

THE WEEKLY BOTTOM LINE

TD Economics



HIGHLIGHTS OF THE WEEK

September 14, 2012

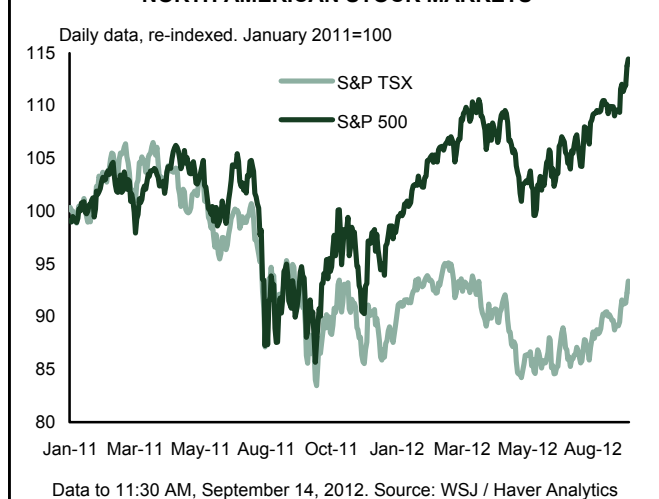
- The Federal Reserve announced a new round of quantitative easing consisting of \$40 billion per month in agency mortgage-backed securities. The program will continue until labor market conditions improve substantially.
- The Fed also announced that it expected monetary policy to remain highly accommodative even after economic growth has strengthened and expects the fed funds rate to remain at low levels until mid-2015.
- Taken together, these actions are significant. While the economy will face significant headwinds over the next year from the European recession and fiscal austerity, monetary policy will, over time, help to facilitate a faster pace of economic growth.

THIS WEEK IN THE MARKETS

	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	1,468	1,438	1,468	1,099
S&P/TSX Comp.	12,520	12,268	12,740	11,178
DAX	7,403	7,215	7,403	5,164
FTSE 100	5,901	5,795	5,966	4,944
Nikkei	9,159	8,872	10,255	8,160
Fixed Income Yields				
U.S. 10-yr Treasury	1.85	1.67	2.40	1.39
Canada 10-yr Bond	1.98	1.86	2.49	1.58
Germany 10-yr Bund	1.70	1.52	2.33	1.17
UK 10-yr Gilt	1.95	1.68	2.64	1.44
Japan 10-yr Bond	0.80	0.82	1.07	0.73
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	1.03	1.02	1.03	0.95
Euro (USD per EUR)	1.31	1.28	1.42	1.21
Pound (USD per GBP)	1.63	1.60	1.63	1.53
Yen (JPY per USD)	78.2	78.2	83.7	75.8
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	99.6	96.4	109.5	75.7
Natural Gas (\$US/MMBtu)	3.01	2.73	4.04	1.84
Copper (\$US/met. tonne)	8059.3	7958.8	8737.5	6721.5
Gold (\$US/troy oz.)	1774.5	1735.7	1811.9	1539.6

*as of 11:30 am on Friday. **Oil-WTI. Cushing. Nat. Gas-Henry Hub.

NORTH AMERICAN STOCK MARKETS



GLOBAL OFFICIAL POLICY RATE TARGETS

	Current Target
Federal Reserve (Fed Funds Rate)	0 - 0.25%
Bank of Canada (Overnight Rate)	1.00%
European Central Bank (Refi Rate)	0.75%
Bank of England (Repo Rate)	0.50%
Bank of Japan (Overnight Rate)	0.10%

Source: Central Banks, Haver Analytics

TD ECONOMICS KEY FORECASTS

	Current Rate 9/14/12	2012				2013			
		Q1	Q2	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Fed Funds Target Rate (%)	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
2-yr Govt. Bond Yield (%)	0.25	0.33	0.30	0.25	0.30	0.30	0.30	0.30	0.45
10-yr Govt. Bond Yield (%)	1.85	2.21	1.64	1.45	1.75	1.90	2.00	2.25	2.50
30-yr Govt. Bond Yield (%)	3.06	3.34	2.75	2.50	2.90	3.00	3.00	3.30	3.60
Real GDP (Q/Q % Chg, Annualized)	1.7 (Q2)	2.0	1.5	2.3	2.1	1.6	2.2	2.6	3.1
CPI (Y/Y % Chg.)	1.7 (Aug-12)	2.8	1.9	1.4	1.6	1.4	1.8	2.1	2.1
Unemployment Rate (%)	8.1 (Aug-12)	8.3	8.2	8.1	8.1	8.1	8.1	7.9	7.7

Forecast by TD Economics. Source: Bloomberg, TD Economics

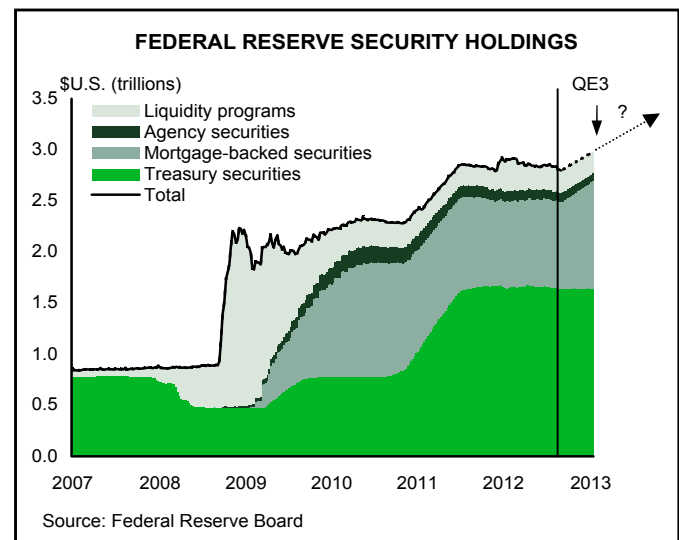
BERNANKE DELIVERS THE GIFT THAT KEEPS ON GIVING

There is really only one thing to talk about this week and that is the Federal Reserve. For several weeks, investors and economists have been awaiting to see whether the Fed would announce additional monetary easing. The Fed did not disappoint and this week announced several bold new measures aimed at boosting economic growth and supporting employment.

As expected, the Fed announced another round of quantitative easing, or, as they like to call it, “large scale asset purchases.” However, unlike previous rounds, this time, the Fed did not put a total dollar figure on their announcement, instead specifying that they will continue to make purchases (to the tune of \$40 billion per month in agency mortgage-backed securities) until the labor market shows substantial improvement. The Fed then went even further, changing its forward communication to indicate that it anticipates “a highly accommodative stance of monetary policy will remain appropriate for a considerable time after the economic recovery strengthens.” Finally, the Fed pushed out its expectation for how long the federal funds rate would remain at low levels from late 2014 to mid-2015.

These moves together represent a significant change in monetary policy. First, by conditioning future buying the labor market environment, the Fed is telling the public that when the economic data turns down, this almost automatically implies greater Federal Reserve stimulus. So, bad news, in this sense, is good news, because it means more monetary accommodation. Second, by stating that monetary accommodation will be kept in place even after a recovery has gained strength, the Fed is saying that good economic data should not be treated as a signal that the Fed will tighten policy. So, good news is also good news. The goal of these two policies is to convince people that one-way or another (either through higher prices or higher real growth) nominal income is going to be higher tomorrow, so it’s a good idea to spend today.

Critics of the Fed will argue that the Fed’s new policy will do little to reduce interest rates and that; in any case, the problem is not the level of interest rates, but the fact that so many people can not get credit. This is true to some extent, and Chairman Bernanke noted that the Federal Reserve can not be a panacea to all of the economy’s ills. In particular, he noted that the Fed cannot offset the impact of a major contraction in fiscal policy. However, what this criticism misses is that interest rates can be low simply because people fear the economy is going to be weak for an extended period of



time. Changing people’s expectations of future income and the future course of policy is just as important as changing the actual level of interest rates.

Another important point to make about the Fed’s action this week was that it was focused entirely on the housing market. While many analysts had been expecting an asset purchase plan that was split between Treasuries and mortgage-backed securities (MBS), the Fed chose to go 100% into MBS. This is a signal that the Federal Reserve sees improving conditions in the housing market as essential to moving the economy towards full employment.

It is hard to argue with this assessment. As Bernanke noted in his press conference, by putting upward pressure on home prices, the Fed helps to support the repair of household balance sheets that has been holding back spending. And, as home prices rise, the number of households who owe more on their homes than the value of their mortgage will fall. Over time, this will promote greater access to mortgage credit. Finally, by supporting a recovery in housing construction, the Fed is directly supporting job creation in a sector that makes up 42% of the jobs lost since the start of the recession.

All told, while the Fed’s actions are significant, they cannot fully offset the headwinds facing economic growth over the next year from the European recession and the looming fiscal cliff. However, as these headwinds fade, support to confidence provided by the Fed’s commitment to low rates as well as direct support to the mortgage market will help to facilitate a faster pace of economic growth.

James Marple, Senior Economist 416-982-2557

UPCOMING KEY ECONOMIC RELEASES

U.S. Housing Starts - August*

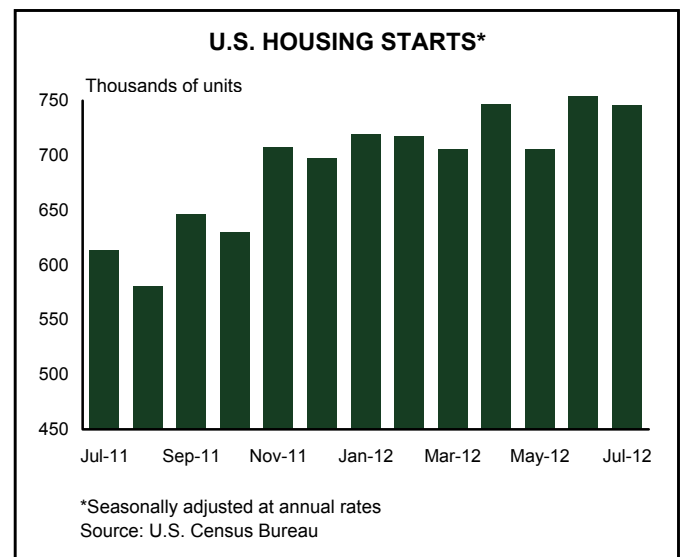
Release Date: September 19, 2012

July Result: 746K

TD Forecast: 790K

Consensus: 768K

The US housing market recovery has begun in earnest, with prices beginning to edge higher. Sales activity is also on the upswing as record low mortgage rates and affordability conditions are providing a decent lift to housing demand. New residential construction is also on the rise, with housing starts boasting a very respectable 22% rise over the past year. The rebound in building activity is largely consistent with the improved sentiment among homebuilders (seen in the monthly NAHB survey, which is now at a 5 year high) and the surge in building intentions reflected by the 30% gain in permit approvals over the same period. In August, we expect the pace of construction activity to accelerate, with starts posting a robust 5.9% m/m rebound to 790K, taking the level of activity closer to the pace of permits approvals. The pace of permit approvals should



moderate, falling to 800K. In the coming months, we expect the rebound in building activity to remain measured, though residential construction should continue to provide a modest lift to overall economic activity.

U.S. Existing Home Sales - August*

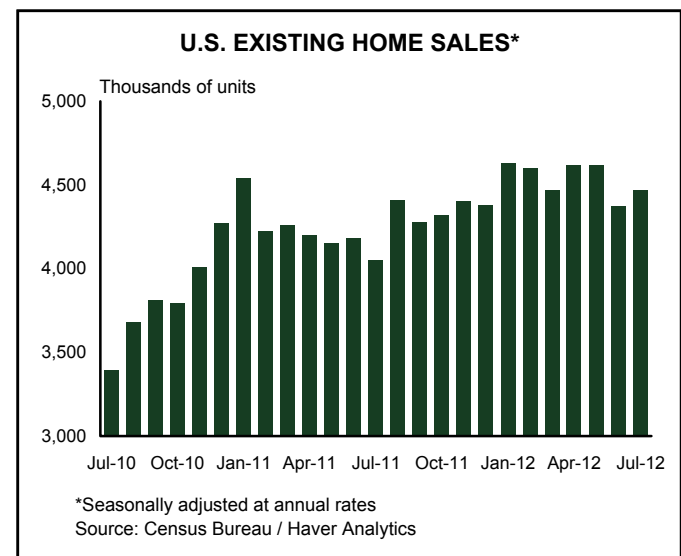
Release Date: September 19, 2012

July Result: 4.47M

TD Forecast: 4.50M

Consensus: 4.55M

The housing market is on the mend, as rising prices and record affordable conditions are beginning to provide a decent sustained boost in housing market activity. In August, we expect the pace of sales activity to rise modestly, with existing home sales boasting a 1.0% m/m gain to 4.50 million units. This will mark the second consecutive monthly gain in this indicator, though sales activity has remained below the weather induced 2-year peak in January. The pick-up in sales August is largely consistent with the modest improvement in economic conditions in recent months, and the fall in mortgage rates to record lows recently. In the coming months, we expect the pace of home sales to pick-up as the record high buying conditions along with a rebound in labor market activity provide a supportive backdrop for sales activity.



*Forecast by Rates and FX Strategy Group. For further information, contact TDRates&FXResearch@tdsecurities.com.

RECENT KEY ECONOMIC INDICATORS: SEPTEMBER 10-14, 2012

Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior		
United States							
Sep 10	Consumer Credit	Jul	\$, Blns	-3.28	9.82	R▲	
Sep 11	NFIB Small Business Optimism	Aug	Index	92.9	91.2		
Sep 11	Trade Balance	Jul	\$, Blns	-42.0	-41.9	R▲	
Sep 11	JOLTs Job Openings	Jul	Thousands	3664	3722	R▼	
Sep 12	MBA Mortgage Applications	7-Sep	W/W % Chg.	11.1	-2.4	R▲	
Sep 12	Import Price Index	Aug	M/M % Chg.	0.7	-0.7	R▼	
Sep 12	Wholesale Inventories	Jul	M/M % Chg.	0.7	-0.2		
Sep 13	RBC Consumer Outlook	Sep	Index	50.4	46.4		
Sep 13	Producer Price Index	Aug	M/M % Chg.	1.7	0.3		
Sep 13	PPI Ex Food & Energy	Aug	M/M % Chg.	0.2	0.4		
Sep 13	Initial Jobless Claims	8-Sep	Thousands	382	365	R▼	
Sep 13	Continuing Claims	1-Sep	Thousands	3283	3332	R▲	
Sep 13	Monthly Budget Statement	Aug	\$, Blns	-190.5	-134.1		
Sep 14	Consumer Price Index	Aug	M/M % Chg.	0.6	0.0		
Sep 14	CPI Ex Food & Energy	Aug	M/M % Chg.	0.1	0.1		
Sep 14	Advance Retail Sales	Aug	M/M % Chg.	0.9	0.6	R▼	
Sep 14	Retail Sales Ex Autos & Gas	Aug	M/M % Chg.	0.1	0.8	R▼	
Sep 14	Industrial Production	Aug	M/M % Chg.	-1.2	0.5	R▼	
Sep 14	Capacity Utilization	Aug	%	78.2	79.2	R▼	
Sep 14	Manufacturing Production	Aug	M/M % Chg.	-0.7	0.4	R▼	
Sep 14	University of Michigan Confidence	Sep	Index	79.2	74.3		
Sep 14	Business Inventories	Jul	M/M % Chg.	0.8	0.1		
Canada							
Sep 11	Housing Starts	Aug	Thousands	224.9	208.0	R▼	
Sep 11	International Merchandise Trade	Jul	CAD, Blns	-2.34	-1.93	R▼	
Sep 13	Capacity Utilization	2Q	%	81.0	80.5	R▼	
Sep 13	New Housing Price Index	Jul	M/M % Chg.	0.1	0.2		
Sep 14	Manufacturing Sales	Jul	M/M % Chg.	-1.5	-0.8	R▼	
International							
Sep 10	FR	Industrial Production	Jul	Y/Y % Chg.	-3.1	-2.5	R▼
Sep 11	UK	Total Trade Balance	Jul	GBP, Mlns	-1517	-4333	R▼
Sep 12	FR	CPI - EU Harmonised	Aug	Y/Y % Chg.	2.4	2.2	
Sep 12	FR	Current Account	Jul	\$, Blns	-2.5	-4.8	R▲
Sep 12	UK	ILO Unemployment Rate	Jul	%	8.1	8.0	
Sep 12	UK	Employment Change	Jul	3M/3M	236	201	
Sep 12	EC	Eurozone Industrial Production	Jul	Y/Y % Chg.	-2.3	-2.1	
Sep 12	NZ	RBNZ Official Cash Rate	13-Sep	%	2.5	2.5	
Sep 14	EC	Eurozone CPI - Core	Aug	Y/Y % Chg.	1.5	1.7	
Sep 14	EC	Eurozone Employment	2Q	Q/Q % Chg.	0.0	-0.3	R▼

* Eastern Standard Time; Source: Bloomberg, TD Economics

**UPCOMING ECONOMIC RELEASES AND EVENTS: SEPTEMBER 17-21, 2012**

Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period	
United States							
Sep 17	8:30	Empire Manufacturing	Sep	Index	-2.0	-5.9	
Sep 18	8:30	Current Account Balance	2Q	\$, Blns	-127.0	-137.3	
Sep 18	9:00	Total Net TIC Flows	Jul	\$, Blns	--	16.7	
Sep 18	10:00	NAHB Housing Market Index	Sep	Index	37	37	
Sep 18	11:30	<i>Fed's Dudley to Speak on Economy in NJ</i>					
Sep 18	19:15	<i>Fed's Lacker Speaks on Monetary Policy in NY</i>					
Sep 19	8:30	Housing Starts	Aug	Thousands	768.0	746.0	
Sep 19	8:30	Building Permits	Aug	Thousands	791.0	812.0	
Sep 19	10:00	Existing Home Sales	Aug	Millions	4.55	4.47	
Sep 19	19:00	<i>Fed's Fisher Speaks on Economy and Policy in NY</i>					
Sep 20	8:30	Initial Jobless Claims	15-Sep	Thousands	--	382.0	
Sep 20	8:30	Continuing Claims	8-Sep	Thousands	--	3283.0	
Sep 20	9:45	Bloomberg Economic Expectations	Sep	Index	--	-22	
Sep 20	10:00	Philadelphia Fed Business Outlook Survey	Sep	Index	-4.3	-7.1	
Sep 20	10:00	Philadelphia Fed Leading Indicators	Aug	M/M % Chg.	-0.1	0.4	
Canada							
Sep 17	8:30	International Securities Transactions	Jul	CAD, Blns	--	-7.89	
Sep 17	9:00	Existing Home Sales	Aug	M/M % Chg.	--	0.0	
Sep 21	8:30	Wholesale Sales	Jul	M/M % Chg.	0.2	-0.1	
Sep 21	8:30	Consumer Price Index	Aug	M/M % Chg.	0.2	-0.1	
Sep 21	8:30	Bank of Canada CPI Core	Aug	M/M % Chg.	0.3	-0.1	
International							
Sep 17	4:00	EC	ECB Euro-Zone Current Account SA	Jul	Euros, Blns	--	12.7
Sep 17	5:00	EC	Euro-Zone Labour Costs	2Q	Y/Y % Chg.	1.6	2.0
Sep 17	5:00	EC	Euro-Zone Trade Balance SA	Jul	Euros, Blns	--	10.5
Sep 18	4:30	UK	CPI	Aug	Y/Y % Chg.	2.5	2.6
Sep 18	4:30	UK	Core CPI	Aug	Y/Y % Chg.	2.2	2.3
Sep 18	4:30	UK	Retail Price Index	Aug	Index	--	242.1
Sep 18	5:00	GE	ZEW Survey (Econ. Sentiment)	Sep	Index	-20.0	-25.5
Sep 18	18:45	NZ	Current Account Balance	2Q	NZD, Blns	-1.75	-1.31
Sep 18-19	--	JN	BOJ Target Rate	19-Sep	%	0.1	0.1
Sep 19	5:00	EC	Construction Output WDA	Jul	Y/Y % Chg.	--	-2.8
Sep 19	18:45	NZ	GDP	2Q	Q/Q % Chg.	0.4	1.1
Sep 19	19:50	JN	Adjusted Merchnds Trade Bal.	Aug	Yen, Blns	--	-518.9
Sep 20	2:00	GE	Producer Prices	Aug	M/M % Chg.	0.4	0.0
Sep 20	3:00	FR	PMI Manufacturing	Sep	Index	46.3	46.0
Sep 20	3:00	FR	PMI Services	Sep	Index	49.4	49.2
Sep 20	3:30	GE	PMI Manufacturing	Sep	Index	45.4	44.7
Sep 20	3:30	GE	PMI Services	Sep	Index	48.5	48.3
Sep 20	4:00	EC	PMI Composite	Sep	Index	--	46.3
Sep 20	10:00	EC	Euro-Zone Consumer Confidence	Sep	Index	-23.8	-24.6
Sep 21	2:45	FR	Wages	2Q	Q/Q % Chg.	--	0.5
Sep 21	4:30	UK	Public Sector Net Borrowing	Aug	GBP, Blns	--	-1.8

* Eastern Standard Time; Source: Bloomberg, TD Economics



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