# Quarterly Economic Forecast

## COVID-19 Shifts the Sands Under the Global Economy

March 17, 2020

Contributing Authors

- Beata Caranci, Chief Economist | 416-982-8067
- Derek Burleton, Deputy Chief Economist | 416-982-2514
- James Marple, Managing Director | 416-982-2557
- Sohaib Shahid, Senior Economist | 416-982-2556
- Leslie Preston, Senior Economist | 416-983-7053
- Brian DePratto, Senior Economist | 416-944-5069

The COVID-19 outbreak has quickly morphed into an unprecedented global economic shock. What started out largely focused on China's highly-integrated supply chains, has turned into a globally transmitted supply and demand shock. As more countries try to clamp down on the virus' spread with social distancing tactics, an initial sharp drop in travel and tourism is being followed by a reduction in other activities and spending. This is now a question of whether governments and central banks can shore up business and household confidence, in the face of extreme equity and bond market volatility.

Past virus outbreaks offer only limited insight into current developments. A key distinction with COVID-19 is not the number of impacted countries, but rather the strong behavioral response to limit contagion via large-scale quarantines and interruptions to business operations. We have not seen anything similar in scale in recent history. The result creates far more forecast uncertainty over the next several months.

Wild swings in global equity markets have echoed and amplified these concerns, further punctuated by an unanticipated sharp drop in oil prices. Weakening global demand was already weighing on oil prices. However, a failed OPEC+ meeting to tighten supplies led to a complete 180-degree tactical move by Saudi Arabia, which has decided to instead flood the market with record levels of supply. This appears to be an attempt to squeeze out marginal producers and strong-arm other OPEC+ members to fall in line.

**Chapters**

Global Outlook....5
U.S. Outlook....8
Canadian Outlook....10

**Forecast Tables**

Interest Rate Outlook....13
Exchange Rate Outlook....13
Commodity Price Outlook....13
Canadian Economic Outlook....14
U.S. Economic Outlook....15
Global Economic Outlook....16
Economic Indicators: G-7 & Europe....16

Regardless of the rationale, the negative ramifications are borne out in oil-exporting regions, with Canada among those absorbing a significant income shock. The U.S. oil and gas sector will also not be spared, with the potential for amplified financial risks imparted to heavily indebted firms.

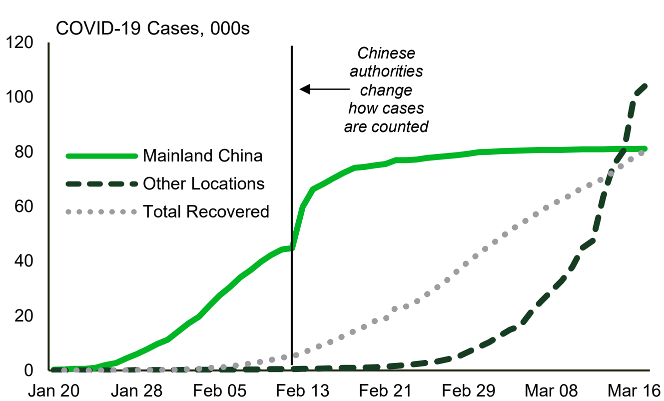
As we've noted several times in the past, markets always fear what they cannot measure. Today's environment is riddled with uncertainty, complicated by a large economic shock from business and household behavioral adjustments.

When sitting within the nexus of uncertainty, it's important to not have a knee-jerk reaction on the forecast. We must permit time to evaluate the responses of central banks and governments to mitigate the downside. In doing so, we start with some basic assumptions based on observations. The first of these is that preliminary data indicate China's aggressive quarantine measures have limited the number of new cases of the virus and contained the economic shock to a relatively short period of roughly three months. However, for that period of containment, the impact to retail sales and industrial production was far greater than ever seen in its historical data.

This speaks to depth, but not duration. We assume similar outcomes occur among other countries, with Italy, Spain, and France being the latest to implement stringent containment measures. Together, this assumption reduces global growth by 1.3 percentage points and leads to the slowest pace since the global financial crisis, at just 1.7%. However, the recovery phase creates a tailwind to growth in the second half of this year, which lifts our 2021 annual growth by 0.7 percentage points (to 4.0%) relative to our prior forecast in December.

For the United States and Canada, the impact on activity is expected to follow a similar pattern, with the second quarter bearing the brunt of the economic adjustment. Canada's greater dependence on global trade and commodity exports implies a more severe economic impact than stateside, made worse by the added negative income shock from the sudden drop in energy prices. However, in advance of the real impacts to either economy, both central banks have responded proactively by lowering rates and shoring up liquidity. In addition, governments have been able to mobilize to ensure appropriate income support measures will be in place to the most heavily impacted businesses and households. Combining the influences still results in a significant downgrade to our 2020 forecast, by 1.4 percentage points for Canada and one percentage point for the U.S. with annual growth of 0.2% and 1.0%, respectively.

**Chart 1: As China's COVID-19 Cases Settle, the Rest of the World Erupts**




Source: Johns Hopkins CSSE, TD Economics. Last data point March 17,2020.

**Table 1: Forecast Revisions**

| | Dec QEF | | Mar QEF | | Change | |
|---|---|---|---|---|---|---|
| | 2020 | 2021 | 2020 | 2021 | 2020 | 2021 |
| World | 3.0 | 3.3 | 1.7 | 4.0 | -1.3 | 0.6 |
| Advanced | 1.5 | 1.7 | -0.1 | 2.3 | -1.6 | 0.6 |
| U.S. | 2.0 | 1.9 | 1.0 | 2.1 | -1.0 | 0.2 |
| Canada | 1.6 | 1.8 | 0.2 | 2.1 | -1.4 | 0.3 |
| UK | 0.9 | 1.5 | -0.7 | 2.4 | -1.6 | 0.9 |
| Japan | 0.6 | 0.8 | -1.4 | 1.1 | -2.0 | 0.3 |
| Euro Area | 1.2 | 1.5 | -1.6 | 2.5 | -2.9 | 1.0 |
| Germany | 0.5 | 1.4 | -0.5 | 2.1 | -1.0 | 0.7 |
| Emerging Markets | 4.1 | 4.4 | 2.9 | 5.1 | -1.2 | 0.7 |
| China | 5.9 | 5.7 | 4.1 | 7.3 | -1.7 | 1.6 |

Source: TD Economics

## Containment is priority number one

As the virus has spread, attention has rightly turned to the policy response. The first task is to contain the virus. Large scale quarantines in China led to a steep drop in economic activity in February. This was evidenced by double-digit declines in auto sales, exports and plummeting manufacturing activity. China's manufacturing sentiment indicator plummeted to 35.7, a level that is lower than the global financial crisis experience (38.8). The good news is that the rapid decline in reported new virus cases is prompting Chinese authorities to begin to normalize operations. Absent another large breakout elsewhere in the country, growth is expected to re-emerge in the second quarter of this year.

Unfortunately, the rest of the world is now in the thick of containment measures and efforts appear to be following a similar playbook. In Italy, France, South Korea and Iran, lockdowns have been mandated across the entire country in varying degrees. Irrespective of the number of confirmed virus infections, surrounding regions are also responding proactively by limiting entry into their countries and pursuing widescale cancelations of group events. Perhaps nothing is more symbolic of this than Ireland's cancellation of the annual St. Patrick's Day parade with 21 known coronavirus cases at the time. These responses will impart a large near-term economic shock, but hopefully show success in reducing cases and limiting the duration of the shock.

## Policy coordination is priority number two

Governments and central banks are following a coordinated, risk management framework to setting policy in an attempt to smooth out the economic risk. However, coordination will mean different things to different countries and institutions.

Central banks are speaking with one voice on the intent to shore up liquidity, credit and confidence, but their actions will differ depending on the starting point. Central banks in Europe, Japan and the UK have far less scope than those in North America to cut interest rates. Instead, they are leaning more heavily on other tools, such as longer-term refinancing options for the most vulnerable sectors of the economy, corporate bond purchases in the event of liquidity strains, and relaxing counter-cyclical capital buffers among banks in order to free up capital for lending. The central banks in Canada and the U.S. are pursuing similar measures, but have the added advantage of lowering interest rates aggressively. The Federal Reserve has swiftly returned rates to the zero lower bound, while Canada conducted an unprecedented combined cut of 100 basis points in 10 short days.

However, given the nature of this economic shock, the success of central banks being proactive would be met with limited success if government policies don't address the supply side shock to prevent it from morphing into a wide-escale demand side one.

Fiscal policy is a critical component to economic success. Governments within virus-impacted countries are moving quickly to announce financial support to the most vulnerable areas of the economy: small businesses, households and the services sector (tourism and transportation in particular). In many cases, programs set up in the past to deal with natural disasters, such as loan guarantees for businesses and income supports to workers and businesses are being re-activated.

Among the countries that have announced fiscal stimulus to-date, the amounts vary but some are substantial and greater than 1% of GDP (Table 2). All told, targeted fiscal packages should help to shore up confidence and mitigate the negative income impacts. This should help return activity to normal and allow for make-up growth in the second half of the year.

**Table 2: Countries' Fiscal Response to COVID-19**

| Country | Fiscal Response | |
|---|---|---|
| Australia<br>A$17.6B \| 0.9% of GDP | • Support business investment and provide cash flows assistance for businesses | • Support households with cash handouts and help affected regions and communities |
| Canada<br>C$11B \| 0.5% of GDP | • Credit facility program worth C$10B for SMEs<br>• Funding for medical gear, public education, surveillance, monitoring, and access to testing | • Funds for medical research, including funding for vaccine research and clinical trials<br>• Increased federal lending to help struggling businesses access credit |
| China<br>¥99.5B \| 0.1% of GDP | • Allocation for outbreak relief and cutting unnecessary government expenses<br>• Reduction in corporate taxes | • Tax waiver for overtime income earned by medical workers and offering cash and free transport to workers |
| Euro Area<br>€113B \| 0.9% of GDP | • €37B directed towards healthcare systems, SMEs and labor markets<br>• European Investment Bank (EIB) and European Commission to do €28B in working capital lending | • Investments worth €20B by EIB in SMEs |
| Germany<br>€553B \| 15.5% of GDP | • In the form of loans through the German development bank<br>• Companies allowed to defer taxpayments<br>• Announcement of "no upper limit on the amount of loans" | • Loan terms changed so that the government assumes more risk, while loan applications procedures simplified and speeded up |
| Hong Kong<br>HK$120B \| 4.2% of GDP | • A HK$10,000 one-time cash handout to all permanent residents<br>• Low-interest loans with government guarantees for small businesses | • Reduction in corporate and salary taxes and subsidies for utility bills |
| Italy<br>€25B \| 1.4% of GDP | • Tax credits for companies that reported a 25% drop in revenues<br>• Tax cuts and extra cash for the health system | • Suspension of loan payments (including mortgages) from virus-hit companies, resources for health and emergency services |
| U.K.<br>£30B \| 1.4% of GDP | • £7 Funding for the self-employed, businesses and vulnerable people<br>• £5 emergency response fund for the public healthcare system<br>• Additional spending of £18B to support the economy | • Government to backstop sick pay for small businesses for two weeks<br>• Cash grants for small businesses |
| U.S.<br>$8.3B \| 0.04% of GDP | • R&D for vaccines, treatments and diagnostics<br>• Medical supplies to boost preparedness and community health care | • Funding for centers for disease control and prevention |

Source: TD Economics

## Greater economic disruption if containment fails

It's hard enough being an economist without also having to be an epidemiologist. The main downside risk to the forecast is that the efforts to mitigate the spread of the virus take a greater toll on financial market confidence and carry a longer duration across a broad set of countries. Our baseline forecast is pinned to economic disruptions persisting through April, with the recovery taking hold thereafter. If we're wrong on the period of disruption, then the economic pain will be more severe and likely accompanied with broad job losses. With uncertainty elevated, the recovery in financial and commodity markets could also be stalled, contributing to greater pullbacks in investment and spending. In this situation, a formal recession would come into scope globally and domestically. Canada would be at a clear disadvantage in this scenario. The shock to income from a declining price of oil hits energy-producing countries harder. In addition, across the country, high levels of household debt make spending more vulnerable to income shocks, requiring a more skilled hand at policy responses. Both the history and the recent experience of China suggest that a long or deep global recession is not the most likely scenario, but it will require the actions of policy to deal deftly with the rapidly changing situation.

And just like any forecast, there could also be some unexpected surprises to the upside in the months ahead. The outlook now incorporates significant monetary and fiscal stimulus. As these measures feed through the economy with lags and linger, it's quite possible that the recovery stage of the economy later this year proves stronger than expected once the weight of containment measures lifts. Only time will be the ultimate judge of success, for now we remain cautious on the outlook and hope for the best.

## Global Outlook: Coronavirus Pandemic Brings the Global Economy to a Standstill

- The rapid expansion of COVID-19, first in China and now the rest of the world has prompted a major downward revision to global growth. Due to the economic fallout from the virus, we have revised down our 2020 global growth forecast by 1.3 percentage points (ppt) to just 1.7%, the slowest since the global financial crisis. Global growth at this rate implies several economies in recession in 2020.
- The economic shocks generated by COVID-19 are the side-effects of mandated quarantines and travel bans, as well as voluntary social distancing – people staying home and bunkering down until fear subsides. These are necessary actions to prevent the further spread of the virus but generate negative demand and supply shocks to the economy:
    - Supply shock: factory closures, supply chain disruptions, labor supply constraints
    - Demand shock: drop in tourism, transportation and other services, decrease in consumer and business sentiment
- These shocks are reverberating through the global economy through several channels, including cross-border flows of goods, services, people, skills, financial capital, foreign direct investment, banking and exchange rates.
- As disease-related disruptions end, the return to more normal levels of activity will imply a fillip to economic growth. Assuming the virus can be contained to the first half of this year, economic growth is expected to bounce back in 2021 to 4.0%, 0.7 ppts above our prior forecast.

## Rolling disruptions having a domino effect as virus spreads across time and space

- China's drastic containment measures to tackle COVID-19 have been reflected in recent economic data. For the months of January and February, the manufacturing PMI plummeted 17% and retail sales dropped by a 20.5% compared to the same period last year, while the unemployment rate jumped to a record 6.2%.
- The upside is that the number of new reported cases have drastically fallen, factories are re-opening, and people are going back to work, albeit gradually. This too is reflected in the data and can be seen in China's PMI expectations.

**Chart 2: Emerging Market Economies are Strongly Linked to China through Supply Chains**

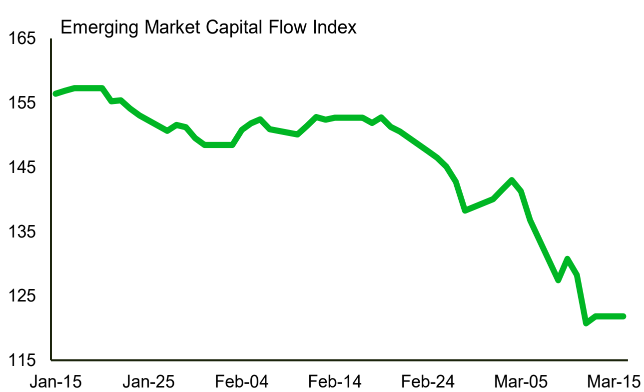

Source: WITS, World Bank, TD Economics

- China's quarantine spread the pain to neighbouring Asian economies via supply chains. Many of them heavily rely on China for intermediate goods, tourism, and transport (Chart 2). Economies in emerging Asia most highly linked to China, such as Vietnam, Malaysia, Thailand, and the Philippines, see significant downward revisions to growth in 2020.
- Like China, some Asian economies such as Hong Kong and Singapore have proven successful in dramatically reducing the number of new cases, but at the cost of considerable declines in economic activity. Tallying the impacts, these disruptions are expected to bring Asia's growth in 2020 to 3.3%, 1.4 ppts below our previous forecast.
- The virus is now fast spreading in Europe. France, Italy, and Spain have imposed a country wide quarantine but are still seeing growth in cases. France, Germany and the United Kingdom have closed schools, encouraged people to work from home, and have taken other social distancing measures aimed at limiting the disease's spread. At the European level, the 26-state Schengen zone has banned all non-essential visits from third countries.
- If China's January and February economic data are any indication, these measures will have severe economic consequences for Europe. Therefore, we have expect growth to contract by -1.6% for the Euro Area. The country most severely hit in 2020 is Italy which is expected shrink by 2.9% in 2020. Other countries such

as France and Spain are not far behind, as they are expected to contract by 1.5% and 2.2%, respectively.

- Elsewhere, oil exporting countries will be particularly hit by the price wars that started as Russia and Saudi Arabia failed to come to an agreement during the OPEC+ meetings. Oil prices were declining due to weakening demand caused by COVID-19, but the price war exacerbates that decline.
    - Countries most severely hit by this double whammy include several oil-exporting emerging market economies (EMEs) in the Middle East and Latin America. For example, Brazil's growth has been revised by 1.2 ppts to 0.8% for 2020. On the other hand, oil importing countries would benefit from the decline in oil prices. However, their ability to benefit from this decline would depend on how severely COVID-19 affects their domestic demand.
- The COVID-19 shock adds to prevailing idiosyncratic weaknesses in several EMEs:
    - Mexico's economy has been facing severe structural challenges resulting in negative growth in five of the last eight quarters. Low oil prices will further put downward pressure on the Mexican economy. We expect Mexico's economy to contract by 0.1% this year.
    - India's economy also continues to disappoint, decelerating into the start of 2020. India depends heavily on China for both demand and supply of inputs and will be impacted similar to other Asian countries from China's slowdown. Meanwhile, accelerating inflation has limited the Reserve Bank of India's ability to help support growth, but lower oil prices may provide some respite and allow policy to become more accommodative.

**Chart 3: Emerging Market Economies are Experiencing a Sudden-Stop**




Source: Bloomberg, TD Economics

- Finally, recent fears in financial markets have worsened the downside risks to near-term economic growth. EMEs are going through a sudden-stop, as they experience sharp net capital outflows in recent weeks, weakening currencies, tightening financial conditions, and subduing asset prices (Chart 3). However, it is important to keep in mind that flows to EMEs are volatile, and therefore, may flow back at the earliest signs of virus containment. This becomes even more likely given the lose monetary stance of central banks in Europe and North America.

## Timely and targeted policy measures are necessary to mitigate economic damage

- The spread of COVID-19 has prompted widespread policy actions. Central banks were first to spring to action. The People's Bank of China (PBOC) acted swiftly, followed by other Asian central banks, and now by European and North American central banks. The uncertainty and headwinds caused by COVID-19 makes it necessary for monetary policy to remain supportive. Declining inflation expectations and a deeply inverted yield curve, alongside widening credit spreads imply a sharp tightening in financial conditions that lower policy rates can only partially mitigate.
- In addition to lower rates, the PBOC, the European Central Bank (ECB), and the Bank of England have taken several targeted monetary policy actions along with macroprudential steps (See Table 3). Major advanced economy (AE) central banks have also enhanced the provision of liquidity via liquidity swap arrangements. However, EMEs – who are facing a severe dollar shortage – were conspicuous by their absence in the AE swap arrangements.
- In terms of fiscal policy, early responses have been directed towards containing the virus, protecting the health care system, containing negative supply shocks, and improving sentiment and demand. However, more and more countries have now announced broader fiscal stimulus packages aimed at supporting growth (see

table on page 3 for more details). Countries' fiscal responses have been broadly of three types; measures targeting aggregate demand (Hong Kong, UK), insurance policies (Canada, Germany), and incentive policies (Australia, China). The European Union (EU) has also relaxed fiscal rules and redirected budget funds, allowing member countries to free up fiscal space.

- The best fiscal measures will be timely, targeted and well communicated. Measures should include income support for households and businesses unable to work or facing a significant drop in sales. The fiscal multiplier of any spending is likely to be low in the current environment. Still, transfers can help mitigate a fall in spending from households without other sources of income or ready access to credit and prevent a rise in defaults that would only deepen and prolong the recession.

**Table 3: Monetary and Regulatory Responses**

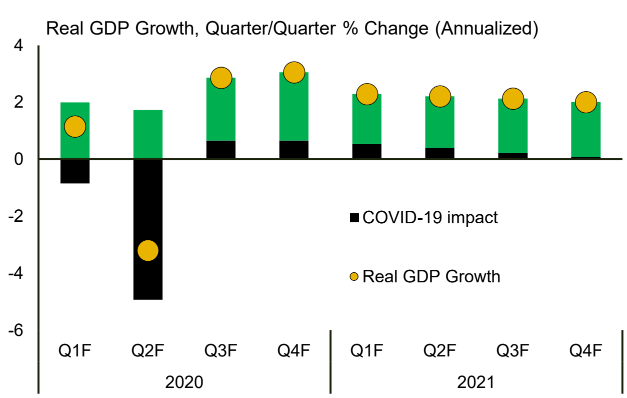
| Country | Actions |
|---|---|
| Australia | • Benchmark interest rate cut by 25 basis points (bps) to 0.5%<br>• Injection of $5.4B into the repo market |
| Canada | • Policy interest rate first cut by 50 bps to 1.25% and again cut by an additional 50bps to 0.75%<br>• Market liquidity injections through expansion of the bond buyback program and term repo operations<br>• Cut in domestic stability buffer by 1.25 ppts to 1.00% with no increase in the next 18 months<br>• Funding support for SMEs through Bankers' Acceptance Purchase Facility<br>• CMHC to purchase up to C$50B in mortgage pools via Insured Mortgage Purchase Program |
| China | • 10 bps drop in interest rates on reverse repurchase agreements and medium-term lending facility loans<br>• 1-year and 5-year loan prime rates cut by 10bps and 5bps, respectively<br>• Net repo injections<br>• Increase in re-lending and re-discounting quotas targeted towards SMEs<br>• Dictating banks to issue loans to SMEs at favorable rates and an extension on loan repayments for certain SMEs<br>• Cut in targeted reserve requirement ratio, releasing $79B into the economy |
| Euro Area | • Additional longer-term refinancing operations (TLTROs)<br>• More favorable terms applied to the existing TLTRO III and targeted towards SMEs<br>• Additional quantitative easing worth US$134B with an emphasis on private sector debt<br>• Bank temporarily allowed to operate below their mandated capital levels |
| Japan | • $4.7B in short-term liquidity to banks and increase the purchase of exchange traded funds<br>• Purchase of government bonds worth $1.9B |
| United Kingdom | • Benchmark interest rates cut by 50bps to 0.25%<br>• Counter Cyclical Capital Buffer moved to 0%<br>• Term funding scheme for SMEs for one year amounting to more than $129B<br>• A freeze on banks' dividends and bonuses |
| United States | • Target range for the federal fund rate lowered by 50 bps to 1.00% – 1.25% and by another 100 bps to 0.0% – 0.25%<br>• Increase in quantitative easing by $700B ($500 Treasuries and $200 MBSs)<br>• Eliminating reserve requirements for depository institutions<br>• Interest on excess reserves cut by 50 bps to 1.1%<br>• Injection of up to $5.5T to the repo market until April |
| Coordinated Response by: Canada, England, Euro Area, Japan, Switzerland & United States | • Central banks to enhance the provision of liquidity via the standing U.S. dollar liquidity swap arrangements by lowering the pricing on swap the arrangement by 25 bps and by increasing the maturity of the US dollars offered. |

Source: TD Economics

## U.S. Outlook: Sideswiped by COVID-19

- The economic outlook has been sideswiped by the COVID-19 pandemic. Financial markets are in a tail-spin as investors try to assess the economic damage. The Fed has stepped in to provide what support it can by cutting interest rates to the floor, expanding asset purchases, and announcing a host of other liquidity measures aimed at restoring market functioning.
- As a result of the sudden stop in economic activity in March and April, we expect growth in the first quarter will be held close to 1% annualized and the second quarter to contract by 3.2%, the biggest drop since the recession (Chart 4).
- Travel and tourism will be hit hardest, with related leisure and hospitality sectors also feeling the pain as sporting and cultural events, conferences and gatherings are cancelled. The hit to revenue will hold back spending at many businesses, with the oil patch likely to see significant retrenchment. Supply chains will also be impacted by global manufacturing shutdowns, but these impacts will be overshadowed by the hit to demand.
- Assuming containment measures are successful in stemming the number of new cases, activity is expected to normalize, and the economy to bounce back in the third quarter. Still, real GDP growth is expected to average just 1.0% for 2020 as a whole, a full percentage point below our previous forecast. The rebound in activity will show up in average growth for 2021, which we now forecast at 2.1%, two tenths faster than our previous forecast. However, a large amount of foregone spending on services will not be recouped.

**Chart 4: COVID-19 A Big Hit to Growth in H1 2020**




Source: TD Economics

- There is a high degree of uncertainty about how widely the virus will spread domestically, and how long the pandemic will go on. Our forecast assumes a two-month disruption to economic activity due to quarantines and shutdowns. The risk is that the outbreak lasts longer, and exacts a larger toll on the outlook.

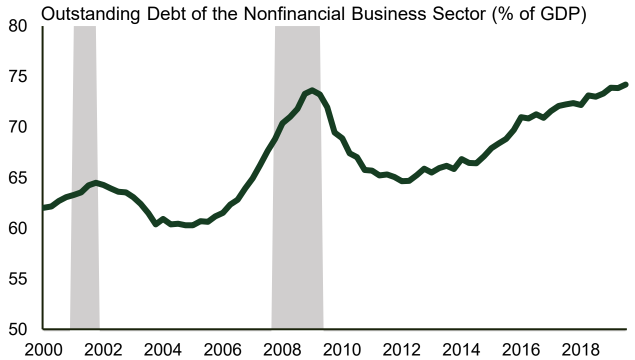
## An unprecedented shock to household spending will hit in the second quarter

- The consumer came into the COVID-19 shock on a solid footing with strong job growth and a record-low unemployment rate. However, as a result of social distancing, spending is forecast to drop over 4% (annualized) in the second quarter of this year. Once fears of infection subside, spending should be expected to rebound, with growth averaging roughly 3.5% in the second half of the year.
- Lower interest rates and a relatively warm winter saw new home construction roar to life early in the year. However, residential investment is likely to fall in the second quarter, in part as warm weather pulled activity forward, but also as activity is stalled due to the coronavirus. There is also likely to be some short-term hit to the resale housing market in the spring as potential homebuyers hold off on purchases and sellers pull listings. Eventually, lower mortgage rates will support demand in the housing sector, giving support to prices and construction.

## A short-lived boost from Phase One trade deal

- Before the coronavirus headlines emerged in January, the big economic story was the Phase One trade deal signed with China (see report). The deal lowered tariffs, and just as important, reduced a key source of business uncertainty.
- Unfortunately, businesses didn't get much of a chance to enjoy it before they had to worry about the impact of virus-related factory shutdowns on global supply chains. The Beige Book and other confidence surveys showed that closures of Chinese factories were a significant concern for American companies. With the virus morphing into a global pandemic, supply constraints will remain an issue, both in terms of the availability of intermediate inputs and in terms of workers who may be unable to come to work due to containment measures.

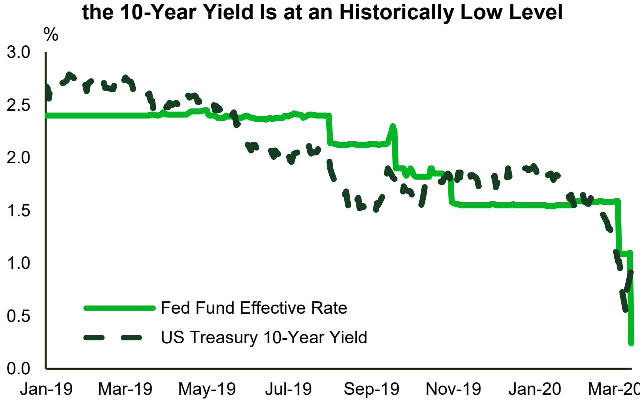
**Chart 5: High Business Debt Loads a Risk as Revenues Hit by COVID-19**




Source: FRB, TD Economics. Last data point September 2019.

- Business investment was already expected to be held back by the production shutdown at Boeing in the first half of the year. We expect production there to resume in the second half of the year, which, combined with improved business sentiment should result in a rebound in equipment investment in the second half of the year. The downside risk to this is that the extreme challenges faced by the airline sector continue to weigh on demand for airplanes and restrain production over the medium term.
- In the meantime, the collapse in oil prices is likely to decimate investment in the energy sector. This in large part shows up in structures investment (oil shafts and wells), which we now expect to see sizeable declines in over much of the year.
- The high degree of indebtedness in the nonfinancial sector (Chart 5) could amplify the downside risk to the economy in the event of larger-than-expected weakness in corporate profits. As many industries see their revenues hit, high debt loads could necessitate greater cost-cutting and layoffs than would have otherwise been the case, and is a downside risk to our forecast.

**Chart 6: With The Policy Rate at the Floor, the 10-Year Yield Is at an Historically Low Level**




Source: FRB. TD Economics

## Fed cuts will help, but fiscal support required

- The Federal Reserve acted decisively in the face to the COVID-19 shock and has cut the federal funds rate by 150 basis-point rates to near-zero, with two unscheduled interest rate announcements in March.
- To these traditional policy measures, it has added an additional $700 billion in asset purchases and announced an array of liquidity measures. These are aimed at shoring up confidence in Treasury and mortgage-backed securities (MBS) markets and encouraging the continued flow of credit to households and businesses.
- Our forecasts for Treasury yields are in line with near-zero rates remaining in place for some time (Chart 6). This will trickle through to lower borrowing rates for consumers and businesses. While lower rates will not cure the virus or counteract containment measures, they will help improve debt affordability and should support a rise in spending as life returns to normal.
- As Chair Powell has pointed out, monetary policy is only part of the response to the virus. Indeed, with the Fed having exhausted its traditional policy tools, the time is now for fiscal policy to step into the fray. Washington's first response was an $8.3 billion in emergency spending to combat coronavirus, assisting with local and state responses. The House of Representatives has passed a bill to provide free virus testing and paid sick leave with reimbursement to businesses via a temporary tax credit. This should help mitigate both layoffs in the near-term, and the spread of the virus by incenting individuals to stay at home when ill. Additional initiatives are likely in the weeks ahead, and present an upside risk to our current forecast.
- On the other hand, the failure of government to provide adequate income supports would increase the risk of credit events among businesses, worsening job losses and increasing the likelihood of an extended economic downturn.

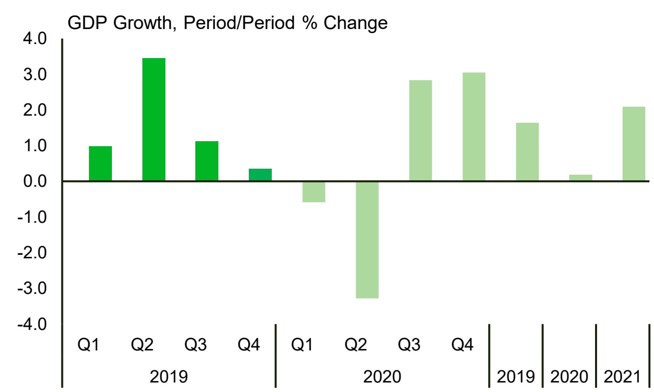
## Canadian Outlook: Unprecedented Times, Unprecedented Measures

- There seems to be no end to the list of headwinds affecting the Canadian economy. The close of 2019 saw a meagre 0.3% annualized pace of growth, and it now looks like this will give way to a modest contraction at the start of 2020 (Chart 7). If we had been writing this document a month ago, we would have been talking about unusual weather, rail blockades, and other disruptions holding back the economy. Now, with COVID-19 on the landscape, a disappointing start to the year will give way to back-to-back quarterly contractions.
- To make matters worse, now there's Saudi Arabia's scorched-earth approach of flooding the market with oil supply when demand is already quite weak. Plummeting prices generate a significant income shock on Canada that is particularly impactful in the second quarter.
- This combination of events is set to disrupt growth over the entire first half of the year. Accordingly, we've downgraded our 2020 outlook to just 0.2% (from 1.6% in our December forecast). If realized, this would be the slowest pace since 2015. As discussed in our Chief Economist's latest client note, only time will tell if virus-containment measures bleeds into the third quarter to take a technical recession into a formal one.
- This forecast hinges on a critical assumption that the worst of the impacts are resolved by mid-year. A recovery thereafter sets up a stronger hand-off into 2021 that results in a 2.1% pace for that year. However, this forecast is subject to a particularly high level of uncertainty given the nature of events and unprecedented mitigation action being taken by governments and businesses.
- The downgrade to this year's growth occurs via four key channels:
    1. Travel, tourism and closely connected industries such as restaurants, conferences, sporting activities and so forth. This reflects individuals seeking to avoid infection by cancelling or altering both international and domestic plans, in line with public health guidelines.
    2. Supply chains. Firms relying on imported parts from other countries that face production disruptions may be unable to find alternative sources of inputs. This carries negative implications for employee incomes, particularly for hourly workers.
    3. Sentiment – both consumer and business. Recent reports of consumers stockpiling essentials such as toilet paper suggest that fear is taking root, consistent with a significant spending slowdown in the coming months. Given the nature of the outbreak, the biggest impact is likely to be felt in discretionary purchases, particularly spending on in-person services. This is where the prior two supply shock channels intersect with a demand-shock channel.
    4. The 'terms of trade' shock: the incredible drop in commodity prices, particularly for energy, significantly reduces the value of our exports, driving a negative income shock akin to the 2014/2015 experience. The result there? A deepening of the expected second quarter economic contraction, and a blunting of the recovery thereafter. We estimate this shock alone will shave 0.7 percentage points off real GDP during the second quarter, with a further 0.5 p.p. drag on third quarter activity.
- We expect a near-term deterioration in labour markets as the most impacted industries such as travel and tourism adjust staffing levels. However, at this point we believe that fiscal policy to support worker retention will serve to limit the downside.

## Monetary + Fiscal Policy Step-Up Measures

- Governor Poloz was first out the gate in Canada, cutting the Bank of Canada's policy rate by half a point at

**Chart 7: Near Term Growth Challenged by COVID-19, Oil Prices, Other Headwinds**




Source: Statistics Canada, TD Economics

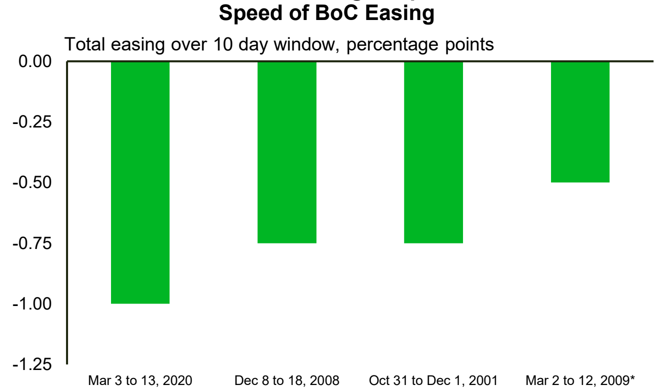
its March decision. This was in response to the rapid evolution of economic risks presented by COVID-19. Since that decision, a significantly worsened oil price shock also landed on their doorstep. A mere ten days after the first rate-cut decision, Governor Poloz joined his colleagues from the Department of Finance and OSFI in an unprecedented joint action. The Bank of Canada cut its policy rate a further half point, introduced an asset purchase program and a slew of liquidity measures (for further details, please see our recent note), and made clear that it stood ready to do more (Chart 8). For its part, OSFI reduced required capital buffers, a move intended to spur loan availability for the major banks. We expect a further half point cut at the Bank of Canada's next decision, scheduled for April 15th. However, given the significant downside risks facing the Canadian economy, we would not be surprised to see another inter-meeting rate cut.

- For his part, Finance Minister Morneau has announced a suite of measures designed to mitigate the economic impacts of COVID-19 and other factors on affected industries. We've so far seen more than $10bn in direct measures to support healthcare providers and small and medium sized firms, and we expect much more to come. We anticipate that nearly all parts of the Canadian economy will see support, in particular those laid off, and importantly, those who are impacted by the disruption but not able to access government assistance via the usual channels such as EI. While it is too early to know for sure, these measures should help support business and consumer confidence in the coming weeks. However, if unsuccessful in doing so, we would expect additional broad-based measures to stimulate the economy quickly.

## The Silver Linings

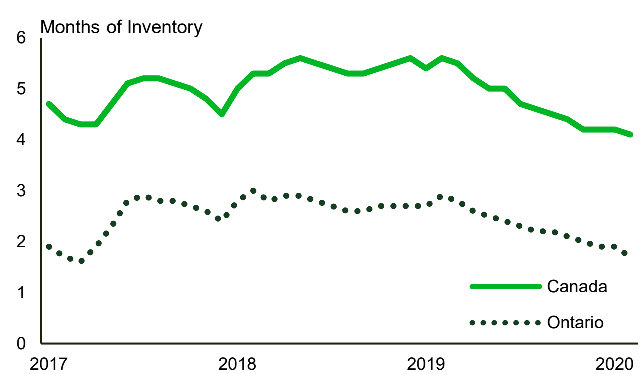
- Our updated forecast has not been composed entirely of downgrades. A strong housing market is being met by much lower interest rates and an easing of macroprudential regulations. This comes as at a time when demand was already in recovery mode, drawing inventories to 2017 lows (Chart 9).
- The soft start to the year for resale activity appears to have been a weather driven head-fake, with February data showing robust gains in activity and prices. Although soft supply will act as a near-term constraint, the old saying that "the best cure for high prices is high prices" should come into play to lure sellers into the market as we get past the expected pause in activity around the worst of the COVID-19 outbreak.
- Government spending has also been upgraded. This is not solely due to policy responses to COVID-19, but also to stronger-than-anticipated spending plans enumerated in Statistics Canada's latest capital spending survey. The timing of these outlays may just be a happy coincidence given the significant lags between project announcements and actual spending, but they nevertheless provide much needed support to the economic outlook.

**Chart 8: COVID-19 Brings Unprecedented Speed of BoC Easing**




Source: Bank of Canada, TD Economics. *: Both 2009 and earlier periods saw several 50bp cuts.

**Chart 9: Sales Have Been Outpacing Supply, Drawing Inventory Quickly Lower**




Source: CREA, TD Economics.

## Containment Key To Rapidly Evolving Outlook

- Our economic outlook embeds sizeable downgrades to the 2020 economic outlook, but the damage is expected to be relatively short-lived: although we expect to see two quarters of contraction, the most intense part of the economic hit is concentrated in the second quarter, particularly the latter half of March and early April. Thereafter, we are hoping for some normalization in business operations and a recovery to emerge, albeit one weighed down by renewed and more persistent challenges to the energy sector that will maintain a weight on the economy. As well, some of the lost service activity will not be recaptured, leaving the level of output permanently lower. Our forecast also assumes that job markets are resilient relative to the GDP hit.
- These forecast outcomes rely on an assumption that the worst effects from virus-containment measures are in the rear-view mirror by May. Similarly, oil prices are expected to begin recovering by the third quarter as cooler heads prevail within the OPEC+ oil-price war. Just as important as the containment of the virus will be containment of business and household sentiment. Given the pre-existing risks to the Canadian economy from overindebted consumers, should these assumptions fail to hold, the impact to the economy would unquestionably be deeper and longer. The ability for confidence to rebound quickly is a key underpinning of this forecast.
- Conversely, and equally important to consider, is the strength of the policy responses and their lagged impacts on growth. Just as economic activity will be hard hit in the near-term, a healthy recovery is also part of the outlook, and may be stronger than anticipated if sentiment recovers quickly.
- These forecasts were penned from within the nexus of uncertainty, and we will be monitoring behaviors, data and outcomes in the weeks ahead to determine depth and duration of COVID-19 impacts on the economy.

| Interest Rate Outlook | 2019 | | | | 2020 | | | | 2021 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | Q1F | Q2F | Q3F | Q4F | Q1F | Q2F | Q3F | Q4F |
| **Canada** | | | | | | | | | | | | |
| Overnight Target Rate | 1.75 | 1.75 | 1.75 | 0.75 | 0.75 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.50 | 0.75 |
| 3-mth T-Bill Rate | 1.67 | 1.66 | 1.65 | 0.46 | 0.40 | 0.15 | 0.15 | 0.15 | 0.15 | 0.28 | 0.53 | 0.78 |
| 2-yr Govt. Bond Yield | 1.55 | 1.47 | 1.58 | 0.47 | 0.40 | 0.50 | 0.65 | 0.80 | 1.00 | 1.20 | 1.35 | 1.50 |
| 5-yr Govt. Bond Yield | 1.52 | 1.39 | 1.40 | 0.62 | 0.50 | 0.60 | 0.75 | 0.90 | 1.10 | 1.30 | 1.45 | 1.60 |
| 10-yr Govt. Bond Yield | 1.62 | 1.46 | 1.37 | 0.78 | 0.65 | 0.75 | 0.90 | 1.05 | 1.25 | 1.45 | 1.60 | 1.75 |
| 30-yr Govt. Bond Yield | 1.89 | 1.68 | 1.53 | 1.25 | 1.00 | 1.05 | 1.15 | 1.30 | 1.50 | 1.70 | 1.85 | 2.00 |
| 10-yr-2-yr Govt Spread | 0.07 | -0.01 | -0.21 | 0.31 | 0.25 | 0.31 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 |
| **U.S.** | | | | | | | | | | | | |
| Fed Funds Target Rate | 2.50 | 2.50 | 2.00 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.50 | 0.75 | 1.00 |
| 3-mth T-Bill Rate | 2.35 | 2.08 | 1.84 | 0.21 | 0.15 | 0.10 | 0.10 | 0.10 | 0.25 | 0.50 | 0.75 | 1.00 |
| 2-yr Govt. Bond Yield | 2.27 | 1.75 | 1.63 | 0.36 | 0.45 | 0.60 | 0.80 | 1.00 | 1.20 | 1.40 | 1.60 | 1.70 |
| 5-yr Govt. Bond Yield | 2.23 | 1.76 | 1.55 | 0.49 | 0.55 | 0.70 | 0.90 | 1.10 | 1.30 | 1.50 | 1.70 | 1.80 |
| 10-yr Govt. Bond Yield | 2.41 | 2.00 | 1.68 | 0.72 | 0.70 | 0.85 | 1.05 | 1.25 | 1.45 | 1.65 | 1.85 | 1.95 |
| 30-yr Govt. Bond Yield | 2.81 | 2.52 | 2.12 | 1.28 | 0.95 | 1.10 | 1.30 | 1.50 | 1.70 | 1.90 | 2.10 | 2.20 |
| 10-yr-2-yr Govt Spread | 0.14 | 0.25 | 0.05 | 0.36 | 0.25 | 0.36 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 |
| **Canada-U.S. Spreads** | | | | | | | | | | | | |
| Can - U.S. T-Bill Spread | -0.68 | -0.42 | -0.19 | 0.25 | 0.25 | 0.25 | 0.05 | 0.05 | -0.10 | -0.22 | -0.22 | -0.22 |
| Can - U.S. 10-Year Bond Spread | -0.79 | -0.54 | -0.31 | 0.06 | -0.05 | 0.06 | -0.15 | -0.20 | -0.20 | -0.20 | -0.25 | -0.20 |

F: Forecast by TD Economics as at March 2020. All forecasts are end-of-period.
Source: Bloomberg, Bank of Canada, Federal Reserve, TD Economics. *Spot rates as at March 16, 2020 with the exception of policy rates.

| Foreign Exchange Outlook | | 2019 | | | | 2020 | | | | 2021 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Currency | Exchange rate | Q1 | Q2 | Q3 | Q4 | Q1F | 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 | 1.09 | 1.08 | 1.09 | 1.10 | 1.11 | 1.12 | 1.13 | 1.14 |
| UK pound | USD per GBP | 1.30 | 1.27 | 1.23 | 1.23 | 1.21 | 1.20 | 1.22 | 1.24 | 1.26 | 1.28 | 1.30 | 1.32 |
| Japanese yen | JPY per USD | 111 | 108 | 108 | 106 | 105 | 102 | 103 | 104 | 104 | 103 | 103 | 102 |
| Chinese renminbi | CNY per USD | 6.71 | 6.87 | 7.15 | 6.99 | 7.00 | 6.95 | 6.90 | 6.85 | 6.80 | 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 | 0.71 | 0.73 | 0.74 | 0.75 | 0.76 | 0.77 | 0.77 |
| Euro | CAD per EUR | 1.50 | 1.49 | 1.44 | 1.57 | 1.53 | 1.51 | 1.50 | 1.50 | 1.49 | 1.48 | 1.47 | 1.48 |
| UK pound | CAD per GBP | 1.74 | 1.66 | 1.63 | 1.72 | 1.69 | 1.68 | 1.68 | 1.69 | 1.69 | 1.69 | 1.69 | 1.72 |
| Japanese yen | JPY per CAD | 82.8 | 82.4 | 81.6 | 75.5 | 75.0 | 72.9 | 74.6 | 76.5 | 77.2 | 78.0 | 78.8 | 78.7 |
| Chinese renminbi | CNY per CAD | 5.03 | 5.25 | 5.40 | 4.99 | 5.00 | 4.96 | 5.00 | 5.03 | 5.07 | 5.15 | 5.23 | 5.23 |

F: Forecast by TD Economics as at March 2020. All forecasts are end-of-period.
Source: Bloomberg, Bank of Canada, Federal Reserve, TD Economics. * Spot rates as at March 16, 2020.

| Commodity Price Outlook | 2019 | | | | 2020 | | | | 2021 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | Q1F | Q2F | Q3F | Q4F | Q1F | Q2F | Q3F | Q4F |
| Crude Oil (WTI, $US/bbl) | 55 | 60 | 56 | 57 | 47 | 33 | 38 | 45 | 49 | 50 | 51 | 52 |
| Natural Gas ($US/MMBtu) | 2.92 | 2.56 | 2.38 | 2.40 | 1.90 | 1.85 | 2.20 | 2.30 | 2.40 | 2.41 | 2.42 | 2.44 |
| Gold ($US/troy oz.) | 1303 | 1307 | 1473 | 1482 | 1580 | 1650 | 1650 | 1575 | 1550 | 1525 | 1500 | 1475 |
| Silver ($US/troy oz.) | 15.58 | 14.91 | 17.02 | 17.34 | 17.00 | 15.50 | 15.50 | 15.47 | 15.46 | 15.46 | 15.45 | 15.44 |
| Copper (cents/lb) | 282 | 278 | 263 | 267 | 259 | 240 | 260 | 270 | 262 | 260 | 261 | 263 |
| Nickel ($US/lb) | 5.60 | 5.56 | 7.05 | 6.99 | 5.80 | 5.75 | 6.24 | 6.35 | 6.69 | 6.80 | 7.03 | 7.26 |
| Aluminum (cents/lb) | 84 | 81 | 80 | 80 | 77 | 74 | 78 | 78 | 78 | 78 | 77 | 77 |
| Wheat ($US/bu) | 7.08 | 6.36 | 6.14 | 6.77 | 6.60 | 6.40 | 6.64 | 6.74 | 6.76 | 6.78 | 6.79 | 6.81 |

F: Forecast by TD Economics as at March 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 | Q1F | Q2F | Q3F | Q4F | Q1F | Q2F | Q3F | Q4F | 19 | 20F | 21F | 19 | 20F | 21F |
| **Real GDP** | 1.0 | 3.4 | 1.1 | 0.3 | -0.6 | -3.3 | 2.8 | 3.0 | 2.4 | 2.3 | 1.8 | 1.9 | 1.6 | 0.2 | 2.1 | 1.5 | 0.5 | 2.1 |
| **Consumer Expenditure** | 2.4 | 0.4 | 2.0 | 2.0 | 0.9 | -4.4 | 3.6 | 3.0 | 2.1 | 1.9 | 1.7 | 1.6 | 1.6 | 0.6 | 1.9 | 1.7 | 0.7 | 1.8 |
| Durable Goods | 4.8 | -2.6 | 1.4 | -0.2 | 1.6 | -4.0 | 4.5 | 2.0 | 1.8 | 2.0 | 1.9 | 1.9 | 0.6 | 0.3 | 1.8 | 0.8 | 1.0 | 1.9 |
| **Business Investment** | 11.6 | -6.2 | 5.3 | -5.8 | 3.1 | -5.1 | -2.8 | 4.2 | 3.4 | 5.0 | 4.4 | 4.6 | -0.8 | -1.2 | 2.7 | 0.9 | -0.2 | 4.3 |
| Non-Res. Structures | 4.4 | 4.3 | 11.2 | -1.7 | 2.7 | -6.4 | -3.8 | 4.5 | 3.0 | 4.5 | 3.9 | 4.2 | 0.9 | 0.5 | 2.3 | 4.5 | -0.9 | 3.9 |
| Equipment & IPP* | 19.0 | -15.8 | -0.6 | -10.2 | 3.5 | -3.5 | -1.7 | 3.8 | 3.9 | 5.5 | 4.9 | 5.0 | -2.5 | -2.9 | 3.2 | -2.7 | 0.5 | 4.8 |
| **Residential Investment** | -3.1 | 6.4 | 13.0 | 1.1 | 2.5 | 0.0 | 4.3 | 6.0 | 4.8 | 3.9 | 3.5 | 3.3 | -0.6 | 3.7 | 4.2 | 4.2 | 3.2 | 3.9 |
| **Govt. Expenditure** | 2.8 | 0.7 | 2.1 | 0.5 | 1.4 | 1.4 | 1.2 | 1.1 | 1.0 | 1.1 | 1.1 | 1.2 | 1.6 | 1.2 | 1.1 | 1.5 | 1.3 | 1.1 |
| **Final Domestic Demand** | 3.1 | 0.1 | 3.1 | 0.7 | 1.3 | -2.7 | 2.3 | 2.9 | 2.2 | 2.2 | 1.9 | 1.9 | 1.2 | 0.8 | 2.0 | 1.8 | 0.9 | 2.0 |
| **Exports** | -4.0 | 10.6 | -0.6 | -5.1 | -5.3 | 1.0 | 3.4 | 3.3 | 3.5 | 3.3 | 3.1 | 3.1 | 1.2 | -1.0 | 3.2 | 0.0 | 0.5 | 3.3 |
| **Imports** | 8.3 | -4.1 | -0.2 | -2.5 | -2.9 | 1.5 | 2.4 | 2.5 | 2.6 | 3.0 | 3.3 | 3.3 | 0.3 | -0.8 | 2.7 | 0.3 | 0.8 | 3.1 |
| **Change in Non-farm Inventories (2012 $Bn)** | 21.3 | 14.9 | 3.8 | 7.9 | 4.5 | 2.2 | 3.3 | 3.0 | 3.0 | 3.0 | 2.8 | 2.8 | 12.0 | 3.2 | 2.9 | -- | -- | -- |
| **Final Sales** | 1.2 | 1.5 | 5.1 | 0.1 | 2.5 | -2.3 | 2.1 | 2.9 | 2.2 | 2.2 | 2.0 | 1.9 | 1.1 | 1.4 | 2.0 | 2.0 | 1.3 | 2.1 |
| **International Current Account Balance ($Bn)** | -69.4 | -33.7 | -43.5 | -35.0 | -49.5 | -69.4 | -63.1 | -61.0 | -61.1 | -61.6 | -62.9 | -64.3 | -45.4 | -60.8 | -62.5 | -- | -- | -- |
| % of GDP | -3.1 | -1.5 | -1.9 | -1.5 | -2.1 | -3.0 | -2.7 | -2.6 | -2.6 | -2.5 | -2.6 | -2.6 | -2.0 | -2.6 | -2.6 | -- | -- | -- |
| **Pre-tax Corp. Profits** | 9.1 | 40.4 | -19.3 | 1.6 | -8.5 | -30.0 | 15.0 | 20.0 | 18.0 | 13.0 | 4.0 | 3.7 | 0.3 | -6.1 | 10.6 | 5.8 | -3.0 | 9.5 |
| % of GDP | 12.3 | 13.1 | 12.4 | 12.3 | 12.0 | 11.1 | 11.4 | 11.8 | 12.1 | 12.4 | 12.4 | 12.4 | 12.5 | 11.6 | 12.3 | -- | -- | -- |
| **GDP Deflator (y/y)** | 1.1 | 1.9 | 1.4 | 3.3 | 2.2 | 0.8 | 1.2 | 0.8 | 1.2 | 2.1 | 2.0 | 1.9 | 1.9 | 1.3 | 1.8 | 3.3 | 0.8 | 1.9 |
| **Nominal GDP** | 5.7 | 8.2 | 1.3 | 4.5 | -0.5 | -4.6 | 5.1 | 5.6 | 4.2 | 4.3 | 3.9 | 3.9 | 3.6 | 1.4 | 4.0 | 4.9 | 1.3 | 4.1 |
| **Labour Force** | 3.4 | 1.7 | 1.4 | 0.7 | 0.9 | 0.3 | 0.6 | 1.2 | 1.1 | 0.9 | 0.8 | 0.7 | 1.9 | 0.8 | 0.9 | 1.8 | 0.7 | 0.9 |
| **Employment** | 3.0 | 2.6 | 1.1 | 0.5 | 1.1 | -1.1 | 0.2 | 1.1 | 1.4 | 1.1 | 1.0 | 0.9 | 2.1 | 0.5 | 0.9 | 1.8 | 0.3 | 1.1 |
| **Change in Empl. ('000s)** | 141 | 121 | 54 | 23 | 51 | -55 | 11 | 50 | 68 | 53 | 47 | 44 | 391 | 101 | 172 | 340 | 56 | 213 |
| **Unemployment Rate (%)** | 5.8 | 5.6 | 5.6 | 5.7 | 5.6 | 6.0 | 6.1 | 6.1 | 6.0 | 6.0 | 6.0 | 5.9 | 5.7 | 6.0 | 6.0 | -- | -- | -- |
| **Personal Disp. Income** | 4.4 | 7.2 | 2.2 | 5.2 | 4.8 | 2.8 | 3.0 | 4.0 | 3.8 | 3.6 | 3.5 | 3.5 | 4.4 | 4.0 | 3.6 | 4.7 | 3.6 | 3.6 |
| **Pers. Savings Rate (%)** | 2.1 | 3.0 | 2.8 | 3.0 | 3.6 | 5.0 | 4.8 | 4.4 | 4.4 | 4.3 | 4.2 | 4.1 | 2.7 | 4.4 | 4.2 | -- | -- | -- |
| **Cons. Price Index (y/y)** | 1.7 | 2.2 | 1.9 | 2.1 | 2.0 | 1.3 | 1.4 | 1.6 | 1.6 | 2.0 | 2.0 | 2.0 | 2.0 | 1.6 | 1.9 | 2.1 | 1.6 | 2.0 |
| **CPIX (y/y)**** | 1.5 | 1.9 | 1.9 | 1.8 | 1.8 | 1.7 | 1.7 | 1.8 | 1.9 | 1.9 | 2.0 | 2.0 | 1.8 | 1.8 | 1.9 | 1.8 | 1.8 | 2.0 |
| **BoC Inflation ( y/y)***** | 1.9 | 2.0 | 2.1 | 2.1 | 2.0 | 1.9 | 1.8 | 1.9 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 1.9 | 2.0 | 2.1 | 1.9 | 2.0 |
| **Housing Starts ('000s)** | 187 | 224 | 223 | 202 | 208 | 193 | 207 | 206 | 210 | 213 | 217 | 215 | 209 | 204 | 213 | -- | -- | -- |
| **Home Prices (y/y)** | -3.8 | 1.4 | 4.1 | 7.6 | 14.2 | 9.3 | 7.2 | 6.2 | 4.2 | 5.1 | 3.2 | 2.6 | 2.3 | 9.1 | 3.8 | 7.6 | 6.2 | 2.6 |
| **Real GDP / worker (y/y)** | -0.4 | -0.4 | -0.6 | -0.3 | -0.2 | -1.0 | -0.3 | 0.2 | 0.8 | 1.7 | 1.2 | 1.0 | -0.4 | -0.3 | 1.2 | -0.3 | 0.2 | 1.0 |

F: Forecast by TD Economics as at March 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<br>*Period-Over-Period Annualized Per Cent Change Unless Otherwise Indicated* | | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2019** | | | | **2020** | | | | **2021** | | | | **Annual Average** | | | **4th Qtr/4th Qtr** | | |
| | **Q1** | **Q2** | **Q3** | **Q4** | **Q1F** | **Q2F** | **Q3F** | **Q4F** | **Q1F** | **Q2F** | **Q3F** | **Q4F** | **19** | **20F** | **21F** | **19** | **20F** | **21F** |
| **Real GDP** | 3.1 | 2.0 | 2.1 | 2.1 | 1.1 | -3.2 | 2.9 | 3.1 | 2.3 | 2.2 | 2.1 | 2.0 | 2.3 | 1.0 | 2.1 | 2.3 | 0.9 | 2.2 |
| **Consumer Expenditure** | 1.1 | 4.6 | 3.1 | 1.7 | 1.3 | -4.4 | 3.9 | 3.2 | 2.1 | 2.0 | 2.0 | 2.0 | 2.6 | 1.1 | 2.1 | 2.6 | 0.9 | 2.0 |
| Durable Goods | 0.3 | 13.0 | 8.1 | 2.6 | 1.3 | -9.4 | 9.5 | 6.2 | 4.7 | 3.6 | 3.1 | 3.3 | 4.8 | 2.2 | 4.1 | 5.9 | 1.6 | 3.7 |
| **Business Investment** | 4.4 | -1.0 | -2.3 | -2.3 | -1.2 | -5.7 | 2.8 | 3.4 | 3.4 | 3.3 | 3.4 | 3.5 | 2.1 | -1.6 | 2.7 | -0.3 | -0.2 | 3.4 |
| Non-Res. Structures | 4.0 | -11.1 | -9.9 | -8.1 | -5.7 | -10.3 | 1.7 | 2.1 | 2.3 | 2.2 | 2.5 | 2.9 | -4.3 | -6.6 | 1.4 | -6.5 | -3.2 | 2.5 |
| Equipment & IPP* | 4.6 | 2.1 | -0.1 | -0.7 | 0.1 | -4.4 | 3.0 | 3.7 | 3.7 | 3.7 | 3.7 | 3.7 | 4.0 | -0.2 | 3.1 | 1.4 | 0.6 | 3.7 |
| **Residential Investment** | -1.1 | -2.9 | 4.6 | 6.1 | 14.1 | -3.5 | 1.3 | 2.5 | 2.3 | 1.6 | 1.3 | 1.3 | -1.5 | 4.5 | 1.5 | 1.6 | 3.4 | 1.6 |
| **Govt. Expenditure** | 2.9 | 4.8 | 1.7 | 2.6 | 2.5 | 3.8 | 0.9 | 0.6 | 0.2 | 0.3 | 0.3 | 0.3 | 2.3 | 2.5 | 0.6 | 3.0 | 1.9 | 0.3 |
| **Final Domestic Demand** | 1.8 | 3.6 | 2.2 | 1.5 | 1.6 | -3.2 | 3.1 | 2.7 | 2.0 | 1.9 | 1.8 | 1.9 | 2.3 | 1.1 | 1.9 | 2.3 | 1.0 | 1.9 |
| **Exports** | 4.2 | -5.7 | 0.9 | 2.1 | -0.6 | 1.1 | 4.7 | 7.3 | 4.2 | 3.7 | 3.8 | 3.7 | 0.0 | 1.2 | 4.5 | 0.3 | 3.1 | 3.9 |
| **Imports** | -1.5 | 0.0 | 1.8 | -8.6 | 1.3 | 2.6 | 3.5 | 3.7 | 3.9 | 3.8 | 3.8 | 3.8 | 1.0 | 0.0 | 3.7 | -2.2 | 2.8 | 3.8 |
| **Change in Private** | | | | | | | | | | | | | | | | | | |
| **Inventories** | 116.0 | 69.4 | 69.4 | 13.0 | -1.1 | 12.6 | -3.7 | -6.0 | 10.0 | 28.3 | 45.0 | 54.4 | 67.0 | 0.4 | 34.4 | -- | -- | -- |
| **Final Sales** | 2.6 | 3.0 | 2.1 | 3.1 | 1.4 | -3.5 | 3.2 | 3.1 | 2.0 | 1.8 | 1.8 | 1.8 | 2.2 | 1.3 | 1.9 | 2.7 | 1.0 | 1.8 |
| **International Current** | | | | | | | | | | | | | | | | | | |
| **Account Balance ($Bn)** | -545 | -501 | -496 | -453 | -416 | -358 | -310 | -284 | -305 | -335 | -370 | -407 | -499 | -342 | -354 | -- | -- | -- |
| % of GDP | -2.6 | -2.3 | -2.3 | -2.1 | -1.9 | -1.7 | -1.4 | -1.3 | -1.4 | -1.5 | -1.6 | -1.7 | -2.3 | -1.6 | -1.5 | -- | -- | -- |
| **Pre-tax Corporate Profits** | | | | | | | | | | | | | | | | | | |
| **including IVA&CCA** | -14.3 | 16.0 | -0.9 | -4.9 | -5.3 | -23.8 | 22.2 | 14.9 | 10.5 | 6.9 | 5.6 | 5.1 | -0.9 | -3.1 | 8.5 | -1.6 | 0.3 | 7.0 |
| % of GDP | 9.5 | 9.8 | 9.6 | 9.4 | 9.3 | 8.7 | 9.1 | 9.3 | 9.4 | 9.4 | 9.5 | 9.5 | 9.6 | 9.1 | 9.4 | -- | -- | -- |
| **GDP Deflator (y/y)** | 2.0 | 1.8 | 1.7 | 1.6 | 1.5 | 1.0 | 1.0 | 1.2 | 1.8 | 2.4 | 2.5 | 2.6 | 1.8 | 1.2 | 2.3 | 1.6 | 1.2 | 2.6 |
| **Nominal GDP** | 3.9 | 4.7 | 3.8 | 3.5 | 1.7 | -2.9 | 4.8 | 5.1 | 5.3 | 4.9 | 4.7 | 4.5 | 4.1 | 2.2 | 4.5 | 4.0 | 2.1 | 4.8 |
| **Labor Force** | 0.6 | -0.5 | 2.4 | 1.6 | 0.3 | 1.3 | 0.2 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.9 | 0.9 | 0.5 | 1.0 | 0.6 | 0.5 |
| **Employment** | 1.3 | 1.1 | 1.5 | 1.6 | 1.3 | 0.4 | 0.2 | 0.5 | 0.9 | 0.8 | 0.7 | 0.6 | 1.4 | 1.0 | 0.7 | 1.4 | 0.6 | 0.7 |
| **Change in Empl. ('000s)** | 485 | 425 | 551 | 616 | 491 | 152 | 95 | 209 | 326 | 307 | 267 | 238 | 2,042 | 1,548 | 991 | 2,077 | 947 | 1,138 |
| **Unemployment Rate (%)** | 3.9 | 3.6 | 3.6 | 3.5 | 3.5 | 4.0 | 3.9 | 3.8 | 3.8 | 3.7 | 3.7 | 3.7 | 3.7 | 3.8 | 3.7 | -- | -- | -- |
| **Personal Disp. Income** | 4.9 | 3.9 | 3.6 | 3.0 | 4.4 | 1.0 | 2.4 | 3.0 | 5.0 | 5.1 | 4.7 | 4.3 | 4.3 | 3.0 | 4.0 | 3.9 | 2.7 | 4.8 |
| **Pers. Savings Rate (%)** | 8.5 | 7.8 | 7.7 | 7.7 | 8.4 | 9.8 | 9.1 | 8.5 | 8.4 | 8.5 | 8.5 | 8.5 | 7.9 | 8.9 | 8.5 | -- | -- | -- |
| **Cons. Price Index (y/y)** | 1.6 | 1.8 | 1.8 | 2.0 | 1.7 | 0.3 | 0.5 | 0.7 | 1.9 | 3.4 | 3.4 | 3.3 | 1.8 | 0.8 | 3.0 | 2.0 | 0.7 | 3.3 |
| **Core CPI (y/y)** | 2.1 | 2.1 | 2.3 | 2.3 | 2.0 | 1.8 | 1.5 | 1.5 | 1.9 | 2.4 | 2.6 | 2.8 | 2.2 | 1.7 | 2.4 | 2.3 | 1.5 | 2.8 |
| **Core PCE Price Index (y/y)** | 1.6 | 1.6 | 1.7 | 1.6 | 1.5 | 1.2 | 1.1 | 1.2 | 1.7 | 2.1 | 2.4 | 2.6 | 1.6 | 1.2 | 2.2 | 1.6 | 1.2 | 2.6 |
| **Housing Starts (mns)** | 1.21 | 1.26 | 1.28 | 1.45 | 1.45 | 1.36 | 1.38 | 1.39 | 1.39 | 1.39 | 1.38 | 1.38 | 1.30 | 1.39 | 1.38 | -- | -- | -- |
| **Real Output per hour** (y/y)** | 1.9 | 2.0 | 1.6 | 1.8 | 1.0 | -0.2 | 0.6 | 0.8 | 1.1 | 2.1 | 1.8 | 1.7 | 1.8 | 0.5 | 1.7 | 1.8 | 0.8 | 1.7 |

F: Forecast by TD Economics as at March 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 | | |
| | 2018 | 2019 | 2020 | 2021 |
| **Real GDP (annual per cent change)** | | | | |
| **G7 (30.1%)*** | 2.0 | 1.6 | 0.0 | 1.9 |
| U.S. | 2.9 | 2.3 | 1.0 | 2.1 |
| Japan | 0.3 | 0.7 | -1.4 | 1.1 |
| Euro Area | 1.9 | 1.2 | -1.6 | 2.5 |
| Germany | 1.5 | 0.6 | -0.5 | 2.1 |
| France | 1.7 | 1.3 | -1.5 | 1.9 |
| Italy | 0.7 | 0.3 | -2.9 | 2.0 |
| United Kingdom | 1.3 | 1.4 | -0.7 | 2.4 |
| Canada | 2.0 | 1.6 | 0.2 | 2.1 |
| **Consumer Price Index (annual per cent change)** | | | | |
| **G7** | 2.1 | 1.5 | 0.7 | 2.3 |
| U.S. | 2.4 | 1.8 | 0.8 | 3.0 |
| Japan | 1.0 | 0.5 | 0.1 | 1.3 |
| Euro Area | 1.8 | 1.2 | 0.7 | 1.3 |
| Germany | 2.0 | 1.3 | 0.9 | 1.7 |
| France | 2.1 | 1.3 | 0.8 | 1.6 |
| Italy | 1.2 | 0.6 | 0.0 | 1.3 |
| United Kingdom | 2.5 | 1.8 | 1.3 | 1.9 |
| Canada | 2.2 | 2.0 | 1.6 | 1.9 |
| **Unemployment Rate (per cent annual averages)** | | | | |
| U.S. | 3.9 | 3.7 | 3.8 | 3.7 |
| Japan | 2.4 | 2.4 | 2.7 | 2.6 |
| Euro Area | 8.2 | 7.6 | 7.8 | 7.7 |
| Germany | 5.2 | 5.0 | 5.3 | 5.1 |
| France | 9.0 | 8.5 | 8.7 | 8.5 |
| Italy | 10.6 | 10.0 | 10.6 | 10.2 |
| United Kingdom | 4.0 | 3.8 | 4.1 | 3.9 |
| Canada | 5.8 | 5.7 | 6.0 | 6.0 |

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

Forecast as at March 2020

Source: National statistics agencies, TD Economics.

| Global Economic Outlook | | | | | |
|---|---|---|---|---|---|
| *Annual Per Cent Change Unless Otherwise Indicated* | | | | | |
| | 2018 Share* | | Forecast | | |
| **Real GDP** | **(%)** | **2018** | **2019** | **2020** | **2021** |
| **World** | 100.0 | 3.6 | 2.9 | 1.7 | 4.0 |
| **North America** | 18.5 | 2.8 | 2.0 | 0.8 | 2.1 |
| United States | 15.2 | 2.9 | 2.3 | 1.0 | 2.1 |
| Canada | 1.4 | 2.0 | 1.6 | 0.2 | 2.1 |
| Mexico | 1.9 | 2.1 | -0.1 | -0.1 | 2.1 |
| **European Union (EU-28)** | 16.3 | 2.0 | 1.4 | -1.4 | 2.5 |
| Euro Area (EU-19) | 11.4 | 1.9 | 1.2 | -1.6 | 2.5 |
| Germany | 3.2 | 1.5 | 0.6 | -0.5 | 2.1 |
| France | 2.2 | 1.7 | 1.3 | -1.5 | 1.9 |
| Italy | 1.8 | 0.7 | 0.3 | -2.9 | 2.0 |
| United Kingdom | 2.2 | 1.3 | 1.4 | -0.7 | 2.4 |
| EU accession members | 2.6 | 4.0 | 3.1 | -0.4 | 2.8 |
| **Asia** | 45.0 | 5.1 | 4.5 | 3.3 | 5.6 |
| Japan | 4.1 | 0.3 | 0.7 | -1.4 | 1.1 |
| Asian NIC's | 3.4 | 2.8 | 1.7 | 1.2 | 3.6 |
| Hong Kong | 0.4 | 2.9 | -1.2 | -2.5 | 3.8 |
| Korea | 1.7 | 2.7 | 2.0 | 1.6 | 3.8 |
| Singapore | 0.4 | 3.5 | 0.7 | 0.8 | 3.0 |
| Taiwan | 0.9 | 2.7 | 2.7 | 2.1 | 3.6 |
| Russia | 3.1 | 2.2 | 1.3 | 1.3 | 1.9 |
| Australia & New Zealand | 1.1 | 2.8 | 1.9 | 1.2 | 2.5 |
| Emerging Asia | 33.2 | 6.3 | 5.7 | 4.3 | 6.8 |
| ASEAN-5 | 5.5 | 5.3 | 4.8 | 3.9 | 5.2 |
| China | 18.7 | 6.8 | 6.1 | 4.1 | 7.3 |
| India** | 7.7 | 6.1 | 5.2 | 5.0 | 6.7 |
| **Central/South America** | 5.6 | 0.3 | -0.2 | 0.3 | 2.3 |
| Brazil | 2.5 | 1.3 | 1.1 | 0.8 | 2.4 |
| **Other Emerging Markets** | 13.6 | 2.5 | 1.5 | 2.0 | 3.6 |
| **Other Advanced** | 1.1 | 2.6 | 1.7 | 1.4 | 2.2 |

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

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

Source: IMF, TD Economics.