



HIGHLIGHTS OF THE WEEK

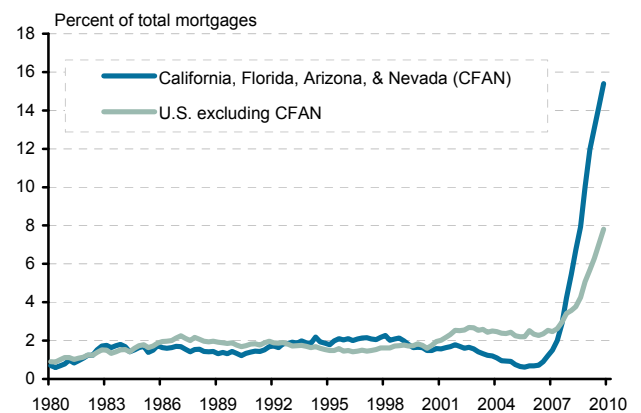
- Philadelphia and Empire manufacturing indexes rise in January, pointing to continued recovery in the country's goods producing sector.
- Housing starts rise in January and are now 23% below their trough in April of last year.
- Weekly jobless claims move up and barely budge on a four quarter moving average basis.
- Headline inflation falls to 2.6% from 2.5% in December. Core inflation falls to 1.6% from 1.8%
- FOMC minutes discuss exit strategy and reflect an improved assessment of economic and financial conditions.
- The Canadian Federal Department of Finance announced three changes to mortgage insurance rules that will help to cool the Canadian real estate market.
- Canadian Resale housing market data over the last three months suggest activity is cooling. Homes sales fell 2.8% in January, the first decline in over a year. However, a lack of supply continued to push upward pressure on prices, and home prices rose 22% from year ago levels.
- Canadian headline CPI rose 1.9% in January, up from 1.3% in December, the largest increase since November of 2008. The Bank of Canada's core measure of inflation rose to 2.0%.
- Canadian retail sales rose 0.4% in December. Stripping out price effects, the month's gain was slightly stronger at 0.6%. The gain was broad based with 9 of the 12 components of retail spending increasing in the month, and underscores the strength in the Canadian domestic economy.

THIS WEEK IN THE MARKETS

	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	1105	1076	1150	677
S&P/TSX Comp.	11711	11470	11954	7567
DAX	5712	5500	6048	3666
FTSE 100	5345	5142	5538	3512
Nikkei	10124	10092	10982	7055
Fixed Income Yields				
U.S. 10-yr Treasury	3.81	3.69	3.95	2.53
Canada 10-yr Bond	3.52	3.46	3.64	2.70
Germany 10-yr Bund	3.27	3.19	3.72	2.93
UK 10-yr Gilt	4.16	4.04	4.16	2.95
Japan 10-yr Bond	1.34	1.34	1.56	1.20
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.96	0.95	0.98	0.77
Euro (USD per EUR)	1.35	1.36	1.51	1.25
Pound (USD per GBP)	1.54	1.57	1.70	1.38
Yen (JPY per USD)	92.0	90.0	101.0	86.4
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	79.4	74.1	83.2	37.5
Natural Gas (\$US/MMBtu)	5.39	5.48	7.51	1.88
Copper (\$US/met. tonne)	7238.3	6796.3	7630.5	3115.3
Gold (\$US/troy oz.)	1115.9	1093.4	1215.7	868.8

*as of 11am Friday, **Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price), Copper-LME Grade A, Gold-London Gold Bullion; Source: Bloomberg

SERIOUSLY DELINQUENT MORTGAGES



*Mortgages delinquent 90 days or in foreclosure
Source: Mortgage Bankers Association, Economy.com

GLOBAL OFFICIAL POLICY RATE TARGETS

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

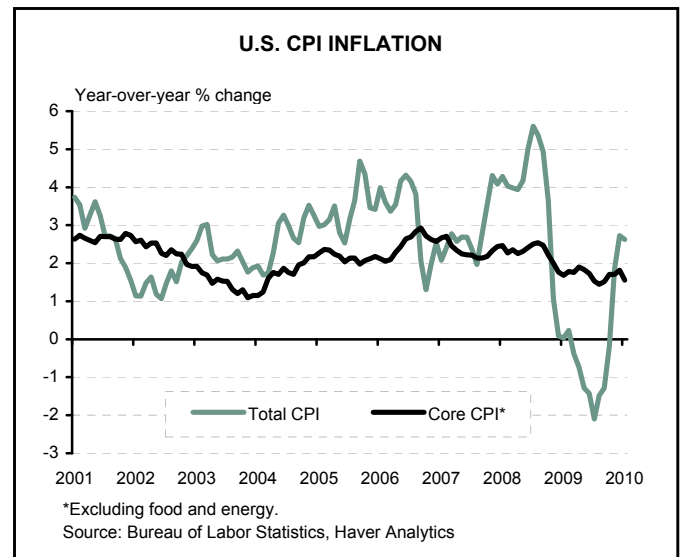
Source: Central Banks, Haver Analytics

UNITED STATES – SWIFTER, HIGHER, STRONGER

Like an athlete coming off an injury, the U.S. economy continued on its path to recovery this week. But, in amongst the relatively positive economic data were hints of risks – cracks in the ice you could say – that one can not lose site of or risk tripping before the finish line. There are three risks that are especially worth paying attention to: employment, housing and exit strategy.

On the job front, regional manufacturing surveys continued to show rising production levels this week and also improvement in employment sub-indexes. Nonetheless, despite early signs of renewed hiring in the manufacturing sector, evidence of broader improvement in employment is harder to come by. In fact, weekly initial jobless claims rose in the second week of February, and on a four-week moving average basis have remained mired above the 450,000 since early January. While census hiring will add significantly to government payrolls over the coming months, private sector hiring is the real number to watch. As we argue in our report, “Consumer Credit & Household Deleveraging,” the supply and demand for credit remains constrained, and sustainable job and income growth are the real key to a recovery in U.S. consumption.

This week also brought us data on U.S. housing starts and on the 800 pound gorilla in the room – delinquency and foreclosure rates. Needless to say, the housing sector has had a disproportionately large impact on the glide path of the U.S. economy. Housing construction is certainly part of this picture. The decline in residential construction investment subtracted close to a full percentage point from U.S. economic growth in the three years up to and including the recession. So, it is a positive sign that after having fallen a truly astonishing 79%, housing starts have since rebounded by 23%. With new housing construction running close to replacement but well below population growth, there is little risk of future inventory problems in new housing. However, such is not the case in the existing market. While the month’s supply of unsold homes fell through 2009, “shadow inventory” looms large. Foreclosure data from the Mortgage Broker’s Association indicated that in the fourth quarter of 2009, a full 15% of mortgages were either late on their payments or in foreclosure. The foreclosure rate is closely related to the 8.5 million jobs lost over the course of the recession. As long as job growth turns positive, the delinquency rate will fall. Nonetheless, with over half of the currently delinquent mortgages more than ninety days or more behind on their payments, the efforts of policy makers to stem the foreclosure rate will also be important.



Should all of the more than 4 million seriously delinquent loans all hit the market in 2010, home prices would likely fall an additional 15% – that’s one big ice rut to skate over.

Finally, in the minutes of the Federal Open Market Committee (FOMC) we heard more on the Federal Reserve’s exit strategy. After substantial liquidity and monetary injections, the Fed has now begun the process of unwinding its emergency support for financial markets, announcing in recent statements the closure of auction facilities and final dates for bond purchases. This week the FRB also moved the discount rate from 0.50% to 0.75%. It should be noted that this does not signal a tightening of monetary policy, and the bellwether overnight rate remains unchanged at the range of 0.0% to 0.25%. Rather it simply represents a move away from emergency like conditions and towards more normal conduct of policy.

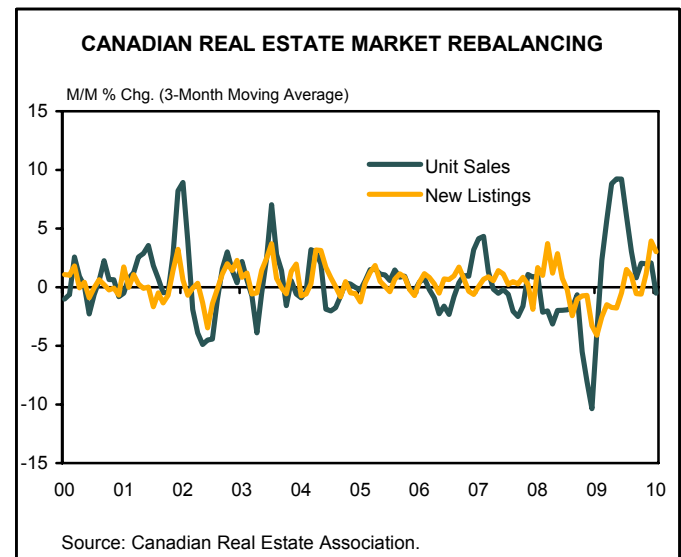
As we have argued in the past, there is little reason to doubt the Fed’s ability to withdraw monetary stimulus, and as the Fed has emphasized, the ability to pay interest on excess reserves enables them to maintain a larger balance sheet without much risk of stoking inflation. The real question is whether they get the timing right. It is a skate’s edge between rising inflation and a relapse into recession. Fortunately, inflation numbers continue to soften – caused in no small part by ongoing woes in housing and slack labor markets. As long as inflation remains soft and inflation expectations well contained, the case for keeping rates low “for an extended period of time” will remain strong. We continue to expect the Fed to leave the overnight rate unchanged until the first quarter of 2011.

CANADA – A BATTLE OF PRICES

The Canadian real estate market was yet again at centre stage this week, as the Department of Finance announced the long anticipated new regulations for government insured mortgages to take effect April 19th. The new rules are as follows: First, mortgage loans will be income-tested against the 5-year posted rate, rather than the current practice of using the 3-year posted rate. Second, mortgage refinancing will be restricted to 90% of the value of the home, down from 95%. Third, buyers of non-owner occupied dwellings will need to provide a 20% down payment. For a more detailed analysis on these new regulations please see TD Economics Report : “Prudential Changes to Canadian Mortgage Insurance Rules”.

In announcing the new regulations, the department of Finance was taking a “proactive” role rather than a reactive stance to ensure “long-term stability” in the Canadian real estate market. It has been our view, and the view of most policy makers, that a bubble has not formed in the Canadian real estate market. And indeed, recent CREA housing market data have shown some signs of cooling. (See TD Economics Report : Signs of Cooling in Canada’s Resale housing Market”) As such, the regulations were introduced with two key objectives. First, by limiting leverage available to investors, the regulation is meant to curb any potential speculation that could occur, given the recent strength in home prices. Second, by limiting the amount of debt that households can take on, the regulations are aimed at preventing some households from getting over extended with debt. During the recession, favourable borrowing conditions in Canada have allowed households to take advantage of record low interest rates to underpin household spending and investment through the last half of 2009. But the rate of debt accumulation has raised concerns over the state of the household balance sheet, and that households may not be prepared for the future rise in interest rates. We have estimated that given the current level of debt, a return to a neutral monetary policy stance will lift debt service costs to 9.3% of income by 2013 – a 20 year high, and up from its current level of 6%. This will have significant implications for the economic outlook. While we have seen an impressive rebound in consumer spending during the first two quarters of the recovery, large debt levels could become an impediment to consumer spending once interest rates start to rise, as households will have to devote a greater share of their income to servicing their debt.

More importantly, the new mortgage rules will allow the Bank of Canada to take their attention away from the housing market, and focus on inflation and broader economic



conditions. But, with the housing market off the Bank’s radar, a spike in inflation in January has raised concerns that the Bank of Canada should hike rates sooner – a call we think is premature. The Bank of Canada’s core measure of inflation spiked to 2% in January, reaching its target a year and a half before expected. Surprisingly, this was not housing related. In fact, the price of housing related goods and services such as mortgage interest costs, and household furnishings and equipment continued to decline on an annual basis. We believe that the spike in inflation will prove to be short-lived, as part of the rise in core inflation was largely due to a base year effect – prices fell significantly in January of 2009. As this effect falls out of the calculation in February, core inflation will likely moderate back below the Bank of Canada’s target. However, inflationary pressures also stemmed from a continued spike in the cost of purchasing and leasing of motor vehicles, as auto dealers have begun to rein in incentive purchase programs in the wake of improving economic conditions, as well as a broad based strength in services excluding shelter costs. While these services tend to be less cyclical than other goods, the sharp jump in these prices is still surprising, and may continue to linger. Nonetheless, we continue to believe significant slack that exists in the Canadian economy, in combination with a strong Canadian dollar, will lower core inflation to the range of 1.6-1.8% over 2010. As such, we believe that the recent jump in core inflation should not be a cause for concern for the Bank of Canada, and the Bank will be able to meet its commitment to keep rates low at least until July of 2010.



U.S.: UPCOMING KEY ECONOMIC RELEASES

U.S. Durable Goods Orders – January

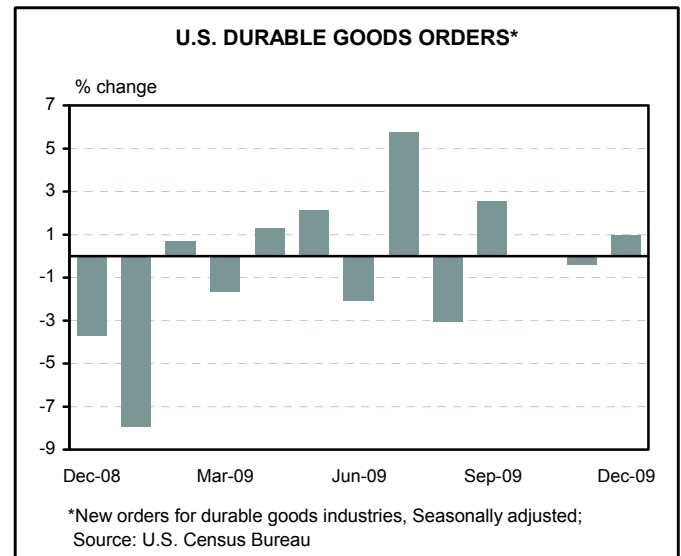
Release Date: February 25, 2010

December Result: total 1.0% M/M; ex-transportation 1.4% M/M

TD Forecast: total 1.5% M/M; ex-transportation 1.0% M/M

Consensus: total 1.4% M/M; ex-transportation 1.1% M/M

U.S. business investment appears now to be on the upswing, with businesses beginning to replenish their capital stock in anticipation of a recovery in demand for their products. This improved tone in business investment is expected to be reflected in new durable goods orders in January, which we expect to rise by 1.5% M/M following the 1.0% gain the month before. Much of this uptick in new orders is expected to be on account of stronger transportation orders, with total new orders less transportation equipment should advance by a more modest 1.0% M/M. Core capital goods orders should also be higher, reflecting the improved tone of overall business activity. In the coming months, with the



economic recovery expected to gather further traction, new durable goods orders should stay in positive territory as U.S. businesses continue to rebuild their depleted capital stock.

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RECENT KEY ECONOMIC INDICATORS: FEBRUARY 15-19, 2010

Release Date	Economic Indicators	Data for Period	Units	Current	Prior	
United States						
Feb 16	Empire Manufacturing	Feb	Index	24.91	15.92	
Feb 16	Net Long-Term TIC Flows	Dec	USD, Blns	63.3	126.8	
Feb 16	NAHB Housing Market Index	Feb	Index	17	15	
Feb 16	Monthly Budget Statement	Jan	USD, Blns	-42.6	-63.5	
Feb 16	ABC Consumer Confidence	14-Feb.	Index	-49	-48	
Feb 17	MBA Mortgage Applications	12-Feb	M/M % Chg.	-2.1	-1.2	
Feb 17	Import Price Index	Jan	Y/Y % Chg.	11.5	8.6	
Feb 17	Housing Starts	Jan	Thousands	591	557	R▲
Feb 17	Building Permits	Jan	Thousands	621	653	
Feb 17	Industrial Production	Jan	M/M % Chg.	0.9	0.6	R▲
Feb 17	Capacity Utilization	Jan	M/M % Chg.	72.6	72.0	R▼
Feb 18	Producer Price Index	Jan	Y/Y % Chg.	4.6	4.4	
Feb 18	PPI Ex. Food and Energy	Jan	Y/Y % Chg.	1.0	0.9	
Feb 18	Initial Jobless Claims	13-Feb.	Thousands	473	440	R▲
Feb 18	Continuing Claims	6-Feb.	Thousands	4563	4538	R▲
Feb 18	Philadelphia Fed Index	Feb	Index	17.6	15.2	
Feb 18	Leading Indicators	Jan	M/M % Chg.	0.3	1.1	R▲
Feb 19	Consumer Price Index	Jan	Y/Y % Chg.	2.6	2.7	
Feb 19	CPI Ex. Food and Energy	Jan	Y/Y % Chg.	1.6	1.8	
Canada						
Feb 16	Manufacturing Sales	Dec	M/M % Chg.	1.6	0.1	
Feb 17	Wholesale Sales	Dec	M/M % Chg.	0.7	2.5	R▲
Feb 18	Consumer Price Index	Jan	Y/Y % Chg.	1.9	1.3	
Feb 18	CPI Core	Jan	Y/Y % Chg.	2.0	1.5	
Feb 18	Int'l Securities Transactions	Dec	\$, Blns	11.231	10.538	R▲
Feb 19	Leading Indicators	Jan	M/M % Chg.	0.9	1.5	
Feb 19	Retail Sales	Dec	M/M % Chg.	0.4	-0.3	R▼
Feb 19	Retail Sales Less Autos	Dec	M/M % Chg.	0.4	0.0	R▼
International						
Feb 14	JP GDP Annualized	Q4	Q/Q % Chg.	4.6	1.3	R▼
Feb 14	UK Rightmove House Prices	Feb	Y/Y % Chg.	6.1	4.1	
Feb 15	AU NAB Business Confidence	Jan	Index	15	8	
Feb 16	AU Westpac Leading Index	Dec	M/M % Chg.	0.5	1.0	
Feb 16	UK CPI	Jan	Y/Y % Chg.	3.5	2.9	
Feb 16	UK Core CPI	Jan	Y/Y % Chg.	3.1	2.8	
Feb 16	GE ZEW Survey (Econ. Sentiment)	Feb	Index	45.1	47.2	
Feb 16	GE ZEW Survey (Current Situation)	Feb	Index	-54.8	-56.6	
Feb 16	EU ZEW Survey (Econ. Sentiment)	Feb	Index	40.2	46.4	
Feb 17	UK Claimant Count Rate	Jan	M/M % Chg.	5.0	5.0	
Feb 17	UK Jobless Claims Change	Jan	Thousands	23.5	-15.2	R▲
Feb 17	UK ILO Unemployment Rate (3 Months)	Dec	%	7.8	7.8	
Feb 17	EU Construction Output	Dec	M/M % Chg.	0.5	-1.1	
Feb 17	EU Euro-Zone Trade Balance	Dec	Euros, Blns	7.0	3.9	R▲

Source: Bloomberg, TD Economics



UPCOMING ECONOMIC RELEASES AND EVENTS: FEBRUARY 22-26, 2010

Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
Feb 22	8:30	Chicago Fed Nat Activity Index	Jan	Index	--	-0.61
Feb 22	10:30	Dallas Fed Manf. Activity	Feb	M/M % Chg.	--	8.3
Feb 22	11:00	<i>Fed's Yellen Speaks in San Diego on U.S. Economy</i>				
Feb 23	9:00	S&P/CS Composite-20	Dec	Y/Y % Chg.	-3.0	-5.3
Feb 23	9:00	S&P/Case-Shiller US HPI	Q4	Y/Y % Chg.	-1.2	-8.9
Feb 23	10:00	Richmond Fed Manufact. Index	Feb	Index	--	-2
Feb 23	10:00	Consumer Confidence	Feb	Index	55.0	55.9
Feb 23	17:00	ABC Consumer Confidence	21-Feb.	Index	--	-49
Feb 23	17:05	<i>Fed's Bullard to Speak on Regulatory Reform in Richmond</i>				
Feb 24	10:00	New Home Sales	Jan	Thousands	350	342
Feb 24	10:00	<i>Geithner Testifies to House Budget Committee on 2011 Spending</i>				
Feb 24	10:00	<i>Bernanke Gives Monetary Policy Report Before House Panel</i>				
Feb 25	8:30	Durable Goods Orders	Jan	M/M % Chg.	1.4	1.0
Feb 25	8:30	Durables Ex Transportation	Jan	M/M % Chg.	1.1	1.4
Feb 25	8:30	Initial Jobless Claims	20-Feb.	Thousands	465	473
Feb 25	8:30	Continuing Claims	13-Feb.	Thousands	--	4563
Feb 25	8:35	<i>Fed's Pianalto Speaks at Dayton Chamber Breakfast</i>				
Feb 25	9:00	<i>Bernanke Gives Monetary Policy Report Before Senate Panel</i>				
Feb 25	10:00	House Price Index MoM	Dec	M/M % Chg.	--	0.7
Feb 25	10:00	House Price Purchase Index QoQ	4Q	Q/Q % Chg.	--	--
Feb 25	13:15	<i>Fed's Bullard to Speak on U.S. Outlook at Texas A&M-Texarkana</i>				
Feb 26	9:45	Chicago Purchasing Manager	Feb	Index	59	62
Feb 26	10:00	Existing Home Sales	Jan	Millions	5.5	5.45
Feb 26	10:00	Existing Home Sales MoM	Jan	M/M % Chg.	0.9	-16.7
Feb 26	10:00	NAPM-Milwaukee	Feb	Index	--	56
Feb 26	10:45	<i>Fed's Dudley, Kocherlakota Speak in New York at Policy Forum</i>				
Feb 26	13:30	<i>Fed's Tarullo, Evans Speak on Regulation in New York</i>				
Canada						
Feb 22	14:30	<i>BoC's Paul Jenkins Speaks at Government of Canada and Financial Times Global Business Leaders Day</i>				
Feb 26	8:30	Current Account (BOP)	4Q	Billion CAD	--	-13.1
International						
Feb 21	19:30	AU New Motor Vehicle Sales	Jan	Y/Y % Chg.	--	17.2
Feb 22	18:50	JN <i>BoJ Monetary Policy Meeting Minutes for Jan</i>				
Feb 23	--	UK Nat'wide House prices nsa	Feb	Y/Y % Chg.	--	8.6
Feb 23	2:00	AU <i>RBA Deputy Bank Governor Battellino speaks in Sydney</i>				
Feb 23	2:45	FR CPI - EU Harmonised	Jan	Y/Y % Chg.	1.3	1.0
Feb 23	2:45	FR Consumer Spending	Jan	Y/Y % Chg.	--	5.9
Feb 23	4:00	GE IFO - Expectations	Feb	Index	100.6	100.6
Feb 23	18:00	AU Conference Board Leading Index	Dec	M/M % Chg.	--	-0.3
Feb 23	18:50	JN Adjusted Merchnds Trade Bal.	Jan	Yen, Blns	480.0	522.8
Feb 23	19:30	AU Wage Cost Index	Q4	Q/Q % Chg.	--	0.7
Feb 23	21:00	NZ RBNZ 2yr Inflation Expectation	Q1	%	--	2.6
Feb 24	2:00	GE Construction Investment	Q4	Q/Q % Chg.	--	1.5
Feb 24	2:00	GE GfK Consumer Confidence Survey	Mar	Index	3.1	3.2
Feb 24	5:00	EC Industrial New Orders SA	Dec	Y/Y % Chg.	--	-0.5
Feb 24	12:00	FR Jobseekers- Net Change	Jan	Thousands	--	-18.7
Feb 24	19:30	AU Private Capital Expenditure	Q4	Q/Q % Chg.	--	-3.9
Feb 24	21:00	NZ Money Supply M3	Jan	Y/Y % Chg.	--	-1.1
Feb 24	21:00	NZ NBNZ Business Confidence	Feb	Index	--	38.5
Feb 25	2:45	FR Consumer Confidence Indicator	Feb	Index	-28	-29
Feb 25	3:55	GE Unemployment Rate (s.a)	Feb	%	8.2	8.2
Feb 25	4:00	EC Euro-Zone M3 s.a.	Jan	Y/Y % Chg.	0.1	-0.2
Feb 25	5:00	EC Euro-Zone Economic Confidence	Feb	Index	96.7	95.7
Feb 25	16:45	NZ Trade Balance	Jan	NZD, Mlns	--	2.0
Feb 25	18:30	JN Natl CPI Ex Food, Energy	Jan	Y/Y % Chg.	-1.2	-1.2
Feb 25	19:30	AU Private Sector Credit	Jan	Y/Y % Chg.	--	1.5
Feb 26	5:00	EC Euro-Zone CPI	Jan	Y/Y % Chg.	1.0	0.9

* Eastern Standard Time; Sources: Bloomberg, TD Economics



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