QUARTERLY ECONOMIC FORECAST

TD Economics

June 15, 2017

INFLATION PLAYS HIDE AND SEEK WITH MATURING EXPANSION

International Highlights

- A continuation of strong outperformance relative to trend by G7 economies is expected to lead global growth to average 3.4% per year in 2017-18, broadly unchanged from our previous forecast.
- The absorption of economic slack in G7 nations should keep central banks on track to remove stimulus and send global interest rates higher.
- The U.S. economy has progressed largely as expected, despite a volatile quarterly growth pattern. Activity should reach its cruising speed this year of 2.2%, and moderating gradually to 2.1% in 2018, as the economic cycle matures.
- An increasingly tight labor market should see wage pressures build further. That should help drive inflation toward the Fed's 2% target. One more Fed rate hike remains on the docket this year, as well as the commencement of a gradual shrinking of the balance sheet.

Canadian Highlights

- A strong first-quarter gain and a continuation of solid momentum points to economic growth of 2.8% in 2017, a 0.5 percentage point upgrade from our previous forecast. A more moderate pace of 1.9% is forecast for 2018.
- With economic growth coming in strong this year, inflation should turn the corner. The Bank of Canada will look for confirmation, but is now expected to begin increasing its policy interest rate in October of this year, two quarters earlier than previously anticipated.
- The slower pace of 2018 growth reflects a compositional shift towards more durable economic growth. Business investment, government spending, and international trade are all expected to offset more constrained growth in consumer spending and residential investment.
- The improved outlook does not diminish the amount of risks. A disorderly correction of housing markets would have far-reaching implications, while the renegotiation of NAFTA remains the key external risk.

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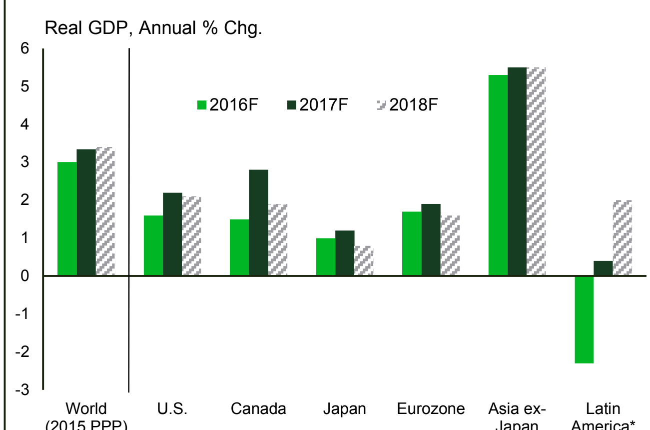

Source: TD Economics. Forecast as at June 2017. *Excludes Mexico.

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GLOBAL OUTLOOK - WAITING FOR INFLATION

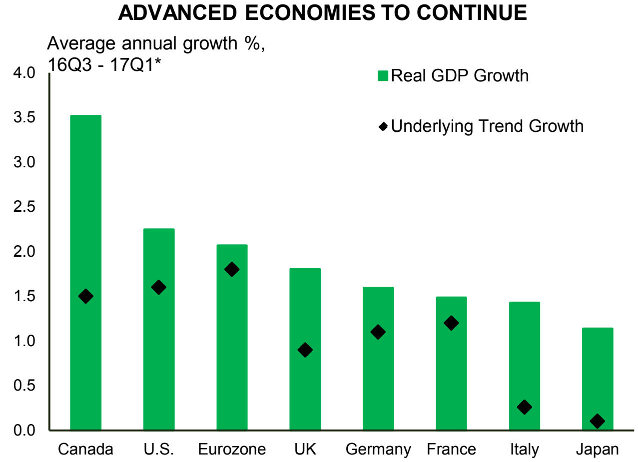
The strong, synchronous recovery in global activity in the second half of last year carried through into the first half of 2017, returning the pace of economic growth above 3%. Market concerns surrounding European elections in the Netherlands and France proved unfounded, as voters rejected populist policies. The Euro Area economy continues to grow at a robust 2% pace – almost double its estimated trend. Moreover, the U.S. is once again proving resilient, with monthly indicators showing a solid rebound in second quarter growth following a disappointing start to 2017. Elsewhere, emerging market (EM) growth has held steady, although pockets of weakness in Latin America and Africa will likely persist. Overall, we believe the recent healthy pace has staying power and global growth will average 3.4% in 2017-18, unchanged from our view in March.

Global inflation: wherefore art thou?

By most indications, the global expansion has been running on the hot side of its estimated longer term cruising speed, particularly in advanced economies (Chart 2). The steady absorption of excess capacity is mirrored by unemployment rates that have fallen to levels historically consistent with an upturn in wage pressures. Yet, outside of the U.S., wage and price pressures have been notably absent. Inflation readings across the G7 and key EMs have come in below expectations, creating conditions for a fierce bond market rally. Some of the disappointment in inflation reflects a pull-back in oil prices, but underlying core inflation measures have also undershot forecasts (Chart 3).

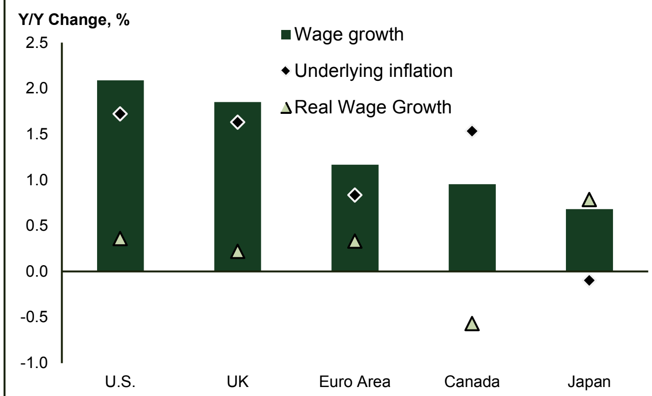
At first glance, the absorption of slack without rising inflationary pressures appears anomalous. Indeed, the trademark of this post-financial crisis world has been a more belabored pass-through of impacts. Truly anomalous would be an abandonment of the historical relationship between economic slack and inflation. There's little doubt that inflation pressures will rise further, even if the evidence is delayed. As such, the downgrade to our 2017 inflation outlook across the G7 has not altered our view that core inflation rates have likely bottomed and should gain some modest traction in the coming quarters, as economic growth holds above trend.

CHART 2: BROAD OUTPERFORMANCE IN ADVANCED ECONOMIES TO CONTINUE



Source: National statistical agencies via Haver Analytics. *TD Economic

CHART 2: TIGHTER LABOR MARKETS YET TO RESULT IN STRONG REAL WAGE GROWTH



Underlying inflation is a on a quarterly basis as at 17Q1.
Wage metric (unit labor costs) is y/y% growth in unit labour cost (4-qtr average).
Source: National statistical sources via Haver Analytics, TD Economics

For central banks, a gradual upturn in inflation will provide more conviction that the age of pressing on the monetary stimulus pedal is coming to an end. Central banks will find it increasingly difficult to justify maintaining emergency levels of stimulus, proving truer if the multitude of downside risks fail to stifle economic performance. These risks include trade-protectionism escalation, the potential fallout from a slowing China, and evolving geopolitical events.

Advanced economies have room to run

Aside from Canada, the most notable bright spot in recent quarters has been the Euro Area, where persistent strength has led us to raise our near-term outlook. As with Canada, above-trend economic growth has been relatively broad-based across both sectors and countries. Euro Area growth has benefitted from a confluence of factors, including a gradual leveraging of the household sector. This has been supported by an easing in credit conditions, more supportive fiscal policies, and a more optimistic business climate.

The absorption of economic slack is expected to persist over the next six quarters in Canada, the U.S., and the Euro Area. Canada is expected to be next in joining the U.S. in raising interest rates later this year, while the ECB should begin tapering its asset purchases next year. However, the slow but steady progress of underlying inflation pressures in these regions should ensure that any removal of excess stimulus will be at a measured pace.

The laggards in normalizing their monetary policies will be Japan and the UK. The failure to achieve persistent progress of underlying inflation in Japan toward the central bank's 2.0% target should keep monetary policy highly accommodative at least through 2018. In the UK, Brexit uncertainties are likely to disproportionately take a toll on the UK economy, staying the Bank of England's hand. After an unexpectedly strong post-Brexit performance, there are signs that the UK economy is beginning to slow. On the bright side, a hard break with EU is somewhat mitigated by the failure of any party to earn a strong mandate in the recent election. Given the weaker negotiating position, there is increased likelihood towards an agreement that maintains some existing ties with the EU, and tilts the UK more toward a trade agreement such as that between Norway and the EU.

No forecast is absent of risks. On that front, Europe remains front and center. While the near-term threat of France leaving the Euro Area has diminished, opinion polls suggest that Italy could be the first to elect a populist, anti-euro party among the core countries. This outcome would undoubtedly increase volatility within European equities, bonds, and currencies. Other material downside risks include undercapitalized banking systems, Greek debt negotiations, and uncertainty regarding Brexit negotiations. Next in cue on the risk-front is the political environment within the U.S. and the potential to derail tax reform measures or any progress on the policy front. Although our forecast does not embed any fiscal measures from the new administration, a derailment of tax reform could serve to delay investment intentions of firms or cause financial markets to re-evaluate the country's economic growth prospects.

EM outperformance unlikely

Altogether, stronger advanced economic performances will support EM growth. Chinese goods remain in strong demand through the G7 economies, supporting the outlook for China and its supply-chain partners. Moreover, the broadening in global above-trend growth offers support to commodity prices and related exporters.

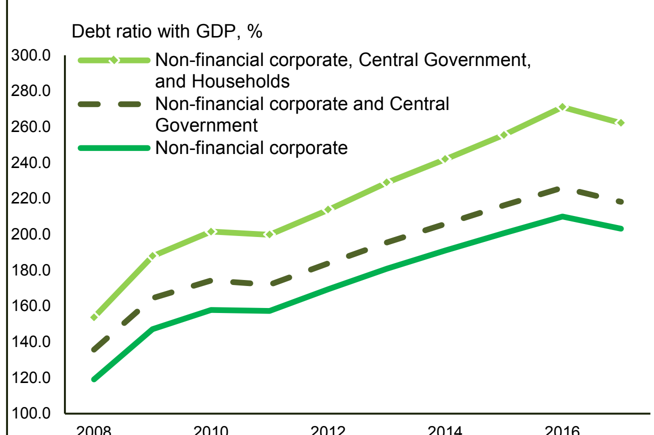
With the commodity price shock in the rear-view mirror, capital inflows to these regions have strengthened. Indeed, even perennial laggards like Brazil and Russia showed signs of life in the first quarter, recording above-trend growth for the first time since 2013.

Improved EM fortunes, however, does not imply these economies will outperform. These economies are hovering near trend for several reasons. First, elevated levels of private-sector and foreign-denominated debt maintain future default concerns. The recent reversal of U.S. dollar strength has mitigated this risk only temporarily. An unanticipated tightening in global financial conditions could induce capital outflows, threatening the outlook for the most exposed EMs.

Second, protectionist rhetoric may eventually turn into action, resulting in an escalation of reciprocating trade actions that disrupt global value chains. Third, idiosyncratic country risks are constraining growth. For instance, lingering political uncertainty in Brazil could delay its recovery.

Lastly, China's economy continues to go through growth spurts as authorities work to rebalance the economy toward a more sustainable consumption-driven growth model relative to debt-heavy investment. Survey indicators suggest that China's economy could be slowing at a faster pace than previously anticipated, reverberating in some of its key supply chain partners, like Taiwan and South Korea. This is partly reflecting deliberate and, in some regards, successful actions by monetary authorities to tighten credit conditions and slow the pace of debt accumulated within all economic sectors (Chart 4). Fortunately, the services sector continues to expand, offsetting any slowdown in overcapacity manufacturing sectors. On balance, our outlook for Chinese economic growth remains unchanged, with an anticipated slowing of annual growth to 6.4% and 6.1% in 2017 and 2018, respectively.

CHART 4: CHINA'S DEBT TO GDP RATIO HAS EASED BUT REMAINS A CONCERN



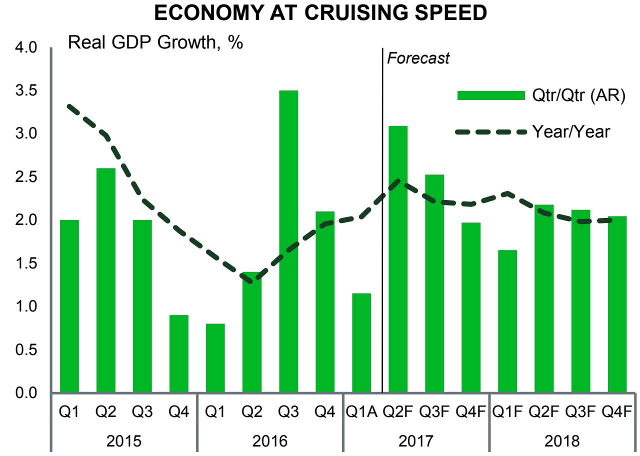
Source: People's Bank of China, TD Economics. Last observation: 17Q1.

U.S. OUTLOOK - AS GOOD AS IT GETS

The U.S. economic expansion continues unfettered. The unemployment rate has fallen to a 16-year low, although monthly job gains have moderated. In what has become an annual occurrence, the year got off to a slow start due to temporary factors, which will reverse course and usher in a rebound in Q2 to around 3% (annualized). Abstracting from the quarter-to-quarter turbulence, the trend pace of expansion has strengthened since last year, to a rate above the economy's estimated longer-term cruising speed of around 1.9% (Chart 5). This is about as strong as can be expected given the mature phase of the economic cycle, the absence of spare capacity and the presence of an aging population that is beginning to weigh on job growth. Our forecast for real GDP growth of 2.2% this year and 2.1% next has not changed since our last update.

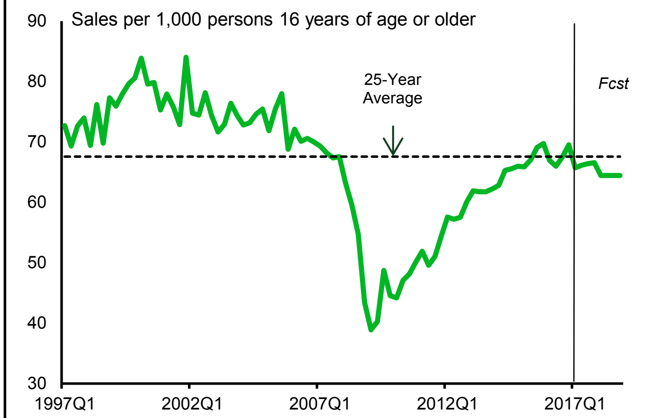
TD Economics continues to refrain from building in any fiscal stimulus from the new administration. While the President continues to emphasize tax reform, the prospects of a comprehensive plan passing Congress this year are dimming. In addition, details remain sparse on how to pay for the promised tax cuts, even though the President's largely ceremonial Budget proposal stated that tax reform would be deficit-neutral. At the same time, the budget contained significant cuts to non-defense spending that, if enacted, would weigh on economic growth prospects. Not only would the pace of government spending growth be lower than projected under current law, but many cuts were centered on lower income individuals who have a higher marginal propensity to consume out of every dollar. All this to say that fiscal risks are not one sided.

CHART 5: QUARTERLY TURBULENCE HIDES AN ECONOMY AT CRUISING SPEED



Source: Bureau of Economic Analysis. Forecast by TD Economics

CHART 6: PENT-UP DEMAND FOR AUTOS OUT OF GAS



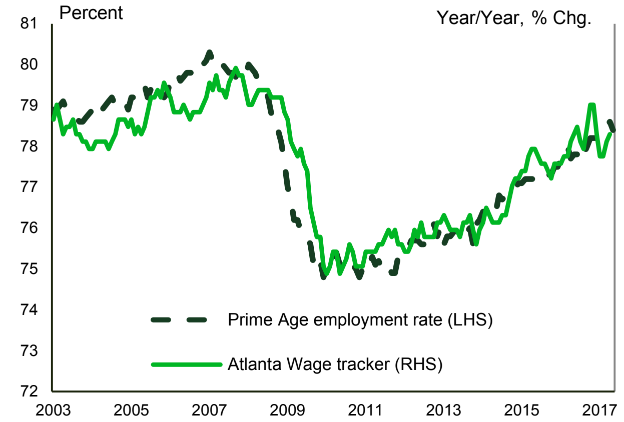
Source: BEA, BLS, TD Economics.

Added to the mix is the risk of a government shutdown this September. While it is seemingly unthinkable that a Congress and White House dominated by Republicans could fail to come to an agreement to avert a shutdown, the President has not ruled it out, so the risk cannot be ignored. OMB Director Mulvaney has indicated that the debt ceiling needs to be raised before Congress goes on its August recess. This means the last chance will be July 28th. If it goes down to the wire, we would expect increased financial market volatility. However, a deal is expected to be struck, as any intensification of financial market upheaval will not be palatable within Congress.

Consumers spring back into action…

With April consumer spending data now in hand, we are more confident that outlays bounced back from their winter weakness. However, we do not expect it to sustain the blistering pace seen in the second half of 2016. At this point in the cycle, much of the pent-up demand has been sated. For example, auto sales have likely already peaked (see our recent report). Sales per person aged 16-plus have plateaued over the past two years, and are likely to start trending lower (Chart 6). Housing and related expenditures is the exception, which still have plenty of room to run. But achieving another cyclical spurt in consumer spending will be difficult within a mature economic cycle. Going forward, consumer spending growth will increasingly be driven by underlying income gains. Spending in real terms is likely to grow in the 2-2.5% range. This is certainly healthy and runs above overall GDP growth, but marks moderation from the 3% pace over the past three years (2014-16).

CHART 7: WAGE PRESSURES BUILDING AS LABOR MARKET TIGHTENS



Source: FRB Atlanta, BLS, TD Economics

…ditto for business

Last quarter we outlined how a key piece of faster growth this year would be a pick-up in business investment. True to form, investment accelerated and even surpassed our expectations. Thanks in large part to a sizeable boost from activity in the oil and gas sector, business investment grew at 11.4% annualized in Q1. Other areas also joined in, such as spending on various equipment and software. Business investment growth is expected to moderate from the blistering start to the year, but still sustain a healthy 4-4.5% pace in real terms. That represents a marked improvement over recent years, and should help improve productivity growth.

Policies in Washington provide a two-sided risk to this forecast. We have highlighted how tax reform could provide a catalyst for stronger investment (see report). But, the longer it takes Congress to work out a tax reform package, the greater the risk that businesses delay investment decisions until they have more clarity on its potential tax treatment.

Labor market will tighten further…

In a cycle where many indicators continue to underwhelm, one exception is the unemployment rate. It fell to a 16-year low of 4.3% in May, below Federal Open Market Committee members' long-run projection. This reflected slower-than-expected labor force growth, rather than standout employment growth. The pace of payroll growth slowed in May to 130k, but is still above the level consistent with a steady unemployment rate.

We expect monthly job growth in the range of 150-175k over the remainder of this year. That is sufficient to put further downward pressure on the unemployment rate, even as more people are drawn into the labor market. As underemployed workers become scarcer, we expect job gains to slow to the low 100k per month mark by the end of 2018.

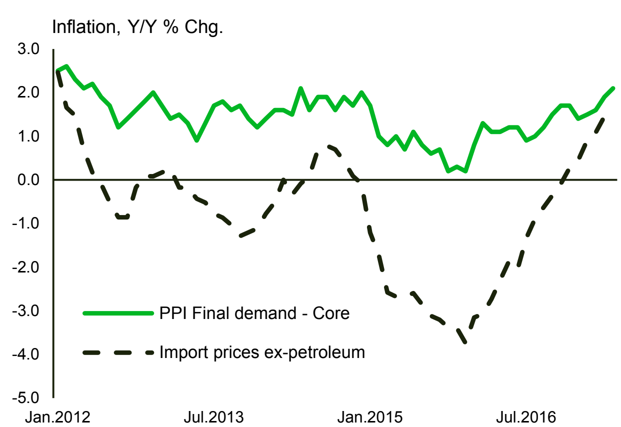
…helping to pull up inflation

Economic theory would tell us that a tightening labor market should lead to upward pressure on inflation. But, we have seen the opposite in recent months with a rock bottom unemployment rate corresponding with a softening in consumer price pressures. The slowdown can be partly chalked up to a laundry list of idiosyncratic factors, including decelerating energy prices and a large one-time drop in the price of cell phone plans. Still, it has given the market a reason to scale back expectations for the Federal Reserve to continue to normalize policy.

While the Fed will be sensitive to inflation continuing to underperform its target, it is not yet time to throw in the towel on the projection for higher inflation. There is still good evidence that a tighter labor market is putting upward pressure on wages (Chart 7). What is more, the disinflationary impulse from the rising U.S. dollar should also turn the other way. This can already be seen in prices further up the supply chain (Chart 8). The dollar's peak looks to have been in the fourth quarter of last year, and we expect it to continue to edge lower over the next 18 months as other central banks move closer to the exit door on monetary stimulus.

As long as inflation heads higher, we continue to expect one more Fed hike towards the end of this year. In the meantime, the Fed is likely to start the process of normalizing the balance sheet in the fall (for more details please see the Financial Outlook).

CHART 8: UPSTREAM INFLATION PRESSURES BUILDING



Source: BLS/Haver Analytics, TD Economics

CANADIAN OUTLOOK - FULL SPEED AHEAD

The Canadian economy started 2017 with a bang. Economic output was up 3.7% (annualized) in the first three months of the year, and maintained healthy momentum heading into the second quarter. This out-turn has led us to upgrade our growth forecast for this year to 2.8% (from 2.3%; Chart 9). This would mark the fastest pace since 2011, and place Canada at the top of the leaderboard among the G7 countries. Importantly, 2017 is also expected to mark the first year since 2014 that all major sectors of the economy contribute positively to economic growth. All signs suggest that remaining economic slack will be absorbed by mid-year, and as such, inflationary pressures are likely nascent. The Bank of Canada will take a data-dependent approach, looking for confirmation of inflationary pressures, but the forward-looking nature of monetary policy implies that the first interest rate increase in more than 6 years is now likely to take place in October.

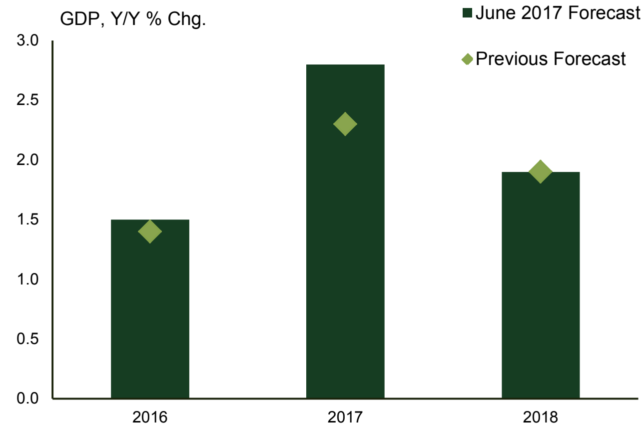
It should be noted, however, that while the near-term outlook shines bright, outsized strength in recent months is unlikely to persist into next year, and the risks facing the Canadian economy have not diminished. Steady and slow will remain the catch phrase for the Bank of Canada's hiking cycle. Domestically, the outlook for Canadian housing markets remains front and center, while NAFTA renegotiation and potential U.S. tax reforms continue to weigh on decision-makers. Lastly, encouraging signs that growth sources are broadening does not alter the view that, as we approach 2018, the loss of the 'sugar rush' from rising housing wealth and debt-supported consumer spending will leave the economy running at a speed that's less stretched from its long-term potential pace.

Residential investment + consumption to ebb in 2018

Economic growth in the first quarter was driven by a blow-out performance in consumer spending (+4.5% q/q saar), that met its match in an even stronger gain in residential investment (+15.7%; its best performance in five years). Solid momentum, still-healthy auto sales, and past gains in housing wealth in the key Ontario and B.C. markets should maintain healthy consumer spending this year. Early signs suggest that although the pace of activity likely slowed, residential investment activity should remain positive in the second quarter.

For both household consumption and residential investment, the outlook beyond 2017 should reflect slower momentum. Macroprudential measures introduced last fall are beginning to be felt, in combination with measures recently introduced in Ontario aimed at cooling speculative activity in the Greater Golden Horseshoe. Rising borrowing costs will only add to the headwinds. There are already early signs that major Ontario housing markets are beginning to cool off (See commentary). As the year progresses, we expect prices and resale volumes to cool further, with a modest pull-back expected in 2018 (See report). From an economic growth perspective, this will translate into small declines in residential investment over 2018, driven by softening resale activity. It also means that the support to consumption from housing wealth will begin to fade. The view is reinforced with more modest employment gains, as the unemployment rate settles in around its long-term level of 6.4%. Consumer expenditures are forecast to moderate from the robust, and unsustainable, pace of 3% this year, to 1.7% next year.

CHART 9: ROBUST GROWTH FORECAST FOR 2017

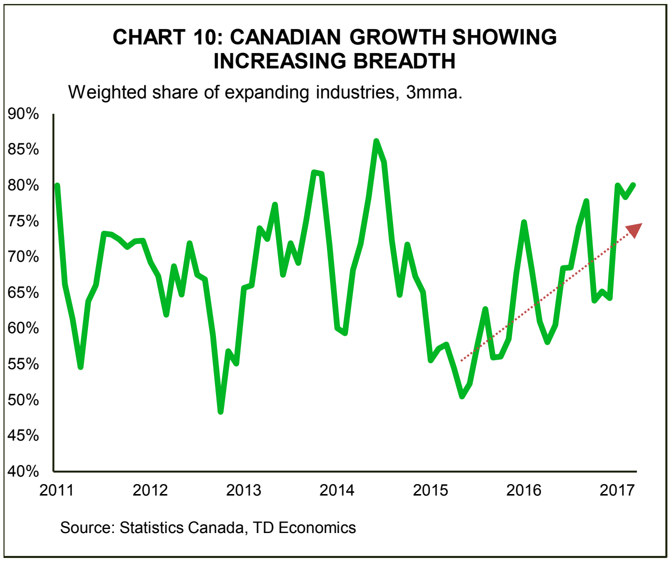


Source: Statistics Canada, TD Economics.

Government, business to provide tailwinds

Consumption and real estate have been key growth drivers in recent years. The key question then is: does a slowdown or (in the case of the latter), a pullback in these sectors spell doom and gloom for Canada? Hardly. As discussed in a recent report, and confirmed in the monthly GDP figures for March, despite consumer spending and real estate growth stealing the spotlight, the Canadian economy is experiencing a broadening of growth drivers, indicating durability lies beneath the economic surface (Chart 10).

The most encouraging development has been the return of non-residential business investment. While the strong gains of the first quarter are not likely to be repeated, good



momentum and continued machinery and equipment imports point to a sector that has finally shook off the setbacks of the past two years. Export prices have recovered markedly, and this should be supportive of the sector. Still, until the international environment is more certain, domestically-oriented industries, such as food manufacturing, are expected to lead to broadening business investment beyond the energy sector.

Finally, there is some evidence that the stimulus dollars of Budget 2016 are finally beginning to translate into shovels in the ground. Total government expenditures are expected to add roughly 0.4 percentage points to growth this year and next, providing a backstop to the forecast. At the same time, the supportive economic backdrop, in particular robust nominal growth (+8.3% in 2017Q1), should serve to improve the government's near-term fiscal position. To top it all off, trade data has turned the corner and is expected to begin offering modest support, as healthy U.S. demand outweighs the more challenging trading environment.

Risks, risks, everywhere (hopefully none to drink)

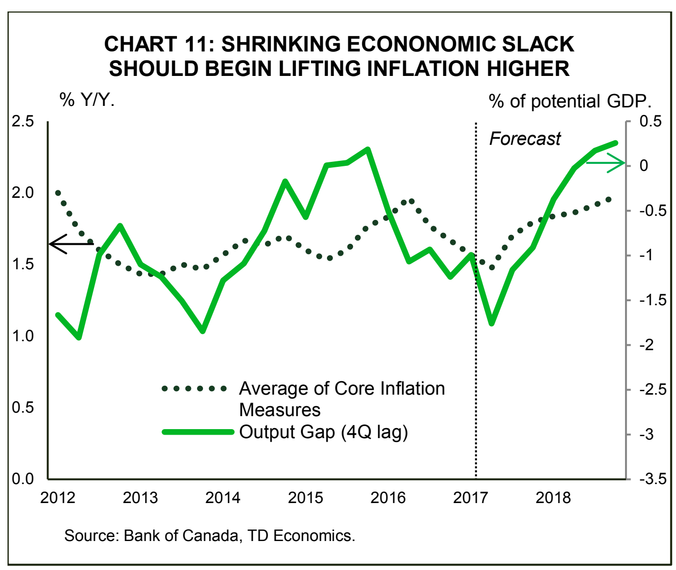
The economic outlook has improved, but the risks surrounding that outlook have not abated. Domestically, the housing market is the king pin. Should cooling measures and/or a change in sentiment move the needle too far, a disorderly correction cannot be ruled out, particularly given the degree of uncertainty regarding the amount of speculation that has been driving markets. Given the importance of the sector to recent growth and the only nascent recovery in business investment, such an outcome would undoubtedly have far-reaching negative impacts.

Beyond our borders, all eyes remain focused on the upcoming renegotiation of NAFTA. Recent comments from U.S. Commerce Secretary, Wilbur Ross, suggest negotiations will be concentrated around the end of the year. A modernization of the agreement has the potential to be beneficial to Canada, but getting from here to there may be challenging. Bumps along the road may make themselves felt via lower bilateral trade, or more likely, through a softer than envisioned path for Canadian business investment.

Bank of Canada sets a course for tightening this year

Canadian growth may be coming in hot, but so far, inflation is not. This is likely to change. Estimated relationships between growth and inflation suggest a near-term turning point as the impact of past economic setbacks fades (Chart 11). The forward-looking nature of monetary policy would thus suggest that the Bank of Canada will be moving towards a tightening cycle, with emergency level interest rates becoming increasingly unnecessary. Recent communications suggest that this process has already begun (See commentary). As such, we now expect the first interest rate hike to occur in October, two quarters earlier than previously forecast.

October is the most likely starting point, but this is not written in stone. Much will depend on the evolution of the economic data. Should inflationary pressures take longer than expected to materialize, or economic growth meaningfully disappoint, October will be off the table. Indeed, given the embedded domestic risks that come with elevated household debt levels and broader uncertainty around U.S. policy implications to Canada, we expect a cautious pace of one 25bp hike roughly every six months.



FINANCIAL OUTLOOK: ON MARKET DOUBTS

On June 14th, the Federal Reserve raised its policy rate for the third consecutive quarter. We believe another hike rests in the cue for December, after balance sheet normalization is initialized. If markets didn't believe the Fed's desire to speed up the normalization process, it should now. Through the combination of effective forward guidance and rate hikes, the Fed has done all it can to reinforce its bias. Additionally, the Fed has provided more information on how it plans to unwind its balance sheet, confirming that normalization will start this year, and will follow a step-wise process of increasing run-off every quarter. Even with this transparency, market pricing doesn't reflect the Fed's guidance, suggesting a fair bit of skepticism remains in place.

Doubts over the Fed's Balance Sheet

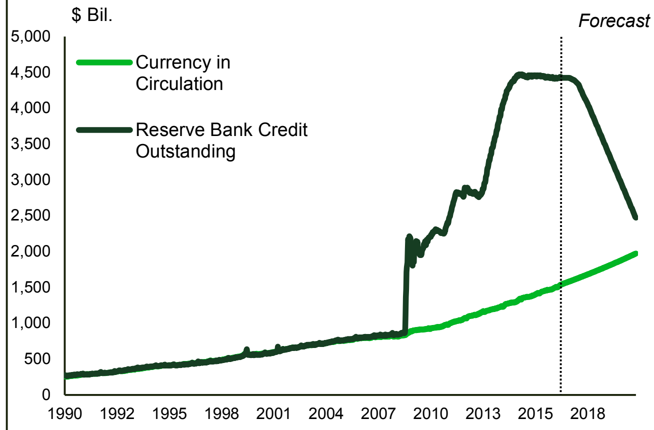
The reasons why markets doubt the Fed are twofold. The first is that there is uncertainty around the balancing act the Fed will strike between normalizing the balance sheet and raising the policy rate. This goes back to the debate about whether these two actions are complements or substitutes. With the run-off starting at $10B per month and growing to $50B per month, we believe this pace should not cause market disruption and result in a substitution effect. However, because the pace of run-off is more heavily front-loaded than we were initially expecting, it could weigh on deposit growth within financial institutions, and potentially lending, in an economic environment constrained to a 2% running speed. Should this be the case, the balance of risks for 2018 would become skewed to two hikes, rather than our current expectation of three.

However, absent that influence, our view is that this well-communicated normalization process will be less impactful than the initialization of the QE program. This belief is grounded in the notion that the relative size of the assets held by the Fed have already declined over the years when measured against the size of the economy, money in circulation, and Treasuries outstanding (Chart 9). In other words, the Fed has been growing into its balance sheet since the end of the QE purchasing program and will continue to do so. This tapered run-off of the balance sheet should not be a major hindrance to the Fed and its anticipated rate hikes.

Doubts over the Fed's Inflation Mandate

The second reason why markets doubt the Fed's normalization path is because inflation has been non-cooperative.

CHART 12: BALANCE SHEET RUNOFF LESS WORRISOME THAN MEETS THE EYE



Source: FRB, TD Economics.

After a half-decade of missing its target, the conundrum of low inflation continues. With core PCE price growth stuck in the mid-1% range, the "I'll believe it when I see it" attitude dominates financial market sentiment, and rightly so given history. The persistence of inflation weakness does pose a challenge for the Federal Reserve, but a tailwind is building with each passing day in an economy with an ultra-low unemployment rate and dwindling spare capacity. Without a rise in productivity, higher labor cost will squeeze profit margins, eventually incenting corporations to pass on these costs via higher prices.

Another tailwind stems from the lower U.S. dollar. The greenback's ascent appears to have peaked in late 2016. As long as major trade disputes can be avoided, the trade-weighted dollar is likely to continue to edge lower, especially against major trading partners like Canada, which has been outgrowing the U.S. and is making considerable progress in closing its own output gap. The consequence is that the Bank of Canada is likely to move away from emergency monetary policy earlier than expected (see Canada Section). Earlier rate hikes in Canada will reduce expected yield differentials with the U.S., thereby supporting a higher Canadian dollar. Recalling that the +20% appreciation of the trade-weighted U.S. dollar over the last few years meaningfully held back U.S. inflation, this is another headwind that is no longer present.

If we are right that inflation dynamics favor an upturn, and that the Fed will be able to rundown it balance sheet with little fanfare, we should see a readjustment of market expectations. In this case, policy and long rates will rise.

INTEREST RATE OUTLOOK

	2016				2017				2018			
	Q1	Q2	Q3	Q4	Q1	Q2*	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
CANADA												
Overnight Target Rate	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75	0.75	1.00	1.00	1.25
3-mth T-Bill Rate	0.45	0.48	0.53	0.46	0.52	0.55	0.65	0.75	0.85	1.00	1.10	1.25
2-yr Govt. Bond Yield	0.54	0.52	0.52	0.74	0.75	0.88	1.05	1.20	1.35	1.50	1.65	1.80
5-yr Govt. Bond Yield	0.68	0.57	0.62	1.11	1.12	1.10	1.40	1.60	1.85	2.05	2.15	2.30
10-yr Govt. Bond Yield	1.23	1.06	1.00	1.72	1.63	1.49	1.85	2.05	2.25	2.45	2.55	2.65
30-yr Govt. Bond Yield	2.00	1.72	1.66	2.31	2.31	2.04	2.40	2.70	2.85	3.00	3.10	3.20
10-yr-2-yr Govt Spread	0.69	0.54	0.48	0.98	0.88	0.61	0.80	0.85	0.90	0.95	0.90	0.85
U.S.												
Fed Funds Target Rate	0.50	0.50	0.50	0.75	1.00	1.25	1.25	1.50	1.50	1.75	2.00	2.25
3-mth T-Bill Rate	0.21	0.26	0.29	0.51	0.76	0.99	1.15	1.40	1.40	1.65	1.90	2.15
2-yr Govt. Bond Yield	0.73	0.58	0.77	1.20	1.27	1.33	1.70	1.95	2.10	2.25	2.40	2.55
5-yr Govt. Bond Yield	1.21	1.01	1.14	1.93	1.93	1.72	2.10	2.35	2.60	2.75	2.90	3.05
10-yr Govt. Bond Yield	1.78	1.49	1.60	2.45	2.40	2.13	2.50	2.70	2.90	3.05	3.15	3.25
30-yr Govt. Bond Yield	2.61	2.30	2.32	3.06	3.02	2.77	3.20	3.35	3.40	3.50	3.60	3.65
10-yr-2-yr Govt Spread	1.05	0.91	0.83	1.25	1.13	0.80	0.80	0.75	0.80	0.80	0.75	0.70
CANADA - U.S SPREADS												
Can - U.S. T-Bill Spread	0.24	0.22	0.24	-0.05	-0.24	-0.44	-0.50	-0.65	-0.55	-0.65	-0.80	-0.90
Can - U.S. 10-Year Bond Spread	-0.55	-0.43	-0.60	-0.73	-0.77	-0.64	-0.65	-0.65	-0.65	-0.60	-0.60	-0.60

F: Forecast by TD Bank Group as at June 2017; All forecasts are end-of-period; Source: Bloomberg, Bank of Canada, Federal Reserve.
* Spot rate as at June 14, 2017.

FOREIGN EXCHANGE OUTLOOK

Currency	Exchange rate	2016				2017				2018			
		Q1	Q2	Q3	Q4	Q1	Q2*	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Exchange rate to U.S. dollar													
Japanese yen	JPY per USD	112	103	101	117	111	110	112	110	110	108	105	105
Euro	USD per EUR	1.14	1.10	1.12	1.06	1.07	1.12	1.11	1.12	1.14	1.16	1.18	1.20
U.K. pound	USD per GBP	1.44	1.32	1.30	1.23	1.25	1.28	1.28	1.29	1.30	1.33	1.36	1.38
Exchange rate to Canadian dollar													
U.S. dollar	USD per CAD	0.77	0.77	0.76	0.75	0.75	0.76	0.76	0.77	0.77	0.78	0.78	0.78
Japanese yen	JPY per CAD	86.7	79.0	77.2	87.0	83.6	82.9	85.5	84.6	84.9	83.7	81.7	82.0
Euro	CAD per EUR	1.48	1.44	1.47	1.42	1.43	1.48	1.45	1.46	1.48	1.50	1.52	1.54
U.K. pound	CAD per GBP	1.87	1.72	1.71	1.66	1.67	1.69	1.68	1.68	1.68	1.72	1.75	1.77

F: Forecast by TD Bank Group as at June 2017. All forecasts are end-of-period. Source: Federal Reserve, Bloomberg, TDBG.
* Spot rate as at June 14, 2017.

COMMODITY PRICE OUTLOOK

	2016				2017				2018			
	Q1	Q2	Q3	Q4	Q1	Q2*	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Crude Oil (WTI, $US/bbl)	33	45	45	49	52	45	52	55	56	56	57	57
Natural Gas ($US/MMBtu)	1.97	2.13	2.85	3.02	2.99	2.90	3.15	3.20	3.25	3.25	3.30	3.30
Gold ($US/troy oz.)	1182	1259	1335	1216	1218	1259	1275	1275	1300	1300	1325	1325
Silver (US$/troy oz.)	14.93	16.84	19.63	17.14	17.47	16.89	17.75	17.75	18.50	18.50	19.25	19.25
Copper (cents/lb)	212	215	216	240	264	258	257	256	260	260	265	265
Nickel (US$/lb)	3.86	4.00	4.65	4.90	4.66	3.99	4.50	4.75	5.00	5.00	5.25	5.25
Aluminum (cents/lb)	69	71	73	78	84	86	84	84	86	86	84	84
Wheat ($US/bu)	5.89	6.06	5.73	6.48	6.53	6.29	6.50	6.70	6.80	6.85	6.85	6.90

F: Forecast by TD Bank Group as at June 2017. All forecasts are period averages. Source: Bloomberg, USDA (Haver). * Spot rate as at June 14, 2017.

CANADIAN ECONOMIC OUTLOOK:

Period-Over-Period Annualized Per Cent Change Unless Otherwise Indicated

	2016				2017				2018				Annual Average			4th Qtr/4th Qtr		
	Q1	Q2	Q3	Q4	Q1	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	16	17F	18F	16	17F	18F
Real GDP	2.8	-1.4	4.2	2.7	3.7	2.9	2.3	1.9	1.7	1.7	1.6	1.6	1.5	2.8	1.9	2.0	2.7	1.6
Consumer Expenditure	2.4	2.3	3.0	3.1	4.5	2.8	2.4	1.8	1.4	1.4	1.3	1.3	2.4	3.1	1.7	2.7	2.8	1.4
Durable Goods	5.9	-3.1	0.2	10.2	9.9	4.0	2.6	1.3	1.1	1.0	1.1	1.2	4.1	5.3	1.5	3.2	4.4	1.1
Non-Res. Fixed Investment	-9.2	-3.5	5.4	-20.4	10.4	2.8	2.3	2.5	3.4	3.8	3.6	3.5	-8.0	-0.6	3.1	-7.4	4.3	3.6
Non-Res. Structures	-14.7	-8.4	30.5	-32.5	0.7	1.9	2.2	2.4	2.9	3.5	3.3	3.2	-10.8	-3.6	2.8	-8.9	1.8	3.2
Equipment & IPP*	-3.2	1.6	-16.1	-4.9	19.9	3.5	2.3	2.5	3.8	4.0	3.9	3.8	-4.9	2.6	3.4	-5.9	6.8	3.9
Residential Investment	9.8	1.1	-5.1	6.3	15.7	2.5	1.1	-0.5	-1.3	-2.7	-1.8	-1.4	3.0	4.9	-1.0	2.9	4.5	-1.8
Government Expenditure	3.9	3.5	-0.8	2.1	0.5	2.8	2.3	2.3	2.0	1.8	1.7	1.6	1.8	1.6	2.0	2.2	1.9	1.8
Final Domestic Demand	2.9	1.8	1.8	0.2	4.7	2.8	2.3	1.8	1.6	1.4	1.4	1.4	1.3	2.4	1.7	1.7	2.9	1.4
Exports	8.4	-13.9	9.3	0.8	-0.3	4.1	3.9	3.7	3.5	3.1	3.0	2.9	1.0	1.7	3.4	0.8	2.8	3.1
Imports	3.5	1.4	4.3	-11.3	13.7	1.1	3.5	3.2	3.3	2.6	2.6	2.6	-0.9	2.4	2.9	-0.8	5.3	2.8
Change in Non-Farm Inventories ($2007 Bn)	-5.2	-0.2	4.4	-2.2	13.4	8.7	8.3	7.9	8.2	8.6	8.6	9.1	-0.5	9.2	8.6	---	---	---
Final Sales	3.5	-3.5	3.1	4.5	0.6	3.7	2.4	2.0	1.6	1.6	1.6	1.5	1.7	2.3	1.9	1.9	2.2	1.6
International Current Account Balance ($Bn)	-70.8	-75.4	-74.6	-47.1	-56.2	-53.8	-49.8	-49.6	-48.2	-47.7	-48.4	-45.8	-67.0	-52.4	-47.5	---	---	---
% of GDP	-3.5	-3.8	-3.7	-2.3	-2.7	-2.5	-2.3	-2.3	-2.2	-2.1	-2.2	-2.0	-3.3	-2.4	-2.1	---	---	---
Pre-tax Corp. Profits	-0.4	-36.9	92.5	42.5	50.6	9.5	8.7	8.5	8.2	7.5	6.0	5.2	-4.5	28.5	7.8	14.6	18.1	6.7
% of GDP	10.7	9.5	11.0	11.8	12.9	13.0	13.1	13.3	13.4	13.6	13.6	13.7	10.8	13.1	13.6	---	---	---
GDP Deflator (Y/Y)	-0.1	0.0	0.5	2.0	3.1	3.3	3.0	2.3	1.7	1.9	1.9	2.0	0.6	2.9	1.9	2.0	2.3	2.0
Nominal GDP	2.4	-0.8	7.0	7.4	8.3	4.3	4.2	3.8	3.7	3.7	3.6	3.7	2.1	5.8	3.8	4.0	5.1	3.7
Labour Force	0.6	0.0	0.8	2.1	1.2	0.7	0.7	0.6	0.7	0.6	0.6	0.6	0.8	1.1	0.6	0.9	0.8	0.6
Employment	0.3	0.9	0.7	2.6	2.1	1.3	0.9	0.7	0.7	0.6	0.6	0.6	0.7	1.5	0.7	1.1	1.2	0.6
Employment ('000s)	12	38	31	116	94.9	56.9	41.1	32.1	29.9	27.6	27.7	25.4	134	278	130	197	225	111
Unemployment Rate (%)	7.2	6.9	7.0	6.9	6.7	6.5	6.5	6.5	6.5	6.5	6.5	6.5	7.0	6.5	6.5	---	---	---
Personal Disp. Income	1.4	1.7	6.3	5.0	2.9	2.7	3.1	3.4	3.4	3.1	3.0	3.0	3.7	3.7	3.2	3.6	3.0	3.1
Pers. Saving Rate (%)	4.8	4.9	5.3	5.3	4.3	4.4	4.4	4.6	4.8	5.0	5.0	4.9	5.1	4.4	4.9	---	---	---
Cons. Price Index (Y/Y)	1.6	1.5	1.2	1.4	1.9	1.7	1.7	1.8	1.8	1.9	2.2	2.2	1.4	1.8	2.0	1.4	1.8	2.2
CPIX (Y/Y)**	2.1	2.1	1.9	1.5	1.5	1.4	1.7	1.9	1.9	2.1	2.1	2.2	1.9	1.7	2.1	1.5	1.9	2.2
BoC Inflation (Y/Y)**	1.8	2.0	1.8	1.7	1.6	1.5	1.7	1.8	1.8	1.9	1.9	2.0	1.8	1.6	1.9	1.8	1.8	2.0
Housing Starts ('000s)	199	198	199	197	225	203	198	196	196	194	192	190	198	205	193	---	---	---
Home Prices (Y/Y)	16.3	12.5	8.5	5.6	4.0	6.8	8.5	6.5	1.2	-2.4	-2.0	-1.5	10.6	6.4	-1.2	1.8	1.8	2.0
Productivity: Real GDP / worker (Y/Y)	0.6	0.4	0.9	0.9	0.7	1.7	1.2	1.5	1.3	1.2	1.1	1.0	0.7	1.3	1.2	0.9	1.5	1.0

*Intellectual Property Products. F: Forecast by TD Economics as at June 2017

** CPIX: CPI excluding the 8 most volatile components. BoC Inflation: simple average of CPI-trim, CPI-median, and CPI-common

Sources: Statistics Canada, Bank of Canada, Canada Mortgage and Housing Corporation, Haver Analytics.

U.S. ECONOMIC OUTLOOK:

Period-Over-Period Annualized Per Cent Change Unless Otherwise Indicated

	2016				2017				2018				Annual Average			4th Qtr/4th Qtr		
	Q1	Q2	Q3	Q4	Q1	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	16	17F	18F	16	17F	18F
Real GDP	0.8	1.4	3.5	2.1	1.2	3.1	2.5	2.0	1.7	2.2	2.1	2.0	1.6	2.2	2.1	2.0	2.2	2.0
Consumer Expenditure	1.6	4.3	3.0	3.5	0.6	2.9	2.7	2.2	1.9	2.2	2.1	2.0	2.7	2.5	2.2	3.1	2.1	2.0
Durable Goods	-0.6	9.8	11.6	11.4	-1.4	5.0	3.9	3.5	2.9	4.1	4.2	4.3	5.8	5.3	3.7	7.9	2.7	3.9
Non-Res. Fixed Investment	-3.4	1.0	1.4	0.9	11.4	5.4	4.7	3.1	3.8	4.6	4.4	4.3	-0.5	5.0	4.1	-0.1	6.1	4.3
Non-Res. Structures	0.1	-2.1	12.0	-1.9	28.3	12.3	4.3	2.7	3.2	3.8	3.4	3.5	-2.9	10.6	3.9	1.9	11.5	3.5
Equipment & IPP*	-4.4	1.8	-1.4	1.7	7.0	3.4	4.8	3.2	3.9	4.9	4.7	4.5	0.1	3.4	4.2	-0.6	4.6	4.5
Residential Construction	7.8	-7.8	-4.1	9.6	13.7	2.8	2.7	3.9	4.6	4.3	3.6	3.6	4.9	5.1	3.9	1.1	5.7	4.0
Govt. Consumption & Gross Investment	1.6	-1.7	0.8	0.2	-1.1	0.5	0.9	0.7	0.0	0.8	1.0	1.1	0.8	0.0	0.6	0.2	0.2	0.7
Final Domestic Demand	1.2	2.4	2.1	2.8	2.0	2.8	2.6	2.1	1.9	2.3	2.2	2.2	2.1	2.4	2.2	2.1	2.4	2.2
Exports	-0.7	1.8	10.0	-4.5	5.9	-2.0	4.3	4.9	5.0	5.8	5.7	5.6	0.4	2.3	4.7	1.5	3.2	5.5
Imports	-0.6	0.2	2.2	8.9	3.8	2.0	5.6	6.4	6.7	6.0	6.0	6.3	1.1	4.4	6.0	2.6	4.4	6.2
Change in Private Inventories	40.7	-9.5	7.1	49.6	4.3	36.8	43.4	49.1	53.7	53.5	55.1	57.8	22.0	33.4	55.0	---	---	---
Final Sales	1.3	2.6	3.0	1.1	2.2	2.3	2.4	1.8	1.6	2.2	2.1	2.0	2.0	2.1	2.0	2.0	2.2	2.0
International Current Account Balance ($Bn)	-532	-480	-463	-449	-453	-528	-568	-609	-653	-687	-714	-738	-481	-539	-698	---	---	---
% of GDP	-2.9	-2.6	-2.5	-2.4	-2.4	-2.7	-2.9	-3.1	-3.3	-3.4	-3.5	-3.6	-2.6	-2.8	-3.5	---	---	---
Pre-tax Corporate Profits including IVA&CCA	14.1	-2.4	25.4	2.1	-7.3	3.0	4.3	4.0	3.1	3.5	3.6	3.6	-0.1	2.5	3.6	9.3	0.9	3.4
% of GDP	11.1	11.0	11.5	11.4	11.1	11.1	11.1	11.1	11.0	11.0	11.0	11.0	11.2	11.1	11.0	---	---	---
GDP Deflator (Y/Y)	1.2	1.2	1.3	1.6	2.0	1.6	1.7	1.6	1.6	2.0	2.1	2.2	1.3	1.7	2.0	1.6	1.6	2.2
Nominal GDP	1.3	3.7	5.0	4.2	3.4	3.8	4.3	4.0	3.8	4.3	4.3	4.4	3.0	4.0	4.1	3.5	3.9	4.2
Labor Force	3.5	-0.2	1.9	0.1	1.0	0.0	1.1	1.0	0.8	0.8	0.8	0.8	1.3	0.7	0.8	1.3	0.8	0.8
Employment	1.7	1.4	2.0	1.4	1.5	1.2	1.4	1.2	1.1	1.0	0.9	0.8	1.8	1.5	1.1	1.6	1.3	1.0
Change in Empl. ('000s)	609	510	704	510	545	435	509	449	403	380	318	300	---	---	---	---	---	---
Unemployment Rate (%)	4.9	4.9	4.9	4.7	4.7	4.3	4.3	4.2	4.2	4.2	4.1	4.1	4.9	4.4	4.2	---	---	---
Personal Disp. Income	2.4	5.0	4.4	1.7	4.2	3.8	4.2	4.0	3.9	4.4	4.4	4.4	3.7	3.7	4.1	3.4	4.1	4.3
Pers. Saving Rate (%)	6.1	5.9	5.9	4.9	5.2	5.3	5.3	5.2	5.2	5.2	5.2	5.3	5.7	5.3	5.2	---	---	---
Cons. Price Index (Y/Y)	1.1	1.1	1.1	1.8	2.6	2.0	2.1	1.9	1.7	2.3	2.3	2.3	1.3	2.1	2.2	1.8	1.9	2.3
Core CPI (Y/Y)	2.2	2.2	2.2	2.2	2.2	1.8	1.8	1.9	1.9	2.3	2.3	2.3	2.2	1.9	2.2	2.2	1.9	2.3
Core PCE Price Index (Y/Y)	1.6	1.6	1.7	1.7	1.7	1.5	1.5	1.6	1.6	1.9	1.9	2.0	1.7	1.6	1.8	1.7	1.6	2.0
Housing Starts (mns)	1.15	1.16	1.15	1.25	1.24	1.22	1.26	1.29	1.31	1.33	1.36	1.38	1.18	1.25	1.34	---	---	---
Real Output per hour (Y/Y)**	0.0	-0.3	0.1	1.1	1.2	1.5	1.1	1.0	1.3	1.4	1.4	1.4	0.2	1.2	1.4	1.1	1.0	1.4

*Intellectual property products. **Non-farm business sector. F: Forecast updated by TD Economics, June 2017

Source: U.S. Bureau of Labor Statistics, U.S. Bureau of Economic Analysis, TD Economics

GLOBAL ECONOMIC OUTLOOK					
Annual per cent change unless otherwise indicated					
	2015 Share*		Forecast		
Real GDP	**(%)**	**2015**	**2016**	**2017**	**2018**
World	100.0	3.3	3.0	3.3	3.4
North America	19.1	2.5	1.6	2.3	2.1
United States	15.7	2.6	1.6	2.2	2.1
Canada	1.4	0.9	1.5	2.8	1.9
Mexico	1.9	2.7	2.1	2.2	2.1
European Union (EU-28)	16.9	2.4	1.9	2.0	1.7
Euro Area (EU-19)	11.9	1.9	1.7	1.9	1.6
Germany	3.4	1.5	1.8	1.8	1.6
France	2.3	1.0	1.1	1.5	1.4
Italy	1.9	0.7	1.0	1.4	1.1
United Kingdom	2.4	2.2	1.8	1.6	1.6
EU accession members	2.6	3.7	2.8	2.9	2.6
Asia	42.9	4.9	4.9	5.0	5.0
Japan	4.5	1.1	1.0	1.2	0.8
Asian NIC's	3.4	2.0	2.3	2.8	2.7
Hong Kong	0.4	2.4	2.1	2.7	2.4
Korea	1.6	2.8	2.8	2.9	3.1
Singapore	0.4	1.9	2.0	2.4	2.2
Taiwan	1.0	0.7	1.5	2.5	2.3
Russia	3.3	-2.8	-0.2	1.5	1.6
Australia & New Zealand	1.1	2.5	2.7	2.8	3.0
Developing Asia	30.7	6.7	6.4	6.3	6.3
ASEAN-4	4.8	4.7	4.8	4.9	5.0
China	17.1	6.9	6.7	6.4	6.1
India**	7.0	8.1	7.1	7.2	7.6
Central/South America	6.4	-0.7	-2.3	0.4	2.0
Brazil	2.8	-3.8	-3.6	0.3	2.4
Other Developing	13.8	2.9	3.0	2.7	3.1
Other Advanced	1.0	1.5	1.9	1.7	1.6

*Share of world GDP on a purchasing-power-parity (PPP) basis.
Forecast as at June 15, 2017. **Forecast for India refers to fiscal year.
Source: IMF, TD Economics.

ECONOMIC INDICATORS: G7 AND EUROPE				
		Forecast		
	2015	**2016**	**2017**	**2018**
Real GDP (Annual per cent change)				
G7 (31.8%)*	1.9	1.5	1.9	1.7
U.S.	2.6	1.6	2.2	2.1
Japan	1.1	1.0	1.2	0.8
Euro Area	1.9	1.7	1.9	1.6
Germany	1.5	1.8	1.8	1.6
France	1.0	1.1	1.5	1.4
Italy	0.7	1.0	1.4	1.1
United Kingdom	2.2	1.8	1.6	1.6
Canada	0.9	1.5	2.8	1.9
Consumer Price Index (Annual per cent change)				
G7	0.3	0.8	1.8	1.8
U.S.	0.1	1.3	2.1	2.2
Japan	0.8	-0.1	0.8	1.1
Euro Area	0.0	0.2	1.7	1.4
Germany	0.1	0.4	1.7	1.3
France	0.1	0.3	1.2	1.1
Italy	0.1	-0.1	1.4	1.2
United Kingdom	0.0	0.7	2.6	2.5
Canada	1.1	1.4	1.8	2.0
Unemployment Rate (Per cent annual averages)				
U.S.	5.3	4.9	4.4	4.2
Japan	3.4	3.1	3.0	2.9
Euro Area	10.9	10.0	9.3	9.1
Germany	6.4	6.1	5.8	5.8
France	10.4	10.0	9.5	9.2
Italy	11.9	11.7	11.6	11.3
United Kingdom	5.3	4.8	4.8	5.2
Canada	6.9	7.0	6.5	6.5

*Share of 2015 world gross domestic product (GDP) at PPP.
Forecast as at June 15, 2017.
Source: National statistics agencies, TD Economics