

THE WEEKLY BOTTOM LINE

TD Economics



HIGHLIGHTS OF THE WEEK

January 13, 2012

- The story for the U.S. economy in 2012 is one of increased momentum facing off against strengthening headwinds. This narrative has placed economic forecasters into two camps: pessimists and optimists.
- As 2011 came to a close, the economic data appeared to line up in the optimistic's camp. However, over the last week, some of the bloom has come off this rosy view. Data on retail sales, net exports and jobless claims paint a less sanguine picture of the state of the economy.
- In Europe, negotiations between Greek officials and private bondholders over haircuts on Greek debt have stalled and several countries in core Europe have received credit rating downgrades.

THIS WEEK IN THE MARKETS

	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	1 283	1 278	1 364	1 099
S&P/TSX Comp.	12 186	12 189	14 271	11 178
DAX	6 122	6 058	7 528	5 072
FTSE 100	5 619	5 650	6 091	4 944
Nikkei	8 500	8 390	10 858	8 160

Fixed Income Yields

U.S. 10-yr Treasury	1.85	1.96	3.74	1.72
Canada 10-yr Bond	1.91	1.94	3.50	1.84
Germany 10-yr Bund	1.75	1.85	3.49	1.67
UK 10-yr Gilt	1.96	2.02	3.88	1.96
Japan 10-yr Bond	0.95	0.98	1.36	0.95

Foreign Exchange Cross Rates

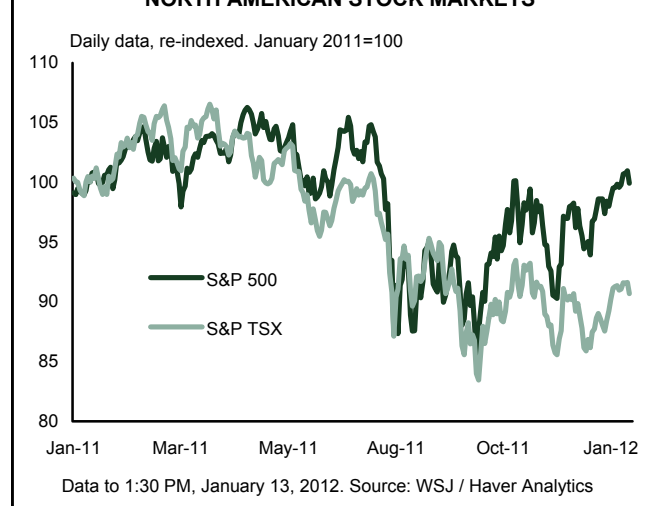
C\$ (USD per CAD)	0.97	0.97	1.06	0.95
Euro (USD per EUR)	1.27	1.27	1.49	1.27
Pound (USD per GBP)	1.53	1.54	1.67	1.53
Yen (JPY per USD)	77.0	77.0	85.2	75.8

Commodity Spot Prices**

Crude Oil (\$US/bbl)	98.3	101.6	113.9	75.7
Natural Gas (\$US/MMBtu)	2.67	2.87	4.92	2.67
Copper (\$US/met. tonne)	7965.5	7569.3	10179.5	6721.5
Gold (\$US/troy oz.)	1632.6	1618.0	1900.2	1313.9

*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

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)	1.00%
Bank of England (Repo Rate)	0.50%
Bank of Japan (Overnight Rate)	0.00%

Source: Central Banks, Haver Analytics

TD ECONOMICS KEY FORECASTS

	Current Rate	2011				2012			
	1/13/12	Q1	Q2	Q3	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 (%)	0.22	0.82	0.46	0.24	0.25	0.25	0.30	0.35	0.50
10-yr Govt. Bond Yield (%)	1.85	3.47	3.16	1.91	1.89	1.90	2.20	2.65	2.75
30-yr Govt. Bond Yield (%)	2.89	4.51	4.37	2.91	2.89	2.80	3.30	3.90	4.00
Real GDP (Q/Q % Chg, Annualized)	1.8 (Q3)	0.4	1.3	1.8	3.2	1.8	0.9	2.0	2.5
CPI (Y/Y % Chg.)	3.4 (Nov-11)	2.2	3.3	3.8	3.4	2.4	1.7	1.3	1.4
Unemployment Rate (%)	8.5 (Dec-11)	8.9	9.1	9.1	8.7	8.7	8.8	8.8	8.8

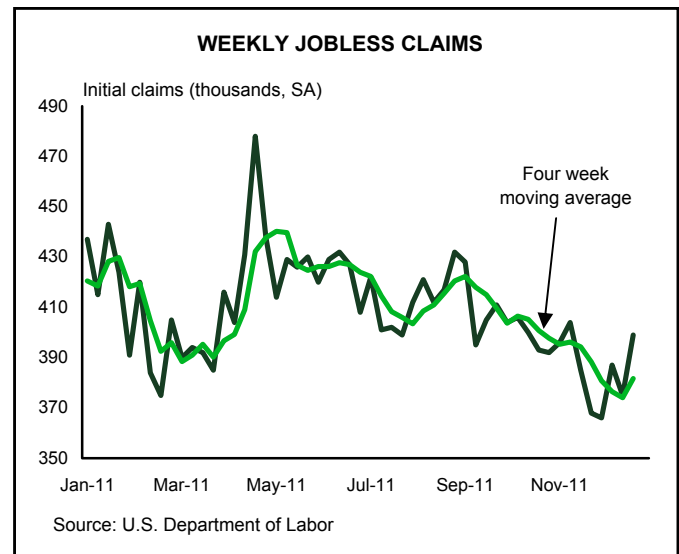
f: Forecast by TD Economics. Source: Bloomberg, TD Economics

2012 OPTIMISTS AND PESSIMISTS

The story for the U.S. economy in 2012 is one of increased momentum facing off against rising headwinds. This narrative has placed economic forecasters into two camps: optimists and pessimists. Optimists see signs of a renewed period of self-reinforcing growth supported by improved job creation and ample pent-up demand. Pessimists focus on the chinks in the recovery's armor; some already evident – falling business investment and stagnant income growth – and some on the horizon – a worsening European financial crisis, euro zone recession and slowing growth in emerging market economies.

As 2011 came to a close, the economic data appeared to line up in the optimists' camp. Home and auto sales climbed higher and credit growth appeared to be turning a corner. At the same time, data on consumer spending, inventories and net-exports pointed to the fastest pace in economic growth in over a year; maybe even challenging the growth rates seen in the initial stages of the recovery. Finally, a downward trend in initial jobless claims, December's 200K job print and falling unemployment rate offered hope that finally a new period of income growth was ready to take hold.

Over the last week, however, some of the bloom has come off the optimists' rosy view. Data on retail sales, net-exports, and jobless claims paint a less sanguine picture of the state of the economy. Growth in the fourth quarter of the year is still likely to come in close to 3.0% (annualized), but the most optimistic forecasts for growth of 3.8% have been put to rest with the most recent data. Moreover, while real GDP growth will look good, the sources of growth have shifted away from final sales and towards inventories. The



rebuilding of inventories by businesses is not necessarily negative, but the slowdown in final sales certainly is.

Equally concerning, after troughing at 366K in mid December, jobless claims backed up to 399K in the first week of January. This may not be cause for alarm just yet, but it is reason to lower expectations for job growth in January. With disposable personal income virtually stagnant over the last several months, sustaining the recent pace of consumer spending will depend on improved job creation; if this slows, so too will an important driver of U.S. demand.

Of course, there is more to the pessimists' view than near-term economic indicators. It is, after all, events in the rest of the world, and in particular in Europe, that pose the biggest threat to U.S. growth in 2012. Unfortunately, there is little positive to report on this regard. Negotiations between Greek officials and private bondholders over voluntary haircuts – a necessary step in acquiring the latest bailout plan and avoiding a hard default – have stalled. Moreover, on Friday, news that several countries in core Europe, including France, have received credit rating downgrades has created real concern about the stability of the European bailout fund. At a minimum recent events will exacerbate financial turmoil and worsen the euro zone recession. But, this is only the tip of the iceberg. At worst, the breakup of the European Monetary Union adds downside risk even to the pessimist's expectations.

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UPCOMING KEY ECONOMIC RELEASES

U.S. Industrial Production and Capacity Utilization - December*

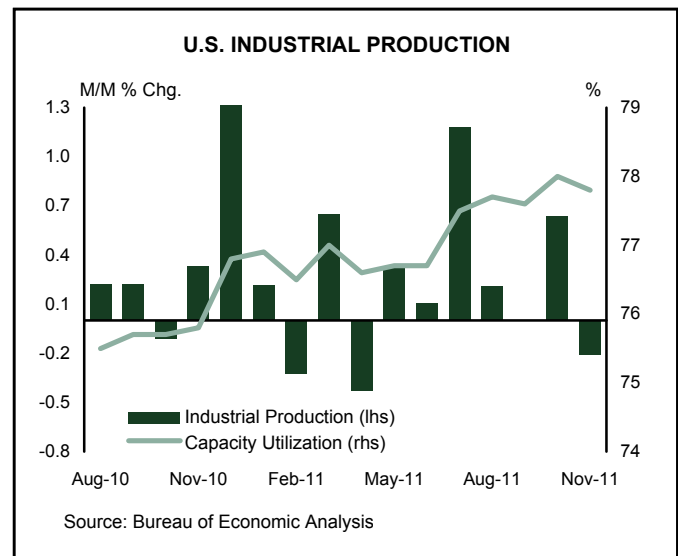
Release Date: January 18, 2012

November Result: Industrial Production -0.2% M/M;
Capacity Utilization 77.8%

TD Forecast: Industrial Production 0.5% M/M;
Capacity Utilization 78.0%

Consensus: Industrial Production 0.5% M/M;
Capacity Utilization 78.1%

Despite lingering fears of a disorderly default within the euro-zone, the US economy continues to enjoy a resurgence of sort, with growth expected to accelerate to its fastest pace in over a year. Notwithstanding the modest decline in November, US industrial production has also enjoyed a run of strong growth over the past 7 months, and the momentum appears to have been sustained in November when overall production is expected to rise at a respectable 0.5% m/m pace. Strong manufacturing sector activity should be the key driver for the headline gain, though weaker utility production resulting from the unseasonably warm weather should partially offset the boost from the manufacturing sector.



However, with the global economy appearing to be losing steam and new orders remaining modest at best, the momentum in industrial production activity should moderate in the coming months. In terms of factory usage, with overall industrial production advancing, we expect the pace of capacity utilization to hit a new cyclical high, rising to 78.0% up from 77.8% the month before.

U.S. CPI - December*

Release Date: January 19, 2012

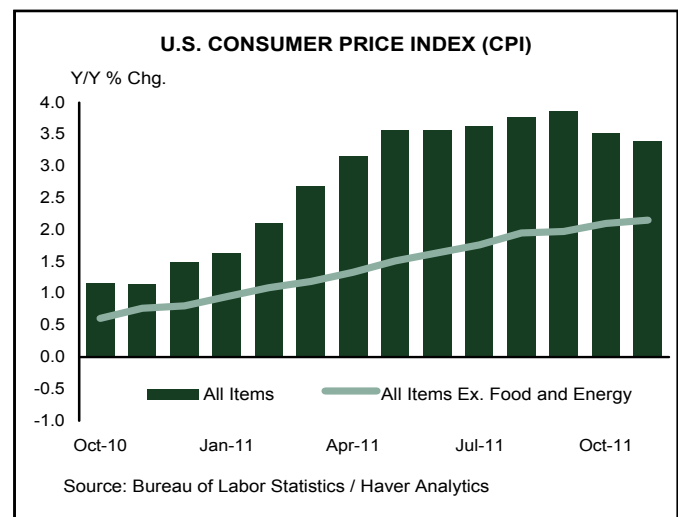
November Result: CPI 0.0% M/M; Core CPI 0.2% M/M

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

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

After rising sharply to a 3-year high in September, the pace of headline consumer price inflation is expected to continue the slow retreat lower as the drop in energy prices since in the second half of the year continue to dampen inflationary pressures. In December, headline consumer prices are expected to rise at a very modest 0.1% m/m, reversing two consecutive months of decline. Weak energy, driven mostly by the drop in gasoline prices at the pump and unseasonably warm weather which has pushed natural gas prices lower, are expected to be the key drivers for the slow gain, partially offsetting gains in other components. On an annual basis, the pace of inflation is expected to fall to 3.3% y/y.

Core consumer prices should also rise at a modest 0.1% m/m pace, with annual core consumer price inflation also remaining unchanged at 2.2% y/y. Gains in OER and apparel



prices are expected to offset further declines in motor vehicle and apparel prices. Looking ahead, with the economic recovery still weak and commodity prices remaining largely on the downward trajectory, we expect headline inflation rate to moderate further, though core inflation should firm around the 2.0% y/y mark.

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

RECENT KEY ECONOMIC INDICATORS: JANUARY 9 - 13, 2011

Release Date	Economic Indicators	Data for Period	Units	Current	Prior	
United States						
Jan 9	Consumer Credit	Nov	Billions	20.374	6.022	R▼
Jan 10	NFIB Small Business Optimism	Dec	Index	93.8	92.0	
Jan 10	IBD/TIPP Economic Optimism	Jan	Index	47.5	42.8	
Jan 10	JOLTs Job Openings	Nov	Thousands	3161	3224	R▼
Jan 10	Wholesale Inventories	Nov	M/M % Chg.	0.1	1.2	R▼
Jan 11	MBA Mortgage Applications	6-Jan	W/W % Chg.	4.5	-4.1	
Jan 12	Advance Retail Sales	Dec	M/M % Chg.	0.1	0.4	R▲
Jan 12	Retail Sales Less Autos	Dec	M/M % Chg.	-0.2	0.3	R▲
Jan 12	Retail Sales Ex Auto & Gas	Dec	M/M % Chg.	0.0	0.2	
Jan 12	Retail Sales "Control Group"	Dec	M/M % Chg.	-0.2	0.3	R▲
Jan 12	Initial Jobless Claims	7-Jan	Thousands	399	375	R▲
Jan 12	Continuing Claims	31-Dec	Thousands	3628	3609	R▲
Jan 12	Bloomberg Consumer Comfort	8-Jan	Index	-44.7	-44.8	
Jan 12	Business Inventories	Nov	M/M % Chg.	0.3	0.8	
Jan 12	Monthly Budget Statement	Dec	Billions	-86.0	-78.1	
Jan 13	Import Price Index	Dec	M/M % Chg.	-0.1	0.8	R▲
Jan 13	Trade Balance	Nov	Billions	-47.8	-43.3	R▲
Jan 13	U. Of Michigan Confidence	Jan	Index	74.0	69.9	
Canada						
Jan 9	Building Permits	Nov	M/M % Chg.	-3.6	11.6	R▼
Jan 9	Business Outlook Future Sales	4Q	Index	-4.00	6.00	
Jan 9	BoC Senior Loan Officer Survey	4Q	Index	-6.3	-26.9	
Jan 10	Housing Starts	Dec	Thousands	200.2	185.6	R▲
Jan 12	New Housing Price Index	Nov	M/M % Chg.	0.3	0.2	
Jan 13	Int'l Merchandise Trade	Nov	Billions	1.07	-0.49	R▲
International						
Jan 8	NZ Trade Balance	Nov	Millions	-308	-220	R▲
Jan 9	GE Trade Balance	Nov	Billions	16.2	11.5	R▼
Jan 9	FR Trade Balance (Euros)	Nov	Millions	-4412.0	-5575	R▲
Jan 9	EC Sentix Investor Confidence	Jan	Index	-21.1	-24.0	
Jan 9	GE Industrial Production (nsa wda)	Nov	Y/Y % Chg.	3.6	4.2	R▲
Jan 10	FR Industrial Production	Nov	Y/Y % Chg.	0.9	1.7	R▼
Jan 11	GE GDP (Annual Growth Rate)	2011	Y/Y % Chg.	3.0	3.7	R▲
Jan 12	FR Consumer Price Index	Dec	Y/Y % Chg.	2.5	2.5	
Jan 12	GE Consumer Price Index	Dec	Y/Y % Chg.	2.1	2.1	
Jan 12	EC Euro-Zone Ind. Prod. Wda	Nov	Y/Y % Chg.	-0.3	1.0	R▼
Jan 12	EC ECB Announces Interest Rates	12-Jan	%	1.00	1.00	
Jan 13	EC Euro-Zone Trade Balance sa	Nov	Billions	6.1	0.5	R▲

Source: Bloomberg, TD Economics

UPCOMING ECONOMIC RELEASES AND EVENTS: JANUARY 16 - 20, 2011

Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
Jan 16	18:00	<i>Fed's Duke Speaks in Richmond, Virginia</i>				
Jan 17	8:30	<i>Revisions: Empire Manufacturing Activity Index</i>				
Jan 17	8:30	Empire Manufacturing	Jan	Index	10.50	9.53
Jan 18	7:00	MBA Mortgage Applications	13-Jan	W/W % Chg.	--	4.5
Jan 18	8:30	Producer Price Index	Dec	M/M % Chg.	0.1	0.3
Jan 18	8:30	PPI Ex Food & Energy	Dec	M/M % Chg.	0.1	0.1
Jan 18	9:00	Total Net TIC Flows	Nov	Billions	--	-48.8
Jan 18	9:15	Industrial Production	Dec	M/M % Chg.	0.5	-0.2
Jan 18	9:15	Capacity Utilization	Dec	%	78.1	77.8
Jan 18	9:30	<i>Fed's Tarullo to Testify on Volcker Rule</i>				
Jan 18	10:00	NAHB Housing Market Index	Jan	Index	22	21
Jan 19	8:30	Consumer Price Index	Dec	M/M % Chg.	0.1	0.0
Jan 19	8:30	CPI Ex Food & Energy	Dec	M/M % Chg.	0.1	0.2
Jan 19	8:30	Housing Starts	Dec	Thousands	685	685
Jan 19	8:30	Building Permits	Dec	Thousands	675	681
Jan 19	8:30	Initial Jobless Claims	14-Jan	Thousands	--	399
Jan 19	8:30	Continuing Claims	7-Jan	Thousands	--	3628
Jan 19	9:45	Bloomberg Consumer Comfort	15-Jan	Index	--	-44.7
Jan 19	9:45	Bloomberg Economic Expectations	Jan	Index	--	-17
Jan 19	10:00	Philadelphia Fed.	Jan	Index	11.0	10.3
Jan 20	10:00	Existing Home Sales	Dec	Millions	4.65	4.42
Canada						
Jan 17	8:30	Int'l Securities Transactions	Nov	Billions	--	2.03
Jan 17	9:30	Bank of Canada Rate Announcement	17-Jan	%	1.00	1.00
Jan 18	10:30	<i>Monetary Policy Report</i>				
Jan 19	8:30	Manufacturing Sales	Nov	M/M % Chg.	1.2	-0.8
Jan 20	7:00	Bank Canada CPI Core	Dec	M/M % Chg.	-0.3	0.1
Jan 20	7:00	Consumer Price Index	Dec	M/M % Chg.	-0.1	0.1
Jan 20	8:30	Wholesale Sales	Nov	M/M % Chg.	--	0.9
International						
Jan 16	--	JN Consumer Confidence	Dec	Index	38.5	38.1
Jan 17	4:30	UK CPI	Dec	Y/Y % Chg.	4.2	4.8
Jan 17	5:00	EC Euro-Zone CPI	Dec	Y/Y % Chg.	2.8	3.0
Jan 17	5:00	EC Zew (Econ. Sentiment)	Jan	Index	--	-54.1
Jan 17	5:00	GE Zew (Econ. Sentiment)	Jan	Index	-49.2	-53.8
Jan 17	23:30	JN Industrial Production	Nov	Y/Y % Chg.	--	-4.0
Jan 18	19:30	AU Unemployment Rate	Dec	%	5.3	5.3
Jan 20	2:00	GE Producer Prices	Dec	Y/Y % Chg.	4.6	5.2

* Eastern Standard Time; Source: Bloomberg, TD Economics



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