Should You Buy Toronto-Dominion Bank?

Description

There's been a cloud of uncertainty over the Canadian economy in recent months, mainly thanks to the drop in oil prices. So what exactly does the future hold for Canada? And what does this mean for investors?

Recently, economists from **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) have come out with a flurry of forecasts. Below we take a look at what the bank is predicting, and whether you should buy TD shares.

1. Lower economic growth

The plunge in oil prices has been bad news for Canada as a whole, and TD Economics has certainly acknowledged this. In a recent report, it projected 2015 GDP growth for Canada at 2.0%, down from its 2.3% projection in December. TD is also forecasting a $2.3 billion deficit for the Canadian government in its 2015-2016 fiscal year.

These effects will not be felt equally. Ontario, which has struggled for so many years, is projected to lead all provinces with 2.8% growth. Meanwhile, Alberta is expected to only grow at 0.5%. This balance generally favours TD, which is heavily concentrated in Ontario compared to the other Canadian banks.

2. Another rate cut

Earlier this month, Bank of Canada Governor Stephen Poloz cut the benchmark interest rate from 1.00% to 0.75%. The move shocked markets. But if he cuts the rate again, it won't be so surprising — TD is predicting that the benchmark rate will be cut to 0.50% in March.

This would be bad news for the banks, including TD. With lower rates, the bank would be pressured to cut the interest rates it charges to borrowers. In fact, the banks have been anxiously waiting for rates to *rise* in recent years. That scenario now seems to be very far away.

3. A weaker dollar

Thanks to slumping oil prices, as well as the forecasted rate cut, TD expects the Canadian dollar to fall to US$0.75 by the beginning of next year. This exchange rate was last seen all the way back in 2004.

And this would be unequivocally good news for TD, for a couple of reasons. First of all, a weaker dollar would be very good for the Ontario economy. This could lead to increased demand for loans, as well as lower loan losses. Secondly, TD derived over 16% of income from the United States last year (and another 19% from other international countries), and this share should grow in the coming years. With a weaker dollar, this foreign income will get translated into more Canadian dollars, creating a nice windfall for the bottom line.

So should you buy TD?

There's a strong argument for not owning any banks right now. But if you are trying to decide which bank to own, TD looks like one of the best options. For more information on the Canadian banks, be sure to check out the free report below.

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1. Bank Stocks
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