

# Long-Term Economic Forecast

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## United States

- A pandemic-induced 3.5% contraction in economic growth in 2020 will be more than offset by an impressive 5.6% rebound this year. And, the boost from fiscal policy may not yet be done. It is likely that the Biden administration will enact more spending on infrastructure and other measures, keeping U.S. growth above trend through 2023.
- The pandemic lifted the unemployment rate to an historic level, but it has since made notable progress. Unfortunately, this masks underlying concerns, as a large number of people have dropped out of the labor force, and improvement has been halting. We expect that above-trend growth will push the unemployment rate below its pre-pandemic low in 2023.
- Labor force growth has also taken a hit from reduced immigration during the pandemic and the implementation of policies under the previous administration. A return of immigration levels to more historical levels is anticipated over the next few years, helping to boost labor force growth over the forecast horizon.
- In the face of the crisis, the FOMC took its policy rate to the zero-lower bound, and enacted substantial monetary stimulus. We expect the FOMC to raise the policy rate in late-2022, and reach 2.0% in mid-2024, where it is expected to remain over the forecast horizon.

## Canada

- After a difficult second quarter, reopening of the economy is setting the stage for a solid pick up in economic growth in the third quarter. While the Delta variant poses a risk in the fourth, mitigating measures such as vaccine passport should keep the economy on the road to recovery.
- As we get past the fourth wave, strong economic momentum will likely flow through to 2022. GDP growth is anticipated to reach 4.4% as the economy continues to rebuild and is aided by fiscal stimulus from both federal and provincial governments. This will contribute to a continual improvement of the unemployment rate through the year.
- Given the ongoing recovery and rising inflation, the Bank of Canada will continue to taper the asset purchases program later this year and move onto the reinvestment phase early next year. As for the overnight rate, we expect the Bank will raise rates in the second half of 2022, with a risk of an earlier lift off should inflation and risk-assets remain elevated.

U.S. Economic Outlook														
Period-Over-Period Annualized Per Cent Change Unless Otherwise Indicated														
Economic Indicator	Annual Average							Fourth Quarter / Fourth Quarter						
	21F	22F	23F	24F	25F	26F	27F	21F	22F	23F	24F	25F	26F	27F
<b>Real GDP</b>	5.6	4.1	2.6	1.9	1.7	1.6	1.5	5.2	3.5	2.3	1.8	1.7	1.5	1.4
<b>Consumer Expenditure</b>	7.7	2.9	2.3	1.9	1.9	1.9	1.9	6.5	2.5	2.1	1.9	1.9	1.9	1.9
Durable Goods	18.0	-2.4	1.1	2.1	3.2	3.4	3.5	6.2	0.5	1.5	2.6	3.4	3.5	3.5
<b>Business Investment</b>	7.7	5.9	4.1	2.9	2.4	2.2	2.0	7.9	5.4	3.6	2.6	2.3	2.1	2.0
Non-Res. Structures	-7.1	0.6	1.4	3.3	3.7	2.9	2.0	0.8	0.6	2.2	3.8	3.5	2.4	1.9
Equipment & IPP*	11.7	7.2	4.7	2.8	2.1	2.0	2.1	9.6	6.5	3.8	2.4	2.1	2.0	2.1
<b>Residential Investment</b>	8.8	-2.7	0.1	0.0	0.3	0.4	0.4	-3.0	0.0	0.0	0.1	0.4	0.4	0.4
<b>Govt. Expenditure</b>	1.0	1.7	1.4	1.1	0.9	0.9	0.6	1.6	1.7	1.5	0.9	1.0	0.7	0.6
<b>Final Domestic Demand</b>	6.5	2.8	2.3	1.9	1.7	1.7	1.7	5.4	2.6	2.1	1.7	1.7	1.7	1.6
<b>Exports</b>	4.7	6.9	7.0	5.0	4.0	3.6	3.6	3.7	7.5	6.2	4.5	3.7	3.6	3.6
<b>Imports</b>	12.0	4.6	5.0	3.7	3.3	3.4	3.6	3.9	6.4	4.4	3.4	3.3	3.5	3.6
<b>Change in Private Inventories</b>	-90.5	92.0	132.7	126.7	114.6	97.7	70.0	---	---	---	---	---	---	---
<b>Final Sales</b>	5.6	3.0	2.4	1.9	1.8	1.7	1.6	5.4	2.6	2.2	1.8	1.8	1.6	1.6
<b>International Current Account Balance (\$Bn)</b>	-721	-667	-660	-568	-485	-414	-365	---	---	---	---	---	---	---
% of GDP	-3.1	-2.7	-2.6	-2.1	-1.7	-1.4	-1.2	---	---	---	---	---	---	---
<b>Pre-tax Corporate Profits including IVA&amp;CCA</b>	19.2	4.1	0.9	1.6	2.3	2.8	2.2	11.5	2.8	1.3	2.0	2.6	2.7	2.0
% of GDP	11.7	11.3	10.9	10.6	10.4	10.3	10.1	---	---	---	---	---	---	---
<b>GDP Deflator (y/y)</b>	3.9	3.2	2.2	2.3	2.4	2.3	2.2	4.9	2.3	2.2	2.4	2.4	2.3	2.2
<b>Nominal GDP</b>	9.7	7.4	4.9	4.3	4.1	4.0	3.7	10.4	5.9	4.5	4.2	4.1	3.9	3.7
<b>Labor Force</b>	0.4	2.0	1.3	0.8	0.7	0.7	0.7	1.2	1.8	1.0	0.7	0.7	0.7	0.6
<b>Employment</b>	2.7	3.7	1.6	0.7	0.4	0.4	0.5	4.1	3.0	1.0	0.5	0.4	0.4	0.5
<b>Change in Empl. ('000s)</b>	3,789	5,437	2,494	1,049	652	628	712	5,907	4,418	1,494	849	612	653	763
<b>Unemployment Rate (%)</b>	5.6	4.0	3.4	3.4	3.6	3.8	3.9	---	---	---	---	---	---	---
<b>Personal Disp. Income</b>	4.9	-0.4	5.0	4.8	4.6	4.4	4.2	2.9	4.4	4.9	4.7	4.5	4.3	4.2
<b>Pers. Savings Rate (%)</b>	11.5	6.1	6.7	7.4	7.9	8.3	8.5	---	---	---	---	---	---	---
<b>Cons. Price Index (y/y)</b>	4.3	3.0	2.2	2.1	2.1	2.1	2.1	5.1	2.2	2.1	2.2	2.1	2.1	2.1
<b>Core CPI (y/y)</b>	3.4	3.4	2.5	2.4	2.4	2.3	2.2	4.4	2.7	2.4	2.4	2.4	2.3	2.2
<b>Core PCE Price Index (y/y)</b>	3.2	3.0	2.3	2.2	2.2	2.1	2.0	4.0	2.5	2.2	2.2	2.2	2.1	2.0
<b>Housing Starts (mns)</b>	1.57	1.50	1.48	1.47	1.47	1.47	1.47	---	---	---	---	---	---	---
<b>Real Output per hour** (y/y)</b>	1.8	0.8	1.4	1.8	1.7	1.5	1.2	1.5	0.8	1.8	1.8	1.6	1.4	1.1

\*Intellectual property products. F: Forecast by TD Economics as at September 2021.

\*\*Non-farm business sector.

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

Canadian Economic Outlook														
Period-Over-Period Annualized Per Cent Change Unless Otherwise Indicated														
Economic Indicator	Annual Average							4th Quarter / 4th Quarter						
	21F	22F	23F	24F	25F	26F	27F	21F	22F	23F	24F	25F	26F	27F
<b>Real GDP</b>	4.9	4.4	2.8	1.7	1.7	1.7	1.7	3.2	4.6	2.0	1.6	1.7	1.7	1.7
<b>Consumer Expenditure</b>	4.3	4.9	3.7	1.9	1.7	1.8	1.8	3.5	5.0	2.7	1.7	1.8	1.8	1.8
Durable Goods	11.5	1.1	1.9	1.6	1.6	1.7	1.7	-1.2	2.3	1.7	1.5	1.7	1.7	1.7
<b>Business Investment</b>	1.5	7.1	5.0	2.9	2.4	2.5	2.6	5.6	6.6	4.1	2.4	2.4	2.5	2.6
Non-Res. Structures	-4.3	6.4	5.9	3.3	2.4	2.5	2.5	4.4	6.9	5.3	2.4	2.4	2.5	2.5
Equipment & IPP*	7.7	7.8	4.1	2.5	2.5	2.5	2.6	6.8	6.2	2.9	2.5	2.5	2.5	2.6
<b>Residential Investment</b>	18.8	-0.6	1.4	1.6	1.8	1.8	1.8	4.3	1.7	1.3	1.8	1.8	1.8	1.8
<b>Govt. Expenditure</b>	6.3	3.3	1.8	1.8	1.8	1.8	1.8	5.6	2.0	1.8	1.8	1.8	1.8	1.8
<b>Final Domestic Demand</b>	5.7	4.2	3.1	1.9	1.8	1.9	1.9	4.3	4.1	2.5	1.8	1.8	1.9	1.9
<b>Exports</b>	1.9	7.6	4.3	2.7	2.4	2.3	2.2	1.1	8.2	3.2	2.4	2.4	2.2	2.2
<b>Imports</b>	7.9	8.9	5.5	3.3	2.8	2.8	2.8	6.2	8.1	4.5	2.8	2.8	2.8	2.8
<b>Change in Non-farm Inventories (2012 \$Bn)</b>	3.5	15.5	18.9	19.1	19.0	19.0	19.0	--	--	--	--	--	--	--
<b>Final Sales</b>	4.7	3.6	3.0	1.9	1.8	1.9	1.9	3.9	3.5	2.5	1.8	1.8	1.9	1.9
<b>International Current Account Balance (\$Bn)</b>	14.7	17.0	7.1	3.7	3.1	1.6	-0.8	--	--	--	--	--	--	--
% of GDP	0.6	0.6	0.3	0.1	0.1	0.1	0.0	--	--	--	--	--	--	--
<b>Pre-tax Corp. Profits</b>	37.6	2.0	1.3	1.5	3.1	3.2	3.2	21.1	2.4	0.9	2.1	3.2	3.2	3.2
% of GDP	15.5	14.7	14.3	14.0	13.9	13.8	13.8	--	--	--	--	--	--	--
<b>GDP Deflator (y/y)</b>	7.4	2.6	1.9	1.9	1.9	2.0	2.0	6.8	1.9	1.9	1.9	2.0	1.9	2.0
<b>Nominal GDP</b>	12.6	7.1	4.8	3.6	3.6	3.6	3.7	10.2	6.6	4.0	3.6	3.6	3.6	3.7
<b>Labour Force</b>	2.2	1.4	0.8	0.6	0.6	0.6	0.6	0.8	1.4	0.6	0.6	0.6	0.6	0.6
<b>Employment</b>	4.5	3.0	1.3	0.5	0.6	0.6	0.6	3.1	2.4	0.8	0.4	0.6	0.6	0.6
<b>Change in Empl. ('000s)</b>	808	566	262	89	116	125	126	580	452	147	86	124	125	126
<b>Unemployment Rate (%)</b>	7.5	6.1	5.6	5.7	5.7	5.7	5.7	--	--	--	--	--	--	--
<b>Personal Disp. Income</b>	2.0	1.5	3.6	3.5	3.6	3.6	3.6	-0.1	5.3	3.2	3.6	3.6	3.6	3.6
<b>Pers. Savings Rate (%)</b>	11.0	5.4	3.2	2.9	2.7	2.6	2.4	--	--	--	--	--	--	--
<b>Cons. Price Index (y/y)</b>	3.1	2.9	2.2	2.0	2.0	2.0	2.0	4.0	2.2	2.1	2.0	2.0	2.0	2.0
<b>CPIX (y/y) **</b>	2.8	3.1	2.2	2.0	2.0	2.0	2.0	3.8	2.3	2.1	2.0	2.0	2.0	2.0
<b>BoC Inflation (y/y) **</b>	2.4	2.4	2.1	2.0	2.0	2.0	2.0	2.8	2.2	2.0	2.0	2.0	2.0	2.0
<b>Housing Starts ('000s)</b>	273	215	208	210	212	214	215	--	--	--	--	--	--	--
<b>Home Prices (y/y)</b>	20.8	1.8	0.7	0.9	1.1	1.3	1.3	12.6	1.0	0.7	0.9	1.3	1.3	1.3
<b>Real GDP / worker (y/y)</b>	0.4	1.3	1.5	1.2	1.1	1.0	1.0	0.1	2.2	1.3	1.2	1.0	1.0	1.0

F: Forecast by TD Economics as at September 2021.  
 \* Intellectual Property Products. \*\* CPIX: CPI ex. 8 most volatile components. \*\*\* BoC Inflation: avg. of CPI-trim, CPI-median, and CPI-common.  
 Home price measure shown is the CREA Composite Sale Price.  
 Sources: Statistics Canada, Bank of Canada, CMHC, CREA, TD Economics.

Interest Rate Outlook														
Interest Rates	Annual Average							End of Period						
	21F	22F	23F	24F	25F	26F	27F	21F	22F	23F	24F	25F	26F	27F
<b>U.S. FIXED INCOME</b>														
Fed Funds Target Rate (%)*	0.25	0.30	1.15	1.95	2.00	2.00	2.00	0.25	0.50	1.50	2.00	2.00	2.00	2.00
3-mth T-Bill Rate (%)	0.05	0.30	1.20	1.85	1.90	1.90	1.90	0.10	0.55	1.55	1.90	1.90	1.90	1.90
2-yr Govt. Bond Yield (%)	0.30	1.10	1.75	1.95	1.95	1.95	1.95	0.50	1.40	1.90	1.95	1.95	1.95	1.95
5-yr Govt. Bond Yield (%)	0.90	1.60	2.00	2.05	2.05	2.05	2.05	1.10	1.80	2.05	2.05	2.05	2.05	2.05
10-yr Govt. Bond Yield (%)	1.60	2.15	2.30	2.20	2.20	2.20	2.20	1.85	2.30	2.25	2.20	2.20	2.20	2.20
10-yr-2-yr Govt. Spread (%)	1.30	1.05	0.55	0.25	0.25	0.25	0.25	1.35	0.90	0.35	0.25	0.25	0.25	0.25
<b>CANADIAN FIXED INCOME</b>														
Overnight Target Rate (%)	0.25	0.30	1.15	1.75	1.75	1.75	1.75	0.25	0.50	1.50	1.75	1.75	1.75	1.75
3-mth T-Bill Rate (%)	0.15	0.35	1.25	1.75	1.75	1.75	1.75	0.18	0.63	1.63	1.75	1.75	1.75	1.75
2-yr Govt. Bond Yield (%)	0.45	1.20	1.75	1.85	1.85	1.85	1.85	0.65	1.45	1.85	1.85	1.85	1.85	1.85
5-yr Govt. Bond Yield (%)	0.95	1.55	1.90	1.95	1.95	1.95	1.95	1.10	1.75	1.95	1.95	1.95	1.95	1.95
10-yr Govt. Bond Yield (%)	1.45	2.10	2.25	2.10	2.10	2.10	2.10	1.75	2.20	2.20	2.10	2.10	2.10	2.10
10-yr-2-yr Govt. Spread (%)	1.00	0.90	0.50	0.25	0.25	0.25	0.25	1.10	0.75	0.35	0.25	0.25	0.25	0.25

\*Upper bound of target range. F: Forecast by TD Economics as at September 2021.  
Annual averages are the average of the four quarterly end-of-period forecasts.  
Source: Bank of Canada, Bloomberg, Statistics Canada, TD Economics.

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