QUARTERLY ECONOMIC FORECAST

TD Economics

March 16, 2017

AS GROWTH PROSPECTS BRIGHTEN, RATES WILL CONTINUE TO HEAD HIGHER

U.S. Highlights

- Prospects for the American economy are looking up. Even in the absence of fiscal stimulus, economic growth appears set to reach 2.2% in 2017 and 2.1% in 2018, up from 1.6% in 2016.
- Domestic demand is expected to accelerate from 2.1% in 2016 to 2.5% over the course of 2017, before moderating slightly to 2.3% in 2018.
- Core inflation is moving towards the Federal Reserve's 2% target, and interest rates will continue to head higher. We expect two more hikes in 2017 and for the fed funds rate to reach 2.25% by the end of 2018.
- The jury is still out on the size and contours of any federal tax or spending package. Therefore, 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 an upside to our forecast.

International Highlights

- After a sub-par year in 2016, global growth is expected to pick-up to average 3.3% per year in 2017-18, consistent with its five-year trend rate and broadly unchanged from our previous forecast.
- Economic activity will be supported by still-highly accommodative monetary policy and a slight loosening of fiscal policy, particularly in advanced economies.
- Growth in emerging market economies (EMEs) appears to have turned up since mid-2016. However, EMEs face a number of uncertainties, including possible trade restrictions that would hold expansions to a moderate pace.
- Firming global growth and headline 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.

TABLE OF CONTENTS

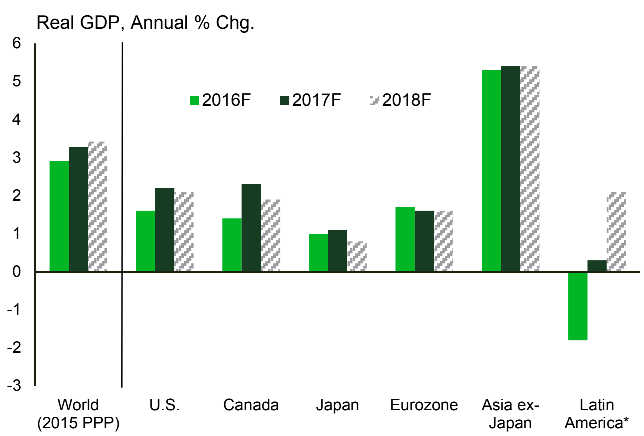
Chapters

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

Forecast Tables

U.S. Economic Outlook 7
Interest Rate Outlook 8
Exchange Rate Outlook 8
Commodity Price Outlook 8
Global Economic Outlook 9
Economic Indicators: G-7 & Europe 9

CHART 1: GLOBAL GROWTH TO FIRM DESPITE POLICY UNCERTAINTY



Source: TD Economics. Forecast as at March 2017. *Excludes Mexico.

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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.

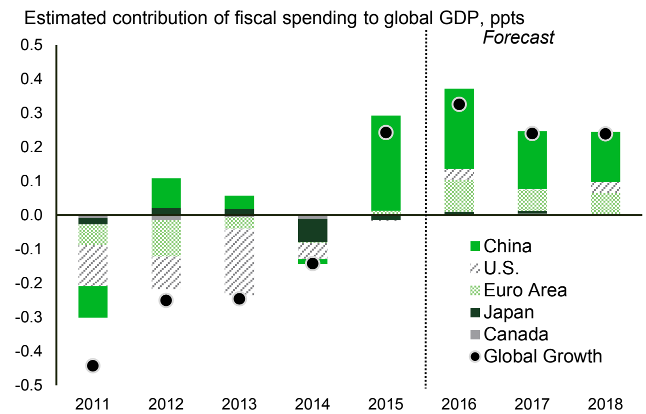
Above all else, what prevents us from moving up to a much firmer global growth outlook is a plethora of downside risks. Most importantly, the potential enactment of anti-trade policies by the new U.S. administration could disrupt global value chains. Looking across the pond, political uncertainty arising 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).

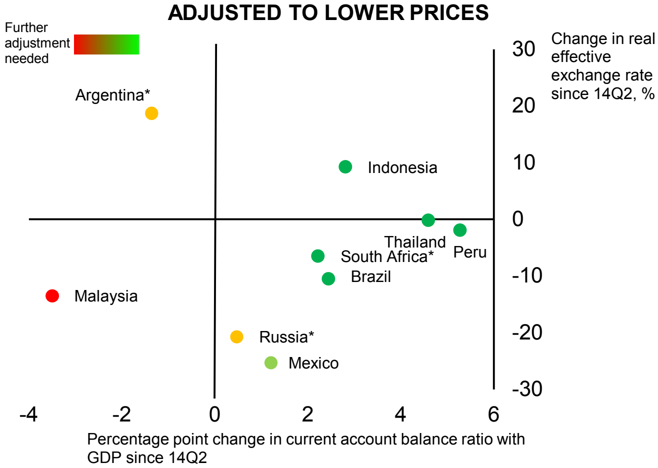
While some optimism is founded, and is a testament to the dynamism and resilience of EMEs, many of these economies face challenges that could keep growth at roughly their trend pace over the next couple of years. An ongoing concern is the elevated level of private-sector and foreign denominated debt.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

CHART 2: FISCAL SPENDING IS ANTICIPATED TO SUPPORT GLOBAL GROWTH



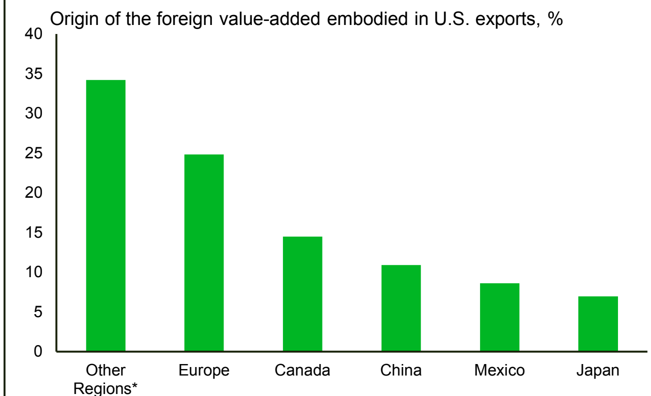
Source: OECD Economic Outlook No. 100 (Nov. 2016), TD Economics.

CHART 3: EM COMMODITY EXPORTERS HAVE ADJUSTED TO LOWER PRICES



Source: Haver Analytics, calculations by TD Economics. * Last observation available 16Q3; 16Q4 for all others.

CHART 4: DEPENDENCE ON FOREIGN SOURCED GOODS COULD SEE U.S. EXPORTERS HURT BY ANTI-TRADE ACTIONS



* Other regions includes South America, India, and other regions of emerging Asia.
Source: OECD - WTO Trade in Value Added Database, December 2016.
Data as at 2011. Foreign value added embodied in U.S. exports was about 15% of gross exports in 2011.

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.

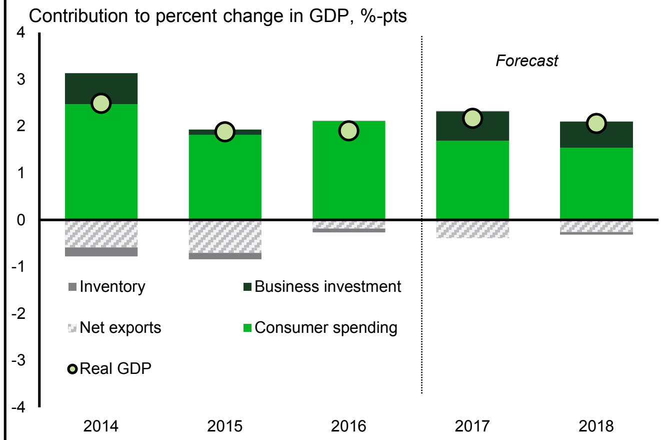
Stars align for an improvement in investment

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.

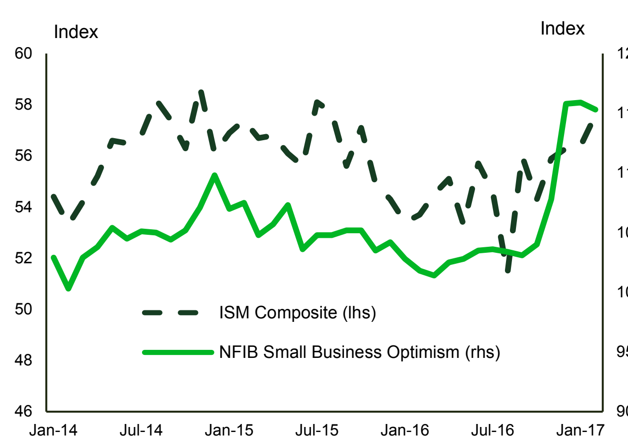
However, while the President has made some moves to reduce regulations, it is increasingly clear that tax reform will be complicated and time-consuming (see report). We expect business investment to accelerate, but there remains a risk for policy disappointment. Businesses may wait to ramp up spending 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.

CHART 5: BUSINESSES POISED TO START SPENDING



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

CHART 6: BUSINESSES READY TO SPEND?



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.

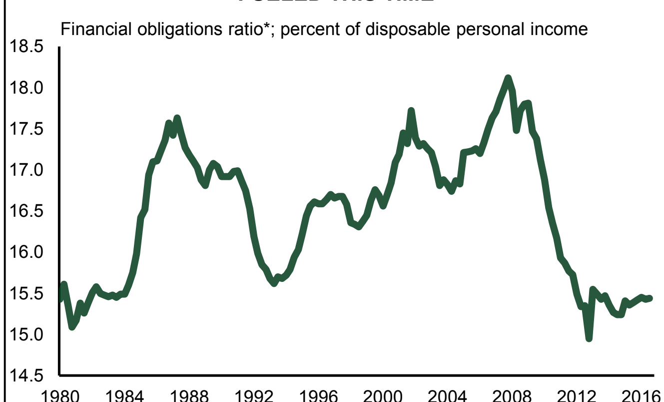
America's job machine running on all cylinders

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).

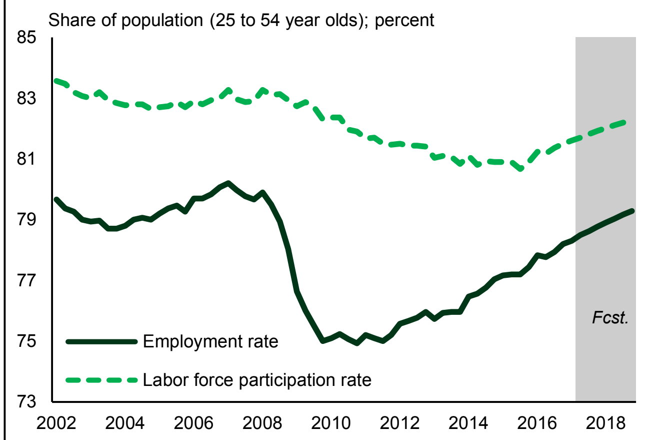
We expect this to continue, anticipating over one million people to re-join the labor market over the next two years (Chart 8). As long as this continues, job growth can continue to run well above the 100k or so per month that Chair Yellen has noted as normal. We expect job growth to continue at a pace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

CHART 7: CONSUMER SPENDING NOT DEBT-FUELED THIS TIME



*Including automobile lease payments, rental payments, homowners' insurance and property tax payments.
Source: Federal Reserve Board

CHART 8: JOB STRENGTH LIKELY TO CONTINUE TO PULL PEOPLE INTO THE LABOR FORCE



Source: Bureau of Labor Statistics. Forecast by TD Economics

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.

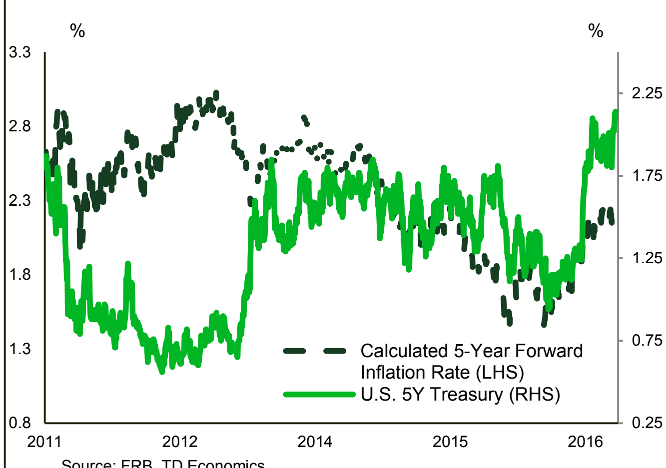
On the downside is the potential for more restrictive immigration policy and protectionist trade measures. These positions may have less of an impact in the near-term, but present downside risk to medium-term economic growth. Moreover, uncertainty in these areas casts a shadow over globally integrated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

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 pulling 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 6 years (Chart 9).

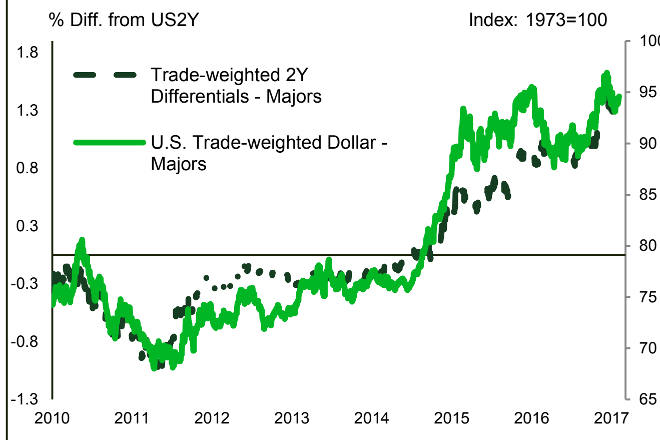
With a tightening labor market providing a firm floor to wage pressures, the Fed's preferred measure of core inflation is on track to move toward the 2% target. The Fed is now more focused on the domestic road ahead, rather than looking at events in its side-mirror. This is aided by a synchronized global 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. have tempered the advance of the trade-weighted 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 dollar in the near-term (Chart 10).

CHART 9: U.S. YIELDS BREAKING OUT



Source: FRB, TD Economics

CHART 10: U.S. DOLLAR FUNDAMENTALLY SUPPORTED



Source: Bloomberg, TD Economics, FRB

What could go wrong?

Even though we appear to be at an economic sweet spot for the Fed, concerns remain. At the forefront is political uncertainty by way of European elections, negotiations between UK and the EU on Article 50, and the array of potential fiscal/tax/health/trade/immigration/regulatory policy actions in America. This uncertainty has been brushed off by financial markets, but could easily rear its head to cause volatility.

There is also 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.

A quicker pace of rate hikes at a time when other major central banks are providing a large amount of monetary accommodation should be positive for the greenback over the near-term. A move higher would further dampen domestic inflation, but could also cause instability via emerging market outflows. Higher interest rates and tighter financial conditions will not go unnoticed. The Fed is leading the charge forward, but cautionary glances in the side-mirror are still warranted.

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

INTEREST RATE OUTLOOK

	2016				2017				2018			
	Q1	Q2	Q3	Q4	Q1*	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
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

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
Canadian dollar	CAD per USD	1.30	1.30	1.31	1.34	1.33	1.37	1.36	1.35	1.34	1.33	1.32	1.30
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
Swiss franc	CHF per USD	0.96	0.98	0.97	1.02	1.00	1.02	1.01	1.00	1.00	1.00	1.00	1.00
Australian dollar	USD per AUD	0.77	0.74	0.77	0.72	0.77	0.72	0.73	0.74	0.75	0.75	0.75	0.75
NZ dollar	USD per NZD	0.69	0.71	0.73	0.70	0.70	0.64	0.64	0.64	0.64	0.64	0.64	0.64

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.

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