

North American Forecast Update

Data Confirms Scale of Economic Collapse

Note: Given rapid changes in the economic and policy environment, we will be publishing more frequent updates to our forecast as conditions warrant.

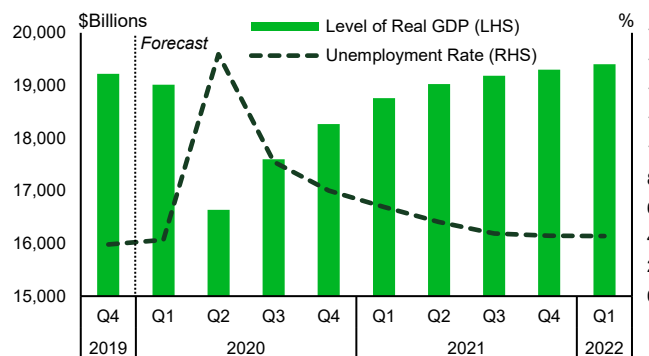
April 20, 2020

United States: Sudden Stop Evident in High-Frequency Data

The economic data continue to paint a dire picture of the impact of COVID-19 containment measures in both real GDP and employment. In light of the latest data, we have updated our economic and employment forecasts.

- The most recent weekly jobless claims data show more than 22 million people have sought unemployment benefits over the past four weeks. Accounting for this, we have increased our forecast for the unemployment rate to 16.5% in the second quarter.
 - There is still a considerable degree of uncertainty around this estimate. Even if our estimate of job losses proves accurate, it is difficult to know how many people who were laid off will leave the workforce, and therefore not be counted in the ranks of the unemployed.
- In terms of economic activity, we have imbedded a larger upfront decline in real GDP in the first and second quarters of this year. For the second quarter, we anticipate a decline of just over 40% annualized. This is consistent with recent data on retail sales, housing starts, and industrial production in March, which was only partially impacted by measures, as well as facts on the ground of near-total shutdown across large swathes of industries and regions in April.
 - Given the nature of the shock, annualizing quarterly data can be misleading. It is usually used to provide a sense of the economic ‘run rate’ in a given quarter. But, we do not expect this shock to persist meaningfully beyond the quarter, so it may be more accurate to say that COVID-19 is expected to wipe about 13% from economic activity as compared to the end of 2019.
- We continue to expect shutdowns to last into May, which will limit any significant rebound from taking place in the month. However, by June, with more of the economy re-opening, we expect to see a return to economic and job growth. As in our previous update, significant government income and business supports are pivotal to ensuring a return to economic growth.
- Rebooting the economy will result in double-digit growth rates and a meaningful decline in unemployment in the second half of this year. Still, the recovery is not anticipated to be V-shaped; we expect just half the jobs lost in the second quarter to be recouped in the third. Moreover, the level of

Chart 1: Prolonged Return to "Normal" Level of Activity



Source: TD Economics: Forecasts as of April 20th, 2020

real GDP is anticipated to remain below its pre-virus level until 2022. As it has in past downturns, lingering uncertainty is anticipated to weigh on investment even once a recovery in household spending takes place.

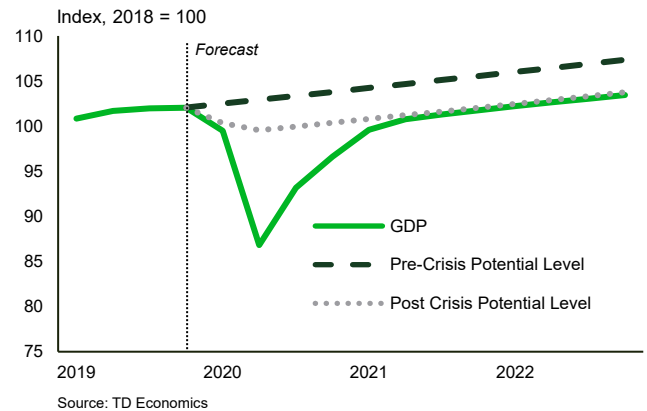
- One important source of downside risk to our view is state and local government finances, which have seen revenues evaporate at the same time expenses have skyrocketed. In the absence of increased federal aid to the tune of at least \$200 billion, requirements for most states to balance operating budgets would lead to painful spending and employment cuts over the next several years.

Canada: Bigger Fall Up Front, Support Measures Still Helping to Bridge the Gap

For Canada, the unprecedented nature of COVID-19 and social distancing measures has resulted in more than a few unprecedented outcomes.

- The March jobs report revealed that over a million Canadians were out of work, and a further 1.5 million worked few or no hours despite still being employed. This occurred even though social distancing measures only began in earnest mid-month.
- Since this time, the Government of Canada’s data portal revealed that as of April 16th, nearly eight million applications for the Canada Emergency Response Benefit (CERB) had been received, suggesting that fears of an even greater deterioration in the labour market have been realized.
- We had largely expected a worsening of this magnitude and have revised our near-term unemployment rate forecast only marginally. The bigger change in view is that elevated unemployment is expected to persist longer, reflecting some unavoidable scarring.
- In terms of real GDP, Statistics Canada provided a never-before-seen nowcast of economic activity in March, revealing an estimated 9% drop in output (month-on-month, non-annualized). Mapping this in to quarterly growth implies an annualized contraction of between 9% and 11% in the first quarter - already on par with the Global Financial Crisis.

Chart 2: Pandemic Expected to Leave a Permanent Mark on Canadian GDP



- This, together with available high-frequency data including volumes processed in payment systems, mobility trackers, and others (including CERB applications) has led us to revise down our second quarter outlook. As in the U.S., we expect a contraction of over 40% annualized.
- Importantly, this forecast update comes not only with a near-term downgrade, but a stronger recovery in the back half of the year. Since we last ran our analysis, governments have expanded their income support measures along a number of dimensions – broadening CERB eligibility and easing criteria for wage supports, among others. Similarly, the Bank of Canada has continued to ease, announcing additional asset purchases aimed at ensuring the complete transmission of monetary policy. These will do much to ‘bridge the gap’ through the pandemic, but even so, a full return to normal will take time.

Economic and Financial Forecasts															
	2019				2020				2021				Annual Average		
	Q1	Q2	Q3	Q4	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	19	20F	21F
Canada Economic Data (%)															
Real GDP growth*	1.0	3.4	1.1	0.3	-9.7	-42.0	32.6	15.8	12.8	4.8	2.1	1.8	1.6	-7.5	7.3
Unemployment rate	5.8	5.6	5.6	5.7	6.3	12.6	10.6	8.0	6.7	5.9	5.8	5.8	5.7	9.4	6.0
U.S. Economic Data (%)															
Real GDP growth*	3.1	2.0	2.1	2.1	-4.2	-41.4	25.1	16.1	11.2	5.9	3.2	2.4	2.3	-6.2	6.6
Unemployment rate	3.9	3.6	3.6	3.5	3.8	16.5	9.2	7.2	6.1	5.1	4.3	4.1	3.7	9.2	4.9
Canada Interest Rates (%)															
Overnight Target Rate	1.75	1.75	1.75	1.75	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	1.75	0.25	0.25
3-mth T-Bill Rate	1.67	1.66	1.65	1.66	0.21	0.20	0.20	0.20	0.20	0.20	0.20	0.20	1.65	0.20	0.20
2-yr Govt. Bond Yield	1.55	1.47	1.58	1.69	0.42	0.20	0.25	0.30	0.35	0.50	0.65	0.75	1.55	0.30	0.55
10-yr Govt. Bond Yield	1.62	1.46	1.37	1.70	0.71	0.50	0.60	0.70	0.85	1.05	1.20	1.40	1.55	0.65	1.15
U.S. Interest Rates (%)															
Fed Funds Target Rate	2.50	2.50	2.00	1.75	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	2.20	0.25	0.30
3-mth T-Bill Rate	2.35	2.08	1.84	1.52	0.11	0.10	0.10	0.10	0.10	0.10	0.25	0.35	1.95	0.10	0.20
2-yr Govt. Bond Yield	2.27	1.75	1.63	1.58	0.23	0.20	0.25	0.35	0.50	0.65	0.80	0.90	1.80	0.25	0.70
10-yr Govt. Bond Yield	2.41	2.00	1.68	1.92	0.70	0.40	0.60	0.80	1.00	1.20	1.40	1.55	2.00	0.65	1.30
Canada - U.S. Rate Spreads															
Can - U.S. T-Bill Spread	-0.68	-0.42	-0.19	0.14	0.10	0.10	0.10	0.10	0.10	0.10	-0.05	-0.15	-0.29	0.10	0.00
Can - U.S. 10-Year Bond Spread	-0.79	-0.54	-0.31	-0.22	0.01	0.10	0.00	-0.10	-0.15	-0.15	-0.20	-0.15	-0.47	0.00	-0.16
WTI, \$US/bbl															
	55	60	56	57	46	20	33	42	47	48	49	50	57	35	49
USD per CAD															
	0.75	0.76	0.76	0.77	0.71	0.69	0.70	0.71	0.72	0.74	0.75	0.76	0.76	0.70	0.74

* Annualized Quarter/Quarter % Change. F: Forecast by TD Economics, April 2020. Forecasts for exchange rate and yields are end-of-period.
Source: Bloomberg, Bank of Canada, Federal Reserve.

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