

## U.S. Forecast Update

### Data Confirms Scale of Economic Collapse

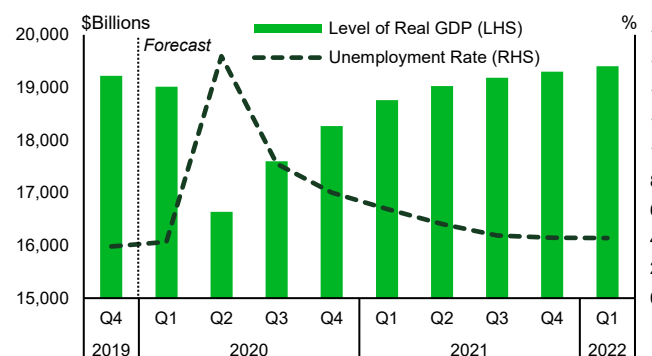
**Note:** Given rapid changes in the economic and policy environment, we will be publishing more frequent updates to our forecast as conditions warrant.

April 20, 2020

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 sec-

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



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

ond quarter to be recouped in the third. Moreover, the level of 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.

Economic and Financial Forecasts															
	2019				2020				2021				Annual Average		
	Q1	Q2	Q3	Q4	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	19	20F	21F
<b>Economic Data (%)</b>															
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
<b>Interest Rates (%)</b>															
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
<b>WTI, \$US/bbl</b>	55	60	56	57	46	20	33	42	47	48	49	50	57	35	49
* Annualized Quarter/Quarter % Change. F: Forecast by TD Economics, April 2020. Forecasts for exchange rate and yields are end-of-period. Source: Bloomberg, Federal Reserve.															

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