

Long-Term Economic Forecast

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United States

- Healthy momentum and fiscal stimulus should see growth peak at 2.9% in 2018, before moderating to 2.5% in 2019. The combination of fading fiscal stimulus, higher interest rates and capacity constraints is expected to slow growth further to 1.8% (Q4/Q4) by the end of 2020.
- At 3.7%, the current unemployment rate is estimated to be below its structural rate. Above-trend economic growth over the next year will likely pressure this figure down further in the near-term, leading to higher wages and greater labor force participation.
- Meanwhile, the impact of population aging is intensifying. The adult population that is below the age of 65 is projected to grow by just 0.2% annually, resulting in employment growth of just 0.5% – roughly half the pace observed historically.
- The Federal Reserve is expected to lift the fed funds rate to a peak of 3.00% by the end of 2019. This is above our estimate of the neutral rate of 2.75%, but is consistent with returning inflation to 2% over the medium term.

Canada

- Near-term set-backs in the form of oil production curtailments and the closure of a motor vehicle factory will weigh on growth in 2019. Thereafter, growth is forecast to be supported by the resumption of oil and gas production and significant energy sector investment projects, notably LNG Canada's liquefaction and export terminal in Kitimat B.C., anticipated to come online in 2023.
- Recent months have seen robust employment gains, sending the Canadian unemployment rate below its structural rate. The result is a more constrained pace of job gains going forward, closer to the 0.6% mark. The unemployment rate is expected to trend gradually towards its longer-term level of 5.8%. Labour productivity growth (as measured by output per worker) is expected to average 1.1%, slightly above its long-run historic average.
- Recent revisions by Statistics Canada indicate the Canada saw softer than reported economic growth in 2015 and 2016, but Canada is nevertheless estimated to be operating effectively at capacity. Risk management implies some caution as near-term oil shocks work through the economy, but the Bank of Canada remains predisposed to further rate hikes. We expect the overnight policy interest rate to reach its terminal level of 2.50% by early 2020.
- Ultimately, economic growth is expected to settle around its trend pace of 1.8%. Population aging and modest productivity gains mean a slower pace relative to history.

U.S. Economic Outlook												
<i>Period-Over-Period Annualized Per Cent Change Unless Otherwise Indicated</i>												
	Annual Average						Fourth Quarter / Fourth Quarter					
	18F	19F	20F	21F	22F	23F	18F	19F	20F	21F	22F	23F
Real GDP	2.9	2.5	1.9	1.7	1.8	1.8	3.0	2.2	1.8	1.8	1.8	1.8
Consumer Expenditure	2.7	2.6	2.2	2.1	2.1	2.0	2.7	2.2	2.2	2.1	2.1	2.0
Durable Goods	5.7	4.3	4.4	4.3	4.2	3.9	3.9	3.9	4.4	4.2	4.1	3.8
Business Investment	6.8	4.1	3.6	3.2	3.3	3.2	6.6	4.0	3.4	3.2	3.2	3.2
Non-Res. Structures	5.5	2.7	3.1	2.9	2.9	3.0	6.7	3.1	3.0	2.9	2.9	3.0
Equipment & IPP*	7.2	4.6	3.8	3.3	3.4	3.3	6.6	4.3	3.5	3.3	3.4	3.2
Residential Investment	-0.2	-1.0	2.5	2.5	2.8	2.3	-3.0	1.2	2.4	2.7	2.5	2.3
Govt. Expenditure	1.7	2.7	0.9	0.3	0.2	-0.2	2.6	1.9	0.5	0.3	0.1	-0.4
Final Domestic Demand	2.9	2.7	2.2	2.0	2.0	1.8	3.0	2.3	2.1	2.0	1.9	1.8
Exports	4.1	4.0	5.4	4.1	3.9	4.0	2.7	5.8	4.7	3.9	3.9	4.0
Imports	4.9	5.4	6.1	4.9	4.4	3.5	4.8	5.2	5.6	4.7	4.1	3.3
Change in Private Inventories	43.6	77.1	70.8	63.9	63.2	64.6	---	---	---	---	---	---
Final Sales	2.8	2.4	2.0	1.8	1.8	1.8	2.7	2.3	1.9	1.8	1.8	1.8
International Current Account Balance (\$Bn)	-488	-559	-604	-626	-645	-647	---	---	---	---	---	---
% of GDP	-2.4	-2.6	-2.7	-2.7	-2.6	-2.5	---	---	---	---	---	---
Pre-tax Corporate Profits including IVA&CCA	7.8	5.9	2.2	3.1	3.3	3.4	7.5	4.5	2.6	3.0	3.6	2.9
% of GDP	11.0	11.2	10.9	10.8	10.7	10.6	---	---	---	---	---	---
GDP Deflator (y/y)	2.2	2.2	2.4	2.5	2.4	2.3	2.1	2.3	2.5	2.4	2.4	2.3
Nominal GDP	5.2	4.8	4.4	4.2	4.2	4.2	5.2	4.6	4.3	4.2	4.2	4.2
Labor Force	1.1	1.1	1.0	0.7	0.7	0.6	1.4	1.0	0.9	0.8	0.7	0.5
Employment	1.6	1.5	0.9	0.5	0.5	0.4	1.7	1.3	0.7	0.6	0.5	0.4
Change in Empl. ('000s)	2,378	2,166	1,396	823	810	690	2,477	1,891	1,003	905	757	661
Unemployment Rate (%)	3.9	3.6	3.8	4.0	4.1	4.2	---	---	---	---	---	---
Personal Disp. Income	4.8	4.5	4.6	4.4	4.3	4.3	4.8	4.7	4.4	4.4	4.3	4.3
Pers. Savings Rate (%)	6.6	6.5	6.6	6.7	6.8	7.0	---	---	---	---	---	---
Cons. Price Index (y/y)	2.4	2.1	2.3	2.2	2.2	2.3	2.2	2.3	2.2	2.2	2.2	2.3
Core CPI (y/y)	2.1	2.2	2.4	2.4	2.3	2.4	2.2	2.3	2.4	2.3	2.4	2.4
Core PCE Price Index (y/y)	1.9	1.9	2.1	2.1	2.1	2.2	1.8	2.1	2.2	2.1	2.1	2.2
Housing Starts (mns)	1.26	1.24	1.27	1.31	1.34	1.38	---	---	---	---	---	---
Real Output per hour** (y/y)	1.2	1.2	1.3	1.5	1.6	1.7	1.5	1.1	1.4	1.5	1.7	1.7

*Intellectual property products. F: Forecast by TD Economics, December 2018.

**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					
	18F	19F	20F	21F	22F	23F	18F	19F	20F	21F	22F	23F
Real GDP	2.1	1.8	2.0	2.0	1.8	1.8	2.1	1.8	2.0	2.0	1.8	1.8
Consumer Expenditure	2.2	1.6	1.6	1.5	1.5	1.5	1.6	1.6	1.6	1.5	1.5	1.5
Durable Goods	1.6	0.3	1.4	1.7	1.6	1.5	-0.4	1.4	1.5	1.7	1.5	1.5
Business Investment	4.9	2.0	4.7	4.4	3.5	3.1	2.6	3.9	4.9	4.0	3.3	3.0
Non-Res. Structures	3.1	0.9	3.8	3.7	3.2	2.9	-0.1	3.1	4.0	3.5	3.1	2.8
Equipment & IPP*	6.8	3.2	5.6	5.0	3.8	3.3	5.6	4.7	5.8	4.4	3.6	3.2
Residential Investment	-1.1	0.4	2.2	2.8	2.2	1.9	-3.6	2.0	2.6	2.6	2.0	1.9
Govt. Expenditure	3.0	1.6	1.7	1.8	1.8	1.8	1.7	1.7	1.7	1.8	1.8	1.8
Final Domestic Demand	2.5	1.6	2.0	2.0	1.8	1.8	1.4	1.9	2.0	1.9	1.8	1.8
Exports	3.3	2.8	2.4	3.1	3.2	2.9	4.7	2.3	2.6	3.3	3.1	2.7
Imports	3.2	0.8	2.5	3.0	3.1	2.9	0.8	2.1	2.7	3.1	3.1	2.7
Change in Non-farm Inventories (2007 \$Bn)	10.4	1.4	2.0	2.4	2.3	2.1	--	--	--	--	--	--
Final Sales	2.9	2.0	2.0	2.0	1.8	1.8	2.0	2.0	2.0	1.9	1.8	1.8
International Current Account Balance (\$Bn)	-56.6	-44.0	-47.1	-47.7	-48.3	-50.0	--	--	--	--	--	--
% of GDP	-2.5	-1.9	-2.0	-1.9	-1.9	-1.9	--	--	--	--	--	--
Pre-tax Corp. Profits	4.3	2.2	5.0	5.4	5.0	4.7	6.8	1.9	5.4	5.3	4.9	4.6
% of GDP	13.2	13.0	13.1	13.3	13.4	13.6	--	--	--	--	--	--
GDP Deflator (y/y)	1.9	1.8	2.0	1.9	1.9	1.9	1.4	2.2	1.9	1.9	1.9	1.9
Nominal GDP	4.0	3.6	4.0	4.0	3.8	3.7	3.4	4.1	4.0	4.0	3.7	3.7
Labour Force	0.8	0.9	0.6	0.6	0.6	0.5	0.8	0.6	0.6	0.6	0.6	0.5
Employment	1.3	1.0	0.6	0.6	0.6	0.6	1.0	0.6	0.6	0.6	0.6	0.6
Change in Empl. ('000s)	234	179	113	107	106	108	189	113	110	105	107	108
Unemployment Rate (%)	5.8	5.8	5.8	5.8	5.8	5.8	--	--	--	--	--	--
Personal Disp. Income	3.9	3.4	3.3	3.4	3.6	3.7	3.0	3.2	3.4	3.4	3.6	3.7
Pers. Savings Rate (%)	1.0	0.8	0.5	0.3	0.4	0.5	--	--	--	--	--	--
Cons. Price Index (y/y)	2.1	1.7	2.1	2.0	2.0	2.0	1.6	2.2	2.0	2.0	2.0	2.0
CPIX (y/y)**	1.5	1.9	2.0	2.0	2.0	2.0	1.7	2.0	2.0	2.0	2.0	2.0
BoC Inflation (y/y)**	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Housing Starts ('000s)	210	192	191	192	196	199	--	--	--	--	--	--
Home Prices (y/y)	-3.8	2.4	1.0	1.8	1.7	1.9	-4.1	2.3	1.0	1.9	1.7	2.0
Real GDP / worker (y/y)	0.8	0.8	1.4	1.5	1.3	1.2	1.0	1.2	1.4	1.4	1.2	1.2

F: Forecast by TD Economics, December 2018.
 *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					
	18F	19F	20F	21F	22F	23F	18F	19F	20F	21F	22F	23F
U.S. FIXED INCOME												
Fed Funds Target Rate (%)*	2.15	2.95	3.00	3.00	2.75	2.75	2.50	3.00	3.00	3.00	2.75	2.75
3-mth T-Bill Rate (%)	2.10	2.85	2.90	2.85	2.65	2.65	2.48	2.90	2.90	2.78	2.65	2.65
2-yr Govt. Bond Yield (%)	2.60	2.95	2.95	2.80	2.70	2.70	2.80	2.95	2.90	2.72	2.70	2.70
5-yr Govt. Bond Yield (%)	2.75	3.05	3.10	3.00	2.85	2.85	2.85	3.10	3.10	2.90	2.85	2.85
10-yr Govt. Bond Yield (%)	2.90	3.20	3.25	3.10	3.00	3.00	3.00	3.25	3.20	3.00	3.00	3.00
10-yr-2-yr Govt. Spread (%)	0.30	0.25	0.30	0.30	0.30	0.30	0.20	0.30	0.30	0.28	0.30	0.30
CANADIAN FIXED INCOME												
Overnight Target Rate (%)	1.45	2.15	2.50	2.50	2.50	2.50	1.75	2.25	2.50	2.50	2.50	2.50
3-mth T-Bill Rate (%)	1.45	2.20	2.50	2.50	2.50	2.50	1.88	2.38	2.50	2.50	2.50	2.50
2-yr Govt. Bond Yield (%)	2.00	2.40	2.55	2.55	2.55	2.55	2.05	2.50	2.55	2.55	2.55	2.55
5-yr Govt. Bond Yield (%)	2.10	2.50	2.70	2.70	2.70	2.70	2.10	2.65	2.70	2.70	2.70	2.70
10-yr Govt. Bond Yield (%)	2.20	2.60	2.85	2.85	2.85	2.85	2.20	2.80	2.85	2.85	2.85	2.85
10-yr-2-yr Govt. Spread (%)	0.20	0.20	0.30	0.30	0.30	0.30	0.15	0.30	0.30	0.30	0.30	0.30
*Upper bound of target range. F: Forecast by TD Economics as at December 2018.												
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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