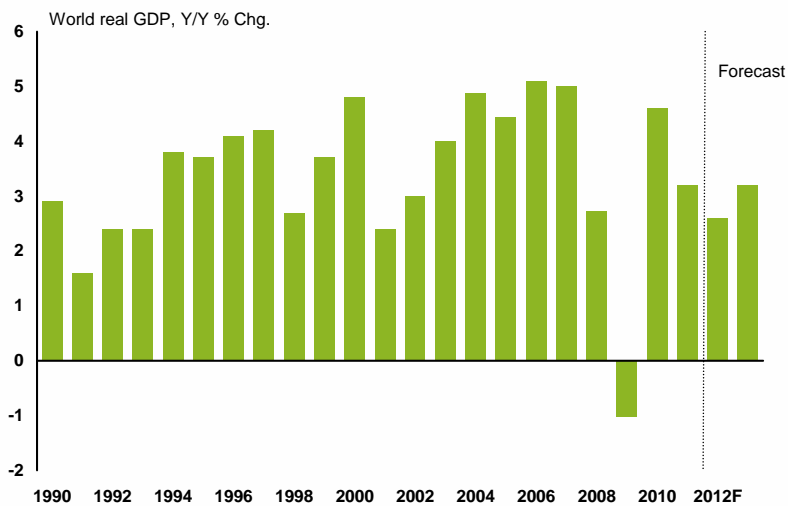




# THE ECONOMIC & FINANCIAL OUTLOOK

Craig Alexander  
Senior Vice President and Chief Economist  
June 2012

## GLOBAL ECONOMY IS STRUGGLING



Forecast by TD Economics as at March 2012  
Source: IMF, TD Economics

TD Economics

## A WORLD STILL FILLED WITH IMBALANCES



- Despite Being 3 Years Into An Economic Recovery, The World Is Still Filled With Imbalances.
- This Is The Typical Outcome After Balance Sheet Recessions That Leave Long Lasting Legacies.
- Recession Also Revealed Deep Structural Problems In Many Advanced Economies That Will Take A Long Time To Address.
- Political Risks Are Acute. It Takes Great Leadership To Deal With The Economic And Financial Challenges. Are They Up To The Task?
- Best Case: North American Economy To Experience Modest Growth, Contained Inflation And Low Interest Rates.

TD Economics

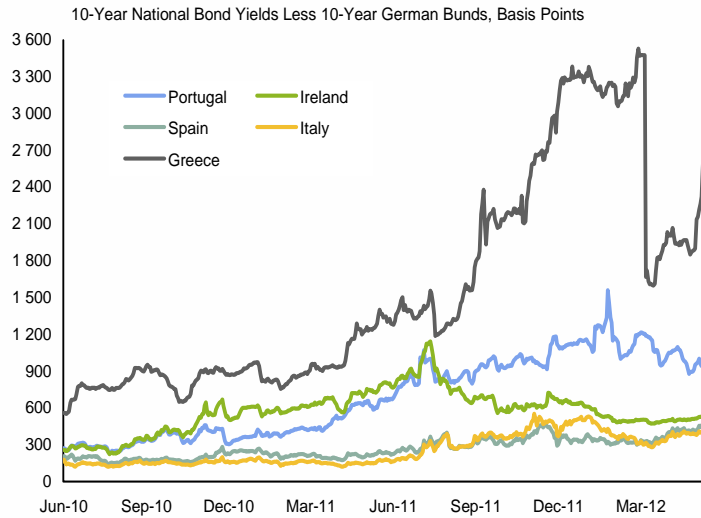
## RISK-FILLED ENVIRONMENT



- European Fiscal Crisis
- Slowdown In Emerging Markets
- Geopolitical Risks
- U.S. Fiscal Cliff
- Elevated Real Estate And Excessive Household Debt In Canada
- Sadly This Is Nothing New

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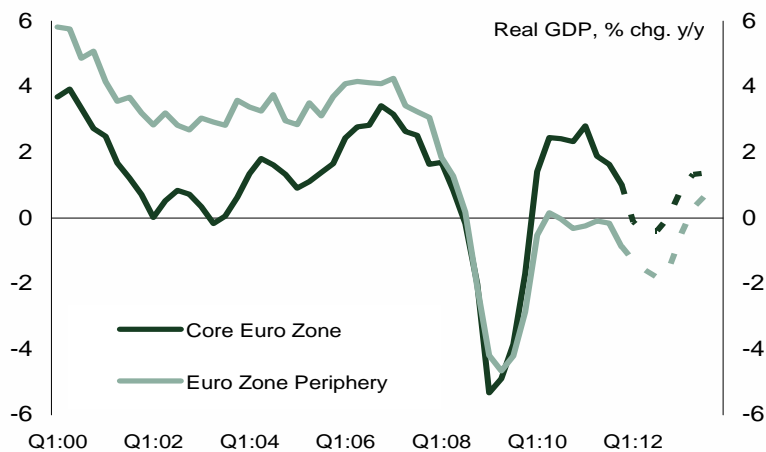
## EUROPEAN DEBT CRISIS REMAINS RISK #1



Source: Bloomberg, TD Economics  
Last plotted: May 23rd 2012

TD Economics

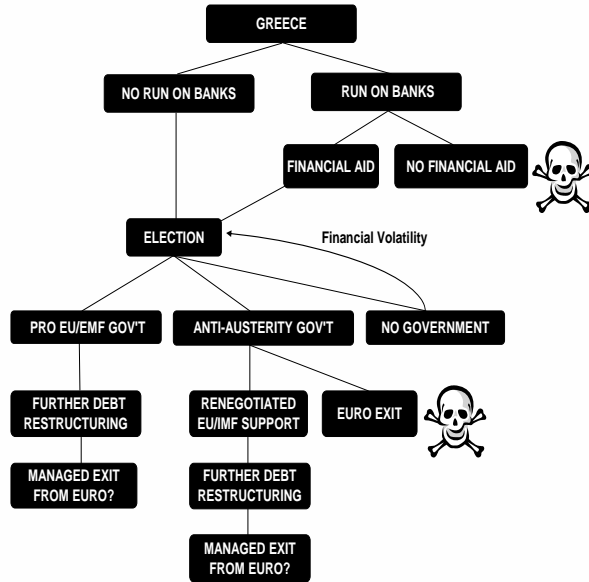
## AUSTERITY VERSUS GROWTH IS A FALSE CHOICE: MUST HAVE BOTH



Forecast by TD Economics as at March 2012. Source: Haver, TD Economics.  
Core EZ: Austria, Belgium, Finland, France, Germany, Italy, Luxembourg, and the Netherlands. Periphery: remaining 9 members

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# PATH FOR GREECE IS CLEAR AS MUD



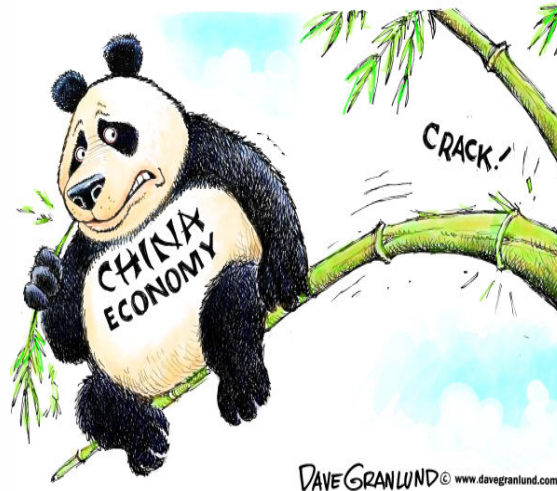
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# MAIN CONCERN IS CONTAGION



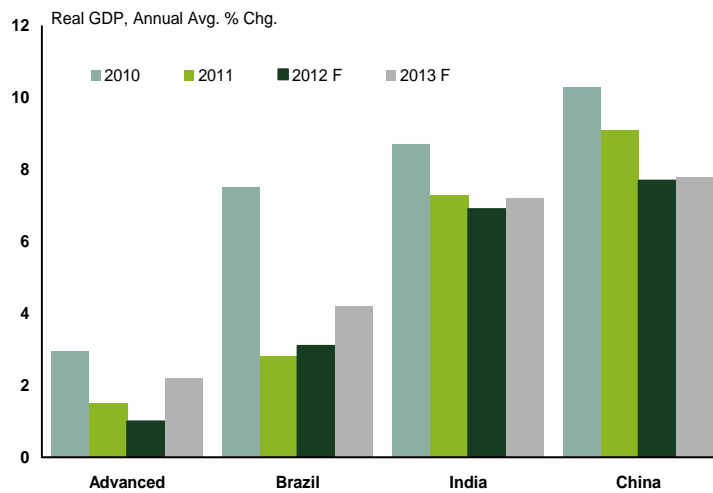
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## WORRIES ABOUT EMERGING MARKETS



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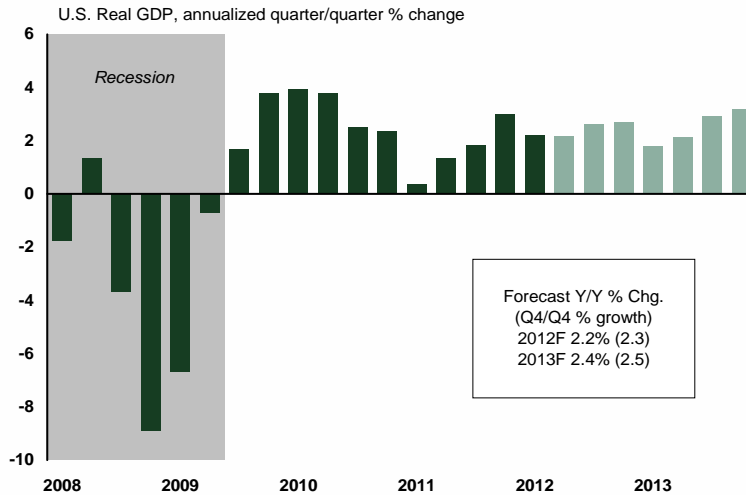
## SOFT-LANDING STILL REMAINS MOST LIKELY SCENARIO



Forecast by TD Economics as at March 2012  
Source: IMF, National Statistics Agencies, TD Economics

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# U.S. ECONOMY CHUGGING ALONG...



Forecast by TD Economics as at March 2012  
 Source: Bureau of Economic Analysis

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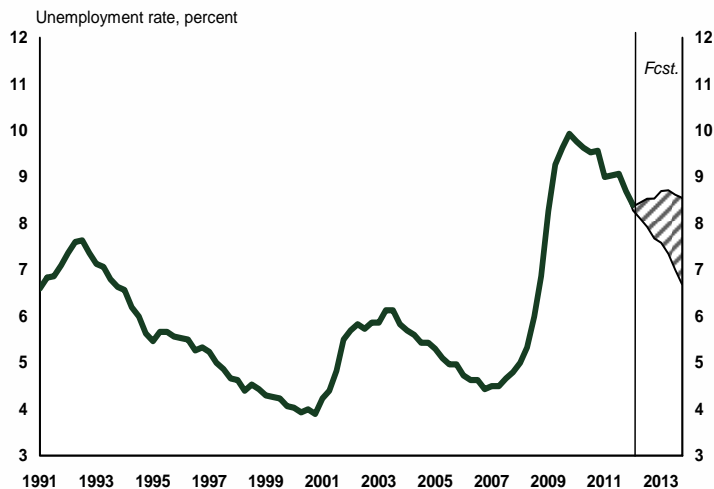
# ...BUT ACTIVITY DATA POINTING TO GRADUAL GROWTH



Source: Institute for Supply Management

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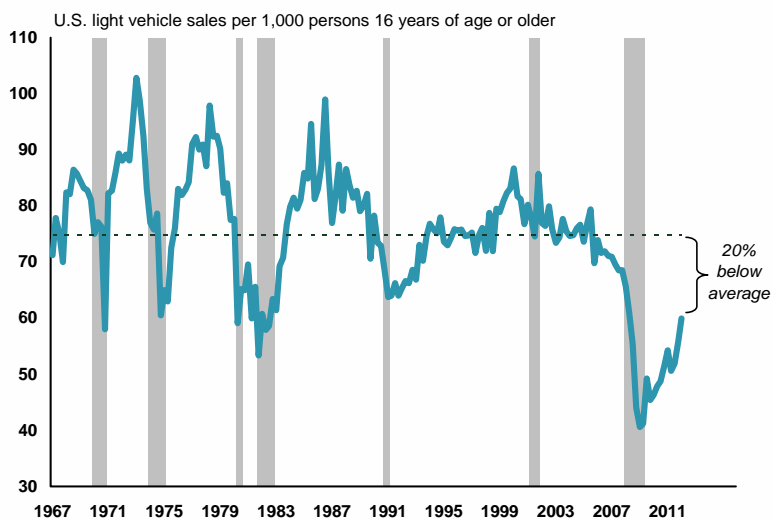
## LABOUR MARKET CONDITIONS STEADILY IMPROVING



Source: Bureau of Labor Statistics, forecasts by TD Economics. Lower bound leaves age-specific participation rates at their current levels. Upper bound allows for participation rates to rebound.

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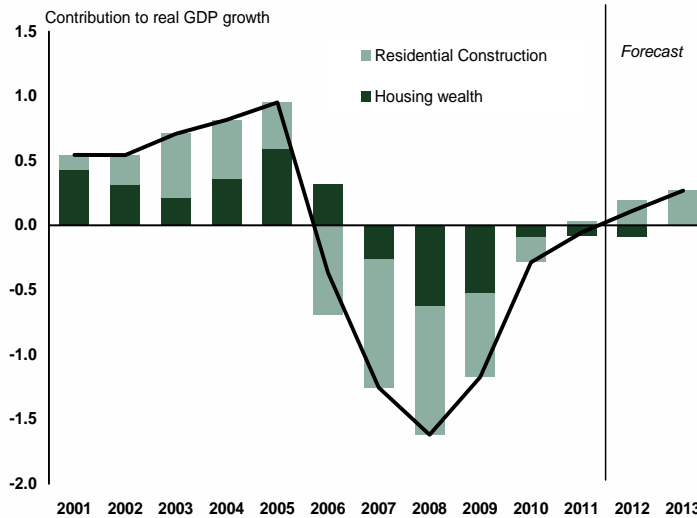
## LOTS OF PENT UP DEMAND



Source: Bureau of Economic Analysis, TD Economics

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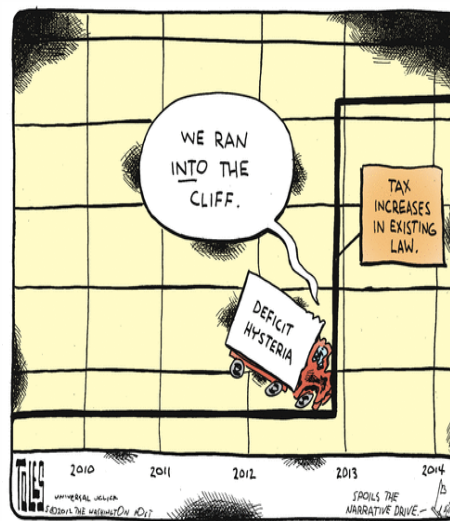
## HOUSING CONDITIONS ARE FINALLY IMPROVING



Source: Bureau of Economic Analysis; housing wealth estimates by TD Economics.

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## PRIMARY U.S. DOMESTIC RISK IS FISCAL POLICY



5-24-12

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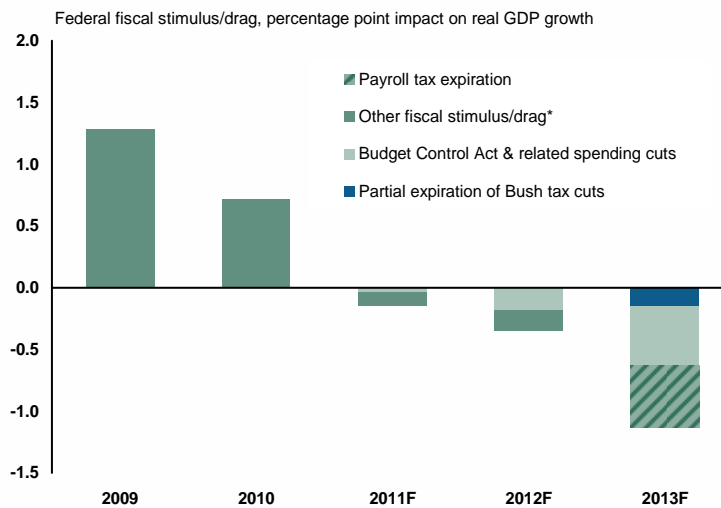


## NOT CLEAR IF WARNINGS ARE GETTING ACROSS



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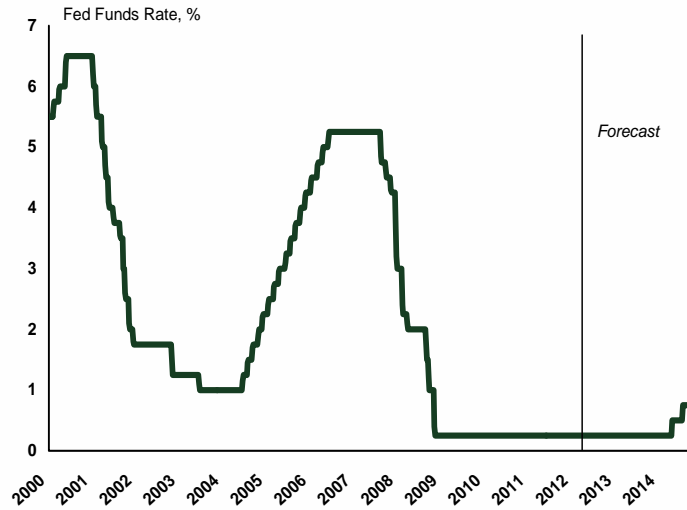
## FISCAL HEADWINDS WILL GET STRONGER



\*Including American Recovery & Reinvestment Act & payroll tax cut.  
Estimates by TD Economics

TD Economics

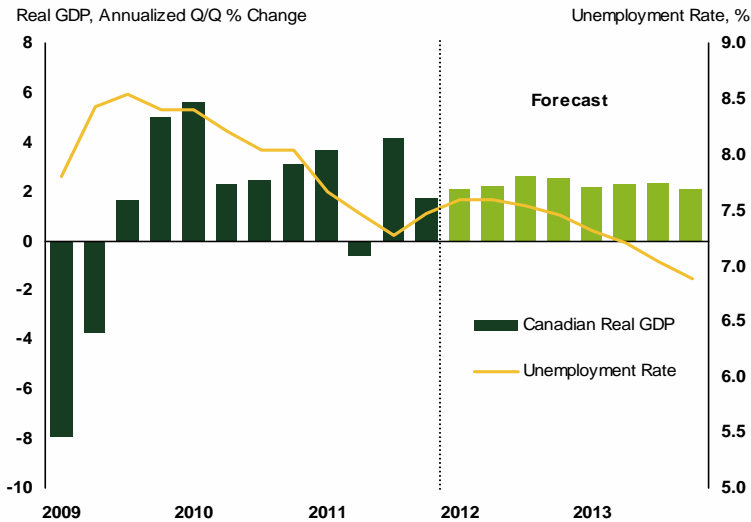
## LOW RATES OVER FORESEEABLE FUTURE



Forecast by TD Economics as at May 2012  
Source: Federal Reserve, TD Economics

TD Economics

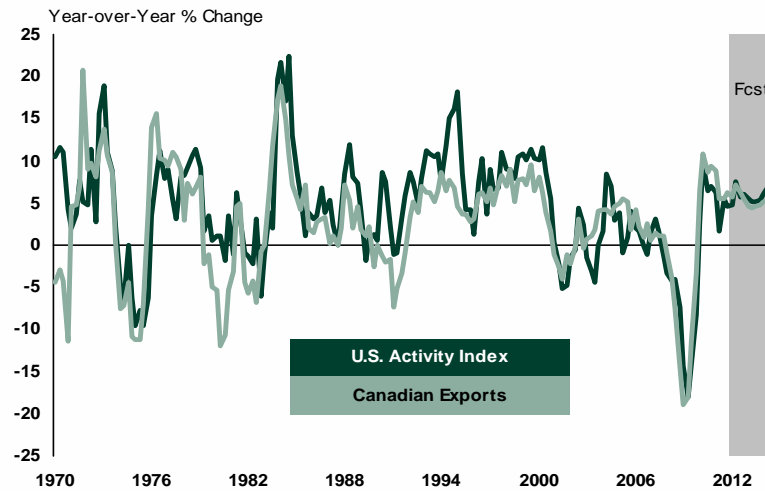
## CANADA'S ECONOMY IS ALSO ADVANCING AT A MODERATE PACE



Source: Statistics Canada, Haver Analytics  
F. by TD Economics as of March 2012

TD Economics

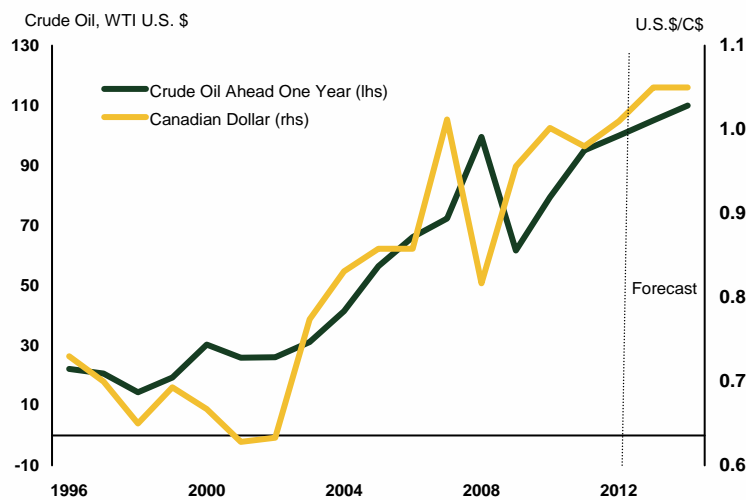
## RISING U.S. ACTIVITY WILL BENEFIT CANADIAN EXPORTERS



Source: Bureau of Economic Analysis, Statistics Canada, Federal Reserve, Bank of Canada. Forecast by TD Economics as of March 2012

TD Economics

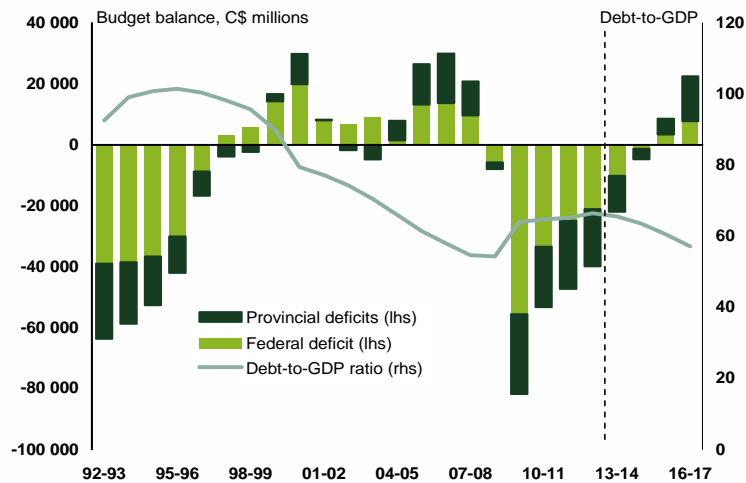
## CANADIAN DOLLAR REMAINS A COMPETITIVE CHALLENGE



Source: Wall Street Journal, Bank of Canada, Haver Analytics  
F. by TD Economics as of May 2012

TD Economics

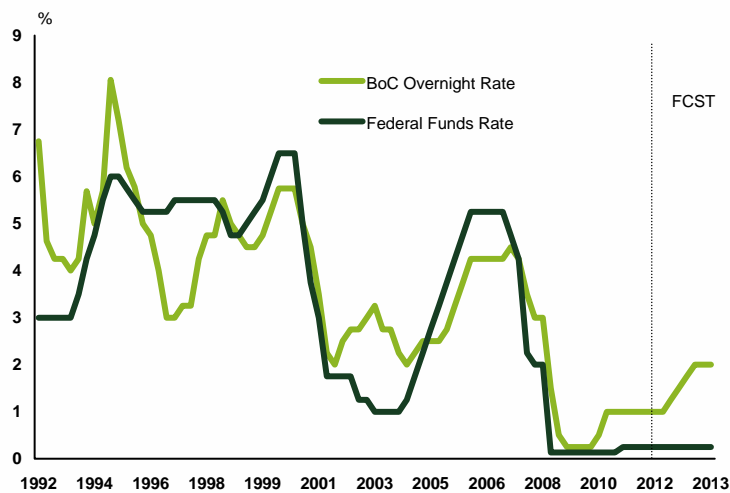
## FEDERAL AND PROVINCIAL GOVERNMENTS APPLYING FISCAL RESTRAINT



Source: Federal and provincial budgets. Forecasts for some provinces by TD Economics as at April 2012

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## CONTINUED LOW INTEREST RATES TO PROVIDE OFFSETTING STIMULUS



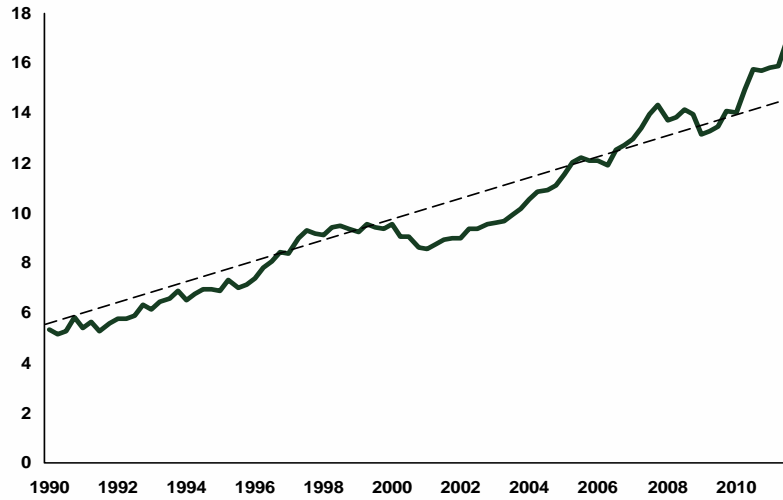
Source: Statistics Canada, Haver Analytics  
F. by TD Economics as of May 2012

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## CORPORATIONS FLUSH WITH CASH



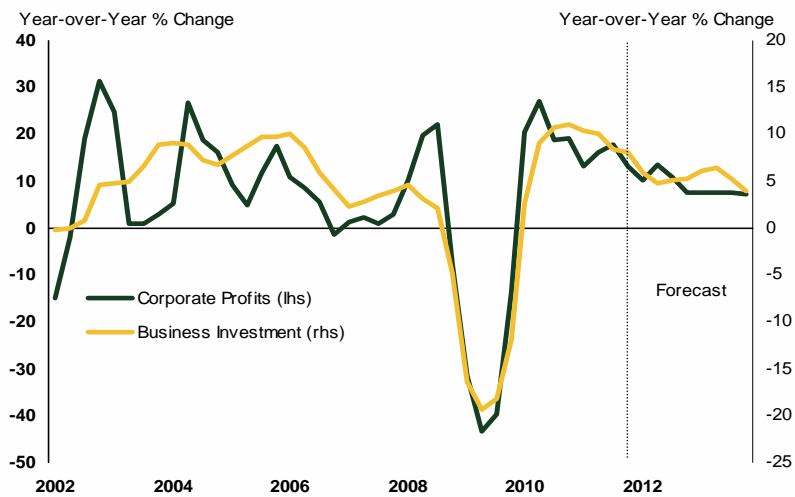
Canada Nonfinancial Corporation Cash Holdings as a % of Liabilities



Source: Statistics Canada

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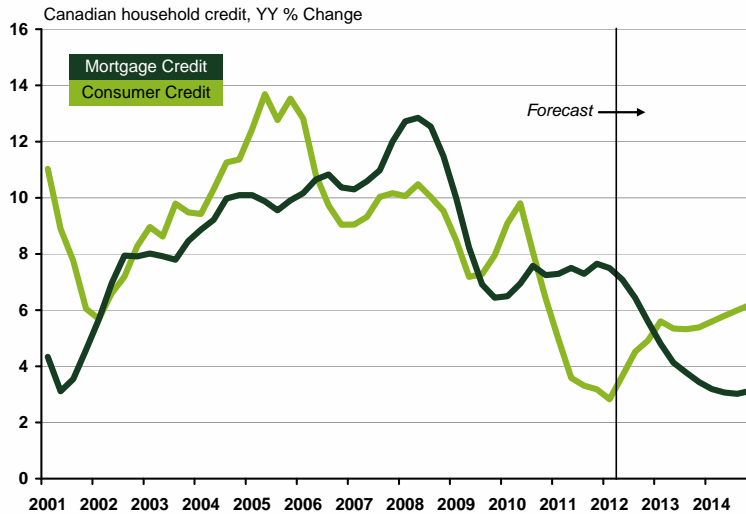
## BUSINESS SPENDING TO BE A MAJOR DRIVER FOR ECONOMIC GROWTH



Source: Statistics Canada, Haver Analytics  
F. by TD Economics as of March 2012

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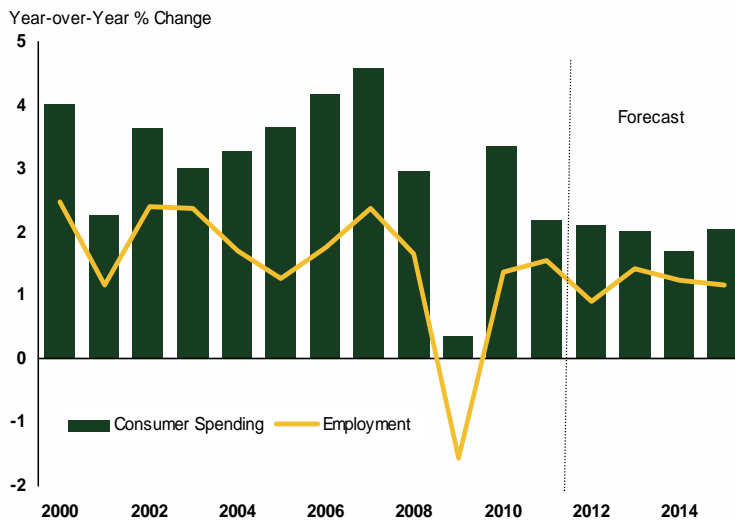
## HOUSEHOLDS ACCUMULATING DEBT AT SLOWER PACE BUT STILL CANADA'S #1 DOMESTIC RISK



Source: Bank of Canada, OSFI; forecast by TD Economics as at March 2012

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## CONSUMER SPENDING CANNOT BE ENGINE FOR GROWTH



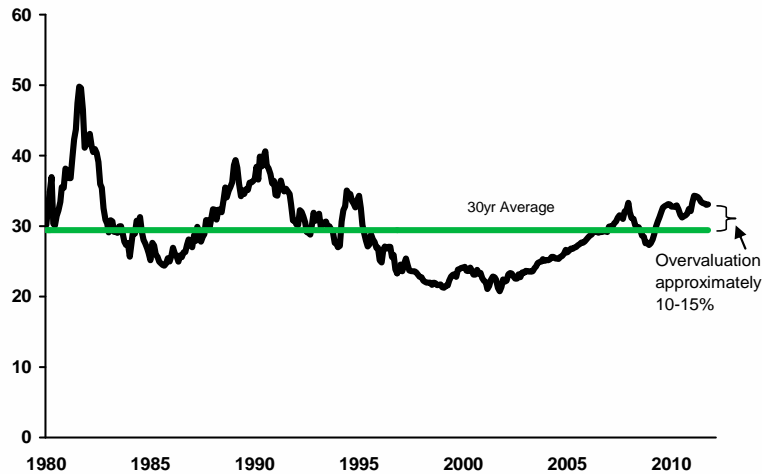
Source: Statistics Canada, Haver Analytics  
F. by TD Economics as of March 2012

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## METRICS POINT TO SOME DEGREE OF OVERVALUATION IN HOUSING MARKET



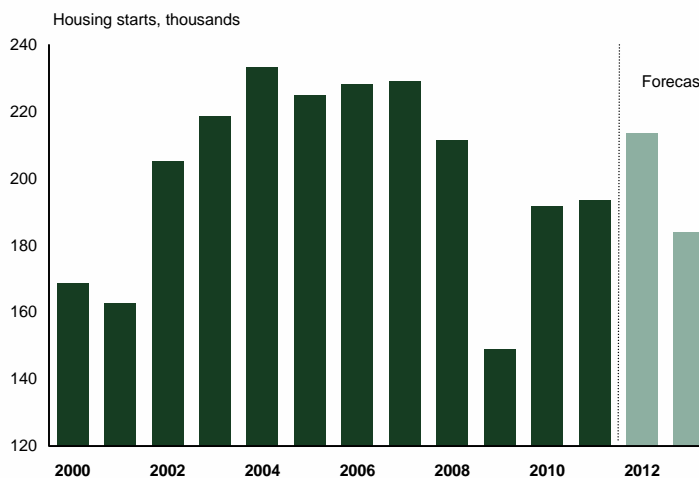
Mortgage payment as a % of household PDI



Source: Haver Analytics, Canadian Real Estate Association, Statistics Canada.  
 Note: Assumes 25% down, 5 year fixed posted rate, 25 year amortization.  
 Floor in mortgage rate such that rate <7% set equal to 7%.

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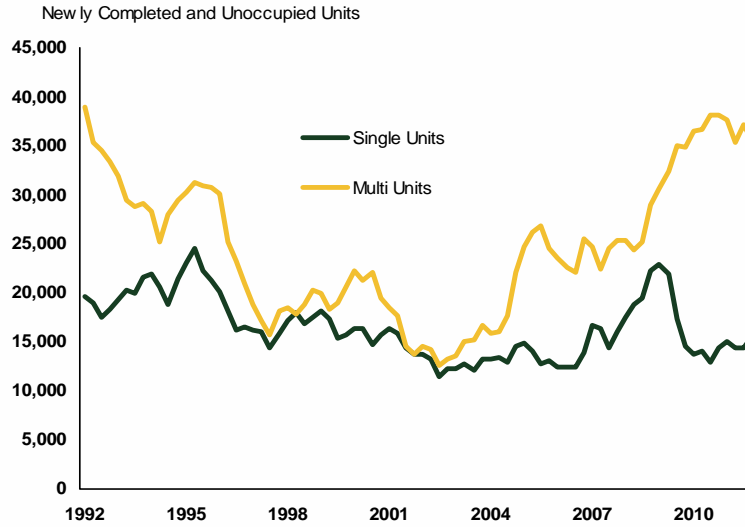
## NO CATALYST FOR A SHARP CORRECTION IN REAL ESTATE



Forecast by TD Economics as at May 2012  
 Source: CMHC / Haver Analytics

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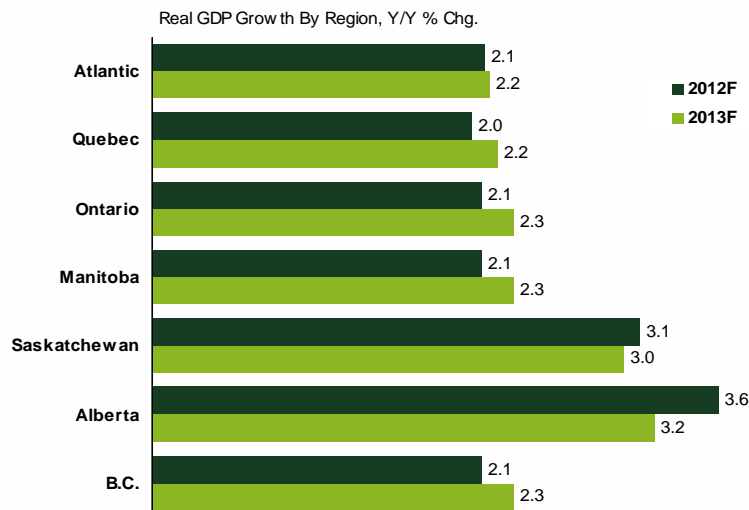
## CONDO SECTOR APPEARS MOST VULNERABLE



Source: CMHC, Haver Analytics

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## MODERATE GROWTH ACROSS THE COUNTRY



Forecast by TD Economics as at March 2012  
Source: Statistics Canada/Haver Analytics

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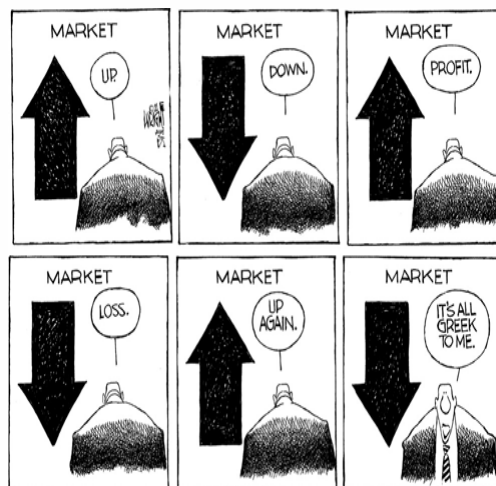
## FINANCIAL SUMMARY



- Interest rates to remain low
- Federal Reserve on hold until 2014, ECB likely to have become even more active. Bank of Canada would like to raise rates slightly, but difficult in high risk environment.
- Bond yields trapped in a low trading range
- Corporate profits will advance, but at a single digit pace. Unless global risks bite, equities to outperform bonds
- Over medium-term neither US dollar nor euro looks attractive, but European risks could prompt flight-to-safety. Canadian dollar to remain strong.

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## BRACE FOR VOLATILITY



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## DON'T LET RISKS PARALYZE YOU



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