

# Long-Term Economic Forecast

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## United States

- U.S. economic growth is expected to expand by 2.3% in 2023 – slightly stronger than last year’s 2.1% – before slowing to just 1.3% in 2024 and then gradually rising back to trend growth (~1.8%) in 2025.
- The unemployment rate is expected to rise by just 1.0 percentage point, reaching a peak of 4.5% in Q4-2024, before gradually moving back to its long-run average of 4% by early-2026.
- 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 for the next few quarters. 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 GDP growth is expected to stabilize around 1.7% annually. This will be driven by solid population and labour force growth, while productivity growth lags behind.
- Canadian consumer spending will undergo a period of below trend growth through 2026, reflective of a slow deleveraging cycle required to ease the imbalances caused by high household debt.
- Business investment is expected to grow above trend over the long-term 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.

| Long-Term U.S. Economic Outlook  |                |      |      |       |      |      |      |                                 |      |       |     |     |     |     |
|--|----------------|------|------|-------|------|------|------|---------------------------------|------|-------|-----|-----|-----|-----|
| Period-Over-Period Annualized Per Cent Change Unless Otherwise Indicated |                |      |      |       |      |      |      |                                 |      |       |     |     |     |     |
| Economic Indicator   | Annual Average |      |      |       |      |      |      | Fourth Quarter / Fourth Quarter |      |       |     |     |     |     |
|  | 23F            | 24F  | 25F  | 26F   | 27F  | 28F  | 29F  | 23F                             | 24F  | 25F   | 26F | 27F | 28F | 29F |
| Real GDP   | 2.3            | 1.3  | 1.7  | 1.9   | 1.8  | 1.7  | 1.7  | 2.2                             | 1.0  | 1.9   | 1.9 | 1.7 | 1.7 | 1.7 |
| Consumer Expenditure   | 2.5            | 1.3  | 1.6  | 1.9   | 1.9  | 2.0  | 2.0  | 2.7                             | 0.9  | 1.8   | 1.9 | 2.0 | 2.0 | 2.0 |
| Durable Goods  | 4.3            | 0.8  | 2.4  | 3.1   | 3.1  | 3.1  | 3.1  | 6.4                             | -0.3 | 3.1   | 3.1 | 3.1 | 3.1 | 3.1 |
| Business Investment  | 3.0            | 1.9  | 3.6  | 2.9   | 2.8  | 2.7  | 2.7  | 2.1                             | 2.8  | 3.2   | 2.8 | 2.8 | 2.7 | 2.7 |
| Non-Res. Structures  | 8.0            | 1.1  | 4.7  | 2.1   | 2.0  | 2.0  | 2.0  | 7.8                             | 2.3  | 3.0   | 2.0 | 2.0 | 2.0 | 2.0 |
| Equipment & IPP*   | 2.2            | 2.1  | 3.3  | 3.1   | 3.0  | 2.9  | 2.9  | 1.1                             | 2.9  | 3.2   | 3.0 | 3.0 | 2.9 | 2.9 |
| Residential Investment   | -11.6          | -0.7 | 7.4  | 6.4   | 2.3  | 1.6  | 1.6  | -2.0                            | 1.4  | 9.1   | 4.5 | 1.7 | 1.6 | 1.7 |
| Govt. Expenditure  | 3.3            | 1.4  | 0.6  | 0.4   | 0.2  | 0.1  | 0.1  | 2.9                             | 0.9  | 0.5   | 0.4 | 0.1 | 0.1 | 0.1 |
| Final Domestic Demand  | 2.1            | 1.3  | 1.9  | 1.9   | 1.8  | 1.7  | 1.7  | 2.5                             | 1.2  | 2.0   | 1.9 | 1.7 | 1.7 | 1.7 |
| Exports  | 2.5            | 0.4  | 2.5  | 3.0   | 3.0  | 3.0  | 2.9  | 1.0                             | 0.6  | 3.1   | 3.0 | 3.0 | 3.0 | 2.9 |
| Imports  | -1.9           | 1.8  | 3.6  | 2.8   | 2.6  | 2.7  | 2.7  | 0.8                             | 2.2  | 3.6   | 2.7 | 2.6 | 2.7 | 2.7 |
| Change in Private Inventories  | 14.5           | 41.6 | 49.8 | 48.7  | 48.2 | 47.9 | 47.8 | ---                             | ---  | ---   | --- | --- | --- | --- |
| Final Sales  | 2.7            | 1.1  | 1.7  | 1.9   | 1.8  | 1.7  | 1.7  | 2.6                             | 1.0  | 1.9   | 1.9 | 1.7 | 1.7 | 1.7 |
| International Current Account Balance (\$Bn)                             | -840           | -840 | -909 | -964  | -982 | -962 | -914 | ---                             | ---  | ---   | --- | --- | --- | --- |
| % of GDP   | -3.1           | -3.0 | -3.1 | -3.2  | -3.1 | -2.9 | -2.7 | ---                             | ---  | ---   | --- | --- | --- | --- |
| Pre-tax Corporate Profits Including IVA&CCA                              | -1.7           | -1.7 | 3.7  | 8.3   | 7.6  | 4.1  | 2.9  | 2.0                             | -5.0 | 6.6   | 8.9 | 6.2 | 3.2 | 3.2 |
| % of GDP   | 10.7           | 10.2 | 10.1 | 10.5  | 10.9 | 10.9 | 10.8 | ---                             | ---  | ---   | --- | --- | --- | --- |
| GDP Deflator (y/y)   | 3.7            | 2.6  | 2.2  | 2.2   | 2.3  | 2.3  | 2.3  | 2.9                             | 2.5  | 2.2   | 2.2 | 2.3 | 2.3 | 2.3 |
| Nominal GDP  | 6.0            | 3.8  | 4.0  | 4.2   | 4.1  | 4.1  | 4.1  | 5.0                             | 3.6  | 4.1   | 4.1 | 4.1 | 4.1 | 4.1 |
| Labor Force  | 1.8            | 1.0  | 0.4  | 0.3   | 0.3  | 0.4  | 0.4  | 2.2                             | 0.5  | 0.4   | 0.3 | 0.4 | 0.4 | 0.4 |
| Employment   | 2.3            | 0.4  | 0.3  | 0.6   | 0.3  | 0.4  | 0.3  | 1.6                             | -0.2 | 0.8   | 0.5 | 0.3 | 0.4 | 0.3 |
| Change in Empl. ('000s)  | 3,488          | 564  | 512  | 1,012 | 540  | 559  | 551  | 2,537                           | -379 | 1,227 | 750 | 541 | 558 | 521 |
| Unemployment Rate (%)  | 3.6            | 4.2  | 4.2  | 4.0   | 4.0  | 4.0  | 4.0  | ---                             | ---  | ---   | --- | --- | --- | --- |
| Personal Disp. Income  | 7.5            | 4.1  | 4.3  | 4.5   | 4.5  | 4.4  | 4.2  | 6.7                             | 3.9  | 4.5   | 4.4 | 4.5 | 4.3 | 4.1 |
| Pers. Savings Rate (%)   | 3.9            | 3.8  | 4.4  | 4.9   | 5.4  | 5.8  | 6.0  | ---                             | ---  | ---   | --- | --- | --- | --- |
| Cons. Price Index (y/y)  | 4.2            | 2.7  | 2.0  | 2.2   | 2.2  | 2.2  | 2.2  | 3.5                             | 2.2  | 2.0   | 2.3 | 2.2 | 2.2 | 2.2 |
| Core CPI (y/y)   | 4.8            | 3.1  | 2.4  | 2.2   | 2.2  | 2.2  | 2.3  | 4.0                             | 2.8  | 2.3   | 2.2 | 2.2 | 2.3 | 2.3 |
| Core PCE Price Index (y/y)   | 4.2            | 2.8  | 2.2  | 2.0   | 2.0  | 2.0  | 2.0  | 3.7                             | 2.5  | 2.0   | 2.0 | 2.0 | 2.0 | 2.0 |
| Housing Starts (mns)   | 1.42           | 1.33 | 1.39 | 1.49  | 1.50 | 1.50 | 1.50 | ---                             | ---  | ---   | --- | --- | --- | --- |
| Real Output per Hour** (y/y)   | 0.9            | 1.0  | 1.2  | 1.3   | 1.6  | 1.6  | 1.6  | 1.1                             | 1.2  | 0.9   | 1.5 | 1.6 | 1.6 | 1.6 |

F: Forecast by TD Economics, September 2023.

\* 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   |                |       |       |       |       |       |       |                           |      |     |     |     |     |     |
|---|----------------|-------|-------|-------|-------|-------|-------|---------------------------|------|-----|-----|-----|-----|-----|
| <i>Period-Over-Period Annualized Per Cent Change Unless Otherwise Indicated</i> |                |       |       |       |       |       |       |                           |      |     |     |     |     |     |
| Economic Indicator  | Annual Average |       |       |       |       |       |       | 4th Quarter / 4th Quarter |      |     |     |     |     |     |
|   | 23F            | 24F   | 25F   | 26F   | 27F   | 28F   | 29F   | 23F                       | 24F  | 25F | 26F | 27F | 28F | 29F |
| Real GDP  | 1.2            | 0.7   | 1.5   | 1.9   | 1.8   | 1.8   | 1.7   | 1.0                       | 0.9  | 1.7 | 1.9 | 1.8 | 1.8 | 1.7 |
| Consumer Expenditure  | 2.2            | 0.6   | 1.1   | 1.4   | 1.6   | 1.6   | 1.7   | 1.7                       | 0.5  | 1.3 | 1.5 | 1.6 | 1.6 | 1.7 |
| Durable Goods   | 3.1            | 0.0   | 0.8   | 1.3   | 1.5   | 1.6   | 1.6   | 1.9                       | 0.1  | 1.1 | 1.4 | 1.5 | 1.6 | 1.7 |
| Business Investment   | 3.1            | 0.4   | 1.9   | 2.7   | 2.3   | 2.0   | 1.9   | 3.7                       | 0.4  | 2.6 | 2.6 | 2.2 | 1.9 | 1.8 |
| Non-Res. Structures   | 7.9            | 0.1   | 2.1   | 2.8   | 2.3   | 2.0   | 1.9   | 4.8                       | 0.1  | 2.8 | 2.6 | 2.2 | 2.0 | 1.8 |
| Equipment & IPP*  | -2.0           | 0.7   | 1.8   | 2.6   | 2.3   | 2.0   | 1.9   | 2.6                       | 0.8  | 2.3 | 2.5 | 2.1 | 1.9 | 1.8 |
| Residential Investment  | -14.0          | -0.8  | 3.5   | 2.9   | 2.3   | 2.0   | 1.9   | -10.0                     | 2.7  | 3.5 | 2.7 | 2.2 | 2.0 | 1.8 |
| Govt. Expenditure   | 1.3            | 2.2   | 2.0   | 1.9   | 1.8   | 1.8   | 1.8   | 1.3                       | 2.1  | 1.9 | 1.9 | 1.8 | 1.8 | 1.8 |
| Final Domestic Demand   | 0.7            | 0.9   | 1.5   | 1.8   | 1.8   | 1.7   | 1.7   | 1.0                       | 1.0  | 1.7 | 1.8 | 1.8 | 1.7 | 1.7 |
| Exports   | 4.5            | 1.2   | 2.2   | 2.4   | 2.4   | 2.5   | 2.5   | 2.3                       | 1.9  | 2.3 | 2.4 | 2.4 | 2.5 | 2.5 |
| Imports   | -1.2           | 0.8   | 2.0   | 2.2   | 2.4   | 2.4   | 2.5   | -0.1                      | 1.6  | 2.1 | 2.3 | 2.4 | 2.4 | 2.5 |
| Change in Non-farm Inventories (2012 \$Bn)                                      | 13.8           | 6.2   | 3.1   | 4.6   | 6.1   | 6.6   | 7.0   | --                        | --   | --  | --  | --  | --  | --  |
| Final Sales   | 2.1            | 1.2   | 1.7   | 1.7   | 1.7   | 1.7   | 1.7   | 1.9                       | 1.3  | 1.8 | 1.7 | 1.7 | 1.7 | 1.7 |
| International Current Account Balance (\$Bn)                                    | -22.3          | -27.0 | -34.8 | -38.6 | -40.4 | -41.3 | -42.0 | --                        | --   | --  | --  | --  | --  | --  |
| % of GDP  | -0.8           | -0.9  | -1.1  | -1.2  | -1.2  | -1.2  | -1.2  | --                        | --   | --  | --  | --  | --  | --  |
| Pre-tax Corp. Profits   | -23.8          | -6.0  | 4.8   | 8.4   | 7.5   | 6.7   | 6.1   | -17.9                     | -1.3 | 7.7 | 8.2 | 7.2 | 6.4 | 5.9 |
| % of GDP  | 11.4           | 10.3  | 10.5  | 10.9  | 11.3  | 11.6  | 11.9  | --                        | --   | --  | --  | --  | --  | --  |
| GDP Deflator (y/y)  | 0.9            | 2.6   | 2.0   | 2.0   | 2.0   | 2.0   | 2.0   | 2.4                       | 2.3  | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 |
| Nominal GDP   | 2.1            | 3.3   | 3.5   | 3.9   | 3.9   | 3.8   | 3.8   | 3.4                       | 3.2  | 3.7 | 3.9 | 3.8 | 3.8 | 3.8 |
| Labour Force  | 2.4            | 1.3   | 1.0   | 0.9   | 0.9   | 0.8   | 0.8   | 2.6                       | 1.0  | 1.0 | 0.9 | 0.9 | 0.8 | 0.8 |
| Employment  | 2.3            | 0.1   | 0.9   | 1.3   | 1.2   | 0.8   | 0.8   | 1.8                       | 0.0  | 1.3 | 1.3 | 1.0 | 0.8 | 0.8 |
| Change in Empl. ('000s)   | 444            | 30    | 188   | 274   | 240   | 175   | 167   | 359                       | 7    | 271 | 271 | 207 | 171 | 164 |
| Unemployment Rate (%)   | 5.4            | 6.5   | 6.6   | 6.2   | 5.9   | 5.9   | 5.9   | --                        | --   | --  | --  | --  | --  | --  |
| Personal Disp. Income   | 4.9            | 2.4   | 2.5   | 3.3   | 3.4   | 3.4   | 3.7   | 4.5                       | 1.2  | 3.2 | 3.4 | 3.4 | 3.4 | 3.8 |
| Pers. Savings Rate (%)  | 5.1            | 4.1   | 3.3   | 3.1   | 2.9   | 2.6   | 2.6   | --                        | --   | --  | --  | --  | --  | --  |
| Cons. Price Index (y/y)   | 3.8            | 2.8   | 2.1   | 2.0   | 2.0   | 2.0   | 2.0   | 3.1                       | 2.4  | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 |
| CPIX (y/y) **   | 3.7            | 3.0   | 2.2   | 2.0   | 2.0   | 2.0   | 2.0   | 3.2                       | 2.6  | 2.1 | 2.0 | 2.0 | 2.0 | 2.0 |
| BoC Inflation (y/y) ***   | 3.9            | 3.0   | 2.1   | 2.0   | 2.0   | 2.0   | 2.0   | 3.5                       | 2.7  | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 |
| Housing Starts ('000s)  | 236            | 215   | 223   | 235   | 238   | 238   | 238   | --                        | --   | --  | --  | --  | --  | --  |
| Home Prices (y/y)   | -3.0           | 0.5   | 5.4   | 3.6   | 2.7   | 2.4   | 2.4   | 2.7                       | 4.5  | 4.6 | 3.1 | 2.5 | 2.4 | 2.4 |
| Real GDP / Worker (y/y)   | -1.0           | 0.5   | 0.5   | 0.5   | 0.7   | 0.9   | 0.9   | -0.8                      | 0.9  | 0.4 | 0.6 | 0.8 | 0.9 | 1.0 |

F: Forecast by TD Economics, September 2023.

\* 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 |       |      |      |      |      |      |
|   | 23F            | 24F   | 25F  | 26F  | 27F  | 28F  | 29F  | 23F           | 24F   | 25F  | 26F  | 27F  | 28F  | 29F  |
| <b>U.S. FIXED INCOME</b>  |                |       |      |      |      |      |      |               |       |      |      |      |      |      |
| Fed Funds Target Rate (%)*  | 5.30           | 4.95  | 3.15 | 2.75 | 2.75 | 2.75 | 2.75 | 5.50          | 4.25  | 2.75 | 2.75 | 2.75 | 2.75 | 2.75 |
| 3-mth T-Bill Rate (%)   | 5.15           | 4.65  | 2.90 | 2.65 | 2.65 | 2.65 | 2.65 | 5.40          | 3.90  | 2.65 | 2.65 | 2.65 | 2.65 | 2.65 |
| 2-yr Govt. Bond Yield (%)   | 4.65           | 3.95  | 2.90 | 2.75 | 2.75 | 2.75 | 2.75 | 4.70          | 3.50  | 2.75 | 2.75 | 2.75 | 2.75 | 2.75 |
| 5-yr Govt. Bond Yield (%)   | 4.05           | 3.45  | 3.00 | 2.95 | 2.95 | 2.95 | 2.95 | 4.15          | 3.15  | 2.95 | 2.95 | 2.95 | 2.95 | 2.95 |
| 10-yr Govt. Bond Yield (%)  | 3.95           | 3.60  | 3.25 | 3.20 | 3.20 | 3.20 | 3.20 | 4.10          | 3.35  | 3.20 | 3.20 | 3.20 | 3.20 | 3.20 |
| 10-yr-2-yr Govt. Spread (%)   | -0.70          | -0.35 | 0.35 | 0.45 | 0.45 | 0.45 | 0.45 | -0.60         | -0.15 | 0.45 | 0.45 | 0.45 | 0.45 | 0.45 |
| <b>CANADIAN FIXED INCOME</b>  |                |       |      |      |      |      |      |               |       |      |      |      |      |      |
| Overnight Target Rate (%)   | 4.80           | 4.25  | 2.50 | 2.25 | 2.25 | 2.25 | 2.25 | 5.00          | 3.50  | 2.25 | 2.25 | 2.25 | 2.25 | 2.25 |
| 3-mth T-Bill Rate (%)   | 4.80           | 4.00  | 2.40 | 2.25 | 2.25 | 2.25 | 2.25 | 5.00          | 3.25  | 2.25 | 2.25 | 2.25 | 2.25 | 2.25 |
| 2-yr Govt. Bond Yield (%)   | 4.40           | 3.55  | 2.50 | 2.35 | 2.35 | 2.35 | 2.35 | 4.40          | 3.10  | 2.35 | 2.35 | 2.35 | 2.35 | 2.35 |
| 5-yr Govt. Bond Yield (%)   | 3.65           | 3.25  | 2.65 | 2.60 | 2.60 | 2.60 | 2.60 | 3.75          | 2.95  | 2.60 | 2.60 | 2.60 | 2.60 | 2.60 |
| 10-yr Govt. Bond Yield (%)  | 3.40           | 3.30  | 2.85 | 2.85 | 2.85 | 2.85 | 2.85 | 3.60          | 3.05  | 2.85 | 2.85 | 2.85 | 2.85 | 2.85 |
| 10-yr-2-yr Govt. Spread (%)   | -1.00          | -0.25 | 0.35 | 0.50 | 0.50 | 0.50 | 0.50 | -0.80         | -0.05 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 |
| F: Forecast by TD Economics, September 2023.  |                |       |      |      |      |      |      |               |       |      |      |      |      |      |
| * 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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