
LONG-TERM ECONOMIC FORECAST



TD Economics

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UNITED STATES

- The U.S. economy is expected to grow in a narrow range between 2.3% and 2.5% over the 2015 to 2017 period. Growth will be led by domestic sectors, bolstered by robust job growth, rising wages, and low energy prices. This is set against a weak global backdrop, especially within emerging markets, and a strong dollar that will keep pressure on the nation's exporters.
- With above-trend economic growth, labour market slack will continue to diminish over the next three years. The unemployment is expected to trough at 4.8% in 2017. As slack diminishes, the unemployment rate is expected to inch up to a structural rate of 5.0% by the end of the forecast.
- As the effects of falling energy prices and a rising dollar fade, CPI inflation is expected to rise from an average of 0.1% in 2015 to 1.8% in 2016. The PCE price index, which runs 0.3-0.5 percentage points below CPI, will also move up, but will likely not reach the Fed's target of 2.0% until 2018.
- The path upward for interest rates is likely to be much more gradual than it has been historically. We expect the Federal Reserve to raise the fed funds rate by between 50 and 75 basis points of tightening in each calendar year, with the federal funds rate reaching 3.25% by the end of 2019.
- The long-term potential growth rate for the U.S. economy will be lower than it has been historically, largely reflecting slower labour force growth due to population aging. Our projection for 2.0% potential growth is based on annual growth in labour hours of 0.6% and labour productivity of 1.4%.

CANADA

- 2015 was a weak year for the Canadian economy, and only a modest recovery is expected in 2016 and 2017. This yields only a slow uptake of economic slack. Thereafter, the economy is expected to remain near its longer-term potential growth of about 1.7%.
- Over the near term, exports will be a key driver of growth, supported by the low level of the loonie, and a recovery in U.S. demand. Over the longer-term, export gains are expected to moderate somewhat, but remain supportive of growth, helped by a loonie that remains at or below 83 cents U.S.
- Relatively weak oil prices in the near term will continue to place downward pressure on business investment, which is not likely to growth until 2017. Even after recovering, oil prices are expected to settle in around \$65, sufficient for solid if unremarkable investment growth. At the same time, residential investment is expected to contract in 2017 and 2018, resulting in a modest rebalancing of the housing market.
- Consumer expenditure growth is forecast to remain relatively tepid, held back by high debt levels and a normalization of interest rates. The paths of consumption and investment together yield modest growth in domestic demand, particularly in 2015 and 2016.
- Over the long-run, potential growth is expected to be somewhat lower than in the past. This is due to labour force growth of only about 0.6% per year, reflecting demographic pressures. Productivity is expected to remain in line with historic patterns, near 1.1% per year. The net result is a long-term economic 'cruising speed' of about 1.7%.

U.S. ECONOMIC OUTLOOK												
<i>Period-Over-Period Annualized Per Cent Change Unless Otherwise Indicated</i>												
	Annual Average						Fourth Quarter / Fourth Quarter					
	14	15F	16F	17F	18F	19F	14	15F	16F	17F	18F	19F
Real GDP	2.4	2.5	2.4	2.3	2.1	2.0	2.5	2.2	2.5	2.3	2.0	2.0
Consumer Expenditure	2.7	3.1	3.1	2.5	2.2	2.0	3.2	2.7	3.1	2.3	2.1	2.0
Durable Goods	5.9	5.9	5.6	4.4	3.5	3.0	7.5	5.0	5.7	3.7	3.3	2.7
Non-Res. Fixed Investment	6.2	3.1	3.5	4.0	3.1	2.5	5.5	2.5	4.1	3.8	2.8	2.3
Non-Res. Structures	8.1	-1.3	1.0	4.3	3.4	3.0	5.0	-2.7	3.5	4.1	3.2	2.9
Equipment & IPP*	5.6	4.4	4.2	3.9	3.0	2.3	5.7	4.1	4.3	3.7	2.6	2.2
Residential Investment	1.8	8.8	9.6	9.0	4.7	3.5	5.1	9.2	10.2	7.3	3.8	3.4
Gov't. Expenditures	-0.6	0.8	1.6	1.2	1.1	1.0	0.4	1.3	1.4	1.2	1.0	1.0
Final Domestic Demand	2.5	2.9	3.1	2.7	2.2	1.9	3.0	2.6	3.2	2.5	2.0	1.9
Exports	3.4	1.4	2.7	5.0	5.1	4.9	2.4	0.3	3.7	5.3	5.0	4.8
Imports	3.8	5.1	5.5	6.3	4.7	3.6	5.4	3.5	7.3	5.7	4.1	3.3
Change in Non-Farm Inventories	68.0	97.9	58.8	42.3	34.0	26.8	---	---	---	---	---	---
Final Sales	2.4	2.3	2.7	2.5	2.2	2.1	2.6	2.2	2.6	2.3	2.1	2.0
International Current Account Balance (\$Bn)	-390	-468	-529	-701	-756	-750	---	---	---	---	---	---
% of GDP	-2.2	-2.6	-2.8	-3.6	-3.7	-3.5	---	---	---	---	---	---
Pre-tax Corp. Profits including IVA&CCA	1.7	-1.2	0.2	3.1	3.9	4.3	3.4	-4.7	1.7	3.6	4.1	4.4
% of GDP	11.9	11.4	11.0	10.8	10.8	10.8	---	---	---	---	---	---
GDP Deflator	1.6	1.0	1.6	2.0	2.1	2.2	1.4	1.2	1.8	2.1	2.1	2.3
Nominal GDP	4.1	3.5	4.1	4.4	4.3	4.3	3.9	3.4	4.3	4.4	4.2	4.3
Labour Force	0.3	0.8	0.8	1.1	1.0	0.8	0.8	0.7	1.1	1.1	0.9	0.8
Employment	1.9	2.1	1.7	1.4	0.9	0.7	2.1	1.9	1.6	1.2	0.8	0.7
Employment ('000s)	2,629	2,917	2,437	1,977	1,375	1,017	2,934	2,657	2,326	1,735	1,176	976
Unemployment Rate (%)	6.2	5.3	4.9	4.8	4.9	5.0	---	---	---	---	---	---
Personal Disp. Income	4.2	3.9	4.5	4.1	4.0	4.3	4.7	4.2	4.2	4.0	4.0	4.4
Pers. Savings Rate (%)	4.8	5.3	5.3	4.7	4.5	4.7	---	---	---	---	---	---
Cons. Price Index (CPI)	1.6	0.1	1.8	2.8	2.4	2.3	1.2	0.5	2.5	2.5	2.3	2.3
Core CPI	1.7	1.8	1.9	2.2	2.3	2.3	1.7	2.0	1.9	2.3	2.3	2.3
Core PCE price index	1.5	1.3	1.5	1.9	2.0	2.0	1.4	1.4	1.6	2.0	2.0	2.0
Housing Starts (mns)	1.00	1.11	1.29	1.47	1.56	1.61	---	---	---	---	---	---
Real output per hour**	0.7	0.8	1.2	1.1	1.4	1.7	0.0	1.3	0.9	1.2	1.5	1.5

*Intellectual property products. **Non-farm business sector. F: Forecast by TD Economics, December 2015
 Source: U.S. Bureau of Labor Statistics, U.S. Bureau of Economic Analysis, TD Economics

CANADIAN ECONOMIC OUTLOOK												
<i>Period-Over-Period Annualized Per Cent Change Unless Otherwise Indicated</i>												
	Annual Average						Fourth Quarter / Fourth Quarter					
	14	15F	16F	17F	18F	19F	14	15F	16F	17F	18F	19F
Real GDP	2.5	1.2	1.7	1.8	1.7	1.6	2.4	0.6	1.9	1.8	1.6	1.6
Consumer Expenditure	2.6	1.9	1.5	1.8	1.7	1.6	2.6	1.3	1.6	1.9	1.7	1.6
Durable Goods	4.3	3.7	2.7	1.7	1.7	1.7	6.3	3.0	1.6	1.7	1.7	1.7
Non-Res. Fixed Investment	0.0	-7.2	-3.2	2.6	2.7	2.1	1.5	-10.3	-0.5	3.7	2.0	2.1
Non-Res. Structures	-0.4	-10.0	-3.6	0.6	1.3	2.1	-1.4	-11.9	-0.9	0.7	1.9	2.1
Equipment & IPP*	1.0	-1.8	-2.7	5.4	4.5	2.0	7.4	-7.3	0.2	7.9	2.1	2.0
Residential Investment	2.5	3.9	1.5	-3.2	-0.7	1.0	4.4	3.5	-0.7	-3.8	1.2	1.0
Gov't. Expenditures	0.6	1.3	0.5	2.0	1.9	1.5	-0.2	0.8	0.5	1.4	1.5	1.5
Final Domestic Demand	1.6	0.7	0.9	1.6	1.7	1.6	2.0	0.0	1.2	1.8	1.7	1.6
Exports	5.3	3.3	4.2	3.6	2.9	2.3	6.2	2.9	4.0	3.6	2.4	2.3
Imports	1.8	0.6	1.0	2.9	2.9	2.6	2.8	-1.0	2.2	3.2	2.7	2.6
Change in Non-Farm Inventories (\$2007 Bn)	6.7	8.1	4.1	3.3	3.0	3.2	---	---	---	---	---	---
Final Sales	2.8	1.6	1.8	1.9	1.8	1.6	3.2	1.1	1.8	1.9	1.6	1.6
International Current Account Balance (\$Bn)	-44.9	-64.2	-43.7	-21.6	-19.9	-18.9	---	---	---	---	---	---
% of GDP	-2.3	-3.2	-2.1	-1.0	-0.9	-0.8	---	---	---	---	---	---
Pre-tax Corp. Profits	7.0	-16.2	1.7	4.8	4.7	4.0	5.6	-16.5	3.9	5.1	4.4	4.0
% of GDP	13.8	11.5	11.3	11.5	11.6	11.6	---	---	---	---	---	---
GDP Deflator	1.8	-0.4	1.1	1.9	1.9	2.0	1.4	0.1	1.3	2.3	1.9	2.0
Nominal GDP	4.3	0.9	2.7	3.8	3.7	3.6	3.9	0.7	3.2	4.1	3.5	3.6
Labour Force	0.4	0.8	0.9	0.5	0.4	0.5	0.3	1.2	0.7	0.5	0.4	0.5
Employment	0.6	0.8	0.7	0.7	0.6	0.5	0.7	0.7	0.8	0.6	0.6	0.4
Employment ('000s)	111	150	127	130	105	100	128	128	136	112	115	81
Unemployment Rate (%)	6.9	6.9	7.1	6.9	6.7	6.7	---	---	---	---	---	---
Personal Disp. Income	3.0	3.5	3.2	3.7	3.4	3.5	3.6	2.8	3.6	3.5	3.4	3.5
Pers. Savings Rate (%)	4.1	4.6	3.8	3.7	3.6	3.6	---	---	---	---	---	---
Cons. Price Index (CPI)	1.9	1.1	1.6	1.9	2.0	2.0	1.9	1.1	1.8	2.0	2.0	2.0
Core CPI	1.8	2.2	2.0	2.0	2.0	2.0	2.2	2.1	1.9	2.0	2.0	2.0
Housing Starts ('000s)	189	191	197	172	176	185	---	---	---	---	---	---
Productivity:												
Real GDP per worker	1.8	0.4	0.9	1.1	1.2	1.0	1.7	-0.2	1.1	1.2	1.0	1.0

*Intellectual Property Products. F: Forecast by TD Economics, December 2015.

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

INTEREST RATE OUTLOOK												
	Annual Average						End of Period					
	14	15F	16F	17F	18F	19F	14	15F	16F	17F	18F	19F
U.S. FIXED INCOME												
Fed Funds Target Rate (%)	0.25	0.30	1.05	1.70	2.20	2.90	0.25	0.50	1.25	1.75	2.25	3.25
3-mth T-Bill Rate (%)	0.04	0.05	0.80	1.45	1.95	2.70	0.04	0.25	1.00	1.50	2.05	3.05
2-yr Govt. Bond Yield (%)	0.54	0.70	1.55	2.05	2.50	3.05	0.67	1.00	1.75	2.10	2.70	3.15
5-yr Govt. Bond Yield (%)	1.70	1.55	2.15	2.45	2.85	3.20	1.65	1.80	2.25	2.60	2.95	3.30
10-yr Govt. Bond Yield (%)	2.49	2.20	2.50	2.70	3.15	3.40	2.17	2.40	2.50	2.90	3.25	3.45
10-yr-2-yr Govt. Spread (%)	1.95	1.50	0.95	0.65	0.65	0.35	1.50	1.40	0.75	0.80	0.55	0.30
CANADIAN FIXED INCOME												
Overnight Target Rate (%)	1.00	0.65	0.50	0.55	1.40	2.40	1.00	0.50	0.50	0.75	1.75	2.75
3-mth T-Bill Rate (%)	0.92	0.50	0.45	0.60	1.45	2.45	0.91	0.45	0.45	0.83	1.83	2.83
2-yr Govt. Bond Yield (%)	1.08	0.55	0.65	1.10	2.05	2.75	1.01	0.60	0.75	1.45	2.35	2.95
5-yr Govt. Bond Yield (%)	1.55	0.85	1.20	1.70	2.40	2.95	1.34	1.05	1.35	1.90	2.70	3.10
10-yr Govt. Bond Yield (%)	2.16	1.55	1.90	2.30	2.95	3.25	1.79	1.80	2.05	2.50	3.15	3.30
10-yr-2-yr Govt. Spread (%)	1.08	1.00	1.25	1.20	0.90	0.50	0.78	1.20	1.30	1.05	0.80	0.35
F: Forecast by TD Economics, December 2015												
Source: Statistics Canada, Bank of Canada, Bloomberg												

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