

Quarterly Economic Forecast

Landing the Plane

December 14, 2023

Contributing Authors

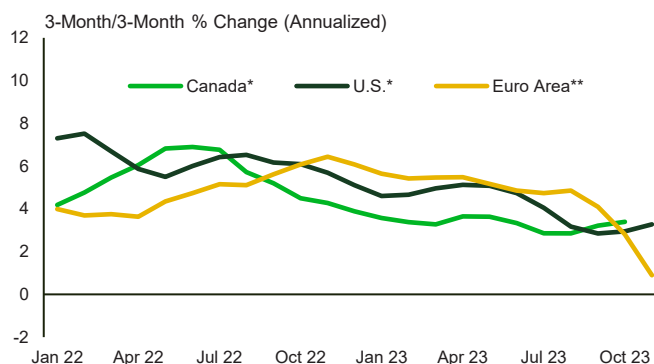
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- After the global economy defied expectations in 2023, we expect economic growth to reach its low point in the first half of next year. The speed of the recovery thereafter depends on how motivated central banks are to normalize monetary policy.
- In the fight to outstrip expectations this year, the U.S. economy won by a wide margin. But, the tailwinds that drove above trend growth will die down next year.
- That, combined with 2% inflation within the Federal Reserve’s sights, should produce rate cuts in the second half of the year as the central bank tries to pull off the elusive soft landing.

‘Tis the season when forecasters reflect on the past year: what we got right and where we missed the mark. The big miss has been stronger global economic growth, but this is mostly attributed to the U.S. economy. With each passing quarter, the soft landing narrative went from being a long shot to the more likely outcome, particularly when it came to the American economy. The Federal Reserve was also caught off guard, evidenced by serial upgrades to forecasts for the economy, inflation, and the path for interest rates.

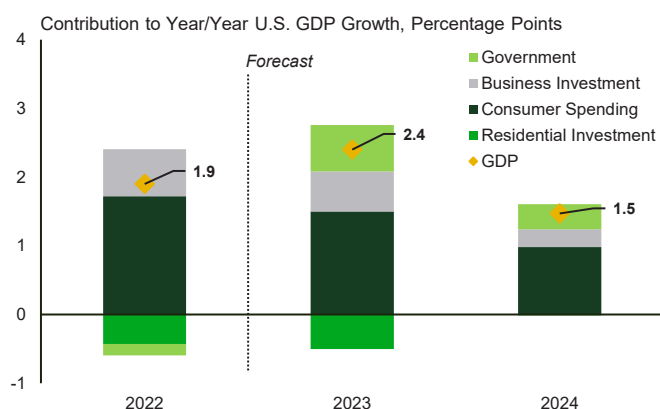
Europe and China showed evidence of slipping below expectations, prompting Chinese authorities to respond with an increase in deficit-funded infrastructure spending. Although inflation globally is cooling and central banks are likely done tightening monetary policy, the lagged effects from past interest rate hikes are still snaking through business and consumer behaviours (Chart 1). And, the landscape has now become more difficult to navigate under the weight of another war. The first half of next year is expected to be the low point for global growth in this cycle. It should also mark a pivot point in when central banks either begin to gingerly cut rates or entertain rhetoric to that effect. However, the speed of the economic recovery within the second half of the year will be determined by the confidence of central banks to fully normalize interest rates. This action, we don’t expect to be completed until 2025. Either way, whether the landing turns out to be hard, soft, or more likely, bumpy, the runway is within sight.

Chart 1: Core Inflation Shows Signs of Improvement



*CPI excluding Food & Energy. **CPI excluding Food, Energy, Alcohol, & Tobacco. Source: Bank of Canada, Federal Reserve Board, Eurostat, Haver Analytics, TD Economics. Last observation: November 2023 (U.S. & Euro Area), October 2023 (Canada).

Chart 2: U.S. Consumer Set to Drive a Cooler 2024



Source: Bureau of Economic Analysis, TD Economics.

U.S.'s Immaculate Dis-inflation

Fed Chair Jay Powell likely had a much better performance review this year having presided over an impressive feat: inflation has moved very close to the Fed's target with little economic cost. The labour market has stayed close to full employment. Strong productivity growth has helped cool growth in unit labour costs in recent quarters, dampening the inflationary impulse. The U.S. economy is on track to beat last year's growth of 1.9% with a 2.4% pace, despite a forecast to slow to 1.5% in 2024 as many of the tailwinds that lifted the economy in 2023 fizzle out (see details [here](#)).

The biggest tailwind is the continued impact of past fiscal policy, which has played a key role in keeping the U.S. economy humming in the face of high inflation and interest rate increases. Generous pandemic stimulus payments to households have buoyed consumer spending. While government incentives for investment in clean tech and semiconductors has helped to keep business investment solid despite higher financing costs. And thanks in part to past fiscal transfers from Washington, state and local government spending has contributed nearly a full percentage point to growth over the past four quarters – a reversal from 2021-22 when the unwinding of peak Covid-era stimulus was a drag on the economy.

Looking ahead to next year, weaker consumer spending will be a key ingredient in slower U.S. growth (Chart 2), with excess savings set to be drawn down by mid-year. We are already seeing consumers look a bit more cautious in the fourth quarter, and delinquency rates for credit cards and auto loans have risen above pre-pandemic levels despite a very low unemployment rate. This suggests many households are increasingly feeling the pinch from high inflation and rate increases and are likely to become more cautious in their spending.

With Washington in a stalemate and likely to remain funded under continuing resolutions until the election, the fiscal impulse is likely to peter out, weighing on government's contribution to growth. The one area of the economy which is likely to see its fortunes improve is housing, where lower borrowing costs are expected to bolster activity in the second half of the year.

Slower growth next year should create better balance in the labour market. Cooler wage growth is needed to get inflation all the way back to 2%, and the next stage of the disinflation process is expected to be a bit slower.

U.S. Economic Outlook

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

Economic Indicators	2023				2024				2025				Annual Average			4th Qtr/4th Qtr		
	Q1	Q2	Q3	Q4F	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	23F	24F	25F	23F	24F	25F
Real GDP	2.2	2.1	5.2	1.1	0.8	0.5	1.1	1.4	1.9	2.1	2.1	2.1	2.4	1.5	1.7	2.6	0.9	2.0
Consumer Expenditure	3.8	0.8	3.6	2.1	1.0	0.5	1.1	1.3	1.6	1.8	1.9	1.9	2.2	1.4	1.5	2.6	1.0	1.8
Durable Goods	14.0	-0.3	6.8	1.5	-2.1	-5.0	1.0	2.0	2.8	3.0	3.1	3.3	4.1	-0.2	2.0	5.3	-1.1	3.1
Business Investment	5.7	7.4	1.3	2.5	0.9	0.5	2.5	3.4	3.8	3.4	3.0	3.0	4.4	1.9	3.1	4.2	1.8	3.3
Non-Res. Structures	30.3	16.1	6.9	3.0	-2.0	-5.0	3.0	5.0	5.0	3.0	2.0	2.0	12.1	1.5	3.2	13.6	0.2	3.0
Equipment & IPP*	-0.9	5.1	-0.6	2.3	1.7	2.1	2.4	2.9	3.5	3.5	3.2	3.2	2.3	2.0	3.1	1.5	2.3	3.4
Residential Investment	-5.3	-2.2	6.2	-4.8	-2.7	-0.9	3.7	6.2	8.0	8.8	10.1	8.1	-11.1	-0.3	7.0	-1.6	1.5	8.7
Govt. Expenditure	4.8	3.3	5.5	2.6	1.9	1.2	0.5	0.0	0.2	0.7	0.7	0.7	3.9	2.1	0.4	4.1	0.9	0.6
Final Domestic Demand	3.8	2.0	3.7	2.0	1.0	0.5	1.3	1.5	1.9	2.0	2.1	2.1	2.2	1.6	1.7	2.9	1.1	2.0
Exports	6.8	-9.3	6.0	6.4	2.1	1.3	1.9	2.3	3.0	3.3	3.2	3.2	2.8	2.4	2.7	2.2	1.9	3.2
Imports	1.3	-7.6	5.2	6.5	4.5	2.3	3.0	3.1	2.9	3.0	3.1	3.0	-1.3	3.5	3.0	1.2	3.2	3.0
Change in Private Inventories	27.2	14.9	83.9	51.0	55.9	60.9	60.9	60.9	60.9	60.9	61.0	61.0	44.2	59.6	60.9	--	--	--
Final Sales	4.6	2.1	3.7	1.8	0.7	0.4	1.1	1.4	1.9	2.1	2.1	2.1	2.8	1.4	1.7	3.0	0.9	2.0
International Current Account Balance (\$Bn)	-858	-848	-881	-851	-849	-865	-888	-909	-926	-935	-937	-938	-860	-878	-934	--	--	--
% of GDP	-3.2	-3.1	-3.2	-3.0	-3.0	-3.0	-3.1	-3.1	-3.2	-3.2	-3.1	-3.1	-3.1	-3.1	-3.1	--	--	--
Pre-tax Corporate Profits Including IVA&CCA	-9.9	0.9	39.4	-5.9	-10.3	-9.5	1.0	5.3	5.7	7.3	7.3	4.5	2.7	-1.1	4.4	4.5	-3.6	6.2
% of GDP	11.8	11.7	12.5	12.2	11.7	11.3	11.3	11.3	11.4	11.4	11.5	11.5	12.0	11.4	11.5	--	--	--
GDP Deflator (y/y)	5.3	3.5	3.3	3.1	2.7	3.0	2.8	2.6	2.5	2.3	2.2	2.1	3.8	2.8	2.3	3.1	2.6	2.1
Nominal GDP	6.3	3.8	8.9	4.3	3.2	3.4	3.7	3.8	4.1	4.3	4.3	4.2	6.3	4.3	4.0	5.8	3.5	4.2
Labor Force	3.8	1.3	1.9	1.1	1.3	0.8	0.4	0.5	0.4	0.4	0.4	0.3	1.8	1.1	0.4	2.0	0.8	0.4
Employment	2.5	1.7	1.5	1.3	0.9	-0.1	-0.4	-0.1	0.9	0.7	0.9	0.8	2.3	0.7	0.4	1.8	0.1	0.8
Change in Empl. ('000s)	966	666	597	500	350	-50	-160	-50	333	283	371	319	3543	1060	680	2729	90	1306
Unemployment Rate (%)	3.5	3.5	3.7	3.8	3.9	4.1	4.3	4.4	4.3	4.2	4.1	4.0	3.6	4.2	4.1	--	--	--
Personal Disp. Income	15.5	5.8	2.9	4.4	5.5	3.0	3.5	3.9	5.1	4.8	5.2	4.6	8.1	4.2	4.5	7.0	4.0	4.9
Pers. Savings Rate (%)	4.8	5.1	4.0	3.7	4.2	4.1	4.1	4.2	4.5	4.8	5.1	5.2	4.4	4.2	4.9	--	--	--
Cons. Price Index (y/y)	5.8	4.1	3.6	3.3	3.1	3.1	2.9	2.7	2.5	2.3	2.2	2.2	4.2	3.0	2.3	3.3	2.7	2.2
Core CPI (y/y)	5.6	5.2	4.4	3.9	3.4	3.0	2.9	2.8	2.6	2.4	2.3	2.2	4.8	3.0	2.4	3.9	2.8	2.2
Core PCE Price Index (y/y)	4.8	4.6	3.9	3.4	2.8	2.6	2.6	2.6	2.4	2.2	2.1	2.0	4.2	2.6	2.2	3.4	2.6	2.0
Housing Starts (mns)	1.39	1.45	1.37	1.36	1.33	1.34	1.37	1.39	1.41	1.43	1.46	1.48	1.39	1.35	1.45	--	--	--
Real Output per Hour** (y/y)	-0.6	1.2	2.4	1.6	1.6	0.9	0.1	0.9	1.5	1.8	1.6	1.5	1.1	0.9	1.6	1.6	0.9	1.5

F: Forecast by TD Economics, December 2023.

* 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	2023				2024				2025			
	Q1	Q2	Q3	Q4F	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Fed Funds Target Rate	5.00	5.25	5.50	5.50	5.50	5.50	5.00	4.50	4.00	3.50	3.00	2.75
3-mth T-Bill Rate	4.68	5.17	5.32	5.25	5.25	5.15	4.65	4.15	3.65	3.15	2.75	2.65
2-yr Govt. Bond Yield	4.06	4.87	5.03	4.70	4.45	4.30	4.00	3.70	3.40	3.10	2.75	2.75
5-yr Govt. Bond Yield	3.60	4.13	4.60	4.25	4.15	3.90	3.60	3.35	3.15	3.00	2.95	2.95
10-yr Govt. Bond Yield	3.48	3.81	4.59	4.25	4.20	3.95	3.75	3.55	3.35	3.20	3.20	3.20
30-yr Govt. Bond Yield	3.67	3.85	4.73	4.30	4.25	4.15	4.05	3.85	3.65	3.50	3.50	3.50
10-yr-2-yr Govt Spread	-0.58	-1.06	-0.44	-0.45	-0.25	-0.35	-0.25	-0.15	-0.05	0.10	0.45	0.45

F: Forecast by TD Economics, December 2023. All forecasts are end-of-period.
Source: Bloomberg, Federal Reserve, TD Economics.

Foreign Exchange Outlook													
Currency	Exchange Rate	2023				2024				2025			
		Q1	Q2	Q3	Q4F	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Euro	USD per EUR	1.09	1.09	1.06	1.08	1.05	1.03	1.05	1.07	1.09	1.12	1.14	1.16
UK Pound	USD per GBP	1.24	1.27	1.22	1.25	1.22	1.19	1.22	1.24	1.27	1.30	1.30	1.30
Australian Dollar	USD per AUD	0.67	0.67	0.65	0.65	0.64	0.64	0.64	0.65	0.66	0.68	0.69	0.72
NZ Dollar	USD per NZD	0.63	0.61	0.60	0.61	0.60	0.59	0.60	0.61	0.62	0.63	0.64	0.67
Canadian Dollar	CAD per USD	1.35	1.32	1.35	1.36	1.38	1.39	1.38	1.36	1.33	1.31	1.28	1.25
Swiss Franc	CHF per USD	0.91	0.89	0.91	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90
Japanese Yen	JPY per USD	133	144	149	145	144	143	142	141	140	139	137	136
Chinese Renminbi	CNY per USD	6.87	7.25	7.30	7.15	7.20	7.25	7.20	7.15	7.10	7.05	7.00	6.95

F: Forecast by TD Economics, December 2023. All forecasts are end-of-period.
Source: Bloomberg, Federal Reserve, TD Economics.

Commodity Price Outlook												
Commodity	2023				2024				2025			
	Q1	Q2	Q3	Q4F	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Crude Oil (WTI, \$US/bbl)	76	74	82	78	78	82	80	80	78	77	77	76
Natural Gas (\$US/MMBtu)	2.66	2.16	2.59	2.95	3.15	3.25	3.25	3.55	3.65	3.65	3.75	3.75
Gold (\$US/troy oz.)	1889	1977	1928	1975	2000	2050	1975	1950	1900	1900	1875	1875
Silver (\$US/troy oz.)	22.56	24.19	23.58	24.00	24.50	25.00	24.75	24.50	24.25	24.25	24.00	24.00
Copper (cents/lb)	405	384	379	372	367	372	369	365	385	385	390	390
Nickel (\$US/lb)	11.81	10.13	9.23	8.22	8.60	8.75	9.25	9.25	10.20	9.75	9.50	9.00
Aluminum (cents/lb)	109	103	98	100	102	106	112	114	116	116	118	118
Wheat (\$US/bu)	7.32	6.50	5.76	5.85	5.90	6.20	6.20	6.50	6.50	6.40	6.30	6.20

F: Forecast by TD Economics, December 2023. All forecasts are period averages.
Source: Bloomberg, TD Economics, USDA (Haver).

Economic Indicators: G7 & Europe				
	2022	2023F	2024F	2025F
Real GDP (Annual Per Cent Change)				
G7 (35.3%)*	2.2	1.7	0.9	1.4
U.S.	1.9	2.4	1.5	1.7
Japan	0.9	1.9	0.5	1.0
Euro Area	3.4	0.5	0.3	1.2
Germany	1.9	-0.1	0.2	1.3
France	2.5	0.8	0.4	1.3
Italy	3.9	0.7	0.2	0.9
United Kingdom	4.3	0.5	0.2	1.1
Canada	3.8	1.1	0.5	1.5
Consumer Price Index (Annual Per Cent Change)				
G7	7.3	4.7	2.7	2.1
U.S.	8.0	4.2	3.0	2.3
Japan	2.5	3.4	2.3	1.5
Euro Area	8.4	5.4	2.4	2.0
Germany	8.7	6.1	2.5	2.0
France	5.9	5.7	2.4	2.0
Italy	8.7	6.0	2.1	1.8
United Kingdom	9.1	7.3	2.8	1.9
Canada	6.8	3.8	2.7	2.1
Unemployment Rate (Per Cent Annual Averages)				
U.S.	3.6	3.6	4.2	4.1
Japan	2.6	2.6	2.5	2.3
Euro Area	6.7	6.5	7.1	6.9
Germany	5.3	5.7	6.1	5.6
France	7.3	7.3	7.8	7.3
Italy	8.1	7.8	8.6	8.2
United Kingdom	3.7	4.3	4.9	4.4
Canada	5.3	5.4	6.5	6.6

F: Forecast by TD Economics, December 2023.
* Share of 2021 world gross domestic product (GDP) at PPP.
Source: National Statistics Agencies, TD Economics.

Global Economic Outlook				
Annual Per Cent Change Unless Otherwise Indicated				
	2021 Share*	Forecast		
Real GDP	(%)	2023F	2024F	2025F
World	100.0	3.1	2.6	2.9
North America	19.0	2.4	1.5	1.7
United States	15.8	2.4	1.5	1.7
Canada	1.4	1.1	0.5	1.5
Mexico	1.8	3.4	2.1	2.0
European Union (EU-27)	14.8	0.5	0.5	1.4
Euro Area (EU-20)	12.0	0.5	0.3	1.2
Germany	3.3	-0.1	0.2	1.3
France	2.3	0.8	0.4	1.3
Italy	1.9	0.7	0.2	0.9
Other EU Members	2.8	0.4	1.6	2.2
United Kingdom	2.3	0.5	0.2	1.1
Asia	44.0	4.7	4.3	4.1
Japan	3.8	1.9	0.5	1.0
Asian NIC's	3.5	1.4	2.5	2.2
Hong Kong	0.3	3.3	2.1	2.5
Korea	1.7	1.3	2.1	2.1
Singapore	0.4	0.9	2.7	2.5
Taiwan	1.0	1.0	3.2	2.1
Russia	3.1	2.0	2.5	1.1
Australia & New Zealand	1.2	1.9	1.6	2.4
Emerging Asia	32.5	5.7	5.2	5.0
ASEAN-5	5.5	4.4	4.9	5.0
China	18.5	5.5	4.9	4.4
India**	7.0	7.1	5.9	6.8
Central/South America	5.5	1.6	1.3	2.3
Brazil	2.4	3.1	1.8	2.1
Other Emerging Markets	13.3	3.1	2.3	3.1
Other Advanced	1.1	1.4	1.7	2.2

F: Forecast by TD Economics, December 2023.
* Share of 2021 world gross domestic product (GDP) at PPP.
** Forecast for India refers to fiscal year.
Source: National Statistics Agencies, TD Economics.

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