Quarterly Economic Forecast
Stronger, Faster, Higher

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No, we haven't mixed up the original Olympic motto, but repurposed it to characterize the outlook for the global economy. Stronger economic growth and faster inflation across much of the globe is leading to higher interest rates than we expected a quarter ago. The U.S. banking sector challenges seem to have dealt a glancing blow to the broader economy, and the consumer continues to spend at a healthy clip. Housing markets in North America were on the upswing again in the spring despite the historic increase in borrowing costs. Globally, data revisions may have pushed the euro area into a technical recession, but the European Central Bank (ECB) remains in tightening mode with inflation moving in the wrong direction and a drum tight labour market (Chart 1).

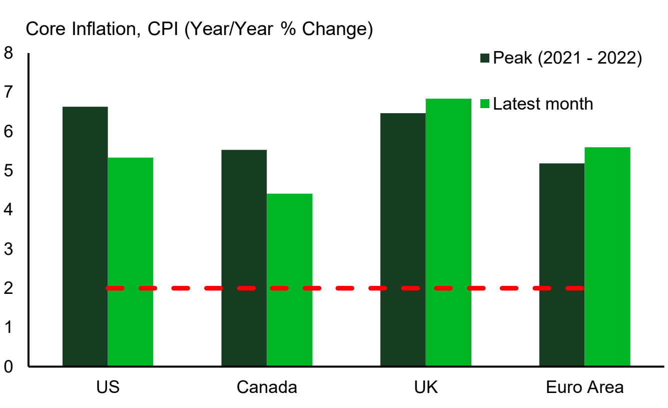
A common thread across advanced economies is that the post-pandemic inflation surge is proving harder to tame. The Bank of Canada came off the sidelines to hike by a quarter-point after a two-meeting pause in early June, and the Fed is likely to do the same in July. A former member of the Fed noted that policymakers are deciding what error they are comfortable in making: hiking too much and causing recession or doing too little and potentially risking stagflation. At this point in the economic cycle, it's not yet clear which way the economy will break. The high frequency data have not revealed a recession is unfolding, but the risk remains elevated as central banks probe for the magic number on the policy rate that will break the back of inflation.

Global economy buffeted by crosswinds

The global economy has evolved largely in line with our expectations since March. There is a modest upward revision to global growth this year, offset by a slight downgrade in 2024. The euro area is the exception to this pattern, and the recent rise in European natural gas prices is a reminder of the persistent risk of shortages the region could face next winter.

Meanwhile, China's economy burst out of a zero-Covid world more vigorously than we had expected in the first quarter, but the near-term signals suggest it is slowing rapidly. Growth is expected to cool through the remainder of the year, and we have downgraded China's GDP outlook in 2024. How Chinese policymakers respond to slowing growth presents an upside risk to the forecast and inflation. Small rate cuts by the PBOC are not

Chart 1: Central Bank's Inflation War Far From Won



Source: BLS, Statistics Canada, Eurostat, ONS, TD Economics.

enough to move the needle on their own, but if they presage broader stimulus measures, it could lead to an upgrade to the outlook.

U.S. inflation challenges the Fed

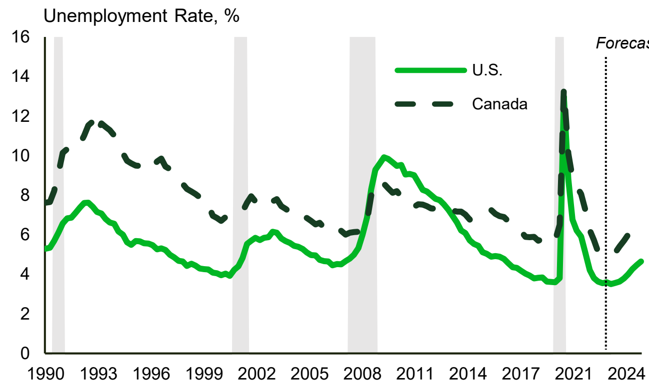
Once again, the U.S. economy resisted recession calls with a stronger-than-expected start to the year. Although we were not in this camp, economic growth in 2023 still needed to be modestly upgraded by 0.2%-pts to 1.5%, reflecting an expectation that the second half of the year will reveal a softening profile in consumer spending.

Thankfully, Congress came to an agreement to suspend the debt ceiling (see report), removing a key source of risk to financial markets. The lower spending trajectory in the Fiscal Responsibly Act is estimated to create a mild drag of 0.2 percentage points (%-pts) and 0.1%-pts, in 2024 and 2025, respectively. This has served to reinforce our conviction that 2024 could be a challenging year with economic growth of only 0.8%.

Once again, the U.S. consumer has carried the growth torch, with inflation-adjusted spending rocketing ahead at a 3.8% annualized clip in the first quarter – the fastest pace in nearly two years. High frequency credit card transaction data through May suggest a cooling is in store for the second quarter within a 1.5-2.0% range. However, that's still a pretty good outcome coming off supersized strength. We would be remiss in not reminding readers that we've held a long-standing view of a desensitized household during this interest-rate cycle due to stronger starting points in income, savings and job demand. Many of these positive starting points remain in place today but are slowly deflating from elevated levels. If there is one area that could again surprise on the upside, it's the resiliency of the consumer. However, the forecast embeds a wind-down of spending momentum as the year rolls forward, as headwinds from higher interest rates continue to build and some households face a new challenge related to the end of a three-year student debt payment moratorium.

Business investment is already showing the markings of higher borrowing costs and tighter credit conditions. The performance has been uneven, however. Most of the burden has been reflected in equipment outlays, while investment in non-residential structures has delivered surprising strength. We anticipate this divergence will persist. The latter appears to be already reaping the benefits from onshoring and various measures passed by Washington to encourage domestic high-tech production have started to goose the construction of manufacturing facilities. In contrast, residential investment will remain a drag on economic growth this year, before starting to recover in 2024.

Chart 2: Modest Rise in the Unemployment Rate



Source: BLS, Statistics Canada, TD Economics. Shading denotes U.S. recessionary periods.

So far though, the labor market continues to plough ahead. As of May, the three-month moving average on job growth sits at 283k per-month – more than three-times what is required to meet trend growth in the labor force. While the breadth of hiring has narrowed from last year's high, it is still hovering at a level consistent with the 2018-2019 pre-pandemic period. Meanwhile, job openings ticked higher in April, and data from Indeed have shown a similar pattern of job openings failing to dip and instead moving sideways through May. Taken alongside the still low level of jobless claims suggests the labor market has some room to run. Our forecast assumes only a mild 1.2%-pts increase in the unemployment rate to 4.7%, with that movement concentrated in 2024 (Chart 2).

Not surprisingly, a resilient labor market and consumer means resilient inflation. As a result, the outlook for inflation in 2024 was revised higher, and core PCE inflation is not expected to reach the Fed's 2% target until the first half of 2025. This is one area that has led to a more material shift in our forecast call. We doubt the Fed will be in a position to cut rates until the second quarter of next year, at the earliest. That's a one-quarter push back from prior expectations. In addition, we suspect the Fed will raise rates another 25 basis points to 5.50% for this longer period. At this phase in the cycle, they may pursue a stop-and-go approach, as already seen by central banks in Canada and Australia. Should inflation and the job market continue to exceed expectations, we cannot rule out even more adjustments by the Fed.

U.S. Economic Outlook

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

Economic Indicators	2022				2023				2024				Annual Average			4th Qtr/4th Qtr		
	Q1	Q2	Q3	Q4	Q1	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	22	23F	24F	22	23F	24F
Real GDP	-1.6	-0.6	3.2	2.6	1.3	1.4	0.5	0.1	0.4	1.1	1.6	1.8	2.1	1.5	0.8	0.9	0.8	1.2
Consumer Expenditure	1.3	2.0	2.3	1.0	3.8	1.7	0.6	0.2	0.3	0.9	1.4	1.6	2.7	2.0	0.8	1.7	1.6	1.1
Durable Goods	7.7	-2.8	-0.8	-1.3	16.4	-2.9	-4.8	-7.1	-5.7	-2.8	1.2	2.7	-0.4	1.7	-3.8	0.6	0.0	-1.2
Business Investment	7.9	0.1	6.2	4.0	1.4	5.7	2.1	-2.3	-1.3	0.4	1.8	2.5	3.9	3.0	0.3	4.5	1.7	0.8
Non-Res. Structures	-4.4	-12.7	-3.6	15.7	11.0	20.0	10.0	-3.0	-4.0	-2.0	0.0	1.0	-6.6	8.9	0.4	-1.8	9.2	-1.3
Equipment & IPP*	11.1	3.4	8.7	1.3	-0.9	2.3	0.1	-2.1	-0.5	1.0	2.2	3.0	6.6	1.6	0.3	6.0	-0.2	1.4
Residential Investment	-3.1	-17.8	-27.1	-25.1	-5.4	-4.6	-8.7	-6.3	0.6	11.3	16.5	17.8	-10.6	-13.7	2.6	-18.8	-6.2	11.4
Govt. Expenditure	-2.3	-1.6	3.7	3.8	5.2	0.9	2.2	0.6	-0.1	0.0	0.0	0.0	-0.6	2.8	0.4	0.9	2.2	0.0
Final Domestic Demand	1.3	0.2	1.5	0.7	3.3	1.9	0.7	-0.3	0.1	1.0	1.7	2.0	1.7	1.6	0.7	0.9	1.4	1.2
Exports	-4.6	13.8	14.6	-3.7	5.2	-7.5	-2.5	-0.1	1.0	2.0	2.4	2.5	7.1	1.3	0.2	4.6	-1.3	2.0
Imports	18.4	2.3	-7.3	-5.5	4.0	2.2	-2.6	-4.3	-0.2	1.4	3.3	3.9	8.1	-1.1	-0.2	1.5	-0.2	2.1
Change in Private																		
Inventories	214.5	110.2	38.7	136.5	26.3	56.3	42.4	31.8	42.5	42.7	42.1	41.5	125.0	39.2	42.2	--	--	--
Final Sales	-1.8	1.4	4.5	1.1	3.4	0.7	0.9	0.3	0.2	1.1	1.6	1.8	1.3	2.0	0.8	1.3	1.3	1.2
International Current																		
Account Balance ($Bn)	-1123	-949	-876	-827	-902	-882	-880	-872	-878	-890	-916	-951	-944	-884	-909	--	--	--
% of GDP	-4.5	-3.8	-3.4	-3.2	-3.4	-3.3	-3.3	-3.2	-3.2	-3.2	-3.3	-3.4	-3.7	-3.3	-3.3	--	--	--
Pre-tax Corporate Profits																		
including IVA&CCA	0.5	19.7	-0.2	-7.8	-19.0	-7.6	6.2	3.2	2.6	6.0	7.3	5.7	6.6	-6.1	3.9	2.6	-4.8	5.4
% of GDP	11.6	11.9	11.7	11.2	10.5	10.2	10.3	10.3	10.3	10.3	10.4	10.5	11.6	10.3	10.4	--	--	--
GDP Deflator (y/y)	6.9	7.6	7.1	6.4	5.3	3.9	3.6	3.3	2.8	2.6	2.4	2.1	7.0	4.0	2.5	6.4	3.3	2.1
Nominal GDP	6.6	8.5	7.7	6.6	5.4	4.4	3.8	2.9	2.7	3.4	3.7	3.8	9.2	5.5	3.3	7.3	4.1	3.4
Labor Force	4.5	0.4	0.9	0.7	3.8	1.5	0.7	0.7	0.5	0.4	0.4	0.4	1.9	1.6	0.6	1.6	1.7	0.4
Employment	4.6	3.2	3.4	2.5	2.5	2.1	0.9	0.1	-0.4	-0.6	-0.5	-0.4	4.3	2.2	0.0	3.4	1.4	-0.5
Change in Empl. ('000s)	1689	1197	1287	948	966	821	355	30	-141	-249	-187	-169	6344	3421	-58	5121	2172	-746
Unemployment Rate (%)	3.8	3.6	3.5	3.6	3.5	3.6	3.6	3.8	4.0	4.3	4.5	4.7	3.6	3.6	4.3	--	--	--
Personal Disp. Income	-3.9	4.8	7.7	6.4	12.3	6.8	5.4	3.6	3.8	3.1	3.4	4.0	-0.3	7.7	4.0	3.6	7.0	3.6
Pers. Savings Rate (%)	4.3	3.2	3.2	3.4	4.2	4.6	4.8	4.7	5.0	5.0	4.9	5.0	3.5	4.6	5.0	--	--	--
Cons. Price Index (y/y)	8.0	8.6	8.3	7.1	5.8	4.1	3.7	3.6	3.2	3.0	2.6	2.1	8.0	4.3	2.7	7.1	3.6	2.1
Core CPI (y/y)	6.3	6.0	6.3	6.0	5.6	5.3	4.7	4.2	3.6	3.0	2.7	2.6	6.1	4.9	3.0	6.0	4.2	2.6
Core PCE Price Index (y/y)	5.3	5.0	4.9	4.8	4.7	4.5	4.2	3.8	3.2	2.7	2.5	2.3	5.0	4.3	2.7	4.8	3.8	2.3
Housing Starts (mns)	1.72	1.64	1.45	1.41	1.38	1.33	1.24	1.20	1.22	1.32	1.37	1.40	1.55	1.29	1.32	--	--	--
Real Output per hour** (y/y)	-1.0	-2.5	-1.5	-1.8	-0.8	0.5	0.1	-0.3	0.4	0.5	1.0	1.5	-1.7	-0.1	0.8	-1.8	-0.3	1.5

F: Forecast by TD Economics as at June 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	2022				2023				2024			
	Q1	Q2	Q3	Q4	Q1	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Fed Funds Target Rate	0.50	1.75	3.25	4.50	5.00	5.25	5.50	5.50	5.50	5.00	4.50	4.00
3-mth T-Bill Rate	0.51	1.66	3.22	4.30	4.68	5.25	5.40	5.40	5.15	4.65	4.15	3.65
2-yr Govt. Bond Yield	2.28	2.92	4.22	4.41	4.06	4.70	4.50	4.20	3.90	3.60	3.30	3.00
5-yr Govt. Bond Yield	2.42	3.01	4.06	3.99	3.60	4.00	3.95	3.65	3.40	3.15	3.00	2.85
10-yr Govt. Bond Yield	2.32	2.98	3.83	3.88	3.48	3.80	3.75	3.60	3.40	3.25	3.15	3.05
30-yr Govt. Bond Yield	2.44	3.14	3.79	3.97	3.67	3.90	3.85	3.75	3.70	3.55	3.45	3.35
10-yr-2-yr Govt Spread	0.04	0.06	-0.39	-0.53	-0.58	-0.90	-0.75	-0.60	-0.50	-0.35	-0.15	0.05

F: Forecast by TD Economics as at June 2023. All forecasts are end-of-period.

Source: Bloomberg, Federal Reserve, TD Economics.

Foreign Exchange Outlook

Currency	Exchange rate	2022				2023				2024			
		Q1	Q2	Q3	Q4	Q1	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Euro	USD per EUR	1.11	1.05	0.98	1.07	1.09	1.08	1.09	1.08	1.07	1.06	1.08	1.10
UK pound	USD per GBP	1.32	1.22	1.11	1.21	1.24	1.25	1.26	1.25	1.24	1.23	1.25	1.28
Australian dollar	USD per AUD	0.75	0.69	0.64	0.68	0.67	0.67	0.67	0.66	0.66	0.65	0.66	0.67
NZ dollar	USD per NZD	0.70	0.63	0.56	0.63	0.63	0.60	0.60	0.59	0.59	0.58	0.59	0.60
Canadian dollar	CAD per USD	1.25	1.29	1.38	1.35	1.35	1.33	1.34	1.35	1.36	1.37	1.36	1.33
Swiss franc	CHF per USD	0.92	0.96	0.98	0.92	0.91	0.90	0.90	0.91	0.91	0.91	0.91	0.91
Japanese yen	JPY per USD	121	136	145	132	133	139	140	141	142	143	142	141
Chinese renminbi	CNY per USD	6.34	6.70	7.11	6.90	6.87	7.15	7.05	7.10	7.15	7.20	7.15	7.10

F: Forecast by TD Economics as at June 2023. All forecasts are end-of-period.

Source: Bloomberg, Federal Reserve, TD Economics.

Commodity Price Outlook

Commodity	2022				2023				2024			
	Q1	Q2	Q3	Q4	Q1	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Crude Oil (WTI, $US/bbl)	94	109	93	83	76	74	78	84	82	80	80	78
Natural Gas ($US/MMBtu)	4.66	7.48	7.99	5.55	2.65	2.25	2.75	3.00	3.25	3.25	3.50	3.50
Gold ($US/troy oz.)	1876	1873	1728	1731	1889	1950	2000	2100	2100	2050	1950	1900
Silver ($US/troy oz.)	24.05	22.66	19.25	21.30	22.56	23.50	24.50	24.75	25.75	24.75	24.00	23.50
Copper (cents/lb)	453	433	352	363	405	395	420	405	390	380	375	375
Nickel ($US/lb)	12.73	13.20	10.00	11.53	11.81	10.50	10.75	10.50	10.50	10.50	10.00	10.00
Aluminum (cents/lb)	148	131	107	105	109	105	100	105	110	110	115	115
Wheat ($US/bu)	8.89	10.75	8.13	7.54	7.32	6.55	7.00	7.10	7.10	7.10	7.20	7.20

F: Forecast by TD Economics as at June 2023. All forecasts are period averages.

Source: Bloomberg, TD Economics, USDA (Haver).

Economic Indicators: G7 & Europe				
	2021	2022	2023F	2024F
Real GDP (annual per cent change)				
G7 (30.1%)*	5.3	2.3	1.1	0.8
U.S.	5.9	2.1	1.5	0.8
Japan	2.2	1.0	1.3	1.0
Euro Area	5.3	3.5	0.4	0.6
Germany	2.6	1.9	-0.4	0.6
France	6.4	2.5	0.5	0.6
Italy	7.0	3.8	1.2	0.5
United Kingdom	7.6	4.1	0.2	1.0
Canada	5.0	3.4	1.6	0.5
Consumer Price Index (annual per cent change)				
G7	3.3	7.3	4.8	2.1
U.S.	4.7	8.0	4.3	2.7
Japan	-0.2	2.5	3.0	1.5
Euro Area	2.6	8.4	5.6	2.3
Germany	3.2	8.7	6.2	2.4
France	2.1	5.9	5.4	2.5
Italy	1.9	8.7	6.8	2.2
United Kingdom	2.6	9.1	7.1	2.5
Canada	3.4	6.8	3.8	2.7
Unemployment Rate (per cent annual averages)				
U.S.	5.4	3.6	3.6	4.3
Japan	2.8	2.6	2.5	2.4
Euro Area	7.7	6.7	6.8	7.6
Germany	5.7	5.3	5.7	5.9
France	7.8	7.3	7.4	7.8
Italy	9.5	8.1	8.1	8.7
United Kingdom	4.5	3.7	4.2	4.7
Canada	7.5	5.3	5.3	6.3

*Share of 2019 world gross domestic product (GDP) at PPP.

Forecast as at June 2023.

Source: National statistics agencies, TD Economics.

Global Economic Outlook				
Annual Per Cent Change Unless Otherwise Indicated				
	2021 Share*	Forecast		
Real GDP	(%)	2022	2023	2024
World	100.0	3.3	2.8	2.6
North America	19.0	2.3	1.6	0.8
United States	15.8	2.1	1.5	0.8
Canada	1.4	3.4	1.6	0.5
Mexico	1.8	3.0	2.4	1.6
European Union (EU-28)	14.8	3.6	0.5	0.8
Euro Area (EU-19)	12.0	3.5	0.4	0.6
Germany	3.3	1.9	-0.4	0.6
France	2.3	2.5	0.5	0.6
Italy	1.9	3.8	1.2	0.5
United Kingdom	2.3	4.1	0.2	1.0
EU accession members	2.8	4.6	1.4	1.6
Asia	44.0	3.5	4.4	4.0
Japan	3.8	1.0	1.3	1.0
Asian NIC's	3.5	2.1	1.5	2.4
Hong Kong	0.3	-3.5	4.4	2.2
Korea	1.7	2.6	1.7	2.5
Singapore	0.4	3.6	1.1	2.6
Taiwan	1.0	2.4	0.4	2.4
Russia	3.1	-1.6	-0.6	1.2
Australia & New Zealand	1.2	3.5	1.6	1.6
Emerging Asia	32.5	4.5	5.6	4.9
ASEAN-5	5.5	6.0	4.8	5.1
China	18.5	3.0	5.9	4.3
India**	7.0	7.3	6.0	6.6
Central/South America	5.5	4.0	1.1	1.6
Brazil	2.4	3.0	1.8	1.5
Other Emerging Markets	13.3	3.4	3.4	2.9
Other Advanced	1.1	3.6	1.7	1.9

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

Forecast as at June 2023. **Forecast for India refers to fiscal year.

Source: IMF, TD Economics.