TD Economics

Quarterly Economic Forecast

The Art Of The Deal Makes A Late Appearance

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Summary

- We ended 2018 with a report discussing the many event risks that required political solutions in 2019, from U.S.-China trade tensions, to USMCA, to Brexit. We close 2019 with movement on all three fronts, but not nearly as much as is needed to remove global and business uncertainty and kick-start the investment cycle. But, beggars can't be choosers.
- Some de-risking in market sentiment is a net positive, but now the ultimate test will be the extent in which it is transmitted into economic outcomes. The wheels were set in motion this year with trade disruptions that not only lingered far longer than expected, but also proved more detrimental to global economic momentum. This led to a series of downgrades, with world real GDP now tracking the slowest pace in a decade at 2.8%. For 2020, we anticipate a modest improvement to 3.0%.
- With interest rates nearing effective lower limits in regions like Europe and Japan, the push is on for more fiscal stimulus. This can turn into a wildcard that generates better economic outcomes in 2020, but based on fiscal plans announced so far, the boost to 2020 global GDP appears similar to that of this year (+0.4 ppts).
- Regionally, the U.S. will continue to lead the G7 in economic growth by a good margin, and recent progress on negotiations with China offer upside potential to near-term exports. However, the absence of a broader trade deal that offers clear line of sight and assurances on the business backdrop is likely to still restrain investment. Plus, trade policy uncertainty will persist with other nations, particularly Europe which is a larger trading partner to the U.S. than China.
- The threat of U.S. auto tariffs on the EU and Japan remains in place, but we are counting on no material tariff escalation to major trading partners during a re-election campaign that could cost jobs in key battleground states.
- Putting aside trade tensions and casting our eyes to other economies, many face idiosyncratic domestic challenges. This is particularly true for emerging markets that face knock-on impacts from a slowing Chinese economy, political unrest, and the risk that nervous investors divert capital at the first sign of trouble.

Chapters

Forecast Tables

U.S. Economy: Fed Pivot Shores Up Demand

- At a high level, the American economy has performed close to our expectations in 2019. Growth is on track to slow from 2.9% in 2018 to 2.3% this year. However, beneath the surface, the composition of growth is different from what we expected a year ago in two areas.

- First, the global slowdown and elevated uncertainty stopped business spending in its tracks by mid-year and turned down manufacturing activity.
- Second, the Federal Reserve needed to respond by pivoting to cutting rates (a total of 75 basis points). This succeeded in normalizing the yield curve slope, but we anticipate a relatively flat curve will persist in the absence of compelling evidence of stronger inflationary or economic pressures.

- The good news is that the almighty consumer has responded to the lower rates in textbook fashion by increasing demand for interest-sensitive durables as well as home sales. Continued strength in job markets has also generated a positive impulse for household income and spending growth.

Table 1: Economic & Financial Forecasts

	2019F	2020F	2021F
Real GDP (annual % change)	2.3	2.0	1.9
Rates (%)			
Fed Funds Target Rate	1.75	1.75	2.25
2-yr Govt. Bond Yield	1.65	1.90	2.30
10-yr Govt. Bond Yield	1.90	2.20	2.60
WTI ($US/bbl)	56	59	60

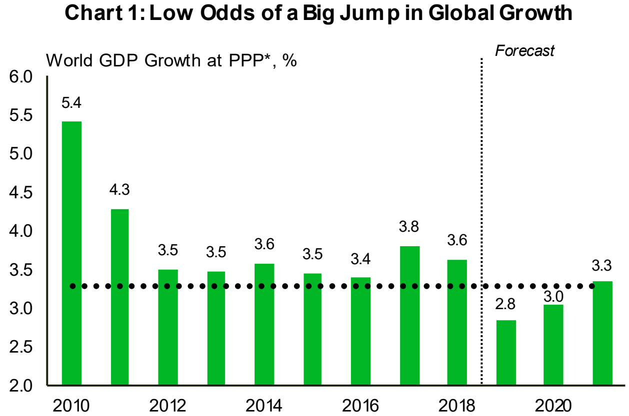
F: Forecast by TD Economics, December 2019; Forecasts for yields are end-of-period.
Source: Bloomberg, U.S. Federal Reserve.

- Provided that inflation remains close to the Fed's 2% target (as we expect), the central bank is likely to move to the sidelines and patiently observe the interaction of past rate cuts on the economy as well as developments on the global and trade fronts.

Global Outlook: Slower for Longer

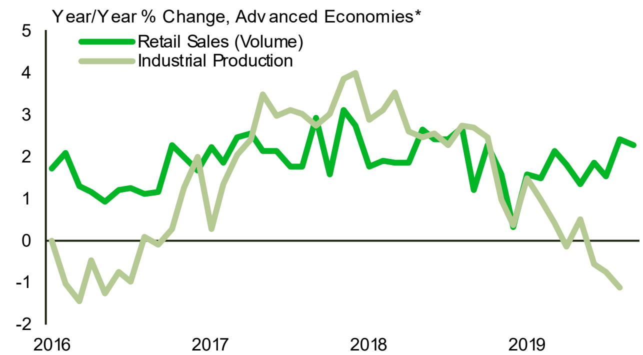
- 2019 global growth of 2.8% will mark the weakest rate in a decade. Unfortunately, there is little optimism for a strong rebound in 2020. We see only a modest lift to 3.0% next year, which would still mark a below-trend global pace (Chart 1).
- The forecast reflects weaker-than-expected performances in Europe and Asia through the end of this year, with little momentum to kickoff 2020.
    - The global manufacturing slump has intensified in recent months, officially landing on U.S. shores. Automobile manufacturing remains ground zero for the downturn.
    - In contrast, tight global labour markets have supported healthy wage gains, helping consumers largely shrug off the woes of the manufacturing sector (Chart 2). But, layoffs in manufacturing industries will test the resilience of the household sector – the keystone to the economic recovery.
- Although some trade-related economic uncertainty has abated in recent weeks, sustainability is key. Also, this impact will play second fiddle to the cyclical downturn in manufacturing and idiosyncratic shocks that have impacted several emerging market economies.
    - The announcement of a Phase 1 trade deal between the U.S. and China has removed the threat of more tariffs coming into play, but the devil is in the details. At the time of writing, official communication was elusive on providing specific timetables for tariff roll backs and trade details between the two countries. Nevertheless, the détente in trade tensions is a net positive to market sentiment and marks a de-risking of the global backdrop. This assumes the U.S. does not pivot to Europe on aggressive tariff action.
    - In the event that negative trade action takes place with Europe, it could mark the tipping point for Europe into a recession and once again undermine the stability of the global economy (including the U.S.) via the sentiment channel.
- Aside from trade, other downside risks linger, dampening growth and are likely to contribute to bouts of financial market volatility. These include geopolitical hotspots (Hong Kong, Iran, North Korea, Venezuela) and more recently popular protests in Bolivia, Chile, Lebanon and France.
- With below-trend growth persisting in a number of regions, there is little cushion to offset unanticipated shocks. In the G7, the risk of a further deterioration in economic activity is highest for the Euro Area (Germany and Italy) and the UK. In emerging markets, the risk is highest in Mexico and Brazil. Policymakers have reacted by cutting interest rates and committing to various fiscal packages, but economic growth is at risk of getting worse before improving.

Chart 1: Low Odds of a Big Jump in Global Growth



* Purchasing Power Parity. Source: IMF, Forecasts by TD Economics as at December 2019

Chart 2: Consumer Demand Remains Resilient



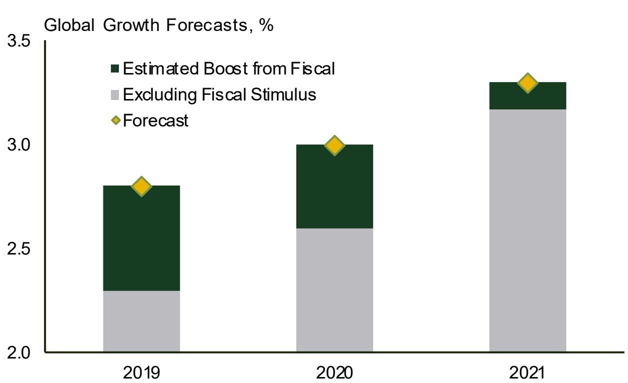
*Canada, U.S., Euro Area, UK and Japan, weighted by their respective relative PPP shares as of 2018. Source: BLS, FRB, Statistics Canada, Statistics Japan, Eurostat, IMF, TD Economics. Last Obs.: 19Q3.

Europe and Japan Weighing Most on G7 Growth

- The downturn in the European manufacturing sector has intensified and spread beyond Germany and Italy. As a result, Euro Area growth has slumped to a below-trend pace, with growth being kept afloat by a resilient consumer.

- In response, the ECB has delivered some stimulus by cutting the deposit rate by 10 basis points (to -0.5%) and restarted asset purchases equating to about €60bn per quarter. In addition, budgets announced this fall by member nations should help boost growth by about 0.2-0.3 percentage points next year (Chart 3). Nevertheless, this may still prove inadequate to prevent the Euro Area from slipping into a deeper economic downturn, especially if external demand falters further.
- After running hot in the first half of the year, Japan's economy has since weakened with the fourth quarter set to contract, as consumer spending adjusts to a rise in the value-added tax rate. Fiscal spending amounting to US $239bn has been announced as a means to support demand currently and after the 2020 Summer Olympics, the largest such fiscal package since 2016. Nevertheless, growth next year is likely to decelerate from this year's 1.2% pace.
- In the UK, parliament has agreed to a withdrawal agreement with the EU, but a conclusion to the Brexit saga remains elusive. The strong Conservative majority election victory last week should ensure that PM Boris Johnson's withdrawal agreement passes parliament by the January 31st deadline. Still, even with an agreement to leave in hand, the future trading relationship between the UK and the EU will still need to be redefined. As a result, the associated prolonged period of uncertainty should continue to weigh on the economy, keeping growth at or below 1% next year.

Chart 3: Fiscal Stimulus to Provide a Modest Lift to Global Growth



Source: TD Economics

EMs Hampered by Domestic Concerns

- Emerging Market Economies (EMEs) remain challenged on a number of fronts. Although the low inflation environment has enabled policymakers to react by injecting stimulus (lower policy rates, increased fiscal spending), idiosyncratic challenges and the potential for an escalation in trade tensions threaten their outlook.
  - Latin America is mired in an economic downturn, with crises in Argentina and Venezuela weighing on the outlook for the wider region.
  - Both India and China are struggling to boost economic activity. India is working its way through a bank credit crunch, while China's structural economic slowdown continues, exacerbated by U.S. tariffs.
  - Even east Asian economies, some of which have benefitted from the trade diversion due to U.S.-China trade tensions, have been caught in the global manufacturing slowdown.
- Chinese demand seasonally slows every winter, but higher frequency indicators suggest that the economy has slowed more than expected in the past few months. In response, policymakers have begun to more aggressively cut the price of bank credit, and local government fiscal expenditures are expected to ramp up in the months ahead. Encouragingly, manufacturing and services industry sentiment is improving, signalling that past stimulus efforts may be starting to bear fruit. In addition, the much vaunted "Phase 1" trade deal and ongoing trade talks with the U.S. should further inject more confidence in Chinese firms and households, providing upside risk on economic activity. Overall, we have marked down our outlook for Chinese economic growth to 5.9% in 2020, a tenth of a point weaker than our previous forecast and the slowest pace since 1990 (3.9%).
- The outlook for China is contingent on authorities being able to manage ongoing financial stability concerns. Corporate defaults have been on the rise, and banking authorities have been diligent in bailing out troubled banks. Managing these risks while addressing U.S. trade-related issues will be key to successfully steering the economy to a soft landing.

U.S. Outlook

- The U.S. economy has performed very close to expectations for 2019. We had forecast real GDP growth would slow from 2.9% in 2018 to 2.3% in 2019. With three quarters of actual data, 2019 is on track to hit our forecast.
- However, as global growth slowed over the year, and trade uncertainty escalated, the Federal Reserve pivoted from raising interest rates, to cutting by 75 basis points.
- As a result, the composition of economic growth looks different than what we expected a year ago (Chart 4). Notably, consumer spending has held up well thanks to lower rates. But business investment has disappointed as uncertainty increased, and trade and inventories proved more volatile.
- Since last quarter's forecast, market-based recession risk probabilities have fallen. In the wake of three Fed rate cuts, the yield curve is no longer inverted, and financial markets have calmed from the heightened worries in late summer. Inflation also remains well contained, and there are few signs of overheating in the labor market. To add to the positive developments, the year is also closing with reduced trade tensions with China and the USMCA deal inching closer to ratification. We expect the Fed to remain in a holding pattern, but stand ready to act should the outlook unexpectedly sour.

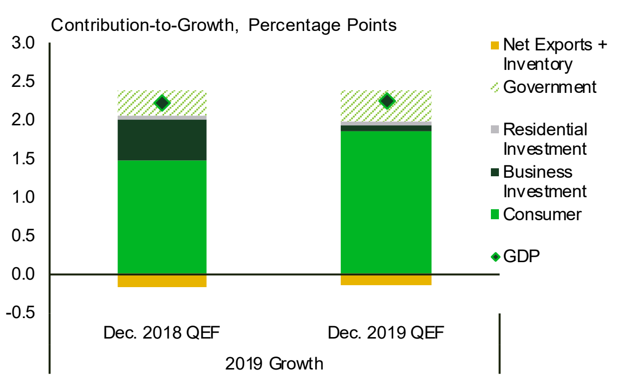
Temporary Factors to Flatter 2020 Growth

- We expect U.S. growth to modestly edge down to 2.0% in 2020, with a few temporary factors flattering the near-quarter headline. First, the six-week strike at GM subtracted from growth in the fourth quarter of 2019. As production ramps back up, it could add as much as 0.5 percentage points to annualized growth in the first quarter of 2020. Second, the production slowdown at Boeing due to the grounded 737 Max has also been weighing on investment through 2019. If regulators clear the plane to fly early in 2020, the ramp-up in production will also add to growth. These two factors combined could add 0.1-0.15 percentage points to GDP growth for 2020 as a whole.
- In addition, activity related to the 2020 decennial census will lift government spending largely in the second quarter of 2020. We have included this impact in our forecast for some time.
- There is a new wild card in the forecast related to the very recent announcement of a Phase 1 trade deal between the U.S. and China. At the time of writing, details were lacking, as was a mutually agreed-upon date for formal implementation. The end result could lead to a level-shift up in U.S. exports for a particular quarter or two, further flattering the GDP growth profile. However, this needs to be in consideration on whether a corresponding increase in U.S. imports would offer a partial counterbalance.

Resilient Labor Market Makes Impressive Gains

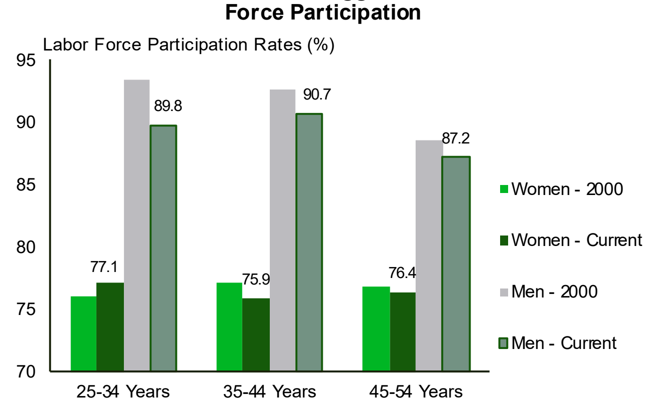
- Perhaps the most encouraging trend in the U.S. economy is the sustained improvement in labor force participation among core-aged Americans. This has occurred despite heightened business uncertainty and slower economic

Chart 4: US Growth Meets Expectations, But Makeup is Very Different



Source: Bureau of Economic Analysis, TD Economics

Chart 5: Women Make Biggest Gains in Labor Force Participation



Source: BLS, TD Economics

growth. Participation rates for women have made rapid gains, and young women's (aged 25-34) participation rate has reached an all-time high (although a significant gap remains versus men of the same age). In contrast, participation rates remain depressed for certain groups, primarily younger males (Chart 5). Despite these challenges, the share of core-aged individuals working full-time is nearing a record, which offers a key support to income growth going forward.

- Depending on the measure, wage gains have been between 3-4% over the past year, below the pace seen in hot labor markets in previous expansions. The Fed has also pointed out that looking at wages, it is hard to call the labor market hot. Adding to this more lukewarm picture is the modest downturn in job openings that has occurred through the year. While all regions exhibit a slowdown, the epicenter of this softness is the manufacturing-heavy Midwest.

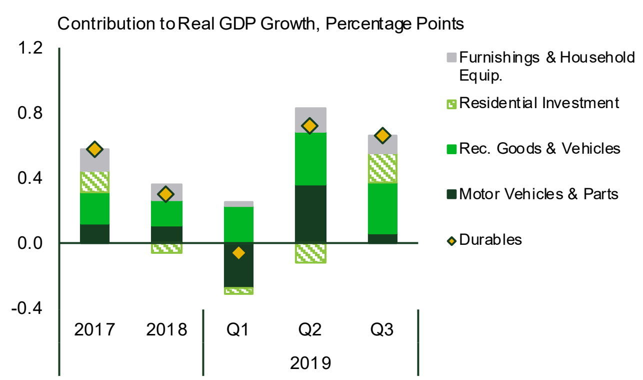
Lower Rates Boost Consumer and Housing

- The consumer remains the linchpin of U.S. growth. Solid job, wage and income gains explain the persistence in elevated consumer confidence. Household spending has also received a notable boost from one factor that was not anticipated at the start of this year: lower interest rates. Purchases on interest-sensitive durable goods have picked up noticeably through the middle of 2019 (Chart 6).
- Just as important, lower borrowing rates have driven an improvement in the housing market. Existing home sales are volatile on a month-to month basis, but zooming out, sales have been trending upwards through 2019 after a notable downturn in the latter half of last year. The 100-basis point drop in the 30-year conventional mortgage rate since November 2018 has helped boost demand for homes, although tight inventories are a constraint on sales and have pushed prices higher.
- New home construction has also picked up after a period of weakness, particularly for single-family homes. Combined with stronger activity in the resale market, residential investment grew for the first time in seven quarters in the third quarter. Monthly housing indicators are also pointing to another solid outturn in the fourth quarter.
- The revival in the housing market will drive up housing-related purchases. Even so, consumer spending is on track to slow from a red-hot pace through the middle of 2019, to roughly 2.3% in the fourth quarter. It should hold near 2.5% through 2020, which is an upgrade from our previous forecast in a nod to strengthening household fundamentals. However, since another leg lower in borrowing rates seems unlikely, the impulse to consumers and housing will gradually fade. Consumption growth should move more in line with income growth.

Uncertainty Chills Business Spending

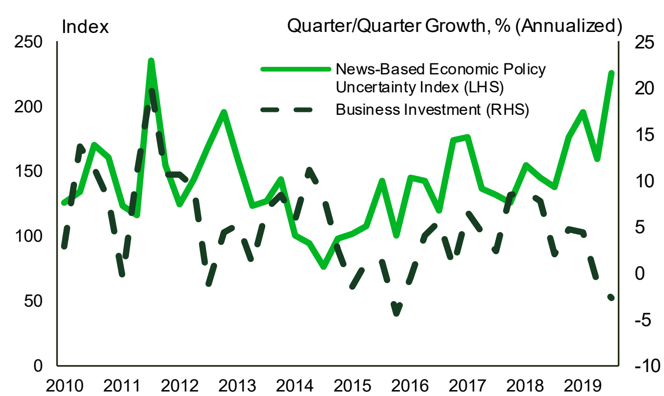
- The other side of the coin to brisk consumer spending is the utter stall in business investment in 2019. Business spending fell in the second and third quarters and

Chart 6: Boost From Lower Rates has Lifted Consumer Durables



Source: Bureau of Economic Analysis, TD Economics

Chart 7: Investment Growth Slows as Uncertainty Spikes



Source: BEA, Policy uncertainty.com,TD Economics. Last data point 2019Q3.

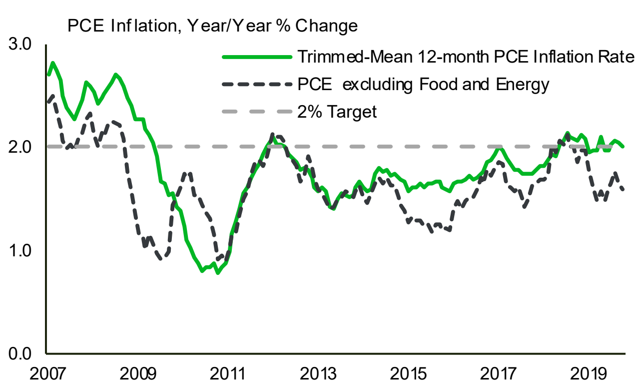
is only expected to grow by 1% in the fourth. This is far weaker than the pace we had expected a year ago.

- All categories of spending are down from their 2018 pace, with investment in structures (includes oil and gas) falling at a double-digit pace in the second and third quarters. The uncertainty that has been created by tariff policy has weighed on business sentiment and held back investment (Chart 7). In our recent report, we estimate that over and above any tariff-induced price effects, uncertainty shaved a total of 20-40bps off growth since the first quarter of 2018.
- Investment should solidify in the coming quarters, but we don't expect a return to its robust pace of 2017-2018 as slower global and domestic economic growth limit the need for capacity expansion. The Phase 1 trade deal is unlikely to materially alter this perception for businesses.
- An ongoing inventory drawdown is also expected to weigh on growth for a couple of quarters following a build-up in manufacturing and wholesale inventories in the latter half of 2018 and early 2019. This is in part related to businesses adjusting stocks in advance of tariffs, but also due to the disruptions at Boeing and GM preparing for strike action. The subsequent drawdown will continue to weigh on growth over the next few quarters.

Benign Inflation Gives Fed Room to Breathe

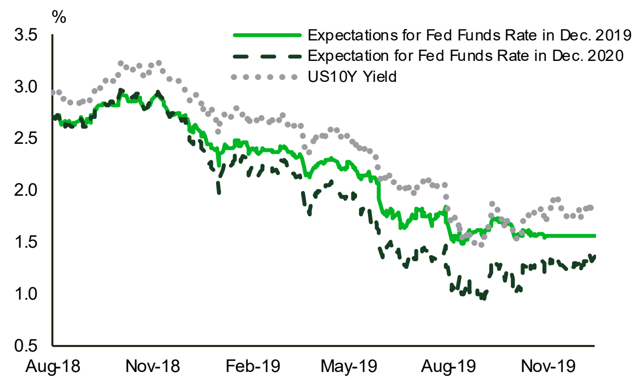
- Despite tariffs and low unemployment, the Fed's preferred inflation measure has not sustained the 2% target this cycle. Other measures of underlying inflation trends, which strip out the most volatile price changes rather than just food and energy, are running closer to 2% (Chart 8). However, there are few signs that inflation is about to break higher or lower.

Chart 8: Inflation is Still Benign



Source: Dallas Fed, Haver Analytics & TD Economics

Chart 9: Treasury Yields Following the Fed



Source: Bloomberg LP, TD Economics

- As a result, after cutting rates 75 basis points in 2019, the Federal Reserve can remain patient to see how the domestic and global backdrop unfold before adjusting the fed funds rate further.
  - The Fed's rate cuts have helped to reverse the yield curve inversion that had been in place since the spring. Due to the resulting reset in market expectations, the 10-year Treasury yield is about 30 basis points higher from its low in September (Chart 9). Recession probability readings, which showed a greater than 50% chance of recession by the middle of 2020, have now fallen to approximately 20-30%.
  - With smaller interest rate differentials versus many of the other major global economies and a reduction in recession risks, the U.S. dollar has fallen nearly 2% from its peak in early September. This move was largely against Emerging Market currencies, reflecting expectations of a trade deal between China and the U.S. Now that it has lurched closer to reality, the broad trade-weighted dollar should sustain a flat-to-lower pattern in the coming quarters.

U.S. Economic Outlook

Period-Over-Period Annualized Per Cent Change Unless Otherwise Indicated

	2019				2020				2021				Annual Average			4th Qtr/4th Qtr		
	Q1	Q2	Q3	Q4F	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	19F	20F	21F	19F	20F	21F
Real GDP	3.1	2.0	2.1	1.8	2.1	2.1	2.0	2.0	1.8	1.8	1.9	1.9	2.3	2.0	1.9	2.2	2.1	1.8
Consumer Expenditure	1.1	4.6	2.9	2.3	2.4	2.5	2.4	2.3	2.2	2.3	2.2	2.2	2.6	2.6	2.3	2.7	2.4	2.2
Durable Goods	0.3	13.0	8.3	3.5	2.9	3.7	3.4	2.9	2.4	3.0	2.7	2.9	4.9	4.5	2.9	6.2	3.2	2.7
Business Investment	4.4	-1.0	-2.7	1.1	2.1	3.0	3.0	3.0	3.0	3.0	3.0	3.0	2.3	1.4	3.0	0.4	2.8	3.0
Non-Res. Structures	4.0	-11.1	-12.0	-11.9	-2.5	-0.6	0.4	0.6	0.6	0.8	1.0	0.9	-4.8	-5.3	0.6	-8.0	-0.5	0.8
Equipment & IPP*	4.6	2.1	0.1	4.9	3.3	4.0	3.7	3.6	3.6	3.5	3.6	3.5	4.4	3.3	3.6	2.9	3.7	3.5
Residential Investment	-1.1	-2.9	5.1	3.5	5.1	2.4	1.2	0.8	0.9	0.9	1.0	1.1	-1.6	3.0	1.0	1.1	2.4	1.0
Govt. Expenditure	2.9	4.8	1.6	0.5	1.9	4.0	0.6	0.3	0.7	0.4	0.4	0.4	2.2	1.9	0.7	2.5	1.7	0.5
Final Domestic Demand	1.8	3.6	2.0	1.9	2.4	2.8	2.2	2.0	2.0	2.0	2.0	1.9	2.3	2.3	2.1	2.3	2.3	2.0
Exports	4.2	-5.7	0.9	-3.3	1.3	5.2	3.2	2.7	1.2	1.8	2.0	2.1	-0.3	1.0	2.2	-1.1	3.1	1.8
Imports	-1.5	0.0	1.5	-3.4	2.1	3.7	5.0	4.3	3.4	3.3	3.1	2.9	1.3	1.6	3.7	-0.9	3.8	3.2
Change in Private																		
Inventories	116.0	69.4	79.8	65.8	59.6	21.2	27.9	39.7	44.0	46.8	51.3	54.9	82.7	37.1	49.3	--	--	--
Final Sales	2.6	3.0	2.0	2.1	2.3	2.9	1.9	1.8	1.7	1.8	1.8	1.8	2.2	2.3	1.8	2.4	2.2	1.8
International Current																		
Account Balance ($Bn)	-545	-513	-506	-528	-558	-576	-614	-650	-683	-713	-736	-758	-523	-599	-723	--	--	--
% of GDP	-2.6	-2.4	-2.3	-2.4	-2.5	-2.6	-2.7	-2.9	-3.0	-3.1	-3.2	-3.2	-2.4	-2.7	-3.1	--	--	--
Pre-tax Corporate Profits																		
including IVA&CCA	-14.3	16.0	0.9	9.4	-3.2	0.5	3.6	3.5	2.0	2.4	2.8	3.2	0.2	2.7	2.7	2.4	1.1	2.6
% of GDP	9.5	9.8	9.7	9.8	9.6	9.6	9.6	9.5	9.5	9.5	9.4	9.4	9.7	9.6	9.4	--	--	--
GDP Deflator (y/y)	2.0	1.8	1.7	1.7	2.0	1.9	1.9	2.0	2.0	2.1	2.1	2.1	1.8	1.9	2.1	1.7	2.0	2.1
Nominal GDP	3.9	4.7	3.8	3.5	4.3	4.0	4.1	4.1	3.9	4.0	4.1	4.1	4.1	4.0	4.0	4.0	4.1	4.0
Labor Force	0.5	-1.0	2.7	1.9	1.2	1.4	0.4	0.6	0.6	0.7	0.7	0.7	0.9	1.3	0.7	1.0	0.9	0.7
Employment	1.7	1.2	1.4	1.5	1.1	1.3	0.4	0.6	0.7	0.7	0.7	0.7	1.6	1.1	0.7	1.4	0.9	0.7
Change in Empl. ('000s)	617	438	511	565	398	512	169	215	286	276	260	251	2,336	1,709	1,060	2,131	1,294	1,073
Unemployment Rate (%)	3.9	3.6	3.6	3.6	3.6	3.6	3.7	3.7	3.7	3.7	3.7	3.8	3.7	3.7	3.7	--	--	--
Personal Disp. Income	4.9	3.9	4.4	2.5	4.2	3.3	3.6	3.7	4.4	4.0	4.1	4.1	4.4	3.6	4.0	3.9	3.7	4.1
Pers. Savings Rate (%)	8.5	7.8	7.9	7.5	7.5	7.2	7.0	6.9	6.9	6.8	6.8	6.7	7.9	7.2	6.8	--	--	--
Cons. Price Index (y/y)	1.6	1.8	1.8	2.0	2.3	2.1	2.3	2.2	2.2	2.3	2.2	2.2	1.8	2.2	2.2	2.0	2.2	2.2
Core CPI (y/y)	2.1	2.1	2.3	2.3	2.4	2.5	2.2	2.2	2.2	2.2	2.3	2.3	2.2	2.3	2.2	2.3	2.2	2.3
Core PCE Price Index (y/y)	1.6	1.6	1.7	1.6	1.9	1.9	1.9	2.0	1.9	2.0	2.0	2.1	1.6	1.9	2.0	1.6	2.0	2.1
Housing Starts (mns)	1.21	1.26	1.28	1.30	1.32	1.32	1.33	1.33	1.33	1.34	1.34	1.34	1.26	1.33	1.34	--	--	--
Real Output per hour (y/y)**	1.7	1.8	1.5	1.4	0.8	0.6	1.0	1.4	1.5	1.5	1.5	1.5	1.6	0.9	1.5	1.4	1.4	1.5

F: Forecast by TD Economics as at December 2019.

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

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

Interest Rate Outlook												
	2019				2020				2021			
	Q1	Q2	Q3	Q4*	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Fed Funds Target Rate	2.50	2.50	2.00	1.75	1.75	1.75	1.75	1.75	1.75	1.75	2.00	2.25
3-mth T-Bill Rate	2.35	2.08	1.84	1.53	1.55	1.55	1.55	1.55	1.55	1.68	1.93	2.17
2-yr Govt. Bond Yield	2.27	1.75	1.63	1.64	1.70	1.75	1.80	1.90	2.00	2.10	2.20	2.30
5-yr Govt. Bond Yield	2.23	1.76	1.55	1.71	1.75	1.80	1.90	2.00	2.10	2.20	2.30	2.40
10-yr Govt. Bond Yield	2.41	2.00	1.68	1.88	1.95	2.00	2.10	2.20	2.30	2.40	2.50	2.60
30-yr Govt. Bond Yield	2.81	2.52	2.12	2.30	2.35	2.40	2.50	2.60	2.70	2.75	2.80	2.85
10-yr-2-yr Govt Spread	0.14	0.25	0.05	0.24	0.25	0.24	0.30	0.30	0.30	0.30	0.30	0.30

F: Forecast by TD Economics as at December 2019. All forecasts are end-of-period.
Source: Bloomberg, Federal Reserve, TD Economics. *Spot rates as at December 16, 2019 with the exception of policy rate.

Foreign Exchange Outlook													
Currency	Exchange rate	2019				2020				2021			
		Q1	Q2	Q3	Q4*	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Euro	USD per EUR	1.12	1.14	1.09	1.11	1.09	1.09	1.10	1.11	1.12	1.13	1.14	1.15
UK pound	USD per GBP	1.30	1.27	1.23	1.33	1.31	1.30	1.30	1.31	1.32	1.33	1.34	1.35
Australian dollar	USD per AUD	0.71	0.70	0.68	0.69	0.69	0.70	0.70	0.70	0.70	0.70	0.70	0.70
NZ dollar	USD per NZD	0.68	0.67	0.63	0.66	0.65	0.67	0.68	0.69	0.69	0.69	0.69	0.69
Canadian dollar	CAD per USD	1.34	1.31	1.32	1.32	1.33	1.34	1.33	1.32	1.31	1.30	1.30	1.30
Swiss franc	CHF per USD	1.00	0.98	1.00	0.98	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Japanese yen	JPY per USD	111	108	108	110	108	107	107	106	106	105	105	104
Chinese renminbi	CNY per USD	6.71	6.87	7.15	6.99	6.95	6.90	6.85	6.80	6.80	6.80	6.80	6.80

F: Forecast by TD Economics as at December 2019. All forecasts are end-of-period.
Source: Bloomberg, Federal Reserve, TD Economics. * Spot rates as at December 16, 2019.

Commodity Price Outlook												
	2019				2020				2021			
	Q1	Q2	Q3	Q4	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Crude Oil (WTI, $US/bbl)	55	60	56	56	55	56	58	59	59	60	60	60
Natural Gas ($US/MMBtu)	2.92	2.56	2.38	2.40	2.45	2.45	2.45	2.50	2.51	2.53	2.54	2.55
Gold ($US/troy oz.)	1303	1307	1474	1480	1500	1500	1500	1450	1450	1450	1450	1450
Silver ($US/troy oz.)	15.58	14.91	17.02	17.22	17.60	17.60	17.60	17.00	17.00	17.00	17.00	17.00
Copper (cents/lb)	282	278	263	263	265	280	285	289	277	274	276	281
Nickel ($US/lb)	5.60	5.56	7.05	6.85	7.60	7.48	7.48	7.48	8.05	8.62	8.85	8.85
Aluminum (cents/lb)	84	81	80	79	81	79	78	78	78	78	76	77
Wheat ($US/bu)	7.08	6.36	6.14	6.75	6.80	6.85	6.90	6.95	6.99	7.02	7.06	7.09

F: Forecast by TD Bank Group as at December 2019. All forecasts are period averages.
Source: Bloomberg, TD Economics, USDA (Haver).

Economic Indicators: G7 & Europe				
		Forecast		
	2018	2019	2020	2021
Real GDP (annual per cent change)				
G7 (30.1%)*	2.0	1.7	1.4	1.5
U.S.	2.9	2.3	2.0	1.9
Japan	0.3	1.2	0.6	0.8
Euro Area	1.9	1.2	1.0	1.3
Germany	1.5	0.5	0.5	1.4
France	1.7	1.3	1.3	1.3
Italy	0.7	0.1	0.4	0.8
United Kingdom	1.4	1.3	0.9	1.5
Canada	2.0	1.7	1.6	1.8
Consumer Price Index (annual per cent change)				
G7	2.1	1.5	1.8	1.9
U.S.	2.4	1.8	2.2	2.2
Japan	1.0	0.6	1.3	1.1
Euro Area	1.8	1.1	1.0	1.4
Germany	1.9	1.3	1.3	1.6
France	2.1	1.3	1.3	1.6
Italy	1.2	0.7	0.9	1.4
United Kingdom	2.5	1.8	1.4	1.7
Canada	2.2	2.0	1.9	2.0
Unemployment Rate (per cent annual averages)				
U.S.	3.9	3.7	3.7	3.7
Japan	2.4	2.4	2.6	2.6
Euro Area	8.2	7.6	7.7	7.7
Germany	5.2	5.0	5.1	5.1
France	9.1	8.6	8.6	8.6
Italy	10.6	10.0	10.0	10.1
United Kingdom	4.0	3.8	3.9	3.9
Canada	5.8	5.7	5.9	5.8

*Share of 2018 world gross domestic product (GDP) at PPP.
Forecast as at December 2019.
Source: National statistics agencies, TD Economics.

Global Economic Outlook					
Annual Per Cent Change Unless Otherwise Indicated					
	2018 Share*		Forecast		
Real GDP	(%)	2018	2019	2020	2021
World	100.0	3.6	2.8	3.0	3.3
North America	18.5	2.8	2.0	1.9	1.9
United States	15.2	2.9	2.3	2.0	1.9
Canada	1.4	2.0	1.7	1.6	1.8
Mexico	1.9	2.1	0.1	1.5	2.1
European Union (EU-28)	16.3	2.0	1.4	1.2	1.5
Euro Area (EU-19)	11.4	1.9	1.2	1.0	1.3
Germany	3.2	1.5	0.5	0.5	1.4
France	2.2	1.7	1.3	1.3	1.3
Italy	1.8	0.7	0.1	0.4	0.8
United Kingdom	2.2	1.4	1.3	0.9	1.5
EU accession members	2.6	4.0	3.1	2.6	2.6
Asia	45.0	5.2	4.5	4.7	4.7
Japan	4.1	0.3	1.2	0.6	0.8
Asian NIC's	3.4	2.7	1.5	2.2	2.8
Hong Kong	0.4	3.0	-1.6	-1.9	2.9
Korea	1.7	2.7	1.9	2.9	3.0
Singapore	0.4	3.2	0.8	2.2	2.5
Taiwan	0.9	2.7	2.5	2.9	2.9
Russia	3.1	2.2	1.3	2.2	1.6
Australia & New Zealand	1.1	2.7	2.0	2.4	2.5
Developing Asia	33.2	6.4	5.6	5.7	5.8
ASEAN-5	5.5	5.3	4.8	4.7	5.0
China	18.7	6.5	6.2	5.9	5.7
India**	7.7	6.8	4.6	6.1	6.7
Central/South America	5.6	0.3	-0.2	1.2	2.2
Brazil	2.5	1.3	1.1	2.0	2.2
Other Developing	13.6	2.5	1.4	2.5	3.3
Other Advanced	1.1	2.6	1.5	1.9	2.0

*Share of world GDP on a purchasing-power-parity (PPP) basis.
Forecast as at December 2019. **Forecast for India refers to fiscal year.
Source: IMF, TD Economics.