QUARTERLY ECONOMIC FORECAST

TD Economics

Due to the referendum vote in Britain to exit the EU, we have updated our forecasts.

June 16, 2016

NEVER MIND THE NOISE, UNDERLYING SIGNALS POINT TO CONTINUED GROWTH

International Highlights

- The global economy is anticipated to advance by 2.9% in 2016 and 3.4% in 2017. Economic growth will lag behind its potential pace in many regions as economies adjust to lower commodity prices, slower Chinese growth, and long standing structural headwinds.
- Risks to the outlook are tilted to the downside. The UK referendum vote on June 23rd represents the greatest near-term risk, especially for advanced economies. Downside risks also linger in emerging markets as slow growth raises concerns about their ability to service debt.
- U.S. growth has been lumpy over the first half of the year, but the economy continues to make gradual progress. Led by consumer spending, real GDP is expected to advance by 1.9% in 2016 and 2.1% in 2017.
- Job growth stateside has slowed recently, but the labour market continues to move forward. Job openings remain close to record highs, firing rates near record lows, and wage growth is accelerating.

Canadian Highlights

- Despite a decent start to 2016, real GDP growth for the full year has been cut to a tepid 1.3%, partly reflecting the impact of the Alberta wildfires. In 2017, post-wildfire reconstruction and government stimulus will help to drive an improved 2% expansion rate.
- Abstracting from near-term data volatility, exports are expected to remain a key driver of growth, supported by a competitive currency and healthy U.S. demand.
- Prospects for household spending remain mixed, with income gains likely to pick up slightly, but consumers facing escalating debt pressures.
- Business investment will likely stabilize in the second half of 2016, but significant growth is not expected until after 2017. Conversely, residential investment will likely remain strong this year, before gradually decelerating and entering an adjustment period in late 2017.

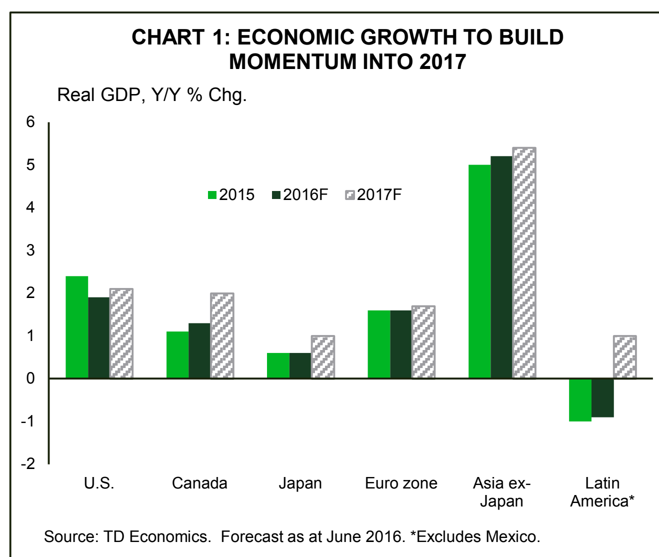
TABLE OF CONTENTS

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



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GLOBAL OUTLOOK - ELUDING ECONOMIC STAGNATION

After a weak hand-off and start to 2016, the global economy is showing signs of firming. Led by a resurgence in U.S. domestic spending, economic growth is likely to rebound meaningfully in the second quarter. Additional monetary stimulus in advanced economies and improvements in commodity prices should fuel modestly stronger growth in the second half of this year and into 2017.

Still, at just 2.9% this year, the pace of world expansion is forecast to come in at a 7-year low and significantly below the estimated longer-term "cruising speed" of around 3.3%. Emerging markets (EMs) face a long adjustment to lower commodity prices and structurally slower Chinese growth, while advanced economies remain burdened by aging populations and elevated debt levels, portending continued slow growth and limited monetary policy traction. While we expect global economic growth to improve to 3.4% in 2017 – or slightly above trend – a large amount of excess capacity will likely persist, limiting global inflation and keeping central banks in highly accommodative mode.

Global financial markets have come a long way from the rout in the first quarter. Investors have piled back into all asset classes, sending stock markets to new highs and global bond yields to new lows. At the same time, diminished fears of a global recession have helped to bid up commodity prices, with firmer oil prices aided by supply disruptions and declines in U.S. oil production. Still, there is an uneasy calm surrounding the outlook. With high debt and slow income growth, downside risks remain elevated and another bout of global financial volatility should not be heavily discounted.

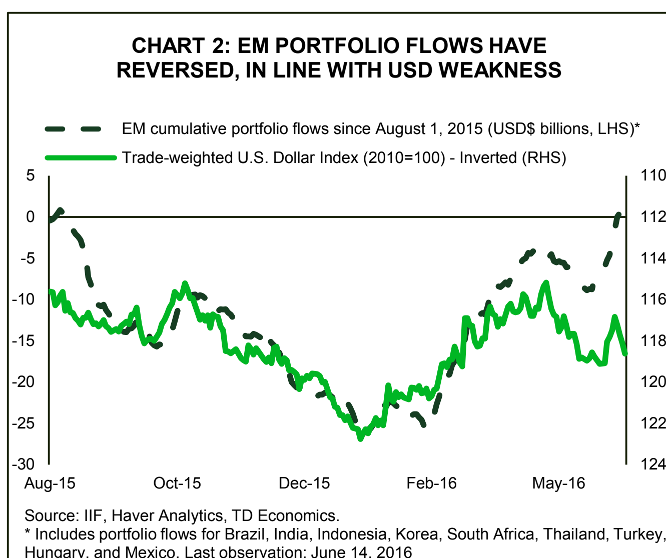
EM improvement drives the global outlook

Two years after commodity prices began their descent, emerging markets continue to adjust to the new global paradigm. Downside risks in EMs were severe early in the year as capital outflows mounted and commodity prices plumbed new lows. The reversal in both of these factors has granted a much-needed reprieve to these economies (Chart 2). Still, the growth outlook remains modest, especially relative to the pre-recession period. A slowing expansion in China will continue to weigh on EM performances in Asia, while EMs more generally will continue to be vulnerable to sudden shifts in investor sentiment, especially as the Federal Reserve continues its gradual normalization process. Finally, slower growth tends to compound geopolitical risks, which are especially concerning in Nigeria, Russia, Venezuela, Brazil, and Turkey.

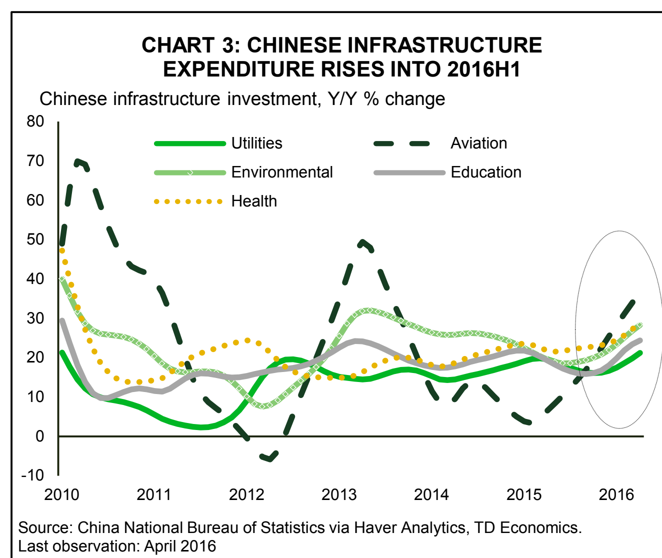
Infrastructure set to support Chinese growth

Chinese growth will continue to drift toward lower, more sustainable rates. In the near term, Chinese authorities have emphasized a desire to increase public infrastructure expenditure to support growth (Chart 3). Infrastructure spending is necessary in order to achieve the overall growth target of 6.5% to 7.0% growth, but also to address pressures in Tier 1 cities related to the migration of workers under the reform of China's "hukou" registration system. Much of this infrastructure will be debt financed, which will act to push up the overall stock of debt in the Chinese economy and correspondingly exacerbate financial stability concerns in the near term.

Additionally, Chinese authorities have begun enacting



Source: IIF, Haver Analytics, TD Economics.
* Includes portfolio flows for Brazil, India, Indonesia, Korea, South Africa, Thailand, Turkey, Hungary, and Mexico. Last observation: June 14, 2016



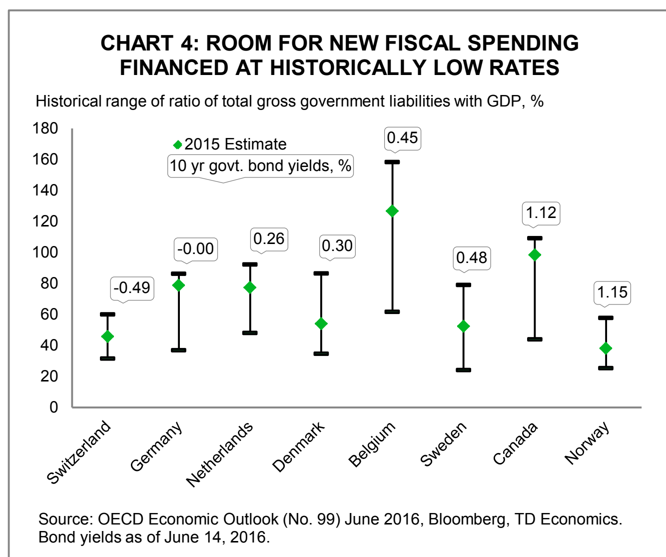
Source: China National Bureau of Statistics via Haver Analytics, TD Economics.
Last observation: April 2016

their plans to reduce industrial overcapacity, particularly within the steel industry. The goal is to increase efficiency and move toward market pricing of demand rather than central planning quotas for output. While this has and will continue to result in job market dislocations, increased social programs to support labour as it transitions away from the old industrial economy and toward the "new" services-oriented economy will be critical in minimizing social disruption.

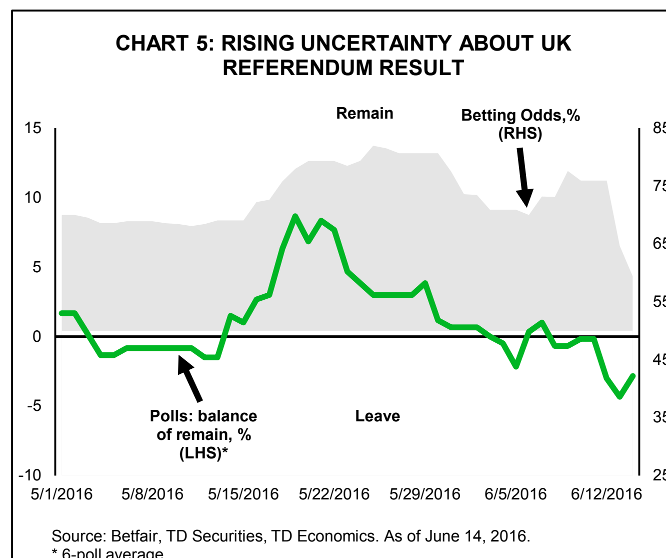
Advanced economies serious about avoiding stagnation

After a dismal two quarters, the outlook for advanced economies is expected to turn up in the second half of 2016 thanks in part to firming demand in the U.S. and a persistent but gradual recovery in the Eurozone. In the United States, growth will continue to be led by domestic demand, while net exports will remain a drag. Given the tremendous tightening of the U.S. labour market over the last couple of years, the Federal Reserve will likely act to tighten monetary policy at least once this year in order to ensure inflation does not exceed its 2% target. This is in contrast to other advanced economies and is likely to keep the dollar elevated.

The first half of 2016 saw additional monetary stimulus unleashed by the ECB and the Bank of Japan. After several months of these additional easing measures in place, the ECB appears content with the current pace of expansion, interpreting it as a sign of success of its easing policies. On the other hand, the Bank of Japan remains concerned with the volatile and slow pace of growth and may act to ease further. While more monetary easing may be necessary, it is unclear if this will be enough to offset the structural headwinds presented by an aging labour force and weak productivity. As major international bodies have advocated earlier this year, a combination of fiscal and monetary policy as well as structural reforms will be necessary to ensure that many advanced economies avoid a sustained period of economic stagnation (Chart 4).



Source: OECD Economic Outlook (No. 99) June 2016, Bloomberg, TD Economics. Bond yields as of June 14, 2016.



Source: Betfair, TD Securities, TD Economics. As of June 14, 2016.
* 6-poll average

In addition to that broader challenge, the most pressing near-term risk among the advanced economies is the threat of the United Kingdom leaving the European Union. Such an outcome would result in financial market turmoil and a downgrade in the UK growth outlook. Weekly polls are close but betting markets – a better leading indicator of underlying sentiment – are slightly skewed in favor of the UK remaining as part of the European Union after June 23rd, 2016 (Chart 5). On the upside, the prospect of more fiscal stimulus in advanced economies, particularly targeted at improving infrastructure, appears increasingly likely and, if done right, should help improve long-term productivity of the countries that make these investments.

Bottom line

While the global economy is likely to claw its way back to its trend rate next year, this improvement is unlikely to be sufficient to quash concerns about a prolonged period of economic stagnation. The outlook for many emerging market economies will remain challenging over the next year as they adjust to lower prices and slower Chinese growth. While risks remain concentrated in EMs, they should continue to be the primary driver of global growth. For advanced economies, questions remain as to whether they will finally achieve the virtuous cycle that years of extraordinary monetary stimulus has aspired to deliver, or if supply side drags act to cement an era of serial disappointment. The baseline forecast embeds risk on both sides, but in light of recent performances, builds in more of the latter.

U.S. OUTLOOK - MORE UPS THAN DOWNS

The American economy continues to make progress in fits and starts. Real GDP grew by just 0.8% (annualized) in the first quarter, but weak economic growth to start the year has become a pattern. Led by consumer spending, economic growth looks to bounce back to 2.6% in the second quarter.

Economic fundamentals have not changed significantly since our last forecast in March, although financial conditions have eased somewhat. The soft global economy continues to weigh on U.S. growth, but domestic demand remains well supported by accommodative interest rates, a tightening labour market and rising wages. Job growth has slowed relative to its pace of late last year, but this is due in part to temporary factors and in part to the move to more normal labour market conditions.

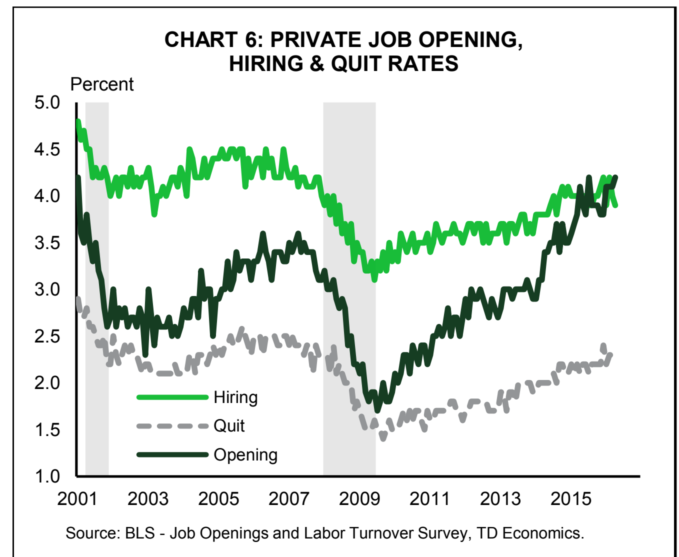
While economic growth will remain moderate, the positives continue to outweigh the negatives. The American economy is expected to advance by 1.9% in 2016 and 2.1% in 2017, sufficient to put further downward pressure on unemployment and upward pressure on inflation, warranting a continued gradual normalization in monetary policy.

Job market still performing well, despite recent slowdown

The resilience of the labour market has been an important factor driving recent economic performance. Ongoing job growth has given support to income gains and consumer spending, which has grown by 3% over the last year and offset the drag from net exports and falling oil and gas investment.

Job growth has slowed recently, averaging 116k over the past three months, down from 200k over the past year. One shouldn't place too much importance on one or even a few months of data – the monthly job report is notoriously volatile and weakness in May was due in part to a strike at a major telecom company that has since ended.

A slower pace of job growth, however, also reflects a diminished level of labour market slack. Judging simply by the unemployment rate at 4.7%, the job market has returned to pre-recession norms. Other measures suggest that it's not quite there yet. The "U6" unemployment rate that includes people marginally attached to the workforce (individuals who want a job, but aren't currently looking) and those employed part time (for economic reasons) is still a percentage point and a half above its pre-recession trough. Still, there is no denying that considerable progress has been made. From a peak of 17.1%, the U6 rate has fallen to 9.7%.



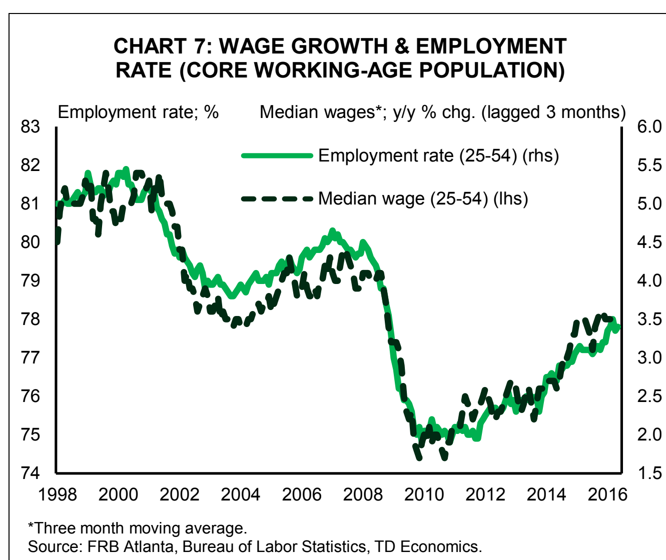
Importantly, demand for workers has shown few signs of slowing down (Chart 6). The rate of job openings remained at a record high in April. In the immediate aftermath of the recession there were 6.6 unemployed people for every job opening. Now there are just 1.4, the lowest level in fifteen years.

As the labour market becomes tighter, filling positions becomes more difficult and employers have to offer higher wages. There is evidence of this in the wage data. Average hourly earnings rose 2.5% in May, but underlying wage growth is even stronger. Median wage growth of full-time workers is up 3.5%.

All told, job growth is likely to rebound modestly in the months ahead, but probably not back to the 200k level seen to date. We anticipate a more sustainable monthly pace around 150k, enough to bring the unemployment rate down to 4.3% by the end of 2017, which is a tick lower than its pre-recession trough. With this level of headline unemployment, broader measures such as the U6 rate are likely to return to pre-recession norms.

Rising wages and low interest rates support consumer spending and housing investment

The largest contributors to economic growth over the forecast are consumer spending and residential investment. In addition to rising wages, household spending will be supported by record-low borrowing costs. With the recent decline in bond yields, mortgage rates have returned to rock bottom levels last seen before the taper tantrum in 2013. As a result of low rates and past deleveraging, the household debt service ratio is currently sitting near 30 year lows. With income growth accelerating (Chart 7), it is likely to remain



low for the foreseeable future, even as debt levels are likely to move higher.

As a result, interest-rate sensitive categories of spending should continue to perform well. After falling early in the year, vehicle sales rebounded in April and May and are likely to advance further over the second half of this year. Homes sales have also shot up in recent months, with sales of new single-family units hitting the highest level in over eight years. As home sales rise, housing-related purchases (furniture and electronics) are also likely to move higher.

With strong demand fundamentals, housing construction is also expected to increase. We anticipate housing starts to rise to 1.3 million units by the end of this year and further to 1.4 million by the end of 2017. While this is about the same rate of growth recorded last year, the composition should move more in favor of single-family homes, which provide a bigger lift to both employment and GDP.

Other investment categories are likely to see a slower rate of growth, but even here the story is for improvement. Investment in oil and gas structures fell a whopping 90% (annualized) in the first quarter of this year, subtracting 0.5 percentage points from real GDP growth. That is indeed striking for a sector that now makes up just 0.2% of the economy. The worse-than-expected performance of this sector came in an environment when oil prices slipped into the mid $20s and concerns over a global economic recession hit a fever pitch.

The good news is that the near doubling in energy prices since the trough in the first quarter means that the worst is in the rear-view mirror in terms of cutbacks. The rig count has even moved up ever so slightly over the last several weeks. Given our outlook for a continued gradual rise in oil prices, there should be a modest recovery in oil and gas investment over the course of 2017. This will not be a major contributor to economic growth, but the swing from deeply negative to modestly positive will remove an important headwind.

The Fed's conundrum

The Federal Reserve refrained from lifting rates at its June meeting, citing the recent slowing in job growth. At her press conference, Chair Yellen noted that uncertainty with respect to the outcome of the UK referendum was also a factor in the Fed's decision.

The Fed is awaiting confirmation that economic growth is still on course and inflation is moving toward its 2.0% target. The most pressing near-term concern is that inflation expectations have been drifting downward even as energy prices have moved higher. This downward movement reflects deepening global uncertainty amid worries that the UK will vote to leave the European Union. This would obviously be a game changer for the economic and inflation outlook. The hit to global growth and shock to financial markets would likely be enough to stall the Fed from raising rates this year.

Our forecast is premised on the assumption that the UK will vote to remain. As long as that occurs, the Fed is likely to get the confirmation it requires. While we do not expect a major jump in inflation, it is likely to move gradually higher over the forecast horizon. Pushed up by faster wage growth and pulled up by higher demand, we expect the Fed's preferred metric, the core price index for personal consumption to approach 2.0% by the end of the forecast horizon in 2017.

As inflation moves toward the Fed's 2% target, it will keep downward pressure on real borrowing costs, giving the Federal Reserve cover to nudge up rates without removing much accommodation. We anticipate one hike in the second half of this year, with two more in tow in 2017.

Bottom line

The American economy is at a crossroads. Judging by the unemployment rate of 4.7%, it is operating near capacity. Inflation is running at just over 1.0%, but with the rebound in energy prices, it is moving higher. Interest rates, on the other hand, are close to record-lows. While global forces will continue to put a damper on inflation, economic growth and interest rates, domestic fundamentals augur for higher levels of all three. With ongoing support from household spending, the economy will continue to move toward full employment and interest rates should finally move higher.

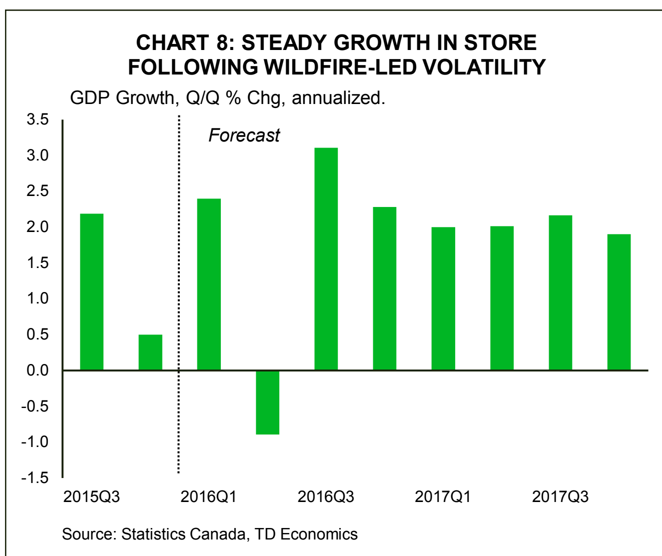
CANADIAN OUTLOOK – WILDFIRES PULL DOWN 2016 GROWTH

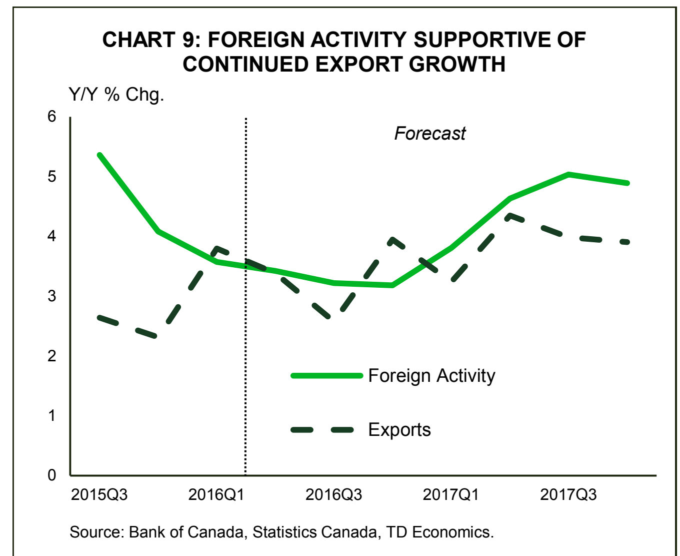
2016 started with a bang, as a surge in exports and residential investment led the way to a 2.4% expansion (annualized) in the first quarter. Unfortunately, both fleeting momentum at the end of the quarter as well as the more recent wildfires in the area surrounding Fort McMurray Alberta are setting the stage for a pullback in economic activity in the second quarter (Chart 8). Significant production capacity was taken offline in May, dragging down output for both the month and the quarter as a whole. As production comes back online in the third quarter, activity is expected to bounce back, but not sufficiently to prevent a meaningful downgrade in our 2016 growth outlook to a tepid 1.3%.

Looking through the noise, the underlying picture is one of modest growth. The Canadian economy remains in the midst of a large scale, commodity price precipitated economic rotation. As this adjustment moves into a more growth-friendly phase in 2017 and the boost from fiscal stimulus kicks into higher gear, real GDP growth is expected to rebound to 2.0%. Even with this rebound, the economy is likely to operate with more slack than we had forecast in our March forecast. As such, we are more steadfast in our view of no rate increase by the Bank of Canada during the 2016-17 period.

Exports to remain a key growth support despite near-term volatility

Net exports were a significant driver of growth in the first quarter, responsible for nearly three-quarters of the expansion in activity. A closer look shows that growth was extremely front-loaded in January, with data for February and March pointing to a subsequent reversal. In the near term, this volatility will no doubt be further amplified by oil supply disruptions resulting from the May wildfires.



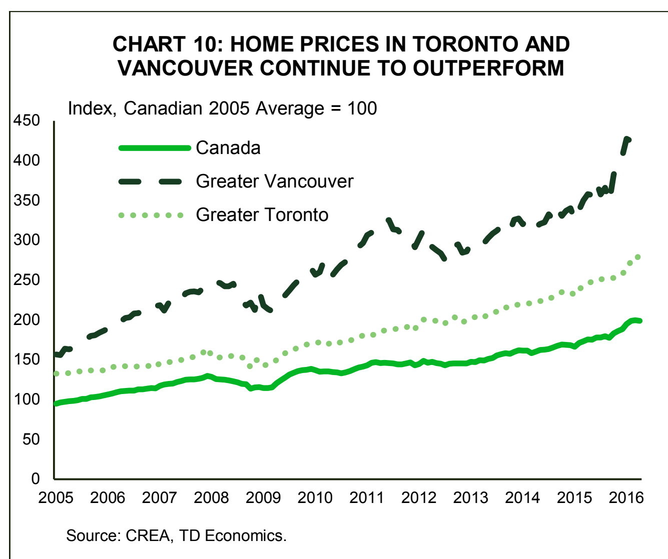


We have built more caution into the outlook in light of these noisy trends, but still believe that export growth will punch above its weight in Canada's expansion. Looking ahead, an environment of strengthening U.S. demand (Chart 9), and a still-supportive Canadian dollar in the 75 to 78 cent U.S. range are likely to spur continued solid real export gains of about 4% annualized in the second half of 2016 and in 2017. Consistent with our past analysis, we expect products related to housing, such as wood products, plastic and rubber products, and furniture to deliver strong export performances.

Residential investment going strong, but the party will come to an end

While we have become somewhat more cautious in our view on exports relative to our March forecast, this has been partly offset by an upgraded near-term forecast for housing. The first quarter saw a marked acceleration in residential activity, recording its fastest rate since 2012. Growth was widespread, with both new construction and resale activity growing strongly. Momentum has shown no sign of letting up in the second quarter.

Beneath these national moves, however, remains a story of three markets. The Vancouver and Toronto areas continue to lead the way in price gains (Chart 10), whereas Alberta and other commodity producing regions are experiencing declining prices and activity. The remaining markets fall somewhere in between with little or no price growth.



There is little debate that Canada's hottest housing markets are ripe for a correction; the difficulty is predicting its timing. Over the second half of 2016, some moderation in resale activity and price growth should become evident as bond yields pull off their lows and stretched affordability leads to a cooling in domestic and foreign housing demand. However, barring significant new government regulatory measures to curb housing market speculation later this year, more concrete signs of a housing market slowdown are unlikely to be seen until 2017. Even then, there tends to be a lag before weaker resale demand translates into a moderation in building activity.

Consumer and government spending help offset weak investment

Looking at the domestic outlook more broadly, the drivers of household spending are delivering mixed signals. Household indebtedness remains elevated, which should constrain spending. At the same time, an increasingly older population implies a deceleration in the trend pace of consumption gains. On the other side of the coin, net worth is high, and interest rates are likely to remain well below historic norms, even with a modest upward push.

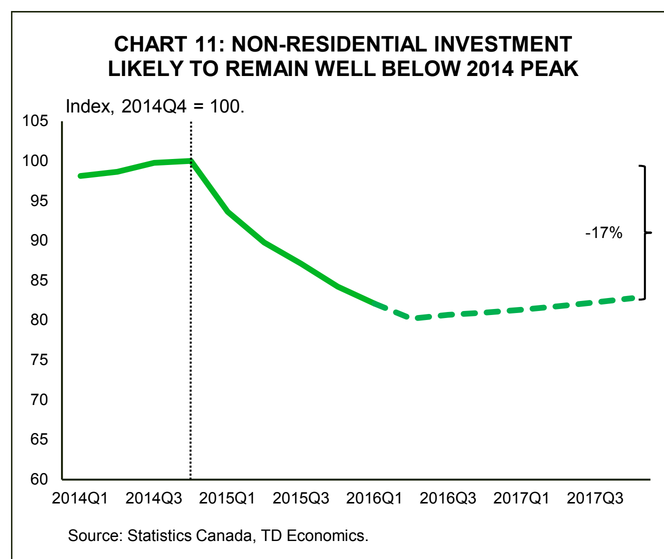
The net result is a pace of consumer spending slightly below 2% over 2016 and 2017, a far cry from historic growth patterns (consumption growth has averaged 2.9% since 2000). While below the historic pace, with overall GDP growth of 2% or less, consumption will nevertheless continue to play an important role in the Canadian economy, providing a reliable (if unremarkable) impetus to overall growth.

Similarly, government spending will kick into higher gear as outlays from the federal budget gradually make their way into the economy. We have long argued that this is likely to provide a bigger lift in 2017 than this year, especially given its focus on infrastructure spending, which is slow to diffuse and in many cases will require negotiations with other levels of government.

At the provincial level, jurisdictions have ambitious infrastructure plans of their own to take advantage of low borrowing rates to ramp up capital spending in transportation and other public assets. With federal assistance, Alberta, in particular, will need to allocate significant new funds to rebuild Fort McMurray following the wildfires. These plans will add to this support, but again, the impact is likely to take some time to be felt.

Accordingly, total government spending growth (including operations) will appear relatively weak on average in 2016, but this is due to a decline in the fourth quarter of last year. Spending is expected to accelerate through this year, growing by 1.4% on a fourth quarter over fourth quarter basis, and accelerating further in 2017. This comes after restraint earlier in the recovery in which the impact of government spending was minimal or slightly negative.

In contrast, the biggest weak spot in the Canadian economy will remain non-residential business investment. The third quarter of 2016 is likely to mark the start of an investment recovery, with help from some post-wildfire rebuilding and production resumption activities. Still, the turnaround is expected to be tepid at best, with the level of capital spending likely to remain almost 20% below its peak in late 2014 (Chart 11).



To a large extent, weakness in business investment is not unique to Canada. Many countries are struggling with inadequate private capital spending, which may partly reflect heightened uncertainty and lofty debt levels. In Canada, the challenge has been accentuated by the woes of the resource sector, which in 2014 represented as much as one-third of the country's overall tally. Within the oil sector, the rebound in oil prices to the US$50 per barrel level has helped to alleviate some financial strain, but not high enough to significantly improve the near-term outlook for new oil-related investment. Even as oil prices move gradually higher in 2017 to about US$55 on average, more cost effective projects with quicker turnaround times, notably in the U.S. shale sector, are likely to be first in line to attract funding.

Medium-term prospects for manufacturing investment are brighter. With the Canadian dollar remaining relatively competitive and likely to pullback slightly as markets refocus on the Fed's gradual rate hiking cycle, manufacturing activity should continue to move higher. Eventually, this will also manifest in faster business investment, but with capacity utilization still below pre-crisis levels, this channel is not expected to be a meaningful investment driver until late-2017/early-2018.

Wildfires push provincial divergence even wider

2016 was already expected to mark a wide divergence among provinces, with nation-leading B.C. and Ontario on track to top the growth charts with solid gains of close to 3% while a second straight year of significant contraction was in store for Alberta. The onset of the Alberta wildfires are poised to further deepen Alberta's near-term recession and widen the gap with the out-performing regions this year (Table 1). While it's hardly consolation for the destruction suffered, the rebuilding efforts will provide a boost to growth in the province over the latter half of 2016 and into 2017. This development, along with a nascent recovery in its underlying economy, will help to catapult Alberta to the upper end of the provincial leaderboard next year.

Economic rotation to keep Bank of Canada on hold

With an expected pace of growth only modestly above potential, it will take some time for existing economic slack to be absorbed. As a result, fundamental inflationary pressures will remain muted, relieving the Bank of Canada of any near-term cause to raise interest rates. Indeed, given recent economic weakness and the ongoing adjustment process, we believe the Bank of Canada will likely want to keep its foot on the accelerator for as long as possible, and is not likely to begin raising its policy interest rate until 2018.

TABLE 1: B.C. AND ONTARIO TO LEAD THE WAY IN 2016

Average real GDP growth, per cent

	2015E	2016F	2017F
Canada	1.1	1.3	2.0
Newfoundland + Labrador	-2.1	-0.4	-0.9
Prince Edward Island	1.5	1.8	1.9
Nova Scotia	1.1	1.6	1.8
New Brunswick	1.9	0.9	1.2
Quebec	1.1	1.4	1.5
Ontario	2.6	2.9	2.2
Manitoba	2.3	2.4	2.1
Saskatchewan	-0.9	-0.3	2.3
Alberta	-3.5	-2.9	2.6
British Columbia	3.3	3.1	2.3

Real GDP at market prices. F: Forecast by TD Economics as at June 2016

Risks abound

While all economic forecasts involve the weighing of risks, the current environment presents an unusually elevated level of uncertainty. Beyond our borders, the possibility of Brexit is a key near-term event that could have ripple effects via exchange rates and financial flows. Another risk arises from oil prices, which have recently trended higher, outpacing our expectations and strengthening the Canadian dollar. Should prices continue to rise, associated currency strength would likely pose a headwind to exports, sapping economic momentum. While not our base case, such a scenario would undoubtedly lead to weaker growth, and the potential for further easing from the Bank of Canada, or additional fiscal stimulus at the federal level.

On the other side of the coin, we have been somewhat surprised by the continued resilience of Canadians' willingness to spend, both on consumption and housing. While the long-term trends are clearly towards a slower pace of growth, near-term momentum may prove stronger than believed.

INTEREST RATE OUTLOOK

	2015				2016				2017			
	Q1	Q2	Q3	Q4	Q1	Q2*	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	0.50
3-mth T-Bill Rate	0.55	0.58	0.43	0.51	0.45	0.51	0.50	0.50	0.50	0.50	0.50	0.65
2-yr Govt. Bond Yield	0.51	0.49	0.53	0.48	0.54	0.48	0.55	0.60	0.65	0.70	0.75	0.85
5-yr Govt. Bond Yield	0.77	0.81	0.81	0.73	0.68	0.53	0.70	0.80	0.90	1.00	1.10	1.20
10-yr Govt. Bond Yield	1.36	1.68	1.45	1.39	1.23	1.08	1.35	1.45	1.50	1.60	1.65	1.75
30-yr Govt. Bond Yield	1.99	2.31	2.21	2.15	2.00	1.76	1.95	2.00	2.05	2.15	2.20	2.25
10-yr-2-yr Govt Spread	0.85	1.19	0.92	0.91	0.69	0.60	0.80	0.85	0.85	0.90	0.90	0.90
U.S.												
Fed Funds Target Rate	0.25	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	1.00	1.00	1.25
3-mth T-Bill Rate	0.03	0.01	0.00	0.16	0.21	0.26	0.55	0.55	0.55	0.80	0.80	1.05
2-yr Govt. Bond Yield	0.56	0.64	0.64	1.06	0.73	0.71	0.95	1.15	1.20	1.35	1.40	1.60
5-yr Govt. Bond Yield	1.37	1.63	1.37	1.76	1.21	1.12	1.45	1.65	1.70	1.80	1.85	2.00
10-yr Govt. Bond Yield	1.94	2.35	2.06	2.27	1.78	1.59	1.95	2.10	2.15	2.25	2.30	2.40
30-yr Govt. Bond Yield	2.54	3.11	2.87	3.01	2.61	2.40	2.75	2.85	2.90	3.00	3.05	3.10
10-yr-2-yr Govt Spread	1.38	1.71	1.42	1.21	1.05	0.88	1.00	0.95	0.95	0.90	0.90	0.80
CANADA - U.S SPREADS												
Can - U.S. T-Bill Spread	0.52	0.57	0.43	0.35	0.24	0.25	-0.05	-0.05	-0.05	-0.30	-0.30	-0.40
Can - U.S. 10-Year Bond Spread	-0.58	-0.67	-0.61	-0.88	-0.55	-0.51	-0.60	-0.65	-0.65	-0.65	-0.65	-0.65

F: Forecast by TD Bank Group as at June 2016; All forecasts are end-of-period; Source: Bloomberg, Bank of Canada, Federal Reserve.
*Spot rate on June 15, 2016.

FOREIGN EXCHANGE OUTLOOK

Currency	Exchange rate	2015				2016				2017			
		Q1	Q2	Q3	Q4	Q1	Q2*	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Exchange rate to U.S. dollar													
Japanese yen	JPY per USD	120	122	120	120	112	106	113	115	118	120	121	122
Euro	USD per EUR	1.07	1.12	1.12	1.09	1.14	1.13	1.07	1.09	1.12	1.10	1.14	1.14
U.K. pound	USD per GBP	1.49	1.57	1.51	1.48	1.44	1.42	1.43	1.47	1.53	1.55	1.56	1.58
Exchange rate to Canadian dollar													
U.S. dollar	USD per CAD	0.79	0.80	0.75	0.72	0.77	0.78	0.75	0.75	0.75	0.75	0.76	0.77
Japanese yen	JPY per CAD	94.6	97.9	89.4	86.9	82.1	88.3	84.3	86.5	88.7	90.2	91.7	93.8
Euro	CAD per EUR	1.36	1.39	1.50	1.50	1.45	1.41	1.43	1.45	1.49	1.46	1.51	1.48
U.K. pound	CAD per GBP	1.88	1.96	2.03	2.04	1.83	1.78	1.91	1.96	2.04	2.06	2.06	2.05

F: Forecast by TD Bank Group as at June 2016. *Spot rate on June 15, 2016.
All forecasts are end-of-period. Source: Federal Reserve, Bloomberg, TDBG.

COMMODITY PRICE OUTLOOK

	2015				2016				2017			
	Q1	Q2	Q3	Q4	Q1	Q2E	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Crude Oil (WTI, $US/bbl)	49	58	46	42	34	44	48	50	52	52	55	55
Natural Gas ($US/MMBtu)	2.87	2.78	2.75	2.10	1.97	2.00	2.35	2.50	2.90	3.10	3.40	3.60
Gold ($US/troy oz.)	1218	1191	1124	1104	1182	1245	1225	1200	1195	1185	1175	1175
Silver (US$/troy oz.)	16.7	16.4	14.9	14.8	14.9	16.5	16.0	15.5	15.3	15.0	14.9	14.7
Copper (cents/lb)	264	275	238	222	212	216	222	226	228	230	230	232
Nickel (US$/lb)	6.51	5.94	4.78	4.27	3.86	3.97	4.20	4.45	4.75	5.00	6.00	6.25
Aluminum (cents/lb)	82	79	72	68	69	70	72	72	74	74	76	76
Wheat ($US/bu)	7.45	7.34	6.39	6.36	5.89	6.10	6.25	6.15	6.25	6.25	6.50	6.75

F: Forecast by TD Bank Group as at June 2016. E: Estimate. All 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	Q4	Q1	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	15	16F	17F	15	16F	17F
Real GDP	-1.0	-0.5	2.2	0.5	2.4	-0.9	3.1	2.3	2.0	2.2	1.9	1.7	1.1	1.3	2.0	0.3	1.7	2.0
Consumer Expenditure	-0.1	2.3	2.3	1.8	2.3	0.7	2.0	1.8	1.9	1.8	1.8	1.7	1.9	1.9	1.8	1.6	1.7	1.8
Durable Goods	-8.0	5.6	10.2	4.2	4.6	1.3	2.6	2.5	1.9	1.7	1.6	1.8	2.9	4.2	2.0	2.8	2.8	1.8
Non-Res. Fixed Investment	-23.2	-15.5	-11.4	-12.5	-9.4	-8.9	2.4	1.3	2.3	2.3	2.6	2.3	-10.6	-8.7	1.3	-15.8	-3.9	2.2
Non-Res. Structures	-31.7	-15.4	-14.2	-15.3	-14.1	-13.5	2.5	1.0	1.4	1.3	1.5	1.3	-14.7	-11.6	0.4	-19.5	-6.4	1.3
Equipment & IPP*	-13.4	-14.1	-5.9	-6.8	-3.5	-3.3	2.0	1.5	2.9	3.3	3.6	3.6	-5.1	-4.1	2.1	-10.1	-0.8	3.0
Residential Investment	6.6	0.1	2.6	1.8	11.2	6.5	4.1	3.4	0.4	-0.5	-0.7	-1.5	3.8	5.4	1.9	2.8	6.2	0.2
Government Expenditure	4.2	2.2	0.3	-0.3	0.9	1.1	1.9	2.0	2.1	2.2	2.3	1.6	1.8	0.9	2.0	1.6	1.4	2.2
Final Domestic Demand	-2.2	-0.1	0.3	-0.3	2.2	0.2	2.1	1.9	1.8	1.8	1.8	1.5	0.3	1.0	1.8	-0.6	1.6	1.8
Exports	0.9	1.2	9.0	-1.5	6.9	-0.4	5.6	3.9	3.9	4.1	3.6	3.7	3.4	3.4	3.9	2.3	3.9	3.9
Imports	0.9	-1.8	-2.8	-7.0	1.3	3.6	3.2	3.4	3.1	3.3	3.1	3.2	0.3	-0.2	3.3	-2.7	2.9	3.2
Change in Non-Farm Inventories ($2007 Bn)	17.3	8.9	1.4	-4.8	-7.2	-6.1	-5.2	-4.2	-5.0	-4.8	-5.3	-5.4	5.7	-5.7	-4.9	---	---	---
Final Sales	-2.1	1.1	4.3	1.7	3.2	-1.0	2.9	2.1	2.1	2.1	2.0	1.7	1.5	2.0	2.0	1.2	1.8	2.1
International Current Account Balance ($Bn)	-67.9	-55.6	-57.5	-57.2	-73.7	-66.7	-59.6	-41.7	-31.0	-23.2	-19.7	-19.0	-59.5	-60.4	-27.0	---	---	---
% of GDP	-3.4	-2.8	-2.9	-2.9	-3.7	-3.3	-2.9	-2.0	-1.5	-1.1	-0.9	-0.9	-3.0	-3.0	-1.3	---	---	---
Pre-tax Corp. Profits	-44.1	-2.6	-5.1	-19.1	-8.8	-7.5	5.4	7.0	10.8	9.3	7.8	7.2	-15.8	-7.2	8.2	-19.6	-1.3	10.0
% of GDP	11.9	11.8	11.6	11.0	10.7	10.4	10.4	10.5	10.8	11.0	11.1	11.2	11.6	10.5	10.9	---	---	---
GDP Deflator (Y/Y)	-0.5	-0.4	-1.0	-0.4	0.2	0.4	0.9	1.8	2.3	2.3	1.6	1.2	-0.5	0.8	2.2	-0.4	1.8	1.6
Nominal GDP	-4.0	1.3	2.2	0.5	1.3	1.9	5.2	5.9	3.1	4.1	2.7	3.1	0.5	2.1	4.3	0.0	3.5	3.6
Labour Force	1.0	1.0	1.5	1.3	0.8	-0.3	0.8	0.6	0.6	0.5	0.4	0.4	0.8	0.8	0.5	1.2	0.5	0.5
Employment	0.6	0.8	0.8	0.9	0.2	0.2	0.3	0.7	0.8	0.6	0.4	0.5	0.9	0.5	0.6	0.8	0.4	0.6
Employment ('000s)	27	37	37	39	11	9	15	31	34	28	20	23	152	90	105	141	65	109
Unemployment Rate (%)	6.8	6.8	7.0	7.1	7.2	7.1	7.2	7.2	7.1	7.1	7.1	7.0	6.9	7.1	7.1	---	---	---
Personal Disp. Income	0.5	9.3	-0.1	2.2	2.5	0.6	3.4	3.7	3.2	3.1	3.2	2.9	3.7	2.3	3.2	2.9	2.6	3.2
Pers. Saving Rate (%)	4.8	5.2	4.3	4.2	3.9	3.9	3.8	3.8	3.8	3.8	3.8	3.7	4.6	3.8	3.8	---	---	---
Cons. Price Index (Y/Y)	1.1	0.9	1.1	1.3	1.6	1.8	1.8	2.2	2.1	2.0	1.9	2.0	1.1	1.8	2.1	1.3	2.2	1.9
Core CPI (Y/Y)	2.2	2.3	2.2	2.1	2.0	2.2	2.1	2.0	1.9	1.9	2.0	2.0	2.2	2.1	2.0	2.1	2.0	2.0
Housing Starts ('000s)	175	193	194	195	198	195	192	189	182	181	179	183	189	193	182	---	---	---
Productivity: Real GDP / worker (Y/Y)	1.3	0.0	0.1	-0.5	0.4	0.5	0.9	1.3	1.7	1.4	1.4	1.4	0.2	0.8	1.4	-0.5	1.3	1.4

*Intellectual Property Products. F: Forecast by TD Economics as at June 2016

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	Q4	Q1	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	15	16F	17F	15	16F	17F
Real GDP	0.6	3.9	2.0	1.4	0.8	2.6	2.3	2.0	1.5	2.4	2.2	2.0	2.4	1.9	2.1	2.0	1.9	2.0
Consumer Expenditure	1.7	3.6	3.0	2.4	1.9	3.8	2.7	2.5	1.8	2.4	2.2	2.0	3.1	2.7	2.3	2.7	2.7	2.1
Durable Goods	2.0	8.0	6.6	3.8	-1.3	12.1	5.9	4.5	4.0	4.7	4.1	3.3	6.0	4.9	4.9	5.1	5.2	4.0
Non-Res. Fixed Investment	1.6	4.1	2.6	-2.1	-6.2	0.9	3.9	2.9	2.5	4.1	4.0	3.8	2.8	-0.6	3.2	1.5	0.3	3.6
Non-Res. Structures	-7.4	6.3	-7.2	-5.1	-8.9	-3.9	2.4	2.1	2.7	5.1	4.3	4.7	-1.5	-4.1	2.9	-3.5	-2.2	4.2
Equipment & IPP*	4.3	3.5	5.5	-1.3	-5.5	2.2	4.3	3.1	2.4	3.9	3.9	3.5	4.1	0.4	3.3	3.0	1.0	3.4
Residential Construction	10.1	9.4	8.2	10.1	17.2	6.3	7.4	8.4	10.5	10.2	9.0	4.1	8.9	10.3	8.8	9.4	9.7	8.4
Govt. Consumption & Gross Investment	-0.1	2.6	1.8	0.1	1.2	1.0	1.3	1.0	1.0	0.9	1.1	1.2	0.7	1.1	1.0	1.1	1.1	1.1
Final Domestic Demand	1.7	3.7	2.9	1.7	1.2	3.0	2.8	2.5	2.1	2.6	2.5	2.1	2.8	2.3	2.5	2.5	2.4	2.3
Exports	-6.0	5.1	0.7	-2.0	-2.0	2.4	4.2	5.1	4.8	5.5	5.3	5.0	1.1	0.8	4.9	-0.6	2.4	5.2
Imports	7.1	3.0	2.3	-0.7	-0.2	1.6	7.3	6.7	6.9	5.8	6.6	5.5	4.9	1.9	6.3	2.9	3.8	6.2
Change in Private Inventories	112.8	113.5	85.5	78.3	69.6	48.0	48.8	42.4	34.6	31.6	31.9	31.4	97.5	52.2	32.4	---	---	---
Final Sales	-0.2	3.9	2.7	1.6	1.0	3.2	2.3	2.2	1.7	2.5	2.2	2.0	2.3	2.2	2.2	2.0	2.2	2.1
International Current Account Balance ($Bn)	-473	-442	-520	-501	-523	-525	-564	-568	-587	-601	-633	-655	-484	-545	-619	---	---	---
% of GDP	-2.7	-2.5	-2.9	-2.8	-2.9	-2.8	-3.0	-3.0	-3.1	-3.1	-3.3	-3.3	-2.7	-2.9	-3.2	---	---	---
Pre-tax Corporate Profits including IVA&CCA	-21.1	14.8	-6.2	-27.7	1.4	4.5	3.1	3.6	3.1	4.0	3.7	3.6	-3.1	-4.2	3.6	-11.5	3.1	3.6
% of GDP	11.4	11.6	11.4	10.4	10.4	10.4	10.4	10.4	10.3	10.3	10.3	10.3	11.2	10.4	10.3	---	---	---
GDP Deflator (Y/Y)	1.0	1.0	0.9	1.1	1.2	1.2	1.2	1.6	2.0	2.1	2.2	2.2	1.0	1.3	2.1	1.1	1.6	2.2
Nominal GDP	0.8	6.1	3.3	2.3	1.4	4.5	3.9	4.4	3.9	4.6	4.4	4.2	3.5	3.2	4.2	3.1	3.5	4.3
Labor Force	1.6	0.5	-0.3	1.1	3.6	-0.4	1.1	1.0	1.0	0.9	0.9	0.9	0.8	1.2	0.9	0.7	1.3	0.9
Employment	2.1	1.9	1.9	2.0	1.9	1.1	1.5	1.3	1.3	1.2	1.2	1.1	2.1	1.7	1.3	2.0	1.5	1.2
Change in Empl. ('000s)	731	653	670	721	659	404	537	482	473	449	421	400	2,893	2,390	1,850	2,775	2,082	1,742
Unemployment Rate (%)	5.6	5.4	5.2	5.0	4.9	4.7	4.6	4.5	4.4	4.4	4.3	4.3	5.3	4.7	4.4	---	---	---
Personal Disp. Income	1.9	4.9	4.5	3.7	4.4	4.5	3.7	4.2	3.7	4.4	4.2	3.9	3.8	4.2	4.1	3.7	4.2	4.1
Pers. Saving Rate (%)	5.2	5.0	5.0	5.2	5.7	5.4	5.2	5.0	5.0	5.0	5.0	4.9	5.1	5.3	5.0	---	---	---
Cons. Price Index (Y/Y)	-0.1	0.0	0.1	0.4	1.1	1.2	1.6	2.2	2.9	2.8	2.7	2.5	0.1	1.5	2.8	0.4	2.2	2.5
Core CPI (Y/Y)	1.7	1.8	1.8	2.0	2.3	2.2	2.2	2.2	2.1	2.2	2.3	2.3	1.8	2.2	2.2	2.0	2.2	2.3
Core PCE price index (Y/Y)	1.3	1.3	1.3	1.4	1.7	1.6	1.6	1.7	1.6	1.7	1.8	1.9	1.3	1.6	1.7	1.4	1.7	1.9
Housing Starts (mns)	0.99	1.16	1.16	1.14	1.15	1.18	1.21	1.26	1.31	1.37	1.40	1.42	1.11	1.20	1.37	---	---	---
Real Output per hour (y/y)**	0.7	0.9	0.6	0.6	0.7	0.1	-0.1	0.6	0.8	0.9	1.0	1.1	0.7	0.3	0.9	0.6	0.6	1.1

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

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	2.9	3.4
North America	19.3	2.4	2.3	1.9	2.2
United States	15.9	2.4	2.4	1.9	2.1
Canada	1.5	2.5	1.1	1.3	2.0
Mexico	2.0	2.3	2.6	2.9	3.0
European Union (EU-28)	17.1	1.4	1.9	1.8	2.0
Eurozone (EU-19)	12.1	0.9	1.6	1.6	1.7
Germany	3.4	1.6	1.5	1.5	1.6
France	2.4	0.2	1.2	1.6	1.5
Italy	2.0	-0.3	1.4	0.9	1.2
United Kingdom	2.4	2.9	2.3	1.9	2.2
EU accession members	2.6	2.6	3.4	2.8	2.9
Asia	42.1	5.1	4.6	4.7	4.9
Japan	4.4	-0.1	0.6	0.6	1.0
Asian NIC's	3.4	3.4	1.9	2.3	2.6
Hong Kong	0.4	2.7	2.4	2.2	2.5
Korea	1.6	3.3	2.6	2.7	3.0
Singapore	0.4	3.3	2.0	1.8	2.0
Taiwan	1.0	3.9	0.7	1.8	2.1
Russia	3.5	0.7	-3.7	-1.0	1.4
Australia & New Zealand	1.2	2.7	2.7	3.1	2.8
Developing Asia	29.7	6.7	6.5	6.4	6.3
ASEAN-4	4.8	4.5	4.6	4.6	4.9
China	16.5	7.3	6.9	6.4	5.9
India**	6.7	7.0	7.3	7.8	8.0
Central/South America	6.8	1.0	-1.0	-0.9	1.0
Brazil	3.0	0.1	-3.8	-3.0	0.8
Other Developing	13.7	3.3	2.5	2.2	3.4
Other Advanced	1.0	2.2	1.6	1.6	1.9

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

ECONOMIC INDICATORS: G-7 AND EUROPE

		Forecast		
	2014	**2015**	**2016**	**2017**
Real GDP (Annual per cent change)				
G-7 (31.9%)*	1.8	1.8	1.6	1.8
U.S.	2.4	2.4	1.9	2.1
Japan	-0.1	0.6	0.6	1.0
Eurozone	0.9	1.6	1.6	1.7
Germany	1.6	1.5	1.5	1.6
France	0.7	1.2	1.6	1.5
Italy	0.5	1.4	0.9	1.2
United Kingdom	2.9	2.3	1.9	2.2
Canada	2.5	1.1	1.3	2.0
Consumer Price Index (Annual per cent change)				
G-7	1.5	0.2	1.0	2.2
U.S.	1.6	0.1	1.5	2.8
Japan	2.7	0.8	0.1	1.7
Eurozone	0.4	0.0	0.3	1.6
Germany	0.8	0.1	0.4	1.6
France	0.6	0.1	0.4	1.4
Italy	0.2	0.1	0.2	1.6
United Kingdom	1.5	0.0	0.5	1.7
Canada	1.9	1.1	1.8	2.1
Unemployment Rate (Per cent annual averages)				
U.S.	6.2	5.3	4.7	4.4
Japan	3.6	3.4	3.2	3.1
Eurozone	11.6	10.9	10.2	9.8
Germany	5.0	4.6	4.3	4.5
France	10.3	10.4	10.1	9.9
Italy	12.6	11.9	11.5	11.2
United Kingdom	6.1	5.3	5.1	5.0
Canada	6.9	6.9	7.1	7.1

*Share of 2014 world gross domestic product (GDP) at PPP.
Forecast as at June 2016
Source: National statistics agencies, TD Economics

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