

Long-Term Economic Forecast

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United States

- A pandemic-induced 3.5% contraction in economic growth in 2020 will be more than offset by an impressive 6.9% rebound this year. And, the boost from fiscal policy may not yet be done. It is likely that the Biden administration will enact more spending on infrastructure and other measures, keeping U.S. growth above trend through 2023.
- The pandemic lifted the unemployment rate to an historic level, but it has since made notable progress. Unfortunately, this masks underlying concerns, as a large number of people have dropped out of the labor force. Vaccinations are enabling the reopening of many hard-hit sectors, which should encourage many Americans to rejoin the labor force. Still we expect that above-trend growth will push the unemployment rate below its pre-pandemic low in 2023.
- Labor force growth has also taken a hit from reduced immigration during the pandemic and the implementation of policies under the previous administration. A return of immigration levels to more historical levels is anticipated over the next few years, helping to boost labor force growth over the forecast horizon.
- In the face of the crisis, the FOMC took its policy rate to the zero-lower bound, and enacted substantial monetary stimulus. We expect the FOMC to raise the policy rate in late-2022, and reach 2.0% in mid-2024, where it is expected to remain over the forecast horizon.

Canada

- After overcoming the second wave in resilient fashion, the third wave has proven to be more challenging for the Canadian economy in the second quarter.
- However, as we look to the remainder of the year, impressive vaccination rates across the country, receding COVID-19 cases and hospitalizations, and broad reopening of provincial economies should accelerate the recovery. This will help the economy return to pre-pandemic levels of output in the third quarter and generate 6.1% growth in 2021.
- Strong economic momentum will likely flow through to 2022. GDP growth is anticipated to reach 4.4% as the economy continues to rebuild and is aided by fiscal stimulus from both federal and provincial governments. This will contribute to a continual improvement of the unemployment rate through the year.
- The Bank of Canada has recognized the stronger-than-expected performance of the Canadian economy by recalibrating the quantitative easing program. A successful reopening of the economy along with rising inflation should prompt a further reduction in asset purchases through the year. As for the overnight rate, we expect the Bank will raise rates in the second half of 2022, with a risk of an earlier lift off should inflation and risk-assets remain elevated.

U.S. Economic Outlook														
Period-Over-Period Annualized Per Cent Change Unless Otherwise Indicated														
Economic Indicator	Annual Average							Fourth Quarter / Fourth Quarter						
	20	21F	22F	23F	24F	25F	26F	20	21F	22F	23F	24F	25F	26F
Real GDP	-3.5	6.9	4.3	2.4	1.8	1.7	1.8	-2.4	7.5	2.7	2.1	1.7	1.7	1.8
Consumer Expenditure	-3.9	8.0	4.1	2.6	2.0	2.0	2.1	-2.7	7.7	3.5	2.3	1.9	2.0	2.1
Durable Goods	6.3	19.9	-0.6	0.7	1.9	2.5	2.8	11.6	10.7	0.6	1.0	2.3	2.7	2.8
Business Investment	-4.0	8.0	5.1	4.5	3.7	3.1	2.6	-1.4	7.2	4.7	4.1	3.6	2.8	2.6
Non-Res. Structures	-11.0	-6.8	1.4	3.7	3.9	3.1	2.2	-16.1	0.0	1.9	4.1	3.7	2.7	2.1
Equipment & IPP*	-2.0	11.9	6.0	4.6	3.7	3.1	2.7	2.8	8.9	5.3	4.1	3.5	2.8	2.7
Residential Investment	6.1	12.6	-2.5	-2.5	0.0	0.7	0.8	14.3	3.1	-4.2	-1.2	0.6	0.6	0.8
Govt. Expenditure	1.1	2.6	1.2	1.0	0.8	0.7	0.8	-0.5	3.9	0.9	0.7	0.9	0.7	0.8
Final Domestic Demand	-2.7	7.2	3.5	2.4	1.9	1.9	1.9	-1.5	6.8	2.9	2.1	1.9	1.9	1.9
Exports	-12.9	6.2	8.0	6.0	4.9	4.1	3.7	-10.9	6.7	7.0	5.5	4.6	3.9	3.7
Imports	-9.3	13.4	5.5	3.7	4.2	4.3	3.9	-0.5	7.8	3.9	3.8	4.4	4.2	3.8
Change in Private Inventories	-77.4	19.1	143.9	105.8	74.3	52.5	50.0	---	---	---	---	---	---	---
Final Sales	-2.9	6.3	3.7	2.6	2.0	1.8	1.8	-2.7	6.6	3.2	2.2	1.8	1.8	1.8
International Current Account Balance (\$Bn)	-647	-829	-779	-685	-605	-563	-526	---	---	---	---	---	---	---
% of GDP	-3.1	-3.6	-3.1	-2.6	-2.2	-2.0	-1.8	---	---	---	---	---	---	---
Pre-tax Corporate Profits including IVA&CCA	-5.8	18.6	8.2	2.7	1.6	0.9	2.5	-0.7	16.7	2.6	2.2	1.3	1.4	3.1
% of GDP	10.1	10.8	10.9	10.7	10.5	10.2	10.0	---	---	---	---	---	---	---
GDP Deflator (y/y)	1.2	3.5	2.8	2.2	2.2	2.2	2.2	1.3	4.1	2.4	2.1	2.2	2.2	2.2
Nominal GDP	-2.3	10.7	7.2	4.6	4.0	3.9	4.0	-1.2	11.9	5.2	4.3	4.0	3.9	4.1
Labor Force	-1.7	0.8	1.9	1.1	0.8	0.7	0.7	-2.3	1.9	1.3	1.0	0.7	0.7	0.7
Employment	-5.7	2.7	3.8	1.6	0.7	0.6	0.5	-6.0	4.4	2.7	1.1	0.6	0.6	0.5
Change in Empl. ('000s)	-8,648	3,832	5,611	2,465	1,124	857	850	-9,115	6,325	4,030	1,727	895	881	818
Unemployment Rate (%)	8.1	5.6	3.9	3.5	3.6	3.7	3.8	---	---	---	---	---	---	---
Personal Disp. Income	7.2	6.5	0.3	4.3	4.3	4.4	4.4	5.1	4.3	4.8	4.3	4.4	4.4	4.4
Pers. Savings Rate (%)	16.2	12.7	7.2	6.9	7.2	7.6	7.9	---	---	---	---	---	---	---
Cons. Price Index (y/y)	1.2	3.7	2.6	2.0	1.9	2.0	2.0	1.2	4.0	2.2	1.9	2.0	1.9	2.0
Core CPI (y/y)	1.7	3.1	3.1	2.3	2.2	2.3	2.2	1.6	3.8	2.6	2.2	2.3	2.2	2.2
Core PCE Price Index (y/y)	1.4	3.0	2.8	2.1	2.0	2.0	2.0	1.4	3.7	2.3	2.0	2.0	2.0	2.0
Housing Starts (mns)	1.40	1.59	1.53	1.49	1.47	1.47	1.47	---	---	---	---	---	---	---
Real Output per hour** (y/y)	2.6	3.4	1.0	1.1	1.6	1.5	1.5	2.6	4.0	0.3	1.5	1.6	1.4	1.6
*Intellectual property products. F: Forecast by TD Economics as at June 2021.														
**Non-farm business sector.														
Source: Bureau of Labor Statistics, Bureau of Economic Analysis, Census Bureau, TD Economics.														

Canadian Economic Outlook														
Period-Over-Period Annualized Per Cent Change Unless Otherwise Indicated														
Economic Indicator	Annual Average							4th Quarter / 4th Quarter						
	20	21F	22F	23F	24F	25F	26F	20	21F	22F	23F	24F	25F	26F
Real GDP	-5.3	6.1	4.4	1.7	1.5	1.7	1.7	-3.1	5.3	3.2	1.2	1.7	1.7	1.7
Consumer Expenditure	-6.0	4.9	5.7	2.3	1.6	1.6	1.6	-4.4	5.4	3.9	1.7	1.7	1.6	1.6
Durable Goods	-3.3	13.1	0.0	0.9	1.3	1.5	1.5	9.5	0.2	0.8	0.8	1.5	1.5	1.5
Business Investment	-11.9	1.0	8.3	4.7	2.5	2.4	2.5	-11.9	5.6	7.3	3.2	2.4	2.4	2.5
Non-Res. Structures	-11.3	-4.1	9.0	5.5	2.6	2.4	2.5	-18.1	6.1	8.5	3.7	2.4	2.4	2.5
Equipment & IPP*	-12.6	6.3	7.5	3.8	2.5	2.4	2.5	-5.1	5.1	6.1	2.7	2.4	2.4	2.5
Residential Investment	4.1	19.4	-1.0	1.2	1.7	1.8	1.8	14.5	4.4	1.5	1.3	1.8	1.8	1.8
Govt. Expenditure	0.4	6.2	2.8	1.8	1.8	1.8	1.8	2.4	5.0	2.0	1.8	1.8	1.8	1.8
Final Domestic Demand	-4.3	6.1	4.6	2.3	1.8	1.7	1.7	-2.0	5.3	3.5	1.8	1.8	1.7	1.7
Exports	-10.0	6.7	7.4	3.4	2.6	2.6	2.5	-7.4	7.6	5.6	2.6	2.6	2.6	2.5
Imports	-11.2	8.6	9.0	5.4	3.2	2.7	2.7	-5.9	7.5	7.4	4.5	2.7	2.7	2.7
Change in Non-farm Inventories (2012 \$Bn)	-17.7	-3.5	2.1	3.2	2.8	2.7	2.7	--	--	--	--	--	--	--
Final Sales	-2.6	5.5	4.3	2.3	1.8	1.8	1.7	-1.4	5.3	3.3	1.9	1.8	1.7	1.7
International Current Account Balance (\$Bn)	-40.1	16.5	8.6	-7.7	-11.5	-10.0	-8.7	--	--	--	--	--	--	--
% of GDP	-1.8	0.7	0.3	-0.3	-0.4	-0.3	-0.3	--	--	--	--	--	--	--
Pre-tax Corp. Profits	-4.0	38.4	2.9	1.3	1.5	3.1	3.2	9.4	23.0	2.4	0.9	2.1	3.2	3.2
% of GDP	12.7	15.6	15.0	14.7	14.4	14.3	14.2	--	--	--	--	--	--	--
GDP Deflator (y/y)	0.7	6.2	2.2	1.9	1.9	1.9	2.0	1.8	5.2	1.9	1.9	1.9	2.0	2.0
Nominal GDP	-4.6	12.7	6.7	3.7	3.5	3.7	3.7	-1.2	10.7	5.2	3.1	3.7	3.7	3.7
Labour Force	-1.1	2.2	1.7	0.7	0.6	0.6	0.6	0.3	1.2	1.1	0.5	0.6	0.6	0.6
Employment	-5.1	4.8	3.2	1.0	0.5	0.6	0.6	-2.9	4.0	1.8	0.5	0.6	0.6	0.6
Change in Empl. ('000s)	-975	859	598	188	108	123	125	-556	741	339	106	116	124	126
Unemployment Rate (%)	9.6	7.3	5.9	5.7	5.7	5.7	5.7	--	--	--	--	--	--	--
Personal Disp. Income	10.4	1.4	1.8	3.6	3.5	3.6	3.6	8.1	-0.3	5.4	3.2	3.6	3.6	3.6
Pers. Savings Rate (%)	14.5	10.0	4.2	3.4	3.3	3.3	3.4	--	--	--	--	--	--	--
Cons. Price Index (y/y)	0.7	2.9	2.5	2.2	2.0	2.0	2.0	0.8	3.3	2.3	2.1	2.0	2.0	2.0
CPIX (y/y) **	1.2	2.3	2.7	2.3	2.0	2.0	2.0	1.3	2.7	2.7	2.0	2.0	2.0	2.0
BoC Inflation (y/y) **	1.7	2.2	2.4	2.1	2.0	2.0	2.0	1.7	2.5	2.4	2.0	2.0	2.0	2.0
Housing Starts ('000s)	219	262	214	208	210	212	214	--	--	--	--	--	--	--
Home Prices (y/y)	12.3	19.7	-0.2	0.9	1.2	1.6	1.7	15.6	9.5	0.8	1.0	1.4	1.8	1.7
Real GDP / worker (y/y)	-0.2	1.3	1.2	0.7	1.0	1.0	1.0	-0.1	1.3	1.4	0.6	1.1	1.0	1.0
F: Forecast by TD Economics as at June 2021.														
* 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						
	20	21F	22F	23F	24F	25F	26F	20	21F	22F	23F	24F	25F	26F
U.S. FIXED INCOME														
Fed Funds Target Rate (%)*	0.25	0.25	0.30	1.15	1.95	2.00	2.00	0.25	0.25	0.50	1.50	2.00	2.00	2.00
3-mth T-Bill Rate (%)	0.10	0.05	0.25	1.15	1.85	1.85	1.85	0.09	0.10	0.50	1.50	1.85	1.85	1.85
2-yr Govt. Bond Yield (%)	0.15	0.35	1.10	1.75	1.95	1.95	1.95	0.13	0.60	1.40	1.90	1.95	1.95	1.95
5-yr Govt. Bond Yield (%)	0.35	1.10	1.80	2.10	2.10	2.05	2.05	0.36	1.40	2.00	2.15	2.05	2.05	2.05
10-yr Govt. Bond Yield (%)	0.75	1.80	2.25	2.50	2.45	2.30	2.20	0.93	2.00	2.40	2.50	2.40	2.20	2.20
10-yr-2-yr Govt. Spread (%)	0.60	1.45	1.15	0.75	0.50	0.35	0.25	0.80	1.40	1.00	0.60	0.45	0.25	0.25
CANADIAN FIXED INCOME														
Overnight Target Rate (%)	0.25	0.25	0.30	1.15	1.75	1.75	1.75	0.25	0.25	0.50	1.50	1.75	1.75	1.75
3-mth T-Bill Rate (%)	0.15	0.10	0.35	1.25	1.75	1.75	1.75	0.06	0.15	0.63	1.63	1.75	1.75	1.75
2-yr Govt. Bond Yield (%)	0.30	0.45	1.20	1.75	1.85	1.85	1.85	0.20	0.70	1.45	1.85	1.85	1.85	1.85
5-yr Govt. Bond Yield (%)	0.45	1.10	1.75	2.00	1.95	1.95	1.95	0.39	1.35	1.90	2.00	1.95	1.95	1.95
10-yr Govt. Bond Yield (%)	0.60	1.70	2.25	2.20	2.10	2.10	2.10	0.67	2.00	2.25	2.15	2.10	2.10	2.10
10-yr-2-yr Govt. Spread (%)	0.30	1.25	1.05	0.45	0.25	0.25	0.25	0.47	1.30	0.80	0.30	0.25	0.25	0.25
*Upper bound of target range. F: Forecast by TD Economics as at June 2021.														
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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