

Long-Term Economic Forecast

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September 27, 2022

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 1.6% 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 0.7% and 1.2% in 2023 and 2024, respectively.
- The labor market has continued to perform better than expected. Labor demand remains near historic highs, while the pool of available workers continues to shrink as the core age participation rate nears its pre-pandemic level. This combined with slower 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 Q4-2022 and Q4-2024, reaching a peak of 5.1%, before gradually moving back to its long-run average of 4%.
- Inflation is expected to hang near its multi-decade highs through the third quarter, before gradually rolling over towards year-end. Even still, we expect inflation as measured by the core PCE deflator (the Fed's preferred measure) to remain above the FOMC's average 2% inflation target through 2024.
- Monetary policy is expected to become far more restrictive than previously thought. We now project the Fed funds rate to reach 4.5% 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%) rate.

Canada

- The Canadian economy grew at a 3.3% pace over the second quarter of 2022, making it a standout performer on the global stage. Since public health restrictions were lifted earlier this year, mobility has increased, propelling spending, corporate profits, and nominal incomes. Elevated commodity prices are also providing a fillip to Canada's expansion rate this year. A strong first half will boost annual average GDP growth to over 3% in 2022, before decelerating to approximately 1% in 2023.
- Given the expected slowing in demand, the underlying economic dynamics won't be sufficient to generate enough jobs to absorb people entering the labour force or those already on the sidelines. This means the unemployment rate should push higher. It has already risen from a low of 4.9% to 5.4% and is expected to reach 6.5% in 2024.
- The inflation outlook for this year has been upgraded since the June forecast, with little relief expected in the second half of this year. In 2023, CPI inflation is forecast to return to a more palatable level with the help of easing supply chain disruptions, lower energy prices and under more stagnant economic growth. All told, headline and core CPI are expected to reach 2.6% year-on-year by the end of 2023.
- With the economy in need of tightening, the Bank of Canada is set to continue raising rates at an aggressive pace, such that the policy rate reaches a peak of 4.0% in 2022. We assume the rate is reduced back towards its neutral level starting at the end of 2023, with the rate reaching 1.75% by year-end 2024.

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	1.6	0.7	1.2	1.7	1.8	1.8	1.7	0.0	0.7	1.5	1.8	1.8	1.8	1.7
Consumer Expenditure	2.4	1.0	1.0	1.6	1.8	1.9	1.9	1.5	0.8	1.3	1.7	1.9	1.9	1.9
Durable Goods	-0.4	-1.9	-1.7	-0.1	0.3	0.6	1.0	2.7	-4.0	-0.5	0.1	0.4	0.8	1.2
Business Investment	4.3	0.8	0.6	2.3	2.8	2.8	2.8	3.7	0.0	1.3	2.8	2.8	2.8	2.8
Non-Res. Structures	-6.5	-6.4	-1.4	1.6	1.9	1.9	1.9	-7.0	-5.3	0.6	1.9	1.9	1.9	1.9
Equipment & IPP*	6.9	2.5	1.1	2.5	3.0	3.0	3.0	6.3	1.3	1.4	3.0	3.0	3.0	3.1
Residential Investment	-9.7	-10.5	4.9	4.6	2.0	1.5	1.5	-16.9	-0.9	6.9	2.9	1.7	1.5	1.5
Govt. Expenditure	-1.5	0.5	0.8	0.7	0.5	0.3	0.2	-0.9	0.7	0.9	0.6	0.4	0.3	0.1
Final Domestic Demand	1.4	0.4	1.1	1.7	1.7	1.7	1.7	0.5	0.6	1.4	1.7	1.7	1.7	1.7
Exports	6.9	3.8	3.0	3.7	3.2	3.0	2.9	6.1	1.6	3.8	3.5	3.0	3.0	2.9
Imports	8.7	0.4	2.5	3.0	2.5	2.5	2.4	4.2	1.2	3.2	2.7	2.4	2.5	2.4
Change in Private Inventories	113.0	91.8	102.0	102.0	101.9	101.9	101.8	---	---	---	---	---	---	---
Final Sales	0.9	0.8	1.1	1.7	1.8	1.8	1.7	0.6	0.6	1.5	1.8	1.8	1.8	1.7
International Current Account Balance (\$Bn)	-991	-762	-708	-739	-692	-666	-611	---	---	---	---	---	---	---
% of GDP	-4.0	-2.9	-2.6	-2.6	-2.4	-2.2	-1.9	---	---	---	---	---	---	---
Pre-tax Corporate Profits including IVA&CCA	7.6	2.0	2.2	1.4	2.0	2.5	3.7	5.7	-0.2	2.4	1.1	2.3	3.0	3.9
% of GDP	12.0	11.7	11.6	11.3	11.1	11.0	10.9	---	---	---	---	---	---	---
GDP Deflator (y/y)	7.3	4.1	2.1	1.9	2.2	2.2	2.2	7.2	2.7	1.9	2.1	2.3	2.2	2.2
Nominal GDP	9.0	4.8	3.3	3.7	4.1	4.0	4.0	7.0	3.4	3.4	3.9	4.1	4.0	4.0
Labor Force	2.0	1.0	0.6	0.5	0.4	0.3	0.3	1.9	0.9	0.5	0.4	0.4	0.3	0.3
Employment	4.0	0.9	-0.4	0.4	0.9	0.7	0.3	3.1	-0.1	-0.2	0.8	0.9	0.5	0.3
Change in Empl. ('000s)	5,867	1,317	-549	602	1,398	1,032	454	4,594	-229	-353	1,195	1,400	721	420
Unemployment Rate (%)	3.7	4.2	4.9	4.8	4.3	4.0	4.0	---	---	---	---	---	---	---
Personal Disp. Income	0.4	4.8	3.9	4.2	4.3	4.5	4.4	4.0	4.1	3.9	4.3	4.3	4.5	4.4
Pers. Savings Rate (%)	5.1	5.5	6.3	6.8	7.2	7.7	8.2	---	---	---	---	---	---	---
Cons. Price Index (y/y)	8.1	3.7	2.1	2.0	2.1	2.1	2.2	7.4	2.5	2.0	2.1	2.1	2.2	2.2
Core CPI (y/y)	6.1	4.0	2.6	2.3	2.2	2.2	2.2	6.0	3.1	2.5	2.2	2.2	2.2	2.2
Core PCE Price Index (y/y)	4.8	3.3	2.4	2.0	2.0	2.0	2.0	4.5	2.7	2.2	2.0	2.0	2.0	2.0
Housing Starts (mns)	1.57	1.34	1.44	1.49	1.50	1.50	1.50	---	---	---	---	---	---	---
Real Output per hour** (y/y)	-2.0	0.0	1.8	1.4	0.9	1.2	1.7	-3.4	1.1	2.0	1.0	0.9	1.5	1.7

*Intellectual property products. F: Forecast by TD Economics as at September 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	3.3	0.9	1.0	1.5	1.7	1.7	1.7	2.2	0.5	1.2	1.6	1.7	1.7	1.7
Consumer Expenditure	5.7	1.9	0.9	1.2	1.4	1.6	1.7	4.5	0.7	1.1	1.3	1.5	1.6	1.7
Durable Goods	-0.4	-0.5	0.2	0.4	0.9	1.3	1.6	-0.3	0.1	0.3	0.6	1.0	1.5	1.7
Business Investment	7.0	2.9	1.1	1.7	1.8	1.7	1.7	6.6	1.5	1.1	2.0	1.7	1.7	1.7
Non-Res. Structures	9.8	2.9	0.9	1.7	1.9	1.7	1.7	8.1	1.2	1.0	2.0	1.7	1.7	1.7
Equipment & IPP*	4.1	2.9	1.3	1.7	1.8	1.7	1.7	5.1	1.7	1.2	1.9	1.7	1.7	1.7
Residential Investment	-9.1	-7.3	0.5	2.0	3.3	2.2	1.7	-10.9	-2.5	1.4	2.6	3.2	1.8	1.7
Govt. Expenditure	2.0	2.0	1.8	1.8	1.8	1.8	1.8	1.8	1.9	1.8	1.8	1.8	1.8	1.8
Final Domestic Demand	3.4	1.3	1.2	1.5	1.7	1.7	1.7	2.6	0.9	1.3	1.6	1.7	1.7	1.7
Exports	3.0	4.5	2.0	1.7	1.7	1.7	1.7	3.8	2.4	1.9	1.7	1.7	1.7	1.7
Imports	7.7	4.0	2.0	1.7	1.7	1.7	1.7	7.1	2.4	1.9	1.7	1.7	1.7	1.7
Change in Non-farm Inventories (2012 \$Bn)	22.5	12.9	8.9	9.3	9.7	10.1	10.5	--	--	--	--	--	--	--
Final Sales	2.1	1.9	1.3	1.5	1.7	1.7	1.7	2.0	1.3	1.3	1.6	1.7	1.7	1.7
International Current Account Balance (\$Bn)	36.9	59.2	61.6	65.4	69.4	73.4	77.6	--	--	--	--	--	--	--
% of GDP	1.3	2.0	2.0	2.1	2.1	2.2	2.2	--	--	--	--	--	--	--
Pre-tax Corp. Profits	14.6	-5.6	1.8	2.5	3.0	3.1	3.2	9.4	-2.0	2.2	2.7	3.0	3.1	3.3
% of GDP	15.4	13.9	13.7	13.6	13.5	13.4	13.3	--	--	--	--	--	--	--
GDP Deflator (y/y)	9.2	3.5	2.1	2.0	2.0	2.0	2.0	8.4	2.4	2.0	2.0	2.0	2.0	2.0
Nominal GDP	12.8	4.4	3.1	3.5	3.8	3.8	3.8	10.8	2.9	3.3	3.7	3.8	3.7	3.8
Labour Force	1.3	0.9	0.9	0.8	0.6	0.6	0.6	0.6	1.0	0.9	0.7	0.6	0.6	0.6
Employment	3.5	0.2	0.4	1.1	1.0	0.6	0.6	1.5	0.2	0.7	1.1	0.8	0.6	0.6
Change in Empl. ('000s)	661	40	88	209	193	126	121	281	39	137	222	162	121	121
Unemployment Rate (%)	5.4	6.1	6.5	6.3	5.9	5.9	5.9	--	--	--	--	--	--	--
Personal Disp. Income	5.8	2.2	2.5	3.5	3.6	3.6	3.6	7.5	1.7	3.1	3.6	3.7	3.6	3.6
Pers. Savings Rate (%)	6.2	3.1	2.5	2.7	2.9	2.9	2.8	--	--	--	--	--	--	--
Cons. Price Index (y/y)	6.9	3.8	2.1	2.0	2.0	2.0	2.0	7.0	2.6	2.0	2.0	2.0	2.0	2.0
CPIX (y/y) **	5.7	3.7	2.2	2.0	2.0	2.0	2.0	6.1	2.6	2.0	2.0	2.0	2.0	2.0
BoC Inflation (y/y) **	4.3	3.4	2.1	2.0	2.0	2.0	2.0	5.4	2.4	2.0	2.0	2.0	2.0	2.0
Housing Starts ('000s)	251	206	202	214	216	216	216	--	--	--	--	--	--	--
Home Prices (y/y)	0.2	-11.2	6.1	4.5	3.4	2.9	2.9	-13.6	0.7	6.1	3.8	3.3	2.9	2.9
Real GDP / worker (y/y)	-0.2	0.7	0.5	0.4	0.7	1.1	1.1	0.8	0.3	0.5	0.5	0.9	1.1	1.1

F: Forecast by TD Economics as at September 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 (%)*	2.45	4.25	2.25	2.00	2.00	2.00	2.00	4.25	3.50	2.00	2.00	2.00	2.00	2.00
3-mth T-Bill Rate (%)	2.45	3.95	2.05	1.90	1.90	1.90	1.90	4.30	3.00	1.90	1.90	1.90	1.90	1.90
2-yr Govt. Bond Yield (%)	3.45	3.10	2.30	2.25	2.25	2.25	2.25	4.35	2.45	2.25	2.25	2.25	2.25	2.25
5-yr Govt. Bond Yield (%)	3.40	3.25	2.55	2.45	2.45	2.45	2.45	4.15	2.85	2.45	2.45	2.45	2.45	2.45
10-yr Govt. Bond Yield (%)	3.25	3.25	2.80	2.70	2.70	2.70	2.70	3.90	2.95	2.70	2.70	2.70	2.70	2.70
10-yr-2-yr Govt. Spread (%)	-0.20	0.15	0.50	0.45	0.45	0.45	0.45	-0.45	0.50	0.45	0.45	0.45	0.45	0.45
CANADIAN FIXED INCOME														
Overnight Target Rate (%)	2.30	3.80	2.20	1.75	1.75	1.75	1.75	4.00	3.25	1.75	1.75	1.75	1.75	1.75
3-mth T-Bill Rate (%)	2.60	3.65	2.05	1.75	1.75	1.75	1.75	4.00	3.00	1.75	1.75	1.75	1.75	1.75
2-yr Govt. Bond Yield (%)	3.30	2.95	2.20	2.15	2.15	2.15	2.15	3.95	2.45	2.15	2.15	2.15	2.15	2.15
5-yr Govt. Bond Yield (%)	3.10	2.90	2.40	2.35	2.35	2.35	2.35	3.55	2.60	2.35	2.35	2.35	2.35	2.35
10-yr Govt. Bond Yield (%)	3.05	3.15	2.70	2.60	2.60	2.60	2.60	3.35	2.95	2.60	2.60	2.60	2.60	2.60
10-yr-2-yr Govt. Spread (%)	-0.25	0.20	0.50	0.45	0.45	0.45	0.45	-0.60	0.50	0.45	0.45	0.45	0.45	0.45

*Upper bound of target range. F: Forecast by TD Economics as at September 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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