QUARTERLY ECONOMIC FORECAST

TD Economics

December 17, 2015

CANADA'S TWO SPEED ECONOMY TO GET AN AMERICAN-LED BOOST

International Highlights

- 2015 was the slowest pace of economic growth since the financial crisis. Despite continued progress in key advanced economies, emerging markets contended with plummeting commodity prices, capital outflows, and a continued slowdown in China.
- Many of these forces should ebb next year, but still leave a challenging environment for some emerging economies. Further strengthening in advanced economies is expected to lift global growth to 3.3% in 2016 and 3.5% in 2017.
- Buffeted by rapid changes in the price of oil and the dollar, the American economy also had a bumpy 2015. Adjustments made this year set the stage for faster growth in 2016. As the drag from falling oil investment fades, the benefit to domestic spending will dominate.
- The Federal Reserve's decision to raise interest rates reflects the strength of the labour market and anticipation that inflation will move higher. Future rate increases will be gradual, with the fed funds rising to just 1.25% by the end of 2016 and to 1.75% by the end of 2017.

Canadian Highlights

- The celebration of the long-anticipated rebound in GDP growth in the third quarter will be short-lived. Canada's economy is expected to end 2015 on a soft note, with real GDP estimated to expand by less than 1% in the fourth quarter.
- Beneath the quarterly noise is a distinct two-speed economy. Growth prospects for domestic spending are increasingly challenged by low oil prices and high household debt levels, while export prospects continue to brighten, reflecting strengthening demand stateside.
- The net impact of these competing forces is a modest growth outlook for Canada. Specifically, 2016 growth is expected to be a tepid 1.7%, 0.3 percentage points below our September outlook.
- Policy divergence remains a key theme of the financial outlook. The Bank of Canada is likely to remain on the sidelines until late 2017 as it navigates the cross-currents of export-led growth, a mature consumer and housing cycle, and higher borrowing costs via U.S. financial linkages.

TABLE OF CONTENTS

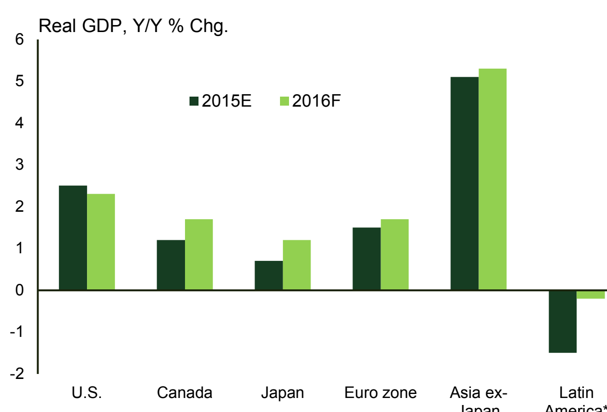
Chapters

Global Outlook....................2
U.S. Outlook....................4
Canadian Outlook....................6

Forecast Tables

Interest Rate Outlook....................9
Exchange Rate Outlook....................9
Commodity Price Outlook....................9
Canadian Economic Outlook....................10
U.S. Economic Outlook....................11
Global Economic Outlook....................12
Economic Indicators: G-7 & Europe....................12

CHART 1. WORLD ECONOMY TO GAIN A STEP



Source: TD Economics. Forecast as at December 2015. *Excludes Mexico.

Beata Caranci, VP & Chief Economist 416-982-8067
Derek Burleton, VP & Deputy Chief Economist, 416-982-2514
James Marple, Director & Senior Economist, 416-982-2557
Leslie Preston, Senior Economist, 416-983-7053
Brian DePratto, Economist, 416-944-5069

@TD_Economics

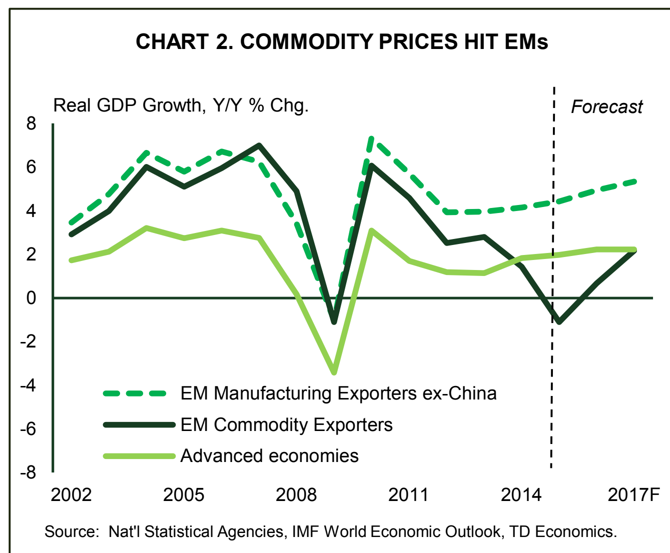
GLOBAL OUTLOOK - SLOWER FOR LONGER

With 2015 almost behind us, it's safe to say that the global economy had a rough year. Growth in real GDP is currently tracking around 3% for 2015, its weakest performance since the financial crisis. That reflects the challenging environment for emerging market (EM) economies. The fortunes of 2016 should become slightly more favorable, as growth among energy-importing economies strengthens, and the economic drag within commodity producers lessens. Overall global growth is forecast to pick up a notch to 3.3% in 2016 and 3.5% in 2017. Even so, this pace remains a far cry from headier pre-recession days.

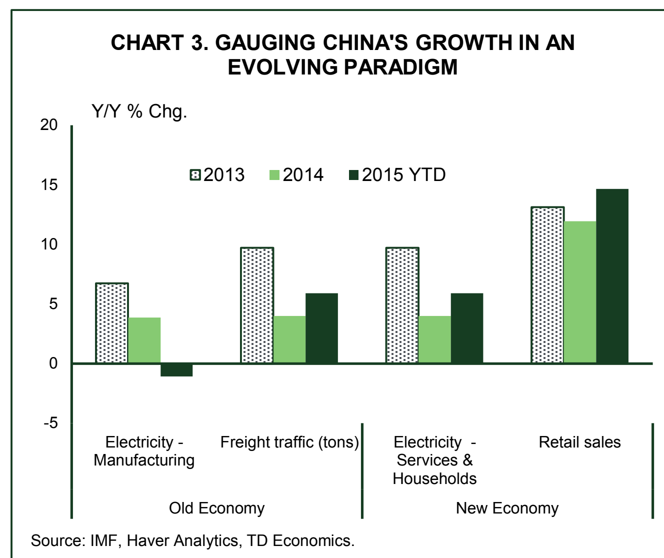
EMs sideswiped in 2015

Emerging markets were sideswiped by three inter-related shocks in 2015: a collapse in commodity prices, which hurt those reliant on commodity exports, slower growth in China, which especially crimped its Asian trading partners, and rising capital outflows, which led to sizeable depreciations in many EM currencies. The downdraft created by these colliding influences will lessen in 2016, but the economic landscape for EMs will remain a challenging one (Chart 2). Commodity prices are expected to show only modest gains towards the second half of 2016, and China's slower growth trajectory will remain in place. After the 2008 Great Recession, it took EM commodity-exporters one year to surpass their prior peak in real GDP. This time around, we expect it to take two years.

All eyes have been on China in recent months as it went from being a financial market ugly duckling, to becoming an IMF swan. Markets balked when China unexpectedly revalued its currency, and intervened in the stock market to stem a disorderly decline. By late-fall, calmer heads prevailed,



Source: Nat'l Statistical Agencies, IMF World Economic Outlook, TD Economics.



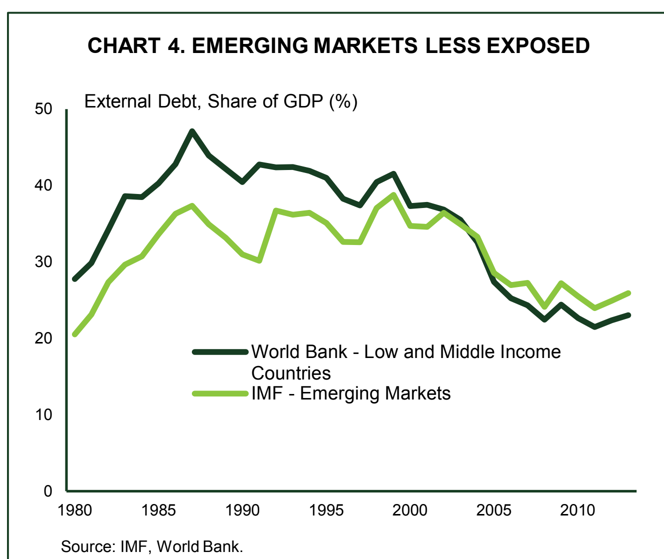
Source: IMF, Haver Analytics, TD Economics.

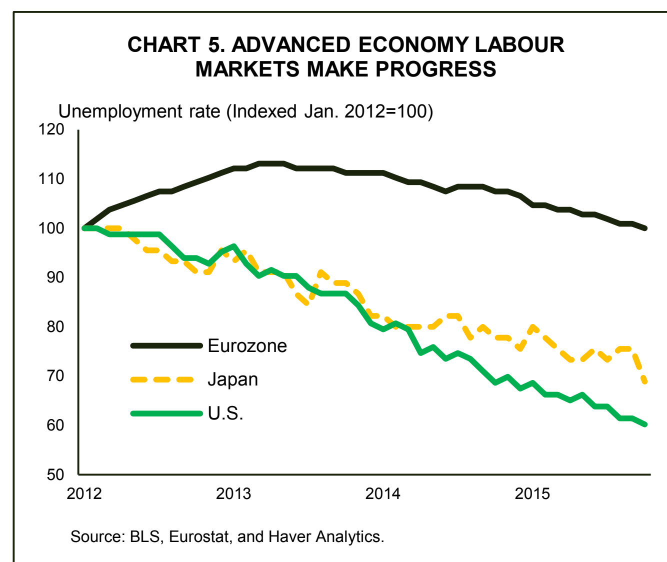
reinforced by the IMF who admitted the Chinese yuan as the fifth world reserve currency within their basket in December. This was a crucial step to help legitimize the yuan on the global stage, and also encourage ongoing financial reform. But, beyond that, the move should have a limited near-term influence. The IMF reserve currency basket encompasses just 2.5% of global reserves, and China needs to make significant inroads in creating depth and liquidity within its financial markets to gain broader acceptance.

Adding to the challenge, China is on a slower economic growth trajectory with many structural changes afoot that don't exactly exude the confidence needed for reserve managers to shift their holdings to the yuan. Policy missteps – like the August yuan revaluation – will inevitably occur and China has occasionally backpedaled on reforms when growth appears to slow too far. The big question for Chinese authorities is how they will trade off near-term growth, against longer term sustainability.

On this, China's latest Five Year Plan implies an average target for economic growth of 6.5% through to 2020. That is a step down from the 7-8% pace over the past four years. Markets are concerned about a sharper deceleration, with the focus of attention on weakness in the manufacturing sector. But, while the "old world" economy slows, activity within the new world has quietly forged ahead (Chart 3). Service sector activity is almost 50% of overall output, up from 40% just eight years ago. The Chinese government has also drawn a line on what is a tolerable for economic growth, injecting fiscal stimulus to shore up momentum when it underperforms expectations. We expect efforts to continue on this front.

However, a slowing China will continue to weigh on other emerging market economies, particularly those with





significant trade linkages, like Taiwan, Malaysia, South Korea, Singapore and Thailand. Further, high private-sector debt is a cause for concern and will act as a headwind to growth across EMs. But, the drag is likely to be smaller than it has been in the past. On average, the share of external debt is lower than it has been historically (particularly at the time of the Asian financial crisis) and the share of foreign-currency denominated corporate debt has declined (Chart 4). EM foreign exchange reserves are also much higher than they have been historically, providing a bigger buffer if foreign capital dries up.

Advanced economies continue to make progress

The tepid expansion among EMs is unlikely to stymie growth within advanced nations, where domestic spending has accelerated noticeably. U.S. domestic demand growth has been hovering at 3% for more than a year, reinforcing the notion that the economic drivers are mainly focused inward for America at this point in the cycle. The sizeable appreciation in the greenback is expected to continue to dampen exports, but the broader economic foundation is strong enough to support a modest degree of rate hikes.

The beleaguered euro zone did manage to outperform our growth expectations. Surprisingly perhaps, in a year that featured fears of a "Grexit." However, unlike the U.S., the European Central Bank (ECB) is still stepping on the stimulus-accelerator to lift domestic demand through a combination of quantitative easing and negative interest rates. Private sector lending has been responding and unemployment rates are falling through most of Europe (Chart 5). Both of these positive trends should help to underpin continued gains in domestic demand going forward. The euro area should benefit from a slight tick-up in growth to 1.7% in 2016, a testament that the region has come a long way from the dismal 2014 performance that was roughly half this pace. However, the outlook remains heavily dependent on a central bank that is unlikely to lift its foot off the monetary accelerator.

Past stimulus initiatives in Japan are also starting to bear fruit. After a 0.7% increase this year, Japan is forecast to grow at a faster 1.2% pace in 2016. That may sound slow, but it is fairly good for an economy whose working age population is falling by 1.5% each year. That reality makes Japan's recent solid employment growth more impressive, as it comes from rising labor force participation. As a large energy importer, Japan has also enjoyed a big boost to its purchasing power due to lower oil prices. All of these forces should help sustain the domestic economy in the face of softer EM demand, although a planned sales tax hike in 2017 is expected to crimp overall GDP growth in that year.

The bottom line

Advanced nations continue to make steady progress, but the balance of risks has shifted to EMs. They will continue be challenged by low commodity prices and weaker exchange rates. There is also the lingering risk that the Federal Reserve's tightening cycle may impart another round of pressure on EM capital flows, exacerbating volatility within their financial markets. However, under the view that many of the adjustments have already been made, the pay-off should be more stable growth in the years ahead. As advanced economy growth solidifies, and pain in EMs eases, global growth should accelerate modestly over the next two years.

U.S. OUTLOOK - RATE INCREASE = RESILIENCE

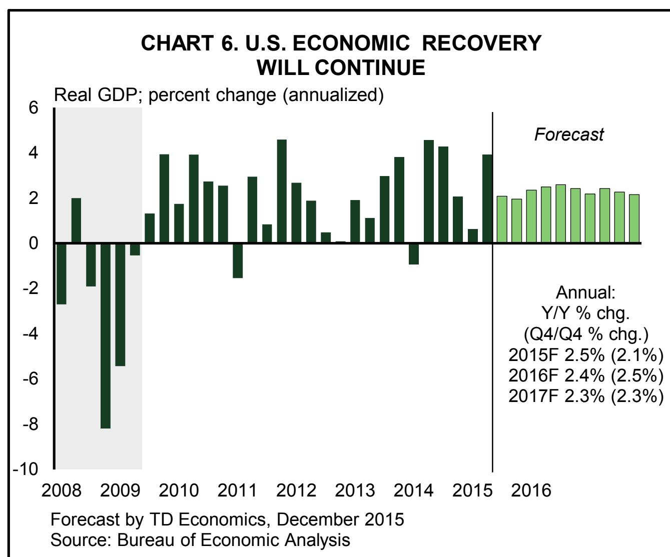
The American economy had a bumpy 2015. Growth started out moribund, before rebounding sharply in the second quarter. It has since moderated to around 2.0% over the second half of the year.

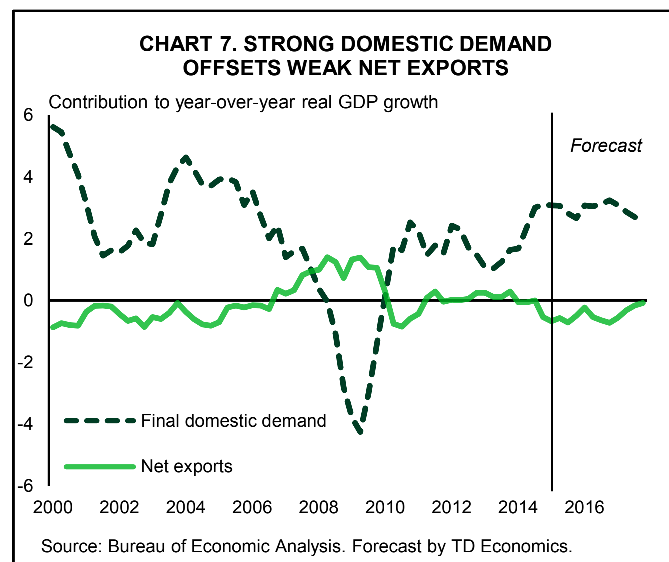
We have long ascertained that the economy would reflect the push-and-pull forces from weak external demand and strong domestic demand. This is exactly what is playing out. Fortunately, the external sector makes up a comparatively small portion of U.S. economic activity. GDP growth of 2% merely creates the illusion that the economic foundation is weaker than it truly is. Spending by households and businesses has grown by close to 3.0% for nearly six consecutive quarters. This vigour was last seen during the heydays of the 2004 to 2005 period.

In turn, payrolls have expanded by an average of 210k a month. This threshold is double the estimated jobs required to keep the unemployment rate steady. So, it's no surprise that there has been a steady reduction in the unemployment rate to 5.0% , below the historical average. Despite a benign inflation environment, evidence is building of stronger wage pressures, particularly in states with a greater share of high-skilled workers and where unemployment rates have pushed below historical norms.

The Federal Reserve had more than enough cause to finally move interest rates off zero. With the initial move now behind the central bank, the focus will be on the path ahead. The Fed has maintained that it will be cautious and we find little reason to doubt it.

On an annual average basis, the economy is expected to





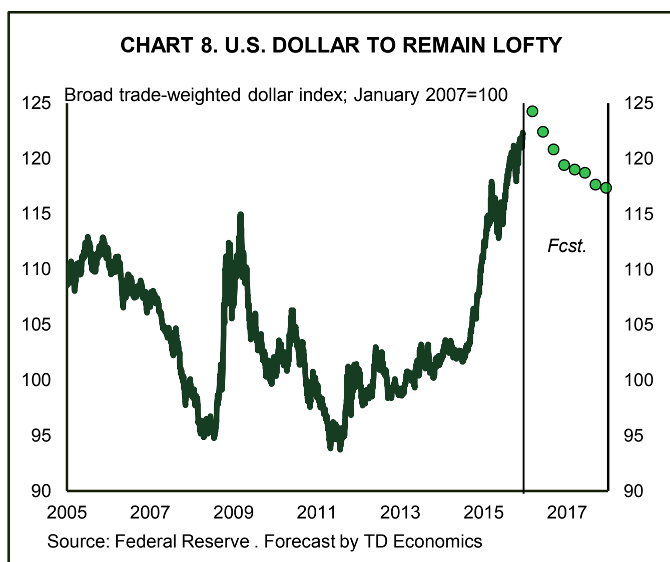
record growth of 2.4% in 2016 and 2.3% in 2017, a smidgen lower than 2.5% in 2015 (Chart 6). This is due to the odd pattern of growth through the year – 2015 benefited from a particularly strong handoff and 2016 inherits a weaker one. Like always, the devil is in the details. The most important aspect of the U.S. economy – domestic demand – will remain a frontrunner at a pace of just over 3% in 2016 (Chart 7). This will provide the Federal Reserve further opportunity to tweak its policy rate by 75 basis points by year-end to 1.25%.

Adjustments made in 2015 will make for faster 2016

The economy in 2015 was buffeted by rapid changes in the price of oil and the value of the dollar. The year started with oil prices down 50% and the (trade-weighted) dollar up 10%. The magnitude of these changes had a significant effect on investment and output through the year.

Unsurprisingly, the hardest hit sector was oil and gas, where investment declined by 40%. Despite its relatively small size (less than 1% of GDP), the sector cut 0.4 percentage points from economic growth over the course of the year.

The good news is that this negative impact will wane over 2016. The sector has shrunk to half its former size, so another decline of the same magnitude would carry less impact and allow for investment in other industries to shine through. Moreover, past cuts to investment in the oil sector will eventually stabilize prices, bringing some modest relief to the industry's balance sheets. We anticipate WTI will reach $55 by the end of 2016.



The dollar to stay lofty, but another leg up is unlikely

The rising dollar was the other headwind to growth over the past year. The greenback's ascent did not begin in 2015, but it continued at full steam. From the start of the year to December, it rose 9%, the same rate of increase as 2014.

This, combined with a slowdown in global economic growth, hit exporters. Foreign GDP growth in 2015 fell to its slowest pace since 2008 and, unsurprisingly, exports virtually stalled. Imports, on the other hand continued to advance, supported by the increased purchasing power of the dollar and the strength in domestic spending. Consequently, net exports shaved 0.6 percentage points from growth in 2015.

The highflying greenback will continue to bite into exports over the course of 2016. But, the potential for another leg-up looks limited given that financial markets have largely priced in policy divergence with the U.S. relative to its peers (Chart 8). In addition, the global differential in economic growth is likely to diminish. Emerging markets will continue to be challenged, but the process of adjustment, especially for commodity exporters, is already well on its way.

Inflation will edge higher

The result of falling energy prices and a rising dollar has been the disappearance of inflation. The next year is likely to see a partial unwinding of these influences. Falling energy prices cut 1.7 percentage points from inflation over the past year. Oil prices are unlikely to return to their former level, but a slow recovery will still add 0.8 percentage points to inflation over the next year. Likewise, the high dollar has cut about 0.4 percentage points from both core and headline inflation. This influence will partially reverse over the course of 2016. As a result, we expect CPI inflation to rise to 3.0% by the first quarter of 2017, before heading lower as these re-inflationary forces wane.

The final element to pull inflation higher is the tightening labour market. The unemployment rate is expected to fall below 5.0% – a level that is consistent with stable inflation. As it does, it will add to the pressure on wages, which are already displaying a broadening pattern of sturdiness across industries. Analysis at the regional level indicates that weakened wage growth within oil producing states has depressed the national level since mid-2014. However, a distinct upward trend is evident among the oil-consuming states, which represent the majority of the U.S. landscape.

Policy normalization journey beginning

The Fed's decision to raise its target interest rate by 25 basis points in December was a function of both the strength in the labour market and the anticipation that inflation will slowly move back to target. This is in line with our economic forecast. However, while rates have moved off the zero lower bound, this will not be a run-of-the-mill rate hike cycle. Rates are likely to rise by only 75 basis points (to 1.25%) by the end of 2016 and to 1.75% by the end of 2017. The average increase in past rate-hike cycles was roughly 200 basis points within the first year.

The go-slow approach reflects the need for the economy to grow above trend in order absorb the remaining slack in the labour market, as well as the disinflationary impulse from an improving, but still generally sluggish, global growth environment. It also reflects the fact that the terminal level for the policy rate is much lower than it has been historically. While the last rate hike cycle saw rates rise to 5.25%, this cycle is likely to end within a range of 3.00% to 3.25%. However, that level probably won't be attained until 2019.

The bottom line

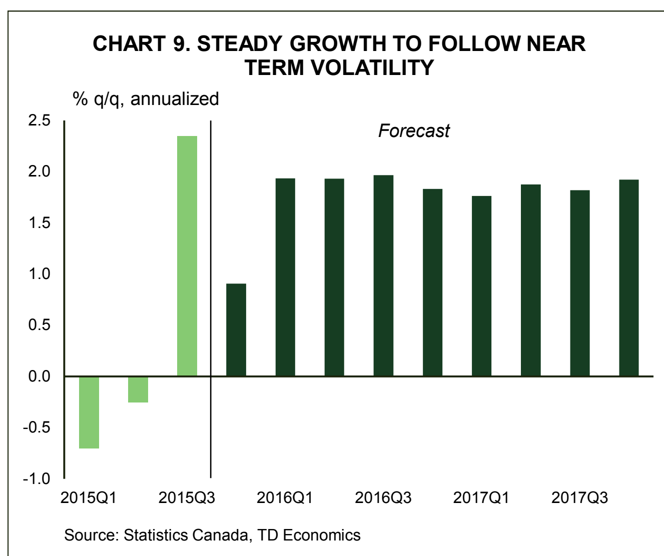
The broad theme of the forecast remains the resilience of domestic spending. This has allowed job growth to continue at a pace well above trend and withstand the drag on growth from reduced oil and gas investment, weak global growth, and a skyrocketing dollar. This is expected to continue over the next year. While net exports will remain a drag, the fundamentals for domestic spending appear even better than a year ago. Monetary policy will begin to normalize, but it will remain accommodative, facilitating the ongoing recovery.

CANADIAN OUTLOOK - A TWO SPEED ECONOMY

The recession that marked the start of 2015 is now in the rear view mirror, as economic activity came back to life in the third quarter. Despite a 2.3% rebound, the quarter ended on a decidedly disappointing note. Output contracted by 0.5% in September, sapping momentum heading into the end of the year. From a more holistic perspective, 2015 saw the emergence of a two-tiered Canadian economy. Household spending has been modest, while business investment dropped sharply on the back of weak commodity prices. Exports snapped back strongly, finally responding to the combination of a lower Canadian dollar and a relatively more favourable external environment. This external/domestic dichotomy is forecast to persist in 2016 and 2017. On an annual average basis, we still expect real GDP growth to pick up modestly compared to 2015's dismal 1.2% estimated turnout (Chart 9). Part of this improvement reflects our expectation that the recent dramatic adjustment of investment to low oil prices will gradually dissipate, with government infrastructure spending providing a modest additional boost.

External factors key to economic rebalancing and growth

Factors beyond Canada's borders remain central to the economic outlook. Low oil prices, diverging growth outlooks and expected interest rate differentials have all pushed the value of the Canadian dollar lower relative to its U.S. counterpart. The result has been improved competitiveness of Canadian goods, and a pick-up in export activity that is expected to persist through 2016, weakness in the more recent monthly data notwithstanding. A note of caution is warranted: although exports are expected to be a key driver of growth, the pace of their expansion is likely to be less than what the level of the loonie and U.S. demand might imply. There are two main reasons for this, as outlined in a recent report: first, other nations have also seen their currencies fall against the greenback, and so have similarly gained competitiveness in the U.S. market. Secondly, exports have become less responsive to the exchange rate, and more sensitive to foreign demand. These factors will serve to restrain export growth relative to past cycles.

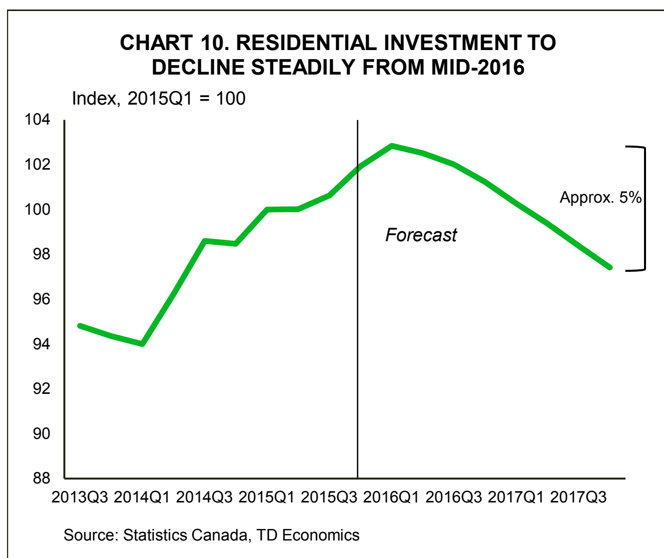


Low oil prices tend to benefit some sectors of the economy, such as exports, as foreign incomes (and hence demand) rise and the loonie falls. In contrast, low prices have a significant negative impact on business investment. The benchmark West Texas Intermediate (WTI) oil price has fallen markedly, and is expected to recovery only gradually to just $60 per barrel by the end of 2017. The continued weakness in WTI is expected to translate into further sharp reductions in oil-related capital spending, with total investment in non-residential structures unlikely to bottom-out until 2016Q2. The continuation of the low oil price environment also means that the investment recovery, when it does occur, is likely to be at a fairly gradual pace rather than the familiar "V-shaped" bounce back of past cycles.

Domestic outlook modest, leading to policy divergence

While the export and investment cycles play out, consumer spending is expected to continue to grow, expanding steadily by roughly 1.7% in the coming years. This is somewhat slower than historic norms would imply. With household debt levels at all-time highs, credit-fuelled consumption growth is expected to be a thing of the past, resulting in a more sustainable growth path for household expenditures. However, this more sustainable spending path means it will offer less of an offsetting influence as other cycles play out.

One related cycle is housing. Housing activity has been a significant source of growth in recent years, supported by low interest rates and correspondingly low household debt service ratios, despite strong home price growth. The impetus to growth provided by low interest rates will not persist going forward. The housing market has likely already witnessed the trough in rates, with pressure building to the upside as 2016 unfolds. There are strong linkages between U.S. and Canadian longer-term bond yields, even when the Bank of Canada's policy path diverges from that of the Federal Reserve. In other words, we expect a gradual rise in longer-term Canadian interest rates, as some of the upward pressure on U.S. yields spills across the border.



Rising rates, together with increased down payment requirements will result in existing home sales pulling back in 2016 and 2017, followed by a moderation in home price growth. Among the knock-on impacts will be a slowdown in household purchases of big-ticket items, notably furniture and appliances, as well as a reduced wealth effect on consumer spending. However, these influences feed through the economy with long lags and will leave a bigger mark in 2017 relative to 2016. In addition, residential investment activity is likely to start easing in the second quarter of next year and continuing through 2017. The level of residential investment activity is forecast to decline by about 5% in total (Chart 10). This is roughly a quarter the size of the 2008/2009 decline, reflecting more the notion of a pause in activity rather than a correction.

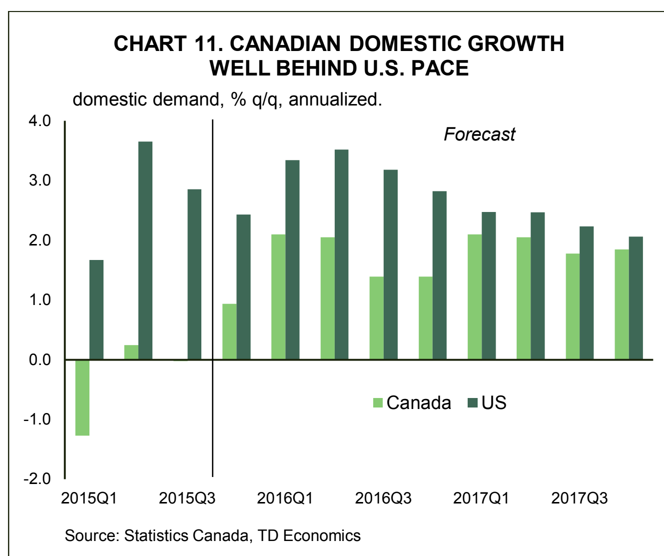
An offsetting tailwind within the construction sector is likely to emanate from the government sector. While the details have yet to be formalized, we have included a net infrastructure spending increase of $5 billion relative to the previous outlook, consistent with the federal Liberal election platform. This boosts growth in 2016 and 2017 by 0.1 and 0.3 percentage points, respectively. However, even with this additional boost, domestic demand growth will remain modest by historic standards, both when compared to Canada's history and to the U.S. pace – with Canada to trail over the entire forecast horizon (Chart 11).

This divergence in domestic demand patterns puts into context why the Bank of Canada is not expected to follow the Federal Reserve's in tightening policy. As a consequence of the modest outlook for growth, we have revised our outlook for the Bank of Canada. We now expect the policy rate to be kept on hold until 2017Q4, a quarter later than in our September forecast. Thereafter, only a gradual tightening path is anticipated (Chart 12). This represents a more significant divergence from U.S. policy, which will in turn place downward pressure on the Canadian dollar in the near-term, potentially reaching a low of 71 US cents in 2016Q1 before gradually recovering.

With the drivers of growth more focused on the performance of exports, the outlook for the provinces continues to favour British Columbia, Manitoba, Ontario, and Quebec (Table 1). In a marked departure from the past decade, Alberta and Saskatchewan will lag, with only slight growth expected over 2016/2017.

External factors the key driver, but also the key risk

The anticipated rotation of Canadian growth, and indeed much of the growth forecast, is reliant on how developments



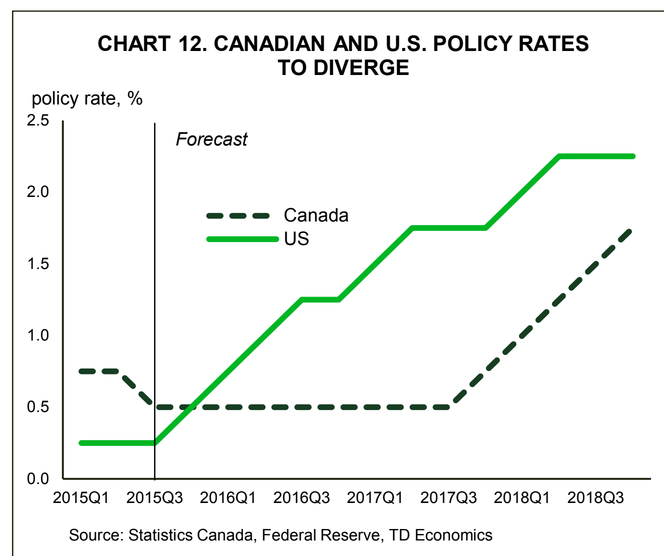


TABLE 1: REAL GROSS DOMESTIC PRODUCT

Annual average per cent change

	2014	2015E	2016F	2017F
CANADA	2.5	1.2	1.7	1.8
N. & L.	-2.0	-2.1	-0.9	0.3
P.E.I.	1.5	1.2	1.6	1.9
N.S.	0.6	1.3	1.5	1.7
N.B.	-0.3	0.9	1.1	1.2
Québec	1.5	1.5	1.7	1.8
Ontario	2.7	2.2	2.4	2.0
Manitoba	2.3	1.8	1.5	2.0
Sask.	1.9	-0.8	1.0	1.6
Alberta	4.8	-1.1	0.6	1.6
B.C.	3.2	2.2	2.5	2.0

E|F: Forecast by TD Economics as at December 2015.

Source: Statistics Canada / Haver Analytics

beyond our borders feed into the domestic economy. There are two key risk channels: foreign demand and the interest rate environment. Should export growth come in weak as a result of deficient foreign demand, overall economic growth would likewise disappoint what is already a low bar. Similarly, a more rapid increase in borrowing costs due to spillover from the U.S. would create an additional headwind to the housing market and consumer spending, both sectors that lack pent-up demand to power through. Our forecast is for somewhat weaker growth than anticipated by the Bank of Canada's October outlook. We do not view the difference in outlook as sufficient in size to warrant another cut in the policy rate. But, should the risks identified above materialize, a policy response would likely be warranted, particularly in the case of deficient foreign demand given the high dependence on export-driven growth to the overall picture.

The bottom line

The Canadian economy showed some renewed life in the third quarter, but the road ahead will be a challenging one. Our outlook calls for exports to take the lead as business investment slowly recovers and the housing market cools. Government spending is also expected to make a notable contribution to growth, particularly in 2017. Underpinning the outlook is consumption, which is expected to expand at a modest, but steady pace. The result is a steady increase in growth, from 1.2% this year, to 1.7% next year and 1.8% in 2017. The gradual uptake of economic slack is expected to keep the Bank of Canada on the sidelines until late 2017, a quarter later than previously expected. The pace of tightening, when it does occur, is also expected to be more gradual than our last forecast, reflecting a more fragile economy. By the end of 2018, the central bank's overnight is expected to reach a mere 1.75% (Chart 12).

INTEREST RATE OUTLOOK

	2015				2016				2017			
	Q1	Q2	Q3	Q4*	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
CANADA												
Overnight Target Rate	0.75	0.75	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75
3-mth T-Bill Rate	0.55	0.58	0.43	0.48	0.45	0.45	0.45	0.45	0.45	0.45	0.58	0.83
2-yr Govt. Bond Yield	0.51	0.49	0.53	0.56	0.60	0.60	0.70	0.75	0.80	0.95	1.20	1.45
5-yr Govt. Bond Yield	0.77	0.81	0.81	0.83	1.05	1.15	1.25	1.35	1.45	1.60	1.75	1.90
10-yr Govt. Bond Yield	1.36	1.68	1.45	1.51	1.75	1.85	1.95	2.05	2.10	2.20	2.30	2.50
30-yr Govt. Bond Yield	1.99	2.31	2.21	2.22	2.35	2.40	2.45	2.55	2.60	2.70	2.80	3.00
10-yr-2-yr Govt Spread	0.85	1.19	0.92	0.95	1.15	1.25	1.25	1.30	1.30	1.25	1.10	1.05
U.S.												
Fed Funds Target Rate	0.25	0.25	0.25	0.50	0.75	1.00	1.25	1.25	1.50	1.75	1.75	1.75
3-mth T-Bill Rate	0.03	0.01	0.00	0.25	0.50	0.75	1.00	1.00	1.25	1.50	1.50	1.50
2-yr Govt. Bond Yield	0.56	0.64	0.64	1.00	1.25	1.50	1.75	1.75	1.85	2.10	2.10	2.10
5-yr Govt. Bond Yield	1.37	1.63	1.37	1.74	2.00	2.10	2.25	2.25	2.35	2.45	2.45	2.60
10-yr Govt. Bond Yield	1.94	2.35	2.06	2.29	2.45	2.50	2.50	2.50	2.55	2.65	2.75	2.90
30-yr Govt. Bond Yield	2.54	3.11	2.87	3.00	3.15	3.20	3.20	3.20	3.20	3.25	3.30	3.35
10-yr-2-yr Govt Spread	1.38	1.71	1.42	1.29	1.20	1.00	0.75	0.75	0.70	0.55	0.65	0.80
CANADA - U.S SPREADS												
Can - U.S. T-Bill Spread	0.52	0.57	0.43	0.23	-0.05	-0.30	-0.55	-0.55	-0.80	-1.05	-0.92	-0.67
Can - U.S. 10-Year Bond Spread	-0.58	-0.67	-0.61	-0.78	-0.70	-0.65	-0.55	-0.45	-0.45	-0.45	-0.45	-0.40

*Spot rate on December 16, 2015. F: Forecast by TD Bank Group, December 2015; Forecasts are end-of-period;
Source: Bloomberg, Bank of Canada, Federal Reserve.

FOREIGN EXCHANGE OUTLOOK

Currency	Exchange rate	2015				2016				2017			
		Q1	Q2	Q3	Q4*	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Exchange rate to U.S. dollar													
Japanese yen	JPY per USD	120	122	120	122	123	123	120	116	118	120	122	122
Euro	USD per EUR	1.07	1.12	1.12	1.09	1.03	1.06	1.10	1.12	1.15	1.15	1.20	1.20
U.K. pound	USD per GBP	1.49	1.57	1.51	1.50	1.58	1.62	1.65	1.64	1.64	1.67	1.67	1.67
Exchange rate to Canadian dollar													
U.S. dollar	USD per CAD	0.79	0.80	0.75	0.73	0.71	0.73	0.74	0.75	0.76	0.77	0.78	0.78
Japanese yen	JPY per CAD	94.6	97.9	89.4	88.6	87.9	89.8	88.9	87.2	89.4	92.3	94.6	95.3
Euro	CAD per EUR	1.36	1.39	1.50	1.50	1.44	1.45	1.49	1.49	1.52	1.50	1.55	1.54
U.K. pound	CAD per GBP	1.88	1.96	2.03	2.07	2.21	2.22	2.23	2.18	2.17	2.17	2.15	2.14

*Spot rate on December 16, 2015. F: Forecast by TD Bank Group, December 2015. Forecasts are end-of-period.
Source: Federal Reserve, Bloomberg.

COMMODITY PRICE OUTLOOK

	2015				2016				2017			
	Q1	Q2	Q3	Q4E	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Crude Oil (WTI, $US/bbl)	49	59	46	44	40	44	50	55	57	57	60	60
Natural Gas ($US/MMBtu)	2.87	2.78	2.75	2.25	3.00	2.75	3.25	3.00	3.25	3.10	3.60	3.80
Gold ($US/troy oz.)	1218	1191	1125	1135	1100	1125	1175	1210	1200	1175	1125	1075
Silver (US$/troy oz.)	16.7	16.4	14.9	15.4	14.9	15.8	16.3	16.8	16.7	16.3	14.9	14.8
Copper (cents/lb)	264	275	236	238	265	265	265	265	265	265	265	265
Nickel (US$/lb)	6.51	5.94	4.85	5.00	5.50	6.25	6.50	6.50	7.25	7.25	8.00	8.00
Aluminum (Cents/lb)	82	79	73	73	72	74	74	78	78	80	84	84
Wheat ($US/bu)	7.45	7.34	6.50	6.25	6.50	6.75	6.90	7.00	7.10	7.25	7.35	7.50

F: Forecast by TD Bank Group, December 2015. E: Estimate. Forecasts are period averages. Source: Bloomberg, USDA (Haver).

CANADIAN ECONOMIC OUTLOOK

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

	2015				2016				2017				Annual Average			4th Qtr/4th Qtr		
	Q1	Q2	Q3	Q4F	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	15F	16F	17F	15F	16F	17F
Real GDP	-0.7	-0.3	2.3	0.9	1.9	1.9	2.0	1.8	1.9	1.8	1.9	2.0	1.2	1.7	1.8	0.6	1.9	1.8
Consumer Expenditure	0.4	2.3	1.8	0.7	1.3	1.7	1.7	1.7	1.9	1.8	1.9	1.8	1.9	1.5	1.8	1.3	1.6	1.9
Durable Goods	-4.7	6.4	9.7	1.1	1.4	1.6	1.7	1.6	1.7	1.7	1.8	2.0	3.7	2.7	1.7	3.0	1.6	1.7
Non-Res. Fixed Investment	-18.5	-11.2	-5.8	-5.0	-3.7	-0.2	0.9	1.1	3.9	3.9	3.8	2.4	-7.2	-3.2	2.6	-10.3	-0.5	3.7
Non-Res. Structures	-24.7	-9.3	-6.5	-5.8	-3.8	-1.0	0.5	0.6	0.8	0.6	0.6	2.4	-10.0	-3.6	0.6	-11.9	-0.9	0.7
Equipment & IPP*	-12.7	-13.7	-5.5	-4.8	-2.4	0.9	1.4	1.9	7.0	7.2	7.3	3.7	-1.8	-2.7	5.4	-7.3	0.2	7.9
Residential Investment	6.3	0.1	2.5	5.3	3.6	-1.2	-1.9	-3.0	-3.6	-3.9	-3.9	1.4	3.9	1.5	-3.2	3.5	-0.7	-3.8
Government Expenditures	3.9	1.5	-1.7	-0.2	0.6	1.0	1.7	1.9	2.3	2.4	2.4	1.6	1.3	0.5	2.0	0.8	0.5	1.4
Final Domestic Demand	-1.3	0.2	0.0	0.9	2.1	2.0	1.4	1.4	1.8	1.8	1.8	1.9	0.7	0.9	1.6	0.0	1.2	1.8
Exports	-1.0	1.9	9.4	1.6	4.6	4.4	3.6	3.5	3.5	3.7	3.4	2.8	3.3	4.2	3.6	2.9	4.0	3.6
Imports	0.4	-1.9	-2.9	0.6	2.1	2.4	2.1	2.4	3.2	3.4	3.0	2.6	0.6	1.0	2.9	-1.0	2.2	3.2
Change in Non-Farm Inventories ($2007 Bn)	15.7	9.2	3.9	3.7	3.9	4.0	4.1	4.3	3.4	3.1	2.8	2.9	8.1	4.1	3.3	---	---	---
Final Sales	-1.7	1.6	4.2	0.4	1.6	1.8	1.9	1.8	2.0	1.9	2.0	2.0	1.6	1.8	1.9	1.1	1.8	1.9
International Current Account Balance ($Bn)	-76.4	-62.9	-59.6	-57.8	-58.1	-51.0	-41.7	-23.9	-22.5	-21.6	-19.1	-20.0	-64.2	-43.7	-21.6	---	---	---
% of GDP	-3.9	-3.2	-3.0	-2.9	-2.9	-2.5	-2.0	-1.2	-1.1	-1.0	-0.9	-0.9	-3.2	-2.1	-1.0	---	---	---
Pre-tax Corp. Profits	-47.5	-3.1	-6.7	2.5	3.0	3.9	4.1	4.6	5.2	5.3	4.9	4.7	-16.2	1.7	4.8	-16.5	3.9	5.1
% of GDP	11.7	11.6	11.3	11.3	11.3	11.3	11.3	11.4	11.4	11.5	11.5	11.5	11.5	11.3	11.5	---	---	---
GDP Deflator (Y/Y)	-0.4	-0.3	-0.8	0.1	1.0	0.9	1.1	1.3	1.6	1.8	2.0	2.3	-0.4	1.1	1.9	0.1	1.3	2.3
Nominal GDP	-3.5	1.7	2.7	1.9	2.6	3.5	3.4	3.3	4.0	4.2	4.5	2.7	0.9	2.7	3.8	0.7	3.2	4.1
Labour Force	1.1	1.0	1.4	1.2	0.8	0.8	0.5	0.5	0.5	0.5	0.4	0.4	0.8	0.9	0.5	1.2	0.7	0.5
Employment	0.7	0.8	0.8	0.6	0.6	0.8	0.8	0.8	0.7	0.5	0.5	0.5	0.8	0.7	0.7	0.7	0.8	0.6
Employment ('000s)	31	36	34	27	25	38	38	36	31	25	23	23	150	127	130	128	136	112
Unemployment Rate (%)	6.7	6.8	7.0	7.1	7.1	7.1	7.0	7.0	6.9	6.8	6.8	6.8	6.9	7.1	6.9	---	---	---
Personal Disp. Income	1.2	5.4	3.4	1.2	3.1	3.7	4.0	3.7	3.6	3.2	3.4	3.4	3.5	3.2	3.7	2.8	3.6	3.5
Pers. Savings Rate (%)	4.9	4.9	4.2	4.3	4.0	3.9	3.7	3.7	3.7	3.7	3.6	3.6	4.6	3.8	3.7	---	---	---
Cons. Price Index (Y/Y)	1.1	0.9	1.2	1.1	1.6	1.3	1.7	1.8	2.0	1.9	2.0	2.0	1.1	1.6	1.9	1.1	1.8	2.0
Core CPI (Y/Y)	2.2	2.2	2.2	2.1	2.1	2.0	2.0	1.9	2.1	1.9	2.0	2.0	2.2	2.0	2.0	2.1	1.9	2.0
Housing Starts ('000s)	175	193	194	203	205	199	195	191	172	168	166	163	191	197	172	---	---	---
Productivity: Real GDP / worker (Y/Y)	1.3	0.2	0.2	-0.2	0.5	1.1	1.0	1.1	1.1	1.1	1.2	1.3	0.4	0.9	1.1	-0.2	1.1	1.2

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

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

	2015				2016				2017				Annual Average			4th Qtr/4th Qtr		
	Q1	Q2	Q3	Q4F	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	15F	16F	17F	15F	16F	17F
Real GDP	0.6	3.9	2.1	2.0	2.4	2.5	2.6	2.4	2.2	2.4	2.3	2.2	2.5	2.4	2.3	2.2	2.5	2.3
Consumer Expenditure	1.7	3.6	3.0	2.4	3.2	3.5	3.0	2.6	2.3	2.4	2.3	2.2	3.1	3.1	2.5	2.7	3.1	2.3
Durable Goods	2.0	8.0	6.5	3.6	5.0	7.2	6.0	4.7	3.5	4.2	3.6	3.7	5.9	5.6	4.4	5.0	5.7	3.7
Non-Res. Fixed Investment	1.6	4.1	2.4	2.1	3.8	4.5	4.0	4.2	3.9	4.2	3.6	3.4	3.1	3.5	4.0	2.5	4.1	3.8
Non-Res. Structures	-7.4	6.3	-7.1	-2.0	1.8	4.1	3.8	4.5	4.7	4.4	3.9	3.5	-1.3	1.0	4.3	-2.7	3.5	4.1
Equipment & IPP*	4.3	3.5	5.2	3.3	4.4	4.6	4.0	4.1	3.6	4.1	3.6	3.4	4.4	4.2	3.9	4.1	4.3	3.7
Residential Construction	10.1	9.4	7.3	10.1	8.1	10.8	12.1	9.9	9.7	7.6	6.5	5.3	8.8	9.6	9.0	9.2	10.2	7.3
Govt. Consumption & Gross Investment	-0.1	2.6	1.7	1.2	1.9	1.4	1.2	1.3	1.2	1.2	1.0	1.2	0.8	1.6	1.2	1.3	1.4	1.2
Final Domestic Demand	1.7	3.7	2.9	2.4	3.2	3.5	3.1	2.8	2.6	2.6	2.4	2.3	2.9	3.1	2.7	2.6	3.2	2.5
Exports	-6.0	5.1	0.9	1.5	2.0	3.7	4.4	4.7	5.2	5.6	5.3	5.1	1.4	2.7	5.0	0.3	3.7	5.3
Imports	7.1	3.0	2.1	1.8	6.7	9.3	7.3	6.1	6.5	5.7	5.4	5.0	5.1	5.5	6.3	3.5	7.3	5.7
Change in Private Inventories	112.8	113.5	90.2	75.1	67.0	58.6	57.2	52.3	46.7	43.1	40.8	38.5	97.9	58.8	42.3	---	---	---
Final Sales	-0.2	3.9	2.7	2.4	2.6	2.7	2.6	2.5	2.3	2.5	2.3	2.2	2.3	2.7	2.5	2.2	2.6	2.3
International Current Account Balance ($Bn)	-473	-439	-507	-453	-457	-495	-550	-614	-665	-691	-716	-733	-468	-529	-701	---	---	---
% of GDP	-2.7	-2.5	-2.8	-2.5	-2.5	-2.7	-2.9	-3.2	-3.5	-3.6	-3.6	-3.7	-2.6	-2.8	-3.6	---	---	---
Pre-tax Corporate Profits including IVA&CCA	-21.1	14.8	-4.3	-4.8	0.3	1.5	2.3	2.9	3.2	3.8	3.7	3.7	-1.2	0.2	3.1	-4.7	1.7	3.6
% of GDP	11.4	11.6	11.4	11.2	11.1	11.0	10.9	10.9	10.9	10.8	10.8	10.8	11.4	11.0	10.8	---	---	---
GDP Deflator (Y/Y)	1.0	1.0	0.9	1.2	1.6	1.5	1.7	1.8	2.0	2.0	2.1	2.1	1.0	1.6	2.0	1.2	1.8	2.1
Nominal GDP	0.8	6.1	3.4	3.3	3.9	4.4	4.6	4.4	4.3	4.6	4.4	4.3	3.5	4.1	4.4	3.4	4.3	4.4
Labor Force	2.0	0.4	-0.6	1.1	1.1	1.1	1.2	1.1	1.1	1.1	1.1	1.1	0.8	0.8	1.1	0.7	1.1	1.1
Employment	2.2	1.7	1.8	1.8	1.8	1.7	1.6	1.5	1.4	1.2	1.1	1.0	2.1	1.7	1.4	1.9	1.6	1.2
Change in Empl. ('000s)	778	610	623	645	629	591	559	547	520	429	405	381	2,917	2,437	1,977	2,657	2,326	1,735
Unemployment Rate (%)	5.6	5.4	5.2	5.1	5.0	4.9	4.8	4.8	4.7	4.7	4.8	4.9	5.3	4.9	4.8	---	---	---
Personal Disp. Income	1.9	4.9	5.3	4.7	4.0	4.4	4.4	4.2	4.0	4.2	4.0	4.0	3.9	4.5	4.1	4.2	4.2	4.0
Pers. Saving Rate (%)	5.2	5.0	5.2	5.6	5.6	5.4	5.1	4.9	4.8	4.7	4.6	4.5	5.3	5.3	4.7	---	---	---
Cons. Price Index (Y/Y)	-0.1	0.0	0.1	0.5	1.4	1.3	1.8	2.5	3.0	3.0	2.7	2.5	0.1	1.8	2.8	0.5	2.5	2.5
Core CPI (Y/Y)	1.7	1.8	1.8	2.0	2.0	1.9	1.9	1.9	2.0	2.2	2.2	2.3	1.8	1.9	2.2	2.0	1.9	2.3
Core PCE price index (Y/Y)	1.3	1.3	1.3	1.4	1.5	1.4	1.5	1.6	1.7	1.8	1.9	2.0	1.3	1.5	1.9	1.4	1.6	2.0
Housing Starts (mns)	0.98	1.16	1.16	1.14	1.19	1.26	1.33	1.38	1.42	1.45	1.48	1.52	1.11	1.29	1.47	---	---	---
Real Output per hour (y/y)**	0.6	0.8	0.6	1.3	1.8	1.2	0.9	0.9	0.9	1.1	1.1	1.2	0.8	1.2	1.1	1.3	0.9	1.2

*Intellectual proprty 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

GLOBAL ECONOMIC OUTLOOK					
Annual per cent change unless otherwise indicated					
	2014 Share*		Forecast		
Real GDP	(%)	2014	2015	2016	2017
World	100.0	3.4	3.0	3.3	3.5
North America	19.4	2.4	2.4	2.4	2.4
United States	15.9	2.4	2.5	2.4	2.3
Canada	1.5	2.4	1.2	1.7	1.8
Mexico	2.0	2.1	2.4	2.8	3.4
European Union (EU-28)	17.1	1.5	1.8	2.0	2.0
Euro-zone (EU-17)	12.2	0.9	1.5	1.7	1.7
Germany	3.4	1.6	1.5	1.8	1.8
France	2.4	0.2	1.2	1.5	1.6
Italy	2.0	-0.4	0.7	1.2	1.2
United Kingdom	2.4	3.0	2.4	2.4	2.2
EU accession members	2.6	2.6	2.9	2.8	2.9
Asia	42.1	5.2	4.6	4.9	4.9
Japan	4.4	-0.1	0.7	1.2	0.5
Asian NIC's	3.4	3.3	2.1	2.5	2.6
Hong Kong	0.4	2.5	2.5	2.4	2.5
Korea	1.6	3.3	2.6	2.9	3.0
Singapore	0.4	2.9	2.1	2.0	2.0
Taiwan	1.0	3.8	1.0	2.0	2.1
Russia	3.3	0.6	-3.9	-0.6	1.4
Australia & New Zealand	1.2	2.8	2.3	2.8	2.9
Developing Asia	29.9	6.8	6.5	6.3	6.2
ASEAN-4	4.8	4.5	4.4	4.7	4.8
China	16.6	7.3	6.8	6.2	5.9
India**	6.8	7.3	7.6	8.0	8.2
Central/South America	6.6	1.1	-1.5	-0.2	1.3
Brazil	3.0	0.1	-3.7	-1.5	1.0
Other Developing	13.7	3.1	2.6	3.2	3.6
Other Advanced	1.0	2.1	1.4	1.8	2.0

*Share of world GDP on a purchasing-power-parity basis.
Forecast as at December 2015. **Forecast for India refers to FY.
Source: IMF, TD Economics.

ECONOMIC INDICATORS: G-7 AND EUROPE				
		Forecast		
	2014	2015	2016	2017
Real GDP (Annual per cent change)				
G-7 (32.7%)*	1.7	1.8	2.0	1.9
U.S.	2.4	2.5	2.4	2.3
Japan	-0.1	0.7	1.2	0.5
EZ	0.9	1.5	1.7	1.7
Germany	1.6	1.5	1.8	1.8
France	0.2	1.2	1.5	1.6
Italy	-0.4	0.7	1.2	1.2
United Kingdom	2.9	2.4	2.4	2.2
Canada	2.4	1.2	1.7	1.8
Consumer Price Index (Annual per cent change)				
G-7	1.5	0.3	1.5	2.3
U.S.	1.6	0.1	1.8	2.8
Japan	2.7	0.7	0.5	1.8
EZ	0.4	0.1	1.6	2.3
Germany	0.8	0.2	1.4	1.7
France	0.6	0.1	1.3	1.8
Italy	0.2	0.2	1.5	2.2
United Kingdom	1.5	0.1	1.6	2.3
Canada	1.9	1.1	1.6	1.9
Unemployment Rate (Per cent annual averages)				
U.S.	6.2	5.3	4.9	4.8
Japan	3.6	3.4	3.3	3.5
EZ	11.6	11.0	10.6	10.2
Germany	5.0	4.6	4.4	4.5
France	10.3	10.6	10.6	10.4
Italy	12.7	12.0	11.6	11.3
United Kingdom	6.2	5.4	5.3	5.2
Canada	6.9	6.9	7.1	6.9

*Share of 2014 world gross domestic product (GDP)
Forecast as at December 2015
Source: National statistics agencies, TD Economics

This report is provided by TD Economics. It is for informational and educational purposes only as of the date of writing, and may not be appropriate for other purposes. The views and opinions expressed may change at any time based on market or other conditions and may not come to pass. This material is not intended to be relied upon as investment advice or recommendations, does not constitute a solicitation to buy or sell securities and should not be considered specific legal, investment or tax advice. The report does not provide material information about the business and affairs of TD Bank Group and the members of TD Economics are not spokespersons for TD Bank Group with respect to its business and affairs. The information contained in this report has been drawn from sources believed to be reliable, but is not guaranteed to be accurate or complete. This report contains economic analysis and views, including about future economic and financial markets performance. These are based on certain assumptions and other factors, and are subject to inherent risks and uncertainties. The actual outcome may be materially different. The Toronto-Dominion Bank and its affiliates and related entities that comprise the TD Bank Group are not liable for any errors or omissions in the information, analysis or views contained in this report, or for any loss or damage suffered.