

## Long-Term Economic Forecast

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### United States

- After a better-than-expected year for economic growth in 2023, the U.S. economy is forecast to slow to a below-trend pace in 2024 as the impact of higher interest rates weighs on demand. By 2025, growth is expected to be on the upswing again as rates normalize, with the economy settling back to trend growth (~1.8%) over the medium term.
- Below-trend growth is expected to push the unemployment rate higher over the next year, reaching a peak of 4.2% in Q4-2024, before gradually moving back to its long-run average of 4% by mid-2025.
- Inflation has slowed from its multidecade highs and is expected to continue to drift lower over the next few years. Core PCE inflation (the Fed's preferred measure of inflation) isn't expected to reach the FOMC's 2% inflation target until the second half of 2025.
- We project the fed funds rate to remain in the 5.25% to 5.50% range until mid-2024. 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 (2.75%) rate.

### Canada

- Following an economic slowdown in 2024 and subsequent rebound in 2025 and 2026, long-term Canadian real GDP growth is expected to decelerate to around 1.8% annually. This will be driven by solid population and labour force growth, while productivity growth lags behind.
- Consumer spending will undergo a period of below trend growth through 2026, as Canadian households save more in the face of high mortgage debt.
- Business investment is expected to grow above trend over the forecast horizon. The need to build more homes will boost residential investment, and the opportunity to fast track the clean energy transition will cause a lift to investment in structures, machinery, and equipment.
- After a period of high inflation, we expect headline and core consumer price inflation to decelerate back to the 2% target over the medium term.
- With inflationary pressures easing over the medium term, the Bank of Canada will be able to cut its policy rate back to the neutral rate of 2.25% by 2025. We expect the loonie to return to the 80 U.S. cent level once Canadian economic growth is able to catch-up to that of the U.S.

## Exhibits

Long-Term U.S. Economic Outlook														
Period-Over-Period Annualized Per Cent Change Unless Otherwise Indicated														
Economic Indicator	Annual Average							Fourth Quarter / Fourth Quarter						
	23	24F	25F	26F	27F	28F	29F	23	24F	25F	26F	27F	28F	29F
Real GDP	2.5	2.3	1.8	1.9	1.8	1.8	1.8	3.1	1.6	2.0	1.9	1.8	1.8	1.8
Consumer Expenditure	2.2	2.2	1.6	2.0	2.0	2.1	2.1	2.7	1.8	1.8	2.0	2.0	2.1	2.1
Durable Goods	4.2	1.9	2.4	2.9	3.1	3.0	3.0	5.7	1.3	2.7	3.0	3.1	3.0	3.0
Business Investment	4.4	1.9	3.5	3.2	3.0	3.0	3.0	4.2	2.0	3.7	3.0	3.0	3.0	3.0
Non-Res. Structures	13.0	4.5	3.9	3.1	3.0	3.0	3.0	16.0	2.2	3.7	3.0	3.0	3.0	3.0
Equipment & IPP*	2.1	1.3	3.4	3.2	3.0	3.0	3.0	1.1	1.9	3.7	3.0	3.0	3.0	3.0
Residential Investment	-10.6	3.0	4.9	4.2	1.8	1.3	1.3	0.4	2.6	6.2	3.0	1.4	1.3	1.3
Govt. Expenditure	4.0	3.0	0.8	0.5	0.3	0.2	0.2	4.5	1.7	0.5	0.5	0.3	0.2	0.2
Final Domestic Demand	2.2	2.4	1.9	2.0	1.9	1.8	1.9	3.1	1.8	2.0	1.9	1.8	1.8	1.9
Exports	2.7	3.1	2.7	3.0	3.0	3.0	3.0	2.1	2.7	2.9	3.0	3.0	3.0	3.0
Imports	-1.6	2.8	3.0	3.2	3.0	3.0	3.0	0.0	3.3	3.2	3.1	3.0	3.0	3.0
Change in Private Inventories	46.6	43.6	40.3	41.6	41.6	41.6	41.6	---	---	---	---	---	---	---
Final Sales	2.9	2.4	1.8	1.9	1.8	1.8	1.8	3.4	1.7	1.9	1.9	1.8	1.8	1.8
International Current Account Balance (\$Bn)	-837	-923	-996	-1024	-1027	-1005	-972	---	---	---	---	---	---	---
% of GDP	-3.1	-3.2	-3.3	-3.3	-3.2	-3.0	-2.8	---	---	---	---	---	---	---
Pre-Tax Corporate Profits Including IVA&CCA	0.7	3.2	1.3	3.9	2.2	2.3	2.8	1.8	-0.4	4.7	2.7	2.1	2.4	3.0
% of GDP	11.8	11.6	11.3	11.3	11.1	10.9	10.7	---	---	---	---	---	---	---
GDP Deflator (y/y)	3.6	2.3	2.3	2.2	2.2	2.3	2.3	2.6	2.4	2.2	2.2	2.2	2.3	2.3
Nominal GDP	6.3	4.7	4.1	4.2	4.1	4.1	4.2	5.8	4.0	4.2	4.1	4.1	4.1	4.2
Labor Force	1.7	0.7	0.6	0.5	0.4	0.4	0.4	1.9	0.7	0.5	0.4	0.4	0.4	0.4
Employment	2.3	1.4	0.4	0.6	0.6	0.6	0.6	1.9	0.9	0.5	0.6	0.6	0.6	0.6
Change in Empl. ('000s)	3,534	2,198	697	950	955	955	955	2,936	1,435	829	954	955	955	955
Unemployment Rate (%)	3.6	4.0	4.1	4.0	4.0	4.0	4.0	---	---	---	---	---	---	---
Personal Disp. Income	8.1	4.4	4.7	5.3	5.1	4.6	4.2	7.0	4.5	5.0	5.2	5.0	4.4	4.1
Pers. Savings Rate (%)	4.5	3.9	4.6	5.8	6.7	7.2	7.3	---	---	---	---	---	---	---
Cons. Price Index (y/y)	4.1	3.2	2.2	2.1	2.1	2.1	2.2	3.2	3.0	1.9	2.2	2.1	2.1	2.1
Core CPI (y/y)	4.8	3.6	2.4	2.2	2.2	2.2	2.2	4.0	3.3	2.2	2.2	2.2	2.2	2.2
Core PCE Price Index (y/y)	4.1	2.7	2.2	2.0	2.0	2.0	2.0	3.2	2.7	2.0	2.0	2.0	2.0	2.0
Housing Starts (mns)	1.42	1.41	1.47	1.52	1.53	1.53	1.53	---	---	---	---	---	---	---
Real Output per Hour** (y/y)	1.3	2.2	1.2	1.5	1.6	1.6	1.6	2.6	1.2	1.4	1.6	1.6	1.6	1.6

F: Forecast by TD Economics, March 2024.

\* Intellectual property products. \*\* Non-farm business sector.

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

Long-Term Canadian Economic Outlook														
Period-Over-Period Annualized Per Cent Change Unless Otherwise Indicated														
Economic Indicator	Annual Average							4th Quarter / 4th Quarter						
	23	24F	25F	26F	27F	28F	29F	23	24F	25F	26F	27F	28F	29F
Real GDP	1.1	0.9	1.5	2.0	2.0	1.9	1.8	0.9	1.2	1.8	2.1	2.0	1.8	1.8
Consumer Expenditure	1.7	1.4	1.2	1.6	1.9	1.8	1.8	1.2	1.6	1.3	1.8	1.9	1.8	1.7
Durable Goods	2.3	4.0	1.2	1.6	1.8	1.8	1.7	2.9	2.8	1.3	1.7	1.8	1.8	1.7
Business Investment	-0.6	-1.0	3.1	2.8	2.3	2.0	1.9	-2.6	3.1	3.0	2.6	2.2	2.0	1.8
Non-Res. Structures	2.6	-1.5	3.2	3.0	2.4	2.1	1.9	-3.5	3.5	3.2	2.7	2.2	2.0	1.8
Equipment & IPP*	-3.8	-0.4	2.9	2.7	2.3	2.0	1.9	-1.7	2.7	2.9	2.5	2.1	1.9	1.8
Residential Investment	-10.2	2.3	3.8	3.1	2.4	2.1	1.9	-3.0	3.2	3.7	2.8	2.3	2.0	1.9
Govt. Expenditure	2.1	2.0	2.2	2.0	1.9	1.8	1.8	2.0	2.4	2.0	1.9	1.8	1.8	1.8
Final Domestic Demand	0.5	1.4	1.8	1.9	2.0	1.9	1.8	0.6	2.1	1.9	2.0	1.9	1.8	1.8
Exports	5.7	1.8	3.0	2.7	2.6	2.6	2.5	5.5	1.9	2.8	2.7	2.6	2.5	2.5
Imports	1.0	1.3	2.8	2.6	2.5	2.5	2.5	1.9	2.3	2.6	2.6	2.5	2.5	2.5
Change in Non-Farm Inventories (2012 \$Bn)	35.3	22.1	14.8	15.5	17.0	17.5	17.9	--	--	--	--	--	--	--
Final Sales	1.4	2.0	2.1	1.9	1.9	1.8	1.8	1.6	2.7	2.0	1.9	1.9	1.8	1.8
International Current Account Balance (\$Bn)	-17.8	-4.0	-10.6	-13.1	-13.6	-13.3	-12.7	--	--	--	--	--	--	--
% of GDP	-0.6	-0.1	-0.3	-0.4	-0.4	-0.4	-0.3	--	--	--	--	--	--	--
Pre-Tax Corp. Profits	-18.1	3.2	4.0	4.6	4.4	4.2	4.1	-9.7	-0.3	5.2	4.5	4.3	4.1	4.0
% of GDP	12.8	12.6	12.7	12.7	12.8	12.8	12.9	--	--	--	--	--	--	--
GDP Deflator (y/y)	1.6	3.5	2.1	2.0	2.0	2.0	2.0	3.0	2.2	2.0	2.0	2.0	2.0	2.0
Nominal GDP	2.7	4.4	3.6	4.0	4.0	3.9	3.8	4.0	3.5	3.8	4.1	4.0	3.9	3.8
Labour Force	2.6	2.0	0.9	0.9	0.9	0.9	0.8	3.1	1.4	0.9	0.9	0.9	0.9	0.8
Employment	2.4	1.1	0.7	1.4	1.2	0.9	0.8	2.3	0.3	1.2	1.4	1.0	0.9	0.8
Change in Empl. ('000s)	475	216	137	280	250	185	177	461	69	253	281	217	181	174
Unemployment Rate (%)	5.4	6.3	6.6	6.2	5.9	5.9	5.9	--	--	--	--	--	--	--
Personal Disp. Income	5.5	4.9	3.1	3.7	3.5	3.4	3.5	5.1	3.3	3.9	3.5	3.4	3.5	3.5
Pers. Savings Rate (%)	5.5	6.0	5.8	5.7	5.3	4.9	4.5	--	--	--	--	--	--	--
Cons. Price Index (y/y)	3.9	2.7	2.1	2.0	2.0	2.0	2.0	3.2	2.4	2.0	2.0	2.0	2.0	2.0
CPIX (y/y) **	3.5	2.5	2.1	2.0	2.0	2.0	2.0	2.7	2.4	2.0	2.0	2.0	2.0	2.0
BoC Inflation (y/y) ***	4.0	3.0	2.3	2.0	2.0	2.0	2.0	3.6	2.6	2.1	2.0	2.0	2.0	2.0
Housing Starts ('000s)	242	230	232	246	249	249	249	--	--	--	--	--	--	--
Home Prices (y/y)	-3.0	1.2	4.3	2.8	2.4	2.4	2.4	2.8	4.4	3.6	2.6	2.4	2.4	2.4
Real GDP / Worker (y/y)	-1.3	-0.2	0.9	0.6	0.8	1.0	0.9	-1.4	0.9	0.5	0.7	0.9	1.0	0.9

F: Forecast by TD Economics, March 2024.

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

Note: Home price measure shown is the CREA Composite Sale Price.

Source: Statistics Canada, Bank of Canada, Canada Mortgage and Housing Corporation, Canadian Real Estate Association, TD Economics.

Interest Rate Outlook														
Interest Rates	Annual Average							End of Period						
	23	24F	25F	26F	27F	28F	29F	23	24F	25F	26F	27F	28F	29F
<b>U.S. FIXED INCOME</b>														
Fed Funds Target Rate (%)*	5.30	5.25	3.50	2.75	2.75	2.75	2.75	5.50	4.75	2.75	2.75	2.75	2.75	2.75
3-mth T-Bill Rate (%)	5.10	4.95	3.20	2.65	2.65	2.65	2.65	5.20	4.40	2.65	2.65	2.65	2.65	2.65
2-yr Govt. Bond Yield (%)	4.55	4.25	3.10	2.75	2.75	2.75	2.75	4.23	3.80	2.75	2.75	2.75	2.75	2.75
5-yr Govt. Bond Yield (%)	4.05	3.90	3.05	2.95	2.95	2.95	2.95	3.84	3.50	2.95	2.95	2.95	2.95	2.95
10-yr Govt. Bond Yield (%)	3.95	3.95	3.30	3.20	3.20	3.20	3.20	3.88	3.65	3.20	3.20	3.20	3.20	3.20
10-yr-2-yr Govt. Spread (%)	-0.60	-0.30	0.20	0.45	0.45	0.45	0.45	-0.35	-0.15	0.45	0.45	0.45	0.45	0.45
<b>CANADIAN FIXED INCOME</b>														
Overnight Target Rate (%)	4.80	4.65	2.80	2.25	2.25	2.25	2.25	5.00	4.00	2.25	2.25	2.25	2.25	2.25
3-mth T-Bill Rate (%)	4.85	4.45	2.65	2.25	2.25	2.25	2.25	5.04	3.75	2.25	2.25	2.25	2.25	2.25
2-yr Govt. Bond Yield (%)	4.25	3.70	2.60	2.35	2.35	2.35	2.35	3.88	3.25	2.35	2.35	2.35	2.35	2.35
5-yr Govt. Bond Yield (%)	3.55	3.25	2.65	2.60	2.60	2.60	2.60	3.17	2.90	2.60	2.60	2.60	2.60	2.60
10-yr Govt. Bond Yield (%)	3.30	3.25	2.85	2.85	2.85	2.85	2.85	3.10	3.05	2.85	2.85	2.85	2.85	2.85
10-yr-2-yr Govt. Spread (%)	-0.95	-0.45	0.25	0.50	0.50	0.50	0.50	-0.78	-0.20	0.50	0.50	0.50	0.50	0.50

F: Forecast by TD Economics, March 2024.  
\* Upper bound of target range. Note: Annual averages are the average of the four quarterly end-of-period forecasts.  
Source: Bloomberg, Bank of Canada, Federal Reserve, TD Economics.

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