



TD Economics

The Weekly Bottom Line

December 1, 2006

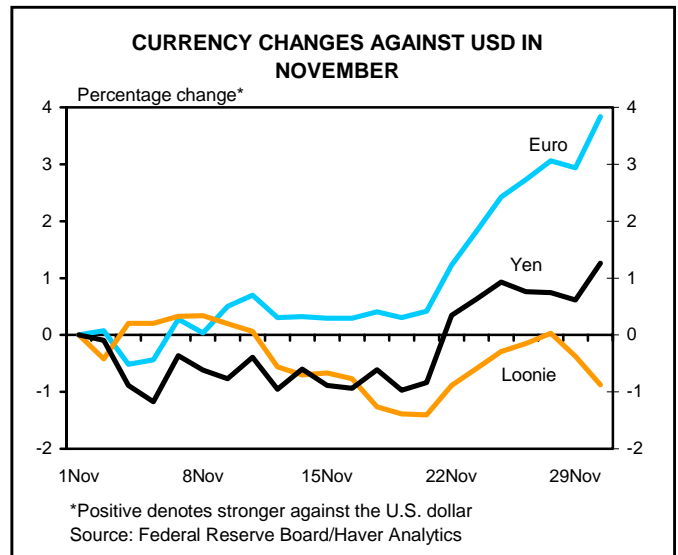
HIGHLIGHTS

- U.S. dollar falls against most currencies except the loonie in November
- Signs of further slowing in North America but strong growth abroad
- Canadian economy grows by 1.7% in Q3; domestic demand by 2.8%...
- ...and adds 22.4k new jobs in November

Sometimes a slowdown can be just what the doctor ordered. The U.S. dollar slide which began last week continued this week, finding only some brief respite on Wednesday when Q3 GDP for the U.S. was revised up from 1.6% to 2.2%. If the greenback's losses were the result of a sudden unwillingness of foreigners to invest in the U.S., there might be some cause for concern. But rather than this, we are seeing a continuation of the global rebalancing process that has been underway since 2002. The mountain that is the U.S. current account deficit has been a fixture of the global economy for some time. Two key avenues for reducing this deficit are a weaker greenback and stronger global growth relative to the U.S. This week's movements in the dollar appear to have keyed off further evidence that the slowdown in the U.S. economy is continuing while domestic demand in Europe, Japan, and Canada is proving much more robust.

Recent TD Economics Research

December 1, 2006 - U.S. Manufacturing ISM Report
 December 1, 2006 - Monetary Policy Monitor
 December 1, 2006 - Canadian Employment
 November 30, 2006 - Canadian Real GDP
 November 30, 2006 - U.S. Personal Income and Spending Commentary
 November 28, 2006 - U.S. Durable Goods Orders
 November 27, 2006 - Commodity Price Report (text



U.S. business sector bends, but no breaks

Several U.S. releases this week were not only weak, but failed to meet market expectations. Durable goods orders for October plummeted by 8.3%, exceeding the 5% drop that was expected and representing the worst one-month drop since July 2000. Coupled with a 5.1% fall in core capital goods orders, fears that the housing-led slowdown was finally starting to creep into the business sector sent the U.S. dollar and bond yields lower. Thursday's Chicago PMI and today's ISM Manufacturing survey did nothing to dispel this notion. The ISM survey for November fell from 51.2 to 49.5, signaling the U.S. manufacturing sector had downshifted from slight growth to modest contraction. No need to run for the hills though. If sustained, an ISM index level of 49.5 is consistent with real GDP growth in the U.S. around 2.4%, perfectly in line with our forecast for the economy.

Even the upwardly-revised Q3 GDP figures foreshadowed some underlying weakness in the corporate sector in the fourth quarter. While non-residential investment remained strong, a larger-than-expected increase in inventories in the third quarter may signal slower growth in the

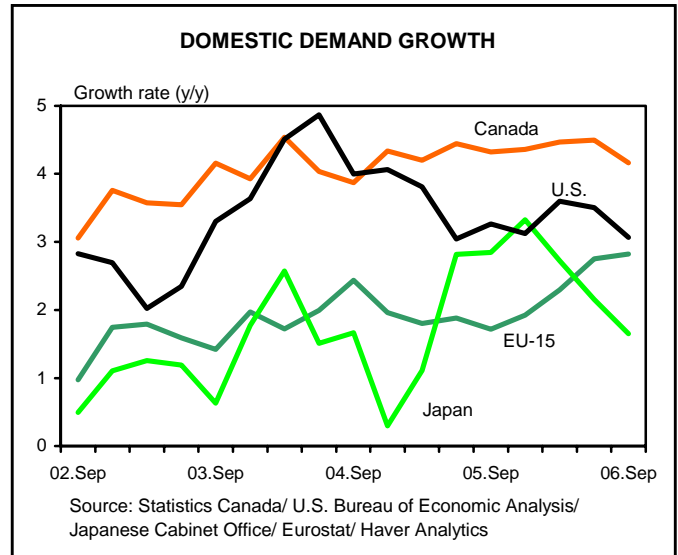
last quarter of 2006 as firms look to taper stockpiles and slow new production. U.S. corporate investment has proven to be one of the more resilient areas of the U.S. economy to date. While the Federal Reserve continued to hammer away at the risks of inflation in the Beige Book released this week, the markets generally ignored inflation developments amid signs that the housing-led slowdown may be leaking into the corporate sector.

U.S. consumers grow stronger through less presence

In addition to the corporate sector, U.S. consumer spending has been the other crutch of the U.S. economy this year. In spite of plummeting home prices and record indebtedness, spending growth has slowed only modestly. Revisions to U.S. Q3 GDP released this week showed slightly less consumer spending than initially forecast, and the personal spending and income figures revealed real income growth outpacing real spending. But this gets at the heart of U.S. current account adjustment. The exceptionally large size of the current account deficit is a direct result of the fact that U.S. individuals have been borrowing from abroad in order to increase their spending faster than their earnings. But over the last couple of months, Americans have made some headway in reversing this. With strong wage gains and falling energy prices, real disposable income grew by 0.6% in October. This helped increase the personal savings rate in the U.S. to negative 0.6%. While U.S. individuals are still dissaving, they are doing so to a lesser degree. Further strong wage growth will help to further this process. Moreover, the lagged effects from higher interest rates and lower home prices will also soften consumer spending in the coming 2-4 quarters and will help further improve this savings imbalance.

Global prospects remain high

While the softening of U.S. consumer spending will continue to be a drag on Canadian growth going forward, this weakness is being offset to a degree by the strength of Canadian domestic demand. In the third quarter, domestic demand grew by 2.8%, fueled by consumer spending growth of 4.2% and a 7.0% increase in non-residential business investment. Overall, Canadian GDP grew at an annualized quarterly growth rate of 1.7% in Q3, due to moderating government spending and inventory investment. Nevertheless, the domestic strength helped the Canadian economy add another 22.4k jobs in November, building off the 50.5k gain in October. While the unemployment rate did increase from 6.2% to 6.3%, even this



may belie some domestic vigor as more Canadians who were out of the labour force looked to enter.

Economic growth abroad has proven even more impressive. Both the Japanese and Eurozone economies are growing at or above 2.0% in spite of generally lackluster consumer spending. Because of this, Japanese, European, and British central banks are poised to raise rates in short succession over the next few months. Unlike the weakness creeping into the U.S. corporate sector, business prospects overseas remain stable. Japanese industrial production growth in October was unexpectedly strong while the Eurozone's largest economy, Germany, is enjoying a 15-year high in business sentiment and a shrinking unemployment rate. With Chinese growth running above 10% and the Indian economy accelerating to a 9.2% annualized growth rate in the third quarter, the global economy is doing its part in the rebalancing act.

Bottom Line

After an extended period of relative calm, the dollar resumed its slide this month as markets have accepted that the slowdown in the U.S. is being met with relative strength elsewhere in the global economy. Rather than something to fear, this process is finally making headway in slowing the growth of U.S. indebtedness. With this slowdown set to continue through the first half of 2007, rebalancing in the U.S. economy will put the American economy on track to see growth accelerate into the end of 2007 and through 2008.

Richard Kelly, Economist
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UPCOMING KEY ECONOMIC RELEASES

Bank of Canada Rate Decision

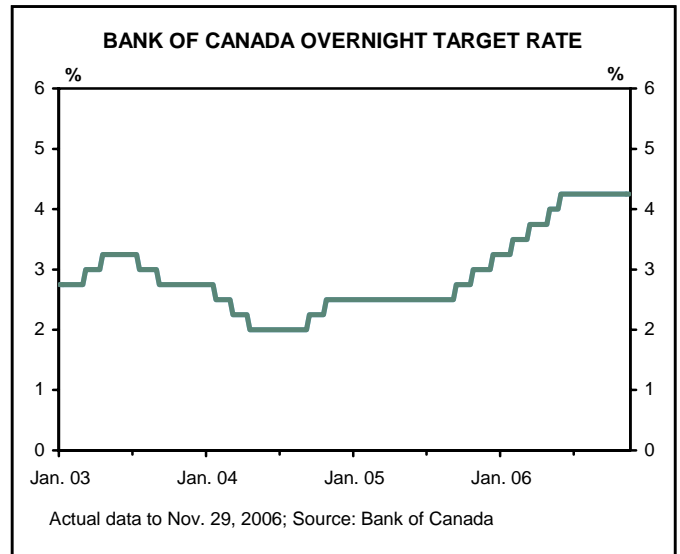
Release Date: December 5/06

TD Forecast: 4.25%

Consensus: 4.25%

The Bank of Canada is virtually certain to leave its overnight rate unchanged at 4.25% at the December 5th FAD, and accordingly, the markets have not priced in any odds of a move. So the issue is not what the Bank will do, but what it will say in its statement, and we don't expect to see any noteworthy changes on that front. In October's *Monetary Policy Report*, the Bank signalled that it was comfortable with the current level of interest rates, and there haven't been any significant developments on the economic front since then. In recent speeches, Bank of Canada officials have been singing that same refrain, so we expect to see once again that "that current level of the target for the overnight rate is judged at this time to be consistent with achieving the inflation target over the medium term."

Jacqui Douglas 416-982-7784



Canadian Housing Starts - November

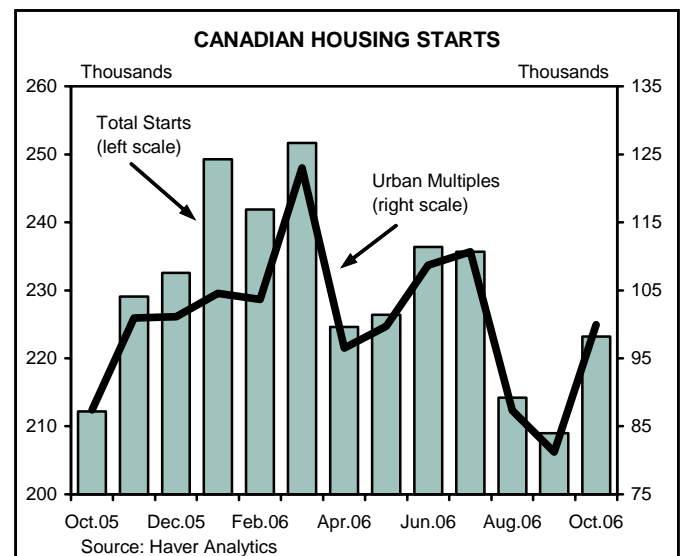
Date: December 8/06

TD Forecast: 220K

Consensus: 220K

We forecast Canadian housing starts to remain in line with recent trends, and come in at 220K. Supporting our view, building permits have remained at elevated levels, wage growth has been strong, and Canadian homes remain relatively affordable. However, we do expect the housing sector to drift downward in the coming year, but in a much more gradual fashion than its U.S. counterpart.

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U.S. Nonfarm Payrolls - November

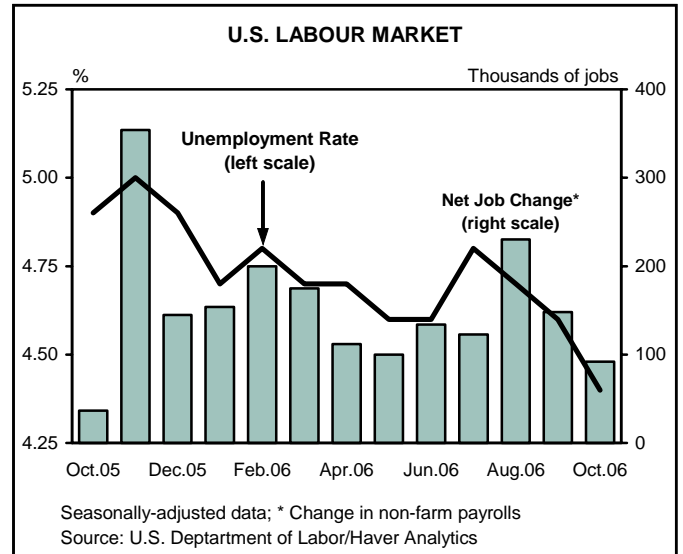
Release Date: December 8/06

TD Forecast: 130K

Consensus: 110K

We forecast an above-consensus 130K new jobs in the U.S. over the month of November. Although regional manufacturing surveys and the Manufacturing ISM survey suggest only limited job growth, we must emphasize that those surveys only reflect a single sector of the U.S. economy – manufacturers. The bulk of Americans are employed elsewhere. As a result, we take our cue from the recent upwardly revised trend in job growth of 138K jobs per month over the last six months and 157K jobs per month over the past three months. Our forecast is also consistent with still low levels of jobless claims (and we note that the latest uptick in jobless claims won't show up in the numbers until the December data is released). The unemployment rate should edge up from 4.4% to 4.5%, while we intend to continue watching the pace of U.S. wage growth with great interest – the recent trend has been robust and this has presented an argument against the Fed cutting rates.

Eric Lascelles 416-982-8979



RECENT KEY ECONOMIC INDICATORS

November 27- Dec. 1, 2006

Date	Economic Indicators	Data for	Units	Current	Prior	
Canada						
Nov. 29	Current Account (Balance of Payments)	Q3-06	C\$, blns	5.1	4.7	R ▲
Nov. 29	Industrial Product Price Index	Oct.	% change	-0.1	-1.5	R ▲
Nov. 29	Raw Materials Price Index	Oct.	% change	-2.8	-5.2	
Nov. 30	Real Gross Domestic Product	Q3-06	Ann. % chg.	1.7	2.0	
Nov. 30	Real GDP at Basic Prices	Sept.	% change	-0.3	0.3	
Dec. 1	Unemployment Rate	Nov.	Per cent	6.3	6.2	
Dec. 1	Net Change in Employment	Nov.	Thousands	22.4	50.5	
United States						
Nov. 28	Durable Goods Orders	Oct.	% change	-8.3	8.7	R ▲
Nov. 28	Existing Home Sales	Oct.	Millions	6.24	6.21	R ▲
Nov. 28	Consumer Confidence	Nov.	Index	102.9	105.1	R ▼
Nov. 28	Richmond Fed Index	Nov.	Index	7.0	-2.0	
Nov. 29	Real Gross Domestic Product (prelim.)	Q3-06	Ann. % chg.	2.2	1.6	
Nov. 29	Personal Consumption (prelim.)	Q3-06	Ann. % chg.	2.9	3.1	
Nov. 29	New Home Sales	Oct.	Thousands	1,004	1,037	R ▼
Nov. 30	Personal Income	Oct.	% change	0.4	0.5	
Nov. 30	Personal Spending	Oct.	% change	0.2	-0.2	R ▼
Nov. 30	PCE Deflator	Oct.	Y/Y % chg.	1.5	2.0	
Nov. 30	PCE Core	Oct.	Y/Y % chg.	2.4	2.4	
Nov. 30	Weekly Initial Jobless Claims	25-Nov	Thousands	357	323	R ▲
Nov. 30	Chicago Purchasing Managers Index	Nov.	Index	49.9	53.5	
Dec. 1	Construction Spending	Oct.	% change	-1.0	-0.8	R ▼
Dec. 1	ISM Index (manufacturing)	Nov.	Index	49.5	51.2	
Dec. 1	Total Vehicle Sales	Nov.	Millions	16.4	16.2	
Dec. 1	Domestic Vehicle Sales	Nov.	Millions	12.5	12.4	

Source: Bloomberg, TD Economics

UPCOMING NORTH AMERICAN ECONOMIC CALENDAR

Dec. 5-9, 2006

Release Date	Economic Indicators	Data for Period	Units	Consensus Forecast	Prior
Canada					
Dec. 5	<i>Bank of Canada interest rate announcement</i>		<i>Overnight rate</i>	4.25	4.25
Dec. 6	Building Permits	Oct.	% change	-1.0	-2.5
Dec. 6	Ivey Purchasing Managers Index	Nov.	Index	60.0	59.5
Dec. 8	Housing Starts	Nov.	Thousands	220.0	223.2
United States					
Dec. 4	<i>Chicago Fed President Moskow will be interviewed on CNBC.com</i>				
Dec. 5	Factory Orders	Oct.	% change	-3.5	2.1
Dec. 5	ISM Non-Manufacturing	Nov.	Index	56.0	57.1
Dec. 7	Weekly Initial Jobless Claims	2-Dec	Thousands	320	357
Dec. 8	Change in Non-farm Payrolls	Nov.	Thousands	110.0	92.0
Dec. 8	Unemployment Rate	Nov.	Per cent	4.5	4.4
Dec. 8	Average Hourly Earnings	Nov.	% change	0.3	0.4
Dec. 8	University of Michigan Consumer Confidence	Dec.		92.5	92.1

Source: Bloomberg, TD Economics

G-7 ECONOMIC RELEASES AND EVENTS

Date	Time*	Country	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
Dec. 3	18:50	Japan	Monetary Base (YoY)	Nov.	Y/Y % chg.	-22.7	-21.3
Dec. 4	---	AU	<i>Reserve Bank December policy setting meeting held</i>				
	5:00	EU-12	Euro-Zone PPI	Oct.	% change	0.1	-0.5
	9:00	U.S.	<i>Chicago Fed President Moskow will be interviewed on CNBC.com</i>				
	19:30	AU	Current Account Deficit	Q3-06	AU\$, blns	-11.0	-13.2
Dec. 5	3:50	France	Services Index	Nov.	Index	61.2	61.0
	3:55	Germany	Services Index	Nov.	Index	54.5	54.0
	4:00	EU-12	Services Index	Nov.	Index	56.5	56.5
	4:30	U.K.	Services Index	Nov.	Index	58.8	59.3
	5:00	EU-12	Retail Trade	Oct.	% change	0.2	-0.6
	9:00	Canada	<i>Bank of Canada interest rate announcement</i>		<i>Overnight rate</i>	4.25	4.25
	10:00	U.S.	Factory Orders	Oct.	% change	-3.5	2.1
	10:00	U.S.	ISM Non-Manufacturing	Nov.	Index	56.0	57.1
	19:30	AU	Real Gross Domestic Product (prelim.)	Q3-06	Q/Q % chg.	0.7	0.3
Dec. 6	---	U.K.	<i>Bank of England's Monetary Policy committee meets</i>				
	0:00	Japan	Leading Economic Index (prelim.)	Oct.	Index	50.0	18.2
	0:00	Japan	Coincident Index (prelim.)	Oct.	Index	77.8	45.0
	4:00	EU-12	Purchasing Managers Index (Retail)	Nov.	Index	n/a	52.8
	4:00	Germany	Purchasing Managers Index (Retail)	Nov.	Index	n/a	53.8
	4:00	France	Purchasing Managers Index (Retail)	Nov.	Index	n/a	55.7
	4:30	U.K.	Industrial Production	Oct.	% Chg.	0.1	0.2
	4:30	U.K.	Manufacturing Production	Oct.	% Chg.	0.2	0.0
	6:00	Germany	Factory Orders	Oct.	% change	1.1	-2.5
	8:30	Canada	Building Permits	Oct.	% change	-1.0	-2.5
	10:00	Canada	Ivey Purchasing Managers Index	Nov.	Index	60.0	59.5
	19:30	AU	Unemployment Rate	Nov.	Per cent	4.8	4.6
	19:30	AU	Net Change in Employment	Nov.	Thousands	10.0	-32.1
	Dec. 7	1:00	Japan	Machine Tool Orders (prelim.)	Nov.	Y/Y % chg.	n/a
7:00		U.K.	<i>Bank of England rate announcement</i>		<i>Base rate</i>	5.00	5.00
7:45		EU-12	<i>European Central Bank rate announcement</i>		<i>Refin. rate</i>	3.50	3.25
8:30		U.S.	Weekly Initial Jobless Claims	2-Dec	Thousands	320	357
0:00		U.K.	Leading Economic Index (prelim.)	Oct.	Index	n/a	0.2
0:00		U.K.	Coincident Index (prelim.)	Oct.	Index	n/a	0.2
18:50		Japan	Money Supply (M2+CD)	Nov.	Y/Y % chg.	0.7	0.7
18:50		Japan	Broad Liquidity	Nov.	Y/Y % chg.	2.1	2.1
Dec. 8		1:00	Japan	Machine Orders	Oct.	% change	2.3
	2:00	Germany	Trade Balance	Oct.	Eur, blns	13.5	15.6
	2:00	Germany	Current Account Balance	Oct.	Eur, blns	7.5	9.4
	6:00	EU-12	OECD Leading Indicators	Oct.	Index	n/a	109.1
	6:00	Germany	Industrial Production	Oct.	% Chg.	0.5	-0.3
	8:15	Canada	Housing Starts	Nov.	Thousands	220.0	223.2
	8:30	U.S.	Change in Non-farm Payrolls	Nov.	Thousands	110.0	92.0
	8:30	U.S.	Unemployment Rate	Nov.	Per cent	4.5	4.4
	8:30	U.S.	Average Hourly Earnings	Nov.	% change	0.3	0.4
	10:00	U.S.	University of Michigan Consumer Confidence	Dec.		92.5	92.1

* Eastern Standard Time; Sources: Bloomberg, TD Economics

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