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THE ECONOMIC OUTLOOK

Don Drummond, SVP and Chief Economist
September 22, 2009

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TD Economics provides analysis of economic performance and the implications for investors. The analysis covers the globe, with emphasis on Canada, the United States, Europe and Asia.

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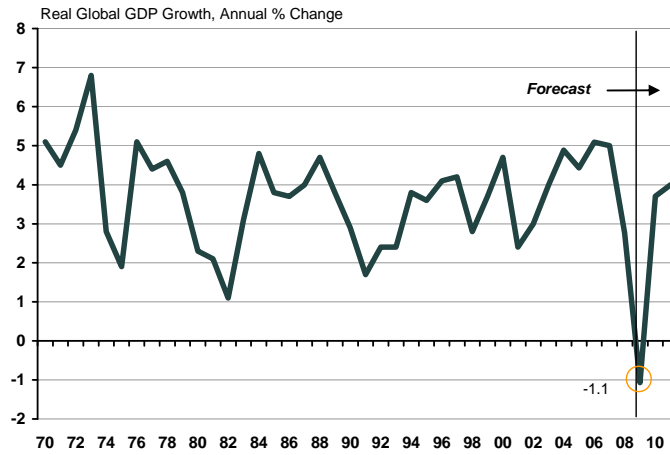
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SYNCHRONIZED GLOBAL RECESSION



GLOBAL



*Real GDP at PPP exchange rates; Source: IMF, TD Economics

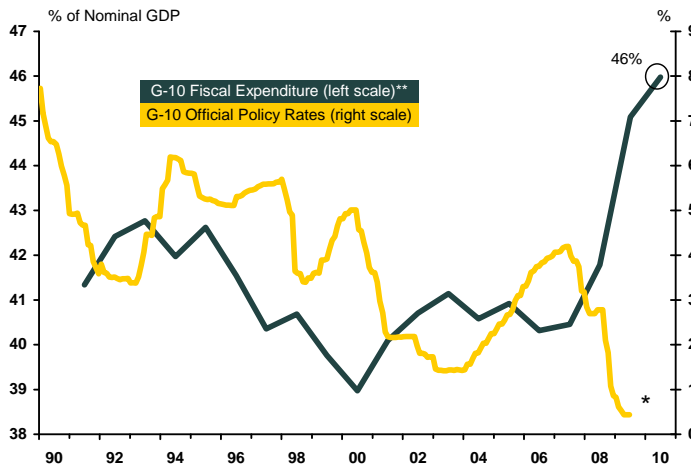
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SYNCHRONIZED GLOBAL RESPONSE



G-10



*3.76% cut in the PPP-weighted average policy interest rate; **PPP-weighted aggregate of fiscal outlays; Source: OECD, IMF, International Central Banks

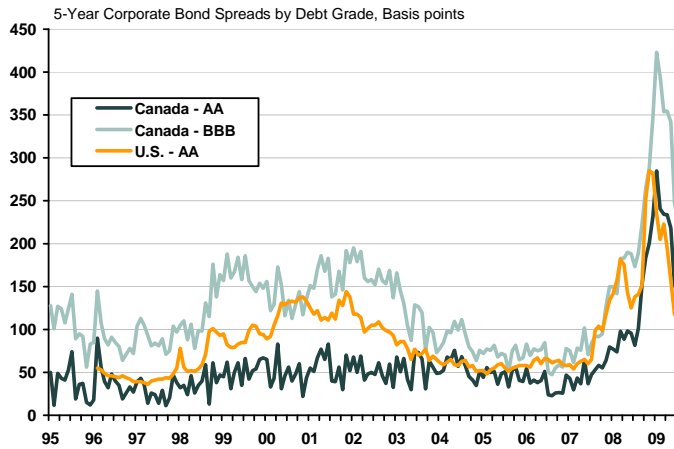
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MANY FINANCIAL RISKS ABATING



CANADA AND U.S.



*corporate bonds against government bonds, monthly data, last plotted August 2009;
Source: Standard & Poor, Federal Reserve, Bloomberg, Bank of Canada, Haver Analytics

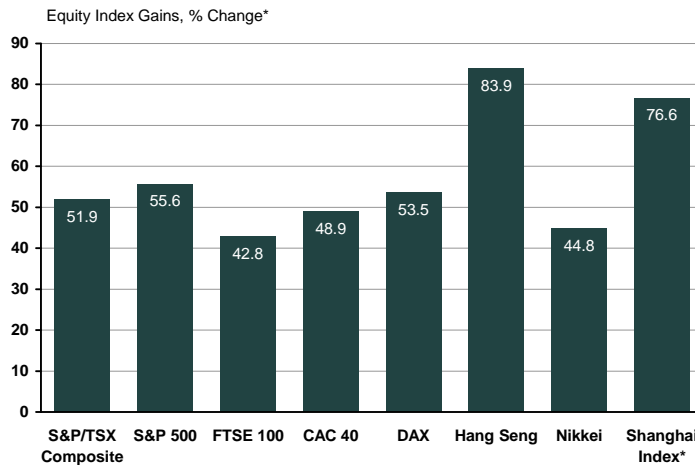
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...AND INVESTORS CONFIDENCE IS RETURNING



GLOBAL



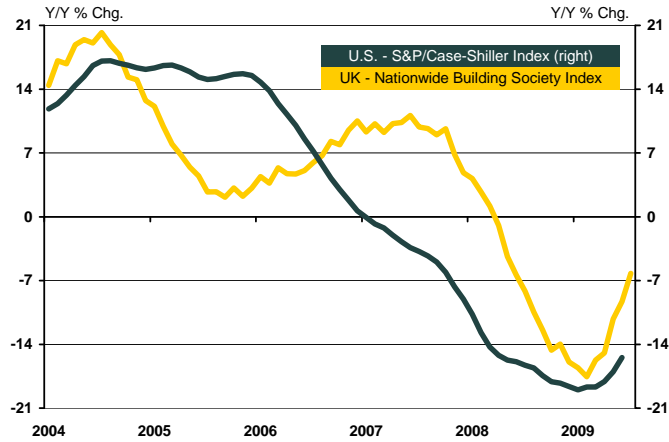
*Changes are calculated from their troughs in March 2009 to the current date; the Shanghai Index is the exception which hit its trough on Nov 6, 2008; Source: Haver Analytics

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THE EPICENTER OF THE PROBLEM WAS REAL ESTATE & THE PACE OF DECLINE IS MODERATING **TD Bank Financial Group**

GLOBAL



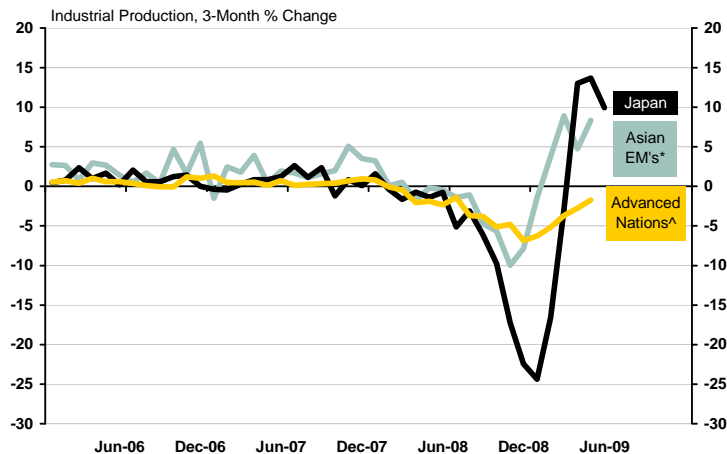
Source: Standard & Poor's, Nationwide Building Society

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RECOVERY ON THE HORIZON? **TD Bank Financial Group**

GLOBAL



*India, Indonesia, Korea, Malaysia, Philippines, Singapore, Taiwan, Thailand; ^U.S., Canada, UK, EU; Source: National Statistical Agencies, Haver Analytics

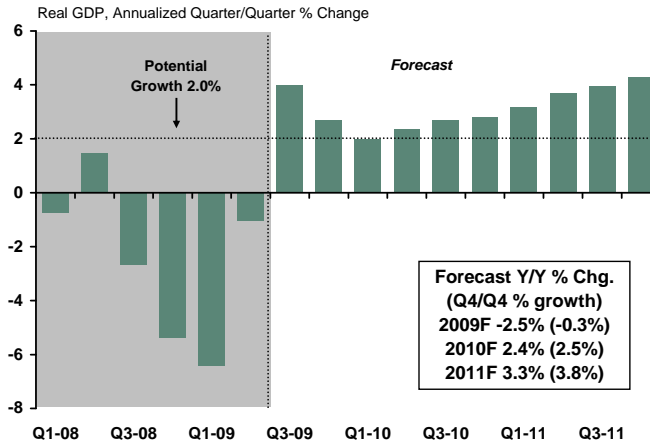
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U.S. RECESSION IS ENDING, BUT THE RECOVERY WILL BE GRADUAL



U.S.



Forecast by TD Economics as at September 2009;
Source: Bureau of Economic Analysis/Haver Analytics

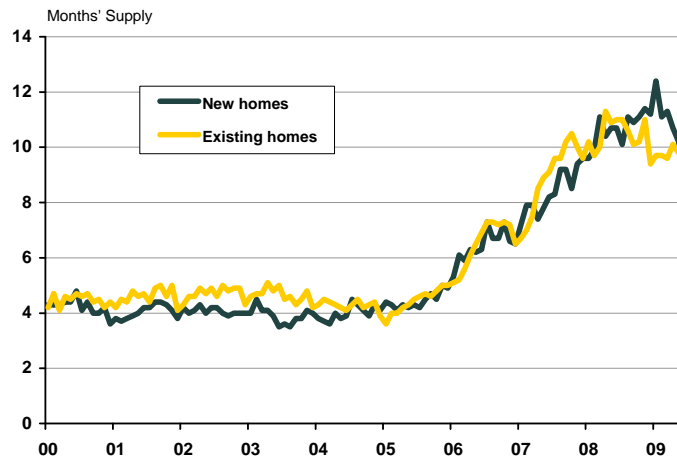
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HOUSING MARKET SHOWING SIGNS OF LIFE



U.S.



Source: Census Bureau, National Association of Realtors, Haver Analytics, Bloomberg

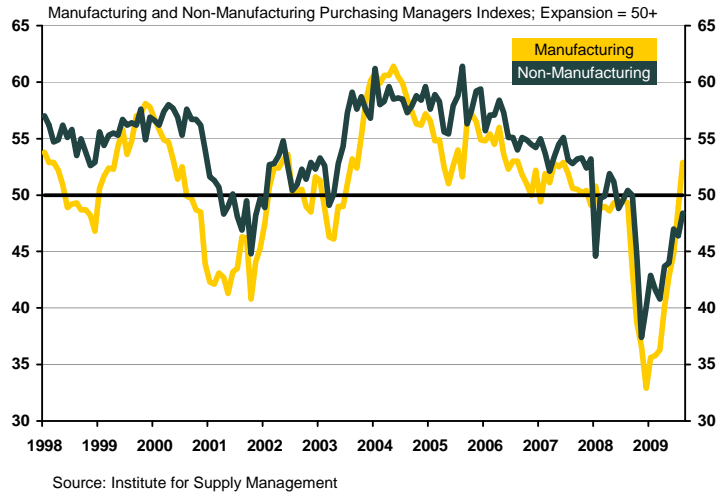
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PRODUCTION IS COMING BACK ONLINE



U.S.



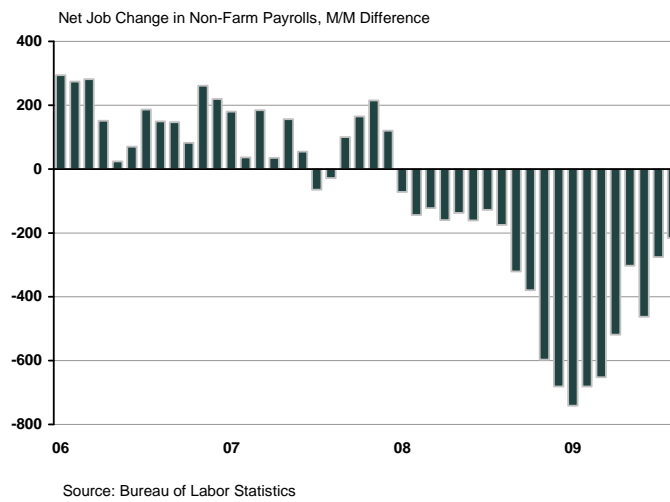
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JOB LOSSES SLOWING



U.S.



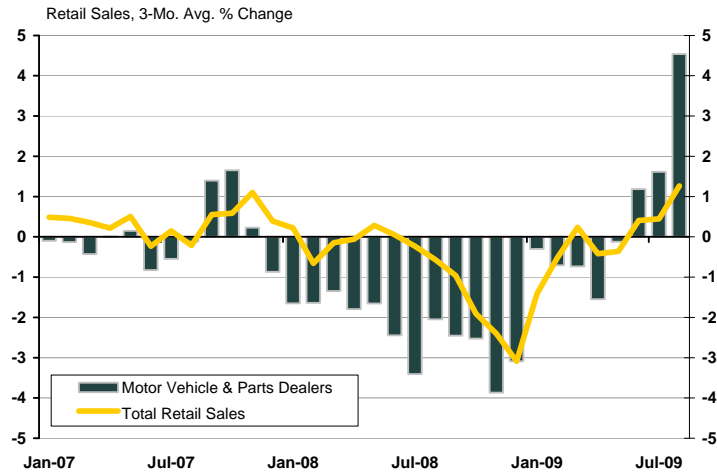
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RETAIL SPENDING RECORDING SMALL BOUNCEBACK



U.S.



Source: U.S. Census Bureau

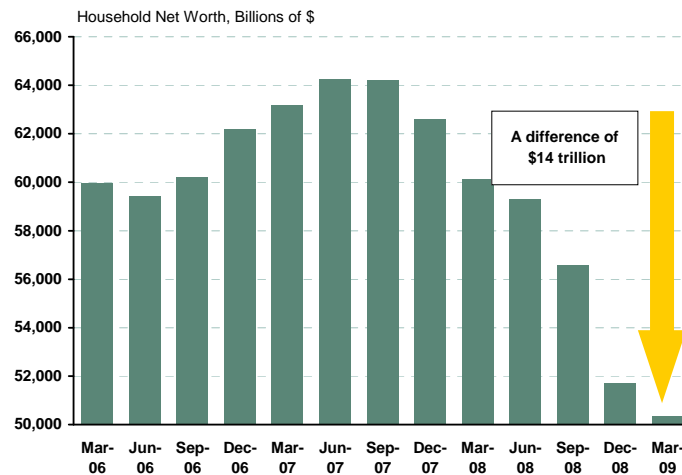
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THE DISAPPEARING ACT



U.S.



Source: Federal Reserve

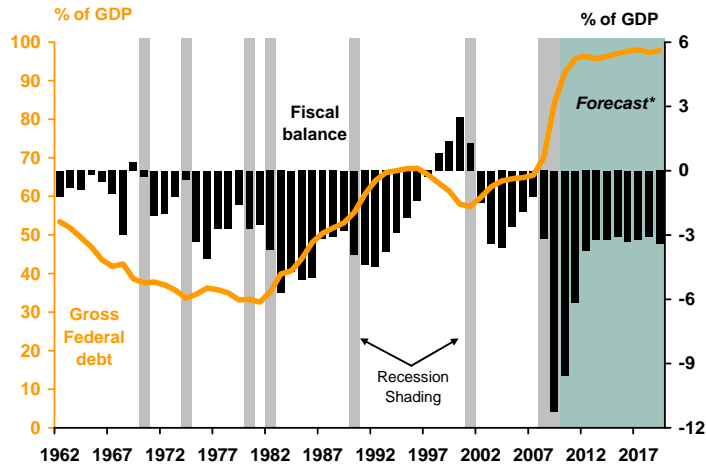
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MASSIVE FISCAL DEFICITS WILL BE A CHALLENGE IN THE FUTURE



U.S.



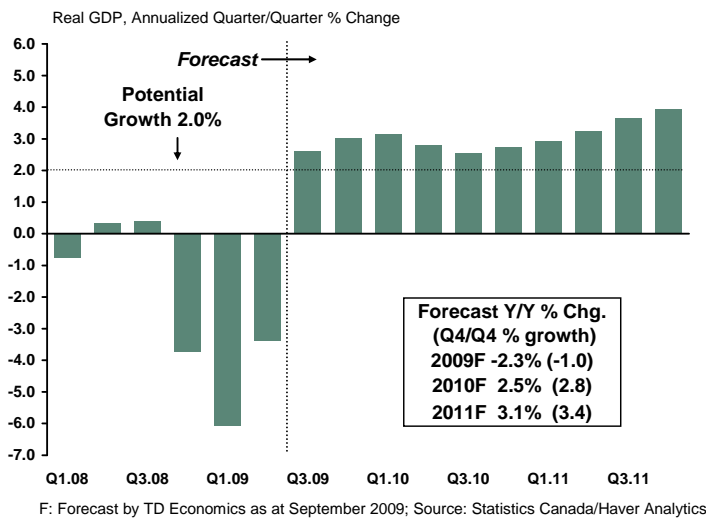
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CANADIAN ECONOMY ALSO AT A TURNING POINT



CANADA



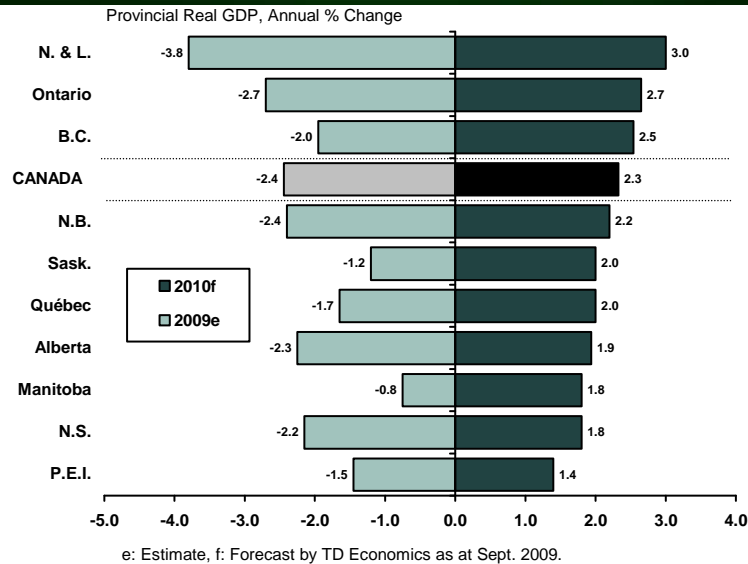
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PROVINCES SHOULD RETURN TO GROWTH BY NEXT YEAR



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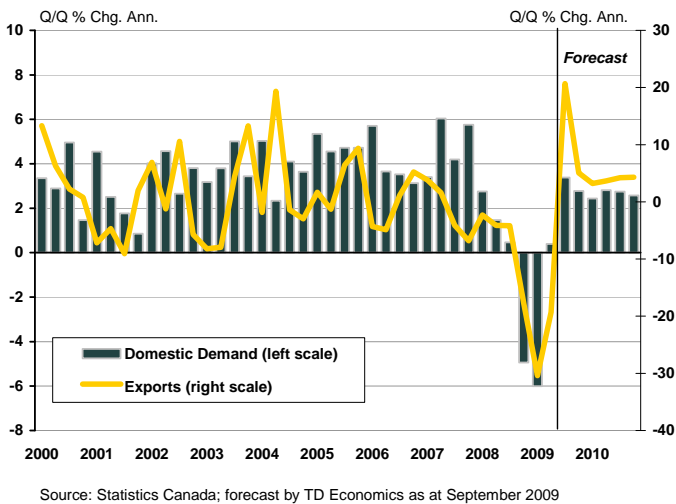
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DOMESTIC DEMAND IS STRENGTHENING



CANADA



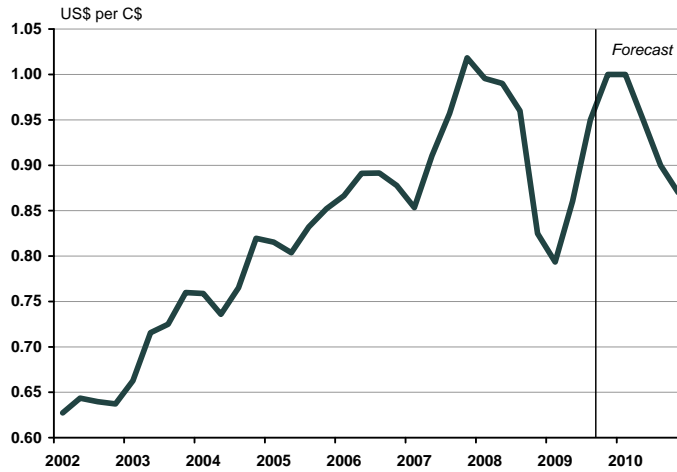
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U.S. WEAKNESS IMPLIES C\$ STRENGTH

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CANADA VS. U.S.



Source: Bank of Canada

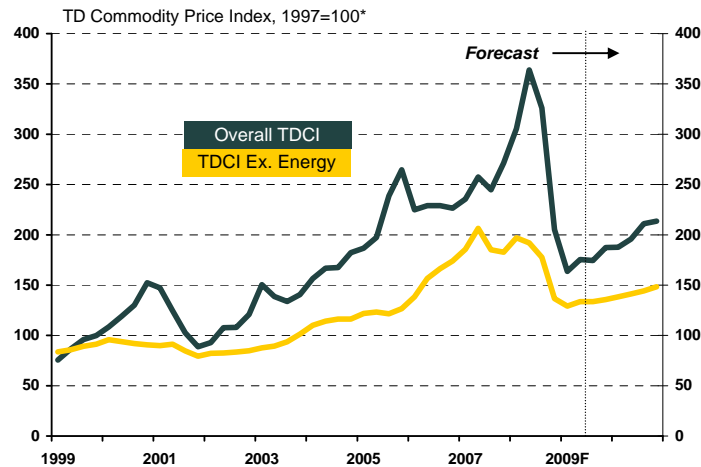
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WON'T HELP WITHOUT A COMMODITY PRICE BOOM

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CANADA



*Index of 18 Canadian resource commodity prices in US\$;
Source: TD Economics; Last actual: 2009Q2; Forecast as at July 2009.

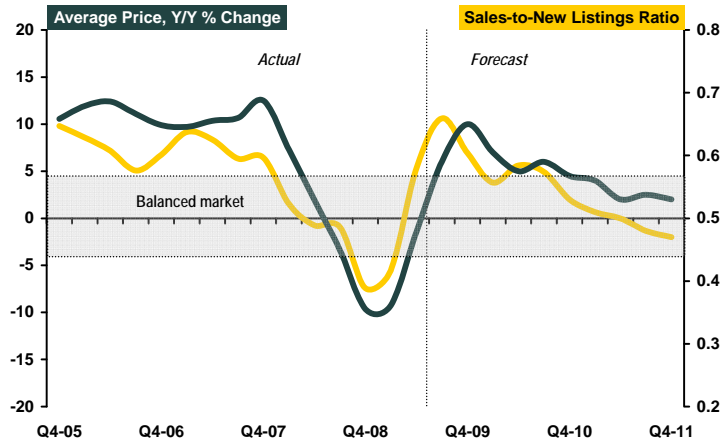
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HOUSING MARKET IS SHOWING ITS RESILIENCE



CANADA



Source: CREA. Forecast by TD Economics, Sept. 2009

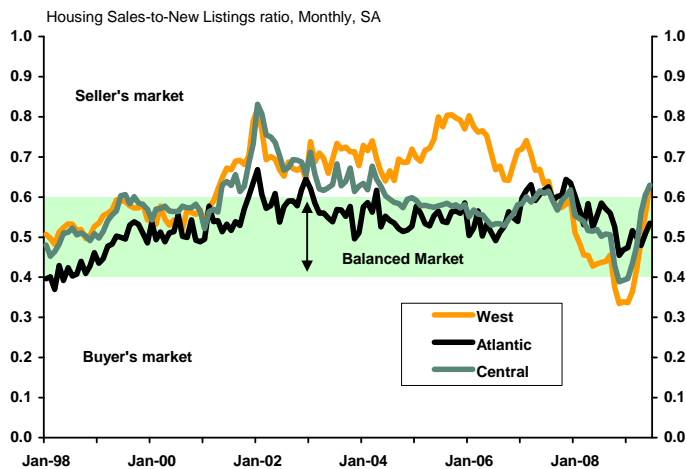
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SELLER'S MARKET HAS RETURNED



CANADA



Last Date Plotted: June 2009
Source: Canadian Real Estate Association (CREA).

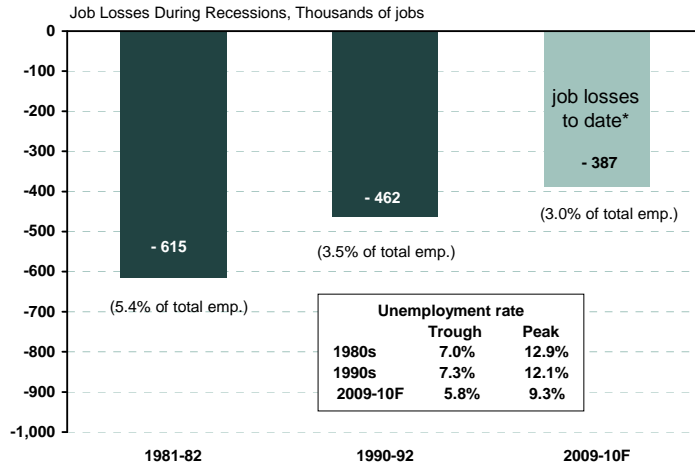
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UNEMPLOYMENT WILL EDGE HIGHER, BUT WILL NOT RISE TO PRIOR PEAKS



CANADA



* October 2008 to August 2009.

F: Forecast by TD Economics as at September 2009; Source: Statistics Canada.

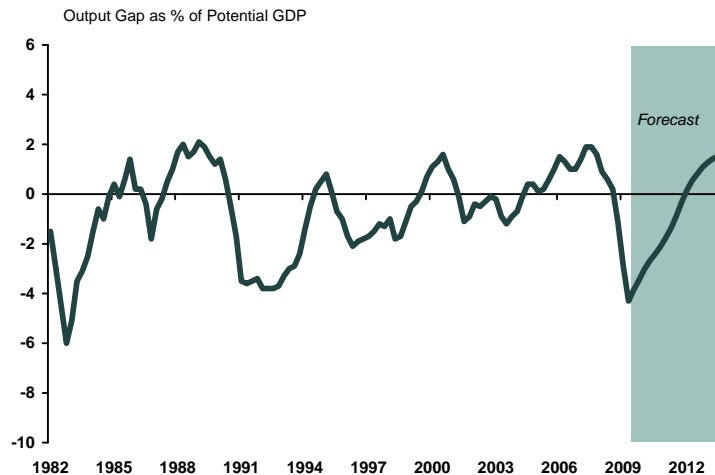
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EXCESS CAPACITY TAKES TIME TO REDEPLOY



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Source: Bank of Canada; Forecast by TD Economics as at September 2009

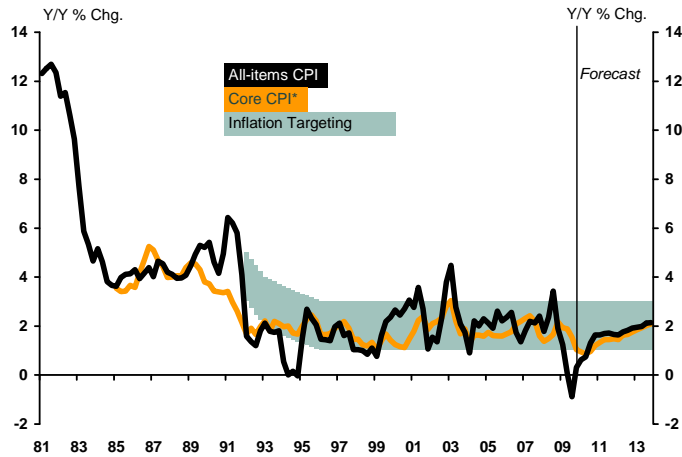
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WILL RESTRAIN ANY INFLATIONARY EPISODE



CANADA



*Headline CPI excl. 8 most volatile components and indirect taxes;
Source: Statistics Canada; forecast by TD Economics as at September 2009

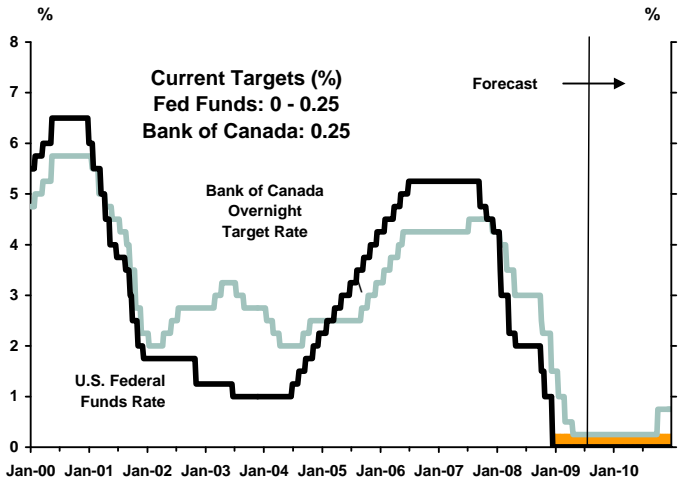
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CENTRAL BANKS TO KEEP RATES LOW FOR SOME TIME TO COME



CANADA AND U.S.



Forecast by TD Economics as at September 2009;
Source: Bank of Canada, U.S. Federal Reserve Board.

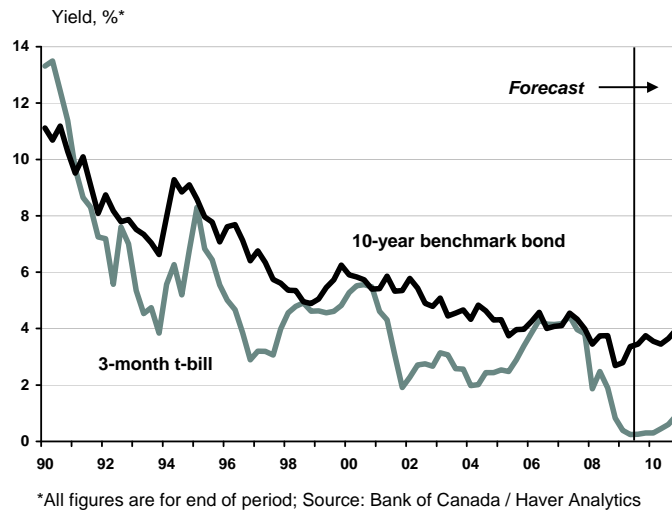
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FIXED INCOME YIELDS TO REMAIN LOW, BUT RISE MODESTLY IN 2010



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3 PHASES TO THE CYCLE



GLOBAL

- 1) Near-Term
 - Output to grow in 2nd half of 2009
- 2) 2010-2011
 - Liquidity injections & fiscal stimulus gain traction
- 3) Medium-term
 - Incredible challenges in the U.S. and Euro-area:
 - Recapitalizing financial sector
 - Mopping up liquidity
 - Deleverage
 - Reining in deficits
 - Global Imbalances

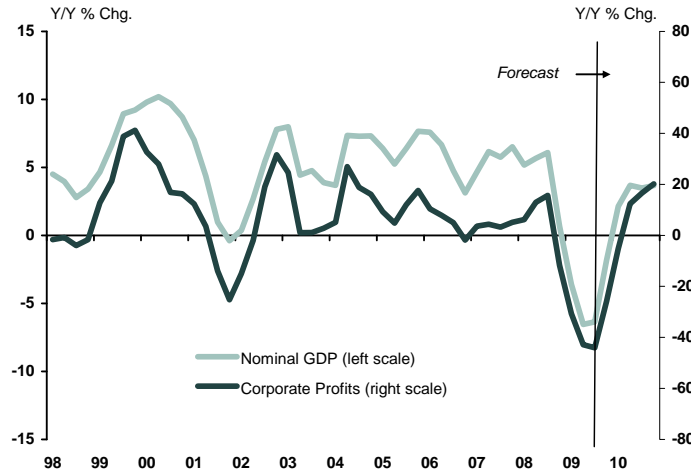
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NATIONAL INCOME SUFFERED HISTORIC DECLINE, WITH GREATEST WEAKNESS IN PROFITS

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CANADA



Source: Statistics Canada; Forecast by TD Economics as at September 2009

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ELEMENTS FOR A PROSPEROUS ECONOMY IN ONTARIO BY 2020

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ONTARIO

- Top quality labour force
- Effective integration of immigrants into the workforce
- World-class infrastructure, including transit
- Reliable electricity system
- A leader in the environment
- Competitive tax system
- Enhanced trade
- Shift from dependence (welfare) to workforce participation
- Supportive federal policy

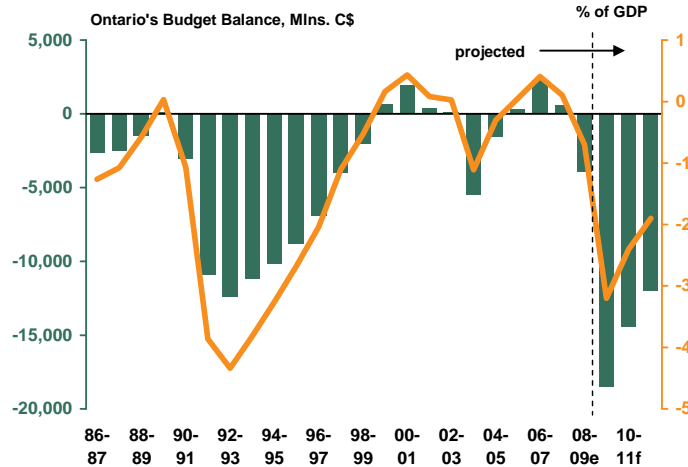
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LARGE DEFICITS TO PERSIST IN ONTARIO FOR SOME TIME



ONTARIO



Source: Ontario Ministry of Finance. e: estimates. f: forecast, TD Economics, July 2009

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POLICIES WILL BE REQUIRED TO REDUCE GHG EMISSIONS



CANADA AND GLOBAL

Two Different Targets:

- 1) Scientific target for industrialized countries (established by the IPCC):
 - A reduction in GHG emissions of 25-40% below the 1990 level by 2020 and 80-95% below the 1990 level by 2050
- 2) Government target:
 - A reduction in Canada's GHG emissions of 3% below the 1990 level by 2020 and 51-64% below the 1990 level by 2050

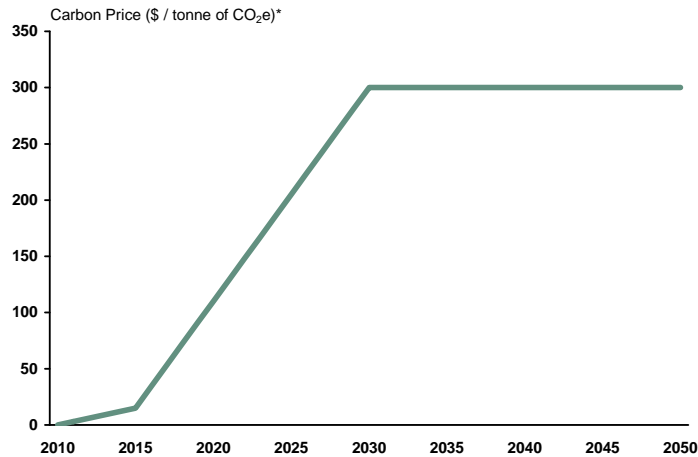
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CARBON PRICE WILL NEED TO MEET THE GOVERNMENT'S EMISSION REDUCTION TARGETS



CANADA



* Under fast and deep emission pricing trajectory.
Source: National Round Table on the Environment and the Economy.

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SUPPLY OF ELECTRICITY TO INCREASE SUBSTANTIALLY UNDER THIS CARBON PRICE POLICY



CANADA

FORECASTED PENETRATION OF LOW-CARBON ELECTRICITY GENERATION TECHNOLOGIES UNDER FAST AND DEEP CARBON PRICING*

	Total Generation under Business as Usual Scenario (TWh)				Increase Above Business as Usual Scenario If Government Target is Adopted (%)			
	2020	2030	2040	2050	2020	2030	2040	2050
Hydro	505	633	759	890	17	31	37	39
Wind	33	63	91	110	84	118	104	77
Other renewables	3	7	10	13	117	150	144	134
Nuclear	124	168	204	232	26	54	64	57
Coal and gas with CCS	62	163	328	456	n.a.	n.a.	n.a.	n.a.
Total Generation	868	1,166	1,445	1,712	24	45	53	51

* Under this pathway, the price of carbon would start at \$15 per tonne of CO₂e (CO₂ equivalent) and gradually rise to a long-term price of \$300 per tonne by 2030.
Source: National Round Table on the Environment and the Economy.

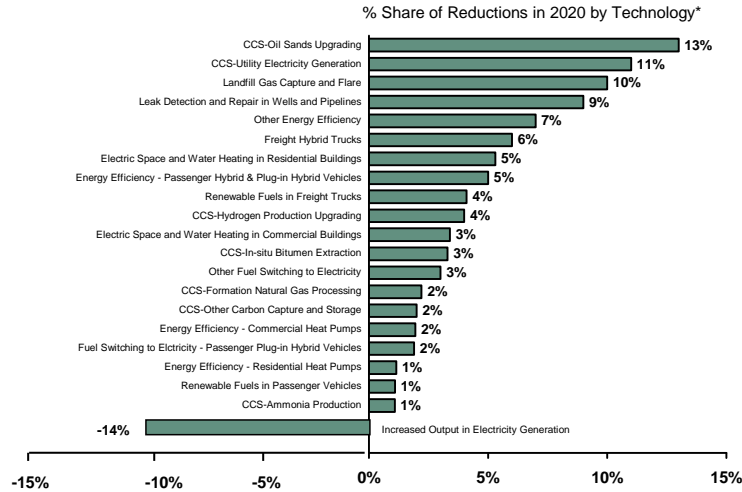
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NEW TECHNOLOGIES WILL CONTRIBUTE TO EMISSION REDUCTIONS IN 2020



CANADA



* The remainder of emission reductions are attributed to a variety of other reduction measures with small contributions to overall reductions; Source: National Round Table on the Environment and the Economy.

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