

Long-Term Economic Forecast

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March 14, 2019

United States

- Healthy momentum and fiscal stimulus lifted real GDP growth to 2.9% in 2018. It is forecast to moderate to 2.4% in 2019. The combination of fading fiscal stimulus, past interest rate hikes and capacity constraints is expected to slow growth further to 2.0% in 2020.
- At 3.8%, the current unemployment rate is near historic lows and well under its pre-recession nadir. Above-trend economic growth over the next year will likely pressure this figure down further, leading to higher wages and greater labor force participation. Thereafter, economic growth slows below potential, and 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, resulting in employment growth of just 0.5% – roughly half the pace observed historically.
- Interest rates are also likely to remain low over the forecast horizon. The federal funds rate, which currently sits at 2.5%, appears consistent with an economy operating at full potential and inflation remaining close to 2.0%. Without greater evidence of rising inflation, the Federal Reserve will have little reason to move off its current policy stance.

Canada

- Near-term growth will be held to a below-trend pace by temporary factors, notably oil production curtailments. Thereafter, growth is forecast to settle at a pace roughly in line with the economy's underlying potential.
- A small increase in the unemployment rate is anticipated in the wake of recent economic softness. However, the resilience of labour markets suggests that the scale will be limited. An unemployment rate of 5.8% is consistent with the economy operating at or near capacity over the longer-term. 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.
- 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	2.4	2.0	1.8	1.7	1.8	3.1	2.1	1.8	1.7	1.8	1.8
Consumer Expenditure	2.6	2.4	2.2	2.1	2.1	2.1	2.7	2.1	2.1	2.1	2.1	2.1
Durable Goods	5.7	3.6	4.1	3.7	3.7	3.6	4.0	3.3	3.7	3.7	3.6	3.5
Business Investment	7.0	4.2	3.4	3.2	3.1	3.2	7.2	3.6	3.3	3.1	3.1	3.2
Non-Res. Structures	5.0	0.2	2.7	2.9	3.0	3.2	4.8	1.5	2.9	2.9	3.1	3.2
Equipment & IPP*	7.5	5.4	3.6	3.3	3.1	3.1	7.9	4.2	3.4	3.2	3.1	3.1
Residential Investment	-0.2	-0.8	1.4	0.6	1.0	0.8	-3.0	1.5	0.6	0.8	0.9	1.0
Govt. Expenditure	1.5	2.0	1.0	0.3	0.2	-0.3	1.8	2.0	0.6	0.3	0.0	-0.3
Final Domestic Demand	2.9	2.4	2.1	1.9	1.9	1.8	2.9	2.2	2.0	1.9	1.9	1.8
Exports	3.9	3.0	5.2	4.3	3.9	4.0	2.2	4.8	4.9	4.0	4.0	4.0
Imports	4.6	4.0	5.1	4.6	4.4	4.1	3.5	4.3	5.0	4.5	4.3	4.0
Change in Private Inventories	45.1	74.5	71.7	65.9	63.2	62.3	---	---	---	---	---	---
Final Sales	2.8	2.3	2.0	1.8	1.8	1.8	2.7	2.2	1.9	1.8	1.8	1.8
International Current Account Balance (\$Bn)	-483	-573	-658	-731	-799	-838	---	---	---	---	---	---
% of GDP	-2.4	-2.7	-2.9	-3.1	-3.3	-3.3	---	---	---	---	---	---
GDP Deflator (y/y)	2.2	2.1	2.1	2.3	2.4	2.3	2.2	2.0	2.3	2.4	2.4	2.3
Nominal GDP	5.2	4.5	4.2	4.1	4.1	4.1	5.3	4.1	4.1	4.1	4.2	4.1
Labor Force	1.1	1.1	1.0	0.7	0.6	0.6	1.5	0.9	0.8	0.7	0.6	0.6
Employment	1.7	1.4	0.9	0.5	0.5	0.5	1.8	1.2	0.7	0.6	0.5	0.5
Change in Empl. ('000s)	2,453	2,149	1,420	833	803	753	2,650	1,771	1,099	855	772	741
Unemployment Rate (%)	3.9	3.7	3.7	3.9	4.1	4.1	---	---	---	---	---	---
Personal Disp. Income	5.0	4.4	4.3	4.2	4.2	4.2	5.2	4.1	4.2	4.3	4.2	4.2
Pers. Savings Rate (%)	6.8	6.7	6.6	6.5	6.4	6.4	---	---	---	---	---	---
Cons. Price Index (y/y)	2.4	2.0	2.1	2.2	2.2	2.1	2.2	2.0	2.2	2.2	2.2	2.1
Core CPI (y/y)	2.1	2.2	2.3	2.5	2.4	2.3	2.2	2.2	2.5	2.4	2.4	2.2
Core PCE Price Index (y/y)	1.9	1.9	2.1	2.2	2.2	2.1	1.9	2.0	2.2	2.2	2.1	2.0
Housing Starts (mns)	1.24	1.24	1.27	1.29	1.31	1.33	---	---	---	---	---	---
Real Output per hour** (y/y)	1.3	1.1	1.4	1.5	1.5	1.5	1.7	0.9	1.4	1.5	1.5	1.5

*Intellectual property products. F: Forecast by TD Economics, March 2019.

**Non-farm business sector.

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

Note: 2018 Current Account and Corporate Profits are forecasts, not actual data as in the rest of the table. This data has been delayed due to the government shutdown.

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	1.8	1.2	1.8	1.8	1.8	1.7	1.6	1.4	1.8	1.8	1.7	1.8
Consumer Expenditure	2.1	1.4	1.5	1.5	1.4	1.5	1.3	1.6	1.5	1.4	1.4	1.5
Durable Goods	1.1	0.2	1.3	1.5	1.5	1.5	-1.2	1.4	1.4	1.5	1.5	1.5
Business Investment	2.1	-0.7	4.0	4.2	3.5	3.1	-2.5	3.3	4.3	4.0	3.3	2.9
Non-Res. Structures	-0.9	-2.7	3.0	3.7	3.3	2.9	-7.2	2.6	3.4	3.7	3.1	2.8
Equipment & IPP*	5.3	1.5	5.1	4.7	3.8	3.2	2.7	4.1	5.2	4.4	3.5	3.1
Residential Investment	-2.3	-3.5	2.4	2.5	2.1	1.9	-7.5	0.9	2.6	2.3	2.0	1.9
Govt. Expenditure	2.7	1.3	1.7	1.7	1.8	1.8	0.9	1.8	1.7	1.8	1.8	1.8
Final Domestic Demand	1.9	0.8	1.9	1.9	1.8	1.8	0.2	1.7	1.9	1.9	1.8	1.8
Exports	3.3	2.6	2.4	3.0	3.2	2.9	4.5	2.2	2.5	3.2	3.1	2.7
Imports	2.9	0.3	2.4	3.0	3.1	2.9	-0.1	2.1	2.6	3.1	3.1	2.7
Change in Non-farm Inventories (2007 \$Bn)	13.8	5.8	5.1	3.3	2.7	2.1	--	--	--	--	--	--
Final Sales	2.1	1.2	1.9	2.0	1.8	1.8	0.3	2.1	2.0	1.9	1.8	1.8
International Current Account Balance (\$Bn)	-58.7	-42.4	-43.3	-44.6	-45.3	-46.9	--	--	--	--	--	--
% of GDP	-2.6	-1.9	-1.8	-1.8	-1.8	-1.8	--	--	--	--	--	--
GDP Deflator (y/y)	1.7	2.0	2.1	2.0	1.9	1.9	0.5	3.2	2.0	2.0	1.9	1.9
Nominal GDP	3.6	3.2	4.0	3.8	3.7	3.6	2.1	4.6	3.8	3.8	3.7	3.7
Labour Force	0.8	1.6	0.7	0.6	0.6	0.6	0.9	1.4	0.6	0.6	0.6	0.5
Employment	1.3	1.5	0.6	0.7	0.6	0.6	1.2	1.1	0.7	0.6	0.6	0.6
Change in Empl. ('000s)	238	284	122	127	117	109	222	207	130	123	113	107
Unemployment Rate (%)	5.8	5.9	5.9	5.8	5.8	5.8	--	--	--	--	--	--
Personal Disp. Income	3.5	3.4	3.4	3.5	3.6	3.7	2.2	3.7	3.4	3.6	3.7	3.7
Pers. Savings Rate (%)	1.1	1.2	1.0	1.0	1.2	1.4	--	--	--	--	--	--
Cons. Price Index (y/y)	2.2	1.7	1.9	2.0	2.0	2.0	2.1	1.8	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	2.0	2.0	2.0	2.0	1.9	1.9	2.0	2.0	2.0	2.0
Housing Starts ('000s)	214	197	195	197	200	200	--	--	--	--	--	--
Home Prices (y/y)	-3.6	-1.2	2.8	2.9	2.8	3.1	-3.4	-0.9	3.4	2.6	3.0	3.1
Real GDP / worker (y/y)	0.5	-0.4	1.2	1.2	1.2	1.2	0.4	0.3	1.1	1.2	1.1	1.2

F: Forecast by TD Economics, March 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	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50
3-mth T-Bill Rate (%)	2.05	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40
2-yr Govt. Bond Yield (%)	2.50	2.50	2.50	2.50	2.50	2.50	2.48	2.50	2.50	2.50	2.50	2.50
5-yr Govt. Bond Yield (%)	2.70	2.55	2.60	2.60	2.60	2.60	2.51	2.60	2.60	2.60	2.60	2.60
10-yr Govt. Bond Yield (%)	2.85	2.75	2.85	2.85	2.85	2.85	2.69	2.85	2.85	2.85	2.85	2.85
10-yr-2-yr Govt. Spread (%)	0.35	0.25	0.35	0.35	0.35	0.35	0.21	0.35	0.35	0.35	0.35	0.35
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	1.75	1.75	1.75	1.75	1.64	1.70	1.75	1.75	1.75	1.75
2-yr Govt. Bond Yield (%)	1.95	1.75	1.85	1.85	1.85	1.85	1.86	1.85	1.85	1.85	1.85	1.85
5-yr Govt. Bond Yield (%)	2.05	1.85	1.95	1.95	1.95	1.95	1.88	1.95	1.95	1.95	1.95	1.95
10-yr Govt. Bond Yield (%)	2.15	1.95	2.10	2.10	2.10	2.10	1.96	2.10	2.10	2.10	2.10	2.10
10-yr-2-yr Govt. Spread (%)	0.20	0.20	0.25	0.25	0.25	0.25	0.10	0.25	0.25	0.25	0.25	0.25
*Upper bound of target range. F: Forecast by TD Economics as at March 2019.												
Annual averages are the average of the four quarterly end-of-period forecasts.												
Source: Bank of Canada, Bloomberg, Statistics Canada, TD Economics.												

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