Quarterly Economic Forecast

Long Walk Home

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Global Outlook: An Unprecedented Decline, But Recent Data Consistent With Rebound

- Following the sharpest economic decline in recent history, a lengthy uphill climb will be required to get back to pre-pandemic levels. Global economic growth is forecast to contract by an unprecedented 4.1% in 2020. We expect advanced economies (AEs) to contract by 5.3% and emerging markets (EMs) excluding China by 3.4%. China's economy is anticipated to pull back by 2.5%.
- Our forecasts assume that in the event of a second wave of infections, lockdowns as stringent as what took place in the first half of 2020 are not repeated due to the unsustainable economic toll on populations, alongside better protocols and preparedness within the medical system (at least among AEs). We also anticipate the identification of one or more vaccines and the commencement of mass production in 2021. As we've noted before, a forecast requires a starting point with assumptions, and this recession is not a function of economic drivers, but rather the virus' path and government decisions. This leaves significant uncertainty around the assumptions and forecast outcomes.
- The data currently support that a bottoming in most AEs' pandemic-related disruptions occurred in April. Thanks to substantial labor market interventions and large-scale monetary and fiscal measures by some countries, we are seeing improved financial conditions, a pickup in global demand and better business and consumer sentiment. These factors have allowed us to slightly reduce this year's growth contraction by 0.3 percentage points compared to the April forecast update.
- EMs have been the recipients of the benefits that come from central bank efforts around the globe to boost market liquidity. When it comes to their economies, many EMs have come to the realization that the economic lockdowns that occurred among AEs are not sustainable amidst a weaker government ability to support livelihoods, large and younger populations living within high density, and more difficult living conditions. This decision results in smaller economic contractions among EMs, although the toll on lives from the virus is likely only beginning to take form.
- The exception is China. Its stringent lockdowns are now in the past and the economy is landing back on its feet. However, weak overseas demand is an automatic restraint on its exports and manufacturing industry. Moreover, China's imports in May contracted sharply, reiterating ongoing supply chain disruptions and suggesting tentativeness in domestic

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demand. At this point, the U.S.-China Phase-1 trade deal targets appear unachievable, which will exacerbate the ongoing U.S.-China decoupling.

- The global economy will look drastically different once we get through this, with a high likelihood that potential GDP growth will be lower due to economic scarring. Monetary and fiscal policy will further converge, leading to a greater risk that central bank independence will be compromised. Fiscal stimulus measures have led to large deficits that will correspond with high and persistent debt burdens. This will inevitably lead to higher taxes, unless central banks monetize government debt.

U.S. Outlook: I Get Knocked Down, But I Get Up Again

- The shut down in economic activity due to COVID-19 is expected to result in an almost 11% contraction in real GDP through the first half of the year, slightly less than we expected in our April forecast update. Likewise, the unemployment rate spiked to a post-war high of 14.7% in April. Fortunately, evidence is building that growth turned positive in May, as employment grew and spending indicators like vehicle sales started to improve.
- The gains were likely helped by the quick stimulus response of policymakers in March. With the lessons of the Global Financial Crisis (GFC) fresh in their minds, the Federal Reserve opted to go big and go early with extensive monetary stimulus and forays into new credit markets, and Congress enacted more fiscal aid than in the GFC in a fraction of the time.
- These measures should help reduce the degree of permanent scarring on households and businesses from the stoppage in economic activity. But, it won't prevent them all together. It will take time for the economy to fully recover from the shock, even as social distancing measures ease and activity picks up. Not all jobs will return and business insolvencies will be higher in the post-pandemic world.
- Our outlook assumes that pickup in activity continues in June. However, the performance of individual states will vary in the event of a second wave and the respective response of state governments. The way forward is unlikely to be a smooth road.

Table 1: Economic & Financial Forecasts

	2019	2020F	2021F
Real GDP (annual % change)			
Canada	1.7	-6.1	5.2
U.S.	2.3	-4.5	4.3
Canada (rates, %)			
Overnight Target Rate	1.75	0.25	0.25
2-yr Govt. Bond Yield	1.69	0.30	0.45
10-yr Govt. Bond Yield	1.70	0.65	1.25
U.S. (rates, %)			
Fed Funds Target Rate	1.75	0.25	0.25
2-yr Govt. Bond Yield	1.58	0.20	0.35
10-yr Govt. Bond Yield	1.92	0.80	1.40
WTI ($US/bbl)	57	43	50
Exchange Rate (USD per CAD)	0.77	0.74	0.76

F: Forecast by TD Economics, June 2020; Forecasts for exchange rate and yields are end-of-period. Source: Bloomberg, Bank of Canada, U.S. Federal Reserve.

Canada Outlook: Double Jeopardy

- Not only has COVID-19 hammered the Canadian economy, but so too has the impact of dramatically lower oil prices that softened the outlook even before the pandemic struck its shores.
- Real GDP already dropped more than 8% (annualized) in the first quarter, despite most pandemic response measures occurring only in mid-to-late March period. An even larger drop on the order of four times that magnitude is expected this quarter. This would leave real GDP registering a contraction of 6.1% this year.
- Fortunately, policymakers have been quick to respond. The Bank of Canada has slashed the overnight rate to 0.25% and introduced a slew of asset purchase programs. The Federal government has similarly responded with income backstops for individuals, wage subsidies, and loan guarantee programs. This, together with a controlled re-opening of the economy, should support a modest bounce-back of activity in the second half of this year. Early signs of improvement were already evident in the May employment report.
- The economic impact of the pandemic will not be even across industries, with some such as food stores and online retailers only modestly impacted. For others, like restaurants and air travel, the pandemic will drive lasting changes in activity, employment levels and business models.

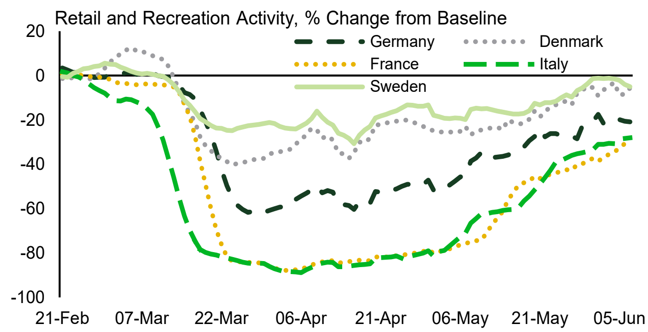
Global Outlook

- The global economy is mired in its steepest contraction on record. We expect global economic activity to contract by 20% annualized in the second quarter and by 4.1% for 2020 as a whole.
- Advanced economies (AEs) will be hardest hit, likely to shrink by 5.3%, while emerging markets (EMs) excluding China will pull back by over 3%. China's economy is anticipated to contact by 2.5%, with most of the fall already taking place early in the year.
- The pandemic induced labor and capital market disruptions will leave scars on the global economy, prompting us to rule out a V-shaped recovery. The experiences from economies that have led the way in loosening restrictions thus far – notably China – suggest that social distancing measures will remain in place, as will a thickening in international borders for travel relative to the pre-pandemic world.

Relaxing Lockdowns, But Gradual Recoveries

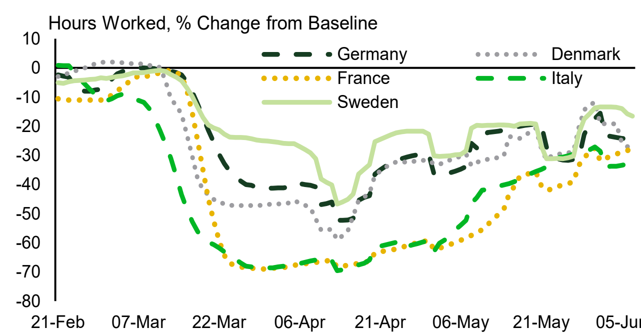
- Containment measures reached a peak in April in most AEs, as stabilization of infection rates have led to some relaxation in lockdowns. Most countries, barring EMs, have followed the "first in, first out" principle – those implementing lockdowns first have been the first to ease restrictions. China was first out the gate, followed by many European countries and then North America.
- Pandemic exit strategies have differed vastly depending on local factors, such as economic structure, demographics, population density, and capacity within the healthcare system. However, there has been a general consistency around three notions: First, social distancing measures remain in place to limit group interactions. Second, re-openings have been staged and gradual, starting with some public spaces, places of work and education. Third, there has been widespread recognition that the number of daily tests need to ramped up, and test-and-trace regimes need to be in place to detect new outbreaks.
- However, the experiences in some countries is causing concern over the ability to broaden the economic recovery dynamics. A second wave of infections within countries like Japan, South Korea and Singapore resulted in some re-tightening of social distancing rules. However, these were initially placed at laxed standards relative to Europe and North America and even their 'retightening' still didn't not match those experiences.
- Sweden has received a lot of attention for essentially keeping its economy open despite the risk to public health. Its new deaths per capita are higher than its Scandinavian peers and some European countries. Not surprisingly, the softer approach to social distancing within the business community has allowed Sweden's economy to buck the trend and record slight growth in the first quarter compared to the same period last year. This contrasts with EU countries that saw, on average, an annualized contraction of 13%. By extension, Sweden is showing better results for retail activity and hours worked (Chart 1 and 2). While the higher death toll has prompted Sweden to revisit its approach, we may yet see countries adopt the Swedish model should

Chart 1: Retail Activity is Improving but There is Significant Variation Across Countries



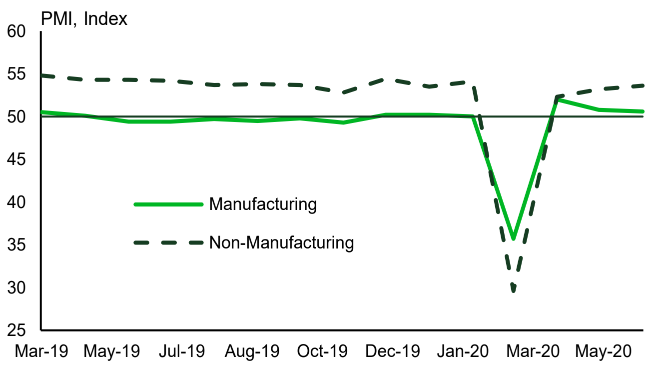
Source: Google, TD Economics
Note: This chart shows the intensity of retail activity as proxied by the amount of time spent in retail/recreation outlets. More negative = Less retail activity. Data are reported as a 7-day moving average. Last data point June 7.

Chart 2: Labor Markets are Seeing an Uptick but There is a Long Way to Go Before Reaching Pre-crisis Levels



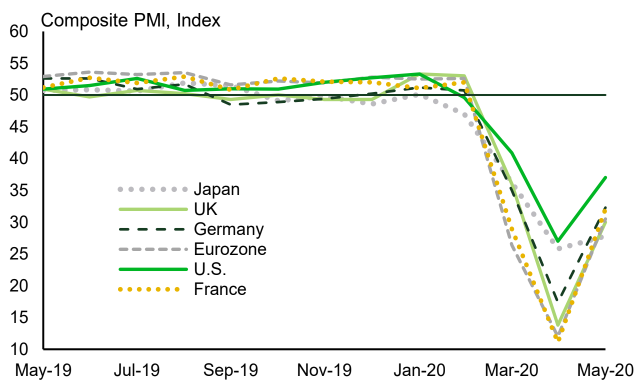
Source: Google, TD Economics
Note: This chart shows the number of hours worked (and employment), as proxied by the amount of time spent at work. More negative = Less hours worked. Data are reported as a 7-day moving average. Last data point June 7.

Chart 3: Signs of Stabilization in China but Lack of Overseas Demand Keeps Business Activity Subdued



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

Chart 4: Business Activity Starts to Pick Up



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

a second wave of infections emerge due to better medical preparedness and the unsustainable economic toll that comes with stringent lockdown criteria.

Weak Global Demand Slows China's Recovery

- All eyes have been on China as another case study on how economies might perform once restrictions are lifted. Its experience highlights the inherent challenges in getting economies quickly up and running again.
- While the economy appears to have returned to expansion, the pace of recovery fits the gradual moniker. The manufacturing sector came back to life in March but has recorded modest setbacks since then (Chart 3). May's slowdown reflected a decline in new export orders, as global lockdowns continue to act as a drag on Chinese exports (Chart 4).
- Signs of recovery in the services sector have been more consistent. Service industries recovered in March and have been on an upward momentum on a month-to-month basis. Shanghai Disney tickets selling out on opening day suggest the fear-factor may be receding with the passage of time. Likewise, there is a resurgence in domestic tourism. There's also the possibility of additional fiscal and monetary support to aid the recovery. These are positive signs, but we must bear in mind that it will be difficult for consumers to completely revert to past spending and mobility behaviors with distancing and reduced business occupancy guidelines still in place.
- Weak overseas demand due to global lockdowns is an automatic restraint on China's exports and manufacturing industry. Moreover, China's imports in May contracted sharply, reiterating ongoing supply chain disruptions and suggesting tentativeness in domestic demand. At this point, the U.S.-China Phase-1 trade deal targets appear unachievable, which will exacerbate the ongoing U.S.-China decoupling.
- The renewed threat of tariffs by the U.S. could potentially add more headwinds to China's economic recovery. U.S.-China tensions have been coming to a boil lately. The U.S. revoked Hong Kong's special trade status in retaliation for China approving a new national security law for Hong Kong. At this point, the U.S.-China Phase-1 trade deal targets appear unachievable, which will exacerbate tensions.

Advanced Economies Are Past The Worst

- Containment measures reached a peak in April in most AEs, as a stabilization of infection rates has led to some relaxation in lockdowns. Containment measures and economic disruptions go hand-in-hand, therefore, the latter has also reduced since the peak in April.
- Given the unprecedented sudden stop in economic activity across the G-7 economies, it is hard to distinguish leaders and laggards for economic performances this year. All – including Japan, the UK, the U.S. and Canada – face severe contractions in the first half of this year, with recoveries that will fail to recoup lost activity for at least 12 to 18 months.

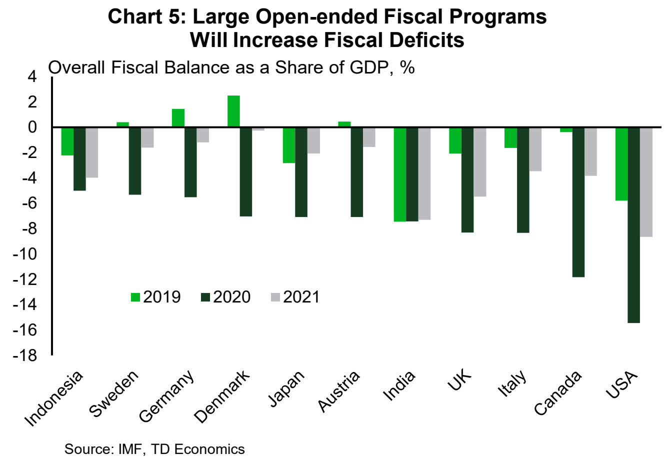
- If one had to choose a region that is facing a steeper mountain to climb, it is the Euro Area. After a double-digit annualized drop in GDP in the first quarter, the region's output is now back to 2017 levels, while Italy's output has fallen to a level last seen in the early 2000s. An even bigger economic hit in the second quarter will set these countries even further from those marks.
- However, there is reason to be optimistic. The data currently support that a bottoming in most AEs' pandemic-related disruptions occurred in April. Thanks to substantial labor market interventions and large-scale monetary and fiscal measures by some countries, we are seeing improved financial conditions, a pickup in global demand and better business and consumer sentiment.
- There are signs of solidarity in Europe. We expect the proposed EU recovery plan to be approved, especially now that it has the backing of both France and Germany. The ECB has also topped up its Pandemic Emergency Purchase Program (PEPP), which will run until June next year. The maturing principal payments from the assets purchased under PEPP will be reinvested until at least end-2022.
- There is an active public debate occurring regarding the apparent tradeoff between 'lives versus livelihoods'. Tighter lockdowns in most AEs compared to EMs will contribute to stronger contractions in the former. The "Swedish model" – or a variant of it – may end up being adopted as the response mechanism among some countries. Should this occur, economic stagnation could still ensue, but to a lesser extent than in a full lock-down approach.

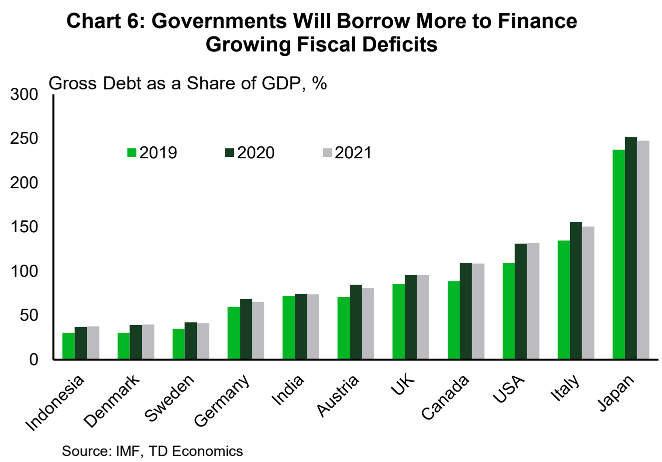
Emerging Markets Relax Restrictions Despite Surging Cases

- EMs have been the recipients of the benefits that come from central bank efforts around the globe to boost market liquidity. When it comes to their economies, many EMs have come to the realization that the economic lockdowns that occurred among AEs are not sustainable amidst a weaker government ability to support livelihoods, large and younger populations living within high density, and more difficult living conditions. As a result, several EMs (Brazil, Russia, India) have loosened restrictions, despite not expecting a peak in cases until a couple of months. This decision results in smaller economic contractions among EMs, although the toll on lives from the pandemic is likely only beginning to take form. By preventing an all-out economic disaster, this move may usher in a major health crisis for some EMs.
- After peaking in April, the reversal of capital flows, financial conditions and dollar shortages have eased. However, weaknesses remain, especially for countries – such as Argentina, India and Mexico – that were decelerating into the start of 2020. Persistently low oil prices have also exacerbated EM vulnerabilities, making government financing more difficult and increasing the risk of sovereign defaults. This is especially true for oil exporting EMs with large deficits or where reserves are not enough to meet financing needs
- Some EM central banks (South Africa, Colombia and Indonesia) overcame their fear of floating and have embarked on quantitative easing measures. Some EM central banks (Brazil, Indonesia) have even started to purchase government debt directly from their governments. While these measures are useful to ease financial conditions, they embed the risk of sudden and rapid devaluations.
- The IMF can play an important role in EM recovery. Over 100 countries have so far approached the Fund for assistance, more than double the number seeking help after the Global Financial Crisis. And although the IMF has committed to a $1 trillion-dollar lending facility (a third of which is already committed), it may not be enough. More needs to be done, and urgently.

Oil Sector Faces Difficult Road

- The collapse in oil prices has imparted benefits on consuming economies and accentuated the challenges on producing economies. Perhaps most vulnerable are certain oil-exporting EMs, especially those (Bahrain, Oman) whose currencies are pegged to the U.S. dollar.
- The benchmark WTI price caused a stir in April when it briefly moved into negative territory, largely reflecting technical factors. Easing global lockdowns, historical production cuts and firming Chinese demand have provided some respite to oil markets. Oil prices have since rebounded to almost US$40, albeit still more than 35% below the levels at this year's outset.





- Despite the OPEC+ deals to cut production and recent signs of improving demand, a sizeable imbalance will continue to cast a dark shadow over the oil market. The world will continue to grapple with lofty stockpiles. Until these stockpiles get worked down, it is difficult to envisage a sustained rally in crude prices.

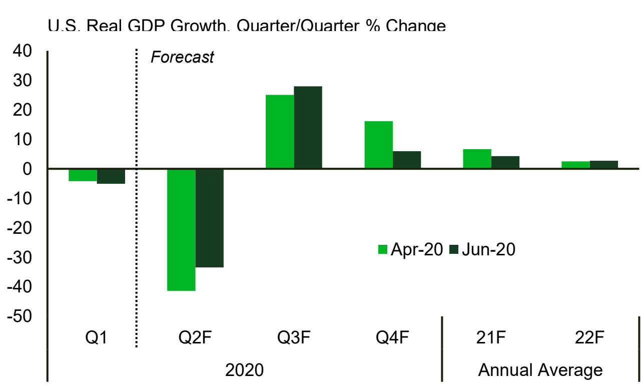
Global Economy Will Look Drastically Different

- Once the dust settles from this crisis, we will see a new world. Given the high uncertainty about the future, it is important to think about the post-pandemic world within a framework across economic sectors:
    - In terms of the real economy, investment scarring and reduced immigration may lead to a decrease in a country's growth potential. The stimulus measures today could turn out to be inflationary tomorrow, especially for EMs that have volatile inflation paths. We can also expect continued pockets of weaknesses in the labor market, particularly for countries that have not taken the necessary steps to support workers. The younger workforce will face the brunt of these disruptions.
    - In terms of monetary policy, this could become less effective on the margin, as central banks have already used a lot of firing power. Monetary and fiscal policy will further converge, creating greater risk of compromised central bank independence, especially in countries with weak institutions.
- In terms of fiscal policy, there will be more pressure on authorities to act, since monetary policy will be in a much weaker position. Large open-ended fiscal programs announced today will result in large fiscal deficits and debt burdens (Chart 5 and 6). High debt levels may be unsustainable, depending on countries' growth prospects and future debt servicing costs. To make up for the lost revenue today, governments may impose higher taxes when the crisis is over, unless central banks monetize government debt.
- In terms of the external sector, increased monetization and the printing of money would lead to weaker currencies. This in turn may lead to more currency wars, not just between the U.S. and China, but also between other bilateral pairs.

U.S. Outlook

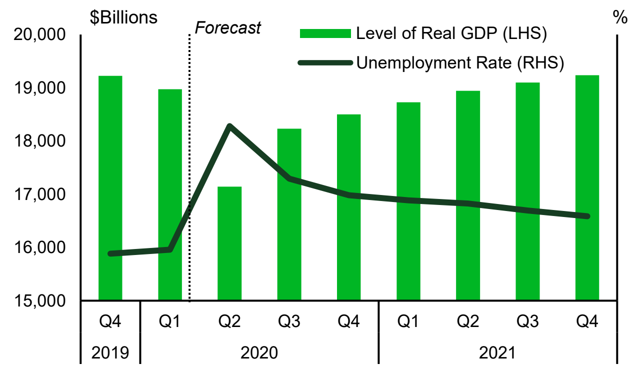
- The U.S. entered the pandemic from a position of economic strength, but shutdowns across much non-essential activity was so widespread in the latter half of March that real GDP contracted by 5% annualized in the first quarter.
- This weak starting point and continued closures across much of the country through early-to-mid May is likely to lead activity to contract by 33% annualized in the second quarter, slightly less than expected in our April update (Chart 7).
- The impact on the labor market has been devastating, but positive signs emerged earlier than expected with a return to hiring in May. That said, there is a long road ahead with employment down 14% since February, and 21 million Americans unemployed.
- By the same token, the recovery will be uneven across industries and uncertainty will remain elevated in the absence of a vaccine. This is likely to slow the pace of the rebound after the initial jump in growth due to re-opening. As a result, the level of real GDP is anticipated to remain below its pre-virus level until the end of 2021 (Chart 8). Naturally, the outcome could deviate from our expectations depending on policy decisions and virus developments throughout that period.
- We have recently seen an uptick in new cases in several states as measures have been eased. Our baseline scenario assumes that better protocols and preparedness within the medical system will result in less stringent lockdown measures. If widespread stay-at-home orders return, the U.S. recovery would reverse, and unemployment would remain elevated for longer. By extension, there would be deeper scarring from a greater share of permanent jobs losses, negative wealth impacts and business insolvencies, even with renewed stimulus measures.

Chart 7: Modest Upgrade to Near-Term Outlook



Source: BEA, TD Economics

Chart 8: Prolonged Return to "Normal" Level of Activity

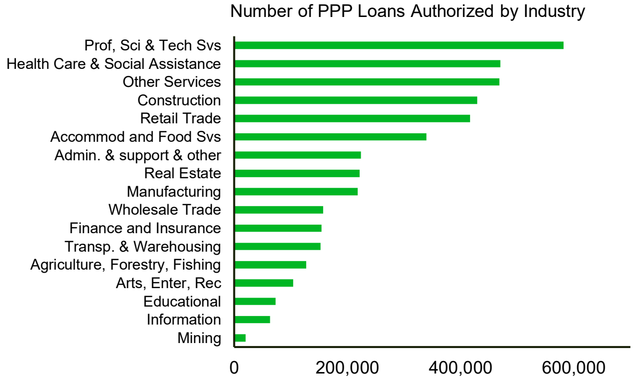


Source: BEA, BLS,TD Economics: Forecasts as of June 2020

Washington's Response Is Substantial, But Support Needed for State and Local Governments

- The dramatic impact of the pandemic has pushed Congress to increase spending in four waves of funding that amount to over 13% of GDP. The most substantive of which was the CARES Act, passed in late March (details in our report). The federal response has exceeded the spending to combat the GFC in both size and speed. Some of the spending is loans that will be expected to be paid back, but even excluding these initiatives, spending is about 11% of GDP.
- The Paycheck Protection Program of forgivable loans for small and medium-sized businesses had very rapid uptake initially, though preliminary evidence suggests that businesses were reluctant to spend the funds for fear of falling afoul of the rules making them eligible for forgivingness (Chart 9).
- Congress has subsequently made tweaks the program to make it easier – extending the period of time to spend the loan, lowering the threshold that must be spent on payrolls to qualify for forgiveness, and extending the time to rehire staff and repay the loan.
- May's payroll gains by industry suggest that the PPP has led to workers being called back to work Ideally,

Chart 9: Millions of Small Business Get PPP Loans Across Wide Array of Industries



Source: Small Business Administration, TD Economics

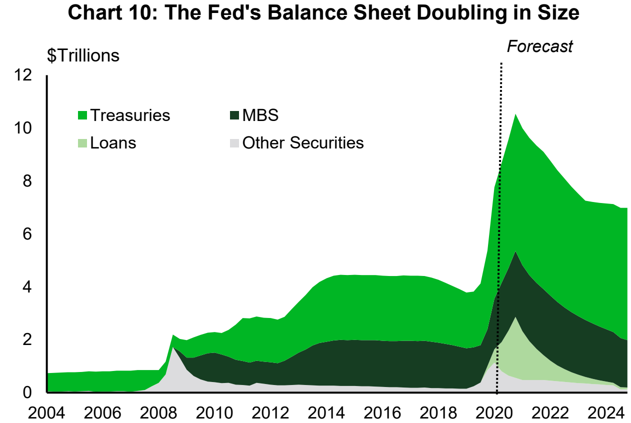
the changes to the program will see more businesses use the PPP funds to rehire workers. The continued success of this program is an important consideration for the economic outlook. Should it fail, it risks greater business failures and permanent layoffs.

- As discussed in our recent report, state and local government finances have taken a massive revenue hit, while also having to raise expenditures to fight the pandemic. Both the Federal Reserve and Congress have provided aid through expanded emergency lending and $150 billion in grants as part of the CARES Act. However, we estimate that state and local governments require at least an additional $200 billion in order to cover budget shortfalls.
- Further assistance has been put forward by House Democrats, but Republicans want to wait to see the effects of the CARES Act before enacting further measures. Another fiscal package is likely, but it may not come until later this summer, as the details need to be negotiated in a divided Congress. Without enough aid, state and local governments will have to cut spending significantly, which would slow the pace of recovery once the virus is contained. This dynamic took hold after the Great Recession, when restraint held growth back by an average of almost 40 basis points each year from 2010 to 2012.

Federal Reserve Pulls Out All the Stops

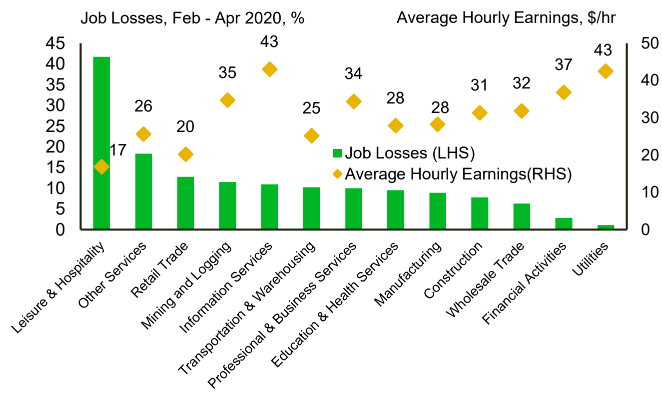
- The sudden impact of the pandemic and the lessons learned in the GFC led the Federal Reserve to act promptly and decisively. Its response included cutting the federal funds rate to the effective lower bound, an open-ended commitment to additional Treasury and MBS purchases, and a plethora of liquidity facilities and credit programs. All of these were announced in rapid succession over the course of just a few weeks. The measures have succeeded in narrowing risk spreads notably. As a result of its dramatic action, the Fed's balance sheet has ballooned by $3 trillion since late February (Chart 10).
- According to the FOMC's latest economic projections, it expects to keep the funds rate anchored to the zero-lower bound through 2022. We expect that the hit to demand will keep inflation pressures contained for some time, since many industries are likely to be slow to recover and unemployment remains above our previous forecast over the next two years. As a result, we don't expect the policy rate to increase until at least 2023.
- Should the economic outlook deteriorate, or financial conditions re-tighten, we would expect the Federal Reserve to go further. Its recent announcement of purchases of corporate bond ETFs illustrates its willingness to move boldly into areas previously thought unthinkable.
- Further out in the horizon, the combination of higher debt and expanded balance sheets raises the risk that the Federal Reserve will be slower to remove stimulus and more tolerant to inflation rising above its 2% target. As long as they remain vigilant to anchoring inflation expectations, which we expect they will, hyperinflation is unlikely.

Chart 10: The Fed's Balance Sheet Doubling in Size



Source: FRB, TD Economics

Chart 11: Lowest Wage Workers See Biggest Losses



Source: BLS, TD Economics

Uncertainty Will Weigh on Investment

- Unfortunately, as Chair Powell has pointed out, monetary policy can do little to stem the uncertainty businesses are facing, which creates cautious behavior on investment plans (discussed in our recent report). The pandemic has also accelerated many structural shifts in the economy, such as major traditional retailers filing for bankruptcy, and some manufacturing companies that were already in the doldrums before the pandemic hit announcing furloughed factories will not re-open. And, low oil prices weigh heavily on investment in that sector. All these forces will cause dislocations, particularly for structures, in the quarters ahead.
- Higher economic uncertainty, more reluctant entrepreneurs and firms, as well as tighter credit standards are likely to result in permanent scars to investment and the economy's production capacity. We estimate that in 2026 business investment will be 5% lower than what it could have been without COVID-19.

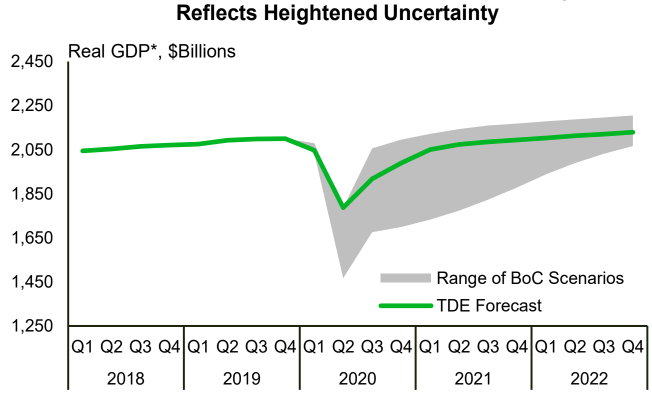
Cause for Hope in Recent Data, But Long Road Ahead

- Job gains in May were a pleasant surprise, as the weekly jobless claims data had initially pointed to a rise in joblessness through the month. Instead the unemployment rate fell from 14.7% in April to 13.3% in May. However, the Bureau of Labor Statistics estimates that there could be as many as 5 million workers who are unemployed, but misclassified as out of the labor force. Including these people would raise the unemployment rate to 16.4% in May –down from an estimated 19.5% in April.
- As re-openings continue, we expect employment to make further gains in the coming months. Of the 21 million people counted as unemployed in May, 15.3 million (73%) were on temporary layoff, suggesting they could restart work relatively quickly. Still, there is a considerable degree of uncertainty around this outcome. With the bulk of job losses among lower-wage workers, lengthy unemployment increases the risk of bankruptcies and defaults casting a longer shadow on the spending outlook (Chart 11).
- Pent-up demand for consumer items is expected to drive a double-digit rebound in the third quarter, and higher-frequency industry spending data suggest that purchases picked up through May and early June, particularly in areas related to spending time at home. Vehicle sales were another positive sign in May, jumping above the depressed March & April levels – although they remained 27% below February's level. There will be some obvious laggards among those segments of spending that are dependent on bringing people in close proximity to one another. We estimate these industries represent close to 15% of total consumer spending.
- Prior to the pandemic, the housing sector had been on an upswing in the wake of lower mortgage rates in the latter part of last year. Construction has not been universally shuttered and is among the early ones reopened by authorities. But, homebuilder confidence has fallen, and we expect the pace of homebuilding to remain below our previous forecast for some time. Uncertainty about job and income prospects does not work in the favor of this sector, even with very low interest rates.

Canadian Outlook

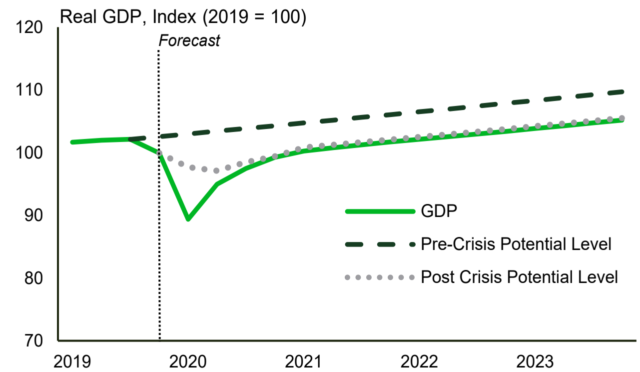
- Canada started 2020 on the back foot: high household debt levels, soft consumer spending, plant closures and labour disruptions were setting the economy up for subpar year. On top of this, the Saudi-Russia spat steamrolled energy prices via oversupply amidst evaporating demand.
- The global pandemic has amplified these trends in unprecedented ways. Consumer spending has gone from lackluster to near-zero in many categories, and pandemic response measures left large swaths of Canada's manufacturing base sitting idle.
- Canada is likely to record its worst back-to-back economic contraction in modern times. Economic activity is expected to sit more than 12% below its end-2019 level this quarter.
- Unlike past recessions, the current episode has been driven by government policy action to contain the virus. Likewise, the recovery's fortunes are hitched to public health outcomes, government responses and the resulting impact on consumer confidence.
- This creates a significant level of uncertainty about the path forward. We have made our best assessment of the likely course forward, but others, such as the Bank of Canada have eschewed point estimates in favour of scenario-based ranges (Chart 12).
- Much ink has been spilled over the 'shape' of the post-pandemic recovery – Ls, Vs, Us, Ws, as well as square root signs and swooshes. The reality is that all of these letters will apply, depending on the industry. The outlook for air travel stands in worse stead than that for food retailers or delivery services, for example. There will be no single way back to normal for all industries.

Chart 12: Bank of Canada's Wide Forecast Range Reflects Heightened Uncertainty



*Chained 2012
Source: Statistics Canada, Bank of Canada, TD Economics

Chart 13: Pandemic Leaves a Lasting Mark on Canadian Economy



Source: Statistics Canada, Bank of Canada, TD Economics

COVID-19 Leaves Lasting Scars

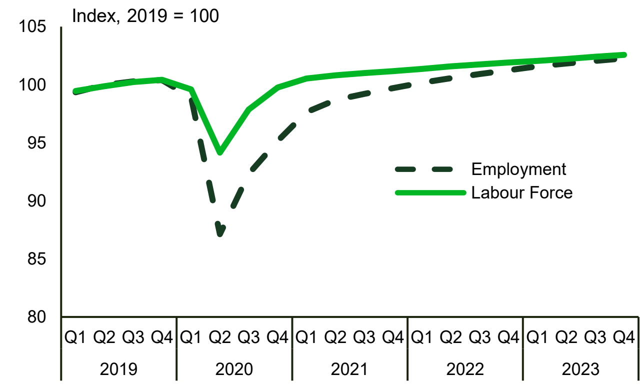
- The speed and breadth of decline puts the current episode into a class of its own, but it also differs from "typical" recessions in its disproportionate hit to the service side of the economy. Goods producing industries shed roughly 70% of all lost jobs in the 2008/2009 recession but have accounted for less than 20% of the losses since February.
- This makes the current shock more permanent in nature because there's no going back in time for pent-up demand for an 'extra' haircut or massage. Thus, incomes and spending for service workers are unlikely to make up the ground lost from the months of social distancing measures. This means that relative to a world without COVID-19, some economic activity will be permanently lost (Chart 13).
- The theme of uncertainty matters here as well – the longer that Canadians stay away from the shops and their places of work, the larger the resulting damage to the economic profile. As noted in a recent TD Economics report looking at high frequency spending data, economic "re-openings" have so far been met with a resumption of spending, but it is too early to judge whether this reflects a short lived pop of pent-up demand, or a more durable outcome.

- Perhaps most important is the risk of scarring not just of the level of economic output, as we have incorporated, but to the speed of the economic recovery as well.
- Canada's long-standing lack of business investment is a known issue, and we had always incorporated a more bearish outlook in the pre-virus world as a result. Recent developments have only worsened those dynamics. The energy sector, long an important driver of investment and productivity, will remain in the doldrums for some time. The trend of falling capital investment relative to population may accelerate, further sapping economic growth.
- Population growth is likely to have gone to near zero in recent months as borders have been closed and non-permanent residents, such as students, scrambled to get home. This captures a key risk – Canada's reliance on immigration to fuel economic growth. Although the federal government has reiterated its medium-term immigration targets, should Canada become less attractive as a destination, longer-term growth would be at risk. For instance, halving the pace of immigration would take Canada's long-run growth rate from around 1.6%-1.7% to a much more modest 1.3%-1.4%. This would carry corresponding challenges in areas of monetary policy – keeping rates lower for even longer.

Labour Market's Uncertain Path Hits Younger Canadians Hardest

- Pandemic-related scarring can come in other forms as well. Accounting for 13% of pre-crisis employment, those aged 15-24 account for more than 30% of job losses to date. As our recent research noted, the challenge is not just for those who have lost their jobs, but also younger Canadians graduating into a depressed labour market. Relative to other cohorts, these individuals can experience persistently lower incomes, for up to a decade or more. In addition, younger Canadians tend to be highly indebted relative to their earnings.
- The unusual nature of this service-centric shock makes assessing the path forward challenging. The unprecedented government response has, in large part, focused on maintaining the employer-employee relationship, which should help speed up the eventual labour market healing process.

Chart 14: Slower Recovery Path for Employment Means High Unemployment Rates Likely to Persist



Source: Statistics Canada, TD Economics

- This is part of the reason why we have a steady recovery in employment (Chart 14). Past experience has shown that people tend to look for work (rejoin the labour force) more quickly than they are hired, meaning the elevated unemployment rates are likely to stick around for some time. This effect was already seen in the May jobs data, where the unemployment rate rose despite nearly 300k net jobs created, as people that hadn't looked for work due to the pandemic began looking. These kinds of classification effects are likely to remain in the data for some time.
- Beyond classification effects, the road ahead for labour markets will remain challenged. May's surprise job gains were nevertheless only 10% of the prior two months' losses. Lingering effects in many sectors will slow the employment recovery, and the risk remains that second order effects from the sudden stop of economic activity will only become evident in the data with more time. This means that we cannot dismiss a slower improvement in the labour market, akin to a GFC-like outcome. Such an outcome is even more likely should the duration cause an explosion of business bankruptcies.

Housing in Stasis, With Its Fortunes Dependent on Economic Disruption Duration

- Social distancing measures and individual reactions put Canadian resale housing markets on ice in March and April, as both buyers and sellers have backed away from markets. This means that unlike past downturns, there has not been a wave of forced selling. Indeed, the observed drop in average sale price is a greater reflection of a shifting composition than price declines – the drop in sales activity has been skewed towards homes at the higher end of the market. The simultaneous dramatic fall-off in sales and supply also means that we cannot rely as much on price as a signal of market conditions, given there's little churn or breadth. May's data showed a surprisingly strong rebound in sales, but there's still a long way to climb.

- As it stands, we expect both sales activity and prices to remain challenged into next year as labour markets find their footing. A significant deceleration of population growth will also take the wind out of demand's sails, even with mortgage rates at record lows. Prices will struggle to meet or surpass their first quarter high water mark until key demand drivers are back in play.
- Driven in large part by past demand, housing starts have remained decent, as has renovation activity. The former may not have staying power, however, due to the same factors weighing on resale demand. Renos will provide some offset, as we have already seen households shift some spending from travel and entertainment into this category (see report).
- This relatively sanguine forecast, which does not include any significant increase in forced selling, comes amidst a whirlwind of risks. Pre-pandemic, high household debt and a rise in insolvencies (from a low level) were already disconcerting. Pandemic policy measures, such as six-month mortgage payment deferrals will help put a cork in this risk for now, but these measures will eventually end. More than 10% of outstanding mortgages in Canada have had payments deferred and the holders of these mortgage need to see their jobs return quickly as the various stages of reopening the economy progress. Where income losses are more permanent, forced selling is the likely result.
- This exposes one of the two key risks to the housing outlook. Should employment fail to meet our relatively conservative forecast, key markets would tilt towards buyer's territory on a longer-term basis, resulting in a deeper and more sustained fall in prices.
- If unemployment is the first key near-term risk, the second is medium term in nature: immigration. In key 'landing pad' cities, immigration has been an important source of housing demand. The federal government has committed to maintaining its immigration targets, but with borders effectively closed, and international travel likely to remain challenging for some time, we expect little to no population growth over the next year or so. This saps an important source of housing demand, and is a key element of the downgraded activity and price profile – the longer population growth remains below its pre-pandemic pace, the worse the implications for housing markets.

Government's Next Trick: Putting the Genie Back in the Bottle

- Hitting the pause button on economic activity means hitting pause on a broad swath of household incomes and corporate revenue streams. This would be a disastrous outcome without any offsetting supports – hence the unprecedented response from the Federal government. The Canada Emergency Response Benefit ($24 billion initial estimated cost, $43.5 billion disbursed as of early June), Canada Emergency Wage Subsidy ($73 billion estimated, $10.5 billion paid), and a plethora of other direct support measures will send this year's deficit soaring. The stream of announcements makes it a moving target, but a deficit well above $200 billion appears likely this year.
- This spending is of course a necessary response to the current situation and appears to have been successful in backstopping aggregate income losses for households. It is also meant to be temporary in nature. The next challenge will be transitioning the economy towards 'normal', reducing reliance on these supports in a smooth manner.
- We have already seen some steps in this direction. The extension of the wage subsidy program, along with adjusted qualification requirements, should be helpful in this regard, reducing the cost of staffing for firms. The government also announced that CERB payment eligibility would be extended an additional eight weeks (to a total of 24 weeks). This extension should help maintain household incomes over the long road ahead for labour markets, particularly for sectors such as travel and tourism where the return to normal will take time.

- Given Canada's strong federal fiscal starting point (debt-to-GDP of ~31%), the near-term surge in borrowing driven by these programs isn't overly concerning relative to peer countries. Analysis from the Parliamentary Budget Officer and others suggests that the debt-to-GDP ratio could hit 50% this year, which is still far below many other countries' pre-pandemic levels. But, looking beyond the very near-term, the risks are clear.
- The sharp rise in debt alone risks Canada's AAA status and getting deficits back under control may prove challenging. As parents know, it is much easier to give than to take away. The last four years have seen government expenditures continuously come in higher than government plans, even when the economy and tax base expanded more rapidly than anticipated. A convincing path to fiscal sustainability will need to be identified.

No Single Path To 'Normal'

- Provinces are re-opening in phases, with early openings of areas that are easy to control or social distance, such as parks, boating, and some retail stores. Other areas are likely to take time and may not have a targeted resumption date yet, such as concerts, international tourism activity and sporting events.
- On balance, we expect the recovery to be "U-shaped", or to look a bit like a swoosh. Real GDP is not expected to re-gain its pre-pandemic level until early 2022.
- However, beneath the headline, industry outlooks vary widely. In a recent report, we estimated that those that are more likely to be U-shaped industries account for just over 60 of GDP, with the others split between the V- and L-shapes. The oil and gas sector falls into this latter letter group, owing to still weak prices and long standing issues around takeaway capacity.

Bank of Canada 'Normalization' A Long Way Off

- In past quarters, the outlook for the Bank of Canada had been tricky, as communications would shift in tone from one meeting to the next, and poor data was made more ambiguous by one-off shocks such as strikes and weather.
- There is no ambiguity now. The Bank of Canada has responded to the pandemic in dramatic fashion, taking the policy interest rate to its new lower bound and introducing a plethora of asset purchase programs aimed at keeping the financial plumbing (and thereby transmission of monetary policy) in good working order.
- The lasting impacts of the pandemic will keep the Bank's policy interest rate at its current level into 2022, at a minimum. This is likely to be reinforced by the new Governor, Tiff Macklem, who was the second in command during a portion of the Global Financial Crisis. This is when the Bank of Canada introduced 'forward guidance' that was subsequently removed under the Poloz regime; in effect setting timelines and goals around future changes to monetary policy to further improve its impact on longer-term rates.
- The Governor, prior to his selection, suggested that COVID-19 would result in economic 'stops and starts' that would include false dawns. This implies a high bar to tightening monetary policy in the near-term.

Interest Rate Outlook												
	2019				2020				2021			
	Q1	Q2	Q3	Q4	Q1	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Canada												
Overnight Target Rate	1.75	1.75	1.75	0.75	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
3-mth T-Bill Rate	1.67	1.66	1.65	0.46	0.21	0.20	0.20	0.20	0.20	0.20	0.20	0.20
2-yr Govt. Bond Yield	1.55	1.47	1.58	0.47	0.42	0.30	0.30	0.30	0.30	0.35	0.40	0.45
5-yr Govt. Bond Yield	1.52	1.39	1.40	0.62	0.60	0.35	0.40	0.45	0.55	0.65	0.80	0.90
10-yr Govt. Bond Yield	1.62	1.46	1.37	0.78	0.71	0.50	0.55	0.65	0.80	0.95	1.10	1.25
30-yr Govt. Bond Yield	1.89	1.68	1.53	1.25	1.30	1.00	1.10	1.25	1.40	1.55	1.70	1.85
10-yr-2-yr Govt Spread	0.07	-0.01	-0.21	0.31	0.29	0.31	0.25	0.35	0.50	0.60	0.70	0.80
U.S.												
Fed Funds Target Rate	2.50	2.50	2.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
3-mth T-Bill Rate	2.35	2.08	1.84	0.21	0.11	0.15	0.10	0.10	0.10	0.10	0.10	0.10
2-yr Govt. Bond Yield	2.27	1.75	1.63	0.36	0.23	0.20	0.20	0.20	0.20	0.25	0.30	0.35
5-yr Govt. Bond Yield	2.23	1.76	1.55	0.49	0.37	0.30	0.35	0.45	0.55	0.65	0.80	0.95
10-yr Govt. Bond Yield	2.41	2.00	1.68	0.72	0.70	0.65	0.70	0.80	0.95	1.10	1.25	1.40
30-yr Govt. Bond Yield	2.81	2.52	2.12	1.28	1.35	1.40	1.45	1.60	1.75	1.90	2.05	2.15
10-yr-2-yr Govt Spread	0.14	0.25	0.05	0.36	0.47	0.36	0.50	0.60	0.75	0.85	0.95	1.05
Canada-U.S. Spreads												
Can - U.S. T-Bill Spread	-0.68	-0.42	-0.19	0.25	0.10	0.25	0.10	0.10	0.10	0.10	0.10	0.10
Can - U.S. 10-Year Bond Spread	-0.79	-0.54	-0.31	0.06	0.01	-0.15	-0.15	-0.15	-0.15	-0.15	-0.15	-0.15

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

Foreign Exchange Outlook													
Currency	Exchange rate	2019				2020				2021			
		Q1	Q2	Q3	Q4	Q1	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Exchange rate to U.S. dollar													
Euro	USD per EUR	1.12	1.14	1.09	1.12	1.10	1.12	1.10	1.10	1.11	1.12	1.13	1.14
UK pound	USD per GBP	1.30	1.27	1.23	1.23	1.25	1.26	1.25	1.25	1.26	1.28	1.30	1.32
Japanese yen	JPY per USD	111	108	108	106	108	108	107	106	106	105	105	104
Chinese renminbi	CNY per USD	6.71	6.87	7.15	6.99	7.08	7.05	7.05	7.00	6.90	6.80	6.80	6.80
Exchange rate to Canadian dollar													
U.S. dollar	USD per CAD	0.75	0.76	0.76	0.71	0.71	0.74	0.73	0.74	0.74	0.75	0.75	0.76
Euro	CAD per EUR	1.50	1.49	1.44	1.57	1.56	1.52	1.51	1.50	1.50	1.50	1.50	1.51
UK pound	CAD per GBP	1.74	1.66	1.63	1.72	1.76	1.71	1.71	1.70	1.70	1.72	1.73	1.75
Japanese yen	JPY per CAD	82.8	82.4	81.6	75.5	76.1	79.4	78.1	77.9	78.1	78.4	78.6	78.7
Chinese renminbi	CNY per CAD	5.03	5.25	5.40	4.99	5.01	5.18	5.15	5.15	5.11	5.07	5.11	5.13

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

Commodity Price Outlook												
	2019				2020				2021			
	Q1	Q2	Q3	Q4	Q1	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Crude Oil (WTI, $US/bbl)	55	60	56	57	46	27	40	43	47	48	49	50
Natural Gas ($US/MMBtu)	2.92	2.56	2.38	2.40	1.91	1.80	2.20	2.50	2.60	2.70	2.70	2.90
Gold ($US/troy oz.)	1303	1307	1473	1482	1583	1700	1750	1725	1700	1675	1650	1625
Silver ($US/troy oz.)	15.58	14.91	17.02	17.34	16.90	16.40	17.00	17.25	18.00	17.75	17.50	17.25
Copper (cents/lb)	282	278	263	267	255	238	241	246	247	248	255	257
Nickel ($US/lb)	5.60	5.56	7.05	6.99	5.76	5.51	5.67	5.72	5.90	6.12	6.37	6.58
Aluminum (cents/lb)	84	81	80	80	77	69	70	73	74	74	75	75
Wheat ($US/bu)	7.08	6.36	6.14	6.77	6.65	6.50	6.70	6.79	6.81	6.82	6.84	6.86

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

Canadian Economic Outlook

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

	2019				2020				2021				Annual Average			4th Qtr/4th Qtr		
	Q1	Q2	Q3	Q4	Q1	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	19	20F	21F	19	20F	21F
Real GDP	1.2	3.2	1.1	0.6	-8.2	-36.1	27.5	10.9	7.5	4.1	2.2	1.9	1.7	-6.1	5.2	1.5	-4.6	3.9
Consumer Expenditure	2.4	0.4	2.2	1.8	-9.0	-40.7	42.1	11.0	6.8	3.9	1.6	1.6	1.6	-6.2	5.8	1.7	-3.9	3.5
Durable Goods	5.1	-3.0	0.8	-1.3	-23.3	-45.0	35.0	45.0	15.0	5.0	2.5	2.3	0.4	-11.2	12.3	0.4	-4.7	6.1
Business Investment	14.4	-6.3	2.8	-5.2	-2.1	-52.2	-8.6	16.2	16.4	11.7	9.2	6.8	-0.4	-14.2	4.2	1.1	-16.0	11.0
Non-Res. Structures	6.9	1.6	7.7	0.7	4.1	-55.0	-18.0	10.0	13.0	10.2	8.0	6.9	0.7	-13.2	0.1	4.2	-19.4	9.5
Equipment & IPP*	22.3	-13.7	-2.2	-11.1	-8.7	-48.8	3.1	23.2	20.1	13.3	10.4	6.6	-1.6	-15.1	8.8	-2.2	-12.2	12.5
Residential Investment	-4.0	7.2	13.8	1.2	-0.4	-80.0	75.0	44.3	15.0	6.5	2.5	1.0	-0.6	-16.2	8.1	4.3	-15.8	6.1
Govt. Expenditure	3.0	0.4	2.7	1.0	-2.5	3.2	1.5	1.2	1.1	1.1	1.1	1.2	1.8	0.8	1.3	1.8	0.8	1.1
Final Domestic Demand	3.4	0.1	3.2	0.8	-6.0	-36.6	25.2	10.3	6.5	4.0	2.3	1.9	1.3	-5.9	4.5	1.8	-4.8	3.7
Exports	-2.7	9.0	-0.4	-4.5	-11.3	-47.7	55.8	6.6	5.8	3.1	2.9	3.0	1.3	-9.0	5.2	0.2	-6.3	3.7
Imports	10.0	-4.4	0.2	-3.2	-10.7	-49.4	49.3	4.9	3.9	3.1	3.2	3.2	0.6	-10.4	3.7	0.5	-8.3	3.4
Change in Non-farm Inventories (2012 $Bn)	20.9	16.6	5.9	6.4	-3.6	-2.5	-0.5	-0.3	1.8	2.3	2.5	2.5	12.5	-1.7	2.3	--	--	--
Final Sales	1.6	1.0	5.3	0.6	-3.8	-36.6	24.6	10.3	6.1	3.9	2.2	1.9	1.2	-5.1	4.3	2.1	-4.3	3.5
International Current Account Balance ($Bn)	-69.3	-35.7	-45.9	-37.2	-44.4	-41.4	-32.3	-28.4	-26.7	-27.2	-28.2	-29.0	-47.0	-36.6	-27.7	--	--	--
% of GDP	-3.1	-1.5	-2.0	-1.6	-1.9	-2.0	-1.5	-1.3	-1.2	-1.2	-1.2	-1.2	-2.0	-1.7	-1.2	--	--	--
Pre-tax Corp. Profits	7.2	40.9	-19.6	2.1	-23.7	-30.0	5.0	28.0	33.0	15.0	7.0	3.8	-0.1	-10.8	14.8	5.5	-8.0	14.2
% of GDP	12.2	13.0	12.3	12.3	11.6	12.0	11.4	11.7	12.3	12.5	12.6	12.6	12.5	11.7	12.5	--	--	--
GDP Deflator (y/y)	1.2	1.9	1.4	3.2	2.5	0.7	1.1	0.9	0.8	2.0	2.1	2.0	1.9	1.3	1.7	3.2	0.9	2.0
Nominal GDP	6.0	8.0	1.1	4.2	-6.5	-37.6	29.6	13.8	9.4	6.1	4.3	4.0	3.6	-4.9	7.0	4.8	-3.7	5.9
Labour Force	3.4	1.7	1.4	0.7	-3.3	-20.1	16.8	8.0	3.2	1.1	0.7	0.7	1.9	-2.2	3.1	1.8	-0.7	1.4
Employment	3.0	2.6	1.1	0.5	-5.8	-39.8	26.1	12.8	10.9	4.3	2.2	2.0	2.1	-6.6	5.8	1.8	-5.2	4.8
Change in Empl. ('000s)	141	121	54	23	-282	-2244	990	539	473	199	101	96	391	-1262	1035	340	-998	869
Unemployment Rate (%)	5.8	5.6	5.6	5.7	6.3	12.7	11.0	10.0	8.4	7.7	7.3	7.0	5.7	10.0	7.6	--	--	--
Personal Disp. Income	4.8	7.2	2.2	6.1	1.7	2.4	0.5	0.8	1.5	1.6	2.8	3.2	4.5	2.8	1.6	5.0	1.4	2.3
Pers. Savings Rate (%)	2.3	3.1	3.0	3.6	6.1	19.1	11.2	8.5	6.8	5.8	5.5	5.4	3.0	11.2	5.9	--	--	--
Cons. Price Index (y/y)	1.7	2.2	1.9	2.1	1.8	-0.1	0.4	0.5	0.8	2.4	2.0	2.1	2.0	0.7	1.8	2.1	0.5	2.1
CPIX (y/y)**	1.5	1.9	1.9	1.8	1.7	1.4	1.2	1.3	1.4	1.7	2.0	2.1	1.8	1.4	1.8	1.8	1.3	2.1
BoC Inflation (y/y)***	1.9	2.0	2.0	2.1	0.0	1.7	1.3	1.5	1.7	1.9	2.1	2.2	2.0	1.1	2.0	2.1	1.5	2.2
Housing Starts ('000s)	187	224	223	201	208	184	179	185	193	201	197	192	209	189	196	--	--	--
Home Prices (y/y)	-3.8	1.4	4.1	7.6	13.1	-0.7	-0.6	-1.9	-4.0	3.9	-1.4	-2.3	2.3	2.3	-1.0	7.6	-1.9	-2.3
Real GDP / worker (y/y)	-0.4	-0.4	-0.6	-0.3	-0.5	0.9	1.2	0.7	0.6	-1.0	-1.2	-0.9	-0.4	0.5	-0.6	-0.3	0.7	-0.9

F: Forecast by TD Economics as at June 2020

Home price measure shown is the CREA Composite Sale Price.

* Intellectual Property Products. ** CPIX: CPI excluding the 8 most volatile components. *** BoC Inflation: simple average of CPI-trim, CPI-median, and CPI-common.

Source: Statistics Canada, Bank of Canada, Canada Mortgage and Housing Corporation, Haver Analytics, TD Economics.

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	Q3	Q4	Q1	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	19	20F	21F	19	20F	21F
Real GDP	3.1	2.0	2.1	2.1	-5.0	-33.4	28.0	6.0	5.0	4.7	3.3	2.9	2.3	-4.5	4.3	2.3	-3.8	4.0
Consumer Expenditure	1.1	4.6	3.1	1.8	-6.8	-35.4	39.1	6.5	4.2	3.9	3.3	3.2	2.6	-4.3	5.0	2.7	-2.8	3.7
Durable Goods	0.3	13.0	8.1	2.7	-13.2	-44.3	50.6	12.7	8.1	7.5	0.9	0.8	4.8	-6.1	7.3	5.9	-4.8	4.3
Business Investment	4.4	-1.0	-2.3	-2.5	-7.9	-32.6	8.6	10.6	8.0	7.2	6.4	4.2	2.1	-8.2	4.8	-0.4	-7.1	6.4
Non-Res. Structures	4.0	-11.1	-9.9	-7.3	-3.9	-45.5	-10.0	5.0	8.0	10.0	12.0	5.0	-4.3	-15.3	1.0	-6.2	-16.1	8.7
Equipment & IPP*	4.6	2.1	-0.1	-1.1	-8.9	-28.7	13.8	12.0	8.0	6.5	5.0	4.0	4.0	-6.2	5.7	1.3	-4.6	5.9
Residential Investment	-1.1	-2.9	4.6	6.5	18.5	-48.8	-17.3	1.5	14.9	8.9	8.9	6.8	-1.5	-8.3	-0.1	1.7	-15.5	9.8
Govt. Expenditure	2.9	4.8	1.7	2.5	0.8	-3.3	6.1	2.8	2.7	1.6	1.5	1.3	2.3	1.5	2.3	3.0	1.5	1.8
Final Domestic Demand	1.8	3.6	2.2	1.5	-4.8	-30.7	25.9	6.2	4.7	4.0	3.6	3.1	2.3	-3.9	4.3	2.3	-3.1	3.8
Exports	4.2	-5.7	0.9	2.1	-8.7	-69.1	38.9	13.5	14.2	14.8	5.7	4.8	0.0	-17.0	5.6	0.3	-18.3	9.8
Imports	-1.5	0.0	1.8	-8.4	-15.5	-54.2	27.3	15.7	13.7	10.4	7.8	6.0	1.0	-14.9	7.3	-2.1	-13.1	9.4
Change in Private Inventories	116.0	69.4	69.4	13.1	-67.2	-112.0	-79.7	-66.9	-42.1	-20.2	-15.0	-15.0	67.0	-81.5	-23.1	--	--	--
Final Sales	2.6	3.0	2.1	3.1	-3.6	-32.6	26.9	5.7	4.5	4.2	3.2	2.9	2.2	-3.8	4.0	2.7	-3.4	3.7
International Current Account Balance ($Bn)	-548	-505	-502	-439	-462	-487	-476	-600	-628	-609	-606	-608	-498	-507	-613	--	--	--
% of GDP	-2.6	-2.4	-2.3	-2.0	-2.1	-2.5	-2.3	-2.9	-2.9	-2.8	-2.8	-2.7	-2.3	-2.5	-2.8	--	--	--
Pre-tax Corporate Profits including IVA&CCA	-14.3	16.0	-0.9	10.6	-44.9	-81.3	129.5	-11.1	16.6	23.7	14.1	9.9	0.0	-28.1	6.9	2.2	-32.3	16.0
% of GDP	9.5	9.8	9.6	9.8	8.5	6.2	7.2	6.9	7.0	7.3	7.5	7.6	9.7	7.2	7.3	--	--	--
GDP Deflator (y/y)	2.0	1.8	1.7	1.6	1.7	0.8	0.7	0.6	0.5	1.0	0.9	1.2	1.8	1.0	0.9	1.6	0.6	1.2
Nominal GDP	3.9	4.7	3.8	3.5	-3.5	-34.5	30.0	6.8	5.9	5.6	4.7	4.6	4.1	-3.6	5.2	4.0	-3.2	5.2
Labor Force	0.6	-0.5	2.4	1.6	-1.0	-14.4	5.8	4.2	4.2	3.3	1.5	0.9	0.9	-1.6	2.4	1.0	-1.7	2.5
Employment	1.3	1.1	1.5	1.7	0.4	-42.6	26.3	9.8	5.7	4.1	3.7	2.8	1.4	-5.9	3.9	1.4	-5.4	4.1
Change in Empl. ('000s)	485	425	551	628	134	-19,664	7,962	3,302	2,005	1,468	1,349	1,013	2,045	-8,955	5,575	2,089	-8,266	5,835
Unemployment Rate (%)	3.9	3.6	3.6	3.5	3.8	13.1	9.2	7.9	7.5	7.3	6.8	6.3	3.7	8.5	7.0	--	--	--
Personal Disp. Income	4.9	3.9	3.6	3.5	2.2	36.9	-4.1	-3.9	2.2	2.6	0.9	-0.2	4.3	7.3	1.8	4.0	6.6	1.4
Pers. Savings Rate (%)	8.5	7.8	7.7	7.7	9.6	25.5	18.1	15.4	14.8	14.3	13.5	12.5	7.9	17.1	13.7	--	--	--
Cons. Price Index (y/y)	1.6	1.8	1.8	2.0	2.1	0.4	0.7	0.6	0.7	2.0	1.6	1.7	1.8	0.9	1.5	2.0	0.6	1.7
Core CPI (y/y)	2.1	2.1	2.3	2.3	2.2	1.3	1.1	0.9	0.8	1.4	1.2	1.4	2.2	1.4	1.2	2.3	0.9	1.4
Core PCE Price Index (y/y)	1.6	1.6	1.7	1.6	1.7	0.8	0.5	0.5	0.3	1.0	1.0	1.1	1.6	0.9	0.9	1.6	0.5	1.1
Housing Starts (mns)	1.20	1.26	1.29	1.43	1.49	0.91	0.94	1.05	1.14	1.21	1.26	1.30	1.30	1.10	1.23	--	--	--
Real Output per hour (y/y)**	2.0	2.2	1.7	1.8	0.7	0.6	0.5	-0.5	-0.1	-0.2	0.3	1.4	1.9	0.3	0.3	1.8	-0.5	1.4

F: Forecast by TD Economics as at June 2020

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

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

Economic Indicators: G7 & Europe			
		Forecast	
	2019	2020	2021
Real GDP (annual per cent change)			
G7 (30.1%)*	1.3	-5.0	4.7
U.S.	2.3	-4.5	4.3
Japan	0.7	-4.8	3.3
Euro Area	1.2	-7.6	6.1
Germany	0.6	-6.3	5.7
France	1.5	-7.2	6.9
Italy	0.3	-9.2	7.7
United Kingdom	1.4	-7.9	5.5
Canada	1.7	-6.1	5.2
Consumer Price Index (annual per cent change)			
G7	1.5	0.8	1.4
U.S.	1.8	0.9	1.5
Japan	0.5	0.2	1.2
Euro Area	1.2	0.4	1.1
Germany	1.3	0.7	1.4
France	1.3	0.4	1.2
Italy	0.6	-0.1	0.9
United Kingdom	1.8	0.9	1.4
Canada	2.0	0.7	1.8
Unemployment Rate (per cent annual averages)			
U.S.	3.7	8.5	7.0
Japan	2.4	3.4	3.4
Euro Area	7.6	9.1	9.5
Germany	5.0	5.8	6.9
France	8.5	9.3	8.8
Italy	10.0	11.5	11.4
United Kingdom	3.7	7.0	8.8
Canada	5.7	10.0	7.6

*Share of 2018 world gross domestic product (GDP) at PPP.
Forecast as at June 2020
Source: National statistics agencies, TD Economics.

Global Economic Outlook				
Annual Per Cent Change Unless Otherwise Indicated				
	2018 Share*		Forecast	
Real GDP	(%)	2019	2020	2021
World	100.0	2.8	-4.1	6.2
North America	18.5	2.0	-4.9	4.5
United States	15.2	2.3	-4.5	4.3
Canada	1.4	1.7	-6.1	5.2
Mexico	1.9	-0.3	-6.7	4.9
European Union (EU-28)	16.3	1.5	-7.0	5.5
Euro Area (EU-19)	11.4	1.2	-7.6	6.1
Germany	3.2	0.6	-6.3	5.7
France	2.2	1.5	-7.2	6.9
Italy	1.8	0.3	-9.2	7.7
United Kingdom	2.2	1.4	-7.9	5.5
EU accession members	2.6	3.1	-2.5	2.8
Asia	45.0	4.3	-2.5	7.9
Japan	4.1	0.7	-4.8	3.3
Asian NIC's	3.4	1.7	-1.2	4.5
Hong Kong	0.4	-1.2	-5.3	4.1
Korea	1.7	2.0	-0.4	2.9
Singapore	0.4	0.7	-1.5	5.2
Taiwan	0.9	2.7	-1.0	7.5
Russia	3.1	1.4	-5.6	6.3
Australia & New Zealand	1.1	1.9	-3.9	4.2
Emerging Asia	33.2	5.4	-2.0	9.2
ASEAN-5	5.5	4.8	0.1	7.3
China	18.7	6.1	-2.5	10.3
India**	7.7	4.2	-2.2	7.7
Central/South America	5.6	-0.1	-5.3	4.1
Brazil	2.5	1.1	-4.4	4.2
Other Emerging Markets	13.6	1.5	-4.2	4.9
Other Advanced	1.1	1.7	-3.4	4.3

*Share of world GDP on a purchasing-power-parity (PPP) basis.
Forecast as at June 2020. **Forecast for India refers to fiscal year.
Source: IMF, TD Economics.

Disclaimer