

Long-Term Economic Forecast

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

Thomas Feltmate, Director | 416-944-5730

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United States

- The U.S. economy is forecast to remain above its long-run trend rate of growth in 2024, before normalizing closer to a trend pace in 2025. Even so, the unemployment rate is expected to edge a bit higher by year-end (reaching 4.3%), before gradually returning to its long-run average of 4% by the first half of 2026.
- Inflation has slowed from its multi-decade 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 late-2025.
- We project the fed funds rate to be lowered steadily back to a level more consistent with its neutral (3.0%) rate by 2025, and hold there as the economy finds its balance.

Canada

- Following an economic slowdown in 2023 and 2024, Canadian output is expected to rebound in 2025 and 2026. Thereafter, real GDP growth is expected to decelerate to its long-run average of around 1.8% annually. Population growth is expected to decelerate in the coming years after its recent boom, boosting labour productivity growth.
- 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 stabilize around the 2% target over the medium term.
- As a result, the Bank of Canada will be able to cut its policy rate back to the neutral rate of 2.25% by 2026. We expect the loonie to return to the 75 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						
	24F	25F	26F	27F	28F	29F	30F	24F	25F	26F	27F	28F	29F	30F
Real GDP	2.6	1.9	2.3	2.1	2.0	2.0	2.0	2.0	2.0	2.2	2.0	1.9	2.0	2.0
Consumer Expenditure	2.5	1.9	1.8	2.1	2.2	2.2	2.2	2.5	1.5	2.0	2.1	2.2	2.2	2.2
Durable Goods	2.4	2.4	2.7	3.0	3.0	3.0	3.0	2.9	1.3	3.0	3.0	3.0	3.0	3.0
Business Investment	3.9	3.4	4.1	3.4	3.4	3.4	3.4	3.8	3.8	3.8	3.4	3.4	3.4	3.4
Non-Res. Structures	5.2	3.1	3.0	3.0	3.0	3.0	3.0	1.9	3.2	3.0	3.0	3.0	3.0	3.0
Equipment & IPP*	3.6	3.5	4.4	3.5	3.5	3.5	3.5	4.4	3.9	4.1	3.5	3.5	3.5	3.5
Residential Investment	2.7	3.4	10.3	4.3	1.9	1.4	1.3	-0.7	10.3	7.9	3.0	1.5	1.3	1.3
Govt. Expenditure	3.1	1.1	0.3	0.0	-0.1	-0.1	-0.1	2.0	0.5	0.2	0.0	-0.1	-0.1	0.0
Final Domestic Demand	2.8	2.0	2.2	2.0	1.9	1.9	1.9	2.5	2.0	2.2	2.0	1.9	1.9	2.0
Exports	2.3	2.8	3.4	3.5	3.5	3.5	3.5	2.4	2.9	3.5	3.5	3.5	3.5	3.5
Imports	4.4	3.4	2.6	2.8	3.0	3.0	3.0	6.1	2.2	2.8	2.9	3.1	3.0	3.1
Change in Private Inventories	57.2	56.6	55.0	54.9	54.8	54.7	54.5	---	---	---	---	---	---	---
Final Sales	2.5	1.9	2.3	2.1	2.0	2.0	2.0	1.9	2.1	2.2	2.0	1.9	2.0	2.0
International Current Account Balance (\$Bn)	-1025.5	-1107.0	-1093.1	-1076.5	-1059.7	-1020.9	-955.8	---	---	---	---	---	---	---
% of GDP	-3.6	-3.7	-3.5	-3.3	-3.1	-2.9	-2.6	---	---	---	---	---	---	---
Pre-Tax Corporate Profits Including IVA&CCA	5.5	1.5	7.1	5.6	4.1	5.3	7.2	1.1	3.1	7.5	4.4	4.4	6.1	7.8
% of GDP	11.9	11.6	11.9	12.0	12.0	12.2	12.5	---	---	---	---	---	---	---
GDP Deflator (y/y)	2.5	2.3	2.3	2.2	2.2	2.2	2.3	2.6	2.3	2.3	2.2	2.2	2.2	2.3
Nominal GDP	5.2	4.2	4.6	4.3	4.2	4.2	4.3	4.6	4.3	4.5	4.2	4.2	4.2	4.3
Labor Force	0.6	0.8	0.7	0.6	0.5	0.5	0.5	0.6	0.8	0.7	0.6	0.5	0.5	0.5
Employment	1.6	0.9	0.8	0.7	0.7	0.7	0.7	1.3	0.9	0.7	0.7	0.7	0.7	0.7
Change in Empl. ('000s)	2,459	1,414	1,244	1,079	1,080	1,080	1,080	2,057	1,371	1,110	1,079	1,080	1,080	1,080
Unemployment Rate (%)	4.1	4.2	4.0	4.0	4.0	4.0	4.0	---	---	---	---	---	---	---
Personal Disp. Income	3.8	3.9	4.8	5.3	5.2	4.9	4.8	3.9	4.1	5.1	5.4	5.1	4.9	4.7
Pers. Savings Rate (%)	3.1	3.0	3.9	4.9	5.9	6.5	7.0	---	---	---	---	---	---	---
Cons. Price Index (y/y)	3.1	2.3	2.2	2.2	2.2	2.2	2.2	2.9	2.1	2.2	2.2	2.2	2.2	2.2
Core CPI (y/y)	3.4	2.3	2.2	2.2	2.2	2.2	2.2	3.0	2.3	2.2	2.2	2.2	2.2	2.2
Core PCE Price Index (y/y)	2.7	2.1	2.0	2.0	2.0	2.0	2.0	2.7	2.0	2.0	2.0	2.0	2.0	2.0
Housing Starts (mns)	1.3	1.4	1.5	1.6	1.6	1.6	1.6	---	---	---	---	---	---	---
Real Output per Hour** (y/y)	2.3	1.3	1.5	1.7	1.5	1.4	1.5	1.5	1.2	1.6	1.6	1.5	1.5	1.6

F: Forecast by TD Economics, September 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						
	24F	25F	26F	27F	28F	29F	30F	24F	25F	26F	27F	28F	29F	30F
Real GDP	1.1	1.7	2.0	2.1	1.9	1.8	1.8	1.7	1.8	2.2	2.0	1.9	1.8	1.7
Consumer Expenditure	1.9	1.3	1.7	2.0	1.9	1.8	1.7	1.7	1.4	1.9	2.0	1.8	1.8	1.7
Durable Goods	1.7	1.5	1.5	1.8	1.8	1.8	1.7	0.4	1.3	1.6	1.9	1.8	1.7	1.7
Business Investment	-1.6	2.2	3.1	2.5	2.1	1.9	1.8	1.7	3.4	2.8	2.3	2.0	1.9	1.8
Non-Res. Structures	-2.2	3.5	3.3	2.6	2.2	1.9	1.8	3.0	3.7	3.0	2.4	2.1	1.9	1.8
Equipment & IPP*	-1.0	0.9	2.9	2.4	2.1	1.9	1.8	0.5	3.1	2.7	2.2	2.0	1.8	1.8
Residential Investment	-0.4	3.5	3.5	2.6	2.2	2.0	1.8	-0.2	4.3	3.1	2.4	2.1	1.9	1.8
Govt. Expenditure	2.6	2.6	2.0	1.9	1.8	1.8	1.8	3.5	2.2	2.0	1.9	1.8	1.8	1.8
Final Domestic Demand	1.5	1.8	2.0	2.0	1.9	1.8	1.8	2.0	2.0	2.1	2.0	1.9	1.8	1.8
Exports	1.1	2.9	3.0	2.7	2.6	2.6	2.5	1.6	3.2	2.9	2.7	2.6	2.6	2.5
Imports	0.3	2.1	2.8	2.7	2.6	2.5	2.5	0.0	3.0	2.7	2.6	2.6	2.5	2.5
Change in Non-Farm Inventories (2012 \$Bn)	22.5	14.9	14.6	16.4	16.9	17.3	17.7	--	--	--	--	--	--	--
Final Sales	2.3	2.1	2.1	2.0	1.9	1.8	1.8	2.9	2.2	2.0	2.0	1.9	1.8	1.7
International Current Account Balance (\$Bn)	-17.2	-7.5	2.8	6.8	8.8	10.8	12.7	--	--	--	--	--	--	--
% of GDP	-0.6	-0.2	0.1	0.2	0.2	0.3	0.3	--	--	--	--	--	--	--
Pre-Tax Corp. Profits	-3.5	5.3	5.7	5.5	5.0	4.7	4.5	-5.2	5.3	5.8	5.3	4.9	4.6	4.4
% of GDP	11.9	12.1	12.2	12.4	12.5	12.6	12.7	--	--	--	--	--	--	--
GDP Deflator (y/y)	3.1	2.1	2.3	2.2	2.1	2.0	2.0	2.0	1.9	2.3	2.1	2.0	2.0	2.0
Nominal GDP	4.3	3.9	4.4	4.3	4.0	3.9	3.8	3.8	3.8	4.6	4.1	3.9	3.8	3.8
Labour Force	2.7	1.3	0.3	0.4	0.8	0.8	0.8	2.5	0.5	0.3	0.6	0.8	0.8	0.7
Employment	1.6	1.0	0.8	0.8	0.8	0.8	0.8	1.4	0.9	0.7	0.8	0.8	0.8	0.7
Change in Empl. ('000s)	327	200	161	169	169	170	162	276	180	156	171	173	167	160
Unemployment Rate (%)	6.4	6.7	6.3	5.9	5.9	5.9	5.9	--	--	--	--	--	--	--
Personal Disp. Income	6.2	2.9	2.5	3.3	3.5	3.5	3.5	5.1	2.1	2.8	3.5	3.5	3.5	3.5
Pers. Savings Rate (%)	7.1	6.8	5.6	4.9	4.5	4.2	3.9	--	--	--	--	--	--	--
Cons. Price Index (y/y)	2.5	2.1	2.1	2.0	2.0	2.0	2.0	2.1	2.0	2.1	2.0	2.0	2.0	2.0
CPIX (y/y) **	1.8	2.0	2.0	2.0	2.0	2.0	2.0	1.5	2.0	2.0	2.0	2.0	2.0	2.0
BoC Inflation (y/y) ***	2.6	2.1	2.0	2.0	2.0	2.0	2.0	2.2	2.0	2.0	2.0	2.0	2.0	2.0
Housing Starts ('000s)	245.9	238.1	253.4	258.0	256.5	253.6	252.6	--	--	--	--	--	--	--
Home Prices (y/y)	1.3	6.9	3.6	2.5	2.4	2.4	2.4	3.7	7.2	2.8	2.4	2.4	2.4	2.4
Real GDP / Worker (y/y)	-0.5	0.7	1.3	1.3	1.1	1.0	1.0	0.4	0.9	1.4	1.2	1.0	1.0	1.0

F: Forecast by TD Economics, September 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						
	24F	25F	26F	27F	28F	29F	30F	24F	25F	26F	27F	28F	29F	30F
U.S. FIXED INCOME														
Fed Funds Target Rate (%)*	5.05	3.40	3.00	3.00	3.00	3.00	3.00	4.25	3.00	3.00	3.00	3.00	3.00	3.00
3-mth T-Bill Rate (%)	4.80	3.20	2.90	2.90	2.90	2.90	2.90	3.90	2.90	2.90	2.90	2.90	2.90	2.90
2-yr Govt. Bond Yield (%)	4.05	3.05	3.00	3.00	3.00	3.00	3.00	3.25	3.00	3.00	3.00	3.00	3.00	3.00
5-yr Govt. Bond Yield (%)	3.80	3.20	3.20	3.20	3.20	3.20	3.20	3.35	3.20	3.20	3.20	3.20	3.20	3.20
10-yr Govt. Bond Yield (%)	3.95	3.45	3.45	3.45	3.45	3.45	3.45	3.55	3.45	3.45	3.45	3.45	3.45	3.45
10-yr-2-yr Govt. Spread (%)	-0.10	0.40	0.45	0.45	0.45	0.45	0.45	0.30	0.45	0.45	0.45	0.45	0.45	0.45
CANADIAN FIXED INCOME														
Overnight Target Rate (%)	4.45	2.90	2.25	2.25	2.25	2.25	2.25	3.75	2.50	2.25	2.25	2.25	2.25	2.25
3-mth T-Bill Rate (%)	4.30	2.75	2.25	2.25	2.25	2.25	2.25	3.50	2.38	2.25	2.25	2.25	2.25	2.25
2-yr Govt. Bond Yield (%)	3.45	2.45	2.35	2.35	2.35	2.35	2.35	2.75	2.35	2.35	2.35	2.35	2.35	2.35
5-yr Govt. Bond Yield (%)	3.10	2.65	2.60	2.60	2.60	2.60	2.60	2.70	2.60	2.60	2.60	2.60	2.60	2.60
10-yr Govt. Bond Yield (%)	3.20	2.90	2.85	2.85	2.85	2.85	2.85	2.90	2.85	2.85	2.85	2.85	2.85	2.85
10-yr-2-yr Govt. Spread (%)	-0.25	0.45	0.50	0.50	0.50	0.50	0.50	0.15	0.50	0.50	0.50	0.50	0.50	0.50

F: Forecast by TD Economics, September 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.

For any media enquiries please contact Debra Moris at 416-982-8141

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