QUARTERLY ECONOMIC FORECAST

TD Economics

September 22, 2016

GROWTH GAINING MOMENTUM AFTER A SLOW START

International Highlights

- The global economy is anticipated to advance by a paltry 2.7% in 2016 – a post-crisis low – but should recover back to trend growth of 3.3% in 2018. Underlying the outlook is the expectation of additional monetary and fiscal stimulus and further dissipation of the drag on emerging markets from weak commodity prices.
- The global economy remains fragile, with a number of forthcoming event risks. A realization of any of these downside risks would likely result in further bouts of financial market volatility.
- After a slow start to the year, U.S. economic growth looks set to accelerate. From 1.5% in 2016, we expect U.S. real GDP growth to rise to 2.1% in 2017, before moderating slightly to 2.0% in 2018.
- Persistent momentum in consumer spending, wages and employment, alongside sturdy inflation dynamics provide the foothold for the Federal Reserve to hike the policy rate by a quarter-point in December.

Canadian Highlights

- Alberta wildfires can't be blamed for all the weakness in the second quarter. However, the Canadian economy is showing renewed signs of life in the third quarter. Growth for the year will likely turn in a weak tally at 1.1%. Activity in 2017 and 2018 should accelerate to 1.8% and 1.7%, respectively, supported by government stimulus and stabilization in business investment.
- The economic rotation towards non-commodity exports and business investment is expected to resume. Export growth is forecast to provide a near-term boost to economic activity, paving the way for a pickup in business capital spending in late 2017 and 2018.
- Household spending should perform well in the near term, helped by government transfers. However, over the longer term, elevated debt levels are likely to remain a constraint as borrowing costs begin to edge up. This pressure is likely to emanate from developments in the U.S., as the Bank of Canada is expected to maintain its policy interest rate at 0.50% through the forecast period.

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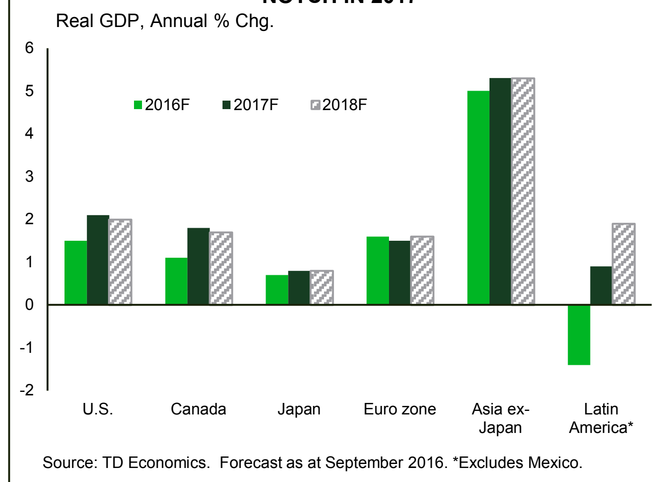

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GLOBAL OUTLOOK - FRAGILE RECOVERY, VOLATILE MARKETS

The overriding global theme over the summer was that market complacency had set in under the guise that central banks will keep pressing the stimulus pedal to the metal in response to all that ails. The view was reinforced post-Brexit, fueled by a fresh wave of central bank easing in the UK, with more likely forthcoming in Europe, Japan and in emerging market economies (EMEs). A disconnect between (disappointing) economic growth and (booming) bond and equity market prices emerged that has recently come under greater scrutiny by market participants.

Looking ahead, an improvement in fundamentals will edge global growth up from this year's sub-par estimated rate of 2.7% to just above 3% in both 2017 and 2018. Although global growth will be in greater alignment to the longer-term "cruising speed" of around 3.3%, trend growth has been marked down from the 4.0% estimated in the previous decade. Supporting a firming global growth profile is the feedthrough of additional monetary stimulus working in concert with greater fiscal initiatives. In addition, the drag on EMEs from weak commodity prices should dissipate. That being said, the return to trend global growth overshadows the fact that excess capacity will linger for some time, keeping a lid on inflation. This implies an inherent fragility to the outlook.

Vulnerabilities are compounded by a number of events that can undermine market confidence at any moment. Examples include the U.S. election, Brexit developments, the Italian constitutional referendum, and a potential Fed rate hike. These events, combined with diminishing benefits of central bank action, leave financial markets susceptible to bouts of turmoil, akin to what was observed at the start of this year.

EMs remain in the driver's seat of global growth

Nowhere has risk appetite been more evident than in EMEs. Capital flows roared back into EMEs post-Brexit, shrugging off geopolitical risks (Chart 2). Looking past the seemingly one-sided downside risks, EMEs are expected to continue their adjustment to the new global paradigm of low, but gradually recovering commodity prices (Chart 3), with some bright spots (southeast Asia in particular) offsetting some of the gloom (concentrated in Latin America, MENA & Africa). Still, the growth outlook remains modest relative to the pre-recession period. Slower growth in China will continue to weigh on EM performance in Asia, while subdued global inflationary pressures implies looser monetary policy, supporting domestic demand.

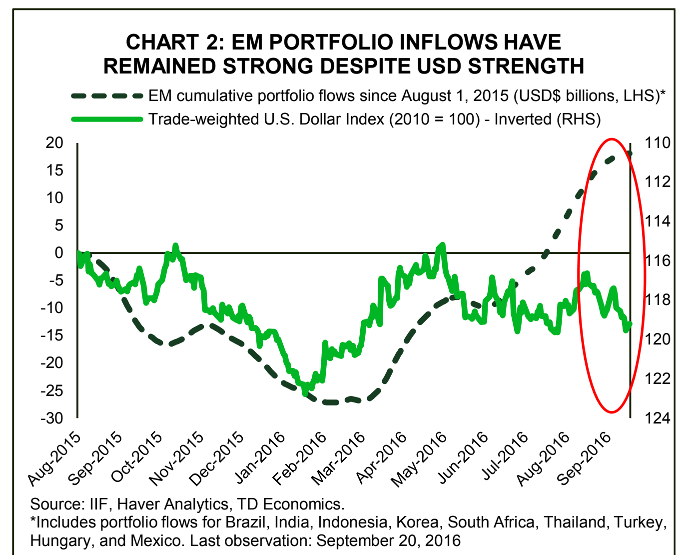
Despite investor optimism, none of the risks that drove financial market volatility earlier this year have been resolved. High debt and slow income growth persist as downside risks within EMEs, especially as the Federal Reserve gradually tightens monetary policy. Moreover, anti-trade, protectionist rhetoric and actions could dampen the export recovery of many EMEs. As such, a return of financial market volatility or a rise in trade barriers could reverse the flow of capital, reigniting concerns about the sustainability of EME growth and debt burdens.

Look east, astute investor, for growth

The Chinese economy is expected to continue on its rebalancing path, with authorities smoothing the transition with additional, but not necessarily sustainable, fiscal spending. China's transition to a services-driven economy is evolving as expected, with services contributing greatly to recent growth (Chart 4). However, slowing momentum should leave 2016 near the lower end of the authorities' 6.5% to 7.0% target range. Growth is expected to slow further to just above 6.0% in 2017 and 2018, as authorities rely less on debt-fueled stimulus to smooth output. While a slowing China can be a cause for concern, 6.0% growth remains consistent with strong demand for commodities.

On the flip side, India's economy is expected to remain robust, with GDP advancing 7.4% this fiscal year, and averaging 7.8% through 2018. Looking ahead, we believe India will continue to make gradual progress on structural reforms that should boost long-term growth.

CHART 2: EM PORTFOLIO INFLOWS HAVE REMAINED STRONG DESPITE USD STRENGTH



Source: IIF, Haver Analytics, TD Economics.
*Includes portfolio flows for Brazil, India, Indonesia, Korea, South Africa, Thailand, Turkey, Hungary, and Mexico. Last observation: September 20, 2016

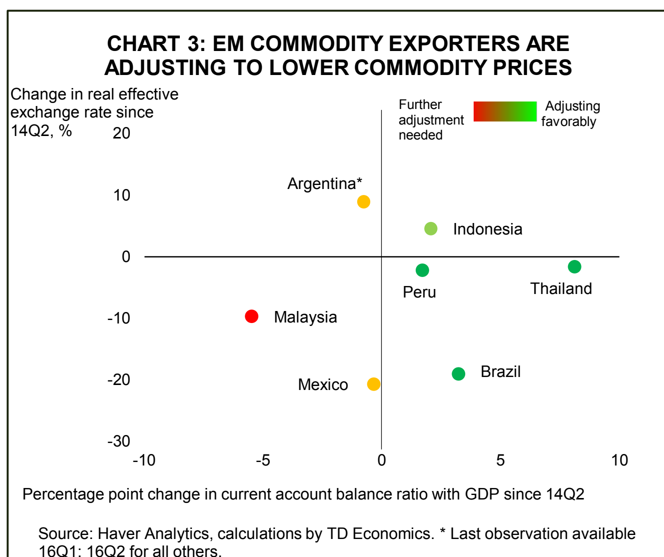


CHART 3: EM COMMODITY EXPORTERS ARE ADJUSTING TO LOWER COMMODITY PRICES

Source: Haver Analytics, calculations by TD Economics. * Last observation available 16Q1; 16Q2 for all others.

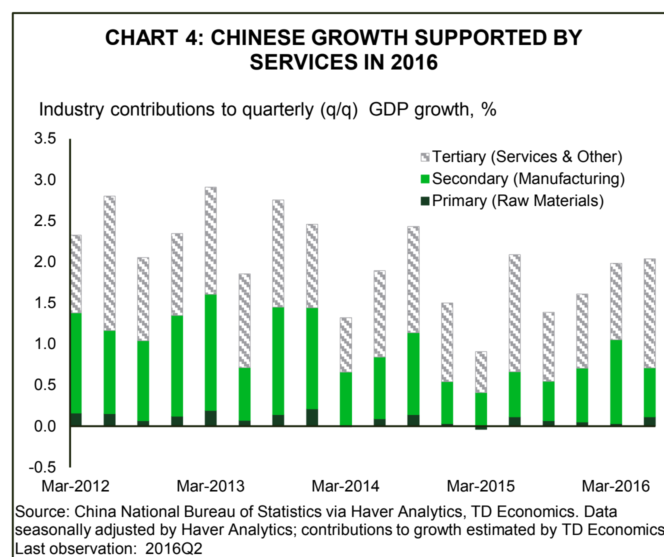


CHART 4: CHINESE GROWTH SUPPORTED BY SERVICES IN 2016

Source: China National Bureau of Statistics via Haver Analytics, TD Economics. Data seasonally adjusted by Haver Analytics; contributions to growth estimated by TD Economics. Last observation: 2016Q2

Policy coordination key to eluding stagnation in AEs

Monetary policy divergence will remain an important global theme, as the Federal Reserve continues to gradually normalize monetary policy while others maintain a highly accommodative stance. Disappointing U.S. growth in the first half of the year is expected to yield to stronger growth in the second half, boosting global demand and leading the Fed to raise rates this December.

Policy actions – both recently announced and expected – have been the main catalyst behind firmer bond prices and the commensurate risk rally in advanced economies (AEs) so far this year. And, while extraordinary monetary accommodation has been the centerpiece, AEs are beginning to pivot toward fiscal policy in an effort to improve economic performance through 2018. Nations that joined Canada this year on the fiscal train include Japan and South Korea, while prospective riders include the UK and nations within the European Union. Higher government spending is a good bet even in the U.S. following the election.

Coordinated action, such as that undertaken in Japan, could become the new normal in many AEs as the next wave of stimulus is announced. As a complement to highly accommodative monetary policy, the Japanese government announced debt-financed fiscal stimulus measures that the Bank of Japan will accommodate with asset purchases. This outright monetization of Japanese fiscal deficits is akin to the notion of "helicopter money." While the headline figure is large, the actual amount of new spending is less than 1% of nominal GDP in each of the next two years – an amount that is supportive but insufficient to fully reverse years of tight fiscal policy.

On the other side of the world, the UK government has signaled a forthcoming package of structural reforms and fiscal measures. Together with the Bank of England's (BoE) shock and awe monetary easing package unleashed in early August, these measures should help the UK transition to a post-EU world. Aiding this long-term, complex adjustment of the UK economy toward slower growth is the weak pound relative to its major trading partners, which is anticipated to stay below pre-Brexit levels through 2018. Although recent data suggests that the UK economy may be performing a little better than anticipated after Brexit, the BoE is likely to ease further before year-end.

Lastly, on the European continent, monetary policy will likely ease further on evidence of negative trade and financial spillovers from the UK referendum. Furthermore, some relaxation of austerity is likely given the need to help settle migrants, deal with security issues, and counter threats of Russian aggression. However, risks to the outlook remain to the downside. Undercapitalized banking systems, high levels of public debt, and demographic headwinds are acting to slow growth. These aforementioned challenges are exacerbated by rising political uncertainty, as populist, anti-EU parties continue to poll well ahead of elections in core European nations slated for this fall and next year.

Although the jury is out on the ultimate effectiveness of this fresh wave of coordinated policy action, our baseline forecast builds in some modest payback in the form of higher real growth and inflation over the forecast horizon. However, AEs will remain burdened by aging populations and elevated debt levels, equating to slow growth and limited monetary policy traction.

U.S. OUTLOOK - INCHING CLOSER TO NORMAL

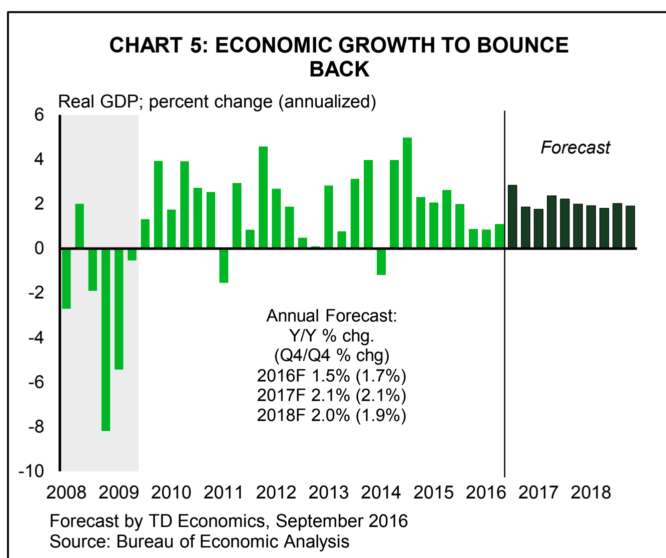
Just looking at the headline, the American economy appears to be on a soft footing. Economic growth averaged just 1.0% over the first half of the year, less than half its average pace since the recession's end. Underneath the surface, however, things look better. Job growth has remained resilient, and household spending is flying high, accelerating to 4.4% in the second quarter of the year.

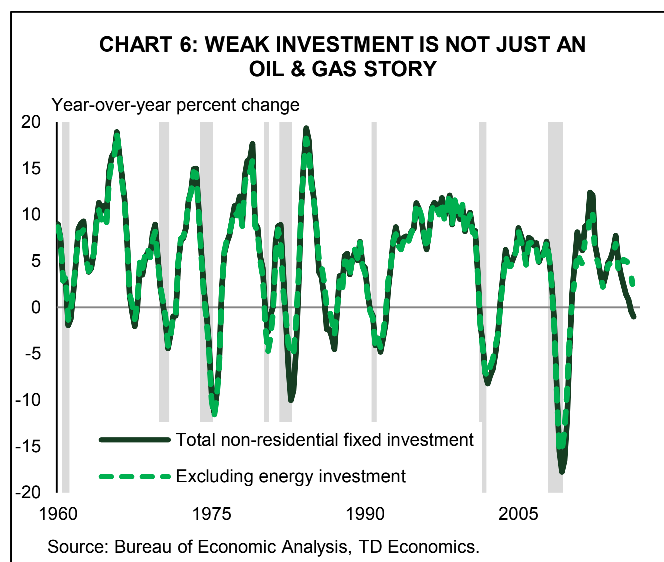
The economy's fortunes should change for the better. Household spending is likely to remain healthy, supported by ongoing job creation, rising wages and low energy prices. With this sturdy sales backdrop, business investment, which declined in the first half of the year, is likely to rebound. One of the biggest single drags on real GDP growth – a drawdown in business inventories – should reverse in the quarters ahead as the overhang relative to sales has been eliminated.

All told, economic growth is likely to return to an above-trend rate of around 2.0% over the forecast horizon (Chart 5). Nonetheless, the soft showing in the first half of the year, in combination with benchmark revisions to previous quarters, implies a real GDP growth rate in 2016 of 1.5% (from 1.8% previously). Growth is expected to hit 2.1% in 2017 (from 2.0% previously), before moderating slightly to 1.9% in 2018. While 2% growth is slow by historical standards, in an environment of persistently weak productivity, it is more than sufficient to see continued downward pressure on the unemployment rate and upward pressure on inflation.

Weakness concentrated in investment

The soft spot in the economy in recent quarters has been business investment. Weakness was initially concentrated in the mining and oil and gas sector, related to the falling price and production environment since 2014. However, it broadened in the first half of this year, with the exception of intellectual properties products (Chart 6).





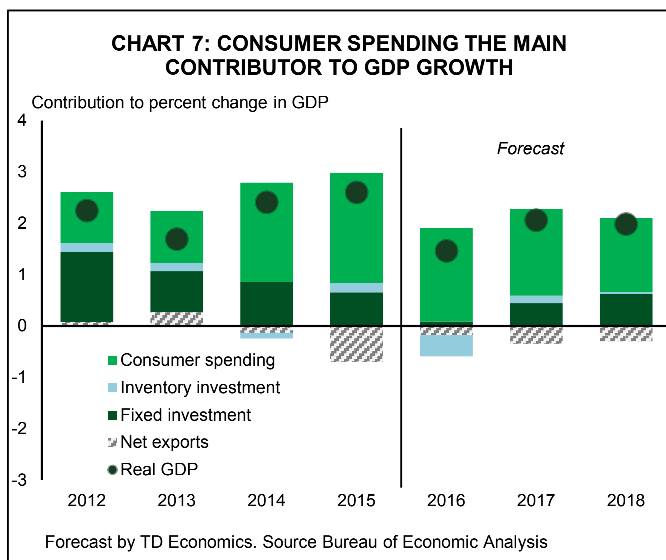
Declining investment is a function of both structural and cyclical forces. The cyclical influences, including declining commodity prices, a sharply higher dollar, and tighter financial conditions have dissipated in recent months (see report). However, structural influences, including a slowdown in the trend rate of productivity and economic growth globally, will continue to linger, ensuring that the outlook for investment will remain modest.

Elevated uncertainty related to the Presidential election may also be weighing on investment. Our forecast assumes that government policy with respect to existing international trade agreements and immigration policy remains broadly in place over the forecast horizon. However, these do present meaningful risks to the outlook.

The good news is that there are some signs that public investment could become more supportive to growth, regardless of the outcome of the election. Both major party candidates have campaigned on increasing infrastructure spending, which if enacted, would trickle down into private investment.

Household fundamentals remain robust

While businesses reined in spending, households did the opposite, raising expenditures at a rousing rate of 4.4% (annualized) in the second quarter. Spending maintained momentum through July, and even with some pullback expected in August, appears likely to rise 3.0% in the third quarter.



Beyond the third quarter, consumer spending is likely to remain one of the strongest elements of the forecast (Chart 7), growing by 2.6% in 2017 and 2.1% in 2018. The slowdown embedded in the outer year of the forecast is indicative of an anticipated tapering off in job growth as an aging population weighs more forcefully on trend labor force growth. It also reflects the fading positive impact of past declines in gasoline prices, as energy prices move gradually upward.

The housing market, on the other hand, is likely to maintain considerable cyclical momentum due to sturdy income fundamentals and a persistence of pent-up demand. This may seem to run counter to the decline in residential investment recorded in the first half of the year. The anomaly here was that housing starts remained flat and homes under construction continued to increase. The decline captured in the GDP measurement was attributable to a sharp decrease in the estimated *value* of housing construction, which appears to be due to a shift in construction to lowered valued units. This is unlikely to be repeated. Demand has remained strong, with new single-family home sales reaching a post-recession high in June. In addition, inventories are quite low, and this combination should propel housing construction higher.

Another December rate hike likely from the Federal Reserve

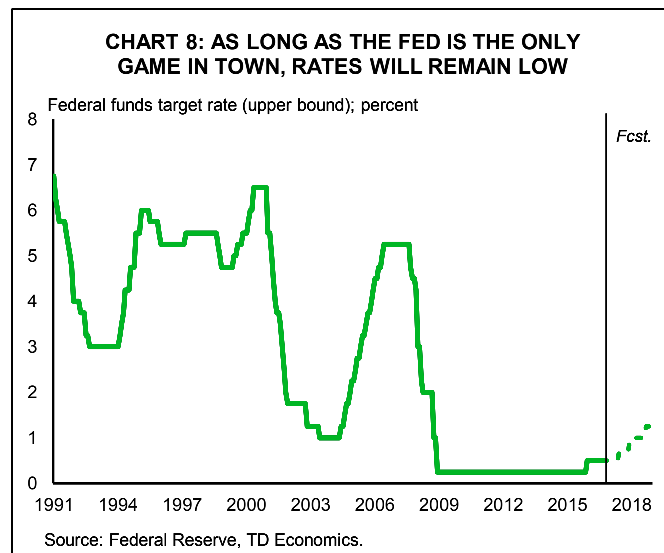
A modest rebound in investment in concert with solid household spending should lift real GDP to above 2% over the second half of the year, with a similar rate of growth through 2017. This is enough to push the unemployment rate down to 4.6% by the end of the year and leave it close to this rate through the end of the forecast horizon. As long as this is the case, inflation will continue to move higher.

This is all the evidence the Federal Reserve will need to take its second step toward normalization. Fed speakers over the last several weeks have emphasized this theme and noted that the continued improvement in the economic outlook was likely to justify a move higher in the federal funds rate.

Also facilitating an increase in interest rates is the broad improvement in financial conditions over the last several months even in the aftermath of the UK vote to leave the European Union. We had flagged heightened financial volatility following Brexit as a key source of downside risk to the outlook, but following a negative market knee-jerk reaction in the aftermath of the vote, volatility has since subsided.

Even with the rise in market angst in recent weeks related to rising expectations for Fed rate hikes, the degree of volatility in the market is muted compared to the post-Brexit reaction and even compared to this time last year, following a market sell-off from China related concerns. In other words, a rise in financial volatility, in itself, won't stay the Fed's hand unless it crosses a critical threshold, typically marked by the VIX moving above the 20-25 mark.

Investors are currently pricing in greater than 50% odds of a 25 basis point rate increase by year-end. Assuming relative market calm prevails, the Fed will likely take advantage of this window of opportunity by nudging up interest rates at its December FOMC meeting. Still, as it has been thus far, the path forward is likely to be glacial. With a weak global economy and strong dollar continuing to weigh on U.S. growth and inflation, we anticipate just one hike in 2017 and one more in 2018, bringing the Fed funds target to just 1.25% by the end of that year (Chart 8).

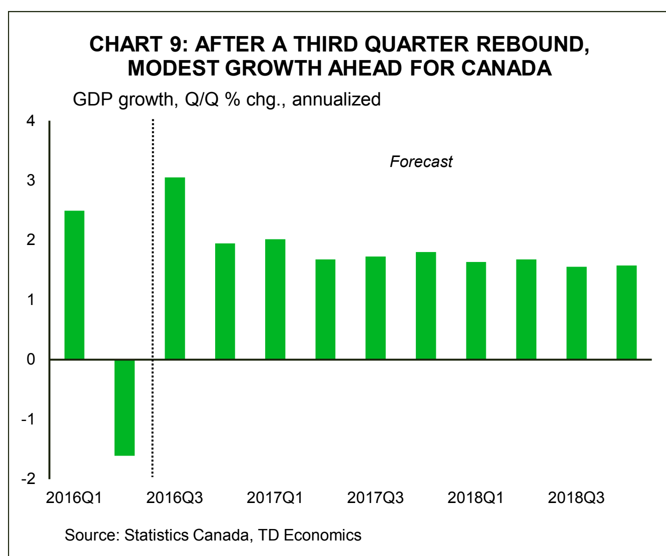


CANADIAN OUTLOOK - GREEN SHOOTS APPEAR ON THE LANDSCAPE

After a solid start to 2016, economic momentum in Canada faded in the second quarter, as exports fell and consumer spending slowed. With the wildfires that ravaged northern Alberta in May also crimping energy production, the Canadian economy shrunk by 1.6% – the worst performance since 2009. Even without the wildfires, economic growth would have registered a paltry 0.4% (annualized).

Fortunately, green shoots are popping up. The economy grew by a healthy 0.6% in June, as production disruptions in the manufacturing sector were resolved and oil sands output came back online. On top of this, exports finally came back to life in July, after a five-month string of losses, while new child benefit cheques should support consumer spending. The result is likely to be a barn-burner print on third quarter growth, which is currently tracking around 3%. However, Canadians shouldn't be misled into thinking that this momentum will hold. Once one-off factors roll off, growth will drift back to a more modest 1.7% to 1.8% pace through 2017 and 2018, consistent with ongoing economic rotation (Chart 9). Consumer spending, though on a decelerating path, will remain a key driver of growth, with business investment becoming increasingly important as we enter 2018.

Even with healthy third quarter growth, 2016 as a whole is expected to chalk up a meagre 1.1% pace. The economic rotation process, which stalled in the first half of the year (see report), should resume in the second half, but the slower start will delay a rotation to other sectors, like business investment. Federal fiscal stimulus should help things along in 2017, when growth is expected to accelerate to 1.8%.



Modest growth will translate into modest job gains, with the unemployment rate forecast to remain near 6.9% through most of 2017, improving to 6.7% by the end of 2018. The combination of a delayed rotation to exports and a slower pace of economic growth going forward is expected to sideline the Bank of Canada well into 2018.

Tax measures on foreign buyers slow an already stretched housing market

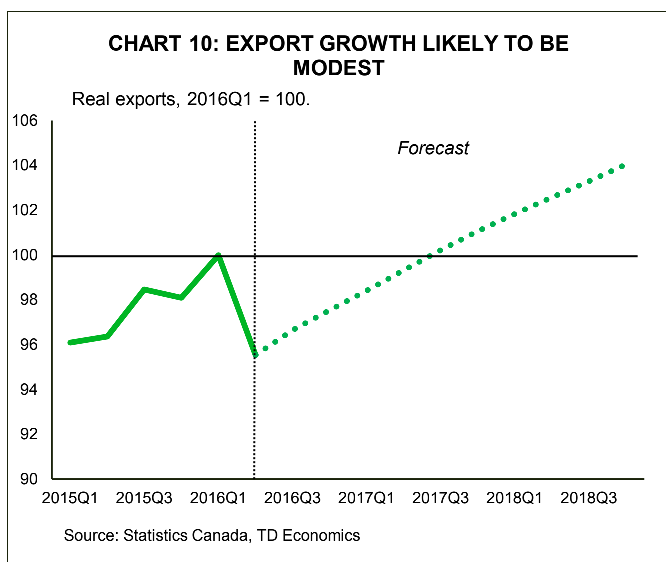
The weakness in overall growth in the first half of the year ran counter to unrelenting strength in home sales and prices in key Canadian markets. While Vancouver and Toronto have accounted for the bulk of the strength, even the commodity-driven markets of Calgary and Edmonton showed resilience in the face of recessionary conditions.

This is beginning to change however. The Vancouver market had already peaked even before the implementation of the 15% land transfer tax on foreign buyers in August. The tax will help to reinforce the near-term slowdown in the Vancouver market, with average prices expected to fall from current levels by some 10-15% by early next year. This is similar to the correction that occurred in the region in 2010. Toronto's market is likely to remain more buoyant, and may even see a modest filip to activity as investor demand moves from Vancouver. But, it too is likely to show the markings of cooling by late next year in response to eroding affordability (see report) and some modest upward pressure on borrowing rates.

Our baseline forecast is for a gradual softening in overall Canadian housing activity over the next two years. To the extent that yields stay at current levels, or decline further, upside risks to our baseline forecast would materialize. Should this occur, however, policy makers would come under pressure to implement further macro-prudential rules above and beyond those already implemented or in the pipeline.

Growth rotation to shift back into gear

With housing remaining hot and exports cold, the rotation of the Canadian economy's growth drivers effectively stalled in the first half of the year. It should get back underway in the coming quarters, but the outlook contains a number of risks. In the plus column for growth, the near-term will be supported by a resolution of supply disruptions in the motor vehicle sector. In addition, there is early evidence of resumption in U.S. business investment and inventory accumulation (see analysis). Both of these drive Canadian export growth to a larger extent than U.S. consumer spending, where the strength has more persistently resided.



However, in the minus column for export growth, there is some anecdotal evidence that uncertainty over the global outlook is being accentuated by domestic uncertainty during the U.S. presidential campaign. This could be further delaying business investment south of the border, which ultimately constrains export strength in the near-term. With global growth likely to remain modest, the level of exports is not forecast to return to its 2016Q1 peak until late next year (Chart 10).

The trickle down to the other half of the rotation – stronger Canadian business investment – will take longer to propagate, as capacity pressures remain modest and firms are likely to remain in 'wait and see' mode. Fortunately, some encouraging signs are taking shape, with investment in equipment and intellectual property products growing in the second quarter after five straight quarters of decline. Helped along by post-wildfire reconstruction, this should continue into the third quarter. With a slow rise in oil prices – the WTI benchmark is expected to remain rangebound between $50 and $60 over the next two years – our expectations for a rebound in energy-related investment remain conservative for 2017, with only modest growth in 2018.

Government spending to offer a helping hand

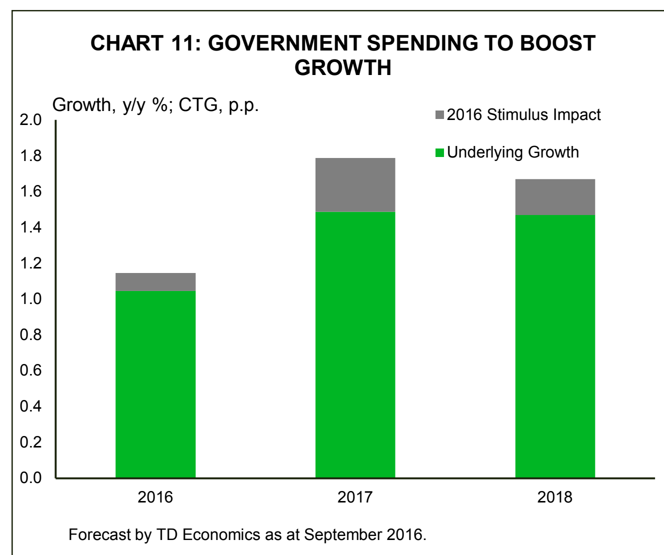
The Canadian consumer has been surprisingly resilient in 2016, keeping their wallets open even as job growth stumbled. In the near-term, consumers are getting a helping hand from the first of the new Canada Child Benefit (CCB) cheques that reached Canadian bank accounts in July. Targeted by income, these payments represent a net increase in government transfers, which is expected to provide a modest one-time boost to household spending in the third quarter.

Nonetheless, we remain of the view that ultimately spending growth will be constrained to a sub-par rate by a combination of a lack of pent-up demand, slowing housing activity and high household indebtedness. As consumer spending and residential investment slow, part of the slack will be taken up by increased public infrastructure spending. Given the time it takes for government outlays to translate into shovels in the ground, we expect the bulk of the growth impetus to occur in 2017 and 2018, adding 0.3 and 0.2 percentage points to growth within each respective year (Chart 11).

Bank of Canada to keep hitting the snooze button, keeping the loonie low

Economic growth will absorb slack very slowly, leaving little reason for the Bank of Canada to alter its policy rate through the end of 2018. The hurdle on additional interest rate cuts is high, but a cut is still more likely than a hike at this point. The main consideration for the Bank is how well the Canadian economy makes its much vaunted rotation, and whether a cut in rates would add fuel to housing market imbalances in the absence of any counteracting policy measures.

As long as U.S. growth improves as expected and the Federal Reserve continues to slowly raise interest rates, medium and longer-term rates are like to edge up in Canada. This should help to slow the housing market, while the widening U.S.-Canada interest rate differentials puts downward pressure on the Canadian dollar over the remainder of 2016. This depreciation, together with accommodative monetary policy, will support the rotation story. Here's hoping for a little help from our friends.



INTEREST RATE OUTLOOK

	2016				2017				2018			
	Q1	Q2	Q3*	Q4F	Q1F	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	0.50
3-mth T-Bill Rate	0.45	0.48	0.55	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.60
2-yr Govt. Bond Yield	0.54	0.52	0.58	0.60	0.60	0.60	0.60	0.65	0.70	0.75	0.80	0.85
5-yr Govt. Bond Yield	0.68	0.57	0.71	0.75	0.80	0.85	0.90	0.95	1.05	1.15	1.20	1.30
10-yr Govt. Bond Yield	1.23	1.06	1.15	1.15	1.20	1.25	1.30	1.40	1.45	1.50	1.65	1.75
30-yr Govt. Bond Yield	2.00	1.72	1.78	1.80	1.80	1.85	1.85	1.90	2.00	2.10	2.15	2.25
10-yr-2-yr Govt Spread	0.69	0.54	0.57	0.55	0.60	0.65	0.70	0.75	0.75	0.75	0.85	0.90
U.S.												
Fed Funds Target Rate	0.50	0.50	0.50	0.75	0.75	0.75	1.00	1.00	1.00	1.25	1.25	1.25
3-mth T-Bill Rate	0.21	0.26	0.21	0.65	0.65	0.70	0.90	0.90	0.95	1.15	1.15	1.20
2-yr Govt. Bond Yield	0.73	0.58	0.77	0.85	0.95	1.00	1.05	1.15	1.25	1.35	1.40	1.45
5-yr Govt. Bond Yield	1.21	1.01	1.19	1.25	1.30	1.40	1.45	1.50	1.60	1.65	1.70	1.75
10-yr Govt. Bond Yield	1.78	1.49	1.65	1.70	1.75	1.80	1.85	1.90	1.95	2.00	2.05	2.10
30-yr Govt. Bond Yield	2.61	2.30	2.38	2.45	2.45	2.50	2.55	2.60	2.65	2.70	2.75	2.80
10-yr-2-yr Govt Spread	1.05	0.91	0.88	0.85	0.80	0.80	0.80	0.75	0.70	0.65	0.65	0.65
CANADA - U.S SPREADS												
Can - U.S. T-Bill Spread	0.24	0.22	0.34	-0.15	-0.15	-0.20	-0.40	-0.40	-0.45	-0.65	-0.65	-0.60
Can - U.S. 10-Year Bond Spread	-0.55	-0.43	-0.50	-0.55	-0.55	-0.55	-0.55	-0.50	-0.50	-0.50	-0.40	-0.35

F: Forecast by TD Bank Group as at September 2016; All forecasts are end-of-period; Source: Bloomberg, Bank of Canada, Federal Reserve.
*Spot rate on September 21, 2016.

FOREIGN EXCHANGE OUTLOOK

Currency	Exchange rate	2016				2017				2018			
		Q1	Q2	Q3*	Q4F	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Exchange rate to U.S. dollar													
Japanese yen	JPY per USD	112	103	100	102	104	105	105	106	106	106	106	106
Euro	USD per EUR	1.14	1.10	1.12	1.09	1.09	1.11	1.11	1.11	1.12	1.12	1.12	1.12
U.K. pound	USD per GBP	1.44	1.32	1.30	1.28	1.28	1.28	1.29	1.30	1.30	1.30	1.31	1.31
Exchange rate to Canadian dollar													
U.S. dollar	USD per CAD	0.77	0.77	0.76	0.75	0.75	0.75	0.75	0.76	0.76	0.77	0.77	0.77
Japanese yen	JPY per CAD	86.7	79.0	76.6	76.1	78.2	78.9	78.9	79.9	80.7	81.1	81.6	82.1
Euro	CAD per EUR	1.48	1.44	1.47	1.46	1.45	1.47	1.47	1.47	1.47	1.46	1.46	1.45
U.K. pound	CAD per GBP	1.87	1.72	1.71	1.72	1.70	1.70	1.72	1.72	1.70	1.70	1.70	1.69

F: Forecast by TD Bank Group as at September 2016. *Spot rate on September 21, 2016.
All forecasts are end-of-period. Source: Federal Reserve, Bloomberg, TDBG.

COMMODITY PRICE OUTLOOK

	2016				2017				2018			
	Q1	Q2	Q3E	Q4F	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Crude Oil (WTI, $US/bbl)	33	45	46	50	52	52	55	55	56	56	57	57
Natural Gas ($US/MMBtu)	1.97	2.13	2.80	2.90	3.10	3.15	3.25	3.25	3.30	3.30	3.30	3.30
Gold ($US/troy oz.)	1182	1259	1335	1325	1300	1300	1290	1290	1300	1300	1350	1350
Silver (US$/troy oz.)	14.93	16.84	19.50	19.00	18.50	18.50	18.00	18.00	18.50	18.50	19.50	19.50
Copper (cents/lb)	212	215	218	219	220	221	226	227	230	230	235	235
Nickel (US$/lb)	3.86	4.00	4.60	4.55	4.25	4.25	4.50	4.50	4.50	4.50	5.00	5.00
Aluminum (cents/lb)	69	71	73	72	74	74	76	76	78	78	78	78
Wheat ($US/bu)	5.89	6.06	5.90	5.95	5.90	5.95	6.00	6.15	6.20	6.25	6.40	6.50

F: Forecast by TD Bank Group as at September 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

	2016				2017				2018				Annual Average			4th Qtr/4th Qtr		
	Q1	Q2	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	16F	17F	18F	16F	17F	18F
Real GDP	2.5	-1.6	3.0	1.9	2.0	1.7	1.7	1.8	1.6	1.7	1.6	1.6	1.1	1.8	1.7	1.5	1.8	1.6
Consumer Expenditure	2.4	2.2	2.1	2.0	1.9	1.8	1.9	1.8	1.7	1.6	1.4	1.4	2.2	1.9	1.7	2.2	1.9	1.5
Durable Goods	4.2	-1.8	1.9	2.0	2.0	2.0	1.9	1.7	1.7	1.6	1.4	1.5	3.4	1.7	1.7	1.6	1.9	1.5
Non-Res. Fixed Investment	-7.8	-1.7	0.6	1.2	1.4	1.6	2.3	2.7	3.4	3.6	3.5	3.3	-7.2	1.3	3.1	-2.1	2.0	3.5
Non-Res. Structures	-12.8	-4.4	0.4	1.1	1.3	1.2	1.8	2.2	2.5	2.7	2.8	2.6	-9.8	0.9	2.4	-4.1	1.6	2.6
Equipment & IPP*	-1.8	1.3	0.8	1.3	1.3	1.7	2.5	3.0	4.2	4.4	4.4	4.2	-3.0	1.6	3.7	0.4	2.1	4.3
Residential Investment	11.3	1.2	2.9	2.7	2.5	-3.0	-3.1	-2.3	-1.3	-0.8	-0.4	-0.4	4.2	0.5	-1.6	4.5	-1.5	-0.7
Government Expenditure	2.1	4.0	1.6	1.9	2.1	2.1	2.2	2.3	1.6	1.5	1.5	1.5	1.7	2.2	1.8	2.4	2.2	1.5
Final Domestic Demand	2.8	2.2	1.9	1.9	1.9	1.5	1.6	1.7	1.6	1.6	1.5	1.5	1.4	1.8	1.6	2.2	1.7	1.6
Exports	8.0	-17.1	4.7	3.7	3.6	3.8	3.7	3.5	3.1	2.9	2.8	3.0	0.2	2.4	3.2	-0.6	3.6	3.0
Imports	1.6	1.1	1.3	3.3	3.2	3.2	3.3	3.2	3.1	2.7	2.7	2.8	-0.9	2.9	3.0	1.8	3.2	2.8
Change in Non-Farm Inventories ($2007 Bn)	-8.4	-1.6	0.1	0.1	0.2	0.2	0.2	0.3	0.4	0.4	0.5	0.5	-2.5	0.2	0.5	---	---	---
Final Sales	4.0	-4.2	3.0	2.0	2.1	1.7	1.7	1.8	1.6	1.7	1.5	1.6	1.6	1.6	1.7	1.1	1.8	1.6
International Current Account Balance ($Bn)	-73.5	-85.4	-83.4	-70.3	-66.4	-66.3	-60.8	-59.5	-60.9	-58.8	-59.9	-54.6	-78.2	-63.3	-58.5	---	---	---
% of GDP	-3.7	-4.3	-4.1	-3.5	-3.2	-3.2	-2.9	-2.8	-2.9	-2.7	-2.8	-2.5	-3.9	-3.0	-2.7	---	---	---
Pre-tax Corp. Profits	-2.7	-33.0	5.4	7.0	12.3	10.8	9.3	7.8	7.2	5.7	5.3	5.2	-11.2	5.9	7.1	-7.4	10.0	5.8
% of GDP	10.9	9.8	9.9	9.9	10.1	10.3	10.5	10.6	10.7	10.7	10.8	10.8	10.1	10.4	10.7	---	---	---
GDP Deflator (Y/Y)	0.1	0.0	0.3	0.7	1.4	1.4	1.6	1.7	1.8	1.9	1.9	2.0	0.3	1.5	1.9	0.7	1.7	2.0
Nominal GDP	1.0	-0.2	4.2	3.6	3.5	3.2	3.7	3.6	3.6	3.6	3.6	3.6	1.4	3.3	3.6	2.1	3.5	3.6
Labour Force	0.8	-0.2	0.1	0.5	0.6	0.5	0.6	0.4	0.4	0.4	0.3	0.3	0.7	0.4	0.4	0.3	0.5	0.3
Employment	0.2	0.7	0.2	0.4	0.6	0.7	0.6	0.4	0.5	0.6	0.5	0.5	0.6	0.5	0.5	0.4	0.6	0.5
Employment ('000s)	11	33	7	20	27.7	31.7	25.8	19.1	23.1	28.5	21.7	20.6	101	96	96	71	104	94
Unemployment Rate (%)	7.2	6.9	7.0	7.0	6.9	6.9	6.9	6.9	6.9	6.8	6.8	6.7	7.0	6.9	6.8	---	---	---
Personal Disp. Income	4.1	4.6	3.0	3.2	2.9	2.8	2.7	3.2	3.0	2.9	2.9	3.0	3.4	3.1	3.0	3.7	2.9	2.9
Pers. Saving Rate (%)	4.1	4.2	4.0	4.1	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.1	4.0	4.0	---	---	---
Cons. Price Index (Y/Y)	1.6	1.6	1.4	2.2	2.3	2.3	2.2	1.9	2.0	2.0	2.0	2.0	1.7	2.2	2.0	2.2	1.9	2.0
Core CPI (Y/Y)	2.0	2.1	2.0	2.0	2.0	1.9	1.9	1.9	1.9	2.0	2.0	2.0	2.0	1.9	2.0	2.0	1.9	2.0
Housing Starts ('000s)	198	198	190	189	183	182	178	177	176	175	172	171	194	180	174	---	---	---
Productivity: Real GDP / worker (Y/Y)	0.5	0.2	0.6	1.1	0.8	1.7	1.3	1.2	1.2	1.2	1.2	1.1	0.6	1.3	1.1	1.1	1.2	1.1

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

	2016				2017				2018				Annual Average			4th Qtr/4th Qtr		
	Q1	Q2	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	16F	17F	18F	16F	17F	18F
Real GDP	0.8	1.1	2.8	1.9	1.8	2.4	2.2	2.0	1.9	1.8	2.0	1.9	1.5	2.1	2.0	1.7	2.1	1.9
Consumer Expenditure	1.6	4.4	3.0	2.3	2.0	2.5	2.3	2.1	2.0	1.9	2.1	1.8	2.7	2.5	2.1	2.8	2.2	2.0
Durable Goods	-0.6	9.9	8.5	3.9	3.3	4.5	4.3	4.2	3.9	3.8	4.3	3.6	4.9	4.8	4.1	5.3	4.1	3.9
Non-Res. Fixed Investment	-3.4	-0.9	3.1	0.8	1.7	3.3	3.7	3.6	3.7	3.4	3.6	3.5	-0.7	2.2	3.6	-0.1	3.1	3.5
Non-Res. Structures	0.1	-8.4	7.5	-1.1	1.0	3.4	4.2	3.9	3.8	3.8	4.1	4.1	-4.5	1.8	3.9	-0.6	3.1	4.0
Equipment & IPP*	-4.4	1.2	2.5	1.4	1.9	3.2	3.5	3.5	3.6	3.2	3.5	3.3	0.5	2.4	3.5	0.1	3.0	3.4
Residential Construction	7.8	-7.7	-5.3	3.5	6.5	7.6	6.7	4.2	4.3	4.4	4.2	4.0	4.3	3.6	4.7	-0.6	6.2	4.2
Govt. Consumption & Gross Investment	1.6	-1.5	1.1	1.0	1.4	0.9	0.9	0.8	1.1	1.1	0.9	1.2	0.9	0.9	1.0	0.5	1.0	1.1
Final Domestic Demand	1.2	2.2	2.3	1.9	2.0	2.5	2.4	2.2	2.2	2.0	2.2	2.0	2.0	2.2	2.2	1.9	2.3	2.1
Exports	-0.7	1.2	1.8	-1.1	3.1	4.4	5.1	5.7	5.4	5.6	5.6	5.0	-0.5	2.7	5.4	0.3	4.5	5.4
Imports	-0.6	0.3	1.9	3.3	4.5	6.5	7.2	6.8	6.5	6.1	5.9	5.1	0.8	4.5	6.4	1.2	6.2	5.9
Change in Private Inventories	40.7	-12.4	9.0	28.4	28.0	37.2	45.7	50.1	50.3	49.2	47.8	47.7	16.4	40.2	48.7	---	---	---
Final Sales	1.3	2.4	2.3	1.4	1.8	2.1	2.0	1.9	1.9	1.8	2.1	1.9	1.9	1.9	1.9	1.8	2.0	1.9
International Current Account Balance ($Bn)	-501	-455	-469	-508	-502	-504	-510	-510	-512	-512	-512	-513	-483	-507	-512	---	---	---
% of GDP	-2.7	-2.5	-2.5	-2.7	-2.6	-2.6	-2.6	-2.6	-2.6	-2.5	-2.5	-2.5	-2.6	-2.6	-2.5	---	---	---
Pre-tax Corporate Profits including IVA&CCA	14.1	-4.7	1.9	1.8	3.2	4.1	4.0	3.3	3.8	3.7	3.9	4.0	-3.1	2.5	3.8	3.1	3.6	3.8
% of GDP	11.1	10.9	10.8	10.8	10.8	10.7	10.7	10.7	10.7	10.7	10.6	10.6	10.9	10.7	10.6	---	---	---
GDP Deflator (Y/Y)	1.2	1.2	1.2	1.5	2.0	2.0	2.3	2.5	2.5	2.5	2.5	2.5	1.3	2.2	2.5	1.5	2.5	2.5
Nominal GDP	1.3	3.4	4.1	3.7	4.3	4.9	4.7	4.5	4.6	4.3	4.5	4.4	2.8	4.3	4.5	3.1	4.6	4.4
Labor Force	3.6	-0.2	1.7	0.9	1.0	1.0	1.0	1.0	1.0	1.0	0.9	0.9	1.3	1.0	1.0	1.5	1.0	0.9
Employment	1.9	1.3	1.2	1.2	1.3	1.2	1.2	1.1	1.1	1.1	1.1	1.1	1.7	1.2	1.1	1.4	1.2	1.1
Change in Empl. ('000s)	659	452	436	424	469	444	430	405	410	394	403	401	2,361	1,767	1,637	1,971	1,748	1,608
Unemployment Rate (%)	4.9	4.9	4.9	4.8	4.8	4.7	4.7	4.7	4.6	4.6	4.6	4.6	4.9	4.7	4.6	---	---	---
Personal Disp. Income	2.4	4.3	4.1	3.5	4.2	4.8	4.6	4.4	4.5	4.3	4.5	4.4	3.7	4.2	4.5	3.6	4.5	4.4
Pers. Saving Rate (%)	6.1	5.7	5.7	5.4	5.4	5.5	5.5	5.6	5.6	5.7	5.8	5.9	5.7	5.5	5.8	---	---	---
Cons. Price Index (Y/Y)	1.1	1.1	1.1	1.7	2.5	2.5	2.7	2.6	2.5	2.4	2.4	2.3	1.3	2.6	2.4	1.7	2.6	2.3
Core CPI (Y/Y)	2.3	2.2	2.3	2.3	2.2	2.2	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.2	2.3	2.3	2.3	2.3
Core PCE price index (Y/Y)	1.6	1.6	1.6	1.8	1.7	1.8	1.9	1.9	1.9	2.0	2.0	2.0	1.7	1.8	2.0	1.8	1.9	2.0
Housing Starts (mns)	1.15	1.16	1.18	1.19	1.23	1.26	1.28	1.31	1.34	1.37	1.40	1.43	1.17	1.27	1.39	---	---	---
Real Output per hour (y/y)**	0.0	-0.4	-0.5	0.2	0.5	1.0	0.9	1.1	1.2	1.1	1.1	1.0	-0.2	0.9	1.1	0.2	1.1	1.0

*Intellectual proprty products. **Non-farm business sector. F: Forecast updated by TD Economics, September 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	**(%)**	**2015**	**2016**	**2017**	**2018**
World	100.0	3.0	2.7	3.2	3.3
North America	19.3	2.5	1.5	2.1	2.1
United States	15.9	2.6	1.5	2.1	2.0
Canada	1.5	1.1	1.1	1.8	1.7
Mexico	2.0	2.5	1.8	2.7	2.9
European Union (EU-28)	17.1	2.1	1.8	1.6	1.8
Eurozone (EU-19)	12.1	1.9	1.6	1.5	1.6
Germany	3.4	1.5	1.8	1.4	1.5
France	2.4	1.2	1.3	1.2	1.4
Italy	2.0	0.6	0.8	0.8	1.1
United Kingdom	2.4	2.3	1.7	0.8	1.8
EU accession members	2.6	3.3	2.6	2.8	2.6
Asia	42.1	4.7	4.5	4.8	4.8
Japan	4.4	0.6	0.7	0.8	0.8
Asian NIC's	3.4	2.0	2.2	2.4	2.5
Hong Kong	0.4	2.4	1.4	2.2	2.5
Korea	1.6	2.6	2.7	2.8	3.0
Singapore	0.4	2.0	1.8	1.8	2.1
Taiwan	1.0	0.7	1.8	1.9	1.9
Russia	3.5	-3.7	-1.0	1.2	1.4
Australia & New Zealand	1.2	2.5	2.9	2.7	2.8
Developing Asia	29.7	6.6	6.1	6.2	6.2
ASEAN-4	4.8	4.6	3.6	4.8	4.9
China	16.5	6.9	6.4	6.0	5.9
India**	6.7	7.3	7.4	7.8	7.7
Central/South America	6.8	-1.8	-1.4	0.9	1.9
Brazil	3.0	-3.9	-3.2	0.5	2.2
Other Developing	13.7	2.4	2.0	2.8	3.3
Other Advanced	1.0	1.5	1.4	1.5	1.6

*Share of world GDP on a purchasing-power-parity (PPP) basis.
Forecast as at September 22, 2016. **Forecast for India refers to fiscal year.
Source: IMF, TD Economics.

ECONOMIC INDICATORS: G-7 AND EUROPE				
		Forecast		
	2015	**2016**	**2017**	**2018**
Real GDP (Annual per cent change)				
G-7 (31.9%)*	1.9	1.3	1.6	1.7
U.S.	2.6	1.5	2.1	2.0
Japan	0.6	0.7	0.8	0.8
Eurozone	1.9	1.6	1.5	1.6
Germany	1.5	1.8	1.4	1.5
France	1.2	1.3	1.2	1.4
Italy	0.6	0.8	0.8	1.1
United Kingdom	2.2	1.7	0.8	1.8
Canada	1.1	1.1	1.8	1.7
Consumer Price Index (Annual per cent change)				
G-7	0.2	0.8	2.1	1.8
U.S.	0.1	1.3	2.6	2.4
Japan	0.8	0.0	1.0	0.8
Eurozone	0.0	0.2	1.4	1.2
Germany	0.1	0.3	1.4	1.2
France	0.1	0.4	1.3	1.1
Italy	0.1	0.1	1.2	1.0
United Kingdom	0.0	0.9	2.9	2.4
Canada	1.1	1.7	2.2	2.0
Unemployment Rate (Per cent annual averages)				
U.S.	5.3	4.9	4.7	4.6
Japan	3.4	3.2	3.1	3.0
Eurozone	10.9	10.1	9.9	9.8
Germany	6.4	6.1	6.2	6.0
France	10.4	10.0	9.6	9.2
Italy	11.9	11.5	11.3	11.1
United Kingdom	5.3	5.1	5.4	5.4
Canada	6.9	7.0	6.9	6.8

*Share of 2014 world gross domestic product (GDP) at PPP.
Forecast as at September 22, 2016
Source: National statistics agencies, TD Economics

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