

Long-Term Economic Forecast

Leslie Preston, Senior Economist | 416-983-7053

Brian DePratto, Senior Economist | 416-944-5069

June 18, 2019

United States

- The U.S. economy is expected to moderate to 2.6% in 2019, as the boost from fiscal stimulus wanes. This is expected to continue into 2020, as growth slows toward its long-run potential pace of 1.8%.
- At 3.6%, the current unemployment rate is near historic lows, and well under its pre-recession nadir. As growth slows toward potential in the second half of 2019, we expect 3.6% will mark the cyclical low. Thereafter, 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 approximately 0.6% – roughly half the pace observed historically.
- Interest rates are also likely to remain low over the forecast horizon. We expect that as protracted trade tensions weigh on the outlook and the inflation rate remains a bit below target, the Federal reserve will cut rates in two 25 basis point moves as “insurance” against a more rapid downturn. As the economy gradually improves the Fed is forecast to raise the funds rate back to 2.5% in 2021, where it is expected to remain over the forecast horizon.

Canada

- There are early signs that the recent economic soft patch is giving way to a modest recovery as oil production curtailments moderate and housing markets come off their bottom. Thereafter, growth is forecast to settle at a pace roughly in line with the economy’s underlying potential.
- A more modest pace of hiring is anticipated, which help close the recent gap between labour markets and output. Over the longer-term, the unemployment will gradually rise towards 5.8%, consistent with the economy operating at or near capacity. Labour productivity growth (as measured by output per worker) is expected to average 1.0%, in line with its long-run historic average.
- The process of repairing household balance sheets will take time, and will hold back the pace of consumer spending. The outlook for business investment and net trade is more encouraging, although the near-term cloud of trade uncertainty cannot be ignored.
- There is little in the way of underlying inflationary pressures. The current 1.75% Bank of Canada policy rate is thus consistent with an economy operating at or near capacity, meaning that we are already at ‘neutral’. No further hikes are expected.
- Ultimately, economic growth is expected to settle around its trend pace of 1.7%. Population aging, private indebtedness, and modest productivity gains mean a slower pace relative to history.

U.S. Economic Outlook												
<i>Period-Over-Period Annualized Per Cent Change Unless Otherwise Indicated</i>												
	Annual Average						Fourth Quarter / Fourth Quarter					
	18	19F	20F	21F	22F	23F	18	19F	20F	21F	22F	23F
Real GDP	2.9	2.6	1.8	2.0	1.9	1.7	3.0	2.2	1.8	2.0	1.8	1.7
Consumer Expenditure	2.6	2.4	2.1	2.3	2.3	2.1	2.6	2.1	2.1	2.4	2.2	2.1
Durable Goods	5.5	3.0	4.3	4.8	5.0	4.7	3.4	2.9	4.4	4.9	4.9	4.7
Business Investment	6.9	2.8	2.6	3.3	3.2	3.1	7.0	1.9	2.9	3.3	3.2	3.0
Non-Res. Structures	5.0	-0.4	2.0	2.5	2.1	2.2	4.9	0.4	2.5	2.4	2.1	2.3
Equipment & IPP*	7.5	3.8	2.8	3.5	3.6	3.3	7.6	2.3	3.0	3.5	3.5	3.3
Residential Investment	-0.3	-2.6	0.4	2.0	1.1	0.6	-3.3	-1.3	1.3	1.9	0.8	0.6
Govt. Expenditure	1.5	2.2	1.4	0.4	0.3	0.2	1.5	2.6	0.8	0.4	0.3	0.2
Final Domestic Demand	2.9	2.2	2.0	2.1	2.1	1.9	2.7	2.0	2.0	2.1	2.0	1.9
Exports	4.0	1.4	2.8	3.1	3.1	3.1	2.3	2.0	3.0	3.2	3.1	3.1
Imports	4.5	0.6	2.4	4.3	4.3	3.9	3.4	-0.3	3.4	4.5	4.2	3.8
Change in Private Inventories	45.0	89.0	56.4	63.5	67.8	66.5	---	---	---	---	---	---
Final Sales	2.7	2.4	2.0	1.9	1.9	1.7	2.6	2.4	1.9	1.9	1.8	1.7
International Current Account Balance (\$Bn)	-488	-517	-508	-531	-565	-606	---	---	---	---	---	---
% of GDP	-2.4	-2.4	-2.3	-2.3	-2.3	-2.4	---	---	---	---	---	---
Pre-tax Corporate Profits including IVA&CCA	7.8	1.9	3.1	3.6	3.0	2.2	7.4	1.2	2.9	3.7	2.5	2.2
% of GDP	11.0	10.8	10.7	10.6	10.5	10.3	---	---	---	---	---	---
GDP Deflator (y/y)	2.2	1.8	2.2	2.4	2.4	2.3	2.1	1.8	2.3	2.4	2.4	2.3
Nominal GDP	5.2	4.3	4.1	4.4	4.3	4.1	5.2	4.0	4.2	4.4	4.2	4.1
Labor Force	1.1	0.7	0.9	0.7	0.7	0.6	1.5	0.5	0.9	0.7	0.6	0.5
Employment	1.7	1.5	0.9	0.6	0.7	0.6	1.8	1.2	0.7	0.7	0.6	0.5
Change in Empl. ('000s)	2,453	2,202	1,336	957	1,058	859	2,651	1,727	1,080	1,128	968	807
Unemployment Rate (%)	3.9	3.7	3.8	3.9	3.9	4.0	---	---	---	---	---	---
Personal Disp. Income	4.9	3.7	4.5	4.7	4.5	4.3	4.9	3.6	4.6	4.6	4.4	4.3
Pers. Savings Rate (%)	6.7	6.3	6.4	6.6	6.7	6.9	---	---	---	---	---	---
Cons. Price Index (y/y)	2.4	1.8	2.3	2.3	2.1	2.1	2.2	2.0	2.4	2.2	2.1	2.1
Core CPI (y/y)	2.1	2.1	2.2	2.3	2.2	2.2	2.2	2.2	2.3	2.2	2.2	2.2
Core PCE Price Index (y/y)	1.9	1.6	2.0	2.1	2.0	2.0	1.9	1.7	2.1	2.0	2.0	2.0
Housing Starts (mns)	1.25	1.20	1.22	1.27	1.29	1.31	---	---	---	---	---	---
Real Output per hour** (y/y)	1.3	1.9	1.1	1.5	1.6	1.5	1.7	1.7	1.3	1.6	1.6	1.6

*Intellectual property products. F: Forecast by TD Economics, June 2019.
**Non-farm business sector.
Source: Bureau of Labor Statistics, Bureau of Economic Analysis, Census Bureau, TD Economics.

Canadian Economic Outlook												
<i>Period-Over-Period Annualized Per Cent Change Unless Otherwise Indicated</i>												
	Annual Average						4th Quarter / 4th Quarter					
	18	19F	20F	21F	22F	23F	18	19F	20F	21F	22F	23F
Real GDP	1.9	1.3	1.7	1.7	1.7	1.8	1.6	1.6	1.7	1.7	1.7	1.8
Consumer Expenditure	2.1	1.9	1.6	1.6	1.5	1.6	1.4	2.1	1.6	1.6	1.5	1.6
Durable Goods	1.0	0.6	1.1	1.5	1.5	1.5	-1.1	1.4	1.4	1.5	1.5	1.5
Business Investment	2.2	0.3	3.3	4.0	3.6	3.1	-2.5	4.0	3.7	4.1	3.3	2.9
Non-Res. Structures	-0.9	-4.0	2.8	3.6	3.3	2.9	-7.2	1.2	3.0	3.7	3.1	2.8
Equipment & IPP*	5.6	4.5	3.7	4.4	3.9	3.3	2.7	6.7	4.3	4.5	3.6	3.1
Residential Investment	-1.5	-1.8	3.5	2.7	2.1	1.9	-5.7	2.3	2.9	2.4	2.0	1.9
Govt. Expenditure	3.0	1.7	1.1	0.9	1.5	1.8	1.6	1.8	0.9	1.0	1.7	1.8
Final Domestic Demand	2.0	1.4	1.8	1.8	1.8	1.8	0.5	2.2	1.7	1.8	1.8	1.8
Exports	3.2	1.4	2.6	2.9	3.2	2.9	4.1	1.8	2.4	3.1	3.1	2.7
Imports	2.9	1.5	2.2	2.6	3.0	2.8	0.0	3.3	2.3	2.9	3.0	2.7
Change in Non-farm Inventories (2007 \$Bn)	12.7	11.0	8.3	5.7	2.9	2.1	--	--	--	--	--	--
Final Sales	2.3	1.5	2.0	1.9	1.9	1.9	0.6	2.5	1.8	1.9	1.9	1.8
International Current Account Balance (\$Bn)	-58.5	-55.4	-51.7	-52.8	-53.8	-55.3	--	--	--	--	--	--
% of GDP	-2.6	-2.4	-2.2	-2.1	-2.1	-2.1	--	--	--	--	--	--
Pre-tax Corp. Profits	0.5	-2.6	5.0	4.6	3.8	3.6	-5.7	6.2	4.9	4.2	3.7	3.6
% of GDP	12.7	12.0	12.1	12.2	12.2	12.2	--	--	--	--	--	--
GDP Deflator (y/y)	1.7	2.0	2.2	1.9	1.9	1.9	0.5	3.2	2.0	1.9	1.9	1.9
Nominal GDP	3.6	3.3	4.0	3.7	3.6	3.7	2.0	4.9	3.7	3.7	3.6	3.7
Labour Force	0.8	1.9	0.9	0.6	0.6	0.5	0.9	1.9	0.7	0.6	0.6	0.5
Employment	1.3	2.0	0.7	0.6	0.6	0.6	1.2	1.7	0.6	0.6	0.6	0.6
Change in Empl. ('000s)	238	376	139	123	117	110	222	323	119	123	114	108
Unemployment Rate (%)	5.8	5.7	5.9	5.8	5.8	5.8	--	--	--	--	--	--
Personal Disp. Income	3.8	3.9	3.9	3.6	3.6	3.7	2.8	4.2	3.7	3.6	3.6	3.7
Pers. Savings Rate (%)	1.4	1.3	1.3	1.3	1.3	1.4	--	--	--	--	--	--
Cons. Price Index (y/y)	2.2	1.9	2.0	2.0	2.0	2.0	2.1	2.0	2.0	2.0	2.0	2.0
CPIX (y/y) **	1.5	1.7	1.9	2.0	2.0	2.0	1.6	1.8	2.0	2.0	2.0	2.0
BoC Inflation (y/y) **	2.0	1.9	1.9	2.0	2.0	2.0	1.9	1.8	2.0	2.0	2.0	2.0
Housing Starts ('000s)	214	198	196	197	200	200	--	--	--	--	--	--
Home Prices (y/y)	-3.5	-2.0	3.2	2.7	2.8	3.0	-3.4	-1.1	3.0	2.6	2.9	3.0
Real GDP / worker (y/y)	0.6	-0.7	1.0	1.1	1.1	1.2	0.4	-0.2	1.0	1.1	1.1	1.2

F: Forecast by TD Economics, June 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					
	18	19F	20F	21F	22F	23F	18	19F	20F	21F	22F	23F
U.S. FIXED INCOME												
Fed Funds Target Rate (%)*	2.15	2.30	2.00	2.25	2.50	2.50	2.50	2.00	2.00	2.50	2.50	2.50
3-mth T-Bill Rate (%)	2.05	2.10	1.85	2.15	2.35	2.35	2.40	1.85	1.85	2.35	2.35	2.35
2-yr Govt. Bond Yield (%)	2.50	2.05	2.15	2.40	2.45	2.45	2.48	2.00	2.20	2.45	2.45	2.45
5-yr Govt. Bond Yield (%)	2.70	2.05	2.30	2.50	2.55	2.55	2.51	2.10	2.40	2.55	2.55	2.55
10-yr Govt. Bond Yield (%)	2.85	2.25	2.50	2.65	2.70	2.70	2.69	2.30	2.55	2.70	2.70	2.70
10-yr-2-yr Govt. Spread (%)	0.35	0.20	0.35	0.25	0.25	0.25	0.21	0.30	0.35	0.25	0.25	0.25
CANADIAN FIXED INCOME												
Overnight Target Rate (%)	1.45	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
3-mth T-Bill Rate (%)	1.40	1.65	1.65	1.75	1.75	1.75	1.64	1.65	1.65	1.75	1.75	1.75
2-yr Govt. Bond Yield (%)	1.95	1.55	1.70	1.85	1.85	1.85	1.86	1.55	1.75	1.85	1.85	1.85
5-yr Govt. Bond Yield (%)	2.05	1.50	1.75	1.90	1.95	1.95	1.88	1.55	1.80	1.95	1.95	1.95
10-yr Govt. Bond Yield (%)	2.15	1.60	1.85	2.05	2.10	2.10	1.96	1.65	1.95	2.10	2.10	2.10
10-yr-2-yr Govt. Spread (%)	0.20	0.05	0.15	0.20	0.25	0.25	0.10	0.10	0.20	0.25	0.25	0.25
*Upper bound of target range. F: Forecast by TD Economics as at June 2019.												
Annual averages are the average of the four quarterly end-of-period forecasts.												
Source: Bank of Canada, Bloomberg, Statistics Canada, TD Economics.												

Disclaimer

This report is provided by TD Economics. It is for informational and educational purposes only as of the date of writing, and may not be appropriate for other purposes. The views and opinions expressed may change at any time based on market or other conditions and may not come to pass. This material is not intended to be relied upon as investment advice or recommendations, does not constitute a solicitation to buy or sell securities and should not be considered specific legal, investment or tax advice. The report does not provide material information about the business and affairs of TD Bank Group and the members of TD Economics are not spokespersons for TD Bank Group with respect to its business and affairs. The information contained in this report has been drawn from sources believed to be reliable, but is not guaranteed to be accurate or complete. This report contains economic analysis and views, including about future economic and financial markets performance. These are based on certain assumptions and other factors, and are subject to inherent risks and uncertainties. The actual outcome may be materially different. The Toronto-Dominion Bank and its affiliates and related entities that comprise the TD Bank Group are not liable for any errors or omissions in the information, analysis or views contained in this report, or for any loss or damage suffered.