
LONG-TERM ECONOMIC FORECAST



TD Economics

June 19, 2017

UNITED STATES

- The American economy is set to accelerate to 2.2% in 2017, after a disappointing 1.6% pace last year. Growth expected to edge down to 2.1% in 2018 as the economic cycle matures. Over the medium term, real GDP growth is expected to average 1.9%, consistent with trend growth in labor hours of 0.5% and labor productivity of 1.4%.
- At 4.3%, the current unemployment rate is in the neighborhood of full employment. We expect modest declines from here, with the rate averaging 4.2% in 2018 and 2019, helping to absorb any remaining shadow slack.
- As the labor market tightens further, it is likely to pull underlying inflation higher. From 1.3% in 2016, inflation, as measured by the consumer price index (CPI) is expected to rise to 2.1% in 2017. The Federal Reserve's target of 2.0% inflation in the core personal consumption expenditure (PCE) price index will likely be reached in 2018.
- The Federal Reserve is expected to normalize monetary policy gradually, bringing the fed funds rate to 2.50%-2.75% by the end of 2021.
- The stance of fiscal policy remains uncertain and presents both upside and downside risk to economic growth. These impacts will be incorporated into our outlook as the direction becomes clearer. Given the proximity of the economy to full employment, any upside surprise in terms of the size of fiscal stimulus should be expected to pull forward the path of inflation and monetary tightening.

CANADA

- A strong start to the year and healthy near-term momentum point to a 2.8% Canadian growth pace in 2017. Recovering business investment, fiscal stimulus, and net trade all help offset slowdowns elsewhere, leading to a 1.9% expansion in 2018.
- Economic growth is anticipated to moderate thereafter, partly reflecting a return to a more sustainable pace of housing activity and credit growth. Population aging and modest productivity growth conspire to hold down Canada's longer-term growth potential, offset somewhat by increased immigration.
- We expect a continued gradual rise in the price of oil, but not back to levels that prevailed over the past decade. With ongoing competition from lower-cost shale producers, new investment in Canadian oil production is likely to remain constrained throughout the forecast horizon.
- Excess capacity has largely been absorbed, and nascent inflationary pressures are expected to spur the Bank of Canada to action in October 2017. Only a gradual pace of tightening is expected thereafter, with slower trend economic growth restraining the longer-term level of interest rates. The policy interest rate is anticipated to reach just 2.50% by the end of the forecast horizon in 2021.



U.S. ECONOMIC OUTLOOK												
<i>Period-Over-Period Annualized Per Cent Change Unless Otherwise Indicated</i>												
	Annual Average						Fourth Quarter / Fourth Quarter					
	16	17F	18F	19F	20F	21F	16	17F	18F	19F	20F	21F
Real GDP	1.6	2.2	2.1	1.9	1.9	1.9	2.0	2.2	2.0	1.9	1.9	1.9
Consumer Expenditure	2.7	2.5	2.2	2.0	2.0	2.0	3.1	2.1	2.0	2.0	2.0	2.0
Durable Goods	5.8	5.3	3.7	4.0	3.6	3.5	7.9	2.7	3.9	3.8	3.5	3.5
Non-Res. Fixed Investment	-0.5	5.0	4.1	3.7	2.9	2.5	-0.1	6.1	4.3	3.2	2.7	2.4
Non-Res. Structures	-2.9	10.6	3.9	3.2	2.6	2.2	1.9	11.5	3.5	2.9	2.5	2.1
Equipment & IPP*	0.1	3.4	4.2	3.9	3.0	2.6	-0.6	4.6	4.5	3.3	2.8	2.5
Residential Investment	4.9	5.1	3.9	3.9	4.1	3.6	1.1	5.7	4.0	4.2	4.1	3.1
Gov't. Expenditures	0.8	0.0	0.6	1.1	1.1	1.2	0.2	0.2	0.7	1.1	1.2	1.2
Final Domestic Demand	2.1	2.4	2.2	2.2	2.0	2.0	2.1	2.4	2.2	2.1	2.0	1.9
Exports	0.4	2.3	4.7	5.5	5.4	4.9	1.5	3.2	5.5	5.4	5.3	4.7
Imports	1.1	4.4	6.0	6.2	5.6	4.7	2.6	4.4	6.2	6.1	5.3	4.3
Change in Non-Farm Inventories	22.0	33.4	55.0	57.6	53.9	50.9	---	---	---	---	---	---
Final Sales	2.0	2.1	2.0	1.9	1.9	1.9	2.0	2.2	2.0	1.9	1.9	1.9
International Current Account Balance (\$Bn)	-481	-539	-698	-802	-861	-854	---	---	---	---	---	---
% of GDP	-2.6	-2.8	-3.5	-3.8	-3.9	-3.7	---	---	---	---	---	---
Pre-tax Corp. Profits including IVA&CCA	-0.1	2.5	3.6	3.6	4.4	4.7	9.3	0.9	3.4	3.7	4.6	4.7
% of GDP	11.2	11.1	11.0	10.9	11.0	11.0	---	---	---	---	---	---
GDP Deflator	1.3	1.7	2.0	2.3	2.3	2.3	1.6	1.6	2.2	2.3	2.3	2.3
Nominal GDP	3.0	4.0	4.1	4.3	4.2	4.3	3.5	3.9	4.2	4.2	4.3	4.3
Labour Force	1.3	0.7	0.8	0.8	0.8	0.6	1.3	0.8	0.8	0.8	0.7	0.6
Employment	1.8	1.5	1.1	0.8	0.6	0.6	1.6	1.3	1.0	0.7	0.6	0.5
Employment ('000s)	2,492	2,100	1,622	1,123	938	837	2,332	1,938	1,401	1,007	909	799
Unemployment Rate (%)	4.9	4.4	4.2	4.2	4.3	4.5	---	---	---	---	---	---
Personal Disp. Income	3.7	3.7	4.1	4.3	4.2	4.3	3.4	4.1	4.3	4.3	4.3	4.3
Pers. Savings Rate (%)	5.7	5.3	5.2	5.4	5.4	5.6	---	---	---	---	---	---
Cons. Price Index (CPI)	1.3	2.1	2.2	2.3	2.3	2.3	1.8	1.9	2.3	2.3	2.3	2.3
Core CPI	2.2	1.9	2.2	2.3	2.3	2.3	2.2	1.9	2.3	2.3	2.3	2.3
Core PCE price index	1.7	1.6	1.8	2.0	2.0	2.0	1.7	1.6	2.0	2.0	2.0	2.0
Housing Starts (mns)	1.18	1.25	1.34	1.43	1.51	1.56	---	---	---	---	---	---
Real output per hour**	0.2	1.2	1.4	1.5	1.6	1.7	1.1	1.0	1.4	1.5	1.5	1.5

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

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					
	16	17F	18F	19F	20F	21F	16	17F	18F	19F	20F	21F
Real GDP	1.5	2.8	1.9	1.6	1.6	1.6	2.0	2.7	1.6	1.6	1.6	1.7
Consumer Expenditure	2.4	3.1	1.7	1.3	1.4	1.4	2.7	2.8	1.4	1.4	1.4	1.5
Durable Goods	4.1	5.3	1.5	1.3	1.6	1.7	3.2	4.4	1.1	1.5	1.6	1.7
Non-Res. Fixed Investment	-8.0	-0.6	3.1	3.2	2.5	2.5	-7.4	4.3	3.6	2.9	2.4	2.5
Non-Res. Structures	-10.8	-3.6	2.8	2.9	2.4	2.6	-8.9	1.8	3.2	2.5	2.5	2.6
Equipment & IPP*	-4.9	2.6	3.4	3.6	2.6	2.4	-5.9	6.8	3.9	3.2	2.4	2.4
Residential Investment	3.0	4.9	-1.0	-0.8	0.1	0.4	2.9	4.5	-1.8	-0.2	0.2	0.5
Gov't. Expenditures	1.8	1.6	2.0	1.6	1.5	1.5	2.2	1.9	1.8	1.6	1.5	1.5
Final Domestic Demand	1.3	2.4	1.7	1.4	1.5	1.5	1.7	2.9	1.4	1.5	1.4	1.5
Exports	1.0	1.7	3.4	3.0	2.9	2.8	0.8	2.8	3.1	3.0	2.8	2.8
Imports	-0.9	2.4	2.9	2.7	2.6	2.5	-0.8	5.3	2.8	2.7	2.5	2.5
Change in Non-Farm Inventories (\$2007 Bn)	-0.5	9.2	8.6	10.0	10.8	11.4	---	---	---	---	---	---
Final Sales	1.7	2.3	1.9	1.5	1.6	1.6	1.9	2.2	1.6	1.6	1.6	1.6
International Current Account Balance (\$Bn)	-67.0	-52.4	-47.5	-35.3	-28.8	-26.7	---	---	---	---	---	---
% of GDP	-3.3	-2.4	-2.1	-1.5	-1.2	-1.1	---	---	---	---	---	---
Pre-tax Corp. Profits	-4.5	28.5	7.8	5.6	5.5	5.5	14.6	18.1	6.7	5.5	5.5	5.5
% of GDP	10.8	13.1	13.6	13.8	14.1	14.3	---	---	---	---	---	---
GDP Deflator	0.6	2.9	1.9	2.0	2.0	2.0	2.0	2.3	2.0	2.0	2.0	2.0
Nominal GDP	2.1	5.8	3.8	3.6	3.6	3.6	4.0	5.1	3.7	3.6	3.6	3.7
Labour Force	0.8	1.1	0.6	0.5	0.5	0.5	0.9	0.8	0.6	0.5	0.5	0.5
Employment	0.7	1.5	0.7	0.6	0.6	0.6	1.1	1.2	0.6	0.5	0.6	0.6
Employment ('000s)	134	278	130	103	108	112	197	225	111	102	112	112
Unemployment Rate (%)	7.0	6.5	6.5	6.5	6.4	6.3	---	---	---	---	---	---
Personal Disp. Income	3.7	3.7	3.2	2.9	2.8	2.8	3.6	3.0	3.1	2.9	2.8	2.8
Pers. Savings Rate (%)	5.1	4.4	4.9	4.9	4.8	4.7	---	---	---	---	---	---
Cons. Price Index (CPI)	1.4	1.8	2.0	2.1	2.0	2.0	1.4	1.8	2.2	2.1	2.0	2.0
CPIX**	1.9	1.7	2.1	2.1	2.0	2.0	1.5	1.9	2.2	2.0	2.0	2.0
BoC Inflation**	1.8	1.6	1.9	2.0	2.0	2.0	1.7	1.8	2.0	2.0	2.0	2.0
Housing Starts ('000s)	198	205	193	190	194	197	---	---	---	---	---	---
Productivity:												
Real GDP per worker	0.7	1.3	1.2	1.1	1.0	1.0	0.9	1.5	1.0	1.1	1.0	1.1

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

INTEREST RATE OUTLOOK												
	Annual Average						End of Period					
	16	17F	18F	19F	20F	21F	16	17F	18F	19F	20F	21F
U.S. FIXED INCOME												
Fed Funds Target Rate (%)*	0.55	1.25	1.90	2.50	2.75	2.75	0.75	1.50	2.25	2.75	2.75	2.75
3-mth T-Bill Rate (%)	0.30	1.10	1.80	2.40	2.65	2.65	0.51	1.40	2.15	2.65	2.65	2.65
2-yr Govt. Bond Yield (%)	0.80	1.60	2.35	2.75	2.85	2.85	1.20	1.95	2.55	2.85	2.85	2.85
5-yr Govt. Bond Yield (%)	1.30	2.05	2.85	3.15	3.15	3.15	1.93	2.35	3.05	3.15	3.15	3.15
10-yr Govt. Bond Yield (%)	1.85	2.45	3.10	3.40	3.45	3.45	2.45	2.70	3.25	3.45	3.45	3.45
10-yr-2-yr Govt. Spread (%)	1.05	0.85	0.75	0.65	0.60	0.60	1.25	0.75	0.70	0.60	0.60	0.60
CANADIAN FIXED INCOME												
Overnight Target Rate (%)	0.50	0.55	1.00	1.50	2.00	2.45	0.50	0.75	1.25	1.75	2.25	2.50
3-mth T-Bill Rate (%)	0.50	0.60	1.05	1.55	2.05	2.45	0.46	0.75	1.25	1.75	2.25	2.50
2-yr Govt. Bond Yield (%)	0.60	1.00	1.60	2.10	2.50	2.65	0.74	1.20	1.80	2.30	2.60	2.65
5-yr Govt. Bond Yield (%)	0.75	1.30	2.10	2.55	2.85	2.95	1.11	1.60	2.30	2.65	2.95	2.95
10-yr Govt. Bond Yield (%)	1.25	1.80	2.50	2.90	3.20	3.25	1.72	2.05	2.65	3.05	3.25	3.25
10-yr-2-yr Govt. Spread (%)	0.65	0.80	0.90	0.80	0.70	0.60	0.98	0.85	0.85	0.75	0.65	0.60
*Upper bound of target range. F: Forecast by TD Economics, June 2017												
Annual averages are the average of the four quarterly end-of-period forecasts.												
Source: Statistics Canada, Bank of Canada, Bloomberg												

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