

Long-Term Economic Forecast

Leslie Preston, Senior Economist | 416-983-7053

James Orlando, CFA, Senior Economist | 416-413-3180

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United States

- After the strongest annual average growth in nearly 40 years (5.7%) in 2021, U.S. economic growth is set to slow to a still healthy 3.5% pace in 2022. Economic growth is expected to remain solid in 2023, at 2.5%, before slowing towards its trend pace of 1.8% thereafter.
- The pandemic lifted the unemployment rate to an historic level, but has since reversed the lion's share of the rise. Due to the large number of people who have left the labor force, the labor market is proving tighter than previously expected. We expect that above-trend growth will push the unemployment rate below its pre-pandemic low in mid-2022.
- 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 to more historical levels is anticipated over the next few years, helping to boost labor force growth over the next few years.
- The FOMC has begun the process of normalizing monetary policy from the hyper-stimulative settings of earlier in the pandemic. We expect the U.S. central bank to raise the policy rate to 2.25% by the second quarter of 2023. That is about our estimation of the neutral rate (2%), and so we expect the Fed to ease rates back to neutral further out in the forecast, once inflation has been contained.

Canada

- Canadian economic growth surprised on the upside in the final quarter of last year, growing by 6.7% annualized and providing a strong hand-off into 2022. We expect annual average real GDP growth of 4.0% in 2022, slowing to roughly 3% in 2023, and then declining to 1.7% over the long-term.
- The unemployment rate is expected to continue to decline over the coming quarters, with an expected trough of just over 5%. Given strong immigration expectations over the coming years, we see labour force growth outpacing employment growth, which will cause the unemployment rate to gradually move towards 5.9%.
- Inflation will likely hit new highs in the near term, as food prices and energy costs drive headline figures. While a gradual moderation is expected over the course of this year, inflation is likely to remain above 2% until mid-2023.
- With the economy rebounding and inflation well above target, the Bank of Canada is set to continue raising rates at an aggressive pace, such that the policy rate reaches a high of 2% by early 2023.

U.S. Economic Outlook														
<i>Period-Over-Period Annualized Per Cent Change Unless Otherwise Indicated</i>														
Economic Indicator	Annual Average							Fourth Quarter / Fourth Quarter						
	21	22F	23F	24F	25F	26F	27F	21	22F	23F	24F	25F	26F	27F
Real GDP	5.7	3.2	2.5	1.9	1.8	1.8	1.8	5.6	2.3	2.2	1.8	1.8	1.8	1.8
Consumer Expenditure	7.9	2.9	2.3	2.3	2.0	2.0	1.9	7.0	2.1	2.5	2.1	2.0	1.9	1.9
Durable Goods	18.1	-2.0	0.2	3.8	3.0	3.1	2.9	6.7	-1.0	3.0	3.7	2.9	3.1	2.8
Business Investment	7.4	6.0	3.8	2.7	2.3	2.2	2.2	6.6	6.3	3.3	2.4	2.3	2.2	2.1
Non-Res. Structures	-8.1	-1.6	3.5	3.0	2.9	2.8	2.3	-2.9	2.4	3.1	3.0	2.9	2.8	2.0
Equipment & IPP*	11.6	7.9	3.9	2.6	2.1	2.1	2.2	9.0	7.2	3.4	2.2	2.1	2.1	2.2
Residential Investment	9.1	-1.2	-1.0	0.5	-0.1	-0.2	-0.1	-1.7	-0.4	0.2	0.0	0.1	-0.4	0.4
Govt. Expenditure	0.5	-0.1	1.1	1.0	0.8	0.8	0.5	0.1	0.8	1.1	0.8	0.9	0.6	0.5
Final Domestic Demand	6.6	2.6	2.1	2.0	1.7	1.7	1.6	5.4	2.3	2.3	1.8	1.8	1.7	1.6
Exports	4.6	6.4	5.0	3.5	3.5	3.5	3.4	5.2	4.9	4.0	3.5	3.5	3.4	3.4
Imports	14.0	6.9	1.9	2.9	2.5	2.3	1.8	9.6	2.8	3.1	2.6	2.4	2.1	1.9
Change in Private Inventories	-38.1	125.0	124.0	104.0	91.3	86.8	84.7	---	---	---	---	---	---	---
Final Sales	5.4	2.4	2.5	2.1	1.8	1.8	1.8	4.7	2.5	2.3	1.9	1.9	1.8	1.8
International Current Account Balance (\$Bn)	-813	-890	-709	-619	-563	-509	-433	---	---	---	---	---	---	---
% of GDP	-3.5	-3.5	-2.7	-2.2	-2.0	-1.7	-1.4	---	---	---	---	---	---	---
Pre-tax Corporate Profits including IVA&CCA	24.2	4.4	4.8	5.0	5.0	5.0	5.2	17.7	3.4	4.6	5.2	5.4	5.0	5.0
% of GDP	12.1	11.6	11.5	11.6	11.7	11.8	11.9	---	---	---	---	---	---	---
GDP Deflator (y/y)	4.2	5.9	3.0	2.4	2.3	2.2	2.1	5.9	4.9	2.6	2.3	2.3	2.1	2.1
Nominal GDP	10.1	9.2	5.6	4.4	4.1	4.0	4.0	11.8	7.1	4.9	4.2	4.1	4.0	3.9
Labor Force	0.3	2.3	1.2	0.7	0.5	0.5	0.4	0.8	2.4	1.0	0.6	0.5	0.5	0.4
Employment	2.8	3.8	1.5	0.5	0.4	0.4	0.5	4.3	2.8	0.9	0.4	0.4	0.5	0.5
Change in Empl. ('000s)	3,957	5,586	2,221	752	548	682	750	6,169	4,222	1,410	606	549	756	749
Unemployment Rate (%)	5.4	3.6	3.5	3.8	4.0	4.0	4.0	---	---	---	---	---	---	---
Personal Disp. Income	6.1	1.0	5.9	5.2	4.3	4.1	4.0	5.3	4.6	6.1	4.7	4.2	4.1	3.9
Pers. Savings Rate (%)	12.1	5.4	6.4	7.2	7.5	7.6	7.7	---	---	---	---	---	---	---
Cons. Price Index (y/y)	4.7	7.0	2.4	2.0	2.1	2.0	2.1	6.7	5.2	2.1	1.9	2.2	2.0	2.1
Core CPI (y/y)	3.6	5.5	3.1	2.4	2.4	2.2	2.2	5.0	4.8	2.7	2.3	2.3	2.2	2.1
Core PCE Price Index (y/y)	3.3	5.0	2.9	2.1	2.1	2.0	1.9	4.6	4.5	2.4	2.1	2.1	2.0	1.9
Housing Starts (mns)	1.60	1.59	1.56	1.55	1.52	1.49	1.47	---	---	---	---	---	---	---
Real Output per hour** (y/y)	1.8	0.2	1.3	2.0	1.8	1.6	1.6	1.9	-0.4	1.8	1.9	1.8	1.5	1.6

*Intellectual property products. F: Forecast by TD Economics as at March 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						
	21	22F	23F	24F	25F	26F	27F	21	22F	23F	24F	25F	26F	27F
Real GDP	4.6	3.9	3.0	2.0	1.7	1.5	1.7	3.3	3.7	2.4	1.9	1.5	1.5	1.7
Consumer Expenditure	5.2	4.1	2.6	1.9	1.5	1.5	1.6	5.2	2.8	2.2	1.7	1.4	1.5	1.6
Durable Goods	7.7	-1.0	1.4	1.0	0.7	0.4	0.9	-5.3	1.3	1.2	1.0	0.5	0.5	1.1
Business Investment	2.0	5.0	4.1	2.3	1.8	1.7	1.7	5.1	5.1	3.1	1.9	1.7	1.7	1.7
Non-Res. Structures	-0.6	6.0	4.5	2.6	1.8	1.7	1.7	9.7	5.2	3.5	2.1	1.7	1.7	1.7
Equipment & IPP*	4.6	3.9	3.8	2.0	1.7	1.7	1.7	0.8	5.0	2.7	1.8	1.7	1.7	1.7
Residential Investment	15.4	-2.6	1.4	1.7	1.7	1.7	1.7	-0.8	1.5	1.4	1.7	1.7	1.7	1.7
Govt. Expenditure	4.8	3.8	3.0	1.8	1.7	1.7	1.7	2.4	4.8	2.2	1.7	1.7	1.7	1.7
Final Domestic Demand	5.5	3.5	2.8	1.9	1.6	1.6	1.6	3.8	3.4	2.3	1.7	1.6	1.6	1.7
Exports	1.4	5.8	3.7	2.0	1.7	1.7	1.7	0.8	5.8	2.4	1.9	1.7	1.7	1.7
Imports	7.4	5.7	3.6	2.0	1.7	1.7	1.7	5.0	5.2	2.4	1.9	1.7	1.7	1.7
Change in Non-farm Inventories (2012 \$Bn)	4.6	9.5	13.6	16.5	17.7	17.0	18.4	--	--	--	--	--	--	--
Final Sales	4.5	3.0	2.6	1.8	1.6	1.6	1.6	3.1	3.3	2.1	1.6	1.6	1.6	1.6
International Current Account Balance (\$Bn)	1.6	9.2	7.0	8.8	10.6	12.4	14.3	--	--	--	--	--	--	--
% of GDP	0.1	0.3	0.2	0.3	0.3	0.4	0.4	--	--	--	--	--	--	--
Pre-tax Corp. Profits	32.7	9.1	-2.1	-0.6	1.7	2.7	3.4	14.6	9.4	-3.1	0.6	2.2	3.0	3.5
% of GDP	15.2	15.1	14.1	13.4	13.2	13.1	13.0	--	--	--	--	--	--	--
GDP Deflator (y/y)	8.2	5.5	2.0	2.0	2.0	2.0	2.0	8.7	3.9	2.0	2.0	2.0	2.0	2.0
Nominal GDP	13.1	9.7	5.0	4.0	3.7	3.6	3.7	12.2	7.7	4.4	3.9	3.6	3.6	3.7
Labour Force	2.4	1.7	1.0	0.8	0.7	0.6	0.6	1.3	1.3	0.9	0.7	0.6	0.6	0.6
Employment	4.8	3.9	1.0	0.4	0.5	0.6	0.6	4.2	2.4	0.6	0.4	0.6	0.6	0.6
Change in Empl. ('000s)	867	733	203	88	101	122	122	779	457	120	78	116	122	123
Unemployment Rate (%)	7.4	5.4	5.4	5.7	5.9	5.9	5.9	--	--	--	--	--	--	--
Personal Disp. Income	2.9	2.7	4.2	3.8	3.6	3.5	3.6	2.7	5.4	4.1	3.7	3.5	3.5	3.6
Pers. Savings Rate (%)	10.9	5.5	4.7	4.6	4.6	4.6	4.5	--	--	--	--	--	--	--
Cons. Price Index (y/y)	3.4	5.0	2.1	2.0	2.0	2.0	2.0	4.7	3.7	2.1	2.0	2.0	2.0	2.0
CPIX (y/y) **	2.8	4.0	2.5	2.1	2.0	2.0	2.0	3.8	3.4	2.3	2.0	2.0	2.0	2.0
BoC Inflation (y/y) **	2.4	2.9	2.1	2.0	2.0	2.0	2.0	2.8	2.5	2.0	2.0	2.0	2.0	2.0
Housing Starts ('000s)	277	231	220	217	218	220	220	--	--	--	--	--	--	--
Home Prices (y/y)	22.5	15.6	1.0	0.8	1.8	2.4	2.4	19.4	9.6	1.1	1.1	2.1	2.4	2.4
Real GDP / worker (y/y)	-0.2	0.0	1.9	1.6	1.1	0.9	1.1	-0.9	1.3	1.8	1.5	1.0	0.9	1.1

F: Forecast by TD Economics as at March 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						
	21	22F	23F	24F	25F	26F	27F	21	22F	23F	24F	25F	26F	27F
U.S. FIXED INCOME														
Fed Funds Target Rate (%)*	0.25	1.25	2.20	2.05	2.00	2.00	2.00	0.25	1.75	2.25	2.00	2.00	2.00	2.00
3-mth T-Bill Rate (%)	0.05	1.35	2.10	1.95	1.90	1.90	1.90	0.06	1.75	2.15	1.90	1.90	1.90	1.90
2-yr Govt. Bond Yield (%)	0.35	1.95	2.05	1.95	1.95	1.95	1.95	0.73	2.05	2.00	1.95	1.95	1.95	1.95
5-yr Govt. Bond Yield (%)	1.00	2.15	2.25	2.05	2.05	2.05	2.05	1.26	2.25	2.15	2.05	2.05	2.05	2.05
10-yr Govt. Bond Yield (%)	1.55	2.30	2.40	2.20	2.20	2.20	2.20	1.52	2.40	2.30	2.20	2.20	2.20	2.20
10-yr-2-yr Govt. Spread (%)	1.20	0.35	0.35	0.25	0.25	0.25	0.25	0.79	0.35	0.30	0.25	0.25	0.25	0.25
CANADIAN FIXED INCOME														
Overnight Target Rate (%)	0.25	1.25	2.00	1.80	1.75	1.75	1.75	0.25	1.75	2.00	1.75	1.75	1.75	1.75
3-mth T-Bill Rate (%)	0.15	1.40	2.00	1.80	1.75	1.75	1.75	0.16	1.88	2.00	1.75	1.75	1.75	1.75
2-yr Govt. Bond Yield (%)	0.55	1.95	1.95	1.85	1.85	1.85	1.85	0.95	2.00	1.90	1.85	1.85	1.85	1.85
5-yr Govt. Bond Yield (%)	1.10	2.10	2.15	1.95	1.95	1.95	1.95	1.25	2.20	2.05	1.95	1.95	1.95	1.95
10-yr Govt. Bond Yield (%)	1.45	2.25	2.30	2.10	2.10	2.10	2.10	1.42	2.35	2.20	2.10	2.10	2.10	2.10
10-yr-2-yr Govt. Spread (%)	0.90	0.30	0.35	0.25	0.25	0.25	0.25	0.47	0.35	0.30	0.25	0.25	0.25	0.25
*Upper bound of target range. F: Forecast by TD Economics as at March 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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