



**Bank
Financial
Group**

TD Economics

The Weekly Bottom Line

December 14, 2007

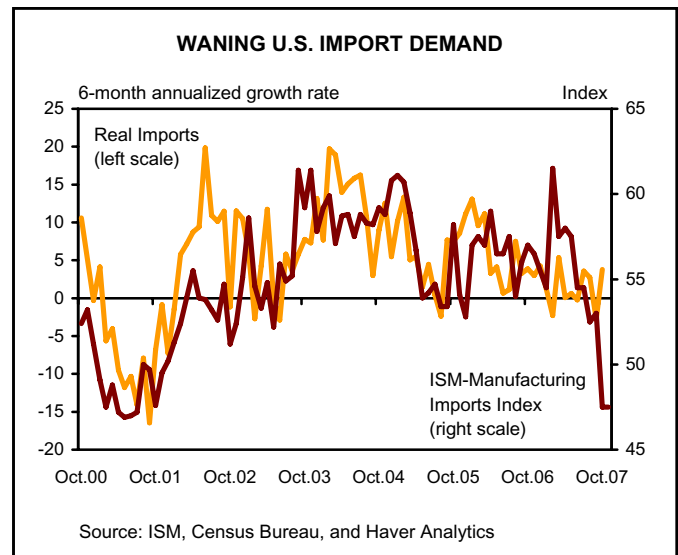
HIGHLIGHTS

- **FOMC cuts 25bps to 4.25%**
- **U.S. consumer spending stupendous in November**

On Thursday, we released our new Quarterly Economic Forecast for the U.S., Canadian, and global economies, as well as an outlook for the U.S. consumer (both can be found on our website). We now expect a much weaker profile for the U.S. economy through the first half of next year. The housing contraction has intensified. High gas prices, resetting mortgages, and ongoing home price declines that limit homeowner's ability to tap housing wealth will restrain consumer spending to some degree. And, renewed financial distress is likely to weaken corporate spending. American exports are still providing a near total offset to the housing drag, but there are signs imports are weakening further – a mathematically positive thing for U.S. GDP growth but a net negative insofar as this is a sign of consumers and businesses preparing to take a breather. We still believe we will see the Fed cut an additional 50bps – and the Bank of Canada 25bps – to stimulate demand, but U.S. core inflation of 2.3% shows that price pressures make the market's expectations for even further cuts unlikely.

Recent TD Economics Research

December 14, 2007 - The 2007 Ontario Fiscal Update
 December 14, 2007 - U.S. Consumer Price Index
 December 13, 2007 - U.S. Retail Sales
 December 13, 2007 - Canadian Manufacturing Shipments
 December 13, 2007 - TD Quarterly Economic Forecast
 December 12, 2007 - Canadian International Trade
 December 12, 2007 - U.S. Consumer Outlook for the Holidays and 2008
 December 11, 2007 - U.S. FOMC Interest Rate
 December 10, 2007 - Canadian Housing Starts



But rather than having to hear these issues discussed once again by us, we were fortunate enough to have intercepted a letter – reproduced in its entirety below – from Federal Reserve Chairman Ben Bernanke to Santa. Having our offices in the flight path to the North Pole sometimes has its advantages.

Dear Santa:

I am sorry to hear about the elves having spilled eggnog all over your 2007 naughty and nice list. Unfortunately, I'm not sure what we at the Fed can do to help. We're still compiling our own naughty list for 2007 and have had to find creative ways to properly mete out our monetary cheer to those that deserve it without also rewarding those who made some poor decisions recently. Perhaps I might suggest any time you come across the words 'subprime' and 'structured,' you can replace these with 'naughty'. Naughty lending and Naughty Investment Vehicles really isn't too far from the truth.

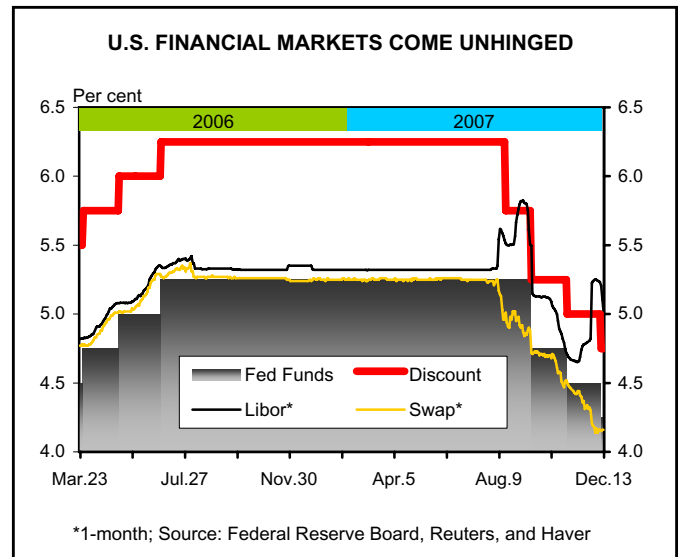
We have found that the miscreant few have to some extent unfortunately ruined it for the rest of us. As a result, we have lowered our Fed funds rate three times this year for a total of 100bps, but have tried to be very careful

in explaining that this is to offset expected economic weakness, not to reward naughty investors. But quite frankly, quantifying the exact impact of mortgage resets and malfunctioning credit markets is increasingly difficult. The U.S. economy has expanded this year by nearly 4% in Q2 and 5% in Q3, employment growth over the last half-year has averaged 94k new jobs per month – consistent with economic growth of around 2% – and as I write this I hear that U.S. consumer spending in November was the strongest it's been in six months. There really is only so long we can keep cutting interest rates on expectations – rather than realizations – of broad weakness. Inflation is not yet a pressing concern, but if we cut too much, this will stoke inflation and hurt everyone. At this point, given we even had a dissenter this week vote to cut interest rates by 50bps instead of the 25bps we agreed to, it's safe to say a couple more cuts are likely.

You're a mean one, Credit Crunch

But as you will have seen, we are trying to better target our efforts this week. In cooperation with central banks in Canada, Europe, the UK, and Switzerland, we will be providing 4-week cash loans to financial institutions (FIs) in return for collateral to help them get through their current difficulties and try to bring a semblance of order to markets. Our Fed Funds Rate (FFR) is generally the bedrock upon which all other U.S. market rates are based. The LIBOR rate – the rate banks charge to lend to each other – typically then tracks our FFR and stays closely aligned with the interest swap rate – the market's expectation of where we will have set interest rates when that contract expires – but don't get me started on market expectations.

The problem for us is that the market's difficulty in clearly differentiating the naughty from the nice has driven LIBOR rates almost a full percentage point above where they should be as FIs are increasingly hesitant to lend to each other. Lending is already being scaled back to account for losses being realized on past subprime investments. In these situations, they are supposed to come and borrow directly from us at the discount rate – effectively putting a ceiling on short-term money market rates and ensuring sound FIs always have an adequate source of borrowing. But the market still has a stigma attached to discount lending and LIBOR rates have shot above our discount rate – meaning the market would rather pay a higher price for borrowing than come to us. It's not like we're asking them to stand up in front of the market and say: "Hello. My name is Flybynight Bank and I have a liquidity problem." All discount lending is anonymous, but before coming to us,



FIs have to have tried and failed to secure lending within the market and this seems to be a problem. Markets are a chatty bunch and once an FI is declined once, word tends to get around. Our new lending facility – the Term Auction Facility or TAF – operates almost the same way except there is no need to go to the market first. We figure the fact that you are willing to pay an interest rate higher than an appropriate market rate should be incentive enough to use us only as a last resort. Our first auction will occur next week, and we expect it will be just as successful as the one completed in Canada this week that saw the interest rate charged come closer to an appropriate level. In any regard, the sharp increase in liquidity demand that always emerges at the end of the year should dissipate into January and we will get a better sense of how much stress still remains and continue to respond appropriately.

Let it slow, let it slow, let it slow

I know we're not really in much of a position to ask for anything. Your Christmas gifts, after all, are the biggest deflationary force on the U.S. economy after Chinese imports and do make my job at the Fed much easier. But it has been a stressful year and I might suggest there's been enough nice in everyone to warrant some moderate gift-giving to everyone this year.

Yours Truly,
Ben Bernanke

cc: Hanukkah Harry

*Richard Kelly, Senior Economist
416-982-2559*

UPCOMING KEY ECONOMIC RELEASES

Canadian Consumer Price Index - November

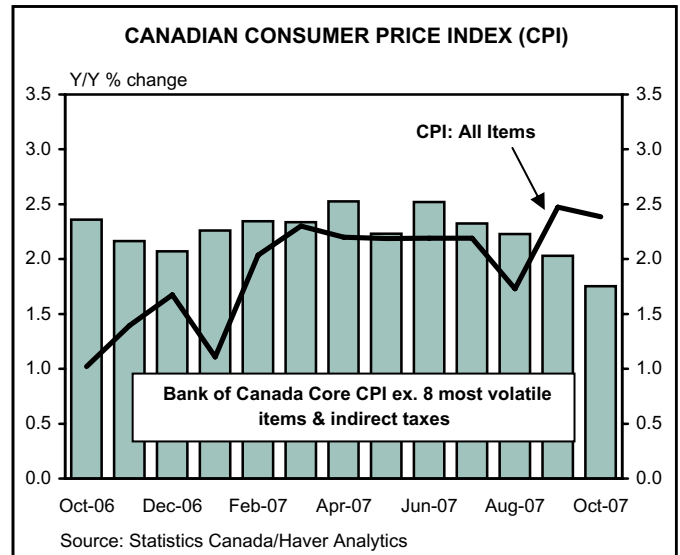
Release Date: December 18/07

TD Forecast: core +0.3% M/M, 1.8% Y/Y;
all-items +0.5% M/M, 2.7% Y/Y

Consensus: core +0.2% M/M, 1.8% Y/Y;
all-items +0.2% M/M, 2.4% Y/Y

We're expecting to see some pretty strong inflation numbers in November, with a 0.3% M/M increase in core CPI, and a 0.5% M/M increase in all-items inflation. However, seasonal effects are making inflation seem a little stronger than it truly is, since on a seasonally-adjusted basis we're only looking for a 0.1% M/M increase in core CPI and a 0.4% M/M increase in all-items CPI. However, we do see a downside risk to the numbers, since there may be more downward pressure from retailers matching U.S. prices than we had originally estimated, and since Ontario electricity prices were reduced by 4.8% during the month. On a Y/Y basis we're looking for core CPI to remain unchanged at 1.8%, and all-items CPI to jump up to 2.7%, largely due to the increase in energy prices in November.

Jacqui Douglas 416-982-7784



Canadian Real GDP - October

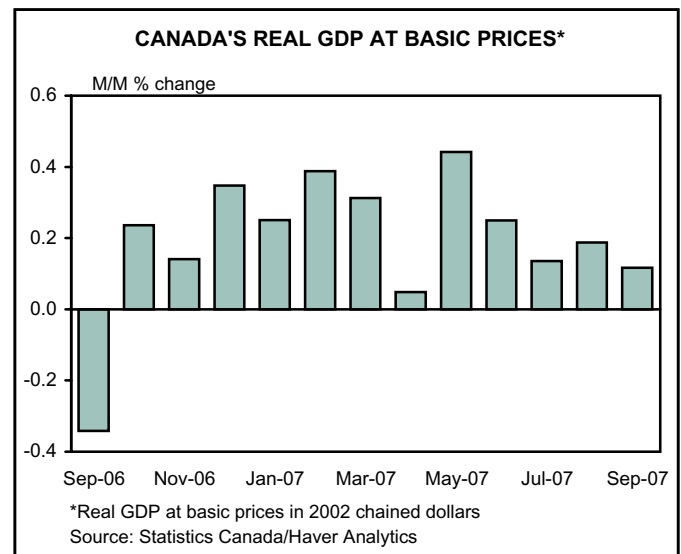
Release Date: December 21/07

TD Forecast: 0.3%

Consensus: 0.1%

We're expecting to see a fairly strong month for Canadian economic growth, with October GDP coming in at 0.3%. We already know that the manufacturing sector had a good month, with real manufacturing shipments gaining 1.1%. So wholesale trade and transportation and warehousing, which are both correlated, will probably also have a good month. Retail sales, on the other hand, will not likely be very strong, since new motor vehicle sales are estimated to have fallen by 2% in November. However, with the healthy job growth that we've seen over the last few months, we do think that Canadians would have continued spending, but perhaps on other service sectors like arts, entertainment and recreation, or accommodation and food services.

Jacqui Douglas 416-982-7784



Canadian Retail Trade - October

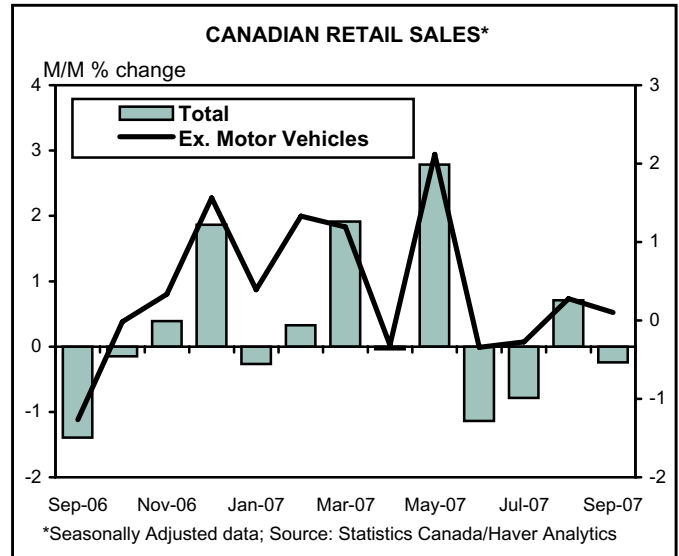
Release Date: December 21/07

TD Forecast: total -0.6%; ex-autos +0.4%

Consensus: N/A

We're expecting to see a pretty soft month for Canadian retail sales in October, with total sales falling by 0.6%, but ex-autos sales faring a little better with a 0.4% gain. The driving factor behind the drop in total sales will be the estimated 2.0% drop in new motor vehicle sales during the month. Sales at gasoline stations will also be a dampener, since gasoline prices were down by 3.3% in October. However, we do still expect to see relatively strong sales in the other major categories, since employment and wage growth in Canada continue to be strong, giving consumers ample disposable income. So once the negative price effects from falling gasoline prices are stripped out, real retail sales should be stronger than the headline number, and even with the large drop in new auto sales, should come in about flat.

Jacqui Douglas 416-982-7784



U.S. Personal Income and Spending - November

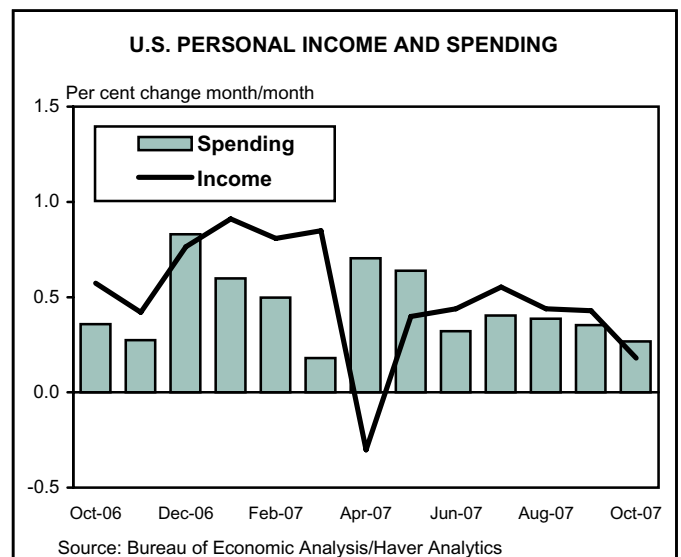
Release Date: December 21/07

TD Forecast: income 0.5%, spending 0.8%
core PCE deflator 0.2% M/M, 2.0% Y/Y

Consensus: income 0.5%, spending 0.7%
core PCE deflator 0.2% M/M, 2.0% Y/Y

We're expecting to see some strong income and spending results for the month of November. Starting with income growth, we're forecasting a 0.5% gain on the back of solid wage numbers from the payrolls survey. For spending we're forecasting an even stronger 0.8% gain after the huge 1.2% increase in retail sales in November. The core PCE deflator is likely to record a moderate 0.2% monthly gain, pushing it back up to 2.0% on a Y/Y basis.

Jacqui Douglas 416-982-7784



RECENT KEY ECONOMIC INDICATORS December 10-14, 2007

Date	Economic Indicators	Data for	Units	Current	Prior	
Canada						
Dec. 10	Housing Starts	Nov.	Thousands	227.9	227.6	R▲
Dec. 12	International Merchandise Trade Balance	Oct.	C\$, blns	3.3	2.8	R▲
Dec. 13	New Housing Price Index	Oct.	% Chg.	0.1	0.3	
Dec. 13	Manufacturing Shipments	Oct.	% change	0.1	-1.1	R▼
Dec. 13	Labour Productivity	Q3-07	Q/Q % change	0.2	0.2	
Dec. 14	Capacity Utilization Rate	Q3-07	Per cent	82.7	83.5	R▲
United States						
Dec. 11	Wholesale Inventories	Oct.	% Chg.	0.0	0.6	R▼
Dec. 11	<i>FOMC Rate Decision</i>		<i>Overnight Rate</i>	4.25	4.50	
Dec. 12	Trade Balance	Oct.	US\$, blns	-57.8	-57.1	R▼
Dec. 13	Producer Price Index (PPI)	Nov.	% change	3.2	0.1	
Dec. 13	PPI excl. food and energy	Nov.	% change	0.4	0.0	
Dec. 13	Retail Sales	Nov.	% change	1.2	0.2	
Dec. 13	Retail Sales ex. autos	Nov.	% change	1.8	0.4	R▲
Dec. 13	Weekly Initial Jobless Claims	8-Dec	Thousands	333	340	R▲
Dec. 13	Business Inventories	Oct.	% change	0.1	0.4	
Dec. 14	Consumer Price Index (CPI)	Nov.	% change	0.8	0.3	
Dec. 14	CPI - excl. food and energy	Nov.	% change	0.3	0.2	
Dec. 14	Industrial Production	Nov.	% change	0.3	-0.7	R▼
Dec. 14	Capacity Utilization	Nov.	Per cent	81.5	81.4	R▼

Source: Bloomberg, TD Economics

UPCOMING NORTH AMERICAN ECONOMIC CALENDAR December 17-21, 2007

Release Date	Economic Indicators	Data for Period	Units	Consensus Forecast	Prior
Canada					
Dec. 17	New Motor Vehicle Sales	Oct.	% change	-2.0	-2.1
Dec. 17	International Securities Transactions	Oct.	\$C, blns	-1.0	-5.2
Dec. 18	Consumer Price Index (CPI)	Nov.	Y/Y % chg.	2.4	2.4
Dec. 18	CPI - excl. 8 most volatile items	Nov.	Y/Y % chg.	1.8	1.8
Dec. 18	Leading Indicators	Nov.	% change	0.1	0.1
Dec. 19	Wholesale Sales	Oct.	% change	0.2	1.1
Dec. 21	Retail Sales	Oct.	% change	n/a	-0.2
Dec. 21	Retail Sales - excl. autos	Oct.	% change	n/a	0.1
Dec. 21	Real GDP at Basic Prices	Oct.	% change	0.1	0.1
United States					
Dec. 17	Current Account Balance	Q3-07	US\$, blns	-183.7	-190.8
Dec. 17	Empire Manufacturing Survey	Dec.	Index	20.0	27.4
Dec. 18	Housing Starts	Nov.	Thousands	1,176.0	1,229.0
Dec. 18	Building Permits	Nov.	Thousands	1,150.0	1,170.0
Dec. 18	<i>Fed Board of Governors hold an open meeting on mortgage rules in Washington, D.C.</i>				
Dec. 19	<i>Richmond Fed President Lacker speaks on the economic outlook in Charlotte, NC</i>				
Dec. 20	Weekly Initial Jobless Claims	15-Dec	Thousands	335	333
Dec. 20	Leading Indicators	Nov.	% change	-0.3	-0.5
Dec. 20	Philadelphia Fed Index	Dec.	Index	6.0	8.2
Dec. 21	PCE Deflator	Nov.	Y/Y % chg.	n/a	2.9
Dec. 21	PCE Core	Nov.	Y/Y % chg.	2.0	1.9
Dec. 21	Personal Income	Nov.	% chg.	0.5	0.2
Dec. 21	Personal Spending	Nov.	% chg.	0.7	0.2

Source: Bloomberg, TD Economics

G-7 ECONOMIC RELEASES AND EVENTS

Date	Time*	Country	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period	
Dec. 17	4:00	EU-12	Purchasing Managers Index (Man.)	Dec.	Index	52.3	52.8	
	4:00	EU-12	Services Index	Dec.	Index	54.0	54.1	
	8:30	U.S.	Current Account Balance	Q3-07	US\$, blns	-183.7	-190.8	
	8:30	Canada	New Motor Vehicle Sales	Oct.	% change	-2.0	-2.1	
	8:30	Canada	International Securities Transactions	Oct.	\$C, blns	-1.0	-5.2	
	8:30	U.S.	Empire Manufacturing Survey	Dec.	Index	20.0	27.4	
	19:30	AU	<i>Reserve Bank of Australia publishes policy meeting minutes</i>					
	Dec. 18	4:30	U.K.	Consumer Price Index	Nov.	Y/Y % chg.	2.2	2.1
4:30		U.K.	Retail Price Index excl. Mortgages (RPIX)	Nov.	Y/Y % chg.	3.1	3.1	
5:00		EU	Trade Balance	Oct.	Eur, blns	3.0	3.1	
7:00		Canada	Consumer Price Index (CPI)	Nov.	Y/Y % chg.	2.4	2.4	
7:00		Canada	CPI - excl. 8 most volatile items	Nov.	Y/Y % chg.	1.8	1.8	
8:30		Canada	Leading Indicators	Nov.	% change	0.1	0.1	
8:30		U.S.	Housing Starts	Nov.	Thousands	1,176	1,229	
8:30		U.S.	Building Permits	Nov.	Thousands	1,150	1,170	
10:00		U.S.	<i>Fed Board of Governors hold an open meeting on mortgage rules in Washington, D.C.</i>					
23:00		Japan	<i>Bank of Japan Monetary Policy meeting held</i>					
Dec. 19	---	Japan	<i>Bank of Japan Target Rate</i>		<i>Overnight rate</i>	0.50	0.50	
	4:00	Germany	IFO Business Climate Survey	Dec.	Index	103.8	104.2	
	4:00	Germany	IFO Survey - Current Assessment	Dec.	Index	110.0	110.4	
	4:00	Germany	IFO Survey - Business Expectations	Dec.	Index	98.0	98.3	
	4:30	U.K.	<i>Bank of England meeting minutes released</i>					
	6:00	U.K.	<i>CBI December Distributive Trades report released</i>					
	8:30	Canada	Wholesale Sales	Oct.	% change	0.2	1.1	
	13:00	U.S.	<i>Richmond Fed President Lacker speaks on the economic outlook in Charlotte, NC</i>					
	16:45	NZ	Current Account Balance	Q3-07	NZ\$, blns	-4.9	-2.9	
	19:30	AU	<i>Reserve Bank monthly bulletin released</i>					
19:50	Japan	Trade Balance	Nov.	¥, blns	908.8	1,007.8		
Dec. 20	1:00	Japan	<i>Bank of Japan monthly report released</i>					
	4:30	U.K.	Current Account Balance	Q3-07	UK\$, blns	-11.4	-9.1	
	8:30	U.S.	Weekly Initial Jobless Claims	15-Dec	Thousands	335	333	
	10:00	U.S.	Leading Indicators	Nov.	% change	-0.3	-0.5	
	12:00	U.S.	Philadelphia Fed Index	Dec.	Index	6.0	8.2	
	16:45	NZ	Real Gross Domestic Product (prelim.)	Q3-07	Q/Q % chg.	0.4	0.7	
Dec. 21	2:45	France	Business Confidence Indicator	Dec.	Index	109.0	110.0	
	2:45	France	Production Outlook Indicator	Dec.	Index	0.0	3.0	
	2:45	France	Consumer Spending	Nov.	% change	0.6	-1.1	
	4:00	EU-12	Current Account Balance	Oct.	Eur, blns	n/a	0.6	
	4:30	U.K.	Retail Sales	Nov.	% change	0.2	-0.1	
	8:30	U.S.	PCE Deflator	Nov.	Y/Y % chg.	n/a	2.9	
	8:30	U.S.	PCE Core	Nov.	Y/Y % chg.	2.0	1.9	
	8:30	U.S.	Personal Income	Nov.	% chg.	0.5	0.2	
	8:30	U.S.	Personal Spending	Nov.	% chg.	0.7	0.2	
	8:30	Canada	Retail Sales	Oct.	% change	n/a	-0.2	
	8:30	Canada	Retail Sales - excl. autos	Oct.	% change	n/a	0.1	
	8:30	Canada	Real GDP at Basic Prices	Oct.	% change	0.1	0.1	

* Eastern Standard Time; Sources: Bloomberg, TD Economics

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