QUARTERLY ECONOMIC FORECAST

TD Economics

March 16, 2017

CANADA'S GROWTH BACK ON SOLID FOOTING, BUT HOUSING RISKS INCREASING

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.
- Economic activity will be supported by highly accommodative monetary policy and a slight loosening of fiscal policy, particularly in advanced economies.
- Firming global growth and inflation has supported the rotation to risk assets, but markets may be underestimating the many challenges facing the global economy over the next two years.
- Prospects for the American economy are looking up. Even without support from fiscal policy, stronger domestic demand should lead economic growth to reach 2.2% in 2017 and 2.1% in 2018, up from 1.6% in 2016.
- We continue to hold off including any explicit fiscal lift in our forecast. If meaningful deficit-financed tax cuts or spending increases are enacted, it would present upside risk to our forecasts for growth and the pace of Fed rate hikes.

Canadian Highlights

- Supported by strong momentum heading into the year, Canada's economy is forecast to grow by 2.3% in 2017. That marks a hefty 0.5 percentage point upgrade to our previous forecast, and halts a two-year growth slump. For 2018, real GDP growth is projected to be 1.9%.
- A rebound in oil and gas production is expected to lead the pickup this year. Further supporting growth is the continued eye-popping strength in Canada's largest urban real estate market, and its knock-on growth impacts.
- While the ongoing froth has raised the risk of a pronounced correction over the medium term, we see only limited scope for a cool down in 2017-18. Next year will likely feature a modest ratcheting down in housing activity, as interest rates continue their upward trek.
- The near-term growth outlook may have improved, but risks are elevated. In particular, NAFTA renegotiation and U.S. tax policy reform are particular uncertainties that may hold back investment in Canada.

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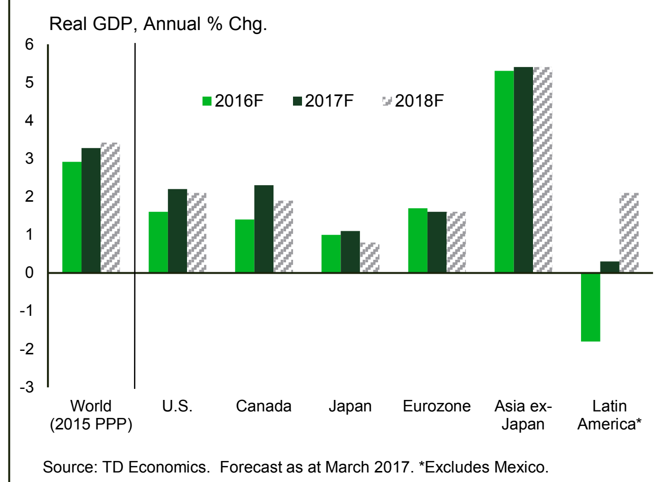

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GLOBAL OUTLOOK - GROWTH FIRMING, AS INFLATION TURNS A CORNER

The global economy ended 2016 with a strong performance, building on the momentum that took hold in the middle of the year. Economic conditions have been better than anticipated, owing largely to outperformance in advanced economies (AEs). Recent survey-based economic data suggest that this momentum has continued into the first quarter of this year. Looking ahead, we anticipate global growth to rebound from last year's sub-par 2.9% rate to an average of 3.3% in 2017-18.

Global asset markets have risen in response to this rosier outlook. Risk assets have reached new highs and bond markets have sold off since late last year in anticipation of a reduction in monetary accommodation. Markets are pricing in the prospect of a growth-enhancing U.S. stimulus package that promises to deliver lower tax rates, greater infrastructure spending, and regulatory reforms. As such, bond yields have risen in anticipation of stimulus coming at a point when the U.S. economy is largely believed to be near full employment, suggesting a more inflationary environment.

The relative stability in global financial markets, combined with a more optimistic economic outlook, has given the Federal Reserve confidence to tighten monetary policy slightly more quickly than we had previously anticipated. Moreover, two more rate hikes are likely before the end of this year. Elsewhere, central banks are not expected to follow the Fed's lead. Headline inflation rates have been rising globally, but underlying inflation in Europe and Japan remains weak, a consequence of economic slack and other structural headwinds. This theme of policy divergence – U.S. tightening as other AEs maintain a highly accommodative monetary policy stance – is expected to provide support for the dollar over the next couple of years.

Like the U.S., other AEs and China are also pivoting to more stimulative fiscal policy, but certainly not of the magnitude of what's under discussion in America. As such, the fillip to global growth from the increase in government stimulus, including progress on structural reforms, is likely to be relatively modest (Chart 2 - see report).

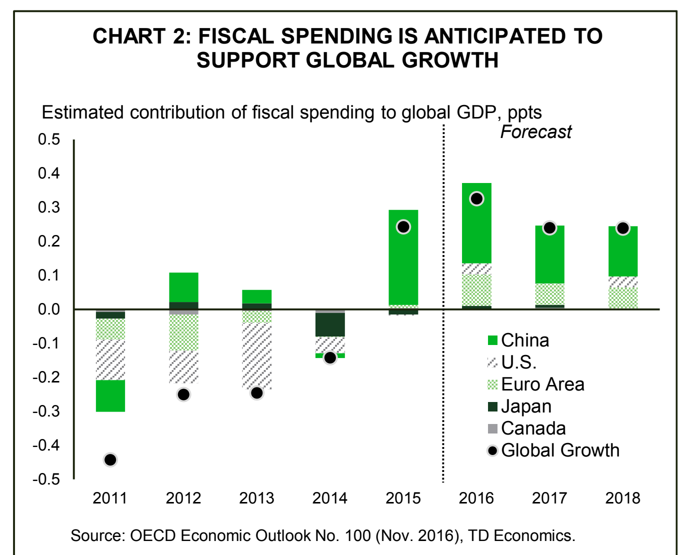
Firming global demand and OPEC supply cuts are also lending support to oil and base metal prices since the autumn. In light of the rebound in prices, commodity-oriented economies are expected to become positive contributors to global economic growth over the next two years, in sharp contrast to 2015-16, when they represented a key source of drag. Having said that, the rally in crude oil prices has shown signs of fading in recent weeks, as higher prices induce a positive supply response in non-OPEC producers. This reaffirms our view that oil will likely remain range-bound between US$50-$60 through the end of next year.

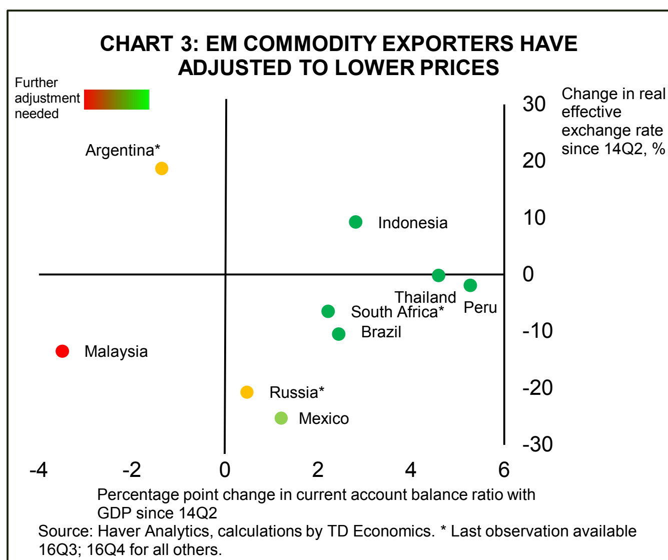
Above all else, what prevents us from moving up to a much firmer global growth outlook is a plethora of downside risks. Most importantly, the potential enactment of anti-trade policies by the new U.S. administration could disrupt global value chains. Looking across the pond, political uncertainty arising from a series of European elections could also delay some investment decisions. Moreover, unresolved Brexit developments provide downside risks to the UK and EU economies, and early Italian elections could see the first populist, anti-euro party gain power in a core euro area country.

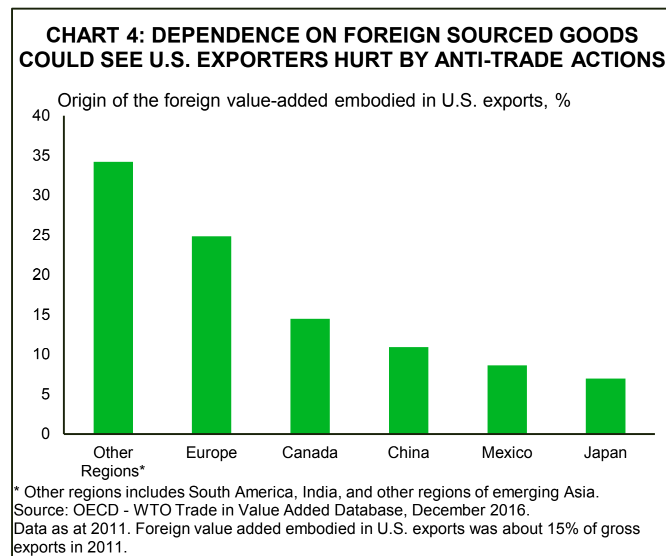
Protectionism is the key threat to global growth

The slow trickle of capital back into emerging market economies (EMEs) after strong outflows through most of last year signals a degree of confidence that growth in EMEs has finally turned up for the better. Rising global demand for commodities is helping to support the recovery in commodity exporters such as Russia and Brazil, and the boost in demand from AEs and a stable, but slower growing China should support EM exports more broadly (Chart 3).

While some optimism is founded, and is a testament to the dynamism and resilience of EMEs, many of these economies face challenges that could keep growth at roughly their trend pace over the next couple of years. An ongoing concern is the elevated level of private-sector and foreign denominated debt. Past increases in global bond yields and U.S. dollar strength has resulted in tighter financial condi-







tions globally, while higher energy prices will likely push some EM central banks to tighten this year in response to higher inflation. Tighter financial conditions raise questions about the sustainability of the debt burdens in many EMEs, a key concern we've often highlighted in the past. Any unanticipated tightening in financial conditions from here could see a renewed bout of capital outflows, making the outlook for EMEs more fragile.

A less likely, but more severe risk is that the anti-trade rhetoric in the U.S. turns into action, resulting in tariffs (as high as 35%) being imposed on EMEs such as Mexico and China. More importantly, the associated supply chain disruptions could result in a material reduction in global economic activity, particularly if retaliatory trade measures lead to an escalation of trade restrictions (Chart 4).

Finally, China remains critical to the outlook for global growth and appears to be serious about tackling its own set of challenges. Authorities earlier this month announced a 2017 growth target of "around" 6.5%, a touch weaker than the 6.7% pace of growth recorded in 2016. Chinese policymakers also noted that there are material downside risks to the outlook, particularly the build-up of non-performing loans in the banking sector, and the high degree of leverage in non-financial Chinese firms. Moreover, fixed asset investment growth is likely to slow, with infrastructure spending plans expected to be more subdued than in the last few years.

Political uncertainty clouds the outlook for AEs

Survey indicators suggest that the strong performance of many AE economies in the second half of last year have likely carried over into the first quarter of this year. Although we've raised the outlook for the Eurozone and the UK, this largely reflects the stronger hand-off from strength in the second half of 2016.

Risks to the Eurozone and UK outlook remain tilted to the downside. Although the election result in the Netherlands suggests that the populist threat to the status quo has less room to run than initially feared, the real test will come this spring during the two rounds of the French Presidential election. A win by the populist Marine Le Pen in the second round could result in prolonged period of uncertainty as she attempts to negotiate better terms for France remaining in the EU. Should this outcome occur, the fear is that a failure in negotiations will mark a call for a referendum on France remaining part of the EU, putting the future of the EU and the euro in doubt. This outcome would undoubtedly increase volatility in global financial markets, particularly in European equities, bonds, and currencies.

There is no shortage of other factors to point to that further compound the downside risks to the European outlook. These include undercapitalized banking systems, Greek debt negotiations, high levels of public debt, uncertainty about the outcome on trade negotiations with the UK, and demographic headwinds that could conspire to restrain growth amidst limited traction with already highly accommodative monetary policy.

On the upside, a pivot to more accommodative fiscal policy, especially from the U.S., would raise the outlook for global growth. Balancing on the head of a pin, now more than ever, the fate of the global economy rests on which combination of upside and downside risks materialize.

U.S. OUTLOOK – THINGS ARE LOOKING UP, INCLUDING RATES

Prospects for the American economy are looking up. Even in the absence of fiscal policy stimulus, economic growth appears set to accelerate to 2.2% from the middling 1.6% rate it averaged in 2016. We continue to hold off including any explicit fiscal lift in our forecast with the jury still out on the size and contours of any tax or spending packages. However, it is increasingly clear that whatever stimulus does occur, it won't meaningfully impact the economy until 2018 at the earliest, as Congress struggles to reach consensus on key policy details.

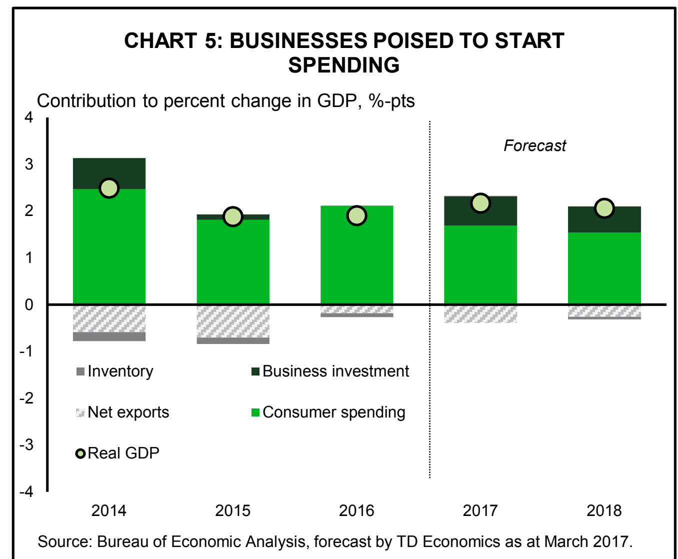
Even without a dose of fiscal stimulus, domestic spending growth is expected to accelerate to 2.5% over the course of 2017, up from 2.1% in 2016. Momentum should moderate to 2.3% in 2018 as the economy approaches full-employment and higher interest rates start to slow rate-sensitive sectors. Sturdy domestic growth and a strong dollar mean that international trade should remain a drag over the next two years (Chart 5).

With core inflation moving toward the Federal Reserve's 2% target, interest rates will continue to head higher. Following the Federal Reserve's March rate hike, we expect two more before this year is out and three more over the course of next year, bringing the fed funds rate to 2.25% by the end of 2018. If meaningful deficit-financed tax cuts or spending increases are enacted, it would present upside potential to this forecast. Please see our financial section for additional details.

Stars align for an improvement in investment

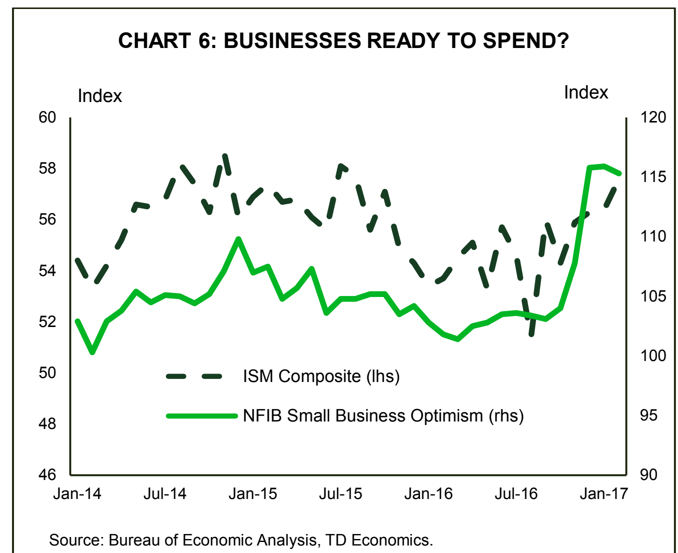
A key element of the improved growth outlook is an expected acceleration in business investment. Since 2014, a rapid drop in oil prices and a sharp rise in the dollar drained corporate coffers, leaving companies with little cash to invest. As a result, business investment in real terms has grown by less than 1% over the past two years. However, an improvement appears to be on the near-term horizon. Corporate profits staged a sizeable rebound in the third quarter, and are expected to make steady advances over the next two years. Investment is now rising in the oil and gas sector, albeit off a much lower base. And last, but not least, businesses are more optimistic about the future across a wide variety of metrics (Chart 6).

Clearly, business leaders expect Washington to set a more pro-business backdrop. Reductions in corporate tax rates could be a catalyst to unlock pent-up demand for investment. There is broad agreement that America's corporate tax system, which combines relatively high marginal rates with a relatively low average tax take, is in desperate need of reform (please see our recent report for more details). Remedying this situation appears to be a key policy priority of the new Congress and administration.



Source: Bureau of Economic Analysis, forecast by TD Economics as at March 2017.

However, while the President has made some moves to reduce regulations, it is increasingly clear that tax reform will be complicated and time-consuming (see report). We expect business investment to accelerate, but there remains a risk for policy disappointment. Businesses may wait to ramp up spending until tax changes are known in order to more accurately assess expected returns on those investments. And, budgetary and political constraints may dictate that reform be more modest than businesses had been hoping.



Source: Bureau of Economic Analysis, TD Economics.

Consumers continue to provide a solid foundation

Until businesses kick it up a notch, consumers remain the linchpin of economic growth. Americans have been buying up new cars, recreational vehicles and furniture at a healthy clip. What's more, this spending has not been accompanied by a rise in household debt burdens, as was the case prior to the financial crisis (Chart 7).

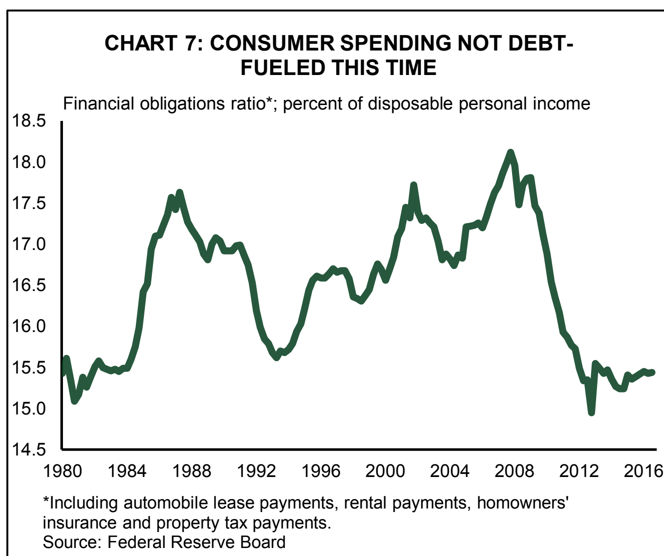
Instead, a key factor behind the sturdy growth in spending has been the boost to purchasing power from falling energy prices. But, this is now in the rear-view mirror. We expect rising headline inflation to top out at 2.7% in the third quarter; taking back some of the income boost it provided over the past year. Nearly a full percentage point of the rise in inflation is due directly to energy.

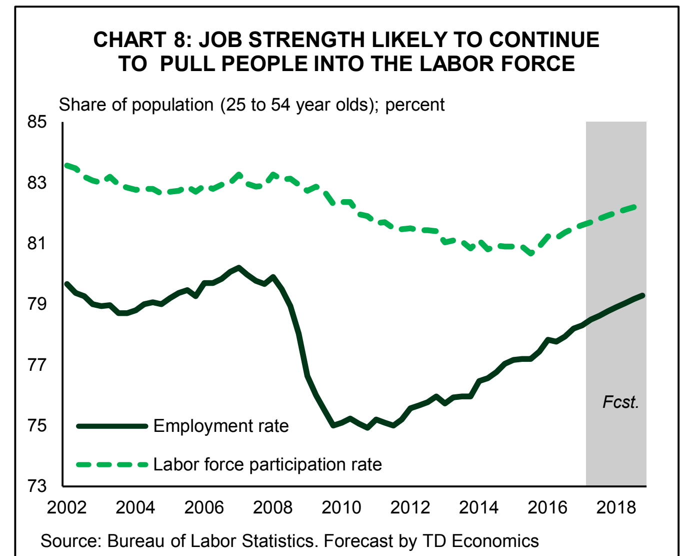
Still, spending growth should be supported by ongoing wealth gains driven by both rising equity and home prices, as well as continued acceleration in wage growth. All told, after growing by 3% in real terms over the past four quarters, we expect consumer spending growth to moderate slightly to the mid-2% range over the next two years.

America's job machine running on all cylinders

Giving credence to our view on consumer spending is the consistent strength in the pace of job growth. The American economy has created an average of 196k jobs per month over the past year and the pace accelerated to 237k in the first two months of 2017.

Indeed, even as the unemployment rate has pushed below 5%, America's job market has drawn on an increasing number of workers from outside of the ranks of the officially unemployed. This can be seen in an improvement in the participation rate and employment rate of prime working age people (25 to 54).





We expect this to continue, anticipating over one million people to re-join the labor market over the next two years (Chart 8). As long as this continues, job growth can continue to run well above the 100k or so per month that Chair Yellen has noted as normal. We expect job growth to continue at a pace of around 180k over the remainder of this year, before slowing to 150k in 2019.

Washington is the main risk to the forecast

Potential policy shifts in Washington present the main upside and downside risk to our outlook. On the upside is the potential for tax cuts and infrastructure spending. However, this is far from a slam dunk. Congressional Republicans would like to pass a comprehensive tax reform package. And, President Trump campaigned on more investment in infrastructure. However, Republicans have a slim majority in the Senate, and so any package needs essentially universal support among GOP Senators. It is clear that Republicans will need to strike significant compromise amongst each other, as evidenced by early proposals on healthcare reform.

On the downside is the potential for more restrictive immigration policy and protectionist trade measures. These positions may have less of an impact in the near-term, but present downside risk to medium-term economic growth. Moreover, uncertainty in these areas casts a shadow over globally integrated companies and sectors that are reliant on international trade and the free flow of labor.

CANADA OUTLOOK - RIDING A WAVE OF MOMENTUM

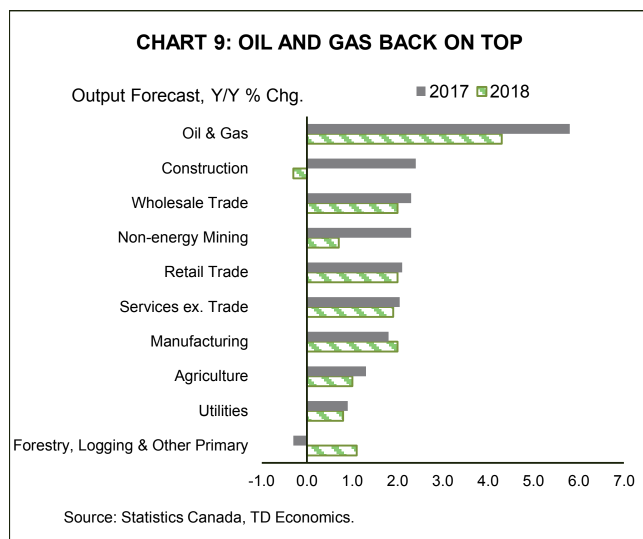
2016 presented its fair share of growth challenges for Canada, but the outlook has brightened in recent months. A solid finish last year coupled with strong momentum to start 2017 has led to a half a percentage point upgrade to our forecast, to 2.3%. This more optimistic view has trickled into 2018, with real GDP growth revised up by 0.2 percentage points to 1.9%.

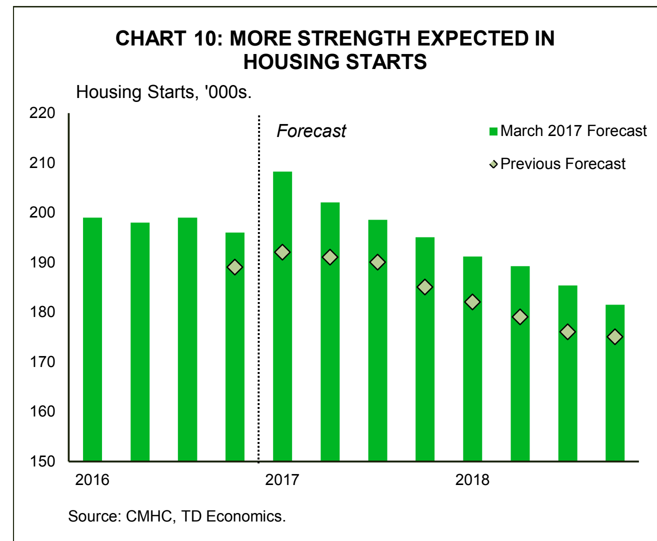
The improved outlook does not mean that economic risks are fading. Quite the opposite when it comes to the ongoing over-reliance on the housing sector. The risks are rising around Canada's largest urban centre, and a more pronounced correction may be in waiting beyond the 2017-18 forecast horizon. On the trade side, all eyes in Canada remain on upcoming NAFTA renegotiations and U.S. tax reform. In light of these uncertainties and tame underlying inflationary pressures, the Bank of Canada is expected to hold the line on interest rates in the coming quarters, despite expectations of an accelerated rate hike path for the U.S. Fed.

Strong hand-off to 2017

The strength in economic momentum since the autumn has raised some eyebrows. Owing largely to a further acceleration in consumer spending, real GDP growth clocked in at 2.6% (annualized) in Q4, modestly exceeding our forecast. This pace should be repeated 2017Q1. Indeed, strong near-term momentum is responsible for roughly two-thirds of our upgrade to 2017 growth. Job creation has also been gaining traction, though metrics around the quality of jobs, wage growth, and hours worked point to a soft underbelly.

Beyond the forecast tweaks, the main themes underlying the Canadian outlook remain largely intact. The consumer is still expected to remain the backbone of the Canadian economy in the coming quarters, while government stimulus dollars budgeted last year should begin translating more meaningfully into economic activity. Business investment is nearing a bottom, and is forecast to move back into positive territory this year. Finally, on the external front, an improved outlook for the U.S. economy and a supportive exchange rate should support continued improvement in exports, barring any policy interference. Complete forecast details are provided in the table on page 10.





Another way to gauge Canada's performance – and one that receives less attention – is on a "value-add basis" across Canada's key industries (Chart 9). In a sea-change from 2016, the fastest performing sector in 2017 is expected to be oil and gas, where production is expected to bounce back, partially supported by the start-up of oil sands projects. Recently-released figures also point to improved investment intentions this year, putting an end to two straight years of dramatic contraction.

Other goods related industries are likely to enjoy better performances over the forecast period relative to 2016, helped by a quickening pace of U.S. demand. That said, any improvement is expected to be concentrated in non-auto manufacturing, as the scheduled closure of an Oshawa plant later this year weighs on auto assemblies.

The most notable change to the industrial outlook is in construction. We have not altered our view that the upcoming federal budget is likely to confirm a significant infrastructure roll-out that will be supportive for activity. But, we have altered our view on residential investment. Extreme

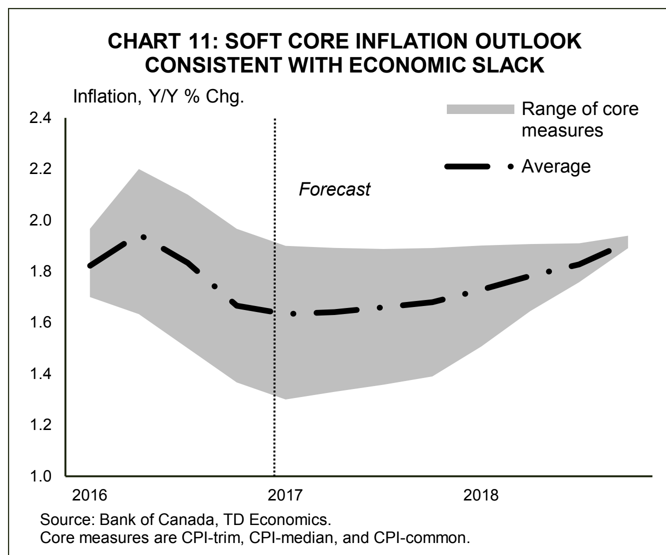
tightness in both the purchase and rental markets has led to an upgraded housing starts forecast for 2017-18 (Chart 10).

Key housing markets detaching from fundamentals

The upgrade to the housing starts forecast is linked to our general assessment of the resale market, and in particular, the juggernaut in the Greater Toronto Area (GTA). Home prices across the GTA and surrounding areas appear to be detaching from fundamentals and are simply unsustainable. This pace cannot last forever, but in the absence of government policy intervention or a sharp movement in interest rates, momentum is likely to keep the Toronto housing party going for at least a few more quarters. A gradual normalization in longer-term interest rates is on the horizon. Alongside increasingly stretched housing affordability, this should create a speedbump. Although these forces are likely to produce only a modest cooling in price growth and construction activity within the two-year forecast horizon, the market is vulnerable to a more pronounced correction post-2018.

In the meantime, the effects of hot housing markets are materializing within consumer spending via the "wealth effect" (See our report Home Is Where The Wealth Is). Purchases of household furniture, furnishings, and other related areas are helping to propel consumer spending, contributing to the upside surprise in the GDP data at the end of last year. Given a strengthening in near-term housing momentum, consumer spending should remain robust, supporting retail and wholesale trade. As we enter 2018, some of these direct and indirect effects from housing will wane as the new and resale markets slow a notch.

The importance of housing to the Canadian economy places it as the largest domestic risk to future growth. A disorderly rebalancing would clearly have far-reaching negative impacts.



That said, such an outcome typically requires a trigger. While our base-case is that rising borrowing costs and stretched valuations should create a limiting effect that gradually slows markets over the next two years, these ingredients are probably not sufficient to drive a hard landing in light of the current heady momentum.

Opportunities and risks beyond our borders

The Canadian growth outlook might be stronger, but the significant uncertainty that has characterized recent quarters has not diminished. Although housing has already been discussed, the other elephant in the room is trade.

In recent months, exports have grown fairly robustly, as a post-wildfire recovery in energy shipments gave way to more broad-based growth, including food, consumer goods, and industrial products. A strengthening and broadening of non-energy exports has always been a key pillar to ensure diversity in a sustainable growth pattern for Canada. While caution is warranted, recent trade figures have been encouraging. However, U.S. policy might yet upset the cart.

Recent comments by the U.S. administration have helped ease concerns about protectionist policies, but those comments don't remove the risk that 'tweaks' to trade agreements could touch on sensitive areas, prolonging negotiations (and thus uncertainty). Suggestions of rules of origin requirement changes do not imply a major trade shock, unless U.S.-specific content rules are in the offing. Perhaps more concerning are potential changes to the U.S. corporate tax system, where some proposals may penalize Canadian exporters. While theory suggests that the U.S. dollar should move higher in reaction to offset these impacts, in practice such adjustment may take time or be incomplete, leaving Canadian exporters in a vulnerable position and potentially calling the trade outlook into question.

Monetary policy divergence to keep the loonie low

The Canadian growth profile may be improved, but sizeable economic slack and the resulting lack of medium-term inflationary pressures (Chart 11) will stay Governor Poloz's hand in the near term. This is in contrast to a Federal Reserve that is accelerating their pace of tightening. This divergence in short-term interest rates should place downward pressure on the loonie, whose level has become a notable concern for Governor Poloz. Details on the financial forecast are presented in the following section (page 8).

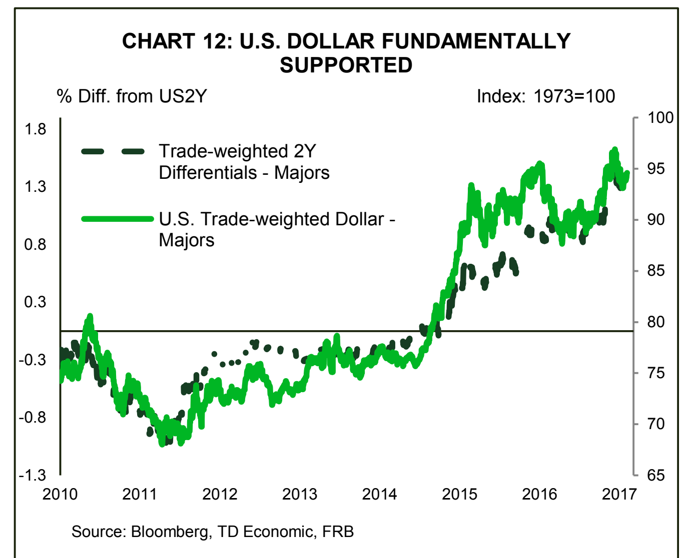
FINANCIAL OUTLOOK - THE FED HIKES AGAIN

After initiating a leg higher in Treasury yields in recent weeks through a series of decidedly hawkish speeches, the Federal Reserve followed through with a rate hike on March 15th – its second such move in three months. These actions have embedded market expectations for potentially two more rate hikes this year and two more in 2018. The Fed is certainly exuding the most confidence in the sustainability of economic momentum and the maturity of the business cycle than we've seen in years. This is leading market sentiment towards their view. Treasury yields have responded with a curve shift upwards, highlighted by the U.S. 5-year yield trading at its highest level in nearly six years.

With a tightening labor market providing a firm floor to wage pressures, the Fed's preferred measure of core inflation is on track to move toward the 2% target. The Fed is now more focused on the domestic road ahead, rather than looking at events in its side-mirror. This is aided by a synchronized global upturn in activity and inflation expectations. Improved fundaments in international economies has increased the probability that other major central banks, including the European Central Bank and Bank of England, will move away from the recent period of ultra-extraordinary monetary accommodation. As such, improved interest rate differentials with the U.S. has also tempered the advance of the trade-weighted U.S. dollar. Even though we note the improvement in international economies, they still have more to go in order for central banks to raise policy rates to a level that closes interest rate differentials significantly. For this reason, we see upside for the U.S. dollar in the near-term (Chart 12).

What could go wrong?

There is the risk that the rising policy rate weighs too heavily on economic growth. Since the readjustment of Treasury yields post-election, there has been a comparable jump in mortgage rates. If the Fed is able to execute on the hikes it is proposing, it is possible for the 30-year U.S. conventional mortgage rate to push towards 5% by the end of the year. This is a headwind for activity within commercial and residential property sectors. This pressure on lending rates wouldn't just be an American phenomenon. Due to global financial linkages, higher yields in the U.S. will spread to other countries, forcing up borrowing rates in countries that are not standing on as solid a footing as America.



Higher U.S. yields to blow north into Canada

Canada is a perfect example of a country that will be directly impacted by what transpires in financial markets south of the boarder. Even though the economy appears to have significant remaining slack, higher rates in the U.S. will be priced into Canadian sovereign bonds and eventually mortgage rates. This is already underway. The Canadian 5-year yield has risen 70 basis points in spite of a Bank of Canada that has stood still on the policy rate and signalled no intention to raise rates anytime soon.

For an economy with high household indebtedness (credit market debt to disposable income reached 167% in the fourth quarter) and soaring house prices, any swift adjustment in yields presents a significant risk, especially to overheated housing markets in two large economic centers within the country (Toronto and Vancouver). To offset the push from higher U.S. rates, the Bank of Canada is expected to hold rates at 0.50% this year and into 2018. This means further near-term headwinds for the Canadian dollar.

That said, a number of factors suggest the loonie won't be revisiting the lows experienced last year. First, oil prices have come under pressure of late, but the combination of firming global growth and supply stabilization has established a floor above the level seen in early 2016. Second, the Canadian economy is making progress in absorbing slack. In fact, real GDP growth has outshot the Bank's expectations for the past two quarters. Investors are beginning to price in a hike in the Canadian overnight rate for next year, and this will ultimately limit downward pressure on the Canadian dollar.

INTEREST RATE OUTLOOK

	2016				2017				2018			
	Q1	Q2	Q3	Q4	Q1*	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
CANADA												
Overnight Target Rate	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75
3-mth T-Bill Rate	0.45	0.48	0.53	0.46	0.51	0.50	0.50	0.50	0.50	0.50	0.65	0.75
2-yr Govt. Bond Yield	0.54	0.52	0.52	0.74	0.81	0.80	0.85	0.90	1.00	1.10	1.20	1.30
5-yr Govt. Bond Yield	0.68	0.57	0.62	1.11	1.22	1.30	1.40	1.50	1.65	1.75	1.90	2.05
10-yr Govt. Bond Yield	1.23	1.06	1.00	1.72	1.77	1.90	2.00	2.10	2.25	2.40	2.55	2.65
30-yr Govt. Bond Yield	2.00	1.72	1.66	2.31	2.42	2.55	2.65	2.75	2.85	2.90	3.00	3.10
10-yr-2-yr Govt Spread	0.69	0.54	0.48	0.98	0.96	1.10	1.15	1.20	1.25	1.30	1.35	1.35
U.S.												
Fed Funds Target Rate	0.50	0.50	0.50	0.75	1.00	1.25	1.50	1.50	1.75	2.00	2.25	2.25
3-mth T-Bill Rate	0.21	0.26	0.29	0.51	0.71	1.15	1.40	1.40	1.65	1.90	2.15	2.15
2-yr Govt. Bond Yield	0.73	0.58	0.77	1.20	1.30	1.60	1.80	1.95	2.10	2.25	2.40	2.55
5-yr Govt. Bond Yield	1.21	1.01	1.14	1.93	2.01	2.30	2.50	2.70	2.80	2.95	3.00	3.05
10-yr Govt. Bond Yield	1.78	1.49	1.60	2.45	2.50	2.55	2.65	2.80	3.00	3.20	3.30	3.40
30-yr Govt. Bond Yield	2.61	2.30	2.32	3.06	3.11	3.15	3.25	3.35	3.40	3.50	3.60	3.65
10-yr-2-yr Govt Spread	1.05	0.91	0.83	1.25	1.20	0.95	0.85	0.85	0.90	0.95	0.90	0.85
CANADA - U.S SPREADS												
Can - U.S. T-Bill Spread	0.24	0.22	0.24	-0.05	-0.20	-0.65	-0.90	-0.90	-1.15	-1.40	-1.50	-1.40
Can - U.S. 10-Year Bond Spread	-0.55	-0.43	-0.60	-0.73	-0.73	-0.65	-0.65	-0.70	-0.75	-0.80	-0.75	-0.75

F: Forecast by TD Bank Group as at March 2017; All forecasts are end-of-period; Source: Bloomberg, Bank of Canada, Federal Reserve.
* Spot rate as at March 15, 2017.

FOREIGN EXCHANGE OUTLOOK

Currency	Exchange rate	2016				2017				2018			
		Q1	Q2	Q3	Q4	Q1*	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Exchange rate to U.S. dollar													
Japanese yen	JPY per USD	112	103	101	117	113	116	117	118	119	120	120	120
Euro	USD per EUR	1.14	1.10	1.12	1.06	1.07	1.05	1.08	1.11	1.12	1.13	1.13	1.14
U.K. pound	USD per GBP	1.44	1.32	1.30	1.23	1.23	1.22	1.24	1.27	1.30	1.33	1.36	1.37
Exchange rate to Canadian dollar													
U.S. dollar	USD per CAD	0.771	0.769	0.762	0.745	0.752	0.730	0.735	0.741	0.746	0.752	0.758	0.769
Japanese yen	JPY per CAD	86.7	79.0	77.2	87.0	85.2	84.7	86.0	87.4	88.8	89.9	90.9	92.3
Euro	CAD per EUR	1.48	1.44	1.47	1.42	1.43	1.44	1.47	1.50	1.50	1.50	1.49	1.48
U.K. pound	CAD per GBP	1.87	1.72	1.71	1.66	1.64	1.67	1.69	1.72	1.74	1.77	1.80	1.78

F: Forecast by TD Bank Group as at March 2017. All forecasts are end-of-period. Source: Federal Reserve, Bloomberg, TDBG.
* Spot rate as at March 15, 2017.

COMMODITY PRICE OUTLOOK

	2016				2017				2018			
	Q1	Q2	Q3	Q4	Q1*	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Crude Oil (WTI, $US/bbl)	33	45	45	50	49	52	55	55	56	56	57	57
Natural Gas ($US/MMBtu)	1.97	2.13	2.85	3.02	3.00	3.15	3.25	3.25	3.30	3.30	3.30	3.30
Gold ($US/troy oz.)	1182	1259	1335	1216	1221	1250	1275	1275	1300	1300	1325	1325
Silver (US$/troy oz.)	14.93	16.84	19.63	17.14	17.34	17.00	17.75	17.75	18.75	18.78	19.50	19.50
Copper (cents/lb)	212	215	216	240	263	252	252	254	260	260	265	265
Nickel (US$/lb)	3.86	4.00	4.65	4.90	4.64	5.00	4.75	4.75	5.00	5.00	5.25	5.25
Aluminum (cents/lb)	69	71	73	78	84	75	76	76	78	78	78	78
Wheat ($US/bu)	5.89	6.06	5.73	6.48	6.29	6.55	6.50	6.60	6.60	6.70	6.75	6.75

F: Forecast by TD Bank Group as at March 2017. All forecasts are period averages. Source: Bloomberg, USDA (Haver). * Spot rate as at March 15, 2017.

CANADIAN ECONOMIC OUTLOOK:

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

	2016				2017				2018				Annual Average			4th Qtr/4th Qtr		
	Q1	Q2	Q3	Q4	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	16	17F	18F	16	17F	18F
Real GDP	2.7	-1.2	3.8	2.6	2.6	2.0	2.1	2.0	1.9	1.9	1.7	1.7	1.4	2.3	1.9	1.9	2.2	1.8
Consumer Expenditure	2.3	2.1	2.6	2.8	2.4	1.9	1.9	1.7	1.6	1.6	1.4	1.3	2.2	2.2	1.6	2.4	2.0	1.5
Durable Goods	3.9	-1.2	-1.2	8.1	4.2	2.5	2.2	1.8	1.5	1.5	1.3	1.4	3.6	3.1	1.7	2.3	2.7	1.4
Non-Res. Fixed Investment	-8.6	-3.6	3.0	-17.4	-1.8	0.5	1.7	2.4	3.5	3.9	3.7	3.5	-8.4	-3.4	3.0	-7.0	0.7	3.6
Non-Res. Structures	-12.6	-7.1	14.9	-21.7	-1.7	0.6	1.3	2.4	2.9	3.5	3.3	2.9	-10.7	-3.3	2.6	-7.6	0.6	3.1
Equipment & IPP*	-2.8	0.2	-13.6	-9.4	-1.8	0.5	2.1	2.5	4.0	4.2	4.2	4.0	-5.0	-3.6	3.3	-6.6	0.8	4.1
Residential Investment	10.3	-0.1	-4.7	4.8	4.9	3.9	1.9	-1.7	-2.2	-1.7	-1.5	-1.1	2.9	2.3	-1.0	2.4	2.2	-1.7
Government Expenditure	3.3	4.6	-0.9	2.6	2.1	2.1	2.3	2.3	2.1	1.9	1.7	1.5	1.9	2.0	2.0	2.4	2.2	1.8
Final Domestic Demand	2.8	1.8	1.0	0.5	2.0	1.9	2.0	1.7	1.6	1.6	1.5	1.4	1.2	1.6	1.7	1.5	1.9	1.5
Exports	9.3	-15.1	9.4	1.3	4.2	4.3	4.0	3.9	3.6	3.2	3.1	3.1	1.1	3.0	3.6	0.8	4.1	3.2
Imports	3.5	1.1	4.8	-13.4	8.3	3.7	3.5	3.2	3.3	2.6	2.6	2.8	-1.0	1.2	3.1	-1.3	4.6	2.8
Change in Non-Farm Inventories ($2007 Bn)	-7.0	-1.6	6.1	-4.8	3.2	2.5	2.1	2.3	2.8	2.9	3.2	3.7	-1.8	2.5	3.1	---	---	---
Final Sales	3.8	-3.8	2.3	5.8	0.9	2.1	2.1	1.9	1.8	1.8	1.7	1.5	1.7	2.1	1.8	1.9	1.8	1.7
International Current Account Balance ($Bn)	-69.4	-75.7	-77.1	-41.1	-49.8	-52.3	-47.3	-46.3	-46.9	-43.4	-43.9	-37.6	-65.8	-48.9	-43.0	---	---	---
% of GDP	-3.5	-3.8	-3.8	-2.0	-2.4	-2.5	-2.2	-2.2	-2.2	-2.0	-2.0	-1.7	-3.2	-2.3	-1.9	---	---	---
Pre-tax Corp. Profits	3.5	-35.4	82.6	28.8	12.3	8.8	8.3	7.8	7.2	5.7	5.3	5.2	-4.5	16.4	6.9	12.0	9.3	5.8
% of GDP	10.8	9.7	11.1	11.6	11.8	11.9	12.0	12.2	12.2	12.3	12.3	12.4	10.8	12.0	12.3	---	---	---
GDP Deflator (Y/Y)	0.0	0.1	0.5	1.9	2.3	2.7	2.5	2.0	2.0	2.0	2.0	2.0	0.6	2.4	2.0	1.9	2.0	2.0
Nominal GDP	2.6	-0.5	6.4	7.0	4.4	4.1	4.2	4.0	3.9	4.0	3.8	3.8	2.1	4.7	4.0	3.8	4.2	3.9
Labour Force	0.6	0.0	0.8	2.1	0.7	0.5	0.5	0.5	0.5	0.5	0.5	0.4	0.8	0.9	0.5	0.9	0.6	0.5
Employment	0.3	0.9	0.7	2.6	1.4	0.7	0.6	0.5	0.5	0.5	0.5	0.5	0.7	1.2	0.5	1.1	0.8	0.5
Employment ('000s)	12	38	31	116	63.4	29.6	26.1	24.3	24.0	22.9	23.0	23.5	134	217	97	197	143	93
Unemployment Rate (%)	7.2	6.9	7.0	6.9	6.7	6.7	6.7	6.7	6.6	6.7	6.7	6.6	7.0	6.7	6.6	---	---	---
Personal Disp. Income	0.5	2.5	7.0	6.3	1.7	2.0	2.6	3.2	3.2	3.0	2.9	2.9	3.8	3.5	2.9	4.0	2.4	3.0
Pers. Saving Rate (%)	4.7	5.0	5.5	5.8	5.4	5.2	5.1	5.2	5.2	5.2	5.2	5.1	5.2	5.2	5.2	---	---	---
Cons. Price Index (Y/Y)	1.6	1.5	1.2	1.4	2.3	2.3	1.9	2.0	2.1	2.1	2.0	2.0	1.4	2.1	2.1	1.4	2.0	2.0
CPIX (Y/Y)*	2.1	2.1	1.9	1.5	1.7	1.7	1.8	1.9	2.0	2.0	2.1	2.0	1.9	1.8	2.0	1.5	1.9	2.0
BoC Inflation (Y/Y)*	1.8	1.9	1.8	1.7	1.6	1.6	1.7	1.7	1.7	1.8	1.8	1.9	1.8	1.7	1.8	1.8	1.7	1.9
Housing Starts ('000s)	199	198	199	196	208	202	199	195	191	189	185	181	198	201	187	---	---	---
Productivity: Real GDP / worker (Y/Y)	0.6	0.4	0.9	0.8	0.5	1.4	1.0	1.4	1.4	1.4	1.3	1.3	0.7	1.1	1.4	0.8	1.4	1.3

*Intellectual Property Products. F: Forecast by TD Economics as at March 2017

** CPIX: CPI excluding the 8 most volatile components. BoC Inflation: simple average of CPI-trim, CPI-median, and CPI-common

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

	2016				2017				2018				Annual Average			4th Qtr/4th Qtr		
	Q1	Q2	Q3	Q4	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	16	17F	18F	16	17F	18F
Real GDP	0.8	1.4	3.5	1.9	1.0	3.2	2.6	1.8	1.9	2.2	2.1	2.0	1.6	2.2	2.1	1.9	2.1	2.1
Consumer Expenditure	1.6	4.3	3.0	3.0	1.7	3.1	2.5	2.1	2.0	2.3	2.2	2.0	2.7	2.7	2.2	3.0	2.4	2.1
Durable Goods	-0.6	9.8	11.6	11.5	3.6	6.2	3.9	3.4	3.6	4.3	4.1	4.0	5.8	6.9	4.0	7.9	4.3	4.0
Non-Res. Fixed Investment	-3.4	1.0	1.4	1.3	4.9	5.6	4.9	4.1	4.2	4.2	4.2	3.9	-0.5	3.6	4.3	0.0	4.9	4.2
Non-Res. Structures	0.1	-2.1	12.0	-4.4	7.3	6.7	5.8	4.6	5.4	5.0	4.5	4.4	-3.0	4.5	5.1	1.2	6.1	4.8
Equipment & IPP*	-4.4	1.8	-1.4	3.0	4.2	5.3	4.7	3.9	3.9	4.0	4.1	3.8	0.2	3.4	4.1	-0.3	4.5	4.0
Residential Construction	7.8	-7.8	-4.1	9.6	10.5	4.0	4.6	2.8	3.4	4.5	4.1	3.8	4.9	4.8	3.8	1.1	5.4	4.0
Govt. Consumption & Gross Investment	1.6	-1.7	0.8	0.3	-0.4	1.2	1.1	0.8	1.1	1.0	1.0	1.2	0.8	0.4	1.0	0.2	0.7	1.1
Final Domestic Demand	1.2	2.4	2.1	2.6	2.0	3.1	2.6	2.2	2.2	2.4	2.3	2.2	2.1	2.5	2.3	2.1	2.5	2.3
Exports	-0.7	1.8	10.0	-4.0	5.5	0.8	3.7	4.5	5.3	5.6	5.9	6.2	0.4	2.8	4.8	1.6	3.6	5.7
Imports	-0.6	0.2	2.2	8.5	8.6	2.6	5.1	6.2	5.8	6.0	6.6	6.4	1.1	5.5	5.8	2.5	5.6	6.2
Change in Private Inventories	40.7	-9.5	7.1	46.2	26.9	36.3	44.6	43.4	40.4	39.5	38.1	37.5	21.1	37.8	38.9	---	---	---
Final Sales	1.3	2.6	3.0	0.9	1.5	2.9	2.4	1.8	2.0	2.2	2.1	2.0	2.0	2.0	2.1	1.9	2.2	2.1
International Current Account Balance ($Bn)	-527	-472	-452	-540	-584	-595	-594	-605	-608	-614	-620	-625	-498	-594	-617	---	---	---
% of GDP	-2.9	-2.6	-2.4	-2.9	-3.1	-3.1	-3.1	-3.1	-3.1	-3.1	-3.1	-3.0	-2.7	-3.1	-3.1	---	---	---
Pre-tax Corporate Profits including IVA&CCA	14.1	-2.4	25.4	-0.1	0.7	3.3	4.5	4.2	3.9	3.9	3.8	3.8	-0.2	4.3	4.0	8.7	3.2	3.9
% of GDP	11.1	11.0	11.5	11.3	11.3	11.2	11.2	11.2	11.2	11.2	11.2	11.1	11.2	11.2	11.2	---	---	---
GDP Deflator (Y/Y)	1.2	1.2	1.3	1.5	2.0	1.8	2.0	2.1	2.2	2.4	2.5	2.5	1.3	2.0	2.4	1.5	2.1	2.5
Nominal GDP	1.3	3.7	5.0	3.9	3.2	4.8	4.9	4.2	4.6	4.7	4.6	4.6	2.9	4.2	4.6	3.5	4.3	4.6
Labor Force	3.5	-0.2	1.9	0.1	0.8	1.1	1.2	1.1	1.0	1.0	0.9	0.9	1.3	0.9	1.0	1.3	1.0	1.0
Employment	1.7	1.4	2.0	1.4	1.7	1.3	1.6	1.4	1.3	1.2	1.1	1.1	1.8	1.5	1.3	1.6	1.5	1.2
Change in Empl. ('000s)	609	510	704	510	596	472	566	521	472	432	421	412	2,493	2,225	1,902	2,333	2,156	1,736
Unemployment Rate (%)	4.9	4.9	4.9	4.7	4.7	4.7	4.6	4.6	4.5	4.5	4.4	4.4	4.9	4.7	4.5	---	---	---
Personal Disp. Income	2.4	5.0	4.4	4.0	3.1	4.9	4.9	4.3	4.7	4.6	4.6	4.5	3.9	4.2	4.6	3.9	4.3	4.6
Pers. Saving Rate (%)	6.1	5.9	5.9	5.6	5.4	5.4	5.5	5.5	5.6	5.6	5.7	5.7	5.9	5.4	5.7	---	---	---
Cons. Price Index (Y/Y)	1.1	1.1	1.1	1.8	2.7	2.6	2.7	2.6	2.3	2.4	2.4	2.3	1.3	2.6	2.3	1.8	2.6	2.3
Core CPI (Y/Y)	2.2	2.2	2.2	2.2	2.3	2.3	2.4	2.4	2.3	2.4	2.4	2.4	2.2	2.3	2.4	2.2	2.4	2.4
Core PCE Price Index (Y/Y)	1.6	1.6	1.7	1.7	1.7	1.7	1.8	2.0	1.9	2.0	2.0	2.0	1.7	1.8	2.0	1.7	2.0	2.0
Housing Starts (mns)	1.15	1.16	1.15	1.25	1.25	1.26	1.28	1.29	1.31	1.34	1.37	1.39	1.18	1.27	1.35	---	---	---
Real Output per hour (y/y)**	0.0	-0.3	0.1	1.0	0.9	1.4	0.8	0.6	1.1	0.9	0.9	1.1	0.2	0.9	1.0	1.0	0.6	1.1

*Intellectual property products. **Non-farm business sector. F: Forecast updated by TD Economics, March 2017

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					
	2015 Share*		Forecast		
Real GDP	**(%)**	**2015**	**2016**	**2017**	**2018**
World	100.0	3.2	2.9	3.3	3.4
North America	19.2	2.5	1.6	2.1	2.1
United States	15.8	2.6	1.6	2.2	2.1
Canada	1.4	0.9	1.4	2.3	1.9
Mexico	2.0	2.6	2.1	1.9	2.2
European Union (EU-28)	16.9	2.3	1.9	1.9	1.7
Eurozone (EU-19)	12.0	1.9	1.7	1.6	1.6
Germany	3.4	1.5	1.8	1.5	1.5
France	2.3	1.2	1.1	1.4	1.4
Italy	1.9	0.7	1.0	0.8	1.1
United Kingdom	2.4	2.2	1.8	2.0	1.6
EU accession members	2.6	3.5	2.6	2.8	2.6
Asia	42.9	4.8	4.9	5.0	5.0
Japan	4.2	1.2	1.0	1.1	0.8
Asian NIC's	3.4	2.0	2.2	2.6	2.7
Hong Kong	0.4	2.4	2.0	2.7	2.5
Korea	1.6	2.6	2.7	2.5	3.1
Singapore	0.4	1.9	2.0	2.3	2.3
Taiwan	1.0	0.7	1.5	2.5	2.3
Russia	3.3	-3.7	-0.5	1.1	1.4
Australia & New Zealand	1.1	2.5	2.7	2.9	3.0
Developing Asia	30.8	6.6	6.4	6.3	6.3
ASEAN-4	4.8	4.6	4.8	4.8	5.0
China	17.3	6.9	6.7	6.4	6.1
India**	7.0	7.7	7.0	7.3	7.6
Central/South America	6.4	-0.8	-1.8	0.3	2.1
Brazil	2.8	-3.8	-3.6	-0.8	2.4
Other Developing	13.6	2.5	2.0	2.7	3.1
Other Advanced	1.0	1.5	1.7	1.8	1.6

*Share of world GDP on a purchasing-power-parity (PPP) basis.
Forecast as at Mar 16, 2017. **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	1.8	1.7
U.S.	2.6	1.6	2.2	2.1
Japan	1.2	1.0	1.1	0.8
Eurozone	1.9	1.7	1.6	1.6
Germany	1.5	1.8	1.5	1.5
France	1.2	1.1	1.4	1.4
Italy	0.7	1.0	0.8	1.1
United Kingdom	2.2	1.8	2.0	1.6
Canada	0.9	1.4	2.3	1.9
Consumer Price Index (Annual per cent change)				
G-7	0.2	0.8	2.2	1.9
U.S.	0.1	1.3	2.6	2.3
Japan	0.8	-0.1	1.2	1.1
Eurozone	0.0	0.2	1.8	1.4
Germany	0.1	0.4	1.9	1.3
France	0.1	0.3	1.4	1.2
Italy	0.1	-0.1	1.4	1.2
United Kingdom	0.0	0.7	2.5	2.5
Canada	1.1	1.4	2.1	2.1
Unemployment Rate (Per cent annual averages)				
U.S.	5.3	4.9	4.7	4.5
Japan	3.4	3.1	3.0	3.0
Eurozone	10.9	10.0	9.6	9.5
Germany	6.4	6.1	5.9	5.8
France	10.4	10.0	9.8	9.3
Italy	11.9	11.7	11.7	11.4
United Kingdom	5.3	4.9	5.1	5.3
Canada	6.9	7.0	6.7	6.6

*Share of 2015 world gross domestic product (GDP) at PPP.
Forecast as at March 16, 2017
Source: National statistics agencies, TD Economics

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