

Long-Term Economic Forecast

Leslie Preston, Senior Economist | 416-983-7053

Sri Thanabalasingam, Senior Economist | 416-413-3117

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United States

- The COVID-19 pandemic is expected to drive a 3.5% contraction in economic growth this year. Helped by significant monetary and fiscal stimulus, real GDP growth has started to rebound in the second half of 2020 and will see a 4.1% gain in 2021.
- The pandemic lifted the unemployment rate to an historic level, but it has started to improve. However, as many sectors of the economy will struggle to return to pre-crisis levels, the unemployment rate is projected to be higher than the counterfactual pre-pandemic outcome over the medium-term.
- The impact of population aging will intensify over the next five years. The adult population that is below the age of 65 is projected to grow by just 0.2% annually. Even as the labor force makes gains among younger adults, lopsided aging demographics will weigh on employment growth, which is anticipated to be just 0.5% over the longer-term – roughly half the pace observed historically.
- In the face of the crisis, the FOMC took its policy rate to the zero-lower bound, and enacted substantial monetary stimulus. We don't expect the FOMC to raise the policy rate until early 2024, and reach 2.0% in early 2027, where it is expected to remain over the forecast horizon.

Canada

- Economic activity came rushing back as provinces ended lockdowns and eased social distancing measures in the third quarter. Still, the level of GDP remains below its pre-pandemic peak, and the pace of the recovery is slowing.
- Despite a solid handoff, the near-term outlook is challenged by rising COVID-19 cases and renewed restrictions. Some business in hardest hit sectors such as food and accommodation services and travel and tourism, will likely fail, leaving long-lasting scars on the Canadian economy.
- Given positive vaccine developments, we have pulled forward our vaccine availability assumption from the third to the second quarter of 2021. This will boost growth through most of the year, leading to a 4.9% print for the year.
- We expect strong economic momentum to flow through to 2022 as well. GDP growth is anticipated to reach 3.8% as the economy continues to rebuild, particularly in services-oriented sectors. This will contribute to a gradual improvement in the unemployment rate through the projection horizon.
- The Bank of Canada has committed to providing extraordinary monetary stimulus until the economic recovery is well underway. The quantitative easing program will continue for some time at the current pace and we expect the overnight rate will only rise in early-2024.

U.S. Economic Outlook														
Period-Over-Period Annualized Per Cent Change Unless Otherwise Indicated														
	Annual Average							Fourth Quarter / Fourth Quarter						
	20F	21F	22F	23F	24F	25F	26F	20F	21F	22F	23F	24F	25F	26F
Real GDP	-3.5	4.1	3.3	2.1	1.9	1.8	1.8	-2.3	3.4	2.8	2.0	1.9	1.8	1.8
Consumer Expenditure	-3.7	5.1	3.6	2.2	2.0	2.0	2.0	-2.0	4.0	2.8	2.0	2.0	2.0	2.0
Durable Goods	6.8	8.3	2.2	1.9	2.4	2.6	2.7	13.3	0.9	1.8	2.1	2.5	2.6	2.7
Business Investment	-4.6	3.7	4.6	4.2	3.2	3.0	3.1	-3.7	4.2	4.6	3.9	3.0	3.0	3.1
Non-Res. Structures	-11.1	-5.8	3.4	4.4	3.7	2.4	2.5	-17.0	2.1	4.2	4.4	3.1	2.3	2.5
Equipment & IPP*	-3.0	6.0	4.8	4.1	3.1	3.1	3.3	-0.3	4.6	4.7	3.8	2.9	3.2	3.2
Residential Investment	5.7	7.2	-0.4	0.4	0.6	0.9	0.9	12.9	-2.0	0.6	0.3	0.8	0.9	0.7
Govt. Expenditure	0.9	-0.6	0.6	0.2	0.7	0.9	0.6	-1.3	0.9	0.4	0.2	0.9	0.8	0.5
Final Domestic Demand	-2.7	4.0	3.0	2.0	1.9	1.9	1.9	-1.5	3.2	2.5	1.9	1.9	1.9	1.9
Exports	-13.1	7.7	7.8	4.9	4.3	4.0	3.8	-11.6	9.2	6.1	4.6	4.2	3.9	3.8
Imports	-9.9	12.0	5.5	2.9	3.1	3.6	3.8	-3.1	8.7	3.5	2.8	3.4	3.7	3.8
Change in Private Inventories	-85.1	59.6	94.5	77.7	67.8	60.6	58.5	---	---	---	---	---	---	---
Final Sales	-2.9	3.3	3.2	2.2	2.0	1.9	1.8	-2.4	3.1	2.8	2.1	1.9	1.8	1.8
International Current Account Balance (\$Bn)	-695	-858	-861	-825	-789	-755	-727	---	---	---	---	---	---	---
% of GDP	-3.3	-3.9	-3.7	-3.4	-3.1	-2.8	-2.6	---	---	---	---	---	---	---
Pre-tax Corporate Profits including IVA&CCA	-7.7	1.5	1.2	2.2	2.5	3.0	3.1	-7.9	-3.8	5.7	1.4	3.1	3.0	3.1
% of GDP	9.9	9.5	9.1	8.9	8.8	8.7	8.6	---	---	---	---	---	---	---
GDP Deflator (y/y)	1.2	1.9	2.1	2.4	2.3	2.3	2.2	1.4	1.8	2.2	2.4	2.3	2.2	2.2
Nominal GDP	-2.3	6.0	5.5	4.5	4.3	4.1	4.0	-0.9	5.3	5.0	4.4	4.2	4.1	4.0
Labor Force	-1.7	1.4	1.5	0.8	0.6	0.6	0.5	-2.3	2.4	0.9	0.8	0.6	0.6	0.5
Employment	-5.8	2.7	3.0	1.4	0.8	0.5	0.6	-6.2	4.4	1.8	1.2	0.6	0.5	0.6
Change in Empl. ('000s)	-8,726	3,872	4,423	2,042	1,262	787	877	-9,388	6,253	2,660	1,879	919	790	909
Unemployment Rate (%)	8.1	5.9	4.8	4.4	4.2	4.2	4.2	---	---	---	---	---	---	---
Personal Disp. Income	7.2	0.7	2.3	4.2	4.3	4.3	4.3	4.5	2.0	3.8	4.4	4.3	4.3	4.2
Pers. Savings Rate (%)	16.0	10.9	7.9	7.7	7.8	7.9	8.1	---	---	---	---	---	---	---
Cons. Price Index (y/y)	1.3	2.3	2.5	2.5	2.3	2.3	2.2	1.3	2.3	2.5	2.4	2.4	2.2	2.1
Core CPI (y/y)	1.7	2.1	2.4	2.5	2.5	2.4	2.3	1.7	2.1	2.5	2.5	2.5	2.4	2.3
Core PCE Price Index (y/y)	1.4	1.8	2.1	2.3	2.2	2.2	2.1	1.5	1.9	2.2	2.3	2.2	2.1	2.0
Housing Starts (mns)	1.38	1.36	1.38	1.40	1.41	1.43	1.45	---	---	---	---	---	---	---
Real Output per hour** (y/y)	2.9	0.2	0.6	1.2	1.7	1.8	1.6	3.6	-1.2	1.4	1.2	1.9	1.7	1.6

*Intellectual property products. F: Forecast by TD Economics, December 2020.

**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>														
	Annual Average							4th Quarter / 4th Quarter						
	20F	21F	22F	23F	24F	25F	26F	20F	21F	22F	23F	24F	25F	26F
Real GDP	-5.7	4.9	3.8	1.8	1.7	1.6	1.6	-4.6	5.4	2.4	1.6	1.7	1.6	1.6
Consumer Expenditure	-6.4	5.4	3.8	1.7	1.5	1.5	1.5	-4.8	5.1	2.4	1.5	1.5	1.5	1.5
Durable Goods	-5.1	7.1	0.7	1.5	1.5	1.5	1.5	5.1	-2.7	1.2	1.5	1.5	1.5	1.5
Business Investment	-11.2	2.5	5.1	3.0	2.5	2.4	2.5	-11.1	6.1	3.9	2.8	2.4	2.4	2.5
Non-Res. Structures	-9.3	-1.2	5.0	3.1	2.5	2.4	2.5	-14.0	5.3	4.0	2.8	2.4	2.4	2.5
Equipment & IPP*	-13.2	6.5	5.2	3.0	2.6	2.4	2.5	-8.0	6.9	3.9	2.8	2.5	2.4	2.5
Residential Investment	3.4	5.9	0.7	1.3	1.8	1.8	1.8	10.7	-3.3	1.5	1.5	1.8	1.8	1.8
Govt. Expenditure	-0.1	2.7	1.8	1.7	1.8	1.8	1.8	0.5	2.2	1.6	1.8	1.8	1.8	1.8
Final Domestic Demand	-4.6	4.5	3.2	1.8	1.7	1.7	1.7	-3.0	3.8	2.3	1.7	1.7	1.7	1.7
Exports	-10.1	6.5	5.3	2.8	2.7	2.6	2.5	-8.3	8.3	3.0	2.7	2.7	2.5	2.5
Imports	-12.3	7.7	5.2	3.0	2.8	2.7	2.7	-8.8	8.0	3.2	2.9	2.7	2.7	2.7
Change in Non-farm Inventories (2012 \$Bn)	-23.8	-8.9	3.6	4.2	3.9	3.7	3.7	--	--	--	--	--	--	--
Final Sales	-2.6	3.8	2.6	1.8	1.7	1.7	1.7	-0.9	2.3	2.2	1.7	1.7	1.7	1.7
International Current Account Balance (\$Bn)	-35.0	-28.9	-31.6	-34.1	-34.7	-34.5	-34.9	--	--	--	--	--	--	--
% of GDP	-1.6	-1.2	-1.3	-1.3	-1.3	-1.2	-1.2	--	--	--	--	--	--	--
Pre-tax Corp. Profits	-10.5	14.3	8.2	3.4	3.2	3.2	3.2	-7.9	17.1	4.0	3.2	3.2	3.2	3.2
% of GDP	11.9	12.7	12.9	12.9	12.9	12.8	12.8	--	--	--	--	--	--	--
GDP Deflator (y/y)	0.6	2.2	2.0	1.9	1.9	1.9	1.9	1.0	1.6	1.9	1.9	1.9	1.9	1.9
Nominal GDP	-5.1	7.1	5.9	3.7	3.6	3.6	3.6	-3.7	7.2	4.4	3.5	3.6	3.6	3.6
Labour Force	-1.2	2.9	1.2	0.8	0.6	0.6	0.6	0.4	1.5	0.9	0.7	0.6	0.6	0.6
Employment	-5.2	5.4	2.4	1.2	0.7	0.7	0.6	-2.9	4.0	1.5	0.9	0.7	0.7	0.6
Change in Empl. ('000s)	-988	971	454	226	142	131	127	-550	734	280	185	129	130	126
Unemployment Rate (%)	9.5	7.3	6.2	5.9	5.8	5.7	5.7	--	--	--	--	--	--	--
Personal Disp. Income	10.2	0.8	2.8	3.1	3.3	3.3	3.4	9.3	0.7	3.0	3.2	3.3	3.3	3.4
Pers. Savings Rate (%)	15.6	10.5	7.3	6.7	6.6	6.5	6.4	--	--	--	--	--	--	--
Cons. Price Index (y/y)	0.7	1.8	2.1	2.1	2.0	2.0	2.0	0.5	2.0	2.1	2.0	2.0	2.0	2.0
CPIX (y/y) **	1.2	1.7	2.0	2.0	2.0	2.0	2.0	1.0	2.0	2.0	2.0	2.0	2.0	2.0
BoC Inflation (y/y) **	1.7	1.9	2.1	2.0	2.0	2.0	2.0	1.5	2.0	2.1	2.0	2.0	2.0	2.0
Housing Starts ('000s)	213	213	208	203	201	200	200	--	--	--	--	--	--	--
Home Prices (y/y)	11.7	0.9	0.9	1.8	2.1	2.2	2.6	14.2	-6.0	1.8	1.8	2.2	2.3	2.8
Real GDP / worker (y/y)	-0.5	-0.5	1.4	0.6	0.9	1.0	1.0	-1.8	1.4	0.9	0.7	1.0	1.0	1.0

F: Forecast by TD Economics, December 2020.
 * 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														
	Annual Average							End of Period						
	20F	21F	22F	23F	24F	25F	26F	20F	21F	22F	23F	24F	25F	26F
U.S. FIXED INCOME														
Fed Funds Target Rate (%)*	0.25	0.25	0.25	0.25	0.65	1.15	1.65	0.25	0.25	0.25	0.25	0.75	1.25	1.75
3-mth T-Bill Rate (%)	0.10	0.10	0.10	0.15	0.55	1.05	1.55	0.10	0.10	0.10	0.25	0.75	1.25	1.75
2-yr Govt. Bond Yield (%)	0.20	0.20	0.30	0.60	1.10	1.60	1.90	0.20	0.20	0.35	0.80	1.30	1.70	1.95
5-yr Govt. Bond Yield (%)	0.30	0.60	1.00	1.35	1.70	1.90	2.05	0.35	0.80	1.15	1.50	1.80	1.95	2.05
10-yr Govt. Bond Yield (%)	0.75	1.30	1.65	1.85	2.00	2.15	2.20	0.90	1.50	1.70	1.90	2.05	2.15	2.20
10-yr-2-yr Govt. Spread (%)	0.55	1.10	1.35	1.25	0.90	0.55	0.30	0.70	1.30	1.35	1.10	0.75	0.45	0.25
CANADIAN FIXED INCOME														
Overnight Target Rate (%)	0.25	0.25	0.25	0.25	0.65	1.15	1.65	0.25	0.25	0.25	0.25	0.75	1.25	1.75
3-mth T-Bill Rate (%)	0.15	0.15	0.20	0.25	0.70	1.20	1.65	0.10	0.20	0.20	0.33	0.88	1.38	1.75
2-yr Govt. Bond Yield (%)	0.30	0.30	0.40	0.75	1.25	1.65	1.85	0.25	0.30	0.50	0.90	1.40	1.75	1.85
5-yr Govt. Bond Yield (%)	0.45	0.75	1.10	1.45	1.70	1.85	1.95	0.45	0.90	1.25	1.55	1.75	1.90	1.95
10-yr Govt. Bond Yield (%)	0.65	1.10	1.60	1.80	1.95	2.05	2.10	0.70	1.30	1.70	1.85	2.00	2.10	2.10
10-yr-2-yr Govt. Spread (%)	0.35	0.80	1.20	1.05	0.70	0.40	0.25	0.45	1.00	1.20	0.95	0.60	0.35	0.25

*Upper bound of target range. F: Forecast by TD Economics as at December 2020.
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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