QUARTERLY ECONOMIC FORECAST

TD Economics

March 23, 2016

SLOW, BUT STEADY IMPROVEMENT IN CANADIAN ECONOMY AMIDST VOLATILE FINANCIAL MARKETS

International Highlights

- Global growth in 2016 will be constrained by the same forces that held growth to just 3.0% last year. Commodity exporters continue to adjust to lower prices, Chinese growth continues to slow, and structural headwinds remain in place in advanced economies.
- Risks to the outlook are concentrated in emerging markets. Although fears of a global recession are diminishing, further bouts of elevated financial market volatility are a likely bet, consistent with the modest improvement in global growth projected over the 2016-17 forecast horizon (2016: 3.1%; 2017: 3.4%).
- Despite the volatility in financial markets to start the year, the outlook for the U.S. economy has not changed much. Weak global growth remains a key headwind, but domestic demand continues to be supported by a healthy labour market and low energy prices.
- Largely as a result of slower than anticipated growth to end last year, our forecast for 2016 U.S. growth has fallen to 2.0% (from 2.4% previously). It is expected to improve to 2.3% in 2017.

Canadian Highlights

- After fighting to keep its head above water in 2015, Canada's economy is poised to return to a more solid growth path this year. Real GDP is expected to advance by 1.9% in 2016 and 2.0% in 2017.
- The 2016 federal budget should provide an economic boost, particularly in 2017 when as much as 0.3 percentage points is added to Canada's bottom line.
- Still, we expect to see even more economic impetus from the export channel, owing to a relatively low currency and rising U.S. demand. Recent export data suggest that this lift is already underway.
- These positive impacts will help to counterbalance the ongoing adjustment to the plunge in oil prices. Based on our assumption of a continued gradual rise in the price of crude oil, resource-heavy business investment is projected to stabilize in 2017.
- Despite the improved growth outlook, the unemployment rate is expected to continue to tick higher in the near term, reaching about 7.5-7.6% by mid-year.

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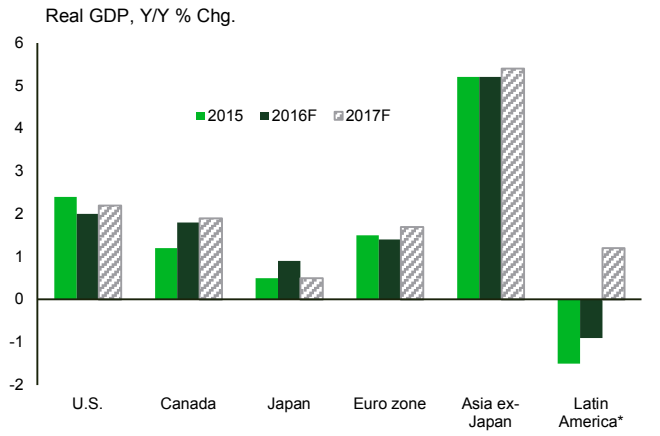
CHART 1: ECONOMIC GROWTH TO TICK UP IN 2017



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

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GLOBAL OUTLOOK - WEAK GROWTH RAISES RISKS & HEIGHTENS VOLATILITY

World economic growth is projected to run at 3.1% this year, roughly matching 2015 as the weakest year for growth in the post-crisis era. For 2017, world growth is expected to claw its way back to a slightly better 3.4%.

This year's slower tracking is partly owing to weaker economic performances by a number of countries to end 2015, coupled with major financial market headwinds to start this year. Financial market conditions had tightened sharply on growing fears over a hard landing in the Chinese economy and a global recession. These worries changed the calculus for policymakers, with many central banks either injecting additional stimulus (ECB, BoJ), or slowing the pace of policy normalization in its wake (Fed, BoE).

Since February, however, market pessimism has given way to renewed optimism. Oil prices have rebounded strongly to around US$40 per barrel, the U.S. dollar has depreciated broadly on reduced safe-haven flows, and capital outflows from emerging markets (EM) have slowed or reversed course in some regions, easing the risk of an EM-led financial crisis. Pessimism has been further assuaged by a positive turn in the economic data, especially in advanced economies.

While welcome, this improvement in risk sentiment sits on a fragile foundation with many of the worries that contributed to last year's bout of risk aversion still very much unaddressed. Concerns about elevated EM debt, a surplus in global oil supply, and the effectiveness of central bank monetary policy may resurface.

In sum, fears of a global recession and an EM crisis have receded. But, further bouts of elevated financial market volatility in a risk-filled environment are a likely bet, with only modest improvement in global growth projected over the 2016-17 forecast horizon.

Emerging market growth will bounce from 2015 low

After suffering a near-perfect storm of collapsing commodity prices, rising capital outflows, and reduced demand from a slowing China, most emerging markets are likely to begin a modest recovery over the next year. This hinges on the adjustment in commodity prices being in the rear-view mirror and no renewed intensification of capital outflows. Still, slower Chinese growth will remain a challenge and any newfound optimism on the EM outlook is tempered by rising geopolitical risks in Russia, South Africa, Brazil, and Turkey.

Without a doubt, the center of gravity for emerging markets is China. Official Chinese statistics recorded economic growth of 6.9% in 2015, a marked slowdown from its 2014 growth rate of 7.3%. At the beginning of February, Chinese authorities announced a 6.5-7% target for 2016 growth, a range consistent with their goal of doubling 2010 per-capita GDP by 2020. In our view, this will be difficult to achieve. Momentum heading into 2016 is not very supportive, with fourth quarter growth a paltry 1.6% – the slowest quarterly pace since the first quarter of 2015. At the same time, Chinese indicators have been mixed. While some monthly indicators are distorted by the Lunar New Year, increased total social financing aligns with communication by Chinese authorities that infrastructure spending will help support growth in the first half of 2016.

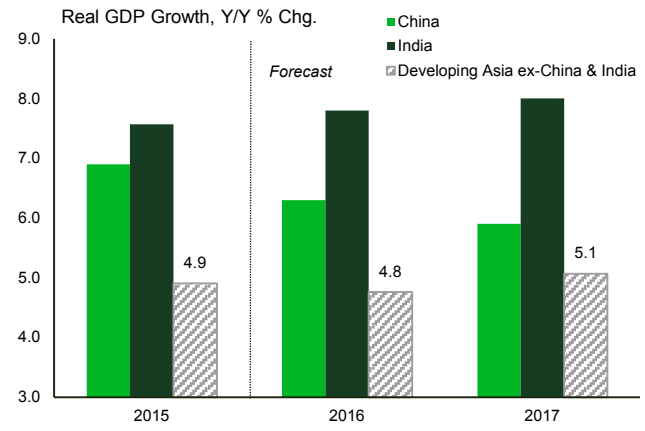
At this month's National People's Congress, Chinese authorities affirmed their commitment to market-oriented reforms. Given the tradeoff between near-term growth targets and future financial stability, this will likely mean continued volatility in Chinese financial markets this year.

A slower growing China raises challenges for its main trade partners

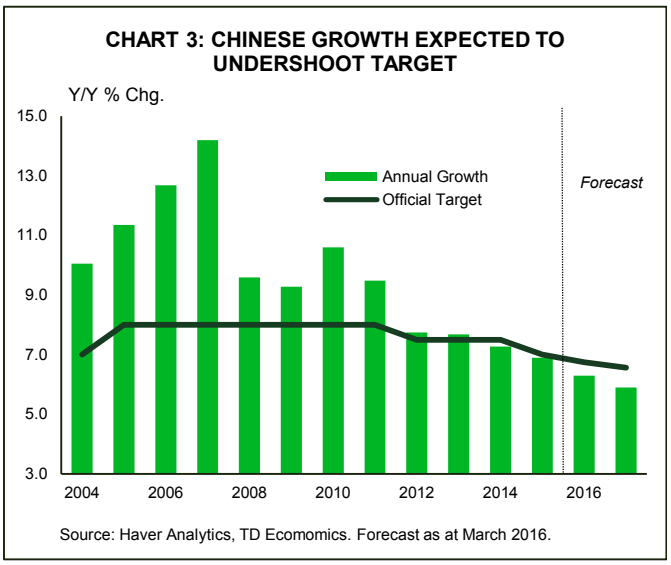
The rebalancing of the Chinese economy will remain a challenge not only for domestic authorities, but also for its trade partners. Slowing Chinese growth and the movement up the value-chain of Chinese industry will continue to exert downward pressure on imports from its main trade partners. Growth in these nations, including Indonesia, Malaysia, and Taiwan, is not expected to pick up until next year, as new trade relationships are established that are less China-centric.

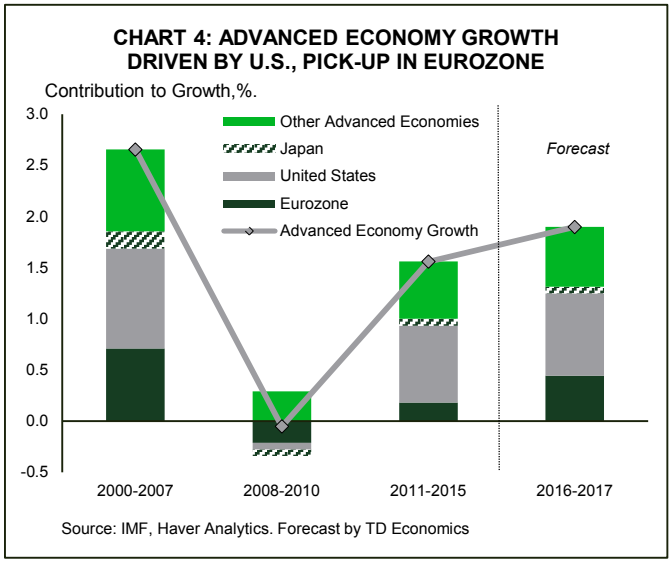
In contrast, India is set to rise as a regional growth leader. But, the ambitious plans set by the Modi government to adopt market-oriented economic reforms faces unique

CHART 2: DEVELOPING ASIA EXPECTED TO ADJUST TO SLOWING CHINA BY 2017



Source: Haver Analytics, TD Economics. Forecast as at March 2016.





challenges, including the cooperation of the notoriously stubborn Indian bureaucracy. As it stands, growth in India is expected to remain close to 8% through 2017, with upside risk if reforms gain traction.

Immediate EM risks concentrated outside of Asia

Outside of emerging Asia, there are several economic and geopolitical hotspots that will remain in focus over the next two years. Sanctions on Russia will continue to suppress growth prospects in that region despite a modest recovery in oil prices. Meanwhile, political uncertainty in South Africa is escalating, with increasing concerns that endemic corruption and economic mismanagement could trigger a credit rating downgrade. Brazil follows a similar story line. The Brazilian economy is likely to remain in recession at least through the first half of this year, and even as it emerges, the prospects for a sustained recovery are diminished by political turmoil.

More advanced economy stimulus to aid the recovery

While EMs represent the biggest downside risk to the outlook, much of the downgrade to the growth projection for 2016 is driven by weaker-than-expected growth in advanced economies at the end of 2015. In response, central banks were spurred to action, first with the Bank of Japan announcing negative interest rates, followed by the ECB unleashing a slew of measures aimed at stimulating bank lending. These measures should help support continued improvement, but will not eliminate the structural headwinds presented by an aging labour force and weak productivity that ultimately restrains growth in a modest range of 1.5-2%.

In the United States, growth will continue to be led by domestic demand, while net-exports remain a drag. However, the latter is not sufficient enough in scale to derail cyclical momentum. Given the proximity of the unemployment rate to its longer-run sustainable level, the U.S. is likely to see inflation trend upward, necessitating additional increases in the policy interest rate. This will be in contrast to other advanced economies and could keep the dollar elevated, even as safe-haven flows ebb.

The most pressing risk among the advanced economies is the threat of the United Kingdom leaving the European Union, an act that would likely downgrade its long-run economic performance. Weekly polls are close but betting markets – a better early indicator of underlying sentiment – are skewed in favour of the U.K. remaining as part of the European Union after June 23rd, 2016.

On the upside, the prospect of more fiscal stimulus, particularly targeted at improving infrastructure, is increasingly likely and, if done right, should help improve long-term productivity of the countries that make these investments.

Bottom line

The global economic environment will remain challenging over the next year as commodity producers adjust to lower prices and the Chinese economy follows a long, turbulent road to rebalancing. But, 2015 likely marked the high point in risk for a number of countries, and the next couple of years should reap the benefits from stimulus measures that have since been put in place. Risks remain concentrated in EMs, particularly as the Federal Reserve attempts to slowly normalize policy rates. All told, global growth will be modest, but the worst case scenario of an entrenched global recession should be avoided.

U.S. OUTLOOK - STORMY FINANCIAL MARKETS, BUT ECONOMY REMAINS ON AN EVEN KEEL

The year started with a fire sale in financial markets. Fears over global growth led to a broad-based retreat in equities and non-investment grade corporate bonds and a flight to the safety of U.S. Treasuries.

Fortunately, much of the risk aversion that started the year has since dissipated. Despite the rise in volatility, the story for the American economy has not changed much over the past three months. The headwinds to growth from weak external demand and a strong dollar continue to blow, but have done little to slow momentum in the labour market.

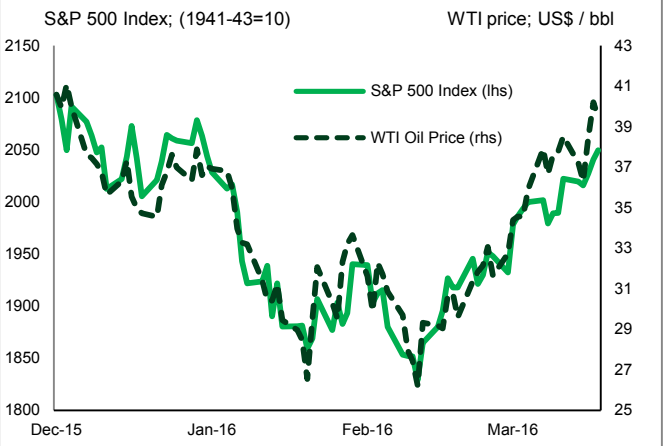
While the outlook for continued moderate, but steady progress remains intact, the forecast for annual average growth this year of 2.0% has been cut by 0.4 percentage points since our last forecast. The downgrade largely reflects a weaker than anticipated hand-off to growth from the tail end of last year. On a Q4/Q4 basis, the projected 2.2% pace of expansion both this year and next is a touch softer, but more in line with our previous projection.

As has been the case over the past year, economic growth will be led by domestic spending. It is anticipated to grow by 2.7% in both 2016 and 2017. Across categories, household spending is likely to take the lead over the next year, but give way to greater business investment growth in 2017.

Financial conditions ebb and flow

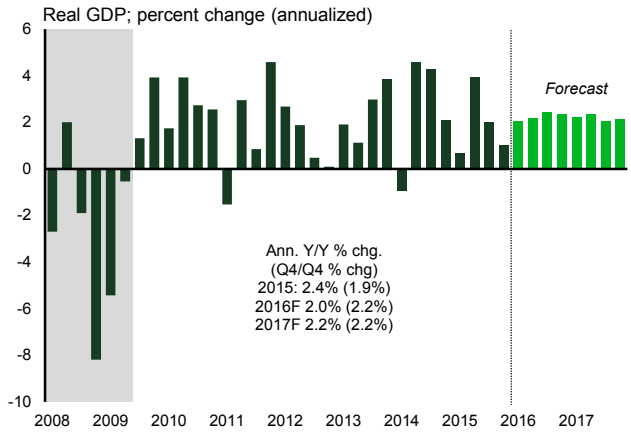
Without a doubt, the main change to the economic environment over the past three months has been conditions in financial markets. From the start of the year to its trough in early February, stock markets lost over 10% of their value,

CHART 5: FINANCIAL MARKETS HAVE REBOUNDED FROM JANUARY SWOON



Source: WSJ, EIA/CME, Haver Analytics

CHART 6: ECONOMIC GROWTH WILL CONTINUE TO EAT UP SLACK



Forecast by TD Economics, March 2016
Source: Bureau of Economic Analysis

oil prices plummeted to a 13-year low, and the 10-year Treasury yield fell 60 basis points.

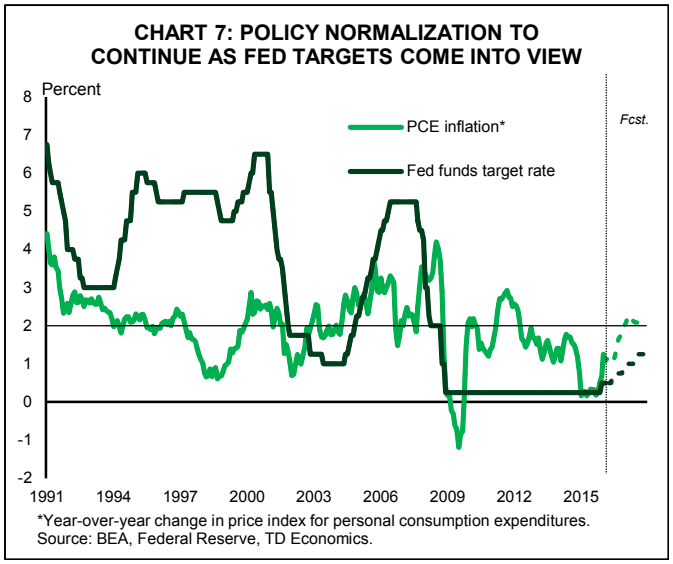
The main catalyst for the selloff in risk assets was a concern that the global economy was on the cusp of recession, led by China and other emerging markets. These fears were exacerbated by some disappointing economic releases (although not to the degree that would indicate the economy was in such dire shape). Likewise, the improvement in risk sentiment over the past month is attributable in part to economic data surprises swinging in a more positive direction.

We are encouraged by the reversal in risk aversion. Had it been maintained, fears of recession could have proved self-perpetuating. Still, even as sentiment has strengthened, financial conditions remain somewhat tighter than they were at the time of our previous forecast. Higher corporate bond yields and tighter lending standards for both large and small corporate borrowers are likely to weigh on near-term business investment. Accordingly, this is the one area of the forecast where we have revised down our expectations for growth over the next several quarters.

But, perhaps more than this, the magnitude and speed of the selloffs point to an economy that is more vulnerable to shocks than in the past. Similar to its international counterparts, the U.S. economy is operating at a structurally slower growth rate, which leaves less of a margin between recession and growth. Sudden shifts in risk aversion remain a downside risk to the outlook.

Labour market recovery still firmly on track

The most encouraging element in recent data has been the ongoing resiliency in the labour market. Job growth



over the first two months of 2016 has averaged 207k. In normal times this would be more than twice the rate necessary to put downward pressure on the unemployment rate. However, while the unemployment rate has drifted down to 4.9% in early 2016, an influx of people into the labour force has slowed its descent. The labour force participation rate, which measures the number of people working or actively looking for work as a share of the adult population, has risen noticeably over the past several months. This heralds the return of labour market health, as people formerly not counted as unemployed resume their job search.

We expect this trend to continue, albeit at a somewhat slower pace than the first few months of the year. On an annual average basis, 2016 is expected to see the fastest labour force growth in a decade. As more people enter the labour market, it will slow the decline in the official unemployment rate, but not stall it completely. With job growth expected to exceed 190k a month over the remainder of this year, we expect the unemployment rate to fall to 4.7% by the end of this year and hit a low of 4.6% in the second half of 2017.

Inflation has bottomed

The continued tightening in the labour market will ensure that inflation moves toward the Federal Reserve's target of 2.0%. Inflation has in fact surprised on the upside in recent months. While the decline in energy prices early in the year has continued to weigh on the headline measure, core consumer price inflation rose to 2.3% in February.

This is occurring in spite of an elevated dollar and low energy prices that have been exerting downward pressure on inflation. While the dollar's influence will remain in place over the next several months, its effect on prices will fade as the lagged impact washes out. In addition, the risks are now tilting in the other direction. Already there has been a modest retracement in the greenback, and a further re-pricing lower of the currency would begin to reverse the downward pressure on inflation from lower import prices.

Adding to the balance of risks, energy prices appear to have formed a bottom. Since reaching a trough of US$25 per barrel in February, the West Texas Intermediate benchmark price has risen about 50%. We anticipate further gains over the course of this year, with the price reaching US$50/bbl by the end of 2016 and US$55/bbl by the end of 2017.

Fed still on course to hike twice this year

The Federal Reserve will look through transitory increases in energy prices, but its mandate of maximum employment and price stability will require them to continue to normalize policy as both inflation and employment move toward their targets.

In its most recent policy statement, the Federal Reserve reduced its expectation for the pace of rate hikes, reflecting the downside risks to growth from global financial market volatility. But, Fed members remain firm in the view that rates will continue to rise. All but one still expect rates to be at least 50 basis points higher by the end of this year.

At this point, the risks to the Fed's baseline projections for economic growth and inflation appear tilted to the upside. We expect the strength in the labour market and upward movement in inflation to lead the Fed to continue to normalize policy, raising the fed funds target rate another two times this year. The Fed is likely to raise rates two more times in 2017, bringing the federal funds to a target range of 1.25 percent to 1.50 percent by the end of the year.

Bottom line

Despite the headwinds from a weak global economy, the U.S. economy continues to make progress, especially where it matters most, in the labour market. Global headwinds will remain in place, but should also diminish over time. The mainstay of the economy is domestic demand, and the growth drivers here remain in place. Household spending will be supported by the decline in energy prices and acceleration in wage growth. Investment activity is also likely to perk up as the drag from energy investment wanes. All this suggests that the American economy will continue to withstand any global headwinds that blow its way.

CANADIAN OUTLOOK - A NEW YEAR, A BETTER BEGINNING

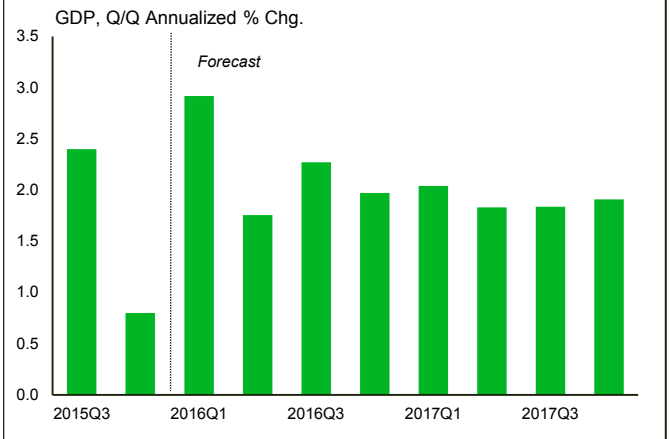
2015 was in like a lamb and out like a lamb, but the year-end GDP figure masked signs of a broadening out in growth dynamics. Exports are finally responding more noticeably to U.S. demand and the competitive position provided by a lower loonie. This, alongside other signs of economic momentum, has caused us to modestly upgrade our real GDP forecast to 1.9% and 2.0% in 2016 and 2017, respectively.

In spite of the slight upward tweaking of the forecast, and expected strength in 2016Q1, growth that averages below 2% thereafter remains a reminder that times have changed. Canada's economy is going through a structural realignment, precipitated by low commodity prices. When taken together with an aging workforce and only modest expected productivity growth, Canadians will need to recalibrate their expectations to the notion that expansions of 2.5-3% are a thing of the past. The economy's trend rate now appears to be closer to 1.5-1.7%.

Activity beyond Canada's borders still key

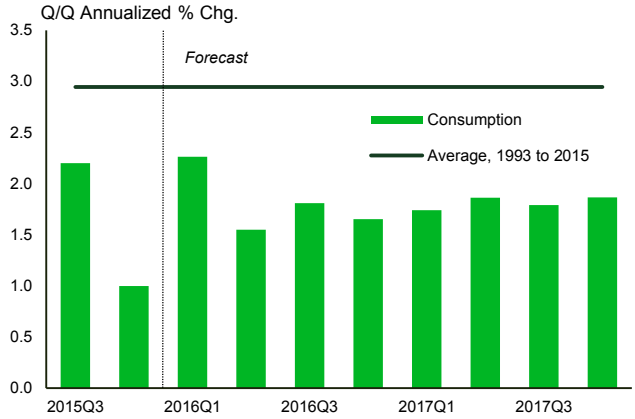
There are risks surrounding any forecast. In our Canadian outlook, much is riding on an expected pick-up in exports, notably non-energy goods and services. Early indications from the trade data show the potential for a double-digit expansion in goods exports during the first quarter of 2016. The fact that growth is being observed across a number of product categories offers some confidence that the fundamental drivers are finally kicking in to support steady growth in exports of about 4.5% (quarterly annualized) for the remainder of 2016.

CHART 8: PROSPECTS BRIGHT FOR NEAR-TERM ECONOMIC GROWTH



Source: Statistics Canada, TD Economics.

CHART 9: TAPPED OUT CONSUMERS MEAN LESS ROBUST SPENDING GROWTH



Source: Statistics Canada, TD Economics

Our prior research suggested that patience was a virtue when it came to Canada's export sector. The feedthrough from the competitively priced loonie and solid U.S. demand would certainly occur, but with a lag and with more muted export growth profiles due to structural changes in the sector and the global economy. The time has now come for those lags to increasingly wash away. While recent movements in the Canadian dollar are likely to dampen export growth slightly, at least some of the recent movement appears to be overdone and is likely to reverse, while the loonie remains at favourable levels relative to 2014/2015. Moreover, with U.S. domestic demand growth expected to sustain momentum in the 2.5-3% range over the forecast horizon, this will particularly benefit Canadian producers of consumer goods, wood products, building supplies, and related industries.

Canada's domestic demand drivers to remain in the shadows

Consumer spending, long the bedrock of the Canadian economy, will remain a contributor to growth, but average a historically lower sub-2% pace (Chart 9). Record high household debt levels and economic strain across a number of provinces have left many consumers feeling tapped-out. At the same time, residential investment growth is expected to slow significantly by end-2016, as the effects of past interest rate cuts fade and the impact of higher down payment requirements continues. The eventual result will be lower overall activity, with gradual movement towards restoring balance in the key frothy markets of Vancouver and Toronto. However, there is always the risk that this process takes longer than we are expecting, as resilience in these markets has stymied forecasters for some time.

TABLE 1: UNEMPLOYMENT RATES RISING MOST IN COMMODITY-EXPOSED PROVINCES

Unemployment rate; annual, per cent

	2014	2015	2016F	2017F
CANADA	6.9	6.9	7.4	7.3
N. & L.	12.0	12.9	14.0	13.7
P.E.I.	10.5	10.4	10.6	9.7
N.S.	8.9	8.6	9.6	9.7
N.B.	9.9	9.8	10.0	9.8
Québec	7.8	7.7	7.7	7.5
Ontario	7.2	6.8	6.9	6.9
Manitoba	5.4	5.6	5.9	5.4
Sask.	3.8	5.0	6.2	5.4
Alberta	4.7	6.0	8.2	7.8
B.C.	6.1	6.2	6.8	6.6

F: Forecast by TD Economics as at March 2016.

Source: Statistics Canada / Haver Analytics

Looking across the major areas of the economy, the most significant impact of the ongoing structural adjustment has undoubtedly been felt in business investment, which contracted by more than 10% annualized in every quarter of 2015. Even with the recent uptick in oil prices, we do not think this adjustment process has finished playing out. Business investment will likely continue to decline through 2016Q3. Even thereafter, growth is expected to be anemic with oil prices not reaching levels sufficient to incent large scale investment over the forecast horizon. The manufacturing sector will offer some impetus to investment growth in 2017 under the influence of export growth, but the current low level of capacity utilization suggests that the additional investment is likely to be relatively small in size.

Canada's adjustment evident in provincial outlooks, job markets

The divergence across the components of growth will continue to manifest in the regional outlook. B.C., Quebec, and Ontario are all expected to maintain robust growth over the coming quarters, in part reflecting the benefits stemming from export-oriented manufacturing (see report). In contrast, Alberta and other commodity-exposed regions are likely to continue struggling, with Alberta's economy expected to experience another contraction this year.

These regional shifts are also playing out within the nation's job market. This year has already started on a soft note, with job losses in the first two months and an unemployment rate of 7.3%, up from last year's low of 6.6%. The movements are capturing a sharp deterioration in the oil producing provinces, as oil consuming regions in B.C., Central Canada, and Atlantic Canada have recorded stable-to-slightly declining jobless rates. In Alberta, a 2.5 percentage point jump in the unemployment rate over the past year has pushed it above the national rate for the first time in three decades (Table 1). Increased migration from the weaker to the stronger job markets within Canada should help stabilize provincial joblessness as the year unfolds, but the national rate has likely not yet topped out. Canada's unemployment rate is projected to edge up to 7.5% by mid-year, before gradually heading lower.

Bank of Canada to remain on hold as federal spending lends a helping hand

Putting the pieces together, Canadian domestic demand is expected to expand by a mere 0.7% in 2016. This will produce the widest gap relative to headline GDP growth since 1999, reflecting an export sector that will take on the heavy lifting. At the same time, inflationary pressures appear muted, and unemployment is trending upwards. So, even though we revised our GDP forecast up slightly, this is hardly a compelling case for the Bank of Canada to adjust its interest rate settings during the 2016-17 period. The Bank will want to provide as much support as possible for the realignment of the Canadian economy, provided that inflationary pressures remain anchored close to its 2% target – which we believe will be the case.

In addition, the Bank will want to evaluate the degree to which recent fiscal stimulus measures feed through to the real economy, particularly given the lags that occur and the uncertainty that surrounds fiscal multiplier effects. We have incorporated this week's budget announcements into the outlook (see our analysis of the budget for details). The result is an additional boost to growth of about 0.1 percentage points in 2016, and 0.3 percentage points for 2017. The considerable uncertainty around the size of fiscal multipliers (Table 1 in our recent report) creates a risk that the ultimate boost to the economy will not match our estimates. However, if the playbook unfolds as expected, the overall result is an economic expansion of 1.9% this year, with a slight acceleration to 2.0% in 2017.

INTEREST RATE OUTLOOK

	2015				2016				2017			
	Q1	Q2	Q3	Q4	Q1*	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	0.50
3-mth T-Bill Rate	0.55	0.58	0.43	0.51	0.47	0.45	0.45	0.45	0.45	0.45	0.45	0.60
2-yr Govt. Bond Yield	0.51	0.49	0.53	0.48	0.59	0.50	0.55	0.65	0.75	0.85	0.95	1.15
5-yr Govt. Bond Yield	0.77	0.81	0.81	0.73	0.78	0.75	0.85	1.05	1.25	1.40	1.55	1.70
10-yr Govt. Bond Yield	1.36	1.68	1.45	1.39	1.33	1.35	1.45	1.70	1.80	2.00	2.10	2.30
30-yr Govt. Bond Yield	1.99	2.31	2.21	2.15	2.10	2.10	2.20	2.35	2.40	2.50	2.60	2.80
10-yr-2-yr Govt Spread	0.85	1.19	0.92	0.91	0.74	0.85	0.90	1.05	1.05	1.15	1.15	1.15
U.S.												
Fed Funds Target Rate	0.25	0.25	0.25	0.50	0.50	0.75	0.75	1.00	1.00	1.25	1.25	1.50
3-mth T-Bill Rate	0.03	0.01	0.00	0.16	0.29	0.55	0.55	0.80	0.80	1.05	1.05	1.30
2-yr Govt. Bond Yield	0.56	0.64	0.64	1.06	0.89	0.90	1.00	1.25	1.30	1.45	1.50	1.70
5-yr Govt. Bond Yield	1.37	1.63	1.37	1.76	1.41	1.40	1.50	1.75	1.80	2.00	2.05	2.25
10-yr Govt. Bond Yield	1.94	2.35	2.06	2.27	1.94	2.00	2.05	2.30	2.30	2.40	2.45	2.60
30-yr Govt. Bond Yield	2.54	3.11	2.87	3.01	2.72	2.80	2.85	3.05	3.05	3.10	3.15	3.25
10-yr-2-yr Govt Spread	1.38	1.71	1.42	1.21	1.05	1.10	1.05	1.05	1.00	0.95	0.95	0.90
CANADA - U.S SPREADS												
Can - U.S. T-Bill Spread	0.52	0.57	0.43	0.35	0.18	-0.10	-0.10	-0.35	-0.35	-0.60	-0.60	-0.70
Can - U.S. 10-Year Bond Spread	-0.58	-0.67	-0.61	-0.88	-0.61	-0.65	-0.60	-0.60	-0.50	-0.40	-0.35	-0.30

F: Forecast by TD Bank Group as at March 2016; All forecasts are end-of-period; Source: Bloomberg, Bank of Canada, Federal Reserve.
*Spot rate on March 22, 2016.

FOREIGN EXCHANGE OUTLOOK

Currency	Exchange rate	2015				2016				2017			
		Q1	Q2	Q3	Q4	Q1*	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Exchange rate to U.S. dollar													
Japanese yen	JPY per USD	120	122	120	120	112	113	116	118	121	121	122	122
Euro	USD per EUR	1.07	1.12	1.12	1.09	1.12	1.07	1.10	1.08	1.12	1.10	1.14	1.14
U.K. pound	USD per GBP	1.49	1.57	1.51	1.48	1.42	1.37	1.47	1.50	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	0.73	0.73	0.75	0.75	0.75	0.76	0.76
Japanese yen	JPY per CAD	94.6	97.9	89.4	86.9	86.1	81.9	84.7	88.1	91.0	91.0	92.4	92.4
Euro	CAD per EUR	1.36	1.39	1.50	1.50	1.46	1.48	1.51	1.45	1.49	1.46	1.51	1.51
U.K. pound	CAD per GBP	1.88	1.96	2.03	2.04	1.85	1.89	2.01	2.01	2.04	2.06	2.06	2.09

F: Forecast by TD Bank Group as at March 2016. *Spot rate on March 22, 2016.
All forecasts are end-of-period. Source: Federal Reserve, Bloomberg, TDBG.

COMMODITY PRICE OUTLOOK

	2015				2016				2017			
	Q1	Q2	Q3	Q4	Q1E	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Crude Oil (WTI, $US/bbl)	49	58	46	42	33	38	46	50	52	52	55	55
Natural Gas ($US/MMBtu)	2.87	2.78	2.75	2.10	1.98	2.30	2.45	2.60	3.00	3.10	3.40	3.60
Gold ($US/troy oz.)	1218	1191	1124	1104	1175	1260	1235	1200	1195	1185	1175	1175
Silver (US$/troy oz.)	16.7	16.4	14.9	14.8	14.9	16.5	16.0	15.3	15.3	15.0	14.9	14.7
Copper (cents/lb)	264	275	238	222	210	222	224	226	228	230	230	232
Nickel (US$/lb)	6.51	5.94	4.78	4.27	3.85	4.00	4.18	4.45	4.75	5.00	6.00	6.25
Aluminum (Cents/lb)	82	79	72	68	69	69	72	72	74	74	76	76
Wheat ($US/bu)	7.45	7.34	6.39	6.36	5.90	6.00	6.15	6.40	6.50	6.75	7.00	7.25

F: Forecast by TD Bank Group as at March 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	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	15	16F	17F	15	16F	17F
Real GDP	-0.9	-0.4	2.4	0.8	2.9	1.8	2.3	2.0	2.0	1.8	1.8	1.9	1.2	1.9	2.0	0.5	2.2	1.9
Consumer Expenditure	0.6	1.9	2.2	1.0	2.3	1.6	1.9	1.7	1.7	1.9	1.8	1.9	1.9	1.8	1.8	1.4	1.8	1.8
Durable Goods	-5.6	5.1	10.3	1.7	4.2	1.5	1.8	1.5	1.6	1.7	1.7	1.8	3.3	3.5	1.6	2.7	2.2	1.6
Non-Res. Fixed Investment	-19.4	-13.0	-10.1	-12.4	-11.0	-3.8	-0.2	1.2	1.7	1.9	2.0	2.1	-8.8	-8.0	1.1	-13.8	-3.6	1.9
Non-Res. Structures	-27.7	-12.8	-11.7	-14.6	-12.9	-4.5	-0.3	0.7	1.1	0.8	0.9	0.8	-12.7	-9.3	0.4	-17.0	-4.4	0.9
Equipment & IPP*	-11.3	-13.0	-7.1	-7.8	-7.2	-2.8	-0.2	1.5	2.2	2.8	3.2	3.6	-1.3	-6.1	2.1	-8.1	-2.4	3.3
Residential Investment	5.9	1.3	2.7	1.8	2.9	3.0	0.6	0.1	-0.1	-1.4	-2.0	-2.3	3.9	2.1	-0.5	2.9	1.6	-1.5
Government Expenditures	3.7	2.0	-0.2	0.4	1.0	1.2	1.9	2.0	2.1	2.2	2.2	2.3	1.6	1.0	2.0	1.9	0.8	1.4
Final Domestic Demand	-1.5	0.1	0.1	-0.6	1.5	1.0	1.5	1.6	1.7	1.7	1.7	1.7	0.5	0.7	1.6	-0.5	1.4	1.7
Exports	-0.6	-0.1	10.8	-2.2	10.3	3.9	5.2	4.4	4.2	3.8	3.6	3.3	3.0	5.0	4.1	1.9	5.9	3.7
Imports	0.5	-1.7	-2.4	-8.9	4.1	3.4	3.1	3.2	3.4	3.6	3.7	3.6	0.1	0.0	3.4	-3.2	3.5	3.6
Change in Non-Farm Inventories ($2007 Bn)	15.3	10.5	2.3	-3.6	-1.6	1.0	1.1	1.2	1.4	1.5	2.3	3.5	6.1	0.4	2.2	---	---	---
Final Sales	-1.7	0.7	4.6	1.7	2.5	1.2	2.3	1.9	2.0	1.8	1.7	1.7	1.6	2.2	1.9	1.3	2.0	1.8
International Current Account Balance ($Bn)	-75.2	-62.1	-57.2	-55.8	-43.3	-19.1	2.1	26.6	32.5	31.5	33.8	40.0	-62.6	-8.4	34.4	---	---	---
% of GDP	-3.8	-3.1	-2.9	-2.8	-2.2	-0.9	0.1	1.3	1.6	1.5	1.6	1.9	-3.2	-0.4	1.6	---	---	---
Pre-tax Corp. Profits	-42.4	-5.4	-0.3	-19.4	-0.5	3.7	5.8	4.8	5.6	6.1	5.3	5.3	-15.2	-2.9	5.4	-18.6	3.4	5.6
% of GDP	12.0	11.8	11.7	11.1	11.0	11.0	11.0	11.0	11.1	11.1	11.1	11.2	11.6	11.0	11.1	---	---	---
GDP Deflator (Y/Y)	-0.5	-0.4	-0.9	-0.4	0.4	0.3	0.7	1.5	2.1	2.3	2.4	2.2	-0.5	0.7	2.3	-0.4	1.5	2.2
Nominal GDP	-4.0	1.6	2.8	0.4	2.8	3.3	4.1	4.8	4.6	4.3	4.0	3.9	0.6	2.7	4.3	0.2	3.7	4.2
Labour Force	1.0	1.0	1.5	1.3	0.7	1.0	0.8	0.7	0.6	0.5	0.5	0.4	0.8	1.0	0.6	1.2	0.8	0.5
Employment	0.6	0.8	0.8	0.9	-0.2	0.1	0.6	0.8	0.8	0.9	0.8	0.6	0.9	0.4	0.7	0.8	0.3	0.8
Employment ('000s)	27	37	37	39	-8	6	28	35	35	41	38	28	152	77	134	141	62	142
Unemployment Rate (%)	6.8	6.8	7.0	7.1	7.3	7.5	7.5	7.5	7.4	7.3	7.2	7.2	6.9	7.4	7.3	---	---	---
Personal Disp. Income	0.7	7.8	3.1	2.2	1.3	2.3	3.5	3.6	3.1	3.3	3.1	3.3	3.9	2.7	3.3	3.4	2.7	3.2
Pers. Savings Rate (%)	4.7	5.0	4.0	4.0	3.9	3.9	3.9	3.8	3.8	3.8	3.8	3.8	4.4	3.9	3.8	---	---	---
Cons. Price Index (Y/Y)	1.1	0.9	1.1	1.3	1.7	1.6	1.7	2.1	2.4	2.1	2.1	2.0	1.1	1.8	2.2	1.3	2.1	2.0
Core CPI (Y/Y)	2.2	2.3	2.2	2.1	2.1	2.2	2.1	2.0	2.0	1.9	1.9	2.0	2.2	2.1	1.9	2.1	2.0	2.0
Housing Starts ('000s)	175	193	194	195	192	190	188	187	185	182	181	179	189	189	182	---	---	---
Productivity: Real GDP / worker (Y/Y)	1.3	0.1	0.2	-0.3	0.8	1.6	1.6	1.9	1.4	1.2	1.1	1.1	0.3	1.5	1.2	-0.3	1.9	1.1

*Intellectual Property Products. F: Forecast by TD Economics as at March 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	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	15	16F	17F	15	16F	17F
Real GDP	0.6	3.9	2.0	1.0	2.0	2.2	2.4	2.3	2.2	2.3	2.0	2.1	2.4	2.0	2.3	1.9	2.2	2.2
Consumer Expenditure	1.7	3.6	3.0	2.0	2.7	3.2	3.3	2.8	2.4	2.5	2.1	2.0	3.1	2.8	2.6	2.6	3.0	2.2
Durable Goods	2.0	8.0	6.6	3.4	4.3	5.2	7.6	5.0	4.3	4.3	4.0	3.5	5.9	5.2	4.8	5.0	5.5	4.0
Non-Res. Fixed Investment	1.6	4.1	2.6	-1.9	-0.3	3.6	4.1	4.1	4.1	4.0	3.6	3.4	2.9	1.6	3.9	1.6	2.9	3.8
Non-Res. Structures	-7.4	6.3	-7.2	-6.6	-9.3	1.4	2.4	2.9	3.8	3.6	3.3	3.5	-1.6	-3.5	3.2	-3.9	-0.8	3.6
Equipment & IPP*	4.3	3.5	5.5	-0.6	2.3	4.2	4.5	4.4	4.2	4.1	3.6	3.4	4.2	3.0	4.1	3.2	3.8	3.8
Residential Construction	10.1	9.4	8.2	7.9	11.6	8.3	9.4	11.4	10.5	9.8	6.6	4.7	8.7	9.4	9.4	8.9	10.2	7.9
Govt. Consumption & Gross Investment	-0.1	2.6	1.8	-0.1	2.4	1.2	0.9	1.0	1.0	0.9	0.7	0.9	0.7	1.4	0.9	1.1	1.4	0.9
Final Domestic Demand	1.7	3.7	2.9	1.4	2.6	3.1	3.2	2.9	2.6	2.6	2.2	2.1	2.8	2.7	2.7	2.4	2.9	2.4
Exports	-6.0	5.1	0.7	-2.7	-1.0	2.9	4.5	5.1	5.1	4.9	5.1	5.3	1.1	1.0	4.9	-0.8	2.9	5.1
Imports	7.1	3.0	2.3	-0.6	2.5	6.2	8.1	7.6	6.7	6.4	5.6	4.5	4.9	3.6	6.7	2.9	6.1	5.8
Change in Private Inventories	112.8	113.5	85.5	81.7	76.6	58.6	50.3	45.2	42.0	41.4	40.9	42.2	98.4	57.7	41.6	---	---	---
Final Sales	-0.2	3.9	2.7	1.2	2.1	2.6	2.6	2.5	2.3	2.3	2.0	2.1	2.2	2.3	2.4	1.9	2.5	2.2
International Current Account Balance ($Bn)	-473	-444	-497	-479	-517	-540	-579	-617	-653	-685	-714	-727	-473	-563	-695	---	---	---
% of GDP	-2.7	-2.5	-2.8	-2.6	-2.8	-2.9	-3.1	-3.3	-3.4	-3.6	-3.7	-3.7	-2.6	-3.0	-3.6	---	---	---
Pre-tax Corporate Profits including IVA&CCA	-21.1	14.8	-6.2	-13.9	-8.0	-1.6	4.0	4.0	3.9	4.0	3.7	3.8	-2.1	-4.3	3.6	-7.5	-0.5	3.9
% of GDP	11.4	11.6	11.4	10.9	10.6	10.4	10.4	10.4	10.4	10.4	10.4	10.4	11.3	10.5	10.4	---	---	---
GDP Deflator (Y/Y)	1.0	1.0	0.9	1.1	1.3	1.3	1.5	1.8	2.0	2.0	2.0	2.1	1.0	1.5	2.0	1.1	1.8	2.1
Nominal GDP	0.8	6.1	3.3	2.0	2.9	4.2	4.6	4.4	4.3	4.4	4.1	4.3	3.4	3.5	4.3	3.0	4.0	4.3
Labor Force	1.6	0.5	-0.3	1.1	3.3	1.0	1.0	1.0	1.0	1.0	0.9	0.8	0.8	1.4	1.0	0.7	1.6	0.9
Employment	2.1	1.9	1.9	2.0	1.9	1.7	1.6	1.6	1.5	1.4	1.3	1.2	2.1	1.8	1.5	2.0	1.7	1.3
Change in Empl. ('000s)	731	653	670	721	677	618	566	562	549	506	463	434	2,893	2,603	2,127	2,775	2,422	1,952
Unemployment Rate (%)	5.6	5.4	5.2	5.0	4.9	4.8	4.8	4.7	4.7	4.7	4.6	4.6	5.3	4.8	4.7	---	---	---
Personal Disp. Income	1.9	4.9	4.5	2.9	4.0	4.1	4.4	4.2	4.2	4.3	4.1	4.3	3.7	4.0	4.2	3.6	4.2	4.2
Pers. Saving Rate (%)	5.2	5.0	5.0	5.1	5.4	5.2	4.8	4.7	4.6	4.6	4.5	4.6	5.1	5.0	4.6	---	---	---
Cons. Price Index (Y/Y)	-0.1	0.0	0.1	0.4	1.3	1.5	2.1	2.6	3.2	2.9	2.6	2.5	0.1	1.9	2.8	0.4	2.6	2.5
Core CPI (Y/Y)	1.7	1.8	1.8	2.0	2.3	2.2	2.2	2.2	2.0	2.1	2.2	2.3	1.8	2.2	2.1	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	1.7	1.8	1.4	1.7	1.9
Housing Starts (mns)	0.98	1.16	1.16	1.13	1.14	1.17	1.22	1.27	1.31	1.34	1.38	1.40	1.11	1.20	1.36	---	---	---
Real Output per hour (y/y)**	0.7	0.9	0.6	0.5	0.4	-0.2	-0.4	0.4	1.0	1.1	1.1	1.1	0.7	0.1	1.1	0.5	0.4	1.1

*Intellectual proprty products. **Non-farm business sector. F: Forecast by TD Economics, March 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	3.1	3.4
North America	19.4	2.4	2.3	2.1	2.3
United States	15.9	2.4	2.4	2.0	2.2
Canada	1.5	2.4	1.2	1.8	1.9
Mexico	2.0	2.3	2.6	2.8	3.0
European Union (EU-28)	17.1	1.4	1.8	1.7	2.0
Eurozone (EU-19)	12.2	0.9	1.5	1.4	1.7
Germany	3.4	1.6	1.5	1.3	1.6
France	2.4	0.2	1.1	1.4	1.6
Italy	2.0	-0.3	0.6	1.0	1.3
United Kingdom	2.4	2.9	2.2	2.1	2.3
EU accession members	2.6	2.6	2.9	2.8	2.9
Asia	42.1	5.2	4.7	4.7	4.8
Japan	4.4	-0.1	0.5	0.9	0.5
Asian NIC's	3.4	3.4	2.0	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	0.8	1.8	2.1
Russia	3.3	0.8	-3.8	-1.0	1.4
Australia & New Zealand	1.2	2.8	2.5	2.5	3.0
Developing Asia	29.9	6.8	6.6	6.3	6.2
ASEAN-4	4.8	4.5	4.5	4.5	4.9
China	16.6	7.3	6.9	6.3	5.9
India**	6.8	7.2	7.6	7.8	8.0
Central/South America	6.6	1.0	-1.5	-0.9	1.2
Brazil	3.0	0.1	-3.9	-3.0	0.8
Other Developing	13.7	3.2	2.5	3.0	3.6
Other Advanced	1.0	2.2	1.6	1.6	2.0

*Share of world GDP on a purchasing-power-parity (PPP) basis.
Forecast as at March 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%)*	1.7	1.8	1.7	1.8
U.S.	2.4	2.4	2.0	2.2
Japan	-0.1	0.5	0.9	0.5
Eurozone	0.9	1.5	1.4	1.7
Germany	1.6	1.5	1.3	1.6
France	0.2	1.1	1.4	1.6
Italy	-0.3	0.6	1.0	1.3
United Kingdom	2.9	2.2	2.1	2.3
Canada	2.5	1.2	1.8	1.9
Consumer Price Index (Annual per cent change)				
G-7	1.5	0.3	1.3	2.3
U.S.	1.6	0.1	1.8	2.8
Japan	2.7	0.8	0.5	1.8
Eurozone	0.4	0.0	0.8	1.9
Germany	0.8	0.1	0.8	1.6
France	0.6	0.1	0.7	1.7
Italy	0.2	0.1	0.5	1.9
United Kingdom	1.5	0.1	0.9	2.1
Canada	1.9	1.1	1.8	2.2
Unemployment Rate (Per cent annual averages)				
U.S.	6.2	5.3	4.8	4.7
Japan	3.6	3.4	3.3	3.5
Eurozone	11.6	10.9	10.5	10.2
Germany	5.0	4.6	4.4	4.5
France	10.3	10.4	10.1	9.9
Italy	12.6	11.9	11.5	11.4
United Kingdom	6.1	5.3	5.1	5.0
Canada	6.9	6.9	7.4	7.3

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

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