

Quarterly Economic Forecast

The Delta Days of Summer

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This quarter's economic forecast update reflects a downgrade. The Delta variant's impact on international supply chains and domestic spending behaviors has slowed the recovery in the near-term and shifted the growth profile into 2022 as the virus ebbs and supply constraints diminish. The economic recovery should proceed uninterrupted. When coupled with persistence in price pressures, the Federal Reserve will begin tapering its asset purchases later this year. By the end of next year, with the economy likely to be encroaching on full employment, it will begin raising the federal funds rate.

This publication focuses on the numbers, but if you'd like a deeper dive into underlying issues please see our [Questions & Answers report](#) published on September 7th.

Global

- COVID-19 continues to be the primary driver of forecast revisions to the global economic outlook. Europe has handled the wave of the highly infectious Delta-variant relatively well, outperforming expectations in the first half of the year. In contrast, emerging markets with insufficient vaccine-access and healthcare infrastructures have been devastated by its effects. The COVID threat on the EM economies will persist within the near-term forecast, as the COVAX facility anticipates that it will fall short by more than 500 million doses relative to their end of 2021 delivery target.
- Compared to our June forecast, we have revised down global growth to 5.9% (6.2% previously) in 2021. The forecast for growth in 2022 is unchanged at 4.7%.
- The downward revision is partly a product of the spread of COVID-19 in Asia. China continues to pursue a zero-tolerance strategy that is forcing regional lockdowns, while South-East Asia struggles under the weight of high infection rates and the related economic disruptions. The forecast was also marked down to reflect a U.S. expansion that has underperformed high expectations. By comparison, the Eurozone proved more resilient than expected in the first half of the year, as climbing vaccination rates are allowing many countries to opt for alternative strategies to lockdowns, such as vaccine or "green" passports. Ongoing re-opening alongside persistent vaccine uptake should support growth through the rest of the year in the common currency area. The U.K. has pushed ahead with re-opening, and despite hiccups from supply and labor shortages, 2021 is poised for solid growth.

United States

- The downward adjustment to the U.S. outlook does not negate a solid rebound for 2021 of 5.6%.
- Looking ahead to 2022, growth is expected to follow through at a solid 4.1% clip as more activities normalize as the pandemic recedes. Continued above-trend growth in 2023 is expected to drive the unemployment rate slightly below its pre-pandemic low to 3.4% enabling rate hikes by the Federal Reserve.
- There is still a high degree of uncertainty around this forecast. Downside risks stem from the ongoing uncertainty created by the path of the virus and variants, along with the possibility that supply-side constraints could weigh more heavily on production and consumption. On the upside, Americans have built up a substantial cash cushion, which could drive spending higher than we assume.
- Fiscal policy presents both upside and downside risks. We assume Congress passes the Infrastructure Investment and Jobs Act, which is a mild positive through the forecast. Any misstep here would therefore present a modest disappointment. On the other hand, Democrats have even larger plans for social spending, funded by tax increases. This has not been factored into the forecast, which could present a boost to growth next year depending on the final details.

Financial

- We anticipate the Federal Reserve will maintain the current low rate environment until the final quarter of 2022. At that point, it is expected to initiate rate hiking cycles, with the federal funds rate reaching 2.00% by 2024.
- Over the coming quarters, we have government yields continue to rise. We believe this rise will be driven by three factors: First, markets will continue to solidify a higher policy path for the federal funds rate. Second, the Federal Reserve will end net-new bond purchases over the coming quarters. Third, lingering inflation will cause investors to demand higher compensation for inflation risk. Though this narrative has been our base case for some time, market pricing has focused on the negative impact of the Delta variant and not the expected growth recovery. Once we get past the current uncertainty, higher bond yields should materialize.
- The upside for major currencies is limited versus the U.S. dollar. The Canadian dollar is at fair value based on the Bank of Canada policy path and commodity prices. After a stronger initial recovery, we are expecting an economic deceleration in the Euro Area and Japan, which should weigh on these currencies. We are also less optimistic on emerging market currencies relative to the USD due to the disproportionate impact of the pandemic on these economies

U.S. Economic Outlook																		
Period-Over-Period Annualized Per Cent Change Unless Otherwise Indicated																		
Economic Indicators	2021				2022				2023				Annual Average			4th Qtr/4th Qtr		
	Q1	Q2	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	21F	22F	23F	21F	22F	23F
Real GDP	6.3	6.6	3.4	4.7	4.6	3.6	3.2	2.7	2.5	2.3	2.2	2.0	5.6	4.1	2.6	5.2	3.5	2.3
Consumer Expenditure	11.4	11.9	0.7	2.6	2.9	2.5	2.4	2.4	2.3	2.2	2.1	1.9	7.7	2.9	2.3	6.5	2.5	2.1
Durable Goods	50.0	11.3	-24.2	0.6	1.0	-0.2	-0.2	1.3	1.3	1.7	1.3	1.7	18.0	-2.4	1.1	6.2	0.5	1.5
Business Investment	12.9	9.3	0.9	8.7	6.5	5.8	5.0	4.2	4.0	3.7	3.4	3.1	7.7	5.9	4.1	7.9	5.4	3.6
Non-Res. Structures	5.4	-5.4	2.2	1.3	1.0	0.5	0.4	0.6	1.5	2.0	2.5	3.0	-7.1	0.6	1.4	0.8	0.6	2.2
Equipment & IPP*	14.8	13.0	0.7	10.5	7.8	7.1	6.0	5.0	4.6	4.1	3.6	3.1	11.7	7.2	4.7	9.6	6.5	3.8
Residential Investment	13.3	-11.5	-7.9	-4.2	-0.4	-0.2	0.2	0.3	-0.1	0.3	0.0	-0.1	8.8	-2.7	0.1	-3.0	0.0	0.0
Govt. Expenditure	4.2	-1.9	2.4	1.6	2.5	1.6	1.7	1.1	1.5	1.5	1.4	1.5	1.0	1.7	1.4	1.6	1.7	1.5
Final Domestic Demand	10.4	7.9	0.6	2.9	3.1	2.6	2.5	2.3	2.3	2.2	2.0	1.9	6.5	2.8	2.3	5.4	2.6	2.1
Exports	-2.9	6.6	4.1	7.2	7.3	7.4	7.4	7.8	7.3	6.4	6.0	5.3	4.7	6.9	7.0	3.7	7.5	6.2
Imports	9.3	6.7	-1.0	0.8	6.9	7.2	6.0	5.3	5.0	4.4	4.1	3.9	12.0	4.6	5.0	3.9	6.4	4.4
Change in Private Inventories	-88.3	-169.4	-75.0	-29.4	38.6	86.8	116.6	126.0	131.5	132.6	134.1	132.6	-90.5	92.0	132.7	--	--	--
Final Sales	9.1	7.9	1.2	3.6	3.1	2.5	2.5	2.5	2.4	2.3	2.2	2.0	5.6	3.0	2.4	5.4	2.6	2.2
International Current Account Balance (\$Bn)	-783	-763	-712	-625	-637	-666	-680	-684	-681	-670	-655	-634	-721	-667	-660	--	--	--
% of GDP	-3.6	-3.4	-3.1	-2.6	-2.6	-2.7	-2.7	-2.7	-2.7	-2.6	-2.5	-2.4	-3.1	-2.7	-2.6	--	--	--
Pre-tax Corporate Profits including IVA&CCA	22.0	42.2	-17.2	7.8	10.8	1.5	0.9	-1.5	1.9	1.2	1.9	0.4	19.2	4.1	0.9	11.5	2.8	1.3
% of GDP	11.6	12.3	11.4	11.4	11.5	11.4	11.3	11.1	11.0	10.9	10.8	10.7	11.7	11.3	10.9	--	--	--
GDP Deflator (y/y)	2.1	4.1	4.6	4.9	4.4	3.5	2.6	2.3	2.2	2.2	2.2	2.2	3.9	3.2	2.2	4.9	2.3	2.2
Nominal GDP	10.9	13.2	9.2	8.6	7.1	5.9	5.4	5.0	4.9	4.6	4.5	4.2	9.7	7.4	4.9	10.4	5.9	4.5
Labor Force	-0.7	1.7	1.3	2.6	2.0	2.0	1.8	1.5	1.1	1.0	1.0	1.0	0.4	2.0	1.3	1.2	1.8	1.0
Employment	2.1	4.8	6.1	3.6	3.5	3.4	2.9	2.1	1.3	1.1	0.8	0.7	2.7	3.7	1.6	4.1	3.0	1.0
Change in Empl. ('000s)	736	1701	2174	1296	1268	1245	1097	808	490	416	317	271	3789	5437	2494	5907	4418	1494
Unemployment Rate (%)	6.2	5.9	5.2	4.9	4.5	4.1	3.7	3.5	3.4	3.4	3.4	3.4	5.6	4.0	3.4	--	--	--
Personal Disp. Income	60.6	-26.5	-2.4	-2.8	1.7	5.9	5.7	4.3	4.9	5.1	5.0	4.6	4.9	-0.4	5.0	2.9	4.4	4.9
Pers. Savings Rate (%)	20.5	10.3	8.5	6.7	5.8	6.0	6.3	6.3	6.4	6.6	6.8	7.0	11.5	6.1	6.7	--	--	--
Cons. Price Index (y/y)	1.9	4.8	5.2	5.1	4.8	3.2	2.1	2.2	2.2	2.2	2.2	2.1	4.3	3.0	2.2	5.1	2.2	2.1
Core CPI (y/y)	1.4	3.7	4.1	4.4	4.8	3.5	2.7	2.7	2.6	2.5	2.5	2.4	3.4	3.4	2.5	4.4	2.7	2.4
Core PCE Price Index (y/y)	1.7	3.4	3.6	4.0	4.0	3.1	2.6	2.5	2.4	2.3	2.2	2.2	3.2	3.0	2.3	4.0	2.5	2.2
Housing Starts (mns)	1.60	1.59	1.55	1.53	1.51	1.50	1.50	1.49	1.49	1.49	1.48	1.48	1.57	1.50	1.48	--	--	--
Real Output per hour** (y/y)	4.1	1.8	0.1	1.5	0.8	0.3	1.1	0.8	0.9	1.3	1.7	1.8	1.8	0.8	1.4	1.5	0.8	1.8

F: Forecast by TD Economics as at September 2021.

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

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

Interest Rate Outlook												
Interest Rates	2021				2022				2023			
	Q1	Q2	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Fed Funds Target Rate	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.75	1.00	1.25	1.50
3-mth T-Bill Rate	0.03	0.05	0.05	0.10	0.13	0.15	0.30	0.55	0.80	1.05	1.30	1.55
2-yr Govt. Bond Yield	0.16	0.25	0.20	0.50	0.80	1.00	1.20	1.40	1.55	1.70	1.80	1.90
5-yr Govt. Bond Yield	0.92	0.87	0.80	1.10	1.35	1.55	1.70	1.80	1.90	1.95	2.00	2.05
10-yr Govt. Bond Yield	1.74	1.45	1.35	1.85	2.00	2.10	2.20	2.30	2.35	2.35	2.30	2.25
30-yr Govt. Bond Yield	2.41	2.06	1.90	2.15	2.30	2.40	2.50	2.60	2.65	2.65	2.60	2.55
10-yr-2-yr Govt Spread	1.58	1.20	1.15	1.35	1.20	1.10	1.00	0.90	0.80	0.65	0.50	0.35

F: Forecast by TD Economics as at September 2021. All forecasts are end-of-period.
Source: Bloomberg, Federal Reserve, TD Economics.

Foreign Exchange Outlook													
Currency	Exchange rate	2021				2022				2023			
		Q1	Q2	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Euro	USD per EUR	1.17	1.19	1.18	1.17	1.16	1.17	1.18	1.19	1.20	1.21	1.22	1.23
UK pound	USD per GBP	1.38	1.38	1.38	1.37	1.38	1.39	1.40	1.41	1.42	1.42	1.42	1.42
Australian dollar	USD per AUD	0.76	0.75	0.74	0.73	0.73	0.73	0.73	0.73	0.73	0.73	0.73	0.73
NZ dollar	USD per NZD	0.70	0.70	0.71	0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.70
Canadian dollar	CAD per USD	1.26	1.24	1.27	1.28	1.29	1.28	1.27	1.27	1.27	1.27	1.27	1.27
Swiss franc	CHF per USD	0.94	0.93	0.93	0.94	0.95	0.96	0.97	0.98	0.99	1.00	1.00	1.00
Japanese yen	JPY per USD	111	111	110	112	110	108	106	104	102	100	99	99
Chinese renminbi	CNY per USD	6.55	6.46	6.51	6.56	6.61	6.66	6.71	6.76	6.81	6.80	6.80	6.80

F: Forecast by TD Economics as at September 2021. All forecasts are end-of-period.
Source: Bloomberg, Federal Reserve, TD Economics.

Commodity Price Outlook												
Commodity	2021				2022				2023			
	Q1	Q2	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Crude Oil (WTI, \$US/bbl)	58	66	70	67	66	66	65	65	65	65	64	64
Natural Gas (\$US/MMBtu)	3.56	2.94	4.00	3.75	3.50	3.20	3.00	3.25	3.35	2.90	2.95	3.00
Gold (\$US/troy oz.)	1795	1814	1795	1750	1675	1650	1625	1600	1585	1570	1565	1550
Silver (\$US/troy oz.)	26.25	26.71	24.59	24.00	23.75	23.50	23.25	23.00	22.90	22.70	22.65	22.50
Copper (cents/lb)	386	439	425	398	382	374	357	356	356	356	356	356
Nickel (\$US/lb)	7.97	7.86	8.75	7.36	7.26	7.37	7.14	7.03	7.03	7.03	7.03	7.03
Aluminum (cents/lb)	95	109	120	103	90	81	82	84	84	85	85	86
Wheat (\$US/bu)	7.41	8.53	10.20	9.25	9.00	8.75	8.50	8.25	8.20	8.15	8.00	7.90

F: Forecast by TD Economics as at September 2021. All forecasts are period averages.
Source: Bloomberg, TD Economics, USDA (Haver).

Economic Indicators: G7 & Europe				
	2020	2021F	2022F	2023F
Real GDP (annual per cent change)				
G7 (30.1%)*	-5.0	5.5	4.1	2.0
U.S.	-3.4	5.6	4.1	2.6
Japan	-4.7	2.4	2.5	0.7
Euro Area	-6.5	5.0	4.0	1.6
Germany	-4.9	3.0	4.2	1.3
France	-8.0	6.2	3.5	1.7
Italy	-8.9	5.8	3.9	1.3
United Kingdom	-9.8	6.7	5.9	2.1
Canada	-5.3	4.9	4.4	2.8
Consumer Price Index (annual per cent change)				
G7	0.8	1.9	2.0	1.6
U.S.	1.2	4.3	3.0	2.2
Japan	0.0	-0.2	0.5	0.5
Euro Area	0.3	2.2	1.6	1.4
Germany	0.4	2.8	1.7	1.5
France	0.5	1.7	1.4	1.4
Italy	-0.1	1.6	1.1	1.3
United Kingdom	0.9	2.2	2.6	1.8
Canada	0.7	3.1	2.9	2.2
Unemployment Rate (per cent annual averages)				
U.S.	8.1	5.6	4.0	3.4
Japan	2.8	2.9	2.9	2.5
Euro Area	7.9	7.9	7.7	7.5
Germany	5.9	5.7	5.5	5.1
France	8.0	8.0	8.2	8.1
Italy	9.3	9.7	9.6	9.1
United Kingdom	4.4	4.8	4.6	4.1
Canada	9.6	7.5	6.1	5.6

*Share of 2018 world gross domestic product (GDP) at PPP.
Forecast as at September 2021.
Source: National statistics agencies, TD Economics.

Global Economic Outlook				
Annual Per Cent Change Unless Otherwise Indicated				
	2018 Share*	Forecast		
Real GDP	(%)	2021	2022	2023
World	100.0	5.9	4.7	3.7
North America	18.5	5.7	4.2	2.9
United States	15.2	5.6	4.1	2.6
Canada	1.4	4.9	4.4	2.8
Mexico	1.9	6.1	3.4	3.0
European Union (EU-28)	16.3	5.1	4.3	1.9
Euro Area (EU-19)	11.4	5.0	4.0	1.6
Germany	3.2	3.0	4.2	1.3
France	2.2	6.2	3.5	1.7
Italy	1.8	5.8	3.9	1.3
United Kingdom	2.2	6.7	5.9	2.1
EU accession members	2.6	4.6	4.3	2.2
Asia	45.0	6.8	5.2	4.9
Japan	4.1	2.4	2.5	0.7
Asian NIC's	3.4	5.1	3.4	2.6
Hong Kong	0.4	7.3	4.5	3.2
Korea	1.7	4.1	3.0	2.5
Singapore	0.4	6.5	4.7	2.7
Taiwan	0.9	5.9	3.4	2.7
Russia	3.1	3.5	2.7	1.8
Australia & New Zealand	1.1	4.7	3.1	2.9
Emerging Asia	33.2	7.9	6.0	6.0
ASEAN-5	5.5	3.9	5.8	5.5
China	18.7	8.5	5.5	5.7
India**	7.7	9.3	7.7	7.5
Central/South America	5.6	6.1	3.3	3.1
Brazil	2.5	5.3	3.1	2.9
Other Emerging Markets	13.6	4.2	5.1	3.3
Other Advanced	1.1	4.0	3.8	2.2

*Share of world GDP on a purchasing-power-parity (PPP) basis.
Forecast as at September 2021. **Forecast for India refers to fiscal year.
Source: IMF, TD Economics.

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