

Long-Term Economic Forecast

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United States

- U.S. economic growth likely slowed in 2019 to 2.3%, from stimulus-fueled rate of 2.9% in 2018. Growth around the 2% mark is expected to continue in 2020 and 2021.
- At 3.5%, the current unemployment rate is near historic lows, and well under its pre-recession nadir. As growth slows, we expect a modest increase in the unemployment rate. Still, with an older, more-educated population, it is likely to remain low relative to history.
- 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, this will slow employment growth to 0.5% – roughly half the pace observed historically.
- Interest rates are also likely to remain low over the forecast horizon. We expect that as modest global growth and uncertainty on the trade front will cloud the outlook and the inflation rate remains a bit below target, the Federal reserve will leave rates unchanged for a prolonged period. As the economy gradually improves, the Fed is forecast to raise the funds rate back to 2.5% by the end of 2022, where it is expected to remain over the forecast horizon.

Canada

- Economic growth came back to earth in the third quarter, but the modest headline hid encouraging details, notably in the investment front. Revisions from Statistics Canada revealed more business spending and household savings than previously thought.
- Recently, uncertainty has moderated somewhat, but there remain many unresolved issues in terms of the global back-drop. Domestically, households are presently focused on repairing their balance sheets in the wake of all-time high debt service costs.
- There are few catalysts for a meaningful change in the pace of growth, positive or negative. Accordingly, we expect growth to trend around the economy's underlying potential growth rate of 1.7%. Consistent with this, employment growth is expected to normalize at around 0.7% per year, consistent with a longer-term unemployment rate of 5.7%. Labour productivity is expected to average 0.8% to 1.0% over the medium term, roughly consistent with historic averages.
- The risk of undue financial tightening as rising U.S. yields push their Canadian counterparts higher will result in a course correction from the Bank of Canada. We expect one rate cut in Spring 2020 to address this influence. As the durability of growth becomes reinforced, we expect the policy interest rate to move back to its long-run neutral setting of 1.75%.

U.S. Economic Outlook														
Period-Over-Period Annualized Per Cent Change Unless Otherwise Indicated														
	Annual Average							Fourth Quarter / Fourth Quarter						
	19F	20F	21F	22F	23F	24F	25F	19F	20F	21F	22F	23F	24F	25F
Real GDP	2.3	2.0	1.9	1.9	1.7	1.7	1.8	2.2	2.1	1.8	1.8	1.6	1.8	1.8
Consumer Expenditure	2.6	2.6	2.3	2.1	2.0	2.0	2.0	2.7	2.4	2.2	2.1	2.0	2.0	2.0
Durable Goods	4.9	4.5	2.9	3.5	4.1	4.2	4.3	6.2	3.2	2.7	3.9	4.1	4.3	4.2
Business Investment	2.3	1.4	3.0	3.0	3.1	3.1	3.1	0.4	2.8	3.0	3.1	3.1	3.1	3.1
Non-Res. Structures	-4.8	-5.3	0.6	1.2	2.1	2.6	2.5	-8.0	-0.5	0.8	1.5	2.5	2.6	2.5
Equipment & IPP*	4.4	3.3	3.6	3.5	3.4	3.2	3.3	2.9	3.7	3.5	3.5	3.3	3.2	3.3
Residential Investment	-1.6	3.0	1.0	0.7	0.6	1.2	1.2	1.1	2.4	1.0	0.5	0.7	1.4	1.2
Govt. Expenditure	2.2	1.9	0.7	0.4	-0.2	0.0	0.4	2.5	1.7	0.5	0.2	-0.3	0.3	0.5
Final Domestic Demand	2.3	2.3	2.1	1.9	1.7	1.8	1.9	2.3	2.3	2.0	1.8	1.7	1.8	1.9
Exports	-0.3	1.0	2.2	2.4	2.8	3.0	2.8	-1.1	3.1	1.8	2.6	2.8	3.0	2.7
Imports	1.3	1.6	3.7	3.0	3.0	3.1	3.2	-0.9	3.8	3.2	2.9	3.0	3.2	3.2
Change in Private Inventories	82.7	37.1	49.3	62.2	63.0	62.8	66.3	---	---	---	---	---	---	---
Final Sales	2.2	2.3	1.8	1.8	1.7	1.7	1.8	2.4	2.2	1.8	1.8	1.6	1.8	1.8
International Current Account Balance (\$Bn)	-523	-599	-723	-787	-809	-804	-784	---	---	---	---	---	---	---
% of GDP	-2.4	-2.7	-3.1	-3.3	-3.2	-3.1	-2.9	---	---	---	---	---	---	---
Pre-tax Corporate Profits including IVA&CCA	0.2	2.7	2.7	3.3	3.8	4.5	4.7	2.4	1.1	2.6	3.6	3.9	4.7	4.7
% of GDP	9.7	9.6	9.4	9.4	9.4	9.4	9.4	---	---	---	---	---	---	---
GDP Deflator (y/y)	1.8	1.9	2.1	2.2	2.3	2.4	2.4	1.7	2.0	2.1	2.3	2.3	2.4	2.4
Nominal GDP	4.1	4.0	4.0	4.1	4.0	4.2	4.3	4.0	4.1	4.0	4.1	4.0	4.3	4.2
Labor Force	0.9	1.3	0.7	0.7	0.7	0.6	0.5	1.0	0.9	0.7	0.7	0.6	0.6	0.5
Employment	1.6	1.1	0.7	0.6	0.6	0.5	0.5	1.4	0.9	0.7	0.6	0.5	0.5	0.5
Change in Empl. ('000s)	2,336	1,709	1,060	978	860	789	754	2,131	1,294	1,073	929	824	773	749
Unemployment Rate (%)	3.7	3.7	3.7	3.8	3.9	4.1	4.1	---	---	---	---	---	---	---
Personal Disp. Income	4.4	3.6	4.0	4.2	4.2	4.4	4.6	3.9	3.7	4.1	4.2	4.3	4.6	4.5
Pers. Savings Rate (%)	7.9	7.2	6.8	6.7	6.8	7.2	7.6	---	---	---	---	---	---	---
Cons. Price Index (y/y)	1.8	2.2	2.2	2.2	2.2	2.2	2.2	2.0	2.2	2.2	2.3	2.2	2.2	2.2
Core CPI (y/y)	2.2	2.3	2.2	2.3	2.3	2.3	2.3	2.3	2.2	2.3	2.3	2.3	2.3	2.3
Core PCE Price Index (y/y)	1.6	1.9	2.0	2.1	2.1	2.1	2.1	1.6	2.0	2.1	2.1	2.1	2.1	2.1
Housing Starts (mns)	1.26	1.33	1.34	1.35	1.36	1.37	1.38	---	---	---	---	---	---	---
Real Output per hour** (y/y)	1.6	0.9	1.5	1.6	1.5	1.7	1.8	1.4	1.4	1.5	1.5	1.6	1.8	1.8
*Intellectual proptry products. F: Forecast by TD Economics, December 2019.														
**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														
	Annual Average							4th Quarter / 4th Quarter						
	19F	20F	21F	22F	23F	24F	25F	19F	20F	21F	22F	23F	24F	25F
Real GDP	1.7	1.6	1.8	1.8	1.7	1.7	1.7	1.7	1.6	1.8	1.7	1.7	1.7	1.7
Consumer Expenditure	1.6	1.6	1.7	1.6	1.6	1.6	1.6	1.5	1.7	1.6	1.5	1.6	1.6	1.6
Durable Goods	0.9	1.2	1.6	1.7	1.5	1.5	1.5	1.7	1.3	1.8	1.5	1.5	1.5	1.5
Business Investment	0.4	3.0	3.8	3.9	3.0	2.6	2.4	4.5	2.7	4.4	3.5	2.8	2.5	2.4
Non-Res. Structures	1.2	3.7	3.4	3.5	2.9	2.5	2.4	5.8	2.5	3.8	3.1	2.8	2.4	2.4
Equipment & IPP*	-0.5	2.3	4.2	4.4	3.1	2.6	2.5	3.0	2.9	4.9	3.8	2.9	2.5	2.5
Residential Investment	-0.4	5.1	3.1	2.3	1.9	1.8	1.8	5.1	3.5	2.9	2.1	1.9	1.8	1.8
Govt. Expenditure	1.8	1.1	0.9	1.5	1.8	1.8	1.8	1.8	0.9	1.0	1.7	1.8	1.8	1.8
Final Domestic Demand	1.4	1.9	1.8	1.9	1.8	1.8	1.7	2.2	1.7	1.9	1.8	1.8	1.8	1.7
Exports	2.0	2.0	2.4	3.0	2.8	2.7	2.6	2.1	2.1	2.7	3.1	2.7	2.7	2.5
Imports	0.5	1.2	2.7	3.4	3.1	2.8	2.7	1.2	2.2	3.1	3.5	2.9	2.7	2.7
Change in Non-farm Inventories (2012 \$Bn)	6.1	-2.9	-2.3	-2.1	-2.1	-2.4	-2.5	--	--	--	--	--	--	--
Final Sales	1.6	2.5	1.8	1.9	1.8	1.8	1.7	3.0	1.8	1.9	1.8	1.8	1.8	1.7
International Current Account Balance (\$Bn)	-43.5	-44.4	-50.6	-56.5	-60.7	-62.5	-63.4	--	--	--	--	--	--	--
% of GDP	-1.9	-1.9	-2.0	-2.2	-2.3	-2.3	-2.2	--	--	--	--	--	--	--
Pre-tax Corp. Profits	-0.2	1.2	3.9	3.8	3.6	3.6	3.6	5.4	2.7	4.1	3.7	3.6	3.6	3.6
% of GDP	12.4	12.2	12.2	12.2	12.2	12.2	12.2	--	--	--	--	--	--	--
GDP Deflator (y/y)	1.8	1.9	2.0	1.9	1.9	1.9	1.9	2.9	1.9	2.0	1.9	1.8	1.9	1.9
Nominal GDP	3.6	3.6	3.8	3.7	3.6	3.6	3.6	4.7	3.6	3.8	3.6	3.6	3.6	3.6
Labour Force	1.9	1.1	0.8	0.7	0.7	0.7	0.7	2.0	0.9	0.8	0.7	0.7	0.7	0.7
Employment	2.1	0.8	0.8	0.8	0.8	0.7	0.7	1.8	0.8	0.8	0.8	0.7	0.7	0.7
Change in Empl. ('000s)	386	162	160	155	148	140	132	342	147	162	151	145	138	129
Unemployment Rate (%)	5.7	5.9	5.8	5.8	5.7	5.7	5.7	--	--	--	--	--	--	--
Personal Disp. Income	4.6	4.5	3.7	3.5	3.5	3.5	3.6	5.2	4.0	3.6	3.5	3.5	3.6	3.6
Pers. Savings Rate (%)	3.0	3.7	3.6	3.4	3.4	3.4	3.5	--	--	--	--	--	--	--
Cons. Price Index (y/y)	2.0	1.9	2.0	2.0	2.0	2.0	2.0	2.2	1.8	2.0	2.0	2.0	2.0	2.0
CPIX (y/y) **	1.8	2.0	2.0	2.0	2.0	2.0	2.0	2.0	1.9	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	2.0	2.0
Housing Starts ('000s)	209	206	210	202	201	203	204	--	--	--	--	--	--	--
Home Prices (y/y)	2.1	7.8	3.1	2.2	2.5	2.8	2.8	6.9	4.0	2.5	2.2	2.6	2.8	2.9
Real GDP / worker (y/y)	-0.4	0.8	0.9	1.0	1.0	1.0	1.0	-0.1	0.9	0.9	0.9	1.0	1.0	1.0
F: Forecast by TD Economics, December 2019.														
* 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						
	19F	20F	21F	22F	23F	24F	25F	19F	20F	21F	22F	23F	24F	25F
U.S. FIXED INCOME														
Fed Funds Target Rate (%)*	2.20	1.75	1.95	2.50	2.50	2.50	2.50	1.75	1.75	2.25	2.50	2.50	2.50	2.50
3-mth T-Bill Rate (%)	1.95	1.55	1.85	2.30	2.30	2.30	2.30	1.55	1.55	2.17	2.30	2.30	2.30	2.30
2-yr Govt. Bond Yield (%)	1.85	1.80	2.15	2.40	2.40	2.40	2.40	1.65	1.90	2.30	2.40	2.40	2.40	2.40
5-yr Govt. Bond Yield (%)	1.80	1.85	2.25	2.50	2.50	2.50	2.50	1.70	2.00	2.40	2.50	2.50	2.50	2.50
10-yr Govt. Bond Yield (%)	2.00	2.05	2.45	2.65	2.65	2.65	2.65	1.90	2.20	2.60	2.65	2.65	2.65	2.65
10-yr-2-yr Govt. Spread (%)	0.15	0.25	0.30	0.25	0.25	0.25	0.25	0.25	0.30	0.30	0.25	0.25	0.25	0.25
CANADIAN FIXED INCOME														
Overnight Target Rate (%)	1.75	1.55	1.50	1.55	1.75	1.75	1.75	1.75	1.50	1.50	1.75	1.75	1.75	1.75
3-mth T-Bill Rate (%)	1.65	1.45	1.40	1.50	1.75	1.75	1.75	1.65	1.40	1.40	1.65	1.75	1.75	1.75
2-yr Govt. Bond Yield (%)	1.60	1.45	1.60	1.80	1.85	1.85	1.85	1.70	1.45	1.65	1.85	1.85	1.85	1.85
5-yr Govt. Bond Yield (%)	1.50	1.55	1.75	1.90	1.95	1.95	1.95	1.65	1.60	1.80	1.95	1.95	1.95	1.95
10-yr Govt. Bond Yield (%)	1.55	1.55	1.85	2.05	2.10	2.10	2.10	1.65	1.65	1.90	2.10	2.10	2.10	2.10
10-yr-2-yr Govt. Spread (%)	-0.05	0.10	0.25	0.25	0.25	0.25	0.25	-0.05	0.20	0.25	0.25	0.25	0.25	0.25
<p>*Upper bound of target range. F: Forecast by TD Economics as at December 2019.</p> <p>Annual averages are the average of the four quarterly end-of-period forecasts.</p> <p>Source: Bank of Canada, Bloomberg, Statistics Canada, TD Economics.</p>														

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