

THE WEEKLY BOTTOM LINE

TD Economics



HIGHLIGHTS OF THE WEEK

May 11, 2012

United States

- Results of the French and Greek elections suggest disbelief that austerity is the solution to Europe's fiscal woes.
- Political stalemate in Greece risks terminating the EU/IMF bailout program, potentially precipitating in Greek exit from the euro zone.
- Spanish government plans to shore up financial sector highlight potential need for external financing.
- US wholesale inventory and international trade data largely offsetting in terms of impact on Q1 GDP.
- NFIB and JOLTS data indicate some cause for hope that April payrolls may be an anomaly.

Canada

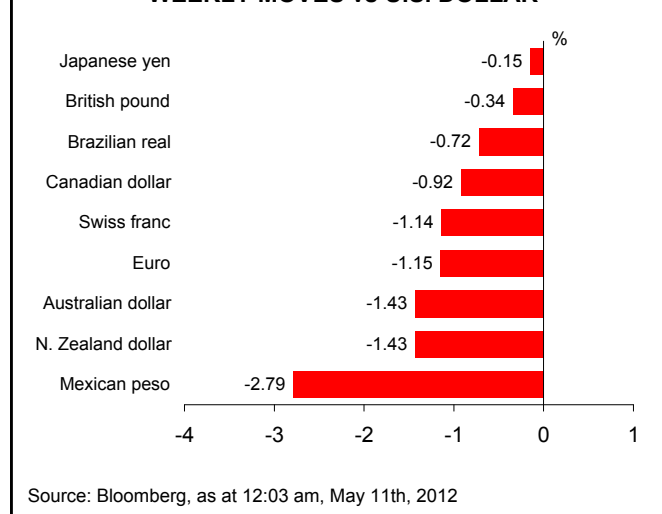
- The growing likelihood of a Greek exit from the Euro zone and mounting political uncertainty across Europe weighed on Canadian financial markets this week. Yet, economic data surprised on the upside.
- Net trade likely contributed positively to real GDP growth in the first quarter, with real exports up about 10% annualized.
- Most importantly, the Canadian labour market showed vigour through April, with an impressive 58,000 new jobs created.
- Excessive home building continued into April as housing starts reached 245,000 annualized units in the month.

THIS WEEK IN THE MARKETS

	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	1 352	1 369	1 419	1 099
S&P/TSX Comp.	11 657	11 871	13 830	11 178
DAX	6 473	6 561	7 471	5 072
FTSE 100	5 515	5 655	6 055	4 944
Nikkei	8 953	9 380	10 255	8 160
Fixed Income Yields				
U.S. 10-yr Treasury	1.85	1.88	3.22	1.72
Canada 10-yr Bond	2.00	2.02	3.23	1.84
Germany 10-yr Bund	1.51	1.58	3.12	1.51
UK 10-yr Gilt	1.95	2.00	3.39	1.90
Japan 10-yr Bond	0.85	0.89	1.18	0.85
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	1.00	1.00	1.06	0.95
Euro (USD per EUR)	1.29	1.31	1.47	1.27
Pound (USD per GBP)	1.61	1.62	1.65	1.53
Yen (JPY per USD)	79.9	79.9	84.0	75.8
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	95.9	98.5	109.5	75.7
Natural Gas (\$US/MMBtu)	2.36	2.31	4.92	1.84
Copper (\$US/met. tonne)	8207.0	8253.5	9818.5	6721.5
Gold (\$US/troy oz.)	1583.6	1642.2	1900.2	1486.8

*as of 10:00 am on Friday, **Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price), Copper-LME Grade A, Gold-London Gold Bullion; Source: Bloomberg

WEEKLY MOVES vs U.S. DOLLAR



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)	1.00%
Bank of England (Repo Rate)	0.50%
Bank of Japan (Overnight Rate)	0.10%

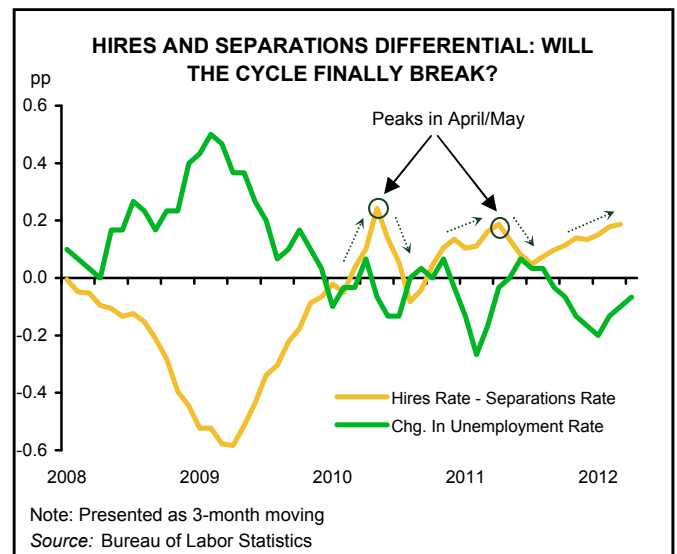
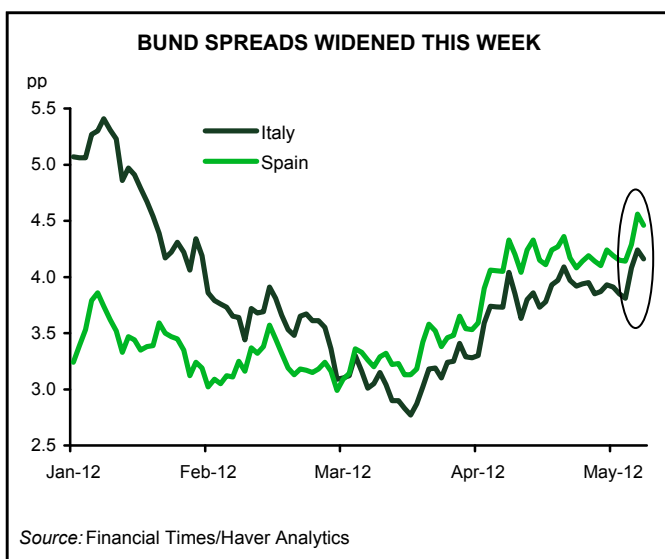
Source: Central Banks, Haver Analytics

U.S. – EUROPEAN AUSTERITY: WAS IT JUST A FLING?

Once again all eyes were on Europe this week following the results of the French and Greek weekend elections, which appear to have rejected the idea of austerity as the key to Europe's salvation. Hollande's win in France marks the shift in sentiment to an agenda of growth. Meanwhile in Greece, a fragmented election result left the pro-bailout coalition rivals-turned-partners two seats shy of majority in the 300-seat chamber. With a divided electorate and no one party able to yet form a government, it is very likely that new elections will have to be called by the end of June. If the stalemate persists, the country risks the termination of its current bailout program with the EU/IMF, which could, in turn, precipitate its exit from the euro zone.

These political developments rattled financial markets, widening European sovereign spreads (see chart), sending stock indexes lower across the board, and yielding a marked appreciation of the US dollar.

But political headlines out of Europe were not the only element driving the markets. On Wednesday, the Spanish government announced it has taken a controlling stake in the country's fourth largest bank, Bankia SA, by converting 4.5 billion euros of preferred shares into ordinary stock. The following day, the government asked lenders to increase bad debt provisions by €54bn to 166 billion euros. The latter was needed to address a rise in non-performing real estate loans – estimated by the Bank of Spain to have reached 184 billion euros, or 16% of the country's GDP. These developments have once again brought to the forefront the potential need for external funding, further unnerving financial markets.



It was a far more tempered week on the home front, with little in the way of economic data or political upheaval. Equity markets were mainly driven by European events given that there were only two second-tier data releases. March wholesale inventories disappointed with a 0.3% gain. This was half the pace of consensus and implies a downward revision to first quarter inventories. In contrast, international trade data indicated solid March capital goods imports, suggesting a stronger employment and software investment profile in the first quarter. On balance the two releases - which largely complete the picture of economic activity in the first quarter - offset each other with little implication for Q1 GDP.

Following on the heels of last Friday's dismal payrolls report, this week also gave some cause for hope that April's figure may have been anomalous. Firstly, the NFIB's Small Business Optimism Index, recovered its March losses, with employment sub-indices leading the way. Secondly, JOLTS data suggests that unless this year is a repeat of last, and the hires-separations differential holds up (see chart), the unemployment rate should continue to decline over the remainder of the year. Lastly, weekly initial claims maintained a downward trend, suggesting the April surge was likely driven by the timing of the Easter holiday.

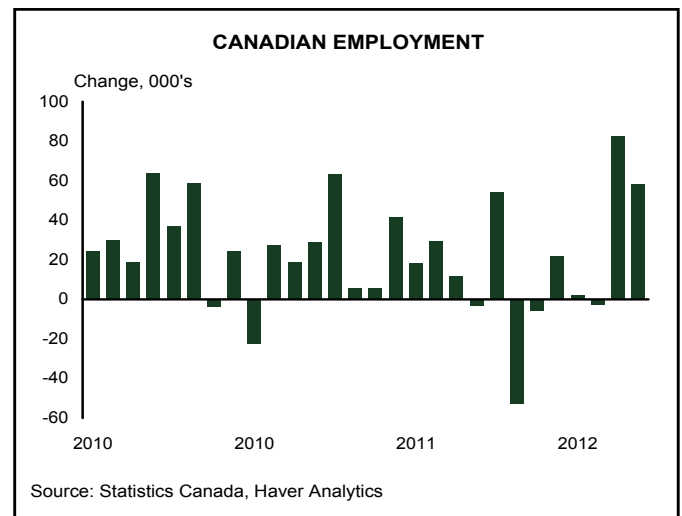
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CANADA – NAVIGATING THROUGH YET ANOTHER CRISIS

Just as the economic backdrop seemed to be improving, the European financial crisis is once again rearing its ugly head. The growing likelihood of a Greek exit from the Euro zone and mounting political uncertainty across Europe weighed on Canadian financial markets as investors flocked to safe-haven U.S. Treasuries. S&P/TSX prices fell a further 1.0% this week, and are 7% below April's peak. Still, blockbuster economic reports this week provided reassurance that the Canadian economy is recording a decent head of momentum.

Tuesday's trade report served up a reminder that Canada's exposure to Europe is largely indirect. Net trade is likely to contribute positively to real GDP growth in the first quarter with real exports up about 10% annualized (despite a 53% contraction in exports to Europe) and imports rose by a lesser 5.3%. Looking forward, Canada's trade prospects hinge more on U.S. developments. And upbeat chatter this week about robust U.S. auto sales and the need to expand Canadian auto capacity to meet that demand are consistent with continued strength in net trade.

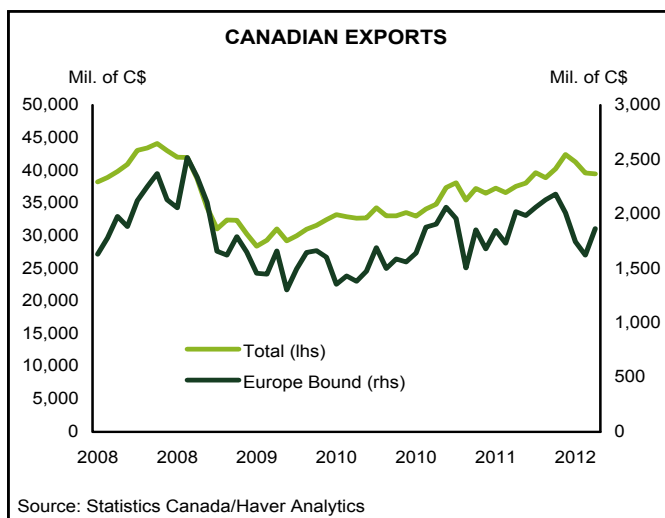
Most importantly, the Canadian labour market showed vigour through March and April. Indeed, gains in manufacturing were instrumental in a recorded 58,000 net new jobs created in April. Construction and natural resources were also key contributors to employment in the month. Canadian employment is playing catch up from what appeared to be an unusually weak period of job creation towards the end of 2011 and early 2012. Still, the six month moving average of employment growth is 26,000 per month, a pace that is consistent with an economy growing at a relatively healthy pace of 2.5-3.0%.



Despite these positive developments, Europe remains the number one risk to our Canadian economic forecast. The financial linkages are the most important channel through which Europe's woes would feed into Canada. Over 30% of Canadian foreign direct investment comes from Europe. As such, a tightening in European lending would certainly be felt by Canadian banks and non-financial institutions. Second, commodity prices would come under pressure. Indeed, over the last week the WTI price of crude oil dropped \$10 to US \$96 a barrel. Prices remain profitable for the resource sector, but any further pull back would weigh on an industry of major importance for Canadian economic growth.

Last but not least, the recent leg down in financial markets could weigh on household and business sentiment at a time when Canada's growing consumer debt and overbuilt, overpriced housing market leave the economy more vulnerable to an external shock. This week we learned that the excessive building continued into April, particularly in the condo market, with housing starts reaching 245,000 annualized units in the month. The number of newly built and unoccupied condos has risen to levels not seen since the 1990's housing bust. The continued strength in condo building is only likely to contribute to an overhang of condo inventory.

At least for now, U.S. and Canadian economic prospects appear to be mildly impacted by the European financial and economic crisis. Real GDP growth in Canada is expected to trudge along at a 2.0-2.5% pace and despite volatility in the data, average employment gains of 15,000-20,000 should continue. But, much depends on political and financial developments in Europe.



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U.S.: UPCOMING KEY ECONOMIC RELEASES

U.S. CPI - April*

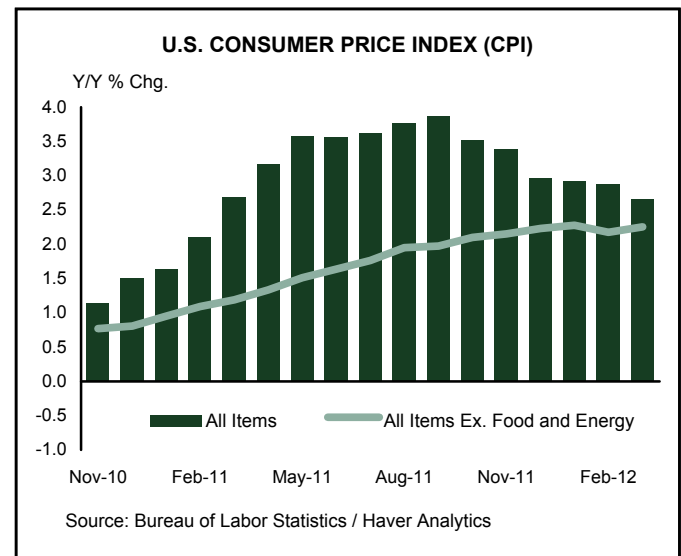
Release Date: May 15, 2012

March Result: CPI 0.3% M/M; Core CPI 0.2% M/M

TD Forecast: CPI 0.1% M/M; Core CPI 0.1% M/M

Consensus: CPI 0.1% M/M; Core CPI 0.2% M/M

Favorable seasonals should push the energy component of the consumer basket down sharply in April, mostly on account of weaker energy prices, which we expect to decline by as much as 3.0% during the month. Food prices, however, should rise modestly, posting a 0.2% m/m gain, partially offsetting the weakness in energy prices. During the month, we expect headline prices to rise by a modest 0.1% m/m pace, with the annual pace of consumer price inflation posting its 7th consecutive monthly drop, falling to 2.2% y/y from 2.7% y/y the month before, marking the lowest print on this indicator in over a year. Core consumer price should rise in April, though at a very modest 0.1% m/m pace, with the annual pace of core CPI inflation remaining unchanged at 2.3% y/y.



Looking ahead, with energy prices continuing to abate meaningfully, we expect the downward trajectory in headline consumer price inflation to remain largely intact, falling below the 2.0% y/y mark in the coming months.

U.S. Retail Sales - April*

Release Date: May 15, 2012

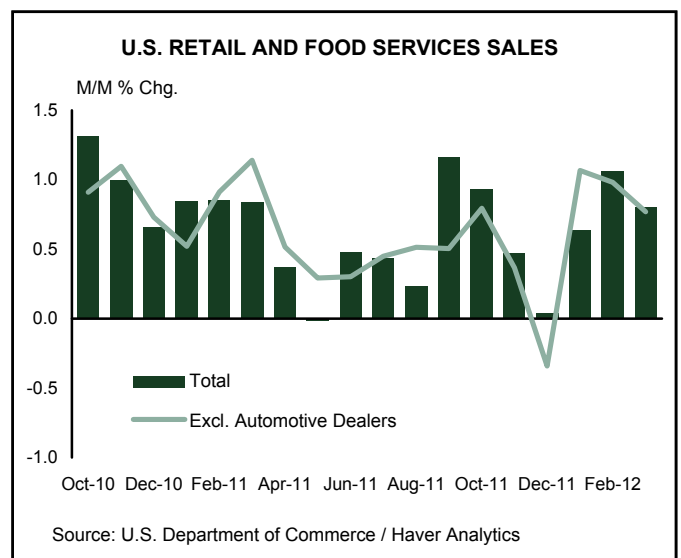
March Result: Retail Sales 0.8% M/M; ex-autos 0.8% M/M; ex-autos & gas 0.7% M/M

TD Forecast: Retail Sales 0.3% M/M; ex-autos 0.3% M/M; ex-autos & gas 0.4% M/M

Consensus: Retail Sales 0.2% M/M; ex-autos 0.2% M/M; ex-autos & gas 0.4% M/M

Higher electronic sales activity should dull the impact of soft auto sales in April, with total retail sales activity posting a modest 0.3% m/m gain, following a very respectable 0.8% m/m advance in March. Excluding autos, spending is also expected to rise at an equally modest 0.3% m/m pace. Core retail sales, however, should be quite decent, building on the strong momentum in the first quarter with a 0.4% m/m gain, driven mostly by the boost to activity resulting from the launch of the new iPad product, which should more than compensate for the weakness in some of the other components.

The strength in core spending activity underscores that consumer spending activity will remain a source of favour-



able support for overall economic activity in this quarter. In the coming months, we expect the pace of consumer spending to moderate, particularly given evidence of slowing labour market activity, though spending should continue to provide a tailwind to GDP.

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

U.S. Housing Starts - April*

Release Date: May 16, 2012

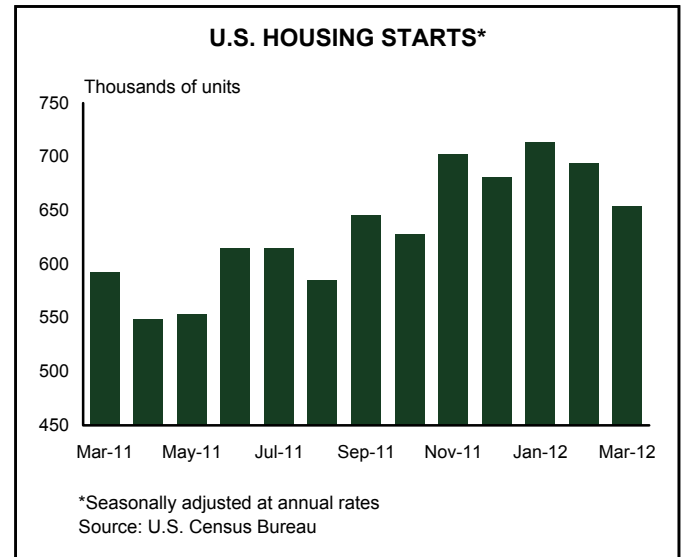
March Result: 654K

TD Forecast: 690K

Consensus: 680K

With the US housing market beginning to show signs of stabilisation, supported by buoyant home sales activity and the unseasonably warm weather, we expect residential home building activity to bounce back nicely in April. During the month, housing starts should rise back to 690K (up 5.6% m/m), as building activity rebounds from the weak performance in March. The advance in construction activity is largely consistent with the improved sentiment among homebuilders (seen in the monthly NAHB survey) and the recent surge in building intentions, reflected by the 12% gain in permit approvals since January.

The pace of permit approvals should moderate, however, falling back to 715K units. Looking ahead, with the pace of home sales to remain relatively tepid, 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. Industrial Production and Capacity Utilization - April*

Release Date: May 16, 2012

March Result: Industrial Production 0.0% M/M;

Capacity Utilization 78.6%

TD Forecast: Industrial Production 0.7% M/M;

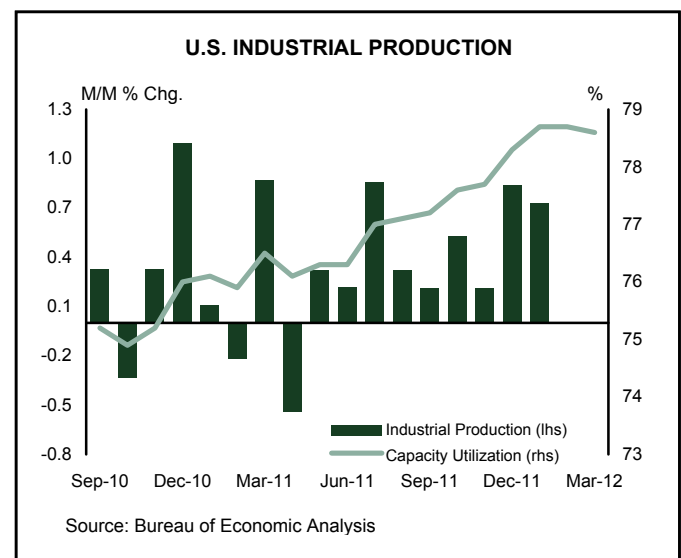
Capacity Utilization 78.9%

Consensus: Industrial Production 0.5% M/M;

Capacity Utilization 79.0%

After stagnating for the past two months, we expect US industrial production activity to boast a very impressive 0.7% m/m rebound in April, taking the headline index to its highest print since mid-2008. Strong manufacturing sector activity should be the key catalyst for the rebound in industrial output, with the sector expected to bounce back from the slump in March. Production activity in the utilities and mining sectors of the economy should also improve, reflecting a broadly based rebound in industrial output during the month.

The rate of factory usage should also edge higher, with the capacity utilization rate climbing to 78.9%, marking a



4-year high in this indicator. In the coming months, with global economic activity expected to rebound from the recent slump, we expect the pace of US industrial production activity to improve further.

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

CANADA: UPCOMING KEY ECONOMIC RELEASES

Canadian Manufacturing Shipments - March*

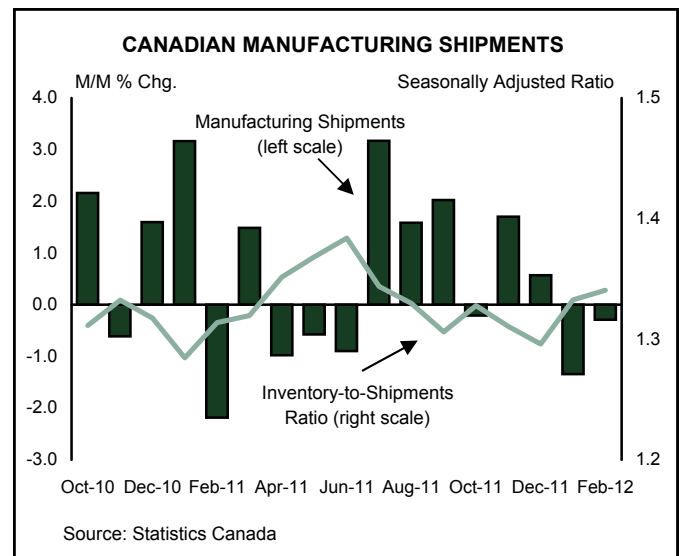
Release Date: May 16, 2012

February Result: -0.3% M/M

TD Forecast: 0.7% M/M

Consensus: 0.3% M/M

Following a sluggish start to the year, manufacturing sales are expected to post a respectable 0.7% M/M increase in March. This gain is expected to be driven by higher producer prices, improved US orders, and a broad measure of surveys that suggest manufacturing activity increased during the month. Moreover, increased M&E and industrial goods exports should also lend support to manufacturing sales. One caveat that we would note is that energy exports were quite weak in both February and March. Typically sales and energy exports do move together through time, but we have thus far failed to see the weakness in exports show up in the manufacturing sales data. In volume terms, sales are also expected to be firm which will help underpin a rebound in industry-level real GDP following a 0.2% contraction in



February. Heading forward, in keeping with the anecdotal evidence of increased production plans, we expect the manufacturing sector to recover from the slow start to the year in tandem with US growth bouncing around its trend rate.

Canadian CPI - April*

Release Date: May 18, 2012

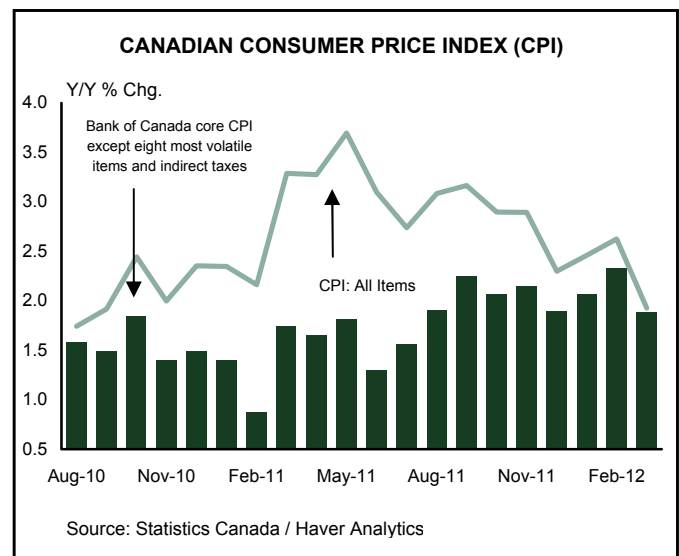
March Result: CPI 0.4% M/M; Core CPI 0.3% M/M

TD Forecast: CPI 0.4% M/M; Core CPI 0.1% M/M

Consensus: CPI 0.3% M/M; Core CPI 0.2% M/M

Higher prices at the pump are expected to have contributed to a solid 0.4% increase in the non-seasonally adjusted all-items CPI in April. The seasonally-adjusted price index is also forecast to have increased by 0.4%, as the skew from seasonal distortions is not as pronounced in April as in March or February. On a year-ago basis, headline inflation is forecast to remain unchanged at 1.9%. This forecast is consistent with the Bank of Canada's expectation for headline inflation to average around 2.0% over the second quarter.

The non-seasonally adjusted core price index is expected to have increased by 0.1% on a monthly basis with the seasonally-adjusted series increasing by a slightly stronger 0.2%. The forecast for the core price series balances a modest rebound in electricity prices from a sharp decline in



March with a fall in clothing prices following two months of strong gains. On a year-ago basis core inflation is expected to retreat modestly to 1.8% which is in line with the 1.9% the Bank of Canada forecast in the April MPR.

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

**RECENT KEY ECONOMIC INDICATORS: MAY 7 - 11, 2012**

Release Date	Economic Indicators	Data for Period	Units	Current	Prior	
United States						
May 7	Consumer Credit	Mar	Billions	21.355	9.267	R▲
May 8	NFIB Small Business Optimism	Index	Apr	94.5	92.5	
May 8	IBD/TIPP Economic Optimism	May	Index	48.5	49.3	
May 8	JOLTs Job Openings	Mar	Thousands	3737	3565	R▲
May 9	MBA Mortgage Applications	4-May	W/W % Chg.	1.7	0.1	
May 9	Wholesale Inventories	Mar	M/M % Chg.	0.30	0.90	
May 10	Import Price Index	Apr	M/M % Chg.	-0.5	1.5	R▲
May 10	Trade Balance	Mar	Billions	-51.8	-45.4	R▲
May 10	Initial Jobless Claims	5-May	Thousands	367	368	R▲
May 10	Continuing Claims	28-Apr	Thousands	3229	3290	R▲
May 10	Bloomberg Consumer Comfort	6-May	Index	-40.4	-37.6	
May 10	Monthly Budget Statement	Apr	Billions	59.1	-40.4	
May 11	Producer Price Index	Apr	M/M % Chg.	-0.2	0.0	
May 11	PPI Ex Food & Energy	Apr	M/M % Chg.	0.2	0.3	
May 11	U. of Michigan Confidence	May	Index	77.8	76.4	
Canada						
May 7	Building Permits	Mar	M/M % Chg.	4.70	7.60	R▲
May 8	Housing Starts	Apr	Thousands	244.9	214.8	R▼
May 10	New Housing Price Index	Mar	M/M % Chg.	0.3	0.3	
May 10	Int'l Merchandise Trade	Mar	Billions	0.35	0.27	R▼
May 11	Unemployment Rate	Apr	%	7.3	7.2	
May 11	Net Change in Employment	Apr	Thousands	58.2	82.3	
May 11	Full Time Employment Change	Apr	Thousands	43.9	70.0	
May 11	Part Time Employment Change	Apr	Thousands	14.3	12.4	
May 11	Participation Rate	Apr	%	66.8	66.6	
International						
May 7	EC Sentix Investor Confidence	May	Index	-24.5	-14.7	
May 7	AU Trade Balance	Mar	Millions	-1587	-754	R▼
May 8	GE Industrial Prod. (nsa wda)	Mar	Y/Y % Chg.	1.6	0.0	R▲
May 9	GE Trade Balance	Mar	Billions	17.4	14.9	R▲
May 9	FR Trade Balance (Euros)	Mar	Millions	-5721	-6279	R▲
May 9	JN Trade Balance - BOP Basis	Mar	Billions	4.2	102.1	
May 10	UK BOE Announces Rates	10-May	%	0.50	0.50	
May 11	GE Consumer Price Index	Apr	Y/Y % Chg.	2.1	2.0	

Source: Bloomberg, TD Economics



UPCOMING ECONOMIC RELEASES AND EVENTS: MAY 14 - 18, 2012

Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
May 14-18	--	Mortgage Delinquencies	1Q	Q/Q % Chg.	--	7.58
May 14-18	--	MBA Mortgage Foreclosures	1Q	Q/Q % Chg.	--	4.38
May 15	8:30	Consumer Price Index	Apr	M/M % Chg.	0.1	0.3
May 15	8:30	CPI Ex Food & Energy	Apr	M/M % Chg.	0.2	0.2
May 15	8:30	Empire Manufacturing	May	Index	9.00	6.56
May 15	8:30	Advance Retail Sales	Apr	M/M % Chg.	0.2	0.8
May 15	8:30	Retail Sales Less Autos	Apr	M/M % Chg.	0.2	0.8
May 15	8:30	Retail Sales Ex Auto & Gas	Apr	M/M % Chg.	0.4	0.7
May 15	9:00	<i>Fed's Duke Speaks on Housing Recovery in Washington</i>				
May 15	9:00	Total Net TIC Flows	Mar	Billions	--	107.7
May 15	9:00	Net Long-term TIC Flows	Mar	Billions	--	10.1
May 15	10:00	Business Inventories	Mar	M/M % Chg.	0.5	0.6
May 15	10:00	NAHB Housing Market Index	May	Index	26	25
May 16	7:00	MBA Mortgage Applications	11-May	W/W % Chg.	--	1.7
May 16	8:30	Housing Starts	Apr	Thousands	680	654
May 16	8:30	Building Permits	Apr	Thousands	730	747
May 16	9:15	Industrial Production	Apr	M/M % Chg.	0.50	0.00
May 16	9:15	Capacity Utilization	Apr	%	79.00	78.60
May 16	9:15	Manufacturing (SIC) Production	Apr	M/M % Chg.	--	-0.20
May 16	12:30	<i>Fed's Bullard Speaks on U.S. Economy in Louisville, Kentucky</i>				
May 16	14:00	<i>Minutes of FOMC Meeting</i>				
May 17	8:30	Initial Jobless Claims	12-May	Thousands	365	367
May 17	8:30	Continuing Claims	5-May	Thousands	3250	3229
May 17	9:45	Bloomberg Consumer Comfort	13-May	Index	--	-40.40
May 17	9:45	Bloomberg Economic Expectations	May	Index	--	-3
May 17	10:00	Philadelphia Fed.	May	Index	10.0	8.5
May 17	10:00	Leading Indicators	Apr	M/M % Chg.	0.10	0.30
May 17	12:35	<i>Fed's Bullard Speaks to Rotary Club of Louisville</i>				
May 18	8:30	<i>Revisions: Factory Orders</i>				
May 18	--	<i>Revisions: Durable Goods Benchmarks</i>				
Canada						
May 16	8:30	Manufacturing Sales	Mar	M/M % Chg.	0.3	-0.3
May 17	8:30	Int'l Securities Transactions	Mar	Billions	--	12.49
May 17	8:30	Wholesale Sales	Mar	M/M % Chg.	0.2	1.60
May 18	8:30	Consumer Price Index	Apr	M/M % Chg.	0.3	0.40
May 18	8:30	Bank Canada CPI Core	Apr	M/M % Chg.	0.2	0.30
International						
May 14	5:00	EC Euro-Zone Ind. Prod. Wda	Mar	Y/Y % Chg.	-1.3	-1.8
May 15	1:30	FR CPI - EU Harmonised	Apr	Y/Y % Chg.	2.5	2.6
May 15	2:00	GE GDP wda	1Q	Y/Y % Chg.	0.8	--
May 15	5:00	EC Euro-Zone GDP s.a.	1Q	Y/Y % Chg.	-0.2	0.7
May 16	5:00	EC Euro-Zone Trade Balance sa	Mar	Billions	4.0	3.7
May 18	2:00	GE Producer Prices	Apr	Y/Y % Chg.	2.6	3.3

* Eastern Standard Time; Source: Bloomberg, TD Economics



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