TD Economics

Quarterly Economic Forecast

Living on the Edge

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Summary

Global economy: Early-Year Greenshoots Nipped by the Frost from Trade Winds

- Amid mounting trade tensions and geopolitical uncertainty, we have revised down our global growth outlook for 2019 and, to a lesser extent, 2020. This year's estimate of 2.9% would mark the weakest pace in a decade, leaving the world economy with a thin cushion to absorb political and economic shocks.
- Within the advanced world, Europe has been home to the greatest data disappointments in recent months, including Germany and the UK. Growth downgrades have also been incorporated for a number of emerging market economies, especially those in South East Asia, where the current slump in global manufacturing has been highly visible.
- Historically, deteriorating economic conditions in Europe and Asia have not led to recessions in North America. The economic and financial linkages generally flow in the other direction. However, a further weakening in foreign demand and trade flows will continue to restrain growth in the U.S. and Canada.
- Fortunately, moves by central banks around the world to ease monetary policy are expected to help soften the negative cycle taking hold in sentiment and ultimately sow the seeds for a modest recovery in 2020. In addition, there seems to be more appetite to complement supportive monetary policy with fiscal stimulus. Actions remain in the planning stage for a number of countries and will be closely monitored.
- At the end of the day, economic outcomes will remain closely linked to political outcomes. As of yet, no off-ramp has been identified to the trade battle between the U.S. and China. Moreover, the U.S. continues to wield the threat of auto tariffs on the EU to enhance its position in trade negotiations. Other geopolitical risks have also moved back to the forefront (Brexit, Argentina, Iran and Hong Kong). Political risks offer the dominant downside risk to our forecast, but could quickly transform into upside risks in the event of timely resolutions.

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Forecast Tables

U.S. Economy: Fiscal boost cushions tariff hit

- Economic growth remains in line with our June forecast. Although we have lowered our 2019 annual average forecast by 0.3 ppts, to 2.3%, that reflects downward revisions to the historical data that weakened this year's starting point.
- Looking ahead, we have edged down our 2020 growth projection to 1.7% (from 1.8%). This average masks a slowdown in the quarterly pattern that would have been even larger were it not for two well-timed offsets. The recent spending deal in Washington will raise outlays above the levels assumed in our prior forecast. The outlook for the consumer is also a little brighter following upward revisions to the historical data on personal income.
- Although consumer fundamentals are currently strong, we remain on the lookout for broadening signs that cautious business behavior is spilling into hiring decisions. Should this occur, it would risk kicking the legs out from under the expansion.

Table 1: Economic & Financial Forecasts

	2019F	2020F	2021F
Real GDP (annual % change)	2.3	1.7	1.8
Rates (%)			
Fed Funds Target Rate	1.75	1.75	1.75
2-yr Govt. Bond Yield	1.60	1.80	2.20
10-yr Govt. Bond Yield	1.70	2.00	2.40
WTI ($US/bbl)	57	59	60

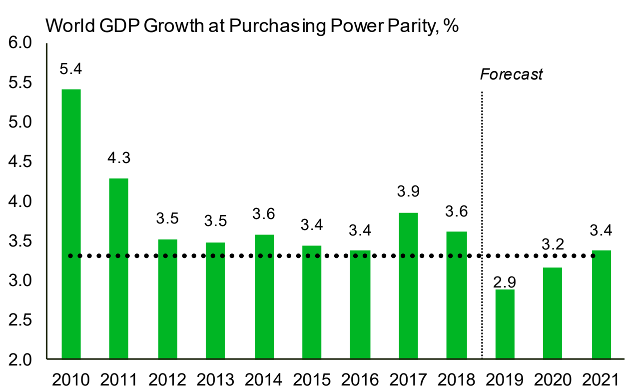
F: Forecast by TD Economics, September 2019; Forecasts for yields are end-of-period.
Source: Bloomberg, U.S. Federal Reserve.

- Unfortunately, it will be difficult to get a clean read on the data in the coming months. The expansion of tariffs to many consumer goods in September and those planned later this year will distort economic data through volatility in imports and inventory accumulation. Trends in domestic demand tend to provide the truer picture of underlying growth, but here too we may see distortions if consumers pull forward activity to front-run potential tariff-related price hikes.
- Due to the evolution of global and political risks, we expect an additional interest rate cut by the Federal Reserve by year end.

Global Outlook: Stuck in a Slow Growth Regime

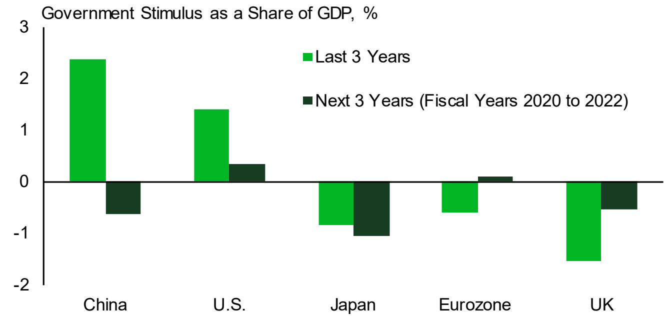
- World GDP has slowed well below last year's 3.6% pace.
    - At 2.9%, this will mark the slowest pace in a decade (Chart 1), with Europe's economy claiming top spot as a major disappointment.
    - The unexpectedly weak growth trajectory has manifested in lower commodity prices, and pushed central banks around the world into easing mode (Table 2). In turn, global bond yields have fallen to historically low levels alongside an increasing incidence of negative yields among advanced economies.
    - World trade activity has remained weak as a manufacturing recession sets in globally. Business sentiment within service industries has been holding up better in most regions, but has been showing some cracks recently.
    - One notable bright spot is robust gains in real wage and job gains within advanced economies. This development should remain supportive to near-term domestic spending gains.
- Looser global financial conditions are expected to help soften the negative cycle taking hold in sentiment and ultimately sow the seeds for a firming in global economic growth in 2020. However, consistent with our assessment in the balance of risks, we have downgraded next year's performance to 3.2%.

Chart 1: 2019 Global Growth Slowest in a Decade



Source: IMF, Forecasts by TD Economics as at September 2019

Chart 2: Now is the Time to Step Up Fiscal Stimulus



Note: Above zero denotes growing deficit; below zero a shrinking one. Projections for the U.S. are a calculation of TD Economics, based on cost estimates from the Congressional Budget Office; other countries projections are from the International Monetary Fund (April 2019).
Source: Congressional Budget Office, International Monetary Fund, TD Economics

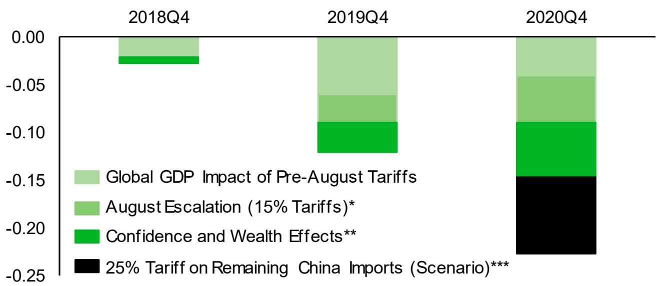
- Top-of-mind downside risks remain largely geopolitical in nature, and extend beyond trade tensions. The risk of a no-deal Brexit has grown, as has potential military confrontation with Venezuela and Iran.
- The key challenge is that slowing global growth leaves many countries with a much thinner cushion to absorb any further shocks. Moreover, concerns about high debt levels and the related build-up in financial vulnerabilities raises questions about the effectiveness of new monetary stimulus to boost demand. This would be the ideal time for fiscal policy to step in (Chart 2). But, the prospect for a large fiscal program in Europe, for example, is limited by countries reluctant to run deficits.

G7 slowdown concentrated in Europe

- After a strong first quarter performance, the Euro Area expanded at a 0.8% annualized pace in the second quarter. However, the outlook is for continued weakness, particularly in Germany and Italy, where impacts from the global manufacturing slump have been most pronounced. Nevertheless, other Euro Area economies should prevent the region from slipping into recession in the second half of this year and hold the expansion to a meagre 1.0% for 2019 as a whole.
    - The ECB announced more stimulus at its September meeting, cutting its deposit rate by 10 basis points to -0.5% and restarting its asset purchase program at a pace of €20bn a month. This will help maintain stimulative real interest rates in the months ahead as the economy searches for a floor. However, with diminishing returns on low rates, it is unlikely to offer a significant growth boost.

Chart 3: China-U.S. Trade War Escalation Worsens 2020 Outlook

Economic Impacts of the U.S.-China Trade War, Percentage Point Drag on the Level of Global GDP



*Of the remaining Chinese imports, tariffs applied on roughly $130bn will start on September 1st and $160bn on December 15. ** This assumes a permanent 6% decline in U.S. equity markets spilling over to global financial markets. *** Scenario analysis: should the administration escalate the recent 15% tariff to 25% at year-end. Source: TD Economics

- UK prospects are not getting any better with the passage of time. Prime Minister Boris Johnson is talking tough with a no-deal Brexit at the end of October, which will leave economic activity choppy as firms once again take precautionary measures. We believe that Brexit will once again be delayed, this time by the growing likelihood that a UK election will be held this autumn. Even with this delay, continued uncertainty is expected to leave growth running at an anemic 1% during the second half of this year.
- Japan's economy has proven more resilient than anticipated, with growth running well above-trend for two consecutive quarters. Strong domestic spending has been more than offsetting external weakness. Third quarter growth is expected to prove even stronger, as consumers pull forward purchases in advance of the VAT increase set to come into effect in October. However, we expect payback in the fourth quarter.

Subdued rebound in EMs

- Economic activity is expected to slowly improve within emerging market economies, but this in no way suggests healthy fundamentals. The improvement is largely driven by an anticipated recovery in crisis-hit countries (Turkey, Argentina), as well as a rebound in activity after a first-half slump (Brazil, Mexico, Russia, South Africa). EM central banks have eased policy rates this year and are expected to continue to do so as long as inflation and capital outflows are contained.
- Emerging East Asian economies with the largest supply chain links with China have slowed in line with expectations. There is some scope for recovery if Chinese demand holds up and trade tensions ease. Tariff actions announced thus far are expected to weigh more on global growth in the year ahead (Chart 3).
- Encouragingly, Chinese demand is rebounding, aided by past economic stimulus measures. Although manufacturing activity remains in the doldrums, service-industry output has been holding steady. In addition, the government has recently announced yet another round of monetary stimulus that will take effect in September and October to offset the impact of trade frictions on the economy. As a result, we have nudged up our forecast to 6.3% for China's economy this year.

Table 2: Central Bank Actions

	Central Bank	Current Policy Rate	Cuts (Jan. 2018 - May 2019)	Cuts Since May 2019 (Bps)	Market Expectations for Future Cuts in 2019*
Recent Cut	Federal Reserve (Upper)	2.00%	-	50	14
	Banco de Mexico	8.00%	-	25	53
	Reserve Bank of Australia	1.00%	-	50	31
	Central Bank of Russia	7.00%	-	75	n/a
	Banco Central do Brazil	5.50%	-	100	n/a
	European Central Bank (Dep)	-0.50%	-	10	2
Might Cut	Bank of Canada	1.75%	-	-	7
	Bank of England	0.75%	-	-	11
	Bank of Japan (Policy-Rate Bal.)	-0.10%	-	-	13
Been Cutting	Reserve Bank of New Zealand	1.00%	25	50	20
	Reserve Bank of India	5.40%	50	45	n/a

* Based on short-term interest rates imputed from overnight indexed swaps and/or futures as of September 18, 2019. Note: In addition to the 8 that have cut, 38 other smaller central banks have cut interest rates since January 1st, 2019.

U.S. Outlook

- Economic growth in the first half of 2019 has been roughly in line with our June forecast. However, a downward revision to the historical data caused a downgrade to the annual average for 2019 (to 2.3% from 2.6% in June). Real GDP growth has run just above 2.5% in the first half of this year, but we expect that pace to slow to 2% for the remainder of the year.
- Looking ahead to 2020, the economy will remain on two tracks. Positive tension in the forecast is coming from government and consumer spending, which incorporate upgrades relative to our June outlook (Chart 4). Negative tensions remain centered within business investment and trade, where forecast downgrades have been incorporated.
- All told, we expect growth to cool to 1.7% in 2020. This is slightly lower than our June forecast as the well-timed boost from fiscal policy partially offsets further weakness due to the escalation in tariffs. However, the downside risks on the external trade front have also increased. With the Fed taking a risk management approach (and in light of the latest trade action), we expect one further quarter-point interest rate cut later this year on top of moves that occurred in July and September.

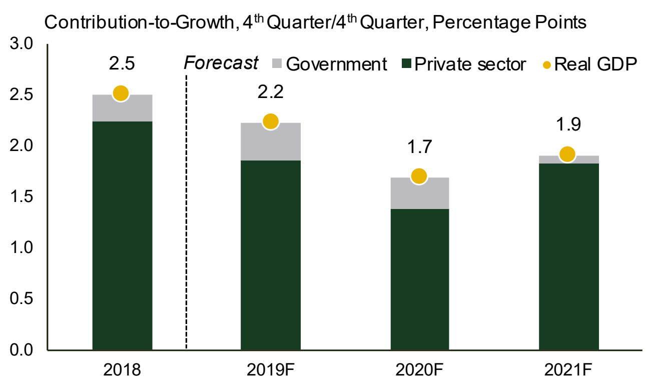
Consumers carry the weight of the forecast

- Despite the clouds on the global outlook, the U.S. consumer spending outlook remains supported by strong fundamentals. Unemployment is low and wage growth is still decent. Consumer confidence has held up, as have consumers' intentions to make major purchases on cars, homes and big-ticket appliances.
- These healthy fundamentals manifested in a rebound in consumer spending in the second quarter to an impressive 4.7% (annualized), following a soft start to the year (+1.1%). Much of the strength has carried into the third quarter, which is on track for 3.5%-plus.
- Adding to the positive momentum, personal income growth was revised upwards, lifting the saving rate (Chart 5). This places upside risk to household spending growth over the next several quarters if confidence holds.
- That said, we'll have to see how rattled consumers are over the recession-talk headlines and latest escalation in the China-U.S. trade war. The next round of import tariffs on Chinese goods will affect more consumer goods than previous rounds. While a 15% tariff is not game changing, particularly given offsetting movements in exchange rates, it will add to the upward pressure on prices that's already materializing in the data, crimping purchasing power. In addition, volatility in financial markets since the new tariff announcement may prompt consumers to become more cautious.

Fiscal risks recede

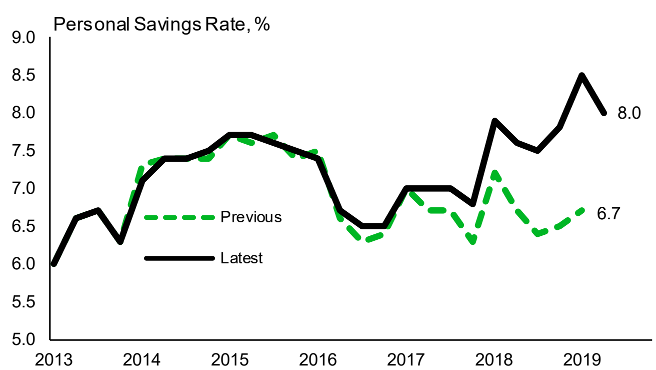
- In late July, Congress agreed on a two-year deal which raises spending caps for fiscal 2020 and 2021 and suspends the debt ceiling for those two years. This eliminates two key fiscal risks from the forecast.
  - First, the automatic spending cuts mandated by the 2011 Budget Control Act will not occur on

Chart 4: Government Spending Helps to Cushion Growth Slowdown



Source: TD Economics

Chart 5: Personal Income Revised Up → Upside for Consumer Spending



Source: Bureau of Economic Analysis, TD Economics

October 1st. (In fact, with the BCA set to end after 2021, the risk of automatic spending cuts is now permanently off the table.)

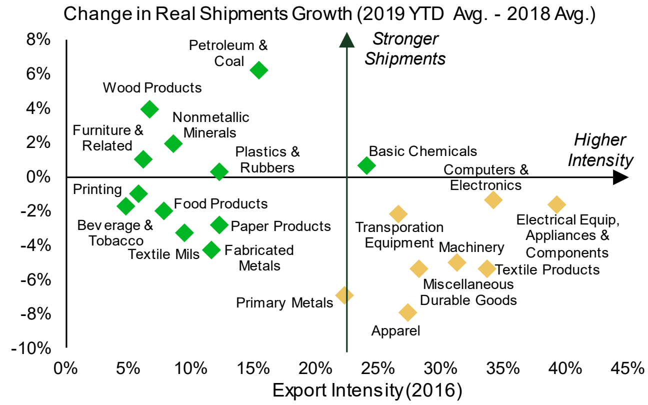
- Second, suspending the debt ceiling for two years removes the tail risk of a confidence-damaging eleventh-hour standoff or debt default.

- Incorporating the impact of the budget deal into our forecast raises real GDP growth in 2020, all else equal. Our previous forecast had assumed the automatic spending cuts would be avoided, but the current spending deal lifts the caps by more than we had assumed, adding roughly 0.2 percentage points to the GDP outlook for 2020.

Domestic investment reflects slowing global growth

- As expected, business investment contracted in the second quarter. Production shutdowns at Boeing contributed to the weakness, but the pullback went much further than that. Investment in nonresidential structures also fell nearly 10% on broad-based weakness. Monthly construction spending data suggests weakness has continued and the category is expected to decline again in the third quarter.
- Other forward-looking indicators are not encouraging. The ISM Manufacturing Index fell below 50 in August, indicating the sector is contracting. As we discussed in our recent report, there is solid evidence that slower global growth is hurting U.S. manufacturing activity, particularly those sectors which are most exposed to external demand (Chart 6).
- The next round of tariffs on Chinese imports is yet another hit to business confidence and investment, and is estimated to take a bit more than a tenth of a percentage point from economic growth in 2020. Much of this will come from lower business investment. However, the confidence channel remains the wildcard should it deteriorate more than expected.
- The strike at GM also presents a downside risk to growth in the fourth quarter. If it is prolonged it could subtract a couple of tenths in the fourth quarter, which could be recouped quickly in the subsequent quarter as production returns to normal.

Chart 6: Slowing Global Growth has Dented U.S. Manufacturing



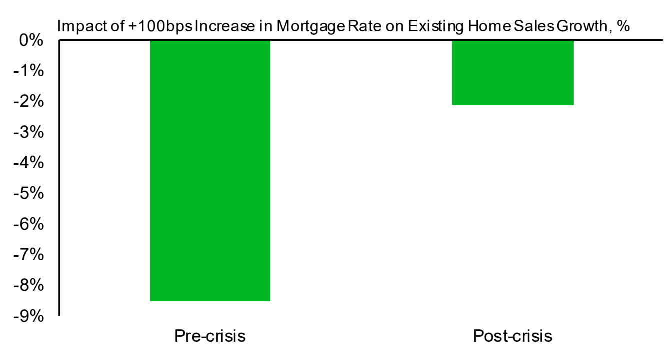
Source: Census Bureau, TD Economics

- The one saving grace to business investment is strong spending on intellectual property. But, this makes up only one-third of all business investment and will be hard-pressed to fully push against the impact of deteriorating confidence, weakness in corporate profits and slower demand from abroad. Investment is on track to slow from 6% in 2018 to around 2.5% this year, and decelerate further in 2020.

Housing remains constrained

- Healthy consumer fundamentals and lower mortgage rates have not yet translated into better data for the housing market. Indeed, housing demand appears to have become less sensitive to falling interest rates in recent years relative to the pre-recession period (Chart 7).
- Still, we would not give up hope on at least a modest housing recovery. There is typically a six-month lag between the drop in mortgage rates and rise in home sales.

Chart 7: Homebuyers Less Sensitive to Changes in Mortgage Rates



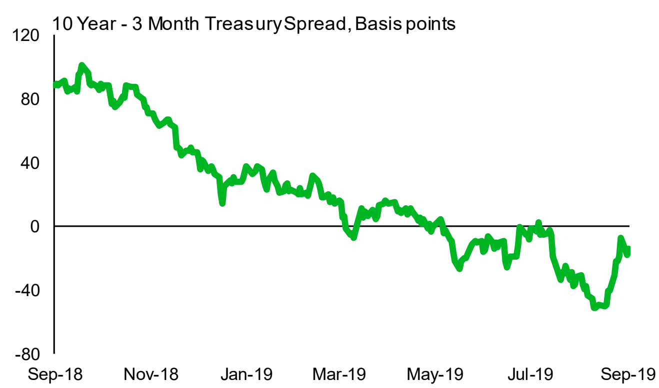
*30 Year Conventional Mortgage.
Source: TD Economics

- On the supply side, housing starts rebounded strongly in August following several months moving sideways. Should an increase in supply be sustained it will help alleviate existing inventory pressures, which are starting to show up in accelerated price growth, reducing some of the past improvement in affordability.
- We expect housing starts to continue to gain ground over the forecast. However, affordability constraints mean that the sector won't contribute much to economic growth over the next couple of years.

Lower growth expectations = lower yields

- The re-escalation of trade tensions has caused government bond yields to crash the world over. After falling over 100 bps from October 2018 to May 2019, the U.S. 10-year Treasury yield fell another 60 bps over the summer, before rebounding by almost 40 basis points more recently. Even with the Federal Reserve cutting its policy rate in July and September, the negative yield spread between the U.S. 10-year and 3-month T-bill remains at around 15 basis points.
- The yield curve has a strong track record in predicting recession, but its history is not perfect. Other models relying on forward-looking economic indicators point to lower recession odds. Still, the sustained yield curve inversion is a significant development that will put pressure on the Fed to deliver another cut in the policy rate to shore up market confidence (Chart 8).
- We expect the Fed will cut rates 25 basis points for a third time this year, to further cushion the economy against uncertainty. The Fed's research has shown that since monetary policy affects the real economy with a significant lag, it needs to act preemptively to get ahead of any slowdown.

Chart 8: Trade Worries Send the U.S. Yield Curve on a Wild Ride



Source: Bloomberg, TD Economics. Last observation: September 18, 2019.

- Our expectations on the Fed's policy path materially hinges on political outcomes. Should the U.S. succeed in achieving a credible and lasting trade deal with China, the Fed could step away from further cuts with a key area of uncertainty receding from the outlook.
- The U.S. trade-weighted dollar had reasserted itself after the recent wave of risk-off sentiment in financial markets. The Broad Index appreciated approximately 3% from mid-July to early September, with the Emerging Market index up nearly 2% in the first week of August alone. This move was largely due to the depreciation of the Chinese renminbi, which broke through the psychological 7-threshold per U.S. dollar. Should the U.S. follow through on further tariff action, risk-off trading would continue to put pressure on the renminbi and other emerging market currencies versus the U.S. dollar.
- The U.S. dollar has appreciated relatively less compared to advanced economy currencies over the past two months (about 1.6%). Much of this comes in the form of euro depreciation. With the German manufacturing sector hard hit due to the slowdown in global trade, the euro has depreciated about 3% from its peak in June.
- Trade tensions are expected to persist, keeping the greenback well supported. A stronger greenback will help to keep inflation contained as tariff pressures build on product prices. Even if inflation remains modestly above the Fed's target, they will likely show tolerance and place the emphasis on the building downside risks to the outlook that would ultimately exert downward demand pressures on prices in the medium term.

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	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	19F	20F	21F	19F	20F	21F
Real GDP	3.1	2.0	1.9	1.8	1.4	1.9	1.8	1.7	1.8	1.9	1.9	1.9	2.3	1.7	1.8	2.2	1.7	1.9
Consumer Expenditure	1.1	4.7	3.5	2.4	1.7	2.1	2.2	2.1	2.2	2.3	2.3	2.3	2.7	2.4	2.2	2.9	2.0	2.3
Durable Goods	0.3	13.0	5.0	3.2	0.7	3.4	4.1	3.7	4.0	4.2	4.1	4.2	4.4	3.5	4.0	5.3	3.0	4.1
Business Investment	4.4	-0.6	-2.4	3.2	3.6	1.2	2.7	2.9	3.1	3.1	3.0	3.2	2.5	1.9	2.9	1.1	2.6	3.1
Non-Res. Structures	4.0	-9.4	-8.7	-0.6	-0.1	1.5	2.6	2.5	2.5	2.4	2.5	2.4	-3.4	-1.1	2.4	-3.8	1.6	2.5
Equipment & IPP*	4.6	2.0	-0.6	4.2	4.6	1.1	2.8	3.0	3.2	3.3	3.1	3.5	4.2	2.7	3.0	2.5	2.9	3.3
Residential Investment	-1.1	-2.9	0.8	1.9	0.4	0.9	0.8	1.2	1.2	1.5	1.6	1.4	-2.2	0.7	1.2	-0.3	0.8	1.4
Govt. Expenditure	2.9	4.5	0.2	1.1	2.7	3.4	0.8	0.4	0.5	0.4	0.4	0.4	2.0	1.9	0.7	2.1	1.8	0.4
Final Domestic Demand	1.8	3.6	2.0	2.3	2.0	2.2	1.9	1.9	2.0	2.1	2.1	2.1	2.4	2.2	2.0	2.4	2.0	2.1
Exports	4.2	-5.8	0.8	1.6	2.6	1.8	2.5	2.4	2.5	2.5	2.7	2.7	-0.1	1.5	2.5	0.1	2.3	2.6
Imports	-1.5	0.1	2.8	3.3	2.8	3.2	3.7	3.6	3.6	3.5	3.5	3.6	1.9	3.0	3.6	1.1	3.3	3.5
Change in Private Inventories	116.0	69.0	75.2	65.0	39.1	36.1	36.5	35.9	37.4	37.2	37.1	37.5	81.3	36.9	37.3	--	--	--
Final Sales	2.6	3.0	1.8	2.1	2.0	2.0	1.7	1.7	1.8	1.9	1.9	1.9	2.1	2.0	1.8	2.4	1.8	1.9
International Current Account Balance ($Bn)	-522	-473	-509	-530	-541	-561	-577	-596	-613	-632	-650	-671	-508	-569	-641	--	--	--
% of GDP	-2.5	-2.2	-2.4	-2.4	-2.5	-2.5	-2.6	-2.6	-2.7	-2.7	-2.8	-2.8	-2.4	-2.6	-2.8	--	--	--
Pre-tax Corporate Profits including IVA&CCA	-14.3	22.8	3.9	-0.7	-3.9	-1.6	5.2	3.7	3.6	3.5	2.7	3.4	1.0	1.2	3.3	2.1	0.8	3.3
% of GDP	9.5	9.9	9.9	9.8	9.6	9.5	9.5	9.5	9.5	9.5	9.4	9.4	9.8	9.5	9.4	--	--	--
GDP Deflator (y/y)	2.0	1.8	1.8	1.9	2.3	2.2	2.2	2.3	2.2	2.2	2.2	2.2	1.9	2.2	2.2	1.9	2.3	2.2
Nominal GDP	3.9	4.6	4.1	3.9	3.8	4.1	4.1	4.0	4.2	4.1	4.1	4.2	4.2	4.0	4.1	4.1	4.0	4.1
Labor Force	0.5	-1.0	2.4	0.7	1.2	1.6	0.2	0.6	0.7	0.7	0.7	0.7	0.8	1.0	0.7	0.6	0.9	0.7
Employment	1.7	1.2	1.0	0.9	0.9	1.3	0.3	0.4	0.6	0.7	0.7	0.7	1.5	0.9	0.6	1.2	0.7	0.7
Change in Empl. ('000s)	617	438	390	325	340	510	103	157	233	278	276	264	2,216	1,362	942	1,770	1,110	1,051
Unemployment Rate (%)	3.9	3.6	3.7	3.7	3.8	3.8	3.9	3.9	3.9	4.0	4.0	4.0	3.7	3.8	4.0	--	--	--
Personal Disp. Income	4.9	4.8	3.9	4.3	3.9	3.8	3.6	3.7	4.4	3.9	3.9	4.0	4.6	4.0	4.0	4.5	3.8	4.1
Pers. Savings Rate (%)	8.5	8.0	7.7	7.7	7.7	7.6	7.4	7.2	7.2	7.1	7.0	6.9	8.0	7.5	7.0	--	--	--
Cons. Price Index (y/y)	1.6	1.8	1.8	1.8	2.2	2.1	2.3	2.5	2.4	2.4	2.3	2.2	1.7	2.3	2.3	1.8	2.5	2.2
Core CPI (y/y)	2.1	2.1	2.3	2.3	2.3	2.5	2.4	2.4	2.4	2.3	2.3	2.3	2.2	2.4	2.3	2.3	2.4	2.3
Core PCE Price Index (y/y)	1.6	1.5	1.7	1.7	2.0	2.1	2.1	2.2	2.1	2.1	2.1	2.0	1.6	2.1	2.1	1.7	2.2	2.0
Housing Starts (mns)	1.21	1.26	1.21	1.22	1.23	1.23	1.24	1.25	1.26	1.27	1.28	1.28	1.23	1.24	1.27	--	--	--
Real Output per hour** (y/y)	1.7	1.8	1.5	1.8	1.1	0.8	1.1	1.1	1.3	1.4	1.5	1.6	1.7	1.0	1.4	1.8	1.1	1.6

F: Forecast by TD Economics as at September 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*	Q4F	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	1.75	1.75
3-mth T-Bill Rate	2.35	2.08	1.89	1.60	1.60	1.60	1.60	1.60	1.60	1.60	1.60	1.73
2-yr Govt. Bond Yield	2.27	1.75	1.75	1.60	1.60	1.65	1.70	1.80	1.90	2.00	2.10	2.20
5-yr Govt. Bond Yield	2.23	1.76	1.66	1.60	1.60	1.70	1.75	1.85	1.95	2.05	2.15	2.25
10-yr Govt. Bond Yield	2.41	2.00	1.79	1.70	1.70	1.80	1.90	2.00	2.10	2.20	2.30	2.40
30-yr Govt. Bond Yield	2.81	2.52	2.24	2.25	2.25	2.30	2.40	2.50	2.60	2.65	2.70	2.75
10-yr-2-yr Govt Spread	0.14	0.25	0.04	0.10	0.10	0.04	0.20	0.20	0.20	0.20	0.20	0.20

F: Forecast by TD Bank Group as at September 2019. All forecasts are end-of-period.
Source: Bloomberg, Federal Reserve, TD Economics. * Spot rates as at September 18, 2019 with the exception of policy rate.

Foreign Exchange Outlook													
Currency	Exchange rate	2019				2020				2021			
		Q1	Q2	Q3*	Q4F	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Euro	USD per EUR	1.12	1.14	1.10	1.09	1.10	1.12	1.13	1.14	1.15	1.16	1.17	1.18
UK pound	USD per GBP	1.30	1.27	1.25	1.21	1.22	1.23	1.24	1.25	1.26	1.27	1.28	1.29
Australian dollar	USD per AUD	0.71	0.70	0.68	0.68	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	0.64	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	1.33	1.33	1.32	1.31	1.30	1.30	1.30	1.30	1.30	1.30
Swiss franc	CHF per USD	1.00	0.98	1.00	0.99	0.99	0.99	0.99	0.99	0.99	0.99	0.99	0.99
Japanese yen	JPY per USD	111	108	108	107	106	105	104	103	103	102	102	101
Chinese renminbi	CNY per USD	6.71	6.87	7.09	7.15	7.15	7.15	7.15	7.15	7.15	7.15	7.15	7.15

F: Forecast by TD Bank Group as at September 2019. All forecasts are end-of-period.
Source: Bloomberg, Federal Reserve, TD Economics. * Spot rates as at September 18, 2019.

Commodity Price Outlook												
	2019				2020				2021			
	Q1	Q2	Q3	Q4F	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Crude Oil (WTI, $US/bbl)	55	60	57	57	57	58	58	59	59	60	60	60
Natural Gas ($US/MMBtu)	2.92	2.51	2.35	2.35	2.35	2.40	2.45	2.50	2.51	2.53	2.54	2.55
Gold ($US/troy oz.)	1303	1307	1475	1500	1525	1550	1550	1550	1550	1550	1550	1550
Silver ($US/troy oz.)	15.58	14.91	17.00	18.00	18.25	18.50	18.50	18.50	18.50	18.50	18.50	18.50
Copper (cents/lb)	282	278	265	259	263	270	276	281	283	284	285	287
Nickel ($US/lb)	5.60	5.56	7.03	7.94	8.16	8.16	8.39	8.39	8.43	8.47	8.52	8.56
Aluminum (cents/lb)	84	81	80	79	81	84	88	93	93	94	94	95
Wheat ($US/bu)	7.08	6.36	6.00	6.00	6.12	6.18	6.32	6.48	6.51	6.54	6.57	6.61

F: Forecast by TD Bank Group as at September 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 (30.6%)*	2.1	1.6	1.3	1.5
U.S.	2.9	2.3	1.7	1.8
Japan	0.8	1.1	0.2	0.8
Euro Area	1.9	1.1	1.0	1.3
Germany	1.5	0.5	0.8	1.4
France	1.7	1.3	1.3	1.3
Italy	0.7	0.1	0.8	0.8
United Kingdom	1.4	1.1	1.0	1.5
Canada	1.9	1.5	1.6	1.7
Consumer Price Index (annual per cent change)				
G7	2.1	1.5	1.9	1.9
U.S.	2.4	1.7	2.3	2.3
Japan	1.0	0.7	1.4	1.2
Euro Area	1.8	1.2	1.3	1.5
Germany	1.9	1.4	1.5	1.7
France	2.1	1.3	1.6	1.8
Italy	1.2	0.7	1.1	1.4
United Kingdom	2.5	1.9	2.1	1.9
Canada	2.2	2.0	2.0	1.9
Unemployment Rate (per cent annual averages)				
U.S.	3.9	3.7	3.8	4.0
Japan	2.4	2.3	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	10.2	10.3
United Kingdom	4.0	3.8	3.9	3.9
Canada	5.8	5.7	5.9	5.8

*Share of 2017 world gross domestic product (GDP) at PPP.
Forecast as at September 2019.
Source: National statistics agencies, TD Economics.

Global Economic Outlook					
Annual Per Cent Change Unless Otherwise Indicated					
	2017 Share*		Forecast		
Real GDP	(%)	2018	2019	2020	2021
World	100.0	3.6	2.9	3.2	3.4
North America	18.6	2.8	2.0	1.8	1.9
United States	15.3	2.9	2.3	1.7	1.8
Canada	1.4	1.9	1.5	1.6	1.7
Mexico	1.9	2.0	0.3	1.8	2.4
European Union (EU-28)	16.5	2.0	1.3	1.2	1.5
Euro Area (EU-19)	11.6	1.9	1.1	1.0	1.3
Germany	3.3	1.5	0.5	0.8	1.4
France	2.2	1.7	1.3	1.3	1.3
Italy	1.8	0.7	0.1	0.8	0.8
United Kingdom	2.3	1.4	1.1	1.0	1.5
EU accession members	2.6	3.9	2.9	2.5	2.6
Asia	44.3	5.2	4.6	4.8	4.8
Japan	4.3	0.8	1.1	0.2	0.8
Asian NIC's	3.4	2.7	1.8	2.7	2.8
Hong Kong	0.4	3.0	0.3	1.8	2.9
Korea	1.6	2.7	2.0	3.1	3.0
Singapore	0.4	3.2	0.8	2.2	2.5
Taiwan	0.9	2.6	2.3	2.9	2.9
Russia	3.2	2.2	1.0	1.8	1.6
Australia & New Zealand	1.1	2.7	1.9	2.4	2.5
Developing Asia	32.4	6.4	5.8	6.0	5.9
ASEAN-5	5.4	5.2	4.7	4.6	5.0
China	18.2	6.5	6.3	6.0	5.7
India**	7.4	6.8	5.4	7.1	7.1
Central/South America	5.8	-0.1	0.0	2.0	2.9
Brazil	2.5	1.1	0.9	1.8	2.2
Other Developing	13.7	2.5	1.5	2.7	3.3
Other Advanced	1.1	2.6	1.5	2.0	2.0

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