Quarterly Economic Forecast

Global Economy: Ease On Down The Road

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Summary

- The global growth slowdown is reinforced within a number of indicators, including commodity prices and non-U.S. business sentiment indicators. However, the downshift in the actual data remains largely consistent with our past forecast. Peak global growth occurred in the first half of the year at about 4%. It has since stepped down to roughly 3.2% and is expected to hover just above that mark at 3.4% in the year ahead. This figure still depicts a pace that is slightly above the global economy's long-term running speed. We embedded a modest downgrade to our 2019 global forecast to capture the anticipated negative investment and export drag from ongoing global trade uncertainty and in a nod to the growing balance of downside risks.
- Although the selloff in global risk assets is outsized relative to the magnitude of the economic slowdown, it likely reflects the build-up of unresolved global risks, coupled with a delayed adjustment in growth expectations from lofty levels. There are few signs that the economic expansion is nearing an end, but negative sentiment can become self-fulfilling. We remain vigilant in monitoring signals to that end: yield curves, business confidence, risk-assets, and labor market conditions.
- Despite the 90-day ceasefire agreement by U.S. and China on an escalation in their trade war, policy uncertainty and tariff escalation (both with China and others) remains a pressing near-term threat to global growth prospects. There was a clear rolling over of international business optimism and trade volumes when the U.S. turned threats into action by imposing steel and aluminum tariffs in March. Escalation since then risks scarring new global investment.
- The temporary ceasefire is inherently unstable. The U.S. has set a high bar in addressing politically difficult issues related to China's record of business practice malfeasance. This leaves a strong chance that an escalation in tariffs has only been deferred, but not eliminated.

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American economy passes high water mark

- The U.S. economy remains the growth-leader among the G7, by a wide margin. Tax cuts and fiscal stimulus pushed the expansion to an average of 3.5% over the second and third quarters of this year. We expect real GDP growth of 2.9% in 2018, consistent with our last forecast. The economy should moderate next year to 2.5% and 1.9% in 2020, as the impulse from fiscal policy wanes and higher rates feed through.
- Consumer spending has been the main thrust of this recent outsized GDP growth. It has averaged 3.7% in the past two quarters, on the back of impressive job market strength. Data so far in the fourth quarter suggest moderation to a still-healthy 2.9% pace.
- Above-trend growth should keep the Federal Reserve biased towards further rate hikes. We expect the upper limit of the fed funds rate will reach 3.00% in 2019. This would also mark the peak in the rate-cycle within our forecast, coming to rest within the Fed's neutral range of 2.50% to 3.50%.
- We are certainly not out of the woods on sabre rattling regarding further trade actions. The U.S. has agreed to hold off on raising the tariff rate on $200 billion in Chinese imports from 10% to 25% for 90 days. But, this does not erase the negative impact on business sentiment and the potential knock-on effects to investment in affected sectors. We did not include the direct impacts from a step-up in the tariff rate in this round of our forecast, but we are injecting some negative judgement around exports and investment due to the persistence of policy uncertainty.
- Fiscal policy remains a key source of uncertainty within the forecast. If a divided Congress cannot reach a deal on extending the current spending caps by the end of 2019, automatic spending cuts would take an additional 0.5 percentage points off 2020 growth. This is not embedded within our forecast.

Canada forecast cut on oil sector woes

- Developments in the oil sector, notably production curtailments, have made their mark on the Canadian outlook. The impact on 2018Q4 GDP growth is a 0.5 percentage point markdown. We currently track Q4 growth at just 1.6%. Next year faces a further hit in the first half, which shaves the 2019 forecast as a whole by 0.15 percentage points.

Economic & Financial Forecasts

	2018F	2019F	2020F
Real GDP (annual % change)			
Canada	2.1	1.8	2.0
U.S.	2.9	2.5	1.9
Canada (rates, %)			
Overnight Target Rate	1.75	2.25	2.50
2-yr Govt. Bond Yield	2.05	2.50	2.55
10-yr Govt. Bond Yield	2.20	2.80	2.85
U.S. (rates, %)			
Fed Funds Target Rate	2.50	3.00	3.00
2-yr Govt. Bond Yield	2.80	2.95	2.95
10-yr Govt. Bond Yield	3.00	3.15	3.15
WTI, $US/bbl	60	65	66
Exchange Rate (USD per CAD)	0.76	0.78	0.79

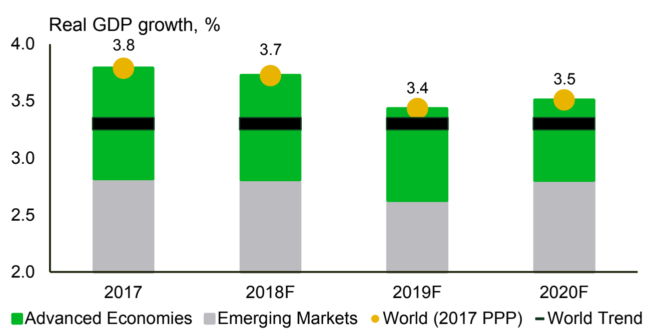
F: Forecast by TD Economics, December 2018; Forecasts for oil price, exchange rate and yields are end-of-period. Source: Bloomberg, Bank of Canada, U.S. Federal Reserve.

- Activity in the oilpatch is expected to stage a moderate recovery by the end of 2019. By this point, takeaway capacity should be more aligned with production, restoring balance to the market and bringing curtailment to an end. Our 2020 forecast has been upgraded slightly to reflect this expected recovery.
- More broadly, recent indicators point to a reshuffling of the sources of economic growth. The fundamentals remain supportive of non-energy investment and trade. This partly reflects the USMCA's impact to reduce trade policy risks, as well as the recently announced corporate tax measures within the Federal government's fall fiscal update. This rotation is crucial as consumer spending is restrained by rising debt servicing costs.
- Under the assumption that oil price conditions improve and Canada's economy returns to 2% growth in the coming quarters, the Bank of Canada should follow through with two additional rate hikes next year.
- We suspect the timing of the next hike will be in the March/April period of 2019, in order to permit the Bank of Canada sufficient time to confirm the growth narrative remains intact alongside a more fulsome recovery in oil prices.

Global Outlook - Economic Momentum Reset

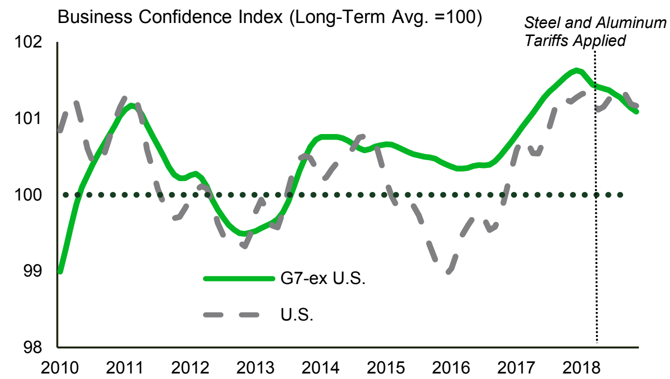
- After peaking in the first half of the year, global growth has slowed as expected to a 3.2% pace in the second half. The expansion is likely to hover at an average annual rate of 3.4% next year (Chart 1). This is not a large decline by any measure. In fact, it represents about U.S. $240bn less income generated next year in a global economy estimated to generate roughly $80tn in annual income.
- Although growth is slowing modestly toward trend, reduced momentum and an outlook clouded by downside risks has heavily scaled back investor risk appetite. The global selloff in equities in recent months is estimated to have wiped out about $5tn in wealth. Slowing economic growth has also spooked commodity markets, sending WTI oil plunging and forcing OPEC's hand on another agreement to reduce supply in 2019.
- The financial and commodity market selloff contrasts with still elevated leading indicators in global confidence measures (Chart 2), healthy corporate profits, and falling unemployment rates in G7 economies. Although productivity growth remains subdued, there is the potential for an uptick. However, this requires businesses to remain confident in the outlook. As we've seen in recent months, the persistence of global trade tensions has threatened to undermine this outcome.
- Regionally, the U.S. economy has been a global growth outlier, but its position as an outperformer will narrow in the fourth quarter and thereafter. The Federal Reserve is likely to maintain a tightening bias in 2019 due to evidence of capacity constraints, including rising input costs and labor scarcity. However, we expect a more cautious pace of increases as we enter the home stretch of the rate hike cycle.
- Less rapid growth among its peers implies that interest rate differentials with the U.S. will take some time to narrow, supporting the greenback in the near-term. The dollar has already seen tremendous appreciation over the last year, especially versus emerging market (EM) currencies, which face significant pressures on equity and bond market capital outflows (Chart 3).
- Early warning indicators are not yet signaling that a recession is around the corner. However, we recognize that the legacy of easy money and the current tightening cycle present a threat to the expansion. So too does an escalation in trade tensions between the U.S. and its trading partners, a move that could exacerbate

Chart 1: Global Growth Slowing Toward Trend as Trade Uncertainty and EM Challenges Weigh on the Outlook



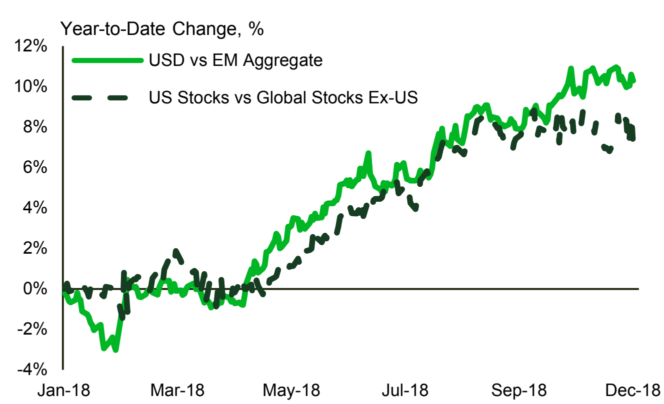
Advanced and emerging market growth rates are stated as contributions to global growth based on International Monetary Fund (IMF) estimates of the 2017 purchasing-power-parity (PPP) valuation from the IMF's October 2018 World Economic Outlook.
Source: TD Economics. Forecasts as at December 13, 2018.

Chart 2: G7 Business Confidence Remains Elevated but Deteriorating with Trade Tensions



Source: OECD, TD Economics. Last Observation: November 2018.

Chart 3: USD and US Stocks Outperform EMs

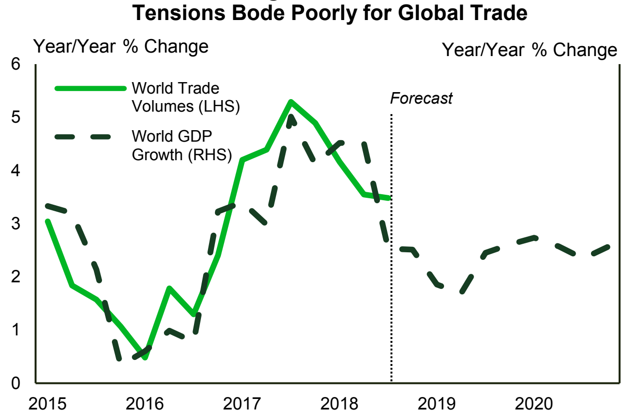


Source: Federal Reserve Board, Wall St. Journal, TD Economics the downturn both in trade and demand (Chart 4). However, the biggest threat to the global expansion is likely a sustained negative market psychology that can become self-fulfilling.

What in the world is going on?

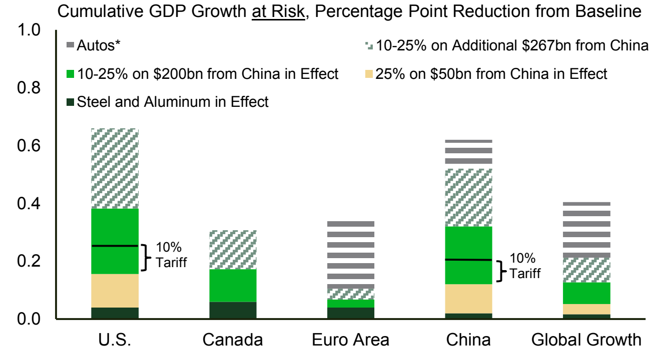
- Financial markets received one of their first whiffs of weakness when Euro Area (EA) growth disappointed expectations in the third quarter with a 0.6% print. A contraction in the usually-resilient German economy was particularly unnerving. However, digging into the data revealed a large, but temporary, drag coming from automobile production due to the implementation of new environmental regulations. Outside of that sector, the economy proved sturdy. Looking forward, auto production will normalize, and the EA's growth is expected to perk up to 1.5%, just a hair above trend estimate of 1.3%.
- Elsewhere, growth in the UK surprised to the upside in the third quarter. However, financial market spirits were not lifted because the economic momentum heading into the fourth quarter already signaled a more tepid pace, not to mention Brexit fears abound with the looming deadline of March 2019.
- It goes without saying that the fortunes of the UK economic outlook materially hang on Brexit developments. If Brexit goes smoothly next March, the UK economy is likely to expand at a trend pace of 1.6% next year.
- Further afield, inclement weather in Asia drove a steep decline in Japanese economic activity in the third quarter. Naturally, this didn't help support the already fraying nerves of financial markets. The outlook for Japan remains positive but choppy, as spending on Olympics-related infrastructure continues to support an above-trend pace of activity that will be partially distorted by the VAT increase scheduled for next October.

Chart 4: Slowing Global Demand and Trade Tensions Bode Poorly for Global Trade



Source: CPB Netherlands, Global GDP Growth Estimated and Forecast by TD Economics

Chart 5: Escalation in Trade Tensions Most Prominent Downside Risk to Growth Outlook



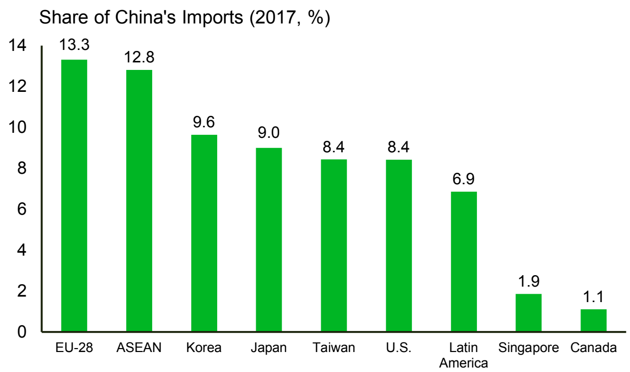
Note: Estimated peak level shock to GDP after 4-6 Qtrs of implementation, incl. retaliatory tariffs.
* Assumes 25% tariff imposed on all automobile & parts imports into the U.S. & equivalent reciprocation by affected countries, starting in 19Q3. Source: TD Economics

- Despite some temporary setbacks, G7 growth has not blinked. Inflation has perked up, proving strongest in the U.S., Canada, and the UK. As a result, central banks in these regions will remain the most proactive in removing stimulus if there's any evidence that inflationary pressures are heating up beyond their expectations. In contrast, the ECB is largely anticipated to remain far behind their peers, at best taking the deposit rate up from -40bps to zero by the end of next year amidst a much more subdued inflation outlook.

EM slowdown intensifying

- While one-off factors have impacted some of the G7 countries, that has not been the case with emerging market economies. Here, the slowdown has been slightly more pronounced than we were expecting, with growth in the second half of 2018 to average a 4.2% pace versus a swift 5% pace in the first half of the year. Capital outflows driven by interest rate differentials and a high U.S. dollar have been crippling factors, however inflows are starting to slowly return to some regions. Although battered, many EMs are likely to grow near trend next year, with economies in Latin America the clear exception, such as Brazil and Argentina.

Chart 6: European & East Asian Trading Partners May be Hurt or Gain from China-U.S. Trade Spat



Source: China Customs, TD Economics

- Higher frequency data suggest that activity in East Asian economies remains subdued, partly reflecting a decline in confidence owing to elevated trade tensions between the U.S. and China. However, slower growth in China is likely more a reflection of past measures by authorities to rein in credit growth, than recent tariff measures. Any escalation in the trade war would shave about 0.2% ppts from growth next year, placing it close to trend at 6.0% for 2019 – a 0.6ppt reduction relative to 2018. This drag could be partially offset by planned stimulus set to take effect early next year.

Will oil fundamentals return?

- Earlier concerns about supply shortages due to Iran sanctions have given way to oversupply concerns. The U.S. granted six-month exemptions from sanctions to its allies heavily reliant on imported Iranian crude. This developments contributed to a volatile quarter for WTI, surging to U.S. $76 per barrel before collapsing to U.S. $50 per barrel. Forecasts calling for weaker global demand and rising supply have effectively taken out the bullish bid on oil in the near-term, while motivating OPEC+ to commit to a six-month, 1.2 mb/d production cut starting in January.
- Looking ahead, we see OPEC+ supply cuts, Middle East tensions, and a further reduction in Iranian oil output supporting a recovery in the WTI price towards the fundamental range of $60-$65 a barrel. This view is consistent with balanced oil inventories, slowing global growth, and increased U.S. shale oil production.

Global risks abound

- In a recent report, we detailed the high volumes of event risks on the docket for 2019. Top of mind is the potential for a temporary 90-day ceasefire on the trade war between the U.S. and China trade to re-escalate given the high bar set by the U.S. administration in addressing China's corporate malfeasance. The U.S. has also not removed the threat of additional tariffs on $267bn in Chinese imports should the first trigger be pulled on raising the tariff rate from 10% to 25% on the initial $200bn of products. If this nuclear option occurs, we would need to mark down U.S. growth by 0.5 percentage points through 2020 and global economic growth by 0.2 percentage points over the next four to six quarters (Chart 5). However, the scale of the adjustment is highly dependent on financial market reaction. In both of these estimations, we embed a modest pullback in sentiment, but today's jittery markets suggest otherwise.
- The spillovers from a global trade war is likely to hit East Asian economies more than G7 economies (Chart 6). They have a higher trade dependency on China, and would be prone to greater negative shocks from any tariff-induced slowdown in Chinese economic activity. While most EM Asian economies have learned from past financial crises and have ample foreign exchange reserve and limited domestic imbalances, their economic reliance on trade maintains a vulnerability.
- In Europe, risks from Brexit and populism continue to weigh on the outlook. Furthermore, populist sentiment is helping empower the Italian coalition government to take a stand against the EU at great cost to the Italian economy. Although the budget impasse is unlikely to lead to a crisis given that Italy is too big to fail, the exercise has resulted in a surge in borrowing costs that will exert a drag on an economy already suffering from excess capacity and slowing growth.

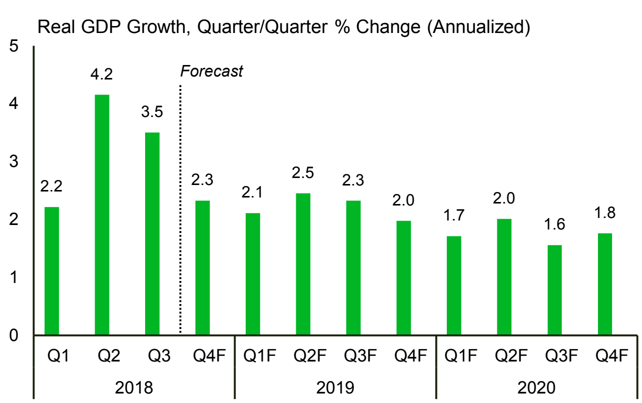
U.S. Outlook - High Water Mark in the Past

- The U.S. economy grew at a 3.5% annualized pace in the third quarter, fueled by a confident consumer. This was close to our published September QEF update of 3.3%.
- Momentum has since decelerated quite a bit heading into the fourth quarter, but is holding at a respectable 2.3% pace. The slowdown was a long-standing feature of our prior narrative, but momentum is tracking below our September expectation of 2.9%. The trend drives home the view that the high water mark is in the past, fueled by the initial impulse from fiscal stimulus.
- For the year as a whole, 2019 should average about 2.5%, but the quarterly pattern reflects a steady slowdown. Fiscal impacts will continue to fade through the year, while higher interest rates lean against demand (Chart 7). Growth in 2020 is expected to notch down even further as the economy synchs back up to its fundamental drivers. Real GDP is forecast to average 1.9%, but this too masks a quarterly pace tapering through the year to around 1.8%.

Job market holds its ground

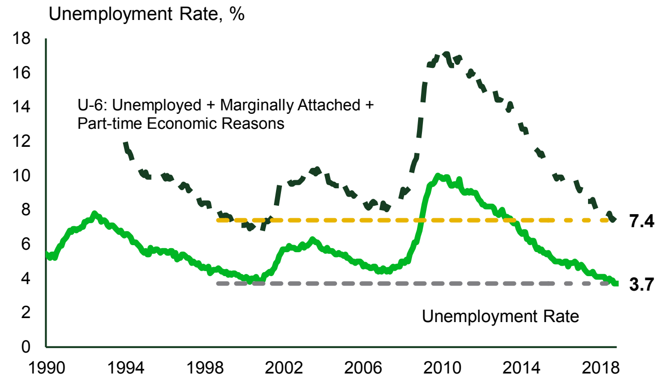
- Hiring has averaged 170k jobs over the past three months (to November), despite disruptions from major hurricanes. The unemployment rate has fallen to 3.7%, a level not seen since 1969. Broader measures of unemployment (Chart 8) are in line with the height of the tech boom in 2000.
- There appears to be room for the job market to draw in more marginalized workers. The labor force participation rate of core-aged (25-54 years) workers has shown steady improvement. Even so, it is below its pre-recession peak, and will well off its historic high. Interestingly, some of the largest strides of late have been made among younger women (aged 25 to 34) entering the workplace.
- The tight labor market is also (finally) showing up in higher wages, both in average hourly earnings and the employment cost index, which captures wages and benefits. Notably, average hourly earnings finally broke through the 3% growth ceiling that has stood for nearly a decade.
- Paralleling the job market strength, consumer confidence has reached new heights. This optimism has helped propel consumer spending growth to an average of 3.9% (annualized) over the second and third quarter of this year. The recent tax cuts are a big part of this story, adding about half a percentage point to disposable income growth. This boost will fade in 2019, setting the stage for a more staid consumer performance at around the 2-2.5% mark in real terms.

Chart 7: U.S. Growth Set to Slow



Source: Bureau of Economic Analysis, TD Economics

Chart 8: Broader Measures of Underemployment Below Pre-Recession Lows



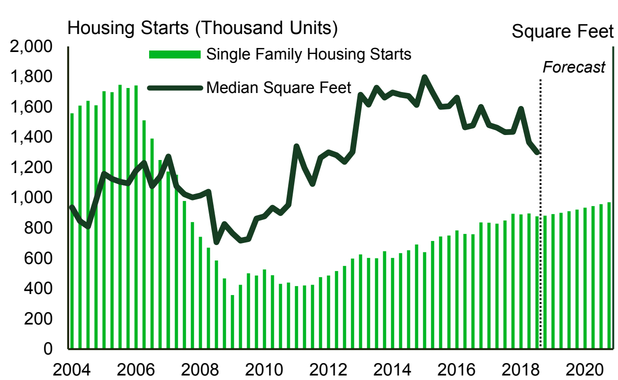
Source: Bureau of Labor Statistics, TD Economics

Investment spending slowed in Q3

- After setting a blistering 10% annualized pace over the first half of 2018, business investment disappointed in the third quarter (+2.5% annualized). The softness was led by a decline (-1.7%) in non-residential structures investment. Spending on equipment and intellectual property both moderated, but grew at 3.5% and 4.3% respectively.

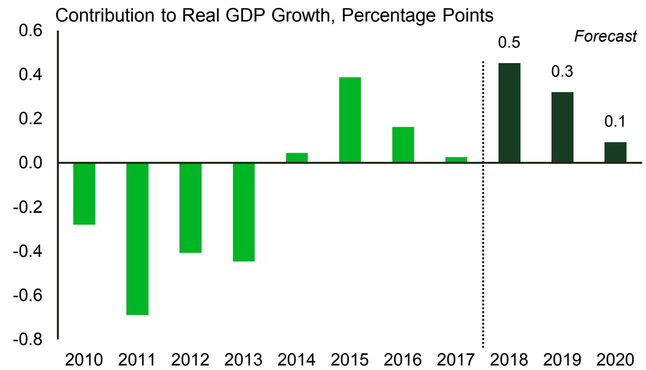
- One concern around the slowdown in investment growth is that businesses, particularly in the manufacturing sector, are revisiting their investment plans in light of tariff activity. This bears close watching, as there has been an increasing chorus of voices around the impact flowing through from higher input costs and reduced global growth prospects. We believe 2018 will prove the peak for business spending growth.
- Lower oil prices in the past quarter are also likely to crimp spending in the oil and gas sector. Directly, the sector only accounts for about five percent of business investment, but the pullback in investment during the last oil price downturn hit capital spending more than was expected.
- However, this takes a backseat to the persistent weakness occurring in residential investment. The third quarter marked an unfortunate hatrick – three straight quarters of contraction. Housing starts and activity in the resale market both suffered in the quarter.
- Some commentators have noted that the decline in housing is reminiscent of the pre-2008 experience. We think this is a little misguided. Household leverage is night-and-day to that period, as is the quality of mortgages. We have previously noted supply-side factors constraining the inventory of resale homes and thus sales, which is also in stark contrast to the prior expansion cycle.
- One area that offers us some comfort is that the weakness in residential investment stands in contrast to a recent surge in residential construction employment, which has expanded by 7% over the past 12 months. Hiring at this pace wouldn't be occurring in the absence of a pick-up in construction and renovation activity, offering some cautious optimism for 2019. Certainly, the fundamentals are supportive of that outcome, defined by solid household finances, pent-up demand evident by low homeownership rates, and ongoing population growth.

Chart 9: Housing Starts to Make Progress, but Smaller Units Likely



Source: Census Bureau, TD Economics

Chart 10: Government Spending Boost to Fade

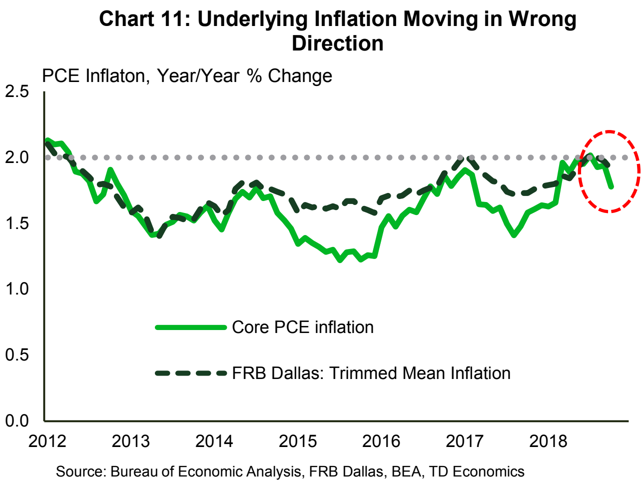


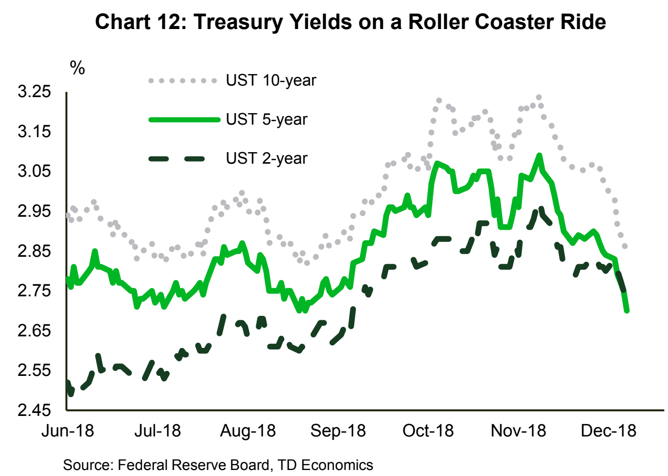
Source: Bureau of Economic Analysis, TD Economics

- Putting all the pieces together, our forecast neither incorporates a strong rebound in housing activity nor a large contribution to economic growth. The numerous supply-side constraints will ultimately act as a counterweight to the fundamental dynamics, particularly as the construction mix shifts to more affordable units and inventory within the resale market receives little relief (Chart 9).

Fiscal risks to come to the fore in 2019

- The two-year budget deal that raised the caps on defense and non-defense spending through the 2019 fiscal year comes to an end in the fourth quarter of 2019. Our current forecast assumes that Congress extends the caps at 2019 levels to prevent a "sequestration" in 2020, as would otherwise be required under the 2011 Budget Control Act. However, if these automatic spending cuts (of roughly $100 billion) do occur in fiscal 2020, they would subtract an estimated 0.5 percentage point from our current GDP growth forecast (Chart 10).





- The other fiscal risk that bears watching is the potential for a partial government shutdown, stemming from ongoing continuing resolutions for parts of government spending. This threat was recently elevated in a confrontation between the President and Democratic Senate and House leaders, Chuck Schumer and Nancy Pelosi.
- Should it occur, past experiences have demonstrated limited economic impact, as they typically prove to be short-lived. However, financial markets are already on edge, and political brinkmanship this time around can prove more damaging to confidence.

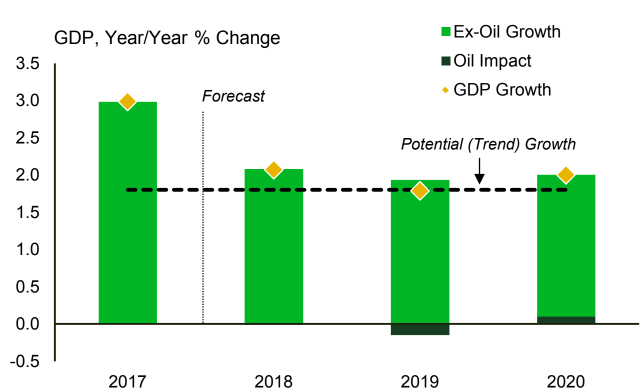
Lack of inflation momentum adds downside risk to Fed hike path

- The Federal Reserve is likely to hike rates on December 19th, bringing the fed funds target to 2.50%. Thereafter, how much higher the policy rate will go is up for debate. In recent months, the Fed's preferred inflation measure, core PCE, has lost significant momentum (Chart 11). After hitting 2% on a year-on-year basis earlier this year, it dropped to 1.8% in October. More meaningfully, the three-month annualized pace has averaged just 1.2%, suggesting the trend is not our friend. This offers the Federal Reserve lots of breathing room to take a more gradual approach to interest rates in 2019, particularly as it enters the homestretch.
- We have penciled in only two more rate hikes from the Federal Reserve in 2019. This will bring the rate to 3.00% and also mark the peak in the rate-cycle within our forecast.
- Alongside the uncertainty surrounding the market's fed funds expectations, Treasury yields have been on a roller coaster ride over the past three months. The UST 10-year initially rose to a high of 3.26% in October, before falling below 2.85% in December as market jitters kicked up (Chart 12). We still believe a 10-year yield of 3.25% is attainable over 2019, based on a combination of higher policy rates, inflation and the term premium.
- The broad U.S. trade-weighted dollar is up 2% over the last couple months and close to 8% on the year. The majority of this move comes against emerging market currencies, where weakness have been exposed within this global economic slowdown. As long as event-risks like trade tariff threats persist, so too will the flight to safety bid on the greenback. Given the high degree of event risks occurring in Q1 2019, we suspect the U.S. dollar will hold its dominance, with the balance of risks thereafter shifting to some portfolio rebalancing to other currencies.

Canadian Outlook: Near-Term Pains, Longer-Term Gains

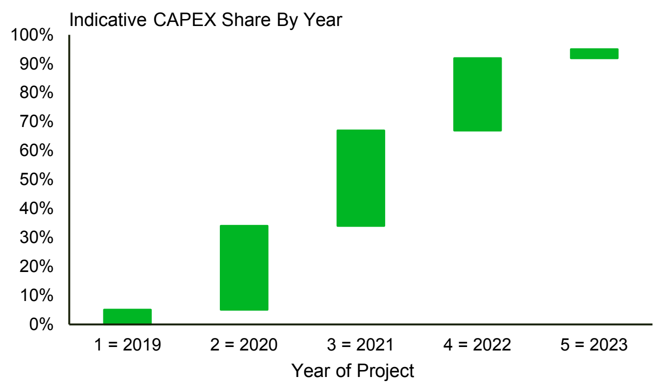
- Canada continues to exhibit all the characteristics of an economy in the mature phase of the growth cycle. Employment growth remains healthy, with the unemployment rate at a historic low. Meanwhile, the rate of expansion has moderated recently to a pace more consistent with underlying fundamentals, expanding by 2.0% q/q annualized in 2018Q3.
- The composition of growth in Canada continues to gradually migrate away from interest-sensitive household spending in light of high indebtedness and rising borrowing costs. Business investment outside of the energy sector is expected to help fill the gap, supported by elevated capacity utilization rates and strong investment intentions.
- Within the energy sector, the collapse of Canadian heavy oil prices and the resulting decision to curtail production by the Albertan government will drag near-term energy investment and exports.
- Although recent pricing improvements from those decisions have already helped to mitigate income shocks, there will nevertheless be negative implications for real economic output in both Canada and Alberta.
- The direct impact to Canadian real GDP growth in 2019 will, all else equal, be a reduction of about 0.15 percentage points, with only a partial recoup expected in 2020 (Chart 13). For Alberta, the impact is larger, at 0.9 percentage points. All impacts will be front-loaded in the year, in line with the curtailment plans.

Chart 13: Oil Impacts Drag on GDP



Source: Statistics Canada, TD Economics

Chart 14: LNG Facility Construction Provides Multi-year Boost



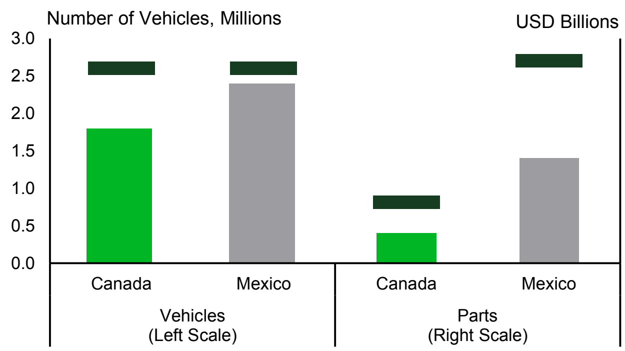
Source: TD Economics. Based in part on PWC Analysis.

- Amidst all the glum near-term energy sector news, longer term investment received a shot in the arm from the 'go ahead' decision on the Kitimat LNG terminal in B.C. This project is expected to ramp up in 2020 (Chart 14), although the bulk of the GDP impact is likely to occur when the facility becomes operational in 2023, boosting the long-term level of real GDP by roughly $5bn (0.3%). Also encouraging is the recent positive decision by Imperial Oil on its $2.6bn Aspen project in northern Alberta. Though more modest in scale, it was the first major project announcement in nearly five years.

USMCA: relief, but not a game changer

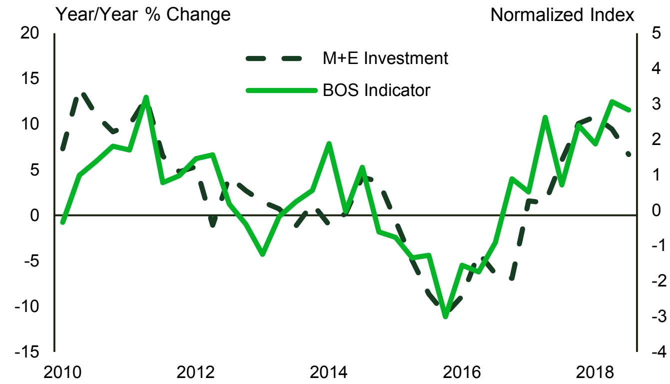
- The most significant economic development over the past quarter was the U.S. Mexico Canada Agreement (USMCA). We consider it effectively a rebranded NAFTA, but there were notable rule changes for the auto sector (Chart 15). The higher watermark for content and wages should inherently benefit Canada relative to Mexico, but will not override the stronger global competitive forces occurring – as recently evidenced by GM's announcement of several production site closures.
- USMCA contains no major shocks to the trading landscape. Instead, the greatest accomplishment is the mitigation of a significant cloud of uncertainty that had been hanging over Canada's trading relationship with its largest partner (for details, please see our analysis).

Chart 15: USMCA Quotas for Canadian Autos + Parts Fairly Generous



Note: Bars represent 2017 levels while dark lines represent future caps under the newly announced U.S.-Mexico-Canada Agreement. Source: TD Economics

Chart 16: Even Before USMCA Businesses Were Planning Continued Investment



Source: Bank of Canada, Statistics Canada, TD Economics

- While the deal has been signed, it is not yet official. Ratification is likely to occur in 2019 under the new, divided U.S. Congress. There are already some Democrats voicing concern that the enforcement of labour and environmental standards does not have sufficient teeth. As well, the deal did not address the imposition of American 'Section 232' tariffs on steel and aluminum.
- We remain concerned that the environment that led to the negotiations has also led to investment scarring. The volatility of U.S. policy may have left a permanent mark on companies and the investor climate, prompting greater investment outside of Canada than would have otherwise been the case.

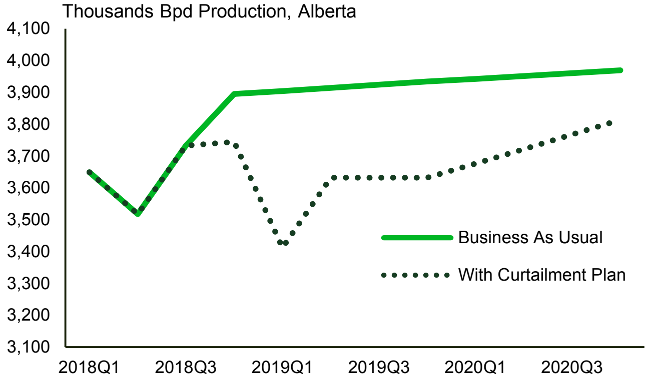
Business investment missteps despite high confidence

- Scarring may still be on our minds, but judging by the surveys of business leaders, it hardly troubles theirs. The Bank of Canada's latest Business Outlook Survey pointed to elevated confidence relative to history. (Chart 16).
- This is consistent with other indicators, including elevated capacity utilization rates in many manufacturing sectors, as well as an increase in firms citing worsening labour shortages.
- However, the sentiment indicators were at clear odds with the data in Q3, which showed an unexpected pullback of business investment. Some of this should prove temporary, such as a massive drop in aircraft spending. But, some tempering of future expectations seems warranted given the soft read.
- Fortunately, business investment will now be further incented by recent tax changes. The federal government's fall economic statement contained significant sweeteners in response to U.S. changes, notably immediate full expensing of several investment categories (see our commentary). Nearly all investment categories will be eligible for accelerated depreciation. On net, the change brings Canadian marginal tax rates back below those in the United States.
- On balance, we expect modest, but positive investment growth in 2019, with activity accelerating in 2020 as the LNG project in B.C. starts to leave its mark on the data.

Energy sector: past woes come back to haunt

- Perhaps the single largest vote of business confidence was the recent decision by LNG Canada to proceed with its large-scale natural gas project in British Columbia. The firm commitment is for $24 billion of investment (rising to $40 billion if the decision is made to double liquefaction capacity beyond 2023). Reportedly, this marks the largest single investment in Canadian history. Alberta's natural gas industry is poised to benefit from the increased export capacity upon expected completion in 2023. However, the B.C. economy is the clear winner, benefiting from a significant medium-term forecast upgrade beginning in 2020.
- In the near-term, it is a less positive story. Canadian oil producers have been squeezed as production has climbed without a matching increase in take-away ca-

Chart 17: Government Curtailments a Big Change from Business as Usual



NEB 'Low Price' scenario shown as "Business As Usual"
Source: Government of Alberta, National Energy Board, TD Economics

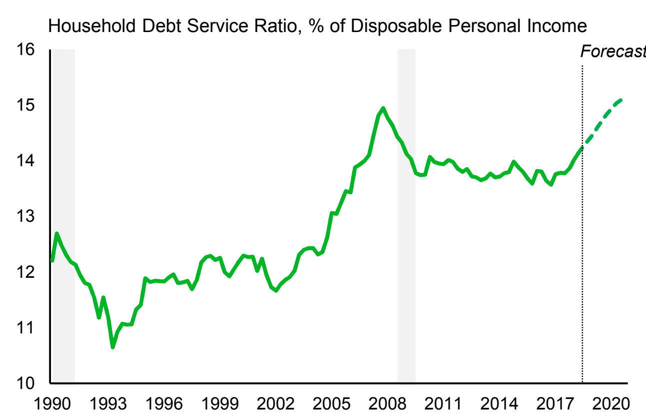
pacity. The result has been extreme discounts to non-Canadian benchmark prices (see report).

- Production shut-ins among some producers will become government-mandated sector-wide curtailment in January (see analysis). Approximately 325k bpd of production will be affected in Q1, shrinking to 95k thereafter, through the end of the year, in an effort to better balance supply and take-away capacity (Chart 17). The government expects that by end-2019, sufficient capacity will be in place between new rail equipment and a revamped Line 3 pipeline.
- Our outlook sees the difference between the U.S. WTI benchmark and the Canadian heavy oil WCS price settling at about US$20 by mid-year, with a 'normal' discount of US$15 or so not expected until 2020. This means that the Alberta government will likely stick to its curtailment plan.
- Pulling roughly 9% of capacity offline for a quarter, and 3% off for a year will have a noticeable impact on growth. Beyond the -0.5 percentage point impact on annualized growth in 2018Q4 from existing production shut-ins, 2019Q1 growth is dragged lower by about one percentage point, with a partial recovery in Q2 and over the course of 2020 (+0.1 p.p. for the year as a whole).

Household spending steps out of the limelight

- The volatility in business investment comes with unfortunate timing. The consumer side of the economy is cooling in response to interest rate changes and high indebtedness. The household debt service ratio has risen for seven straight quarters through 2018Q3, and our analysis suggests that it will continue to rise towards pre-recession levels by 2020 (Chart 18).
- Households do have some relief valves, such as extending mortgage amortizations, that will help ease the burden. But, the bottom line is that a rising share of income will be dedicated to servicing debts, sapping spending power. This is the key reason why we expect consumption growth to settle around the 1.5% mark by 2020, well shy of its post-crisis average of 2.6%.
- Similarly, rising rates are a clear headwind to housing markets. However, it is important to bear in mind a key fundamental: population growth has been very robust of late, and is set to remain healthy for the foreseeable future with an immigration target of 340k by 2020. With many of these new Canadians destined for 'landing pad' cities such as Toronto and Vancouver, demand conditions should remain healthy. All told, we see more balanced conditions prevailing that will prevent another run-up in sales and prices.
- Housing conditions vary by market, but the general message conveyed is stability. In B.C., activity was walloped by provincial measures on top of rising rates and extremely strained affordability conditions. Fortunately, early indications suggest that Q4 began on more stable footing with a bottom in sight. Ontario was one of the first markets to recover from B-20 weakness, marked by a surge of sales in Q3. This momentum cooled as we entered the home stretch for 2018

Chart 18: Rising Rates Will Send DSR to New Highs



Source: Statistics Canada. Forecast by TD Economics.

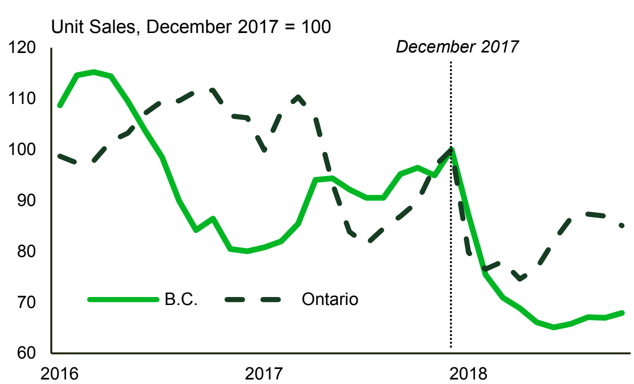
(Chart 19). Elsewhere, performances are mixed, but aren't waving any red flags; New Brunswick and Quebec continue to see healthy gains, while soft conditions prevail in the Prairies.

- For the year ahead, we anticipate most major Canadian resale markets to remain in a holding pattern, caught between continued healthy income fundamentals and gradually rising interest rates. Price gains are expected to be muted in most parts of the country.

A dash of rate hikes, with a pinch of caution

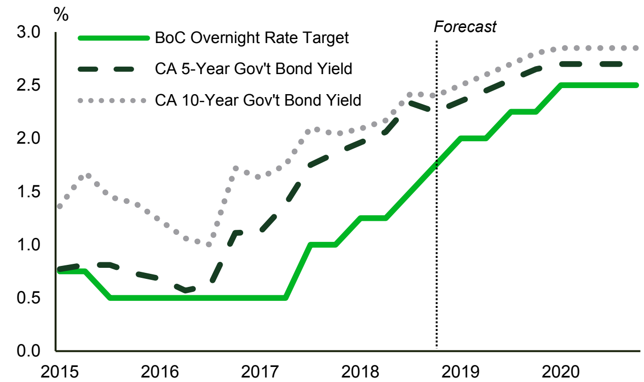
- As noted, the Bank of Canada's five interest rate increases over the past year and a half are already leaving a mark on household spending. Further hikes are anticipated in 2019, but at a cautious pace of only two additional moves (Chart 20).
- The Bank has cited their estimated neutral range to be 2.50% to 3.50%. Interestingly, this is the same range as that identified by the Federal Reserve for the fed funds rate, but it would be far less likely that the Bank of Canada would move as deep into that range.
- However, our Bank of Canada policy path has a few more qualifiers than that for the U.S. Federal Reserve.
  1. Oil production and energy prices maintain the planned trajectories. The central bank should look through temporary disruptions, but cannot dismiss risks altogether of further disruptions given slowing global growth in conjunction with Canadian-specific supply-side factors. A risk management framework implies waiting until a bit more certainty is in play.
  2. The central bank will be seeking a 'soft deleveraging' landing (i.e., income gains outpacing still positive credit growth). Recent data has shown a tick-up in consumer borrowing on a month-on-month basis, suggesting that this goal is achievable.
  3. The Bank is looking for an acceleration of wage growth to the 3% to 4% level, which it views as consistent with tight labour markets. This has so far failed to materialize. The Bank has suggested that it expects wage pressures to become more evident in 2019.
- As the Bank of Canada continues to raise rates and Canadian oil prices improve, the Canadian dollar should strengthen from its current level of around 75 US cents to around 77 US cents by mid-2019. However, this outcome is materially dependent on how event-risk evolves south of the border.

Chart 19: Ontario Home Sales Through the Worst of B-20, B.C. Just Bottoming Out



Source: CREA, TD Economics

Chart 20: Path for Bank of Canada and Yields



Source: Bank of Canada, TD Economics

Interest Rate Outlook												
	2018				2019				2020			
	Q1	Q2	Q3	Q4*	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Canada												
Overnight Target Rate	1.25	1.25	1.50	1.75	2.00	2.00	2.25	2.25	2.50	2.50	2.50	2.50
3-mth T-Bill Rate	1.10	1.26	1.59	1.66	2.00	2.13	2.25	2.38	2.50	2.50	2.50	2.50
2-yr Govt. Bond Yield	1.77	1.91	2.21	2.06	2.20	2.35	2.45	2.50	2.55	2.55	2.55	2.55
5-yr Govt. Bond Yield	1.96	2.06	2.33	2.07	2.30	2.45	2.55	2.65	2.70	2.70	2.70	2.70
10-yr Govt. Bond Yield	2.09	2.17	2.42	2.12	2.40	2.55	2.70	2.80	2.85	2.85	2.85	2.85
30-yr Govt. Bond Yield	2.23	2.20	2.41	2.27	2.55	2.75	2.95	3.05	3.10	3.10	3.10	3.10
10-yr-2-yr Govt Spread	0.32	0.26	0.21	0.06	0.20	0.20	0.25	0.30	0.30	0.30	0.30	0.30
U.S.												
Fed Funds Target Rate	1.75	2.00	2.25	2.50	2.50	2.75	3.00	3.00	3.00	3.00	3.00	3.00
3-mth T-Bill Rate	1.73	1.93	2.19	2.38	2.53	2.78	2.90	2.90	2.90	2.90	2.90	2.90
2-yr Govt. Bond Yield	2.27	2.52	2.81	2.77	2.85	2.90	2.95	2.95	2.95	2.95	2.95	2.95
5-yr Govt. Bond Yield	2.56	2.73	2.94	2.77	2.90	2.95	3.00	3.00	3.00	3.00	3.00	3.00
10-yr Govt. Bond Yield	2.74	2.85	3.05	2.91	3.05	3.10	3.15	3.15	3.15	3.15	3.15	3.15
30-yr Govt. Bond Yield	2.97	2.98	3.19	3.15	3.30	3.35	3.40	3.40	3.40	3.40	3.40	3.40
10-yr-2-yr Govt Spread	0.47	0.33	0.24	0.14	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
Canada-U.S. Spreads												
Can - U.S. T-Bill Spread	-0.63	-0.67	-0.60	-0.72	-0.53	-0.65	-0.65	-0.52	-0.40	-0.40	-0.40	-0.40
Can - U.S. 10-Year Bond Spread	-0.65	-0.68	-0.63	-0.79	-0.65	-0.55	-0.45	-0.35	-0.30	-0.30	-0.30	-0.30

F: Forecast by TD Bank Group as at December 2018. All forecasts are end-of-period.
Source: Bloomberg, Bank of Canada, Federal Reserve, TD Economics. * Spot rate as at December 12, 2018 with the exception of policy rates.

Foreign Exchange Outlook													
Currency	Exchange rate	2018				2019				2020			
		Q1	Q2	Q3	Q4*	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Exchange rate to U.S. dollar													
Japanese yen	JPY per USD	106	111	113	113	110	107	106	105	104	103	103	102
Euro	USD per EUR	1.23	1.17	1.16	1.14	1.16	1.18	1.20	1.21	1.22	1.23	1.24	1.25
U.K. pound	USD per GBP	1.40	1.32	1.31	1.26	1.30	1.31	1.32	1.33	1.34	1.35	1.36	1.37
Exchange rate to Canadian dollar													
U.S. dollar	USD per CAD	0.78	0.76	0.77	0.75	0.76	0.77	0.78	0.78	0.79	0.79	0.79	0.79
Japanese yen	JPY per CAD	82.4	84.3	87.8	84.7	84.0	82.3	82.2	82.0	81.9	81.3	81.1	80.8
Euro	CAD per EUR	1.59	1.53	1.50	1.52	1.52	1.53	1.55	1.55	1.55	1.56	1.57	1.58
U.K. pound	CAD per GBP	1.81	1.73	1.69	1.69	1.70	1.70	1.70	1.70	1.70	1.71	1.72	1.73

F: Forecast by TD Bank Group as at December 2018. All forecasts are end-of-period.
Source: Bloomberg, Bank of Canada, Federal Reserve, TD Economics. * Spot rate as at December 12, 2018.

Commodity Price Outlook												
	2018				2019				2020			
	Q1	Q2	Q3	Q4F	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Crude Oil (WTI, $US/bbl)	63	68	70	60	58	61	64	65	65	66	66	66
Natural Gas ($US/MMBtu)	3.10	2.82	2.90	3.85	3.70	3.60	3.50	3.40	3.30	3.32	3.33	3.35
Gold ($US/troy oz.)	1329	1306	1213	1225	1240	1275	1300	1325	1350	1355	1362	1367
Silver (US$/troy oz.)	16.74	16.56	15.02	14.60	15.25	16.00	16.50	17.00	17.50	17.75	17.70	17.70
Copper (cents/lb)	316	312	277	280	284	294	302	306	308	310	311	314
Nickel (US$/lb)	6.01	6.56	6.02	5.58	5.90	6.12	6.35	6.49	6.46	6.49	6.52	6.65
Aluminum (cents/lb)	98	102	93	91	97	98	99	101	101	102	102	103
Wheat ($US/bu)	7.42	7.46	6.70	6.92	6.94	6.94	7.02	7.05	7.00	6.95	6.95	6.90

F: Forecast by TD Bank Group as at December 2018. All forecasts are period averages.
Source: Bloomberg, TD Economics, USDA (Haver).

Canadian Economic Outlook *Period-Over-Period Annualized Per Cent Change Unless Otherwise Indicated*	2018				2019				2020				Annual Average			4th Qtr/4th Qtr		
	Q1	Q2	Q3	Q4F	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	18F	19F	20F	18F	19F	20F
Real GDP	1.7	2.9	2.0	1.6	0.8	2.5	1.9	2.1	1.8	2.0	2.0	2.3	2.1	1.8	2.0	2.1	1.8	2.0
Consumer Expenditure	1.5	2.3	1.2	1.4	1.7	1.5	1.6	1.7	1.6	1.6	1.5	1.5	2.2	1.6	1.6	1.6	1.6	1.6
Durable Goods	1.4	0.6	-2.7	-1.0	1.1	1.4	1.6	1.3	1.2	1.4	1.8	1.7	1.6	0.3	1.4	-0.4	1.4	1.5
Business Investment	14.1	0.6	-6.9	3.6	2.4	4.1	4.4	4.5	4.8	4.9	4.9	4.9	4.9	2.0	4.7	2.6	3.9	4.9
Non-Res. Structures	5.7	0.3	-5.2	-1.0	1.8	3.7	3.2	3.7	4.0	4.1	4.1	3.9	3.1	0.9	3.8	-0.1	3.1	4.0
Equipment & IPP*	23.9	1.0	-8.5	8.7	3.1	4.7	5.6	5.5	5.6	5.9	5.8	6.0	6.8	3.2	5.6	5.6	4.7	5.8
Residential Investment	-7.9	-0.1	-5.9	-0.3	2.0	2.1	2.0	1.9	1.8	2.5	3.0	3.1	-1.1	0.4	2.2	-3.6	2.0	2.6
Govt. Expenditure	2.3	1.2	1.9	1.4	1.6	1.7	1.8	1.9	1.7	1.7	1.7	1.8	3.0	1.6	1.7	1.7	1.7	1.7
Final Domestic Demand	2.2	1.8	-0.1	1.8	1.7	1.8	2.0	2.1	2.0	2.0	2.0	2.1	2.5	1.6	2.0	1.4	1.9	2.0
Exports	2.3	13.0	0.9	2.8	2.1	2.2	2.6	2.3	2.0	2.5	2.5	3.3	3.3	2.8	2.4	4.7	2.3	2.6
Imports	4.7	5.9	-7.8	1.1	2.0	2.1	2.1	2.2	2.5	2.7	2.8	2.8	3.2	0.8	2.5	0.8	2.1	2.7
Change in Non-farm Inventories (2007 $Bn)	16.7	14.2	6.2	4.5	-0.4	2.8	1.7	1.7	1.7	1.9	2.1	2.2	10.4	1.4	2.0	--	--	--
Final Sales	2.1	2.5	1.2	2.3	2.7	1.2	2.2	2.1	2.0	2.0	2.0	2.0	2.9	2.0	2.0	2.0	2.0	2.0
International Current Account Balance ($Bn)	-69.3	-66.7	-41.4	-49.1	-45.2	-43.5	-43.0	-44.3	-45.9	-47.0	-48.0	-47.6	-56.6	-44.0	-47.1	--	--	--
% of GDP	-3.2	-3.0	-1.8	-2.2	-2.0	-1.9	-1.9	-1.9	-1.9	-2.0	-2.0	-2.0	-2.5	-1.9	-2.0	--	--	--
Pre-tax Corp. Profits	1.5	13.4	19.0	-5.0	-4.5	3.0	4.5	5.0	5.2	5.4	5.5	5.6	4.3	2.2	5.0	6.8	1.9	5.4
% of GDP	12.8	13.1	13.5	13.3	13.0	13.0	13.0	13.0	13.0	13.1	13.1	13.2	13.2	13.0	13.1	--	--	--
GDP Deflator (y/y)	1.7	2.1	2.6	1.4	1.7	1.8	1.6	2.2	2.0	2.0	1.9	1.9	1.9	1.8	2.0	1.4	2.2	1.9
Nominal GDP	2.9	4.6	5.0	1.2	3.6	4.6	4.1	4.1	3.8	3.9	4.0	4.2	4.0	3.6	4.0	3.4	4.1	4.0
Labour Force	-0.5	1.1	1.4	1.2	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.8	0.9	0.6	0.8	0.6	0.6
Employment	0.1	0.7	1.3	2.1	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	1.3	1.0	0.6	1.0	0.6	0.6
Change in Empl. ('000s)	3.3	31.2	59.5	95.4	27.2	28.1	28.6	29.1	28.3	27.8	27.4	27.0	234	179	113	189	113	110
Unemployment Rate (%)	5.8	5.9	5.9	5.7	5.7	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.8	--	--	--
Personal Disp. Income	0.5	4.4	3.0	4.1	3.2	3.1	3.2	3.3	3.4	3.3	3.3	3.3	3.9	3.4	3.3	3.0	3.2	3.4
Pers. Savings Rate (%)	1.3	1.0	0.8	1.0	1.0	0.9	0.7	0.6	0.6	0.5	0.4	0.4	1.0	0.8	0.5	--	--	--
Cons. Price Index (y/y)	2.1	2.3	2.6	1.6	1.3	1.6	1.5	2.2	2.2	2.0	2.0	2.0	2.1	1.7	2.1	1.6	2.2	2.0
CPIX (y/y)**	1.4	1.4	1.6	1.7	1.5	2.0	2.0	2.0	2.0	2.0	2.0	2.0	1.5	1.9	2.0	1.7	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	2.0	2.0	2.0	2.0	2.0	2.0
Housing Starts ('000s)	225	219	197	207	199	198	197	196	196	195	196	196	212	198	196	--	--	--
Home Prices (y/y)	-4.8	-6.5	0.4	-4.1	2.5	4.2	0.8	2.5	1.6	1.4	1.4	1.7	-3.8	2.5	1.5	-4.1	2.5	1.7
Real GDP / worker (y/y)	0.7	0.6	0.9	1.0	0.7	0.6	0.8	1.2	1.5	1.3	1.4	1.4	0.8	0.8	1.4	1.0	1.2	1.4

F: Forecast by TD Economics as at December 2018.

Home price measure shown is the CREA Composite Sale Price.

*Intellectual Property Products. ** CPIX: CPI excluding the 8 most volatile components. BoC Inflation: simple average of CPI-trim, CPI-median, and CPI-common

Sources: Statistics Canada, Bank of Canada, Canada Mortgage and Housing Corporation, Haver Analytics, TD Economics.

U.S. Economic Outlook *Period-Over-Period Annualized Per Cent Change Unless Otherwise Indicated*																		
	2018				2019				2020				Annual Average			4th Qtr/4th Qtr		
	Q1	Q2	Q3	Q4F	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	18F	19F	20F	18F	19F	20F
Real GDP	2.2	4.2	3.5	2.3	2.1	2.5	2.3	2.0	1.7	2.0	1.6	1.8	2.9	2.5	1.9	3.0	2.2	1.8
Consumer Expenditure	0.5	3.8	3.6	2.9	1.9	2.4	2.3	2.2	2.1	2.3	2.2	2.2	2.7	2.6	2.2	2.7	2.2	2.2
Durable Goods	-2.0	8.6	3.9	5.4	2.9	4.3	4.2	4.4	4.2	4.6	4.6	4.3	5.7	4.3	4.4	3.9	3.9	4.4
Business Investment	11.5	8.7	2.5	4.0	4.1	4.2	4.0	3.8	3.6	3.4	3.3	3.2	6.8	4.1	3.6	6.6	4.0	3.4
Non-Res. Structures	13.9	14.5	-1.7	0.9	2.6	3.4	3.2	3.1	3.0	3.1	2.9	2.8	5.5	2.7	3.1	6.7	3.1	3.0
Equipment & IPP*	10.8	7.1	3.8	5.0	4.5	4.4	4.2	4.0	3.8	3.5	3.4	3.3	7.2	4.6	3.8	6.6	4.3	3.5
Residential Investment	-3.4	-1.4	-2.6	-4.5	-1.9	1.8	1.5	3.5	3.0	1.9	1.7	3.0	-0.2	-1.0	2.5	-3.0	1.2	2.4
Govt. Expenditure	1.5	2.5	2.6	4.0	3.1	2.8	0.9	0.7	0.8	1.7	-0.3	-0.1	1.7	2.7	0.9	2.6	1.9	0.5
Final Domestic Demand	1.9	4.0	3.1	2.9	2.2	2.7	2.2	2.2	2.1	2.3	1.9	2.0	2.9	2.7	2.2	3.0	2.3	2.1
Exports	3.6	9.3	-4.4	2.9	5.3	5.4	6.0	6.4	5.6	5.0	4.1	4.0	4.1	4.0	5.4	2.7	5.8	4.7
Imports	3.0	-0.6	9.2	7.8	1.9	6.5	6.2	6.5	6.6	5.9	5.2	4.7	4.9	5.4	6.1	4.8	5.2	5.6
Change in Private Inventories	30.3	-36.8	86.6	94.3	70.7	72.4	83.5	81.7	77.3	72.3	67.7	66.1	43.6	77.1	70.8	--	--	--
Final Sales	1.9	5.4	1.2	2.2	2.7	2.4	2.1	2.0	1.8	2.1	1.7	1.8	2.8	2.4	2.0	2.7	2.3	1.9
International Current Account Balance ($Bn)	-487	-406	-495	-563	-530	-552	-571	-585	-592	-602	-609	-612	-488	-559	-604	--	--	--
% of GDP	-2.4	-2.0	-2.4	-2.7	-2.5	-2.6	-2.6	-2.7	-2.7	-2.7	-2.7	-2.7	-2.4	-2.6	-2.7	--	--	--
Pre-tax Corporate Profits including IVA&CCA	5.0	12.5	14.3	-1.3	10.7	3.7	2.7	1.1	1.4	2.5	2.8	3.6	7.8	5.9	2.2	7.5	4.5	2.6
% of GDP	10.9	11.0	11.2	11.1	11.2	11.2	11.2	11.1	11.0	10.9	10.9	10.9	11.0	11.2	10.9	--	--	--
GDP Deflator (y/y)	2.0	2.4	2.3	2.1	2.3	2.0	2.2	2.3	2.3	2.4	2.4	2.5	2.2	2.2	2.4	2.1	2.3	2.5
Nominal GDP	4.3	7.6	5.0	4.0	4.7	4.6	4.7	4.4	4.2	4.5	4.0	4.3	5.2	4.8	4.4	5.2	4.6	4.3
Labor Force	2.8	0.3	0.6	1.8	0.9	1.1	1.1	1.0	1.0	1.7	0.2	0.6	1.1	1.1	1.0	1.4	1.0	0.9
Employment	1.7	1.7	1.7	1.6	1.5	1.3	1.2	1.0	0.8	1.4	0.1	0.3	1.6	1.5	0.9	1.7	1.3	0.7
Change in Empl. ('000s)	633	634	623	587	574	485	440	392	313	531	38	121	2,378	2,166	1,396	2,477	1,891	1,003
Unemployment Rate (%)	4.1	3.9	3.8	3.7	3.6	3.6	3.6	3.6	3.7	3.8	3.8	3.9	3.9	3.6	3.8	--	--	--
Personal Disp. Income	7.0	3.8	3.9	4.4	4.7	4.9	4.6	4.7	4.8	4.5	4.1	4.3	4.8	4.5	4.6	4.8	4.7	4.4
Pers. Savings Rate (%)	7.2	6.7	6.3	6.3	6.4	6.5	6.5	6.6	6.7	6.7	6.6	6.6	6.6	6.5	6.6	--	--	--
Cons. Price Index (y/y)	2.3	2.6	2.6	2.2	1.8	2.0	2.2	2.3	2.3	2.3	2.2	2.2	2.4	2.1	2.3	2.2	2.3	2.2
Core CPI (y/y)	1.9	2.2	2.2	2.2	2.1	2.2	2.3	2.3	2.3	2.3	2.4	2.4	2.1	2.2	2.4	2.2	2.3	2.4
Core PCE Price Index (y/y)	1.7	1.9	2.0	1.8	1.8	1.8	2.0	2.1	2.1	2.1	2.1	2.2	1.9	1.9	2.1	1.8	2.1	2.2
Housing Starts (mns)	1.32	1.26	1.22	1.23	1.23	1.24	1.24	1.25	1.26	1.27	1.28	1.29	1.26	1.24	1.27	--	--	--
Real Output per hour** (y/y)	1.0	1.3	1.3	1.5	1.6	1.2	0.9	1.1	1.3	1.2	1.3	1.4	1.2	1.2	1.3	1.5	1.1	1.4

F: Forecast by TD Economics as at December 2018.

*Intellectual Property Products. **Non-farm business sector.

Source: Bureau of Labor Statistics, Bureau of Economic Analysis, Census Bureau, TD Economics.

Global Economic Outlook					
Annual Per Cent Change Unless Otherwise Indicated					
	2017 Share*		Forecast		
Real GDP	(%)	2017	2018	2019	2020
World	100.0	3.8	3.7	3.4	3.5
North America	18.6	2.3	2.7	2.5	2.0
United States	15.3	2.2	2.9	2.5	1.9
Canada	1.4	3.0	2.1	1.8	2.0
Mexico	1.9	2.3	2.1	2.4	2.7
European Union (EU-28)	16.5	2.5	2.0	1.7	1.7
Euro Area (EU-19)	11.6	2.5	1.9	1.5	1.5
Germany	3.3	2.5	1.5	1.3	1.4
France	2.2	2.3	1.5	1.3	1.3
Italy	1.8	1.6	0.9	0.6	1.1
United Kingdom	2.3	1.7	1.3	1.6	1.7
EU accession members	2.6	4.2	3.8	2.9	2.7
Asia	44.3	5.2	5.2	4.9	4.9
Japan	4.3	1.9	0.7	1.0	0.3
Asian NIC's	3.4	3.2	2.7	2.4	2.9
Hong Kong	0.4	3.8	3.3	1.4	2.8
Korea	1.6	3.1	2.6	2.8	3.0
Singapore	0.4	3.6	3.3	2.6	2.8
Taiwan	0.9	3.1	2.6	2.3	2.9
Russia	3.2	1.9	1.6	2.0	1.9
Australia & New Zealand	1.1	2.4	3.0	2.6	2.8
Developing Asia	32.4	6.3	6.4	6.1	6.1
ASEAN-5	5.4	5.3	5.2	4.7	5.1
China	18.2	6.8	6.6	6.2	6.0
India**	7.4	6.7	7.4	7.2	7.5
Central/South America	5.8	1.1	0.8	1.8	2.7
Brazil	2.5	1.1	1.3	2.4	2.7
Other Developing	13.7	3.1	3.1	2.7	3.4
Other Advanced	1.1	1.8	2.5	1.9	2.0

*Share of world GDP on a purchasing-power-parity (PPP) basis.
Forecast as at December 2018. **Forecast for India refers to fiscal year.
Source: IMF, TD Economics.

Economic Indicators: G7 & Europe				
		Forecast		
	2017	2018	2019	2020
Real GDP (annual per cent change)				
G7 (30.6%)*	2.1	2.1	1.9	1.5
U.S.	2.2	2.9	2.5	1.9
Japan	1.9	0.7	1.0	0.3
Euro Area	2.5	1.9	1.5	1.5
Germany	2.5	1.5	1.3	1.4
France	2.3	1.5	1.3	1.3
Italy	1.6	0.9	0.6	1.1
United Kingdom	1.7	1.3	1.6	1.7
Canada	3.0	2.1	1.8	2.0
Consumer Price Index (annual per cent change)				
G7	1.8	2.1	1.9	2.1
U.S.	2.1	2.4	2.1	2.3
Japan	0.4	1.1	1.4	2.3
Euro Area	1.5	1.7	1.7	1.8
Germany	1.7	1.9	1.7	1.8
France	1.2	2.1	1.8	1.9
Italy	1.3	1.3	1.3	1.2
United Kingdom	2.7	2.5	2.1	2.0
Canada	1.6	2.1	1.7	2.1
Unemployment Rate (per cent annual averages)				
U.S.	4.4	3.9	3.6	3.8
Japan	2.8	2.4	2.6	2.7
Euro Area	9.1	8.3	8.0	7.7
Germany	5.7	5.2	5.1	5.1
France	9.4	9.1	8.7	8.6
Italy	11.3	10.6	10.7	10.5
United Kingdom	4.3	4.1	4.2	4.4
Canada	6.3	5.8	5.8	5.8

*Share of 2017 world gross domestic product (GDP) at PPP.
Forecast as at December 2018.
Source: National statistics agencies, TD Economics.

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