

Long-Term Economic Forecast

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

Thomas Feltmate, Director | 416-944-5730

March 28, 2023

United States

- U.S. economic growth slowed to an above trend pace of 2.1% in 2022. Looking into 2023, economic growth is expected to decelerate further, as monetary policy remains in restrictive territory, pushing growth to a sub-trend pace through 2024. Growth is expected to average 1.3% in 2023 and just 1.0% in 2024.
- The labor market has continued to perform better than expected, despite the ongoing mismatch between demand and supply for workers. Weaker economic growth should soon begin to weigh on hiring intentions – putting upward pressure on the unemployment rate. We now expect the unemployment rate to rise by 1.2 percentage points between Q1-2023 and Q4-2024, reaching a peak of 4.6%, before gradually moving back to its long-run average of 4%.
- Inflation has slowed from its multidecade highs, though more recent data has shown some stalling in the disinflation process. The core PCE deflator (the Fed's preferred measure of inflation) isn't expected to reach the FOMC's average 2% inflation target until early 2025.
- We project the fed funds rate to reach 5.25% in Q2-2023 and remain at that level through the fourth 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 (2.5%) rate.

Canada

- The narrative for Canada is similar to that south of the border. Near-term spending is likely to grow at a modest rate amid resilient job market conditions. However, high inflation and high interest rates will increasingly take their toll on spending and hiring in 2023 and through 2024.
- The labour market outlook reflects greater weakness than the U.S., with the unemployment rate expected to rise by 1.5 percentage points, reaching a peak of 6.5% in Q3-2024. Compared to the U.S., the Canadian jobs market is not as tight, partly reflecting greater labour supply coming from strong immigration trends.
- Inflation has likely peaked in Canada and we expect further easing in price pressures in 2023 and 2024. This should allow the Bank of Canada to maintain the overnight rate at the current 4.5% level through 2023.
- Both short-term and long-term bond yields are likely to decline over 2023 as policy rate cuts become closer to being realized. We assume the overnight rate is reduced back towards its neutral level starting at the beginning of 2024, with the rate reaching 2.25% by 2025.

U.S. Economic Outlook														
Period-Over-Period Annualized Per Cent Change Unless Otherwise Indicated														
Economic Indicator	Annual Average							Fourth Quarter / Fourth Quarter						
	22	23F	24F	25F	26F	27F	28F	22	23F	24F	25F	26F	27F	28F
Real GDP	2.1	1.3	1.0	1.9	2.0	1.8	1.8	0.9	0.6	1.4	2.1	1.9	1.8	1.8
Consumer Expenditure	2.8	1.5	0.7	1.6	1.9	1.9	1.9	1.8	1.0	1.1	1.8	1.9	1.9	1.9
Durable Goods	-0.5	-1.1	-1.4	1.8	3.3	3.2	3.0	0.5	-1.6	0.1	2.7	3.4	3.1	3.1
Business Investment	3.8	2.1	0.9	3.1	3.7	3.5	3.3	4.3	0.6	2.0	3.5	3.6	3.3	3.3
Non-Res. Structures	-6.9	0.5	-0.9	3.2	3.9	3.1	3.0	-3.3	-0.6	0.7	4.0	3.6	3.0	3.0
Equipment & IPP*	6.6	2.5	1.4	3.1	3.6	3.5	3.4	6.2	0.9	2.3	3.4	3.6	3.4	3.3
Residential Investment	-10.7	-16.5	5.6	9.8	3.6	1.5	1.1	-19.0	-7.9	11.4	7.5	2.1	1.3	1.1
Govt. Expenditure	-0.6	2.0	1.0	0.8	0.7	0.3	0.2	0.8	1.4	0.9	0.8	0.5	0.2	0.2
Final Domestic Demand	1.7	0.9	1.0	1.9	2.0	1.8	1.8	0.9	0.7	1.5	2.1	1.9	1.8	1.7
Exports	7.2	4.5	1.9	3.0	3.1	3.0	3.0	5.2	2.7	2.6	3.1	3.1	3.0	3.0
Imports	8.2	-1.2	1.4	2.9	2.8	2.7	2.7	1.8	0.2	2.6	2.9	2.7	2.7	2.7
Change in Private Inventories	124.9	71.3	58.0	53.8	53.8	53.8	53.7	---	---	---	---	---	---	---
Final Sales	1.3	1.7	1.0	1.9	2.0	1.8	1.8	1.3	1.0	1.5	2.1	1.9	1.8	1.8
International Current Account Balance (\$Bn)	-958	-903	-984	-992	-996	-1001	-985	---	---	---	---	---	---	---
% of GDP	-3.8	-3.4	-3.5	-3.4	-3.3	-3.2	-3.0	---	---	---	---	---	---	---
Pre-tax Corporate Profits including IVA&CCA	8.4	-0.6	1.0	2.8	4.5	6.0	6.2	9.6	-5.2	2.8	3.0	4.9	6.3	6.1
% of GDP	11.8	11.1	10.9	10.7	10.8	11.0	11.2	---	---	---	---	---	---	---
GDP Deflator (y/y)	7.0	4.0	2.5	2.1	2.2	2.3	2.3	6.4	3.4	2.1	2.1	2.2	2.3	2.3
Nominal GDP	9.2	5.4	3.5	4.0	4.2	4.1	4.1	7.4	4.1	3.5	4.2	4.1	4.1	4.1
Labor Force	1.9	1.4	0.5	0.5	0.4	0.4	0.3	1.6	1.3	0.6	0.4	0.4	0.3	0.3
Employment	4.3	1.8	-0.6	0.4	0.7	0.3	0.2	3.4	0.5	-0.5	0.8	0.5	0.2	0.3
Change in Empl. ('000s)	6,346	2,673	-872	639	1,027	434	391	5,128	786	-815	1,292	752	348	444
Unemployment Rate (%)	3.6	3.6	4.5	4.3	4.0	4.0	4.0	---	---	---	---	---	---	---
Personal Disp. Income	-0.1	7.1	3.7	4.1	4.2	4.2	4.2	4.2	5.6	3.5	4.4	4.2	4.2	4.2
Pers. Savings Rate (%)	3.7	4.4	4.8	5.6	6.0	6.2	6.4	---	---	---	---	---	---	---
Cons. Price Index (y/y)	8.0	4.7	2.5	1.6	1.8	2.3	2.2	7.1	4.0	1.8	1.6	2.0	2.3	2.1
Core CPI (y/y)	6.1	5.0	2.8	2.2	2.3	2.3	2.3	6.0	4.3	2.3	2.2	2.3	2.3	2.3
Core PCE Price Index (y/y)	5.0	4.5	2.5	2.0	2.0	2.0	2.0	4.8	4.0	2.1	2.0	2.0	2.0	2.0
Housing Starts (mns)	1.56	1.24	1.38	1.48	1.50	1.50	1.50	---	---	---	---	---	---	---
Real Output per hour** (y/y)	-1.7	-0.3	1.6	1.3	1.3	1.7	1.7	-1.8	-0.1	1.9	1.0	1.5	1.8	1.7

*Intellectual property products. F: Forecast by TD Economics as at March 2023.

**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						
	22	23F	24F	25F	26F	27F	28F	22	23F	24F	25F	26F	27F	28F
Real GDP	3.4	0.8	0.4	1.5	1.9	1.8	1.7	2.1	0.3	0.8	1.8	1.8	1.7	1.7
Consumer Expenditure	4.8	1.7	0.0	1.0	1.4	1.6	1.7	3.2	0.7	0.4	1.2	1.5	1.6	1.7
Durable Goods	-2.0	0.4	-1.3	0.8	1.4	1.6	1.7	-0.2	-1.3	-0.2	1.1	1.5	1.6	1.7
Business Investment	6.4	1.3	1.3	2.1	1.8	1.7	1.7	4.1	0.8	1.9	2.0	1.8	1.7	1.7
Non-Res. Structures	8.0	4.0	1.3	2.2	1.9	1.7	1.7	7.4	0.7	2.1	2.0	1.8	1.7	1.7
Equipment & IPP*	4.9	-1.5	1.3	1.9	1.8	1.7	1.7	0.7	0.9	1.8	1.9	1.8	1.7	1.7
Residential Investment	-11.1	-9.3	0.6	2.0	1.8	1.7	1.7	-13.8	-3.2	1.6	1.9	1.8	1.7	1.7
Govt. Expenditure	2.0	2.3	2.4	2.2	1.9	1.9	1.8	2.0	2.3	2.4	2.1	1.9	1.8	1.8
Final Domestic Demand	2.7	0.9	0.8	1.5	1.6	1.7	1.7	1.3	0.8	1.1	1.6	1.6	1.7	1.7
Exports	2.6	3.3	1.8	1.9	1.8	1.7	1.7	2.5	2.1	1.9	1.9	1.8	1.7	1.7
Imports	7.2	-0.3	1.6	1.9	1.8	1.7	1.7	2.8	1.4	1.8	1.9	1.8	1.7	1.7
Change in Non-farm Inventories (2012 \$Bn)	33.2	8.2	-1.3	-1.8	3.4	5.1	5.6	--	--	--	--	--	--	--
Final Sales	0.7	2.2	1.2	1.5	1.4	1.6	1.7	0.6	1.5	1.5	1.4	1.5	1.7	1.7
International Current Account Balance (\$Bn)	-10.8	-17.6	-12.9	-9.4	-7.3	-5.7	-4.2	--	--	--	--	--	--	--
% of GDP	-0.4	-0.6	-0.4	-0.3	-0.2	-0.2	-0.1	--	--	--	--	--	--	--
Pre-tax Corp. Profits	8.9	-10.7	1.1	3.4	3.7	3.7	3.7	-6.7	0.5	2.4	3.7	3.7	3.7	3.7
% of GDP	15.3	13.4	13.1	13.1	13.1	13.1	13.1	--	--	--	--	--	--	--
GDP Deflator (y/y)	7.4	1.4	2.5	2.1	2.0	2.0	2.0	4.2	2.8	2.4	2.0	2.0	2.0	2.0
Nominal GDP	11.0	2.2	3.0	3.6	3.9	3.8	3.8	6.4	3.2	3.2	3.8	3.8	3.8	3.8
Labour Force	1.5	2.0	0.9	0.8	0.8	0.7	0.7	1.1	1.9	0.8	0.8	0.7	0.7	0.7
Employment	4.0	1.8	-0.1	1.0	1.1	0.8	0.7	2.3	1.0	0.2	1.2	1.0	0.7	0.7
Change in Empl. ('000s)	750	349	-27	192	221	163	149	453	200	38	242	196	152	146
Unemployment Rate (%)	5.3	5.5	6.4	6.2	5.9	5.9	5.9	--	--	--	--	--	--	--
Personal Disp. Income	5.2	5.8	2.5	3.1	3.4	3.5	3.5	8.5	3.8	2.8	3.2	3.4	3.5	3.5
Pers. Savings Rate (%)	6.0	6.1	6.4	6.4	6.4	6.2	6.0	--	--	--	--	--	--	--
Cons. Price Index (y/y)	6.8	3.7	2.3	2.0	2.0	2.0	2.0	6.6	2.7	2.1	2.0	2.0	2.0	2.0
CPIX (y/y) **	5.6	3.5	2.4	2.1	2.0	2.0	2.0	5.7	2.8	2.3	2.0	2.0	2.0	2.0
BoC Inflation (y/y) ***	4.3	3.4	2.3	2.0	2.0	2.0	2.0	5.2	2.7	2.2	2.0	2.0	2.0	2.0
Housing Starts ('000s)	263	223	206	214	220	221	221	--	--	--	--	--	--	--
Home Prices (y/y)	0.8	-10.8	2.7	3.2	2.9	2.8	2.8	-11.2	-2.6	3.3	3.2	2.8	2.8	2.8
Real GDP / worker (y/y)	-0.5	-0.9	0.5	0.5	0.7	1.0	1.0	-0.3	-0.7	0.6	0.6	0.8	1.0	1.0

F: Forecast by TD Economics as at March 2023.
 * Intellectual Property Products. ** CPIX: CPI ex. 8 most volatile components. *** BoC Inflation: avg. of CPI-trim and CPI-median.
 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						
	22	23F	24F	25F	26F	27F	28F	22	23F	24F	25F	26F	27F	28F
U.S. FIXED INCOME														
Fed Funds Target Rate (%)*	2.50	5.20	4.00	2.55	2.50	2.50	2.50	4.50	5.25	3.25	2.50	2.50	2.50	2.50
3-mth T-Bill Rate (%)	2.40	5.05	3.65	2.45	2.40	2.40	2.40	4.30	4.90	2.90	2.40	2.40	2.40	2.40
2-yr Govt. Bond Yield (%)	3.45	4.10	3.00	2.50	2.50	2.50	2.50	4.41	3.70	2.70	2.50	2.50	2.50	2.50
5-yr Govt. Bond Yield (%)	3.35	3.75	3.15	2.70	2.70	2.70	2.70	3.99	3.55	2.95	2.70	2.70	2.70	2.70
10-yr Govt. Bond Yield (%)	3.25	3.65	3.20	2.95	2.95	2.95	2.95	3.88	3.50	3.05	2.95	2.95	2.95	2.95
10-yr-2-yr Govt. Spread (%)	-0.20	-0.45	0.20	0.45	0.45	0.45	0.45	-0.53	-0.20	0.35	0.45	0.45	0.45	0.45
CANADIAN FIXED INCOME														
Overnight Target Rate (%)	2.40	4.50	3.25	2.25	2.25	2.25	2.25	4.25	4.50	2.50	2.25	2.25	2.25	2.25
3-mth T-Bill Rate (%)	2.60	4.45	3.05	2.25	2.25	2.25	2.25	4.23	4.25	2.38	2.25	2.25	2.25	2.25
2-yr Govt. Bond Yield (%)	3.30	3.65	2.70	2.40	2.40	2.40	2.40	4.06	3.25	2.45	2.40	2.40	2.40	2.40
5-yr Govt. Bond Yield (%)	3.05	3.00	2.70	2.60	2.60	2.60	2.60	3.41	2.90	2.60	2.60	2.60	2.60	2.60
10-yr Govt. Bond Yield (%)	3.00	3.00	2.90	2.85	2.85	2.85	2.85	3.30	3.00	2.85	2.85	2.85	2.85	2.85
10-yr-2-yr Govt. Spread (%)	-0.30	-0.65	0.20	0.45	0.45	0.45	0.45	-0.76	-0.25	0.40	0.45	0.45	0.45	0.45
*Upper bound of target range. F: Forecast by TD Economics as at March 2023. Annual averages are the average of the four quarterly end-of-period forecasts. Source: Bank of Canada, Bloomberg, Statistics Canada, TD Economics.														

Disclaimer

This report is provided by TD Economics. It is for informational and educational purposes only as of the date of writing, and may not be appropriate for other purposes. The views and opinions expressed may change at any time based on market or other conditions and may not come to pass. This material is not intended to be relied upon as investment advice or recommendations, does not constitute a solicitation to buy or sell securities and should not be considered specific legal, investment or tax advice. The report does not provide material information about the business and affairs of TD Bank Group and the members of TD Economics are not spokespersons for TD Bank Group with respect to its business and affairs. The information contained in this report has been drawn from sources believed to be reliable, but is not guaranteed to be accurate or complete. This report contains economic analysis and views, including about future economic and financial markets performance. These are based on certain assumptions and other factors, and are subject to inherent risks and uncertainties. The actual outcome may be materially different. The Toronto-Dominion Bank and its affiliates and related entities that comprise the TD Bank Group are not liable for any errors or omissions in the information, analysis or views contained in this report, or for any loss or damage suffered.