

Long-Term Economic Forecast

James Orlando, CFA, Director | 416-413-3180

Thomas Feltmate, Director | 416-944-5730

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United States

- After the strongest annual average growth in nearly 40 years (5.7%) in 2021, US economic growth is set to slow to a 1.9% pace in 2022. Looking into 2023, economic growth is expected to decelerate further, as monetary policy moves well into restrictive territory, pushing growth to a sub-trend pace through 2024. Growth is expected to average 0.9% in both 2023 and 2024, respectively.
- The labor market has continued to perform better than expected. Labor demand remains just off historic highs, while the pool of available workers continues to shrink as the participation rate has shown no improvement through 2022. This combined with a weaker pace of economic growth should give way to a slower pace of hiring – putting upward pressure on the unemployment rate. We now expect the unemployment rate to rise by 1.5%-pts between Q3-2022 and Q2-2024, reaching a peak of 5.1%, before gradually moving back to its long-run average of 4%.
- Inflation has slowed from its multidecade highs and we expect to see a meaningful deceleration through 2023. However, the core PCE deflator (the Fed's preferred measure of inflation) isn't expected to reach the FOMC's average 2% inflation target until the end of 2024.
- Monetary policy is expected to become far more restrictive than previously thought. We now project the Fed funds rate to reach 5% in early 2023 and remain at that level through the third quarter of 2023. As higher rates cool demand-side pressures and inflation moves meaningfully back towards 2%, we expect the Fed to cut interest rates back to a level more consistent with its neutral (2.25%) rate.

Canada

- The narrative for Canada is similar to the economic backdrop to the south. Near-term spending is likely to grow at a modest rate amid resilient job market conditions. However, high inflation and rising interest rates will increasingly take their toll on spending and hiring in 2023 and through 2024.
- The unemployment rate outlook reflects a peak of 6.5% that corresponds to 110 thousand job losses. There is a risk that Canadian employers may go further. Although the job market reflects tightness based on high vacancy and low unemployment rates, the degree of tightness is not as pronounced as its U.S. counterpart.
- Inflation has likely peaked in Canada and we expect further easing in price pressures in 2023 and 2024. This, in combination with higher interest rate sensitivity should provide a lower stopping level for the Bank of Canada on its rate hike cycle.
- We deem the peak overnight rate to be 4.5% in the first quarter of 2023. Both short-term and long-term bond yields are likely to decline over 2023 as the weak economic backdrop causes increasing expectation for policy rate cuts. We assume the rate is reduced back towards its neutral level starting at the end of 2023, with the rate reaching 2% by 2025.

U.S. Economic Outlook														
Period-Over-Period Annualized Per Cent Change Unless Otherwise Indicated														
Economic Indicator	Annual Average							Fourth Quarter / Fourth Quarter						
	22F	23F	24F	25F	26F	27F	28F	22F	23F	24F	25F	26F	27F	28F
Real GDP	1.9	0.9	0.9	1.7	1.9	1.8	1.8	0.5	0.5	1.3	1.9	1.9	1.8	1.8
Consumer Expenditure	2.8	1.4	0.9	1.5	1.8	1.8	1.9	2.1	0.7	1.1	1.6	1.8	1.8	1.9
Durable Goods	0.0	-0.5	0.6	1.9	2.3	2.3	2.3	2.4	-1.6	1.4	2.3	2.3	2.3	2.3
Business Investment	3.7	1.2	0.6	2.9	3.8	3.8	3.4	4.1	-0.2	1.6	3.3	4.1	3.5	3.4
Non-Res. Structures	-8.1	-5.6	-0.1	4.7	5.0	4.4	3.1	-7.3	-4.3	2.7	5.0	5.0	3.7	3.0
Equipment & IPP*	7.2	2.8	0.7	2.4	3.6	3.7	3.5	7.3	0.6	1.3	2.9	3.9	3.5	3.5
Residential Investment	-10.5	-16.2	6.3	8.5	2.6	0.7	0.5	-18.5	-6.9	10.4	6.5	1.1	0.6	0.5
Govt. Expenditure	-0.8	1.8	0.8	0.7	0.6	0.3	0.2	0.1	1.5	0.8	0.8	0.4	0.2	0.1
Final Domestic Demand	1.7	0.7	1.0	1.8	1.9	1.8	1.7	1.0	0.4	1.5	1.9	1.8	1.7	1.7
Exports	7.3	1.5	1.0	2.6	3.3	3.3	3.3	5.3	-0.7	1.8	3.0	3.3	3.3	3.3
Imports	9.0	-1.0	0.7	2.9	2.5	2.5	2.5	5.0	-2.3	2.7	2.6	2.5	2.5	2.5
Change in Private Inventories	131.4	89.1	65.4	68.9	68.9	68.9	68.9	---	---	---	---	---	---	---
Final Sales	1.2	1.1	1.1	1.7	1.9	1.8	1.8	0.9	0.7	1.3	1.9	1.9	1.8	1.8
International Current Account Balance (\$Bn)	-1003	-943	-1009	-1012	-945	-909	-855	---	---	---	---	---	---	---
% of GDP	-3.9	-3.5	-3.7	-3.5	-3.2	-2.9	-2.6	---	---	---	---	---	---	---
Pre-tax Corporate Profits including IVA&CCA	6.7	-1.0	-5.2	-0.8	4.7	6.7	7.4	4.1	-4.4	-4.3	2.0	5.5	7.6	7.4
% of GDP	11.6	11.0	10.1	9.6	9.6	9.9	10.2	---	---	---	---	---	---	---
GDP Deflator (y/y)	7.0	4.0	2.2	2.2	2.4	2.3	2.3	6.5	3.0	2.0	2.3	2.4	2.3	2.3
Nominal GDP	9.1	4.9	3.2	4.0	4.4	4.2	4.1	7.0	3.6	3.4	4.3	4.4	4.1	4.1
Labor Force	1.9	0.8	0.5	0.4	0.4	0.3	0.3	1.6	0.8	0.5	0.4	0.4	0.3	0.3
Employment	4.1	1.1	-0.6	0.6	0.7	0.4	0.2	3.3	-0.1	-0.1	0.8	0.6	0.3	0.3
Change in Empl. ('000s)	5,935	1,734	-854	954	1,120	546	385	4,861	-205	-166	1,213	935	403	396
Unemployment Rate (%)	3.7	4.3	5.0	4.5	4.1	4.0	4.0	---	---	---	---	---	---	---
Personal Disp. Income	-0.5	5.3	4.1	4.3	4.4	4.4	4.3	3.2	4.9	3.8	4.4	4.4	4.3	4.2
Pers. Savings Rate (%)	3.2	2.8	3.5	4.4	4.9	5.3	5.7	---	---	---	---	---	---	---
Cons. Price Index (y/y)	8.1	4.7	2.3	2.1	2.3	2.3	2.2	7.5	3.6	1.9	2.2	2.3	2.2	2.1
Core CPI (y/y)	6.2	4.7	2.6	2.2	2.3	2.3	2.2	6.2	3.7	2.3	2.2	2.3	2.2	2.2
Core PCE Price Index (y/y)	5.0	3.8	2.3	2.0	2.0	2.0	2.0	4.8	3.1	2.0	2.0	2.1	2.0	2.0
Housing Starts (mns)	1.55	1.26	1.38	1.48	1.50	1.50	1.50	---	---	---	---	---	---	---
Real Output per hour** (y/y)	-1.5	0.0	1.6	1.0	1.2	1.6	1.7	-2.3	0.6	1.4	1.0	1.3	1.7	1.7

*Intellectual property products. F: Forecast by TD Economics as at December 2022.

**Non-farm business sector.

Source: Bureau of Labor Statistics, Bureau of Economic Analysis, Census Bureau, TD Economics.

Canadian Economic Outlook														
<i>Period-Over-Period Annualized Per Cent Change Unless Otherwise Indicated</i>														
Economic Indicator	Annual Average							4th Quarter / 4th Quarter						
	22F	23F	24F	25F	26F	27F	28F	22F	23F	24F	25F	26F	27F	28F
Real GDP	3.5	0.7	0.4	1.3	1.6	1.7	1.7	2.4	-0.1	0.9	1.5	1.6	1.7	1.7
Consumer Expenditure	4.8	0.8	0.3	1.0	1.4	1.6	1.7	3.0	0.0	0.7	1.2	1.5	1.6	1.7
Durable Goods	-3.1	-2.7	-0.5	0.7	1.4	1.6	1.7	-3.8	-1.4	0.2	1.0	1.5	1.6	1.7
Business Investment	8.2	2.4	1.7	2.1	1.8	1.7	1.7	6.6	1.4	2.0	2.0	1.8	1.7	1.7
Non-Res. Structures	11.6	3.8	1.8	2.2	1.9	1.7	1.7	10.3	1.6	2.2	2.0	1.8	1.7	1.7
Equipment & IPP*	4.7	0.9	1.5	2.0	1.8	1.7	1.7	2.7	1.2	1.8	1.9	1.8	1.7	1.7
Residential Investment	-10.3	-7.6	0.5	2.2	1.9	1.8	1.7	-11.8	-2.9	1.8	2.1	1.8	1.7	1.7
Govt. Expenditure	1.3	2.2	2.3	2.1	2.0	1.9	1.9	1.2	2.3	2.2	2.0	1.9	1.9	1.9
Final Domestic Demand	2.7	0.7	0.9	1.5	1.6	1.7	1.7	1.5	0.5	1.3	1.6	1.7	1.7	1.7
Exports	2.6	3.5	1.6	1.9	1.8	1.7	1.7	2.7	2.0	1.8	1.8	1.7	1.7	1.7
Imports	8.2	2.5	1.5	1.8	1.8	1.7	1.7	6.3	1.6	1.7	1.8	1.7	1.7	1.7
Change in Non-farm Inventories (2012 \$Bn)	38.4	29.9	18.8	14.0	13.4	13.0	12.6	--	--	--	--	--	--	--
Final Sales	0.4	0.9	1.5	1.7	1.7	1.7	1.8	-0.5	1.2	1.7	1.7	1.7	1.8	1.8
International Current Account Balance (\$Bn)	-12.0	-20.1	-18.2	-17.1	-16.2	-15.3	-14.3	--	--	--	--	--	--	--
% of GDP	-0.4	-0.7	-0.6	-0.6	-0.5	-0.5	-0.4	--	--	--	--	--	--	--
Pre-tax Corp. Profits	11.1	-8.8	1.4	2.4	2.8	3.0	3.2	0.7	-2.6	2.0	2.6	2.9	3.1	3.2
% of GDP	15.6	13.9	13.7	13.6	13.5	13.4	13.3	--	--	--	--	--	--	--
GDP Deflator (y/y)	7.6	1.4	2.3	2.1	2.0	2.0	2.0	4.9	2.3	2.2	2.0	2.0	2.0	2.0
Nominal GDP	11.3	2.1	2.7	3.4	3.6	3.7	3.7	7.3	2.2	3.1	3.5	3.7	3.7	3.7
Labour Force	1.3	0.9	0.4	0.7	0.8	0.7	0.7	0.7	0.7	0.5	0.8	0.7	0.7	0.7
Employment	3.6	0.2	-0.2	1.0	1.1	0.8	0.7	1.9	-0.5	0.3	1.2	1.0	0.7	0.7
Change in Empl. ('000s)	686	41	-31	190	216	160	145	374	-99	67	234	192	149	143
Unemployment Rate (%)	5.3	5.9	6.5	6.2	5.9	5.9	5.9	--	--	--	--	--	--	--
Personal Disp. Income	5.4	2.4	1.5	1.6	2.7	3.6	3.6	7.6	1.0	1.8	1.4	3.6	3.6	3.6
Pers. Savings Rate (%)	6.4	4.8	4.0	2.6	1.9	1.9	1.8	--	--	--	--	--	--	--
Cons. Price Index (y/y)	6.8	3.8	2.1	2.0	2.0	2.0	2.0	6.9	2.6	2.0	2.0	2.0	2.0	2.0
CPIX (y/y) **	5.6	3.8	2.2	2.0	2.0	2.0	2.0	5.9	2.8	2.1	2.0	2.0	2.0	2.0
BoC Inflation (y/y) **	4.4	3.3	2.1	2.0	2.0	2.0	2.0	5.4	2.2	2.0	2.0	2.0	2.0	2.0
Housing Starts ('000s)	262	228	208	216	222	223	223	--	--	--	--	--	--	--
Home Prices (y/y)	0.6	-10.7	3.9	3.5	2.9	2.8	2.8	-11.7	-1.5	3.8	3.3	2.8	2.8	2.8
Real GDP / worker (y/y)	-0.1	0.5	0.6	0.3	0.5	0.9	1.0	0.5	0.4	0.5	0.3	0.7	0.9	1.0

F: Forecast by TD Economics as at December 2022.

* Intellectual Property Products. ** CPIX: CPI ex. 8 most volatile components. *** BoC Inflation: avg. of CPI-trim, CPI-median, and CPI-common.

Home price measure shown is the CREA Composite Sale Price.

Sources: Statistics Canada, Bank of Canada, CMHC, CREA, TD Economics.

Interest Rate Outlook														
Interest Rates	Annual Average							End of Period						
	22F	23F	24F	25F	26F	27F	28F	22F	23F	24F	25F	26F	27F	28F
U.S. FIXED INCOME														
Fed Funds Target Rate (%)*	2.50	4.90	3.30	2.30	2.25	2.25	2.25	4.50	4.50	2.75	2.25	2.25	2.25	2.25
3-mth T-Bill Rate (%)	2.50	4.65	3.00	2.20	2.15	2.15	2.15	4.65	4.15	2.50	2.15	2.15	2.15	2.15
2-yr Govt. Bond Yield (%)	3.45	3.70	2.65	2.25	2.25	2.25	2.25	4.40	3.20	2.40	2.25	2.25	2.25	2.25
5-yr Govt. Bond Yield (%)	3.30	3.50	2.85	2.45	2.45	2.45	2.45	3.80	3.25	2.65	2.45	2.45	2.45	2.45
10-yr Govt. Bond Yield (%)	3.20	3.45	2.95	2.70	2.70	2.70	2.70	3.60	3.30	2.80	2.70	2.70	2.70	2.70
10-yr-2-yr Govt. Spread (%)	-0.25	-0.25	0.30	0.45	0.45	0.45	0.45	-0.80	0.10	0.40	0.45	0.45	0.45	0.45
CANADIAN FIXED INCOME														
Overnight Target Rate (%)	2.40	4.30	2.70	2.00	2.00	2.00	2.00	4.25	3.75	2.25	2.00	2.00	2.00	2.00
3-mth T-Bill Rate (%)	2.65	4.15	2.55	2.00	2.00	2.00	2.00	4.38	3.50	2.13	2.00	2.00	2.00	2.00
2-yr Govt. Bond Yield (%)	3.25	3.20	2.40	2.15	2.15	2.15	2.15	3.90	2.85	2.20	2.15	2.15	2.15	2.15
5-yr Govt. Bond Yield (%)	3.00	2.80	2.40	2.35	2.35	2.35	2.35	3.10	2.60	2.35	2.35	2.35	2.35	2.35
10-yr Govt. Bond Yield (%)	2.90	2.80	2.60	2.60	2.60	2.60	2.60	2.90	2.70	2.60	2.60	2.60	2.60	2.60
10-yr-2-yr Govt. Spread (%)	-0.35	-0.40	0.20	0.45	0.45	0.45	0.45	-1.00	-0.15	0.40	0.45	0.45	0.45	0.45

*Upper bound of target range. F: Forecast by TD Economics as at December 2022.
Annual averages are the average of the four quarterly end-of-period forecasts.
Source: Bank of Canada, Bloomberg, Statistics Canada, TD Economics.

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