Quarterly Economic Forecast

COVID-19, Vaccines, Knowns & Unknowns

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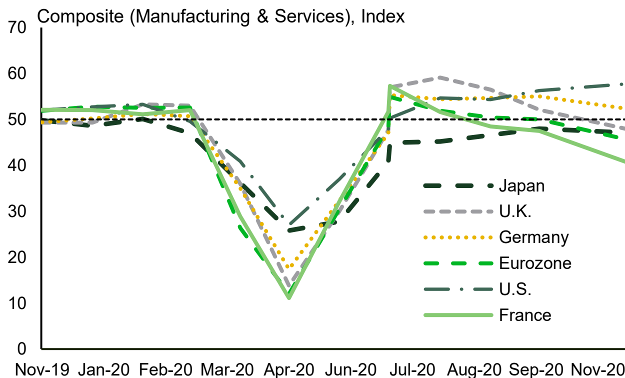
As we did last quarter, this Quarterly Economic Forecast is in Q&A format. We have posed (and answered) the questions that we deem most relevant to the economic outlook, starting with the impact of the recent surge in the virus and developments on the vaccine front. From there we delve into some issues on the geopolitical front – China's performance through the pandemic, the looming risk of no deal between the UK and EU, and the potential impact of a Biden presidency on the economic outlook. We close with some other pressing questions on the near term outlook (the sustainability of the recent housing boom) and some thoughts on the medium term impact of the crisis and how governments will pay for it. Economic and financial projections are contained on pages 9 through 11.

Questions & Answers

1. How has the global economic outlook shifted with the resurgence in COVID-19 cases?
2. Where do rising infections and fading stimulus leave U.S. near-term prospects?
3. What does the possibility of an earlier vaccine mean for the outlook?
4. Will China emerge stronger once the dust settles from this crisis?
5. With the clock ticking on Brexit, what could be the impact of a no-deal?
6. What are the implications of Biden's victory for the economic outlook?
7. Are recent housing trends sustainable?
8. What are the longer-lasting economic trends to watch for in 2021?
9. Will all this spending by governments come back to haunt them?

Chart 1: Europe Is Entering a Double Dip Downturn



Note: Below 50 = a majority of businesses reported a contraction.
Source: IHS, TD Economics.

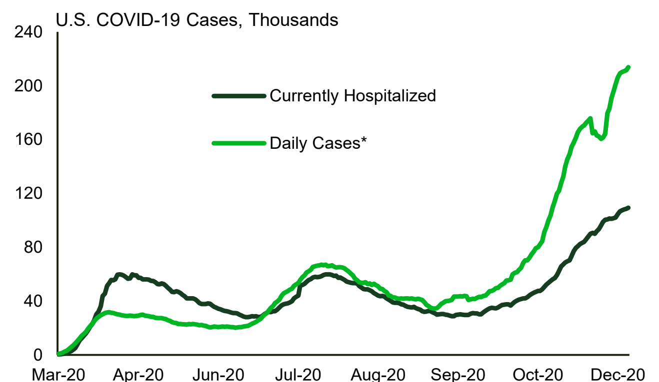
Q1. How has the global economic outlook shifted with the resurgence in COVID-19 cases?

- A strong comeback over the early summer has noticeably downshifted in recent months under a resurgence in COVID-19 cases and subsequent restrictions. Some economies may see their momentum thrown into reverse. But, because we are in the final months of 2020, the downward revision to the annual global economic forecast (-3.8% in September) is modest (0.3 percentage points). We now expect global economic growth to contract by -4.1% in 2020.
- The Eurozone economy appears poised to suffer a double-dip contraction in the near term (Chart 1). However, the more targeted nature of new restrictions will limit the economic damage relative to the spring. Even nationwide lockdowns (France, Germany, Ireland and others) have been looser than the first round. And, unlike the first round, the European manufacturing sector – thanks largely to Germany – continues to expand.
- This resilience in manufacturing partly reflects continued robust recoveries in China and the rest of East Asia, where countries have successfully contained the virus. Global supply chains have avoided the disruptions suffered during the first wave. In turn, a greater degree of normalization in business operations is offering support to export-oriented regions, including the Eurozone.
- While any near-term setback is almost certain to pale in comparison to that recorded earlier this year, the worsening pandemic will still take a toll on global momentum into the first quarter of 2021. Easing restrictions in Europe in the new year may provide some tailwind to growth, but also carry the risk of another surge in cases and subsequent restrictions. At the same time, an earlier vaccine than we had assumed in September (see question 3 below) points to a pickup through the second and third quarters of 2021.
- On net, the pandemic-related risks appear balanced for the first time since the onset of the health crisis. With time, this may shift investor scrutiny back to non-virus-related risks, where attention was diverted away during the health crisis. These include a "no trade deal" between the UK and the EU, U.S.-China tensions, deteriorated global government finances, worsened inequality issues, emerging market (EM) financial difficulties and other geopolitical threats.

Q2. Where do rising infections and fading stimulus leave U.S. near-term prospects?

- The "third wave" of infections in the U.S. has gathered speed over the past two months (Chart 2). As a result, high-frequency indicators of economic activity have lost momentum. Restaurant reservations through the OpenTable app have trended sharply lower of late as local restrictions intensify. At the same time, small business revenues and the number of small business open have weakened since mid-November.
- Still, a strong start leaves real GDP growth tracking a healthy 5.0% (annualized) in the fourth quarter, above our September projection of 2.8%. This headline will mask variance in economic activity within

Chart 2: U.S. Third Wave Reaches a Critical Point



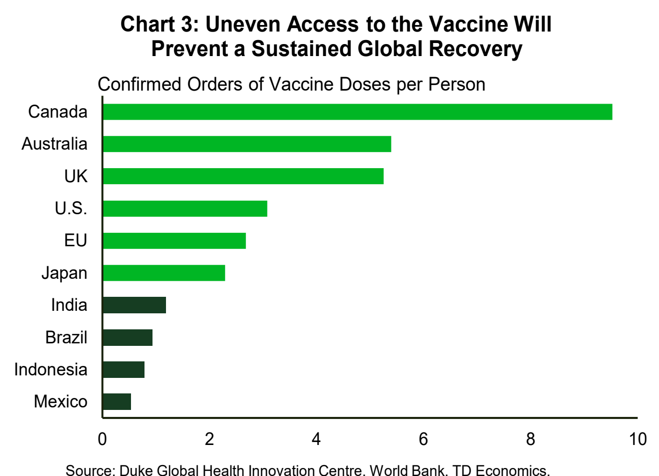
*7-day moving average.
Source: OWID, TD Economics. Last data point December 13, 2020.

the quarter, with the surge in infections and related restrictions likely to restrain activity in December.

- Fortunately, it appears that Congress will reach a deal on extending some pandemic supports before the Christmas recess. Therefore, similar to September, we have included fiscal supports of around $400 billion in this forecast. This includes an extension of the generous unemployment benefits from the CARES Act (PEUC and PUA) for a few more months and another round of "PPP like" forgivable loans for small business. This assistance will help offset the slowdown in growth that would have otherwise occurred in the first part of the year given the rise in infections.

Q3. What does the possibility of an earlier vaccine mean for the outlook?

- There have been notable positive developments on the vaccine front. There are more than 200 vaccine candidates under investigation, with 13 in the final stage of trials. Two of those vaccines – Pfizer/BioNtech and Moderna – have been found to be 95% effective. The Pfizer vaccine has already been made available and the Moderna vaccine could be made available as soon as next week.
- With light at the end of the tunnel, high-touch consumer-facing service sectors like restaurants, malls and travel stand to benefit the most from the wide distribution of the vaccine. This likely does not require a herd immunity threshold to be met across the general population. Health risks would fall materially should the vaccine distribution be targeted at the most vulnerable portion of the population. Any subsequent relaxation in government restrictions perceived as permanent then offers the foundation for stronger business investment and hiring.
- Accordingly, we have adjusted our baseline forecast to 'pull forward' the timing of widespread vaccine distribution to the spring. This is roughly one quarter earlier than our prior assumption and offsets some of the negative near-term economic scarring impact that would occur under the recent surge in cases. The pull-forward of our vaccine assumption into the second quarter is expected to lift the outlook for annual average real GDP growth by around 0.5 percentage points.
- We must remain humble and cautious in this assumption. Several countries are already beginning to roll out the vaccine, but the exact timing of distribution remains uncertain and logistical challenges create another unprecedented moment. The Pfizer and Moderna vaccines come with stringent storage requirements. These challenges are surmountable within advanced economies (AEs), but are a greater barrier for emerging markets with weak infrastructure and logistics. On the plus side, a third vaccine developed by Oxford Astra-Zeneca can be kept at refrigerator temperature, which would make it easier to transport globally.
- Still, most EMs simply cannot afford the vaccine. The high price tag means that vaccines are mostly accessible to AEs that have already pre-ordered billions of doses (Chart 3). "Vaccine nationalism" poses another hurdle for the global economy, which could leave EMs without a vaccine for a considerable amount of time and further diverge the fortunes between AE and EM recoveries. Even within AEs, access will depend on several factors including approval by national drug authorities, logistical capabilities and manufacturing/trial locations.
- The positive vaccine announcements have been cheered by financial markets with equities rallying and fixed income selling off on the news. Compared to just a few months ago, expectations for the fed funds rate ten years from now have risen by approximately 40 basis points, to 0.7%. Even after the recent rise in bond yields, market pricing may still be too dovish. The eventual return to higher policy rates (though a number of years away) is likely to be faster than current market

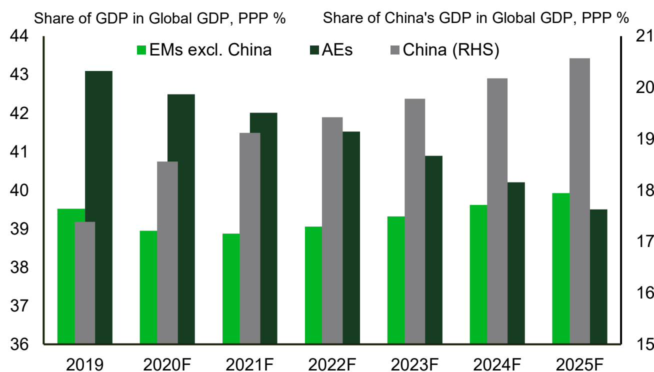


pricing implies. Should market pricing for the federal funds rate move to a policy path that aligns with ours (first increase in 2024), the UST 10-year yield should move toward 1.5% by the end of next year.

Q4. Will China emerge stronger once the dust settles from this crisis?

- Yes. China successfully contained the virus while Europe and North American have struggled. The Chinese government's investment-driven stimulus has also helped China recover faster than other countries. In fact, China is the only major economy that is expected to register positive growth (1.8%) in 2020. Earlier concerns about an uneven recovery – strong investment, weak consumption – have also abated, as consumption has been higher than pre-pandemic levels for three straight months. And, while China's share in the global economy was already rising, its strong recovery has turbocharged that process. China's share of global output in 2020 is expected to jump to 18.4% – 1.6 percentage points higher than last year and higher than it would have been in the counterfactual no-COVID world (Chart 4).
- China's trade with the rest of the world is also well above pre-pandemic levels and has grown on average 6% (year-on-year) over the past five months. Early in the pandemic, China's exports rose thanks to an increase in global demand for personal protective equipment and other related supplies. Now its exports are rising across the product spectrum. In fact, China's share in global trade has jumped to 17% – four percentage points more than it would have been without the pandemic. China's trade has also done well relative to other countries like the U.S., where exports and imports remain well below the levels last year, by 16% and 7%, respectively. These developments combined have pushed China's trade surplus to its highest monthly level on record.

Chart 4: The Pandemic Has Already Increased China's Share in the Global Economy

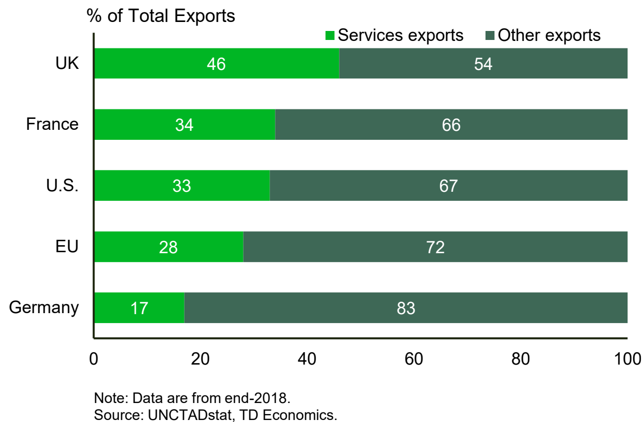


Source: IMF, TD Economics.

- Portfolio flows to China are also surging, reflecting investors' upbeat sentiment about the country's recovery prospects. Chinese stocks have so far outpaced the rest of the world (including the U.S.). China's CSI 300 has rallied about 22% this year, compared to 14% for the S&P 500.
- China has also fared better than most major economies in terms of foreign direct investment (FDI) inflows. While global FDI – a measure of globalization and economic confidence – fell 49% in the first half of 2020 compared to the same period last year, China bucked the trend by contracting just 4% (U.S. and Canada contracted by 61% and 32%, respectively).
- These developments will likely give China even more clout on the global stage in the coming years and allow it to assert greater influence on global and regional geopolitics. With that may come an even greater likelihood of conflict with its rivals in North America and Europe.

Q5. With the clock ticking on Brexit, what could be the impact of no trade deal?

- The UK legally withdrew from the EU in January 2020, but it is currently in a transition period during which it has remained an EU member in all but name. On December 31st, 2020, however, the UK's official exit from the EU will be final. This is also when the UK leaves the EU customs union and the European single market.
- Time is running out to sign a trade deal, as both sides are at loggerheads over key issues, especially on maintaining a regulatory "level playing field." As of the time of writing, we believe that a last-minute deal will be signed, but the odds of it are decreasing by the day.
- In the absence of a trade deal, the UK will trade under WTO rules. This means that most UK goods exported to the EU will face tariffs, pressuring market share of British businesses. Likewise, EU exports to the UK will also face higher tariffs, impacting British



consumers through higher prices. This will be particularly challenging for the British manufacturing sector, which relies on the import and export of intermediate goods in supply chains spread out across Europe.

- The UK would also face more burdensome customs procedures at the border under full border checks for goods. This could cause traffic bottlenecks at ports and lead to significant delays, which would be especially problematic for just-in-time manufacturers. Even if a deal is reached, there will be delays at the border, but not to the same extent.
- A negotiated deal will likely do away with tariffs and quotas between the UK and the EU for industrial and manufacturing goods, as well as food products. But the deal won't be as deep and comprehensive as those struck by the EU with the likes of Norway, Switzerland, Turkey and even Ukraine.
- The deal currently being negotiated is a typical goods-focused free trade agreement with few bells and whistles. It leaves out most of the service sector, which makes up 80% of the British economy, half of its exports and employs 30 million people (Chart 5). Tradeable services will be particularly impacted as almost 40% of the UK's total services exports go to the EU. Meanwhile, business and financial services will be hit hard, as they collectively make almost 45% of UK's services exports. And while the British financial sector can brace for impact with relative safety – and to some extent it already has – small and medium sized enterprises, of which 82% do business with Europe, will be particularly vulnerable.
- Without a trade deal, the UK economy would experience yet another significant economic shock. According to the UK's Office for Budget Responsibility, failure to agree on an FTA with the EU could wipe 2% off UK's GDP in 2021 and lead to a long-term decline in GDP. Meanwhile, the Bank of England has forecast a 1% hit to the economy in early 2021 as a result of the end of the Brexit transition period, even if there is a deal in place with the EU. So, trade deal or no trade deal, the new year will be the start of a period of painful decoupling.
- Unfortunately, the timing of this impasse could not be any worse. The British economy has been hit worse than any other major AE from the virus impacts, and a no-deal exit will further weigh on economic growth. The first half of 2021 will be particularly tough for the British economy.

Q6. What are the implications of Biden's victory for the economic and financial outlook?

- The Biden election platform promised an ambitious spending agenda, funded by higher taxes on high-income Americans and corporations (see report). Implementing this agenda, however, will require the cooperation of Congress. Democrats have retained control of the House of Representatives, but control of the Senate will be determined by the January 5th runoff vote in Georgia. Should Republicans maintain control of the Senate (as is currently expected), tax hikes and major spending increases are much less likely.
- The incoming administration has appointed a seasoned economic team and indicated that helping to rebuild in the wake of the pandemic is a priority. Depending on what happens in Congress, (see question 2 above), the administration will likely want to pass further economic assistance. President-elect Biden has indicated he supports the roughly $2 trillion package House Democrats passed back in the summer, but the size will again depend on the makeup of the Senate, and what can be negotiated with GOP Senators if they retain the majority.
- The power of the President is great even within a divided Congress to act through executive actions on other areas, including trade, immigration and regulations. Biden

is more pro-immigration than Trump and has committed to make permanent protections for undocumented workers who came to the country as children.

- He has also indicated an interest in reversing restrictions the Trump administration has made on both regular and high-skilled visa programs and the number of green cards issues. However, at this juncture, it remains uncertain the degree to which this could add to the medium-term outlook of economic activity. The President-elect has noted a sensitivity to this policy during periods of high domestic unemployment.
- On trade, Biden's platform was still relatively protectionist. It is also unclear whether Biden would lift the import tariffs on China implemented by President Trump. He will likely take a more multilateral approach, however, and is less likely to impose the random, punitive tariffs on U.S. allies (like steel & aluminum tariffs on Canada).
- In terms of regulations, there are numerous areas Biden could and is likely to act. Stricter worker protection is one example. Trump administration regulations had made it easier for businesses to count workers as independent contractors. Reversing this move and raising the minimum wage for federal contractors appears likely. He is also likely to reinstate Obama-era environmental protections. Financial sector regulation is likely to be tighter than under President Trump, and Biden is likely to strengthen the Consumer Financial Protection Bureau (CFPB).
- On the global front, international trade is likely to be more stable under Biden. Though it would take time for tariff rollbacks to occur, the new administration is likely to take a more conciliatory approach towards the World Trade Organization (WTO) and possibly rejoin the Trans-Pacific Partnership (TPP) negotiations. The U.S. is also set to rejoin the World Health Organization (WHO) and the Paris climate accords, both of which bode well for tackling COVID-19 and climate change (Chart 6).
- Biden's win is good news for Europe. His administration is likely to lift the threat of automotive tariffs, remove (or reduce) aluminum and steel tariffs and is more likely to reach a Boeing-Airbus deal with Europe. Still, there will be pressure from Biden on Europe for more NATO spending. And tensions with France and other European countries will continue to simmer over plans to impose digital taxes on American tech giants such as Amazon, Apple and Google.
- U.S.-China tensions will persist, particularly with China gaining economic clout this year. However, Biden is more likely to work strategically with traditional allies against the perceived China threat to intellectual property and security. There is also likely to be more focus on Chinese human rights abuses (in China's Xinjiang province) and regional security (in Hong Kong, Taiwan and the South China sea). U.S.-China tensions on technology and economic imbalances – undervalued renminbi and other trade distortions – will also continue.

Chart 6: American Economic Relations under President-elect Biden

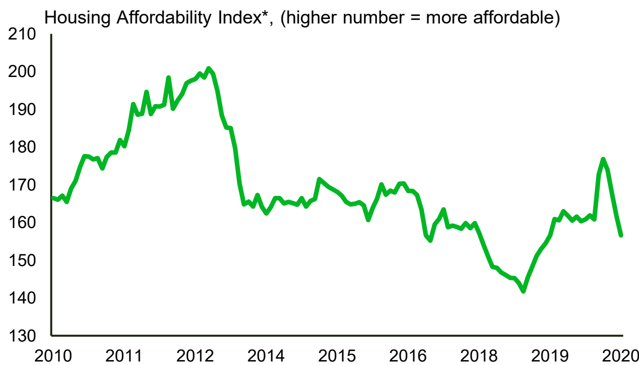
Multilateral	Europe	China
Rejoin the Paris agreement	Withdraw threat of auto tariffs	Maintain focus on economic imbalances
Rejoin the WHO	Relaunch an Airbus Boeing Deal	Greater focus on human rights situation in China
Improved relations with WTO	Lift Aluminum and Steel tariffs	U.S. to work more closely with European allies against China's rising dominance
Possible rejoining of TPP negotiations	Tensions to persist on digital services taxes and defense spending within NATO	

Source: TD Economics.

Q7. Are recent housing trends sustainable?

- The strength in the housing market has been one of the more surprising elements of the past year on both sides of the border. Lifting the hood, it is explained by a combination of factors. One, higher-income households, who tend to be homeowners, have fared relatively well on the employment front. Two, government support programs have supported incomes across the spectrum, while working from home has contributed to savings for the working population at the higher end of the income spectrum. Three, low interest rates have been a massive boost to affordability. And four, the virus has increased the desire for people to move out of dense urban areas into less-dense suburbs, thus raising demand for single-family homes.
- Robust U.S. sales momentum continued through Oc-

Chart 7: Housing Affordability Worse than a Year Ago



*Seasonally Adjusted; Fixed Rate Mortgages; Based on a 25% qualifying ratio for monthly housing expense to gross monthly income with a 20% down payment.
Source: National Association of Realtors, TD Economics. Last data point Nov 2020.

tober, despite the deterioration in affordability. Home prices have risen so quickly that the gain in affordability from lower interest rates has been erased. The National Association of Realtors affordability index is now three percentage points worse than last year's level (Chart 7).

- With the inventory of homes for sale at a historic low and new supply relatively slow, markets are likely to remain tight, which should prevent a retracement in home prices, even as sales growth slows.
- Looking ahead, the wild card in the outlook is the potential rise in mortgage delinquencies. Forbearance programs have helped keep foreclosures low, but rising delinquencies present a downside risk to house prices.

Q8. What are the longer-lasting economic trends to watch for in 2021?

- The pandemic's onset has exposed the vulnerabilities of relying too much on efficient rather than resilient supply chains (see report). And while reshoring and regionalization were already underway prior to this crisis due to tariffs and concerns around national security and public health, the pandemic has turbocharged this process.
- Companies around the world have expedited their plans to change their business models and are reorienting their supply chains closer to home or their allies. For example, Apple has already moved its production from China to Vietnam during the pandemic, where they benefit from lower unit costs and are relative safety from U.S. tensions. Japan is also looking into ways to break supply chain dependence on China and is paying firms to relocate.
- The recent rhetoric coming from world leaders indicates that they are already looking inwards, pushing against a previously one-directional globalization trend. Australia's Prime Minister recently said that "open trading has been a core part of our prosperity over centuries. But equally, we need to look carefully at our domestic economic sovereignty as well." This is a theme to watch out for next year.
- However, supply chains today are extremely complex. Therefore, shifting them is going to be a long, arduous and expensive process. Such supply chain relocations will also put upward pressure on prices for both businesses and consumers. These factors will increase business incentives to automate and digitize where possible, in order to offset the higher labour and capital costs.
- Businesses are also increasingly ensuring visibility and tracking of supply chains, leading to a faster adoption of Internet of Things devices to track and authenticate products and shipments with GPS and other technologies.
- The pandemic has already accelerated digitization and automation, both of which have been crucial in allowing industries to adjust to the COVID-19 shock. The ongoing crisis has also acted as a catalyst for innovation and has altered consumer behavior which has opened up new digital opportunities (Table 1). The challenge countries face going forward is to translate these innovations into long-lasting changes that boost productiv-

Table 1: Digital Opportunities Will Be Aplenty

Industry	Opportunities
Retail	E-commerce will consolidate lockdown gains
Financial services	Fintech will go from strength to strength
Automotive	Carmakers will build online sales capabilities
Telecom	Cloud computing will be a key area of growth
Healthcare	Digital health apps will proliferate

Source: EIU, TD Economics.

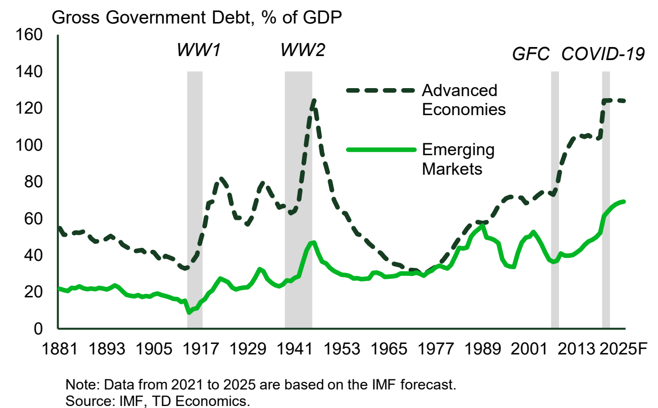
ity and economic growth.

- Unfortunately, the opposite is likely in the near-term and the pandemic could lead to lower trend economic growth. We estimate that the economic shock caused by the pandemic is likely to lower the annual trend pace of growth in the U.S. by about 0.2 percentage points, consistent with the scarring evident in previous recessions . The bulk of that drop is likely to come from reduced capital investment.
- Even after the third quarter's rebound, business investment in the U.S. remained 5% lower than a year ago, a larger deficit than consumer spending (-2.9% year/year). By 2026, we still expect total business investment to be slightly lower than what it could have been without COVID-19. These lower levels of investment will weigh on the contribution of capital deepening to labour productivity, in turn lowering trend labour productivity growth.

Q9. Will all this spending by governments come back to haunt them?

- The response to the crisis has pushed global public debt today higher than ever before (Chart 8). Low interest rates have allowed countries to keep debt servicing costs low. According to the IMF, economic growth for many countries over the medium term is expected to be higher than the cost of servicing debt. This will allow countries to spend without worrying much about debt sustainability or bond market access. These are also opportune times, since the impact on economic growth from an increase in government spending is higher when interest rates are near zero.
- Countries cannot solely rely on 'growing out' of this crisis. Governments have different options to reduce their debt burdens, all of which have consequences (see report). Going forward, we expect a combination of higher taxes, spending restraint and debt monetization (central bank's direct permanent purchases of government debt) to help turn around budget positions (see report). Drastic spending cuts are an unlikely option, since if there's one (fiscal) policy lesson we've learned from the GFC, it's that while austerity can reduce a country's debt burden, it can also contribute to social unrest, populism and political polarization.

Chart 8: Government Debt Burdens Have Eclipsed Levels Seen During the Postwar Period



Note: Data from 2021 to 2025 are based on the IMF forecast.
Source: IMF, TD Economics.

- Servicing the debt will become difficult if interest rates rise, GDP growth weakens, primary deficits (fiscal deficit minus interest payments) widen and the exchange rate weakens (in case of foreign currency denominated debt). EMs with weak macroeconomic fundamentals, limited debt management capacities and a history of debt mismanagement are particularly vulnerable. In fact, even in a world where economic growth might exceed the government's borrowing cost, many EMs are already running record primary budget deficits while dealing with record highs debt burdens. Countries suffering from pre-existing financial pressures (Brazil, India, Mexico) are especially vulnerable. In fact, Argentina, Belize, Ecuador, Suriname, and Zambia have already defaulted, restructured, or are in the process of restructuring their debt.
- Given the growing importance of EM economies and the interconnected nature of today's global economy, shocks of this nature can boomerang to AEs. Cooperation of AEs, multilateral support by the IMF and OECD, and collective action by large creditors like China are needed to support EMs.

U.S. Economic Outlook

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

	2020				2021				2022				Annual Average			4th Qtr/4th Qtr		
	Q1	Q2	Q3	Q4F	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	20F	21F	22F	20F	21F	22F
Real GDP	-5.0	-31.4	33.1	5.0	1.9	4.0	3.9	3.8	3.8	3.0	2.3	2.0	-3.5	4.1	3.3	-2.3	3.4	2.8
Consumer Expenditure	-6.9	-33.2	40.6	5.4	1.8	6.0	4.4	4.1	3.6	3.0	2.3	2.1	-3.7	5.1	3.6	-2.0	4.0	2.8
Durable Goods	-12.5	-1.7	82.9	4.9	-4.5	2.7	3.0	2.7	2.1	1.7	1.7	1.8	6.8	8.3	2.2	13.3	0.9	1.8
Business Investment	-6.7	-27.2	21.8	3.8	4.0	4.2	4.2	4.3	4.9	5.0	4.6	4.1	-4.6	3.7	4.6	-3.7	4.2	4.6
Non-Res. Structures	-3.7	-33.6	-15.8	-12.0	2.8	1.5	2.0	2.3	3.5	4.5	4.9	4.0	-11.1	-5.8	3.4	-17.0	2.1	4.2
Equipment & IPP*	-7.5	-25.2	31.8	8.2	4.3	4.9	4.7	4.7	5.2	5.1	4.5	4.1	-3.0	6.0	4.8	-0.3	4.6	4.7
Residential Investment	19.0	-35.5	62.3	30.7	1.6	-6.3	-3.0	-0.1	0.9	0.6	0.4	0.5	5.7	7.2	-0.4	12.9	-2.0	0.6
Govt. Expenditure	1.3	2.5	-4.9	-3.8	1.2	0.8	1.0	0.5	0.7	0.3	0.6	0.0	0.9	-0.6	0.6	-1.3	0.9	0.4
Final Domestic Demand	-4.6	-27.1	29.4	4.5	1.9	4.3	3.4	3.3	3.2	2.7	2.2	2.0	-2.7	4.0	3.0	-1.5	3.2	2.5
Exports	-9.5	-64.4	60.5	17.8	6.3	11.1	10.1	9.5	7.4	6.5	5.5	4.9	-13.1	7.7	7.8	-11.6	9.2	6.1
Imports	-15.0	-54.1	93.1	16.8	8.8	9.9	7.9	8.3	4.4	3.6	3.2	2.9	-9.9	12.0	5.5	-3.1	8.7	3.5
Change in Private Inventories	-80.9	-287.0	-4.3	31.9	52.9	42.2	60.0	83.5	98.8	99.6	93.2	86.4	-85.1	59.6	94.5	--	--	--
Final Sales	-3.6	-28.1	25.6	4.2	1.4	4.2	3.5	3.3	3.4	3.0	2.5	2.1	-2.9	3.3	3.2	-2.4	3.1	2.8
International Current Account Balance ($Bn)	-446	-682	-830	-821	-845	-844	-866	-876	-871	-864	-857	-851	-695	-858	-861	--	--	--
% of GDP	-2.1	-3.5	-3.9	-3.8	-3.9	-3.8	-3.9	-3.9	-3.8	-3.7	-3.6	-3.6	-3.3	-3.9	-3.7	--	--	--
Pre-tax Corporate Profits including IVA&CCA	-39.9	-35.2	161.1	-29.4	26.4	-25.0	-12.3	2.9	9.5	7.0	4.5	2.1	-7.7	1.5	1.2	-7.9	-3.8	5.7
% of GDP	9.4	9.4	11.0	9.9	10.4	9.5	9.1	9.0	9.1	9.1	9.1	9.1	9.9	9.5	9.1	--	--	--
GDP Deflator (y/y)	1.7	0.6	1.1	1.4	1.5	2.3	1.9	1.8	1.9	2.0	2.2	2.2	1.2	1.9	2.1	1.4	1.8	2.2
Nominal GDP	-3.4	-32.8	38.0	7.5	3.6	5.7	5.8	5.9	5.9	5.2	4.7	4.3	-2.3	6.0	5.5	-0.9	5.3	5.0
Labor Force	-1.0	-13.4	5.3	0.7	0.9	4.5	2.5	1.7	1.0	0.8	0.9	0.9	-1.7	1.4	1.5	-2.3	2.4	0.9
Employment	0.4	-40.0	23.0	4.6	1.7	6.7	5.4	3.7	2.6	1.8	1.4	1.4	-5.8	2.7	3.0	-6.2	4.4	1.8
Change in Empl. ('000s)	134	-18,209	7,089	1,598	613	2,353	1,927	1,360	966	663	520	511	(8,726)	3,872	4,423	(9,388)	6,253	2,660
Unemployment Rate (%)	3.8	13.0	8.8	6.8	6.7	6.1	5.6	5.3	5.0	4.8	4.7	4.6	8.1	5.9	4.8	--	--	--
Personal Disp. Income	3.9	46.2	-12.9	-9.9	14.1	-6.3	-2.1	3.3	4.1	3.6	3.9	3.7	7.2	0.7	2.3	4.5	2.0	3.8
Pers. Savings Rate (%)	9.6	26.0	16.1	12.4	14.3	11.2	9.4	8.7	8.3	7.9	7.8	7.6	16.0	10.9	7.9	--	--	--
Cons. Price Index (y/y)	2.1	0.4	1.3	1.3	1.5	3.0	2.4	2.3	2.5	2.5	2.5	2.5	1.3	2.3	2.5	1.3	2.3	2.5
Core CPI (y/y)	2.2	1.3	1.7	1.7	1.6	2.5	2.0	2.1	2.2	2.3	2.4	2.5	1.7	2.1	2.4	1.7	2.1	2.5
Core PCE Price Index (y/y)	1.8	1.0	1.4	1.5	1.6	2.2	1.8	1.9	1.9	2.1	2.2	2.2	1.4	1.8	2.1	1.5	1.9	2.2
Housing Starts (mns)	1.48	1.08	1.44	1.51	1.38	1.36	1.35	1.36	1.37	1.37	1.37	1.38	1.38	1.36	1.38	--	--	--
Real Output per hour (y/y)**	0.9	2.9	4.1	3.6	3.6	0.0	-1.4	-1.2	-0.7	0.6	1.2	1.4	2.9	0.2	0.6	3.6	-1.2	1.4

F: Forecast by TD Economics as at December 2020

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

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

Interest Rate Outlook	2020				2021				2022			
	Q1	Q2	Q3	Q4F	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Fed Funds Target Rate	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
3-mth T-Bill Rate	0.11	0.16	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
2-yr Govt. Bond Yield	0.23	0.16	0.13	0.20	0.20	0.20	0.20	0.20	0.20	0.25	0.30	0.35
5-yr Govt. Bond Yield	0.37	0.29	0.28	0.35	0.45	0.55	0.65	0.80	0.90	0.95	1.05	1.15
10-yr Govt. Bond Yield	0.70	0.66	0.69	0.90	1.05	1.20	1.35	1.50	1.55	1.60	1.65	1.70
30-yr Govt. Bond Yield	1.35	1.41	1.46	1.60	1.75	1.85	1.95	2.05	2.10	2.15	2.20	2.25
10-yr-2-yr Govt Spread	0.47	0.36	0.56	0.70	0.85	1.00	1.15	1.30	1.35	1.35	1.35	1.35

F: Forecast by TD Economics as at December 2020. All forecasts are end-of-period.
Source: Bloomberg, Federal Reserve, TD Economics.

Foreign Exchange Outlook		2020				2021				2022			
Currency	Exchange rate	Q1	Q2	Q3	Q4F	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Euro	USD per EUR	1.10	1.12	1.17	1.20	1.20	1.21	1.22	1.24	1.25	1.26	1.26	1.26
UK pound	USD per GBP	1.25	1.24	1.29	1.31	1.32	1.32	1.33	1.34	1.34	1.35	1.36	1.36
Australian dollar	USD per AUD	0.61	0.69	0.72	0.74	0.74	0.74	0.73	0.73	0.73	0.73	0.73	0.73
NZ dollar	USD per NZD	0.60	0.65	0.66	0.70	0.71	0.71	0.70	0.69	0.67	0.67	0.67	0.67
Canadian dollar	CAD per USD	1.41	1.36	1.33	1.29	1.27	1.25	1.24	1.23	1.24	1.25	1.25	1.26
Swiss franc	CHF per USD	0.96	0.95	0.92	0.91	0.92	0.93	0.94	0.95	0.96	0.97	0.98	0.99
Japanese yen	JPY per USD	108	108	106	103	104	104	103	103	102	102	101	101
Chinese renminbi	CNY per USD	7.08	7.07	6.79	6.55	6.60	6.65	6.70	6.75	6.80	6.80	6.80	6.80

F: Forecast by TD Economics as at December 2020. All forecasts are end-of-period.
Source: Bloomberg, Federal Reserve, TD Economics.

Commodity Price Outlook	2020				2021				2022			
	Q1	Q2	Q3	Q4F	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Crude Oil (WTI, $US/bbl)	46	28	41	42	45	47	49	50	51	52	53	54
Natural Gas ($US/MMBtu)	1.91	1.71	1.99	2.60	2.80	2.70	2.60	3.00	3.10	2.90	2.80	3.15
Gold ($US/troy oz.)	1582	1714	1909	1875	1875	1850	1850	1825	1800	1775	1750	1725
Silver ($US/troy oz.)	16.90	16.38	24.26	24.15	24.15	24.00	24.00	23.50	23.25	23.00	22.75	22.50
Copper (cents/lb)	255	243	296	320	320	321	323	324	319	315	312	310
Nickel ($US/lb)	5.76	5.56	6.46	7.15	7.33	7.35	7.37	7.38	7.35	7.37	7.05	7.05
Aluminum (cents/lb)	77	68	77	86	86	86	84	81	78	78	75	75
Wheat ($US/bu)	6.60	6.46	6.36	6.81	6.83	6.84	6.84	6.84	6.82	6.80	6.77	6.75

F: Forecast by TD Economics as at December 2020. All forecasts are period averages.
Source: Bloomberg, TD Economics, USDA (Haver).

Economic Indicators: G7 & Europe				
		Forecast		
	2019	2020	2021	2022
Real GDP (annual per cent change)				
G7 (30.1%)*	1.6	-5.0	4.7	3.0
U.S.	2.2	-3.5	4.1	3.3
Japan	0.7	-5.5	2.4	1.6
Euro Area	1.3	-7.7	4.8	3.5
Germany	0.6	-5.7	4.1	3.3
France	1.5	-9.4	6.2	3.4
Italy	0.3	-9.7	5.7	3.1
United Kingdom	1.3	-11.2	5.5	4.9
Canada	1.9	-5.7	4.9	3.8
Consumer Price Index (annual per cent change)				
G7	1.5	0.8	1.6	1.9
U.S.	1.8	1.3	2.3	2.5
Japan	0.5	0.1	0.2	0.3
Euro Area	1.2	0.3	0.9	1.2
Germany	1.3	0.5	1.3	1.4
France	1.3	0.5	0.8	1.3
Italy	0.6	-0.1	0.4	0.9
United Kingdom	1.8	0.9	1.4	1.8
Canada	2.0	0.7	1.8	2.1
Unemployment Rate (per cent annual averages)				
U.S.	3.7	8.1	5.9	4.8
Japan	2.4	3.1	4.0	3.3
Euro Area	7.6	8.0	9.0	8.7
Germany	5.0	6.0	6.2	5.8
France	8.5	8.3	10.0	9.1
Italy	10.0	9.5	11.4	10.6
United Kingdom	3.7	4.5	6.8	5.9
Canada	5.7	9.5	7.3	6.2

*Share of 2018 world gross domestic product (GDP) at PPP.

Forecast as at December 2020

Source: National statistics agencies, TD Economics.

Global Economic Outlook				
Annual Per Cent Change Unless Otherwise Indicated				
	2018 Share*	Forecast		
Real GDP	**(%)**	**2020**	**2021**	**2022**
World	100.0	-4.1	5.5	4.4
North America	18.5	-4.3	4.0	3.3
United States	15.2	-3.5	4.1	3.3
Canada	1.4	-5.7	4.9	3.8
Mexico	1.9	-9.8	3.0	2.9
European Union (EU-28)	16.3	-7.4	4.6	4.0
Euro Area (EU-19)	11.4	-7.7	4.8	3.5
Germany	3.2	-5.7	4.1	3.3
France	2.2	-9.4	6.2	3.4
Italy	1.8	-9.7	5.7	3.1
United Kingdom	2.2	-11.2	5.5	4.9
EU accession members	2.6	-4.1	3.5	4.1
Asia	45.0	-2.2	7.1	4.7
Japan	4.1	-5.5	2.4	1.6
Asian NIC's	3.4	-1.7	3.6	3.0
Hong Kong	0.4	-6.8	3.7	4.0
Korea	1.7	-1.1	3.3	2.8
Singapore	0.4	-6.0	5.9	3.4
Taiwan	0.9	1.1	3.3	2.9
Russia	3.1	-4.5	2.9	3.9
Australia & New Zealand	1.1	-3.9	3.3	4.1
Emerging Asia	33.2	-1.6	8.6	5.4
ASEAN-5	5.5	-3.5	6.0	5.4
China	18.7	1.8	8.9	5.3
India**	7.7	-9.6	9.9	5.9
Central/South America	5.6	-8.1	4.3	3.0
Brazil	2.5	-5.2	3.4	2.5
Other Emerging Markets	13.6	-4.7	3.6	5.7
Other Advanced	1.1	-4.6	3.6	5.0

*Share of world GDP on a purchasing-power-parity (PPP) basis.

Forecast as at December 2020. **Forecast for India refers to fiscal year.

Source: IMF, TD Economics.

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