December 15, 2016

ECONOMIC MOMENTUM TO GAIN AN INCH, NOT A YARD

U.S. Highlights

- The U.S. economy has progressed largely as expected since our previous forecast. But, with new leadership in Washington, the outlook is cloudier than usual.
- Economic growth is expected to run at 1.6% for 2016, before picking up to roughly 2.0% over the next two years. Until there is greater clarity on which policies the new administration will enact, our macroeconomic forecast does not incorporate new fiscal policy measures.
- As it has over the past year, consumer spending will lead economic growth. Business investment stages a modest improvement, while a stronger U.S. dollar makes net trade a larger drag than previously expected
- Future fiscal policy changes also pose upside and downside risks for monetary policy. For now, we continue to expect a cautious pace of rate increases of one 25 basis point hike in each of 2017 and 2018, taking the funds rate to 1.25% by the end of 2018.

International Highlights

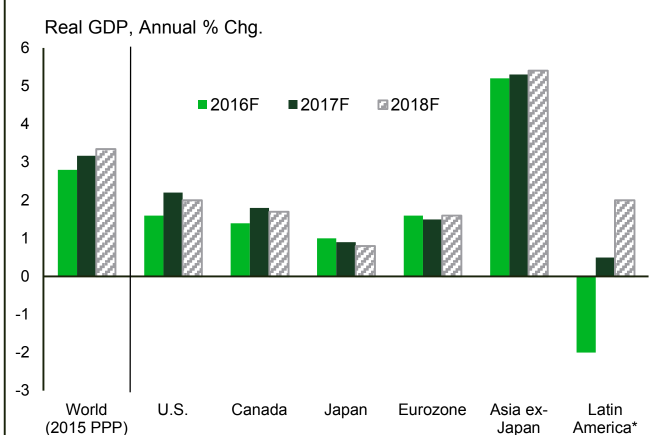
- Global growth is expected to pick-up to 3.3% through 2018, consistent with its trend rate and broadly unchanged from our previous forecast.
- We remain cautious on the stronger growth and reflation theme that has been driving recent market euphoria for a number of reasons. Most importantly, global excess capacity will dampen inflation, and stimulus measures in the U.S. are likely to underwhelm.
- The main forces driving our outlook include a continuation of highly accommodative monetary policy, increased fiscal stimulus, the ongoing recovery of commodity exporters, and slow and steady implementation of structural reforms.
- While emerging markets are expected to remain the main driver of growth, tighter financial conditions, the high U.S. dollar, and anti-trade measures could provide significant headwinds. Moreover, elevated political uncertainty could weigh on the outlook for the Eurozone.

TABLE OF CONTENTS

Chapters

Forecast Tables

CHART 1: GLOBAL GROWTH TO REMAIN RESILIENT DESPITE ELEVATED UNCERTAINTY



Source: TD Economics. Forecast as at December 2016. *Excludes Mexico.

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GLOBAL OUTLOOK - UNCERTAINTY WON'T KILL THIS ECONOMIC RECOVERY

The big story in 2016 was the resilience of global financial markets to a series of events that could have easily derailed the fragile economic recovery – from Brexit, to the U.S. elections, to the Italian constitutional referendum. Since mid-November, resilience has given way to near-euphoria, as investors have moved to price in the reflationary policies of the incoming U.S. administration. The result has been a global flight from government bonds into equities and other riskier assets. Markets don't typically like uncertainty, but this past year they have handled it exceptionally well.

While recent market events have provoked some forecasters to upgrade their economic projections, we are holding the line – at least for now. Only very minor tweaks have been made relative to our September edition. The encouraging performance of the global economy this autumn has evolved as expected. Global economic growth has picked up from a sub-3% rate in the first half of the year to a pace of around 3.3%-3.5% in the second half. This has been driven by highly accommodative monetary policy, increased fiscal stimulus, and the ongoing recovery in commodity exporters helped by higher oil prices. These forces, along with the slow but steady implementation of structural reforms, should help support continued modest global expansion of about 3.3% per year in 2017 and 2018.

Our status-quo forecast largely reflects caution surrounding the core theme of stronger growth and reflation that has been driving recent market optimism:

- At the current rate of expansion, the world economy remains awash in excess capacity, dampening expectations of increased underlying global price pressures as signaled by the rebound in market inflation expectations.
- Importantly, stimulus measures planned by the incoming U.S. administration pose an upside risk to the forecast. We await further clarity before building stimulus into our projection. Moreover, as we argue in our U.S. outlook, we see a strong possibility that investors are underwhelmed by the ultimate impacts on growth and inflation.
- Heavier reliance on fiscal stimulus to spur global growth could see central banks begin to gradually remove, rather than enhance monetary stimulus from current levels. Furthermore, the decorous pace of economic reforms is unlikely to provide near-term relief from major structural impediments to global economic growth, notably population aging and sub-par productivity growth.
- Crude oil's rally has been driven by recent commitments of both OPEC and non-OPEC countries to scale back output. We see limited upside from current levels in 2017-18, due to still-elevated global inventories and a likely positive supply response from the U.S. shale industry.

Above all, we remain concerned about the downside risks to the global economy that have been discounted in the recent market rally. Indeed, investors have de-emphasized some of the anti-trade policies of the incoming U.S. administration that could weigh on global growth. Indeed, political uncertainty is likely to peak next year as a series of European elections could see establishment governments get caught in the undertow caused by the wave of populism sweeping the globe.

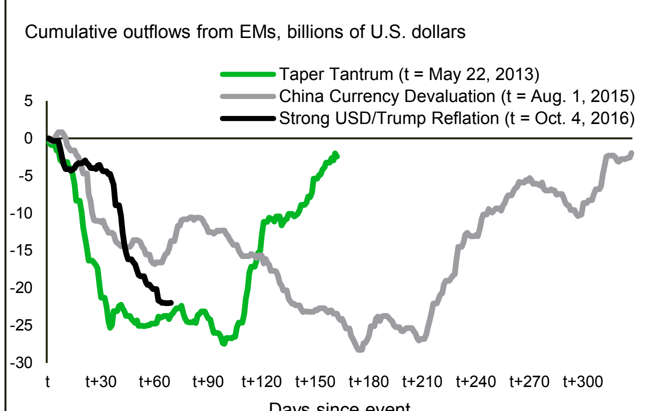
Moreover, the outlook remains at the mercy of a number of recent events that could shake market confidence at any moment. Case in point, Brexit developments remain uncertain, and early Italian elections could see the first populist, anti-euro party gain power in a core euro area country.

The engines of global growth are at greater risk

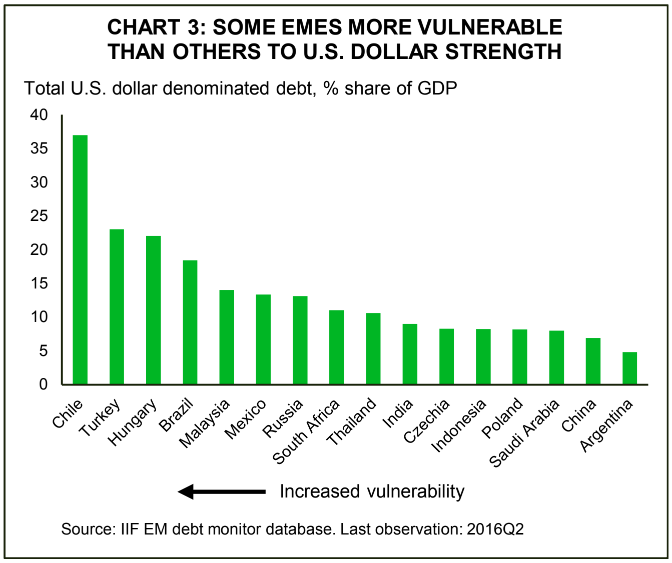
Another major area of global risk is the emerging market economies (EMEs). Some of their key issues – notably elevated private-sector debt – had fallen out of the headlines in the summer, owing in part to faster rates of expansion recorded across the region. However, growth momentum among the EMEs heading into 2017 is under pressure from the rapid rise in global bond yields and U.S. dollar that has resulted in tighter financial conditions and net capital outflows (Chart 2).

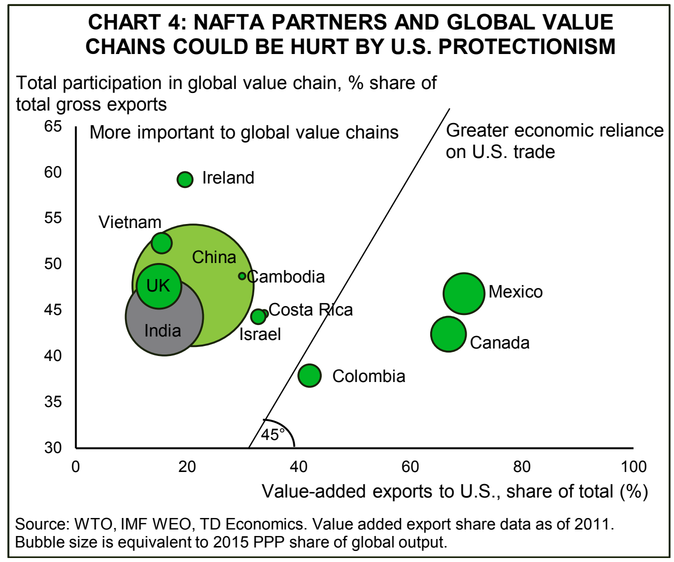
Market repositioning has also reignited fears of the sustainability of existing debt burdens, particularly for those EMEs with elevated levels of foreign currency denominated debt, such as Chile, Turkey, Hungary, and Brazil (Chart 3).

CHART 2: RECENT EM CAPITAL OUTFLOWS ARE SIMILAR IN MAGNITUDE TO PAST EPISODES



Source: IIF daily portfolio flows data, TD Economics. Country coverage includes Indonesia, India, South Korea, Thailand, South Africa, Brazil, Philippines, Turkey, Hungary, Mexico. Last observation: December 12, 2016.





There are also concerns that any newly enacted anti-trade measures would hit these nations more severely (Chart 4).

With the ascent in both yields and the U.S. dollar anticipated to taper off in the coming months, EME economies are expected to power through these headwinds, especially Southeast Asian economies that enjoy strong economic dynamism. Having said that, much of the pick-up in EME growth next year is anticipated to materialize from a recovery in Latin America (Brazil), and oil exporters.

As the world's largest economy, China remains critical to the outlook for global growth and faces its own set of challenges in addition to those mentioned. China's longer-term transition to a services-driven economy will likely see that sector contributing strongly to growth over the next few years. Yet the impact of past stimulus on growth is expected to wane, suggesting slowing momentum through 2018. In addition to the need to tackle domestic financial stability risks and battle capital outflows, China joins Mexico as a primary target of the anti-trade rhetoric espoused by the incoming U.S. administration.

Advanced economies face elevated political uncertainty

While the outlook for advanced economies is broadly unchanged from September, the underlying risks remain elevated within Europe. The outlook for the European continent is broadly unchanged, but the positive fiscal impulse on Euro Area growth this year is expected to become more neutral in the next few years. Elections in core members will motivate incumbent governments to shift focus toward countering populist fervor. As a result, highly accommodative monetary policy will remain the primary source of stimulus through 2018 for economies desperately in need of productivity enhancing structural reforms and infrastructure investment.

Compounding downside risks are undercapitalized banking systems, high levels of public debt, and demographic headwinds that could conspire to restrain growth amidst limited traction with already highly accommodative monetary policy.

The one positive development to our outlook since September has been the surprising resilience of the UK economy in the aftermath of the referendum. Altogether, the UK outlook is now firmer through 2017, after which the resulting drag from weaker real income growth due to a peak in headline inflation late in 2017 should slow growth in 2018, motivating the BoE to ease further before the end of next year.

The global theme of economic and monetary policy divergence remains. The Federal Reserve is expected to tighten about once every nine months over the next two years, while monetary policy remains highly accommodative elsewhere – as necessitated by large output gaps that are dampening inflationary pressures. This global policy divergence will also manifest within the fiscal space, as the U.S. pivots to government spending and tax cut initiatives as the next wave to support economic activity. If implemented, the U.S. will join Canada, Japan, South Korea, and those nations within the EU with adequate fiscal space utilizing government spending to support growth.

Nonetheless, it remains to be seen what the rise in election-driven political uncertainty in Europe and the looming threat of protectionist trade measures will mean for global economic momentum as 2018 unfolds.

U.S. OUTLOOK - CLOUDY WITH A CHANCE OF FIREBALLS

Even as the economy has progressed largely as outlined in our previous forecast, a lot has changed, especially on the political front. Economic growth is back on track after a disappointing first half of the year, but with new leadership in Washington, the outlook is cloudier than usual.

In contrast to the division of recent years, the White House and Congress are now in Republican hands. This could lead to significant policy shifts that would impact the economic forecast. However, until there is greater clarity on which policies will take effect and when, our macroeconomic forecast will not incorporate speculation on this front.

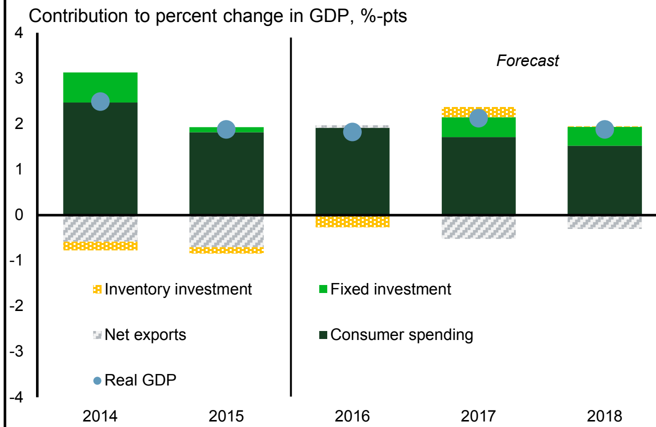
That has not stopped financial markets from rapidly adjusting their expectations. Since early November, the 10-year Treasury yield has moved up over 50 basis points, and the U.S. dollar has appreciated by just over 3% on a trade-weighted basis. These moves reflect expectations that deficit-financed fiscal stimulus will spur faster growth and higher inflation. Equity markets have also rallied on hopes for stimulus, lower tax rates, and reduced regulation.

President-elect inherits a solid economy

Looking at current economic momentum, the President-elect has been dealt a favorable hand. After a disappointing first half of 2016, the U.S. economy pulled out of its funk in the third quarter with a 3.2% rebound in real GDP growth (annualized). The fourth quarter remains on track to follow through with a solid 2% pace. Overall, that would keep the second half of the year right in line with the 2.5% pace we were expecting, more than doubling the anemic rate posted in the first half of the year. For 2016 as a whole, economic growth is expected to run at 1.6%, before picking up to roughly 2% over the next two years, absent the influence of any forthcoming government policy measures.

That headline growth rate is largely unchanged from our previous forecast, but there are some shifts underneath the surface reflecting recent financial market moves – higher interest rates and equity gains – and upward revisions to personal income growth. We continue to expect consumer spending to do the bulk of the heavy lifting (Chart 5), and outpace growth in the economy as a whole. Consumer resiliency has been a long standing story and this is unlikely to change. In November, the unemployment rate fell to just 4.6% - its lowest level since mid-2007. The number of core working-age (25 to 54) individuals with jobs has also made steady progress over the past year, suggesting ongoing support to wage growth (Chart 6).

CHART 5: CONSUMER SPENDING PROVIDES SOLID FOUNDATION FOR GROWTH



Source: Bureau of Economic Analysis
Forecast by TD Economics as at December 2016.

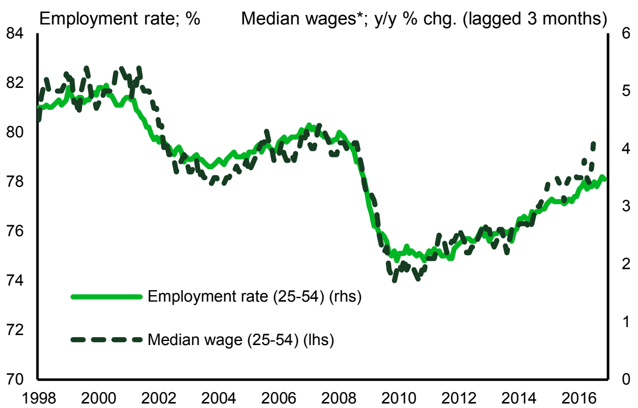
On the flipside, business investment will remain soft, but improve from this year's disappointing performance. There are several factors behind this view, but most instrumental is that spending cuts within the energy sector are abating, with oil prices at higher and more stable levels. Residential investment is also expected to increase, but at a slower pace than previously expected due to the recent rise in mortgage rates. Meanwhile, the stronger U.S. dollar will continue to pressure exports and support import growth, making net trade a larger drag than previously expected.

The ups and downs of policy

While ongoing economic improvement remains our expectation, the base case outlook is flanked by considerable risks on both the upside and downside. Chief among these is the evolution of U.S. fiscal policy. So far, financial markets have focused on the potential upside of the President-elect's campaign platform, but there are also some downsides. Key platform planks such as tighter immigration or more restrictive trade policies are inflationary, but likely negative for growth, especially over the longer-term. Markets are also ignoring the potential economic drag from any offsetting spending restraint that may be imposed if Congress won't tolerate ballooning deficits. (For more details on the potential impacts of fiscal stimulus please see TD Chief Economist Perspective.)

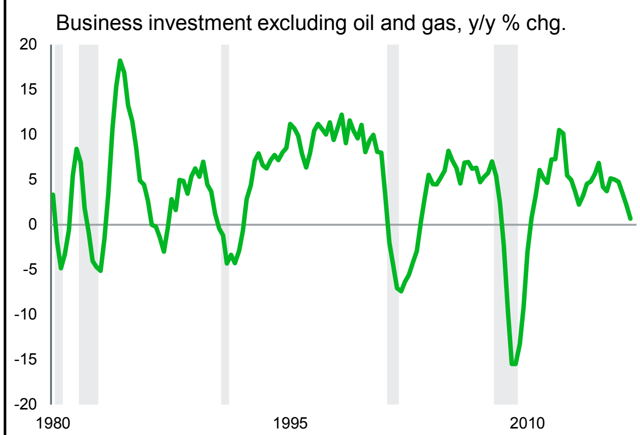
Still, one can't ignore the potential upside from the large package of tax cuts and infrastructure spending that may be coming down the pipe. Republican tax cuts and in-

CHART 6: TIGHTER LABOR MARKETS DRIVE WAGE GAINS



*Three month moving average.
Source: Atlanta Fed, Bureau of Labor Statistics

CHART 7: EX-ENERGY INVESTMENT ALSO SOFT



Source: Bureau of Economic Analysis, TD Economics.

frastructure plans range from 2% of GDP under the House Republican proposals, to 3% under Trump's platform. Corporate income tax cuts in particular could be an impetus to business spending, which has weakened recently (Chart 7). A lower marginal effective tax rate on investment could stimulate investment and thereby lift productivity growth, raising economic growth in both the short- and longer-term. Republicans have also pledged to reduce the regulatory burden on businesses, which could further support investment.

Given the orientation of fiscal measures toward tax cuts and their focus on the upper-end of the income scale, the impact on near-term GDP growth would likely be smaller than their total dollar value. And, with lags in implementation it would likely be 2018 before more material impacts are felt in the economy. All told, we suspect markets may end up being underwhelmed by the reforms that are ultimately enacted by Washington.

Federal Reserve to remain on glide path

Even without any major changes to fiscal policy, the U.S. economy has improved to the point that it no longer requires emergency-level interest rates. The Fed recognized this when it raised its policy rate for the second time at its December meeting. However, hiking by a quarter-point twelve months after an equivalent move doesn't exactly smell of desperation, and we don't expect that this cautious glide path will change. There has been much market hype that the new administration's policies may force the Fed into a more aggressive monetary policy prescription. But, this view needs to be balanced against forces that would be working to tighten financial conditions, and lower the amount of policy tightening required.

First, with policy rates very low in other major global economies (and expected to remain so), the preferential yield spread differential would drive investors into U.S. assets and risk fueling a further appreciation of the greenback. That would be detrimental to the Fed's cause on both growth and inflation. Already, the recent three percent run-up in the trade-weighted dollar is equivalent to roughly a quarter-point hike in interest rates.

Second, government policies could manifest in a further sharp rise in yields, which filters through to lending rates, and in particular mortgages. This too acts as a speed bump for the economy that the Fed would take into consideration when weighing future rate hikes. And thirdly, global risks can materialize at any moment, undermining market confidence and injecting volatility (as noted in the global section). This could also stay the Fed's hand, as we saw early in 2016.

Add it up, and just as with the economy, future changes on the fiscal side present upside and downside risks for monetary policy. For now, we continue to expect a cautious pace of rate increases of one 25 basis point hike in each of 2017 and 2018, taking the fed funds rate to 1.25% by the end of 2018. Unchanged Fed expectations, however, correspond with slight changes to our near-term forecasts for U.S. Treasury yields (table, page 8). This captures the rapid adjustment in rates in the wake of the election result. We expect the 10-Year Treasury yield to rise to 3.0% at the end of 2018 (for more details see the Financial section). That level of longer-term interest rates is still low by historical standards, reflecting significant monetary stimulus globally, lower trend rates of economic growth and modest inflation.

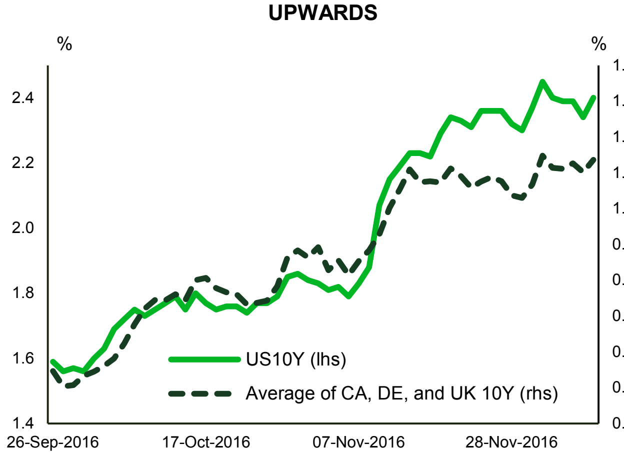
FINANCIAL OUTLOOK - MOVE IN BOND MARKETS REFLECTS A MIX OF FUNDAMENTALS & FAITH

Expectations that governments around the world will bring about a new wave of fiscal policy has triggered significant volatility in fixed income markets. The U.S. 10-year Treasury has increased from a low of 1.5% post-Brexit, to a current high of approximately 2.5%. Though the increase in yields has been most prominent in America, the move has been mirrored in other developed market bond yields despite little change in underlying economic fundamentals (Chart 8).

The re-adjustment of yields reflects two overriding factors: the path of the Federal Reserve's policy rate and the compensation for interest rate risk. The adjustment in the first factor stems from the realization that the Federal Reserve is positioned to continue its rate hiking cycle. Global headwinds had delayed the Fed over 2016, but with the December 14th announcement of a 0.25 percentage point increase in the federal funds target range, the Fed appears ready to raise rates at a gradual, but slightly more regular frequency.

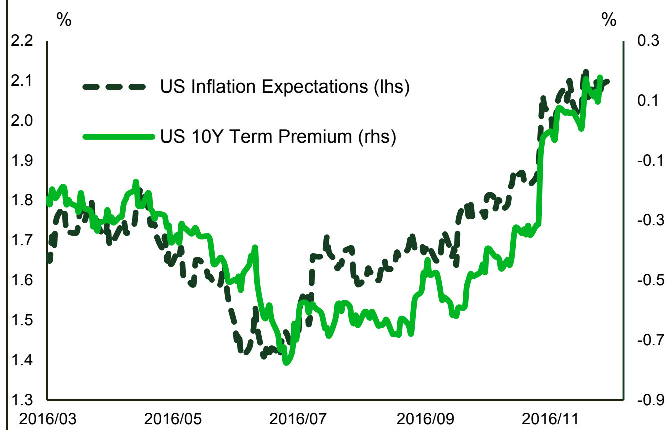
We are of the view that the Fed will raise its policy rate once in each of the next two years based on wage and employment dynamics that have persisted for some time now. Futures markets have moved beyond this and are now pricing in two rate hikes over the next year. We suspect there is modest downside potential on current pricing given lags that commonly occur in the implementation of fiscal policy. Likewise, yields would mirror any repricing, but we believe support would remain on the U.S. 10-year at about 2.25% should this occur, based solely on expectations for Fed policy.

CHART 8: GLOBAL BOND YIELDS SHIFT UPWARDS



Source: FRB, BoC, BOE, BBK, TD Economics.

CHART 9: SHIFT CHANGE IN INFLATION AND TERM PREMIUM



Source: FRB, FRBNY, TD Economics.

The second factor causing an increase in yields is the presence of inflation risk that could force the Fed to raise rates more rapidly than expected. This would adversely impact bond investors and cause increased compensation for future inflation and interest rate risk. Though no new policies have been enacted, markets are pricing for government spending to widen fiscal deficits and increase the supply of debt. Given that we are in the mature stage of the economic cycle, there is a risk that government spending would only slightly boost economic activity and cause more pass through to inflation (see our recent Perspective).

In this sense, markets are front running the new administration by pricing for a small inflation overshoot (Chart 9). This pales in comparison to the previous under-appreciation and outright dismissal of inflation risk. It is reasonable for bond yields to continue to price for higher inflation given the focus of national governments to increase spending.

Though our forecast for a gradual tightening of monetary conditions by the Federal Reserve remains unchanged, we have shifted our forecast for global bond yields upwards in the wake of the U.S. election. What has changed in our forecast is the premium required to compensate investors for interest rate risk. Markets are pricing for some of the political rhetoric to turn into policy. While we see potential for disappointment on this front, the focus on higher government spending warrants a higher premium for inflation and interest rate risk. We have increased our year-end target for 10-year bond yields to reflect this new paradigm.

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	Q4F	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	16F	17F	18F	16F	17F	18F
Real GDP	0.8	1.4	3.2	1.9	2.0	2.3	2.2	2.0	1.8	2.0	1.9	1.8	1.6	2.2	2.0	1.8	2.1	1.9
Consumer Expenditure	1.6	4.3	2.8	2.1	2.4	2.5	2.4	2.3	2.1	2.2	2.1	2.0	2.6	2.5	2.2	2.7	2.4	2.1
Durable Goods	-0.6	9.8	11.6	8.3	2.3	5.1	4.5	4.3	4.1	4.4	4.2	4.2	5.6	5.9	4.3	7.2	4.1	4.2
Non-Res. Fixed Investment	-3.4	1.0	0.1	1.8	3.0	3.8	3.5	3.3	3.3	3.3	3.2	3.2	-0.6	2.5	3.3	-0.2	3.4	3.3
Non-Res. Structures	0.1	-2.1	10.1	-1.9	5.0	6.0	4.5	3.6	4.0	4.2	4.4	4.5	-3.1	3.9	4.2	1.4	4.8	4.3
Equipment & IPP*	-4.4	1.8	-2.4	2.8	2.5	3.3	3.2	3.2	3.2	3.0	2.9	2.8	0.1	2.2	3.1	-0.6	3.0	3.0
Residential Construction	7.8	-7.8	-4.4	10.9	4.4	4.2	5.4	4.7	3.3	3.2	2.4	2.2	4.9	3.7	3.7	1.3	4.7	2.8
Govt. Consumption & Gross Investment	1.6	-1.7	0.2	2.2	1.1	1.0	0.9	0.9	1.0	1.1	0.9	1.1	0.9	1.0	1.0	0.6	1.0	1.0
Final Domestic Demand	1.2	2.4	1.7	2.4	2.3	2.5	2.4	2.2	2.1	2.2	2.1	2.0	2.0	2.3	2.2	1.9	2.3	2.1
Exports	-0.7	1.8	10.1	-4.6	1.8	4.3	4.7	4.9	4.8	5.0	4.8	4.9	0.4	2.6	4.8	1.5	3.9	4.9
Imports	-0.6	0.2	2.1	1.7	5.3	7.0	7.6	7.0	6.4	6.0	5.8	5.6	0.7	4.6	6.5	0.8	6.7	5.9
Change in Private Inventories	40.7	-9.5	7.6	17.5	26.0	37.8	50.0	54.7	55.4	55.0	57.1	57.3	14.1	42.1	56.2	---	---	---
Final Sales	1.3	2.6	2.7	1.6	1.8	2.1	1.9	1.9	1.8	2.0	1.8	1.8	2.0	2.0	1.9	2.0	1.9	1.9
International Current Account Balance ($Bn)	-527	-480	-452	-509	-562	-578	-590	-598	-606	-614	-618	-622	-492	-582	-615	---	---	---
% of GDP	-2.9	-2.6	-2.4	-2.7	-3.0	-3.0	-3.0	-3.0	-3.0	-3.1	-3.0	-3.0	-2.7	-3.0	-3.0	---	---	---
Pre-tax Corporate Profits including IVA&CCA	14.1	-2.4	29.2	1.5	1.6	2.8	3.2	3.4	3.8	3.9	3.8	4.0	0.2	4.9	3.6	9.9	2.7	3.9
% of GDP	11.1	11.0	11.5	11.5	11.4	11.4	11.3	11.3	11.3	11.3	11.2	11.2	11.3	11.4	11.3	---	---	---
GDP Deflator (Y/Y)	1.2	1.2	1.3	1.5	1.9	1.9	2.1	2.2	2.4	2.5	2.5	2.5	1.3	2.0	2.5	1.5	2.2	2.5
Nominal GDP	1.3	3.7	4.6	4.0	3.8	4.6	4.7	4.5	4.5	4.5	4.4	4.3	2.9	4.2	4.5	3.4	4.4	4.4
Labor Force	3.6	-0.2	2.0	0.3	1.0	1.0	1.0	1.0	1.0	0.9	0.9	0.9	1.3	0.9	1.0	1.4	1.0	0.9
Employment	1.9	1.3	1.8	1.5	1.4	1.5	1.5	1.4	1.2	1.0	0.9	0.9	1.8	1.5	1.2	1.6	1.4	1.0
Change in Empl. ('000s)	659	452	627	546	490	529	529	504	433	365	333	320	2,488	2,113	1,727	2,285	2,051	1,451
Unemployment Rate (%)	4.9	4.9	4.9	4.7	4.7	4.6	4.5	4.4	4.4	4.4	4.4	4.4	4.9	4.5	4.4	---	---	---
Personal Disp. Income	2.4	5.0	4.2	4.3	4.1	4.9	4.9	4.6	4.7	4.5	4.5	4.4	3.9	4.5	4.6	3.9	4.6	4.5
Pers. Saving Rate (%)	6.1	5.9	5.9	5.8	5.8	5.9	5.9	6.0	6.1	6.1	6.2	6.2	5.9	5.9	6.1	---	---	---
Cons. Price Index (Y/Y)	1.1	1.1	1.1	1.8	2.6	2.6	2.8	2.5	2.5	2.4	2.4	2.4	1.3	2.6	2.4	1.8	2.5	2.4
Core CPI (Y/Y)	2.3	2.2	2.2	2.2	2.0	2.0	2.1	2.2	2.3	2.3	2.4	2.4	2.2	2.1	2.3	2.2	2.2	2.4
Core PCE price index (Y/Y)	1.6	1.6	1.7	1.8	1.7	1.7	1.7	1.8	1.9	2.0	2.0	2.1	1.7	1.7	2.0	1.8	1.8	2.1
Housing Starts (mns)	1.15	1.16	1.15	1.23	1.21	1.23	1.25	1.28	1.30	1.33	1.35	1.38	1.17	1.24	1.34	---	---	---
Real Output per hour (y/y)**	0.0	-0.3	0.0	0.6	1.0	1.2	0.7	0.8	0.8	0.9	1.0	1.1	0.1	0.9	1.0	0.6	0.8	1.1

*Intellectual property products. **Non-farm business sector. F: Forecast updated by TD Economics, December 2016

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

INTEREST RATE OUTLOOK

	2016				2017				2018			
	Q1	Q2	Q3	Q4*	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Fed Funds Target Rate	0.50	0.50	0.50	0.75	0.75	0.75	1.00	1.00	1.00	1.25	1.25	1.25
3-mth T-Bill Rate	0.21	0.26	0.29	0.53	0.65	0.70	0.90	0.90	0.95	1.15	1.15	1.20
2-yr Govt. Bond Yield	0.73	0.58	0.77	1.27	1.20	1.25	1.35	1.45	1.50	1.60	1.65	1.80
5-yr Govt. Bond Yield	1.21	1.01	1.14	2.05	1.90	2.00	2.05	2.15	2.25	2.30	2.40	2.45
10-yr Govt. Bond Yield	1.78	1.49	1.60	2.57	2.45	2.50	2.55	2.65	2.70	2.80	2.85	3.00
30-yr Govt. Bond Yield	2.61	2.30	2.32	3.18	3.15	3.20	3.25	3.35	3.40	3.50	3.55	3.70
10-yr-2-yr Govt Spread	1.05	0.91	0.83	1.31	1.25	1.25	1.20	1.20	1.20	1.20	1.20	1.20

F: Forecast by TD Bank Group as at December 2016; All forecasts are end-of-period; Source: Bloomberg, Bank of Canada, Federal Reserve.
* Spot rate as at December 14, 2016.

FOREIGN EXCHANGE OUTLOOK

Currency	Exchange rate	2016				2017				2018			
		Q1	Q2	Q3	Q4*	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Canadian dollar	CAD per USD	1.30	1.30	1.31	1.33	1.35	1.35	1.34	1.34	1.33	1.32	1.31	1.31
Japanese yen	JPY per USD	112	103	101	117.03	112	113	114	115	116	116	117	117
Euro	USD per EUR	1.14	1.10	1.12	1.05	1.06	1.08	1.10	1.12	1.14	1.15	1.15	1.16
U.K. pound	USD per GBP	1.44	1.32	1.30	1.26	1.22	1.22	1.24	1.29	1.33	1.35	1.36	1.37
Swiss franc	CHF per USD	0.96	0.98	0.97	1.02	1.01	1.01	1.01	1.00	1.00	1.00	1.00	1.00
Australian dollar	USD per AUD	0.77	0.74	0.77	0.74	0.72	0.72	0.73	0.74	0.75	0.75	0.75	0.75
NZ dollar	USD per NZD	0.69	0.71	0.73	0.71	0.65	0.64	0.64	0.64	0.64	0.64	0.64	0.64

F: Forecast by TD Bank Group as at December 2016. All forecasts are end-of-period. Source: Federal Reserve, Bloomberg, TDBG.
* Spot rate as at December 14, 2016.

COMMODITY PRICE OUTLOOK

	2016				2017				2018			
	Q1	Q2	Q3	Q4*	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Crude Oil (WTI, $US/bbl)	33	45	45	51	52	52	55	55	56	56	57	57
Natural Gas ($US/MMBtu)	1.97	2.13	2.85	3.52	3.15	3.15	3.25	3.25	3.30	3.30	3.30	3.30
Gold ($US/troy oz.)	1182	1259	1335	1143	1250	1250	1275	1280	1300	1300	1350	1350
Silver (US$/troy oz.)	14.93	16.84	19.63	16.83	17.25	17.75	18.25	18.75	19.00	19.00	19.50	19.50
Copper (cents/lb)	212	215	216	258	225	225	226	227	230	230	235	235
Nickel (US$/lb)	3.86	4.00	4.65	5.17	5.10	5.00	4.75	4.75	5.00	5.00	5.25	5.25
Aluminum (cents/lb)	69	71	73	79	74	74	76	76	78	78	78	78
Wheat ($US/bu)	5.89	6.06	5.73	6.55	6.50	6.50	6.60	6.60	6.70	6.80	6.85	6.90

F: Forecast by TD Bank Group as at December 2016. All forecasts are period averages. Source: Bloomberg, USDA (Haver). * Spot rate as at December 14, 2016.

GLOBAL ECONOMIC OUTLOOK					
Annual per cent change unless otherwise indicated					
	2015 Share*		Forecast		
Real GDP	**(%)**	**2015**	**2016**	**2017**	**2018**
World	100.0	3.2	2.8	3.2	3.3
North America	19.3	2.5	1.6	2.2	2.0
United States	15.9	2.6	1.6	2.2	2.0
Canada	1.5	0.9	1.4	1.8	1.7
Mexico	2.0	2.6	1.9	2.2	2.4
European Union (EU-28)	17.1	2.3	1.8	1.7	1.7
Eurozone (EU-19)	12.1	1.9	1.6	1.5	1.6
Germany	3.4	1.5	1.7	1.4	1.5
France	2.4	1.2	1.2	1.2	1.4
Italy	2.0	0.6	0.9	0.8	1.1
United Kingdom	2.4	2.2	2.0	1.4	1.6
EU accession members	2.6	3.5	2.5	2.8	2.6
Asia	42.2	4.7	4.8	4.8	4.9
Japan	4.4	1.3	1.0	0.9	0.8
Asian NIC's	3.4	2.0	2.0	2.4	2.7
Hong Kong	0.4	2.4	1.5	2.3	2.5
Korea	1.6	2.6	2.7	2.7	3.1
Singapore	0.4	2.0	1.1	1.2	2.3
Taiwan	1.0	0.7	1.5	2.4	2.3
Russia	3.5	-3.7	-0.6	0.6	1.4
Australia & New Zealand	1.2	2.5	2.5	2.7	3.0
Developing Asia	29.8	6.6	6.4	6.2	6.3
ASEAN-4	4.8	4.6	4.6	4.5	5.0
China	16.6	6.9	6.8	6.4	6.1
India**	6.7	7.5	7.0	7.3	7.6
Central/South America	6.7	-0.8	-2.0	0.5	2.0
Brazil	3.0	-3.8	-3.5	-0.2	2.2
Other Developing	13.7	2.6	2.0	2.8	3.2
Other Advanced	1.0	1.5	1.6	1.7	1.6

*Share of world GDP on a purchasing-power-parity (PPP) basis.
Forecast as at December 15, 2016. **Forecast for India refers to fiscal year.
Source: IMF, TD Economics.

ECONOMIC INDICATORS: G-7 AND EUROPE				
		Forecast		
	2015	**2016**	**2017**	**2018**
Real GDP (Annual per cent change)				
G-7 (31.8%)*	2.0	1.5	1.7	1.6
U.S.	2.6	1.6	2.2	2.0
Japan	1.2	1.0	0.9	0.8
Eurozone	1.9	1.6	1.5	1.6
Germany	1.5	1.7	1.4	1.5
France	1.2	1.2	1.2	1.4
Italy	0.6	0.9	0.8	1.1
United Kingdom	2.2	2.0	1.4	1.6
Canada	0.9	1.4	1.8	1.7
Consumer Price Index (Annual per cent change)				
G-7	0.2	0.8	2.1	1.9
U.S.	0.1	1.3	2.6	2.4
Japan	0.8	-0.1	1.2	1.1
Eurozone	0.0	0.2	1.6	1.4
Germany	0.1	0.3	1.4	1.2
France	0.1	0.3	1.4	1.2
Italy	0.1	-0.1	1.4	1.3
United Kingdom	0.0	0.6	2.5	2.5
Canada	1.1	1.6	2.1	1.9
Unemployment Rate (Per cent annual averages)				
U.S.	5.3	4.9	4.5	4.4
Japan	3.4	3.1	3.1	3.0
Eurozone	10.9	10.1	9.8	9.7
Germany	6.4	6.1	6.1	6.0
France	10.4	10.0	9.5	9.2
Italy	11.9	11.6	11.4	11.2
United Kingdom	5.3	4.9	5.2	5.2
Canada	6.9	7.0	6.9	6.9

*Share of 2015 world gross domestic product (GDP) at PPP.
Forecast as at December 15, 2016
Source: National statistics agencies, TD Economics