
LONG-TERM ECONOMIC FORECAST



TD Economics

September 26, 2016

UNITED STATES

- The American economy is expected to grow by 1.5% in 2016, before improving to 2.1% in 2017 and 2.0% in 2018. Ongoing economic growth reflects firm domestic fundamentals – robust job growth, rising wages, and low energy prices. This is set against a weak global backdrop and high U.S. dollar that will keep pressure on exports and business investment.
- The unemployment rate is expected to hit a trough of 4.5% in 2019. By this point, we expect the economy to be operating at full employment. Real GDP growth is expected to moderate to an average of 1.9% in the 2019 through 2020 time frame, consistent with its trend growth rate.
- 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 2.6% in 2017, due in part to rebounding energy prices. The Federal Reserve's target of 2.0% inflation in the core personal consumption expenditure (PCE) price index, which runs 0.3-0.5 percentage points below CPI, will likely be reached by 2018.
- The Federal Reserve is expected to continue to gradually normalize monetary policy. We expect the Fed to raise rates just once per year in 2016, 2017, and 2018. Rate hikes will remain gradual thereafter, bringing the fed funds rate from its current target range of 0.25%-0.50% to 1.75%-2.00% by the end of 2020.

CANADA

- The Canadian economy is expected to grow by only 1.1% in 2016. Weak underlying economic momentum this year has been made worse by the Alberta wildfires. The rebuilding effort and increased government infrastructure spending are likely to spur growth to 1.8% in 2017.
- Economic growth is anticipated to moderate thereafter, converging to its long-term cruising speed of 1.4% by 2020. The slower rate of potential growth relative to history is due in large part to population aging, which will limit growth in the work force to around 0.3% per year. Given this demographic reality, achieving faster economic growth will require raising productivity. Our forecast assumes that labour productivity growth remains in line with historical norms of around 1.2% per year.
- The adjustment to lower energy prices will be a factor for the outlook even beyond the near-term horizon. 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.
- Slower trend economic growth will also restrain the level of interest rates. With excess capacity expected to be absorbed slowly over the next several years, the Bank of Canada is likely to leave rates at their current 0.50% level until early 2019. Even as rates move higher, they are likely to rise to just 1.25% by the end of the forecast horizon in 2020.



U.S. ECONOMIC OUTLOOK												
<i>Period-Over-Period Annualized Per Cent Change Unless Otherwise Indicated</i>												
	Annual Average						Fourth Quarter / Fourth Quarter					
	15	16F	17F	18F	19F	20F	15	16F	17F	18F	19F	20F
Real GDP	2.6	1.5	2.1	2.0	1.9	1.8	1.9	1.7	2.1	1.9	1.9	1.8
Consumer Expenditure	3.2	2.7	2.5	2.1	1.9	1.9	2.6	2.8	2.2	2.0	1.9	1.9
Durable Goods	6.9	4.9	4.8	4.1	3.7	3.5	5.5	5.3	4.1	3.9	3.6	3.5
Non-Res. Fixed Investment	2.1	-0.7	2.2	3.6	3.5	3.1	0.8	-0.1	3.1	3.5	3.4	2.9
Non-Res. Structures	-4.4	-4.5	1.8	3.9	4.1	3.6	-8.8	-0.6	3.1	4.0	4.0	3.3
Equipment & IPP*	4.1	0.5	2.4	3.5	3.3	2.9	3.8	0.1	3.0	3.4	3.2	2.8
Residential Investment	11.7	4.3	3.6	4.8	3.8	3.6	13.1	-0.6	6.2	4.2	3.6	3.7
Gov't. Expenditures	1.8	0.9	0.9	1.0	1.0	1.0	2.2	0.5	1.0	1.1	1.0	1.0
Final Domestic Demand	3.1	2.0	2.2	2.2	2.0	2.0	2.6	1.9	2.3	2.1	2.0	1.9
Exports	0.1	-0.5	2.7	5.4	4.7	3.7	-2.2	0.3	4.5	5.4	4.2	3.4
Imports	4.6	0.8	4.5	6.4	5.0	4.3	2.5	1.2	6.2	5.9	4.6	4.0
Change in Non-Farm Inventories	84.0	16.4	40.2	48.7	47.2	45.0	---	---	---	---	---	---
Final Sales	2.4	1.9	1.9	1.9	1.9	1.8	2.0	1.8	2.0	1.9	1.9	1.8
International Current Account Balance (\$Bn)	-466	-483	-507	-512	-514	-522	---	---	---	---	---	---
% of GDP	-2.6	-2.6	-2.6	-2.5	-2.4	-2.4	---	---	---	---	---	---
Pre-tax Corp. Profits including IVA&CCA	-3.0	-3.1	2.5	3.8	4.2	4.6	-11.2	3.1	3.6	3.8	4.5	4.7
% of GDP	11.6	10.9	10.7	10.6	10.6	10.7	---	---	---	---	---	---
GDP Deflator	1.1	1.3	2.2	2.5	2.5	2.5	1.1	1.5	2.5	2.5	2.5	2.4
Nominal GDP	3.7	2.8	4.3	4.5	4.4	4.3	3.0	3.1	4.6	4.4	4.4	4.3
Labour Force	0.8	1.3	1.0	1.0	0.9	0.8	0.7	1.5	1.0	0.9	0.8	0.8
Employment	2.1	1.7	1.2	1.1	1.1	0.9	2.0	1.4	1.2	1.1	1.0	0.9
Employment ('000s)	2,894	2,361	1,767	1,637	1,563	1,371	2,775	1,971	1,748	1,608	1,513	1,274
Unemployment Rate (%)	5.3	4.9	4.7	4.6	4.5	4.5	---	---	---	---	---	---
Personal Disp. Income	3.8	3.7	4.2	4.5	4.5	4.4	3.5	3.6	4.5	4.4	4.4	4.3
Pers. Savings Rate (%)	5.8	5.7	5.5	5.8	6.2	6.5	---	---	---	---	---	---
Cons. Price Index (CPI)	0.1	1.3	2.6	2.4	2.3	2.3	0.4	1.7	2.6	2.3	2.3	2.3
Core CPI	1.8	2.3	2.2	2.3	2.4	2.3	2.0	2.3	2.3	2.3	2.3	2.4
Core PCE price index	1.4	1.7	1.8	2.0	2.0	2.0	1.4	1.8	1.9	2.0	2.0	2.0
Housing Starts (mns)	1.11	1.17	1.27	1.39	1.48	1.55	---	---	---	---	---	---
Real output per hour**	0.9	-0.2	0.9	1.1	1.1	1.1	0.4	0.2	1.1	1.0	1.0	1.1

*Intellectual proprty products. **Non-farm business sector. F: Forecast by TD Economics, September, 2016

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					
	15	16F	17F	18F	19F	20F	15	16F	17F	18F	19F	20F
Real GDP	1.1	1.1	1.8	1.7	1.5	1.4	0.3	1.5	1.8	1.6	1.5	1.4
Consumer Expenditure	1.9	2.2	1.9	1.7	1.3	1.2	1.6	2.2	1.9	1.5	1.3	1.1
Durable Goods	2.9	3.4	1.7	1.7	1.4	1.3	2.8	1.6	1.9	1.5	1.4	1.3
Non-Res. Fixed Investment	-10.6	-7.2	1.3	3.1	2.6	2.0	-15.8	-2.1	2.0	3.5	2.6	2.2
Non-Res. Structures	-14.7	-9.8	0.9	2.4	2.3	2.1	-19.5	-4.1	1.6	2.6	2.3	2.3
Equipment & IPP*	-5.1	-3.0	1.6	3.7	3.0	1.8	-10.1	0.4	2.1	4.3	3.0	1.9
Residential Investment	3.8	4.2	0.5	-1.6	0.1	0.9	2.8	4.5	-1.5	-0.7	0.1	1.0
Gov't. Expenditures	1.8	1.7	2.2	1.8	1.5	1.5	1.6	2.4	2.2	1.5	1.5	1.5
Final Domestic Demand	0.3	1.4	1.8	1.6	1.4	1.3	-0.6	2.2	1.7	1.6	1.4	1.3
Exports	3.4	0.2	2.4	3.2	3.0	2.9	2.3	-0.6	3.6	3.0	3.0	2.9
Imports	0.3	-0.9	2.9	3.0	2.8	2.6	-2.7	1.8	3.2	2.8	2.8	2.5
Change in Non-Farm Inventories (\$2007 Bn)	5.7	-2.5	0.2	0.5	0.6	0.6	---	---	---	---	---	---
Final Sales	1.5	1.6	1.6	1.7	1.5	1.4	1.2	1.1	1.8	1.6	1.5	1.4
International Current Account Balance (\$Bn)	-59.5	-78.2	-63.3	-58.5	-49.2	-45.2	---	---	---	---	---	---
% of GDP	-3.0	-3.9	-3.0	-2.7	-2.2	-2.0	---	---	---	---	---	---
Pre-tax Corp. Profits	-15.8	-11.2	5.9	7.1	5.4	5.5	-19.6	-7.4	10.0	5.8	5.4	5.5
% of GDP	11.6	10.1	10.4	10.7	10.9	11.2	---	---	---	---	---	---
GDP Deflator	-0.5	0.3	1.5	1.9	1.9	2.1	-0.4	0.7	1.7	2.0	1.9	2.0
Nominal GDP	0.5	1.4	3.3	3.6	3.4	3.5	0.0	2.1	3.5	3.6	3.4	3.5
Labour Force	0.8	0.7	0.4	0.4	0.3	0.2	1.2	0.3	0.5	0.3	0.3	0.2
Employment	0.9	0.6	0.5	0.5	0.5	0.4	0.8	0.4	0.6	0.5	0.4	0.5
Employment ('000s)	152	101	96	96	84	74	141	71	104	94	78	0
Unemployment Rate (%)	6.9	7.0	6.9	6.8	6.6	6.5	---	---	---	---	---	---
Personal Disp. Income	3.7	3.4	3.1	3.0	2.9	2.9	2.9	3.7	2.9	2.9	2.9	2.9
Pers. Savings Rate (%)	4.6	4.1	4.0	4.0	4.0	4.0	---	---	---	---	---	---
Cons. Price Index (CPI)	1.1	1.7	2.2	2.0	2.0	2.0	1.3	2.2	1.9	2.0	2.0	2.0
Core CPI	2.2	2.0	1.9	2.0	2.0	2.0	2.1	2.0	1.9	2.0	2.0	2.0
Housing Starts ('000s)	194	194	180	174	171	175	---	---	---	---	---	---
Productivity:												
Real GDP per worker	0.2	0.6	1.3	1.1	1.0	1.0	-0.5	1.1	1.2	1.1	1.0	1.0

*Intellectual Property Products. F: Forecast by TD Economics, September 2016

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

INTEREST RATE OUTLOOK												
	Annual Average						End of Period					
	15	16F	17F	18F	19F	20F	15	16F	17F	18F	19F	20F
U.S. FIXED INCOME												
Fed Funds Target Rate (%)*	0.31	0.55	0.90	1.20	1.55	1.90	0.50	0.75	1.00	1.25	1.75	2.00
3-mth T-Bill Rate (%)	0.05	0.40	0.80	1.10	1.50	1.80	0.16	0.65	0.90	1.20	1.65	1.90
2-yr Govt. Bond Yield (%)	0.73	0.75	1.05	1.35	1.70	2.00	1.06	0.85	1.15	1.45	1.85	2.10
5-yr Govt. Bond Yield (%)	1.53	1.15	1.40	1.70	1.90	2.10	1.76	1.25	1.50	1.75	1.95	2.15
10-yr Govt. Bond Yield (%)	2.16	1.65	1.85	2.05	2.25	2.35	2.27	1.70	1.90	2.10	2.30	2.38
10-yr-2-yr Govt. Spread (%)	1.43	0.90	0.80	0.70	0.55	0.35	1.21	0.85	0.75	0.65	0.45	0.28
CANADIAN FIXED INCOME												
Overnight Target Rate (%)	0.63	0.50	0.50	0.50	0.80	1.15	0.50	0.50	0.50	0.50	1.00	1.25
3-mth T-Bill Rate (%)	0.52	0.50	0.50	0.55	0.85	1.20	0.51	0.50	0.50	0.60	1.00	1.30
2-yr Govt. Bond Yield (%)	0.50	0.55	0.60	0.80	1.10	1.50	0.48	0.60	0.65	0.85	1.25	1.65
5-yr Govt. Bond Yield (%)	0.78	0.65	0.85	1.20	1.50	1.75	0.73	0.70	0.95	1.30	1.55	1.80
10-yr Govt. Bond Yield (%)	1.47	1.10	1.30	1.60	1.95	2.10	1.39	1.15	1.40	1.75	2.00	2.12
10-yr-2-yr Govt. Spread (%)	0.97	0.55	0.70	0.80	0.85	0.60	0.91	0.55	0.75	0.90	0.75	0.47
*Upper bound of target range. F: Forecast by TD Economics, September 2016												
Source: Statistics Canada, Bank of Canada, Bloomberg												

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