Y/Y

**Consensus:** core +0.3% M/M, 1.4% Y/Y;  
all-items +0.3% M/M, 1.4% Y/Y

Canadian inflation is expected to decline in March, with core CPI slowing to 1.4% Y/Y and all-items CPI falling to 1.6% Y/Y. After increasing by 0.3% M/M on a seasonally-adjusted basis in February, core CPI is likely to take a breather in March. And since seasonal effects tend to add about 0.2 percentage points to the monthly core CPI figure in March, our forecast for a 0.3% M/M increase translates to only a 0.1% gain once seasonally adjusted. All-items CPI is expected to be a little stronger with a 0.6% M/M increase, due largely to the recent surge in energy prices. In the month of March, we saw Canadian gasoline prices increase by 4.2%, as well as some



big gains in both oil and natural gas prices. However, base effects and the GST cuts will be at play, keeping the year-over-year rate of inflation subdued at only 1.6%.

*Jacqui Douglas 416-982-7784*

### RECENT KEY ECONOMIC INDICATORS April 7 - April 11, 2008

Date	Economic Indicators	Data for	Units	Current	Prior	
<b>Canada</b>						
Apr. 7	Building Permits	Feb.	% change	-1.0	-3.5	R▼
Apr. 8	Housing Starts	Mar.	Thousands	254.7	255.6	R▼
Apr. 10	International Merchandise Trade Balance	Feb.	C\$, blns	4.9	2.8	R▼
Apr. 11	New Housing Price Index	Feb.	% Chg.	0.3	0.6	
<b>United States</b>						
Apr. 9	Wholesale Inventories	Feb.	% Chg.	1.1	1.3	R▲
Apr. 10	Weekly Initial Jobless Claims	5-Apr.	Thousands	357.0	410.0	R▲
Apr. 11	U. Michigan Consumer Confidence (prelim.)	Apr.	Index	63.2	69.5	

Source: Bloomberg, TD Economics

### UPCOMING NORTH AMERICAN ECONOMIC CALENDAR April 14 - April 18, 2008

Release Date	Economic Indicators	Data for Period	Units	Consensus Forecast	Prior
<b>Canada</b>					
Apr. 14	New Motor Vehicle Sales	Feb.	% change	-1.5	8.2
Apr. 14	<i>BOC releases Spring 2008 Business Outlook Survey</i>				
Apr. 16	Manufacturing Shipments	Feb.	% change	0.5	1.3
Apr. 17	Consumer Price Index (CPI)	Mar.	Y/Y % chg.	1.4	1.8
Apr. 17	CPI - excl. 8 most volatile items	Mar.	Y/Y % chg.	1.4	1.5
Apr. 18	Wholesale Sales	Feb.	% change	0.1	-0.3
Apr. 18	Leading Indicators	Mar.	% change	0.2	2.6
<b>United States</b>					
Apr. 14	Retail Sales	Mar.	% change	0.1	-0.6
Apr. 14	Retail Sales ex. autos	Mar.	% change	0.2	-0.2
Apr. 14	Business Inventories	Feb.	% change	0.5	0.8
Apr. 14	<i>Fed Governor Warsh speaks at NYU law school's 2008 Economic Policy Forum</i>				
Apr. 15	Producer Price Index (PPI)	Mar.	% change	0.7	0.3
Apr. 15	PPI excl. food and energy	Mar.	% change	0.2	0.5
Apr. 15	Empire Manufacturing Survey	Apr.	Index	-17.0	-22.2
Apr. 16	Housing Starts	Mar.	Thousands	1,025	1,065
Apr. 16	Building Permits	Mar.	Thousands	973	984
Apr. 16	Consumer Price Index (CPI)	Mar.	% change	0.3	0.0
Apr. 16	CPI - excl. food and energy	Mar.	% change	0.2	0.0
Apr. 16	Industrial Production	Mar.	% change	-0.1	-0.5
Apr. 16	Capacity Utilization	Mar.	Per cent	80.3	80.4
Apr. 16	CPI Core Index	Mar.	Index	n/a	213.851
Apr. 16	<i>San Francisco Fed President Yellen speaks at Bay Area Council's 26th Annual Outlook Conference</i>				
Apr. 16	<i>Philadelphia Fed President Plosser speaks at Montgomery County Community College in Blue Bell, PA</i>				
Apr. 16	<i>Fed's Beige book released</i>				
Apr. 17	Weekly Initial Jobless Claims	12-Apr	Thousands	n/a	357
Apr. 17	Philadelphia Fed Index	Apr.	Index	-15.0	-17.4
Apr. 17	Leading Indicators	Mar.	% change	0.1	-0.3
Apr. 17	<i>Fed Vice Chairman Kohn gives keynote speech at Richmond Fed's 2008 Credit Markets Symposium</i>				
Apr. 18	<i>Dallas Fed President Fisher speaks at Chicago Council on Global Affairs</i>				

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. 13	17:45	NZ	Retail Sales	Feb.	% change	0.0	0.3
	19:50	Japan	<i>Bank of Japan Monetary Policy meeting minutes for February released</i>				
Apr. 14	5:00	EU	Industrial Production	Feb.	% change	0.2	0.9
	8:30	Canada	New Motor Vehicle Sales	Feb.	% change	-1.5	8.2
	8:30	U.S.	Retail Sales	Mar.	% change	0.1	-0.6
	8:30	U.S.	Retail Sales ex. autos	Mar.	% change	0.2	-0.2
	10:00	U.S.	Business Inventories	Feb.	% change	0.5	0.8
	10:30	Canada	<i>BOC releases Spring 2008 Business Outlook Survey</i>				
	14:30	U.S.	<i>Fed Governor Warsh speaks at NYU law school's 2008 Economic Policy Forum</i>				
Apr. 15	2:45	France	Consumer Price Index	Mar.	Y/Y % Chg.	3.0	2.8
	5:00	EU-12	ZEW Survey - Economic Sentiment	Apr.	Index	-33.0	-35.0
	5:00	Germany	ZEW Survey - Economic Sentiment	Apr.	Index	-30.0	-32.0
	5:00	Germany	ZEW Survey - Current Situation	Apr.	Index	32.8	32.1
	5:30	U.K.	Consumer Price Index	Mar.	Y/Y % chg.	2.6	2.5
	5:30	U.K.	Retail Price Index excl. Mortgages (RPIX)	Mar.	Y/Y % chg.	3.6	3.7
	8:30	U.S.	Empire Manufacturing Survey	Apr.	Index	-17.0	-22.2
	8:30	U.S.	Producer Price Index (PPI)	Mar.	% change	0.7	0.3
	8:30	U.S.	PPI excl. food and energy	Mar.	% change	0.2	0.5
	16:45	NZ	Consumer Price Index	Q1-08	Q/Q % chg.	0.8	1.2
Apr. 16	5:00	EU	Consumer Price Index	Mar.	Y/Y % chg.	3.5	3.3
	8:30	Canada	Manufacturing Shipments	Feb.	% change	0.5	1.3
	8:30	U.S.	Consumer Price Index (CPI)	Mar.	% change	0.3	0.0
	8:30	U.S.	CPI - excl. food and energy	Mar.	% change	0.2	0.0
	8:30	U.S.	Housing Starts	Mar.	Thousands	1,025	1,065
	8:30	U.S.	Building Permits	Mar.	Thousands	973	984
	8:30	U.S.	CPI Core Index	Mar.	Index	n/a	213.851
	9:15	U.S.	Industrial Production	Mar.	% change	-0.1	-0.5
	9:15	U.S.	Capacity Utilization	Mar.	Per cent	80.3	80.4
	11:45	U.S.	<i>San Francisco Fed President Yellen speaks at Bay Area Council's 26th Annual Outlook Conference</i>				
	12:30	U.S.	<i>Philadelphia Fed President Plosser speaks at Montgomery County Community College in Blue Bell, PA</i>				
	14:00	U.S.	<i>Fed's Beige book released</i>				
Apr. 17	4:00	EU	<i>European Central Bank publishes February monthly report</i>				
	5:00	EU	Trade Balance	Feb.	Eur, blns	-3.5	-10.7
	7:00	Canada	Consumer Price Index (CPI)	Mar.	Y/Y % chg.	1.4	1.8
	7:00	Canada	CPI - excl. 8 most volatile items	Mar.	Y/Y % chg.	1.4	1.5
	8:30	U.S.	Weekly Initial Jobless Claims	12-Apr	Thousands	n/a	357
	9:45	U.S.	<i>Fed Vice Chairman Kohn gives keynote speech at Richmond Fed's 2008 Credit Markets Symposium</i>				
	10:00	U.S.	Philadelphia Fed Index	Apr.	Index	-15.0	-17.4
	10:00	U.S.	Leading Indicators	Mar.	% change	0.1	-0.3
Apr. 18	8:30	Canada	Wholesale Sales	Feb.	% change	0.1	-0.3
	8:30	Canada	Leading Indicators	Mar.	% change	0.2	2.6
	13:45	U.S.	<i>Dallas Fed President Fisher speaks at Chicago Council on Global Affairs</i>				

\* Eastern Standard Time; Sources: Bloomberg, TD Economics

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