

# Long-Term Economic Forecast

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## United States

- The U.S. economy is on track to moderate to 2.3% in 2019. This deceleration is expected to continue into 2020, as slower global growth and trade uncertainty hold growth to 1.7%, below the economy's potential.
- At 3.7%, the current unemployment rate is near historic lows, and well under its pre-recession nadir. As growth slows below potential in 2020, 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 protracted trade tensions weigh on the outlook and the inflation rate remains a bit below target, the Federal reserve will cut rates an additional 25 basis point as further “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 2022, where it is expected to remain over the forecast horizon.

## Canada

- Weakness early in the year gave way to robust second quarter growth. However, the details of the report suggest little staying power, and many challenges, domestic and external, remain unresolved. We expect only modest near-term growth reflecting global uncertainty, with the pace improving to settle roughly at a pace in line with the economy's underlying potential.
- A more modest pace of hiring is also anticipated. Over the longer-term, the unemployment rate will gradually rise towards 5.8%, consistent with the economy operating 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 are weighed down in the near-term by trade uncertainty.
- These forces will motivate the Bank of Canada to join its advanced economy peers in adding a bit of stimulus to the economy. We expect the policy rate to reach 1.25% (from 1.75% currently) by early-2020. Once growth has convincingly normalized, the policy rate should be returned to its long-run neutral level of 1.75%
- Normalization of growth means a pace of around 1.7%. Population aging, private indebtedness, and modest productivity gains all work to reduce this trend pace relative to its history.

U.S. Economic Outlook												
<i>Period-Over-Period Annualized Per Cent Change Unless Otherwise Indicated</i>												
	Annual Average						Fourth Quarter / Fourth Quarter					
	19F	20F	21F	22F	23F	24F	19F	20F	21F	22F	23F	24F
<b>Real GDP</b>	2.3	1.7	1.8	1.9	1.7	1.7	2.2	1.7	1.9	1.8	1.6	1.7
<b>Consumer Expenditure</b>	2.7	2.4	2.2	2.2	2.1	2.1	2.9	2.0	2.3	2.2	2.1	2.1
Durable Goods	4.4	3.5	4.0	4.2	4.2	4.3	5.3	3.0	4.1	4.2	4.2	4.3
<b>Business Investment</b>	2.5	1.9	2.9	3.1	2.9	2.9	1.1	2.6	3.1	3.1	2.8	3.0
Non-Res. Structures	-3.4	-1.1	2.4	2.3	2.2	2.4	-3.8	1.6	2.5	2.1	2.2	2.6
Equipment & IPP*	4.2	2.7	3.0	3.4	3.1	3.1	2.5	2.9	3.3	3.3	3.0	3.1
<b>Residential Investment</b>	-2.2	0.7	1.2	1.1	0.6	0.6	-0.3	0.8	1.4	0.8	0.6	0.6
<b>Govt. Expenditure</b>	2.0	1.9	0.7	0.4	0.1	0.2	2.1	1.8	0.4	0.3	0.0	0.3
<b>Final Domestic Demand</b>	2.4	2.2	2.0	2.0	1.8	1.8	2.4	2.0	2.1	1.9	1.8	1.9
<b>Exports</b>	-0.1	1.5	2.5	2.7	2.6	2.5	0.1	2.3	2.6	2.7	2.6	2.5
<b>Imports</b>	1.9	3.0	3.6	3.3	3.2	3.2	1.1	3.3	3.5	3.3	3.1	3.2
<b>Change in Private Inventories</b>	81.3	36.9	37.3	37.8	33.5	32.6	---	---	---	---	---	---
<b>Final Sales</b>	2.1	2.0	1.8	1.9	1.7	1.7	2.4	1.8	1.9	1.8	1.7	1.7
<b>International Current Account Balance (\$Bn)</b>	-508	-569	-641	-715	-768	-814	---	---	---	---	---	---
% of GDP	-2.4	-2.6	-2.8	-3.0	-3.1	-3.1	---	---	---	---	---	---
<b>Pre-tax Corporate Profits including IVA&amp;CCA</b>	1.0	1.2	3.3	2.5	1.7	2.0	2.1	0.8	3.3	1.9	1.7	2.3
% of GDP	9.8	9.5	9.4	9.3	9.1	8.9	---	---	---	---	---	---
<b>GDP Deflator (y/y)</b>	1.9	2.2	2.2	2.2	2.3	2.4	1.9	2.3	2.2	2.3	2.3	2.4
<b>Nominal GDP</b>	4.2	4.0	4.1	4.2	4.0	4.1	4.1	4.0	4.1	4.1	4.0	4.2
<b>Labor Force</b>	0.8	1.0	0.7	0.6	0.5	0.5	0.6	0.9	0.7	0.6	0.5	0.5
<b>Employment</b>	1.5	0.9	0.6	0.6	0.5	0.5	1.2	0.7	0.7	0.6	0.5	0.5
<b>Change in Empl. ('000s)</b>	2,216	1,362	942	979	776	761	1,770	1,110	1,051	889	738	766
<b>Unemployment Rate (%)</b>	3.7	3.8	4.0	4.1	4.2	4.2	---	---	---	---	---	---
<b>Personal Disp. Income</b>	4.6	4.0	4.0	4.1	4.2	4.3	4.5	3.8	4.1	4.1	4.2	4.4
<b>Pers. Savings Rate (%)</b>	8.0	7.5	7.0	6.9	6.9	7.1	---	---	---	---	---	---
<b>Cons. Price Index (y/y)</b>	1.7	2.3	2.3	2.2	2.2	2.2	1.8	2.5	2.2	2.2	2.2	2.2
<b>Core CPI (y/y)</b>	2.2	2.4	2.3	2.3	2.2	2.3	2.3	2.4	2.3	2.3	2.2	2.3
<b>Core PCE Price Index (y/y)</b>	1.6	2.1	2.1	2.0	2.0	2.0	1.7	2.2	2.0	2.0	2.0	2.0
<b>Housing Starts (mns)</b>	1.23	1.24	1.27	1.29	1.30	1.32	---	---	---	---	---	---
<b>Real Output per hour** (y/y)</b>	1.7	1.0	1.4	1.6	1.4	1.4	1.8	1.1	1.6	1.6	1.4	1.5
*Intellectual property products. F: Forecast by TD Economics, September 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					
	19F	20F	21F	22F	23F	24F	19F	20F	21F	22F	23F	24F
<b>Real GDP</b>	1.5	1.6	1.7	1.8	1.8	1.8	1.7	1.5	1.8	1.8	1.8	1.7
<b>Consumer Expenditure</b>	1.6	1.6	1.6	1.6	1.6	1.6	1.8	1.6	1.6	1.5	1.6	1.6
Durable Goods	0.8	1.0	1.5	1.6	1.5	1.5	1.6	1.2	1.7	1.5	1.5	1.5
<b>Business Investment</b>	-2.5	1.5	3.9	3.6	3.1	2.6	-0.2	3.2	4.1	3.3	2.9	2.5
Non-Res. Structures	-5.1	1.8	3.5	3.3	2.9	2.5	-0.6	2.7	3.7	3.1	2.8	2.4
Equipment & IPP*	0.2	1.2	4.3	3.9	3.2	2.7	0.3	3.6	4.5	3.5	3.0	2.5
<b>Residential Investment</b>	-1.3	4.3	3.0	2.3	1.9	1.8	3.4	3.4	2.8	2.1	1.9	1.8
<b>Govt. Expenditure</b>	1.5	1.1	0.9	1.5	1.8	1.8	1.6	0.9	1.0	1.7	1.8	1.8
<b>Final Domestic Demand</b>	0.9	1.7	1.8	1.8	1.8	1.8	1.6	1.7	1.8	1.8	1.8	1.8
<b>Exports</b>	2.7	2.6	2.6	3.1	2.9	2.7	3.2	2.2	2.9	3.1	2.7	2.7
<b>Imports</b>	0.9	1.8	2.5	3.0	2.8	2.7	2.3	2.2	2.8	3.1	2.7	2.7
<b>Change in Non-farm Inventories (2012 \$Bn)</b>	11.8	5.4	2.8	1.3	1.3	1.0	--	--	--	--	--	--
<b>Final Sales</b>	0.9	2.1	1.9	1.9	1.8	1.8	1.9	1.9	2.0	1.8	1.8	1.8
<b>International Current Account Balance (\$Bn)</b>	-38.5	-34.5	-36.8	-37.4	-38.1	-39.3	--	--	--	--	--	--
% of GDP	-1.7	-1.4	-1.5	-1.5	-1.4	-1.4	--	--	--	--	--	--
<b>Pre-tax Corp. Profits</b>	1.7	3.7	4.1	3.8	3.6	3.6	11.1	3.0	4.2	3.7	3.6	3.6
% of GDP	12.5	12.5	12.5	12.5	12.5	12.5	--	--	--	--	--	--
<b>GDP Deflator (y/y)</b>	2.1	2.1	1.9	1.9	1.9	1.9	3.3	2.0	1.9	1.9	1.9	1.9
<b>Nominal GDP</b>	3.6	3.7	3.7	3.7	3.7	3.7	5.0	3.5	3.7	3.7	3.7	3.6
<b>Labour Force</b>	1.9	0.9	0.6	0.6	0.5	0.5	2.0	0.7	0.6	0.6	0.5	0.5
<b>Employment</b>	2.0	0.8	0.6	0.6	0.6	0.5	1.8	0.6	0.6	0.6	0.6	0.5
<b>Change in Empl. ('000s)</b>	381	148	123	117	110	105	337	119	123	114	108	104
<b>Unemployment Rate (%)</b>	5.7	5.9	5.8	5.8	5.8	5.8	--	--	--	--	--	--
<b>Personal Disp. Income</b>	4.0	4.1	3.6	3.6	3.7	3.7	4.4	3.7	3.6	3.6	3.7	3.7
<b>Pers. Savings Rate (%)</b>	1.8	2.0	1.9	1.9	2.0	2.2	--	--	--	--	--	--
<b>Cons. Price Index (y/y)</b>	2.0	2.0	1.9	2.0	2.0	2.0	2.2	1.8	1.9	2.0	2.0	2.0
<b>CPIX (y/y) **</b>	1.8	1.8	1.9	2.0	2.0	2.0	1.9	1.8	2.0	2.0	2.0	2.0
<b>BoC Inflation (y/y) **</b>	2.0	1.9	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
<b>Housing Starts ('000s)</b>	213	204	209	197	197	199	--	--	--	--	--	--
<b>Home Prices (y/y)</b>	1.6	6.5	3.0	2.2	2.6	2.9	5.4	3.5	2.5	2.3	2.7	2.9
<b>Real GDP / worker (y/y)</b>	-0.5	0.8	1.0	1.2	1.2	1.2	-0.1	0.9	1.1	1.2	1.2	1.2
F: Forecast by TD Economics, September 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	19F	20F	21F	22F	23F	24F
U.S. FIXED INCOME												
Fed Funds Target Rate (%)*	2.20	1.75	1.75	2.25	2.50	2.50	1.75	1.75	1.75	2.50	2.50	2.50
3-mth T-Bill Rate (%)	2.00	1.60	1.65	2.15	2.35	2.35	1.60	1.60	1.73	2.35	2.35	2.35
2-yr Govt. Bond Yield (%)	1.85	1.70	2.05	2.40	2.45	2.45	1.60	1.80	2.20	2.45	2.45	2.45
5-yr Govt. Bond Yield (%)	1.80	1.75	2.10	2.45	2.55	2.55	1.60	1.85	2.25	2.55	2.55	2.55
10-yr Govt. Bond Yield (%)	1.95	1.85	2.25	2.60	2.70	2.70	1.70	2.00	2.40	2.70	2.70	2.70
10-yr-2-yr Govt. Spread (%)	0.10	0.15	0.20	0.20	0.25	0.25	0.10	0.20	0.20	0.25	0.25	0.25
CANADIAN FIXED INCOME												
Overnight Target Rate (%)	1.70	1.25	1.25	1.50	1.75	1.75	1.50	1.25	1.25	1.75	1.75	1.75
3-mth T-Bill Rate (%)	1.55	1.15	1.15	1.45	1.75	1.75	1.27	1.15	1.15	1.65	1.75	1.75
2-yr Govt. Bond Yield (%)	1.45	1.40	1.60	1.80	1.85	1.85	1.30	1.45	1.65	1.85	1.85	1.85
5-yr Govt. Bond Yield (%)	1.45	1.50	1.70	1.90	1.95	1.95	1.40	1.55	1.75	1.95	1.95	1.95
10-yr Govt. Bond Yield (%)	1.50	1.55	1.85	2.00	2.05	2.05	1.40	1.70	1.90	2.05	2.05	2.05
10-yr-2-yr Govt. Spread (%)	0.05	0.15	0.25	0.20	0.20	0.20	0.10	0.25	0.25	0.20	0.20	0.20
*Upper bound of target range. F: Forecast by TD Economics as at September 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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