

# Quarterly Economic Forecast

## And Now, The Hard Part

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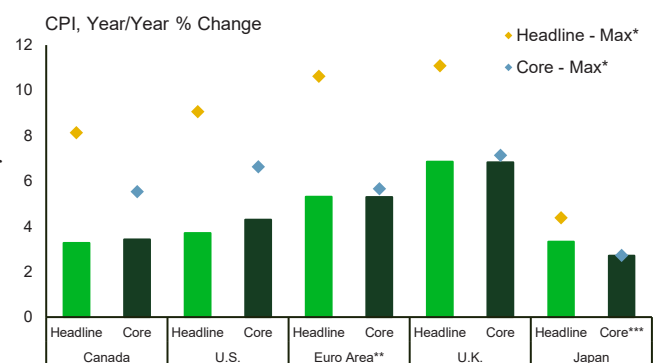
- Inflation remains the hottest topic in the global outlook. Inflationary pressures are cooling across the G-7, but progress on core measures has proved more difficult, leaving central banks' bias towards additional rate hikes.
- The substantial monetary tightening already working its way through the economy is projected to slow the pace of global expansion from 3.1% this year to 2.7% in 2024. In 2025, a modest pickup to a still-sluggish 2.9% rate is anticipated.
- The U.S. economy – which has been a standout in terms of resilience this year – is set to see growth slow from 2.3% in 2023 to 1.3% in 2024. That would still leave the U.S. in top spot in the G-7 growth tables and marks a half-point upgrade from forecast in June. As such, the odds of another rate hike are a coin toss at this stage, while the prospect of cuts has been pushed back even further into next year relative to our prior view.

Recession calls have been pared back in recent months as advanced economies weather the substantial monetary tightening of the past 18 months better than many forecasters feared. Hopes that the U.S. Federal Reserve will pull off a soft landing have increased, with markets building in expectations that interest rates will remain higher for longer. But now comes the hard part. Most forecasters – including ourselves – continue to call for a period of subdued growth with rising unemployment. Weaker labour markets are necessary to help bring persistently high services inflation back down to acceptable levels. So, the distinction between a soft landing and a recession will likely be cold comfort for many consumers and businesses who will increasingly feel the pinch.

The good news is that inflation continues to cool across the G-7 as the energy price shock from 2022 fades in the background (see latest [inflation tracker](#)). Core inflation watched by most central bankers is another matter, with the deceleration in Canada and the U.S. not mirrored in Europe or the UK (Chart 1). Central bankers will need to continue to talk tough on the possibility of further rate hikes, but most are at the fine-tuning phase of the rate hiking cycle.

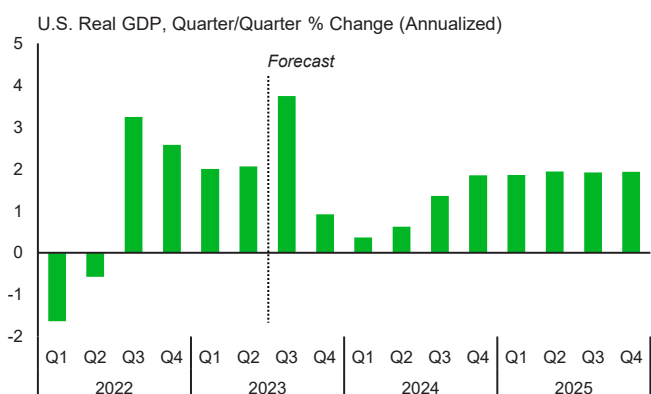
China is the odd one out as economic growth disappointed in the second quarter. Although most forecasts were upgraded for the advanced economies in 2023, China's outlook went in the other direction with a downgrade (see Table, page 5).

Chart 1: Inflation Cooling Across G-7



\*January 2021-Present. \*\*Harmonized CPI. \*\*\*Western Core.  
Note: Core CPI excludes Food, Energy, Alcohol, and Tobacco.  
Source: National Statistical Agencies, TD Economics.

Chart 2: And Now, The Hard Part



Source: Bureau of Economic Analysis, TD Economics.

However, next year will remain a challenge for all economies. As the long-and variable lags from past interest rate hikes come to bear, a period of below-trend growth is likely to be sustained. The debate over soft landing or recession will rage on.

### U.S. to slow as countercyclical buffers wear thin

So far in 2023 the U.S. economy has seemed almost impervious to higher interest rates, turning in a solid 2% pace of growth. In normal times that is not much to write home about, but after 18 months of relentless rate hikes, high inflation, and banking turmoil, it is notable. Not to mention that growth in the third quarter is likely to blow the roof off with an impressive performance of around 4%, courtesy of a resilient consumer (Chart 2). However, we are now approaching the point where many special influences will be fading. Not to mention the potential headwinds from a prolonged UAW strike and government shutdown.

Top of that list is the depletion of pandemic-related excess savings by year end, a countercyclical force that helped consumers weather high inflation and interest rates rather well. In addition, households will enter 2024 with a savings rate at half its pre-pandemic level, while the repayment of student loans simultaneously comes back into scope.

Job availability is also becoming less plentiful, and this trend will become more exaggerated next year. Hiring has averaged 150 thousand jobs per month over the past three months, half the pace at the beginning of the year. We an-

ticipate this trend will shift to net job losses by over the coming quarters leading to a one percentage point increase in the unemployment rate.

Fiscal supports will also lessen next year. When Congress suspended the debt ceiling earlier this year, they agreed on a 1% automatic spending cut if annual spending bills are not passed by the end of September. At time of writing, Congress has yet to pass the necessary spending bills, and a government shutdown cannot be ruled out. Wherever the dust settles on a spending resolution, it is likely to contain further compromises on spending initiatives.

However, supporting a soft-landing narrative is that households, in general, lack the excess leverage that historically sets the economy into a tailspin during high interest rate periods. And on the business front, past government initiatives via the CHIPS & Science Act and the Inflation Reduction Act will still be leaving their counter-cyclical mark on investments for green energy and semiconductor facilities (see our [report](#)). In addition, new infrastructure money from Washington and healthy State finances have also pushed combined government investment spending growth over the past year to the fastest pace in more than 20 years (and if defense spending is excluded, the fastest pace in over 30 years).

Putting the pieces together, inflation should continue to move in the right direction as pressures lessen on the consumer side. On a three-month annualized basis, the core PCE deflator – the Fed’s preferred inflation metric – has already dropped below 3% in July. But we are not out of the woods yet. Super-core inflation, which encompasses services excluding housing, is the more sensitive measure that captures wage pressures, and this has recently begun to heat up again. This underscores the Fed’s need for vigilance, and why it is likely to maintain its hawkish tone, even as the economy cools. We think the Fed is near the end of its rate hike cycle, but caution that the likelihood of another rate hike is close to a coin toss at this point. The data will need to cooperate in a convincing manner, which ultimately boils down to weaker employment and inflation trends.

## 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	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	23F	24F	25F	23F	24F	25F
Real GDP	2.0	2.1	3.7	0.9	0.4	0.6	1.4	1.9	1.9	1.9	1.9	1.9	2.3	1.3	1.7	2.2	1.0	1.9
Consumer Expenditure	4.2	1.7	3.7	1.3	0.4	0.6	1.2	1.5	1.7	1.8	1.8	1.8	2.5	1.3	1.6	2.7	0.9	1.8
Durable Goods	16.3	-0.3	6.4	4.0	-1.7	-2.9	0.9	2.8	3.0	3.1	3.1	3.1	4.3	0.8	2.4	6.4	-0.3	3.1
Business Investment	0.6	6.2	1.2	0.4	0.9	1.0	4.4	4.9	3.7	3.3	2.9	2.8	3.0	1.9	3.6	2.1	2.8	3.2
Non-Res. Structures	15.8	11.3	5.0	0.0	-3.0	-5.0	8.0	10.0	5.0	3.0	2.0	2.0	8.0	1.1	4.7	7.8	2.3	3.0
Equipment & IPP*	-0.9	4.8	0.2	0.6	2.0	2.6	3.4	3.6	3.3	3.3	3.1	3.1	2.2	2.1	3.3	1.1	2.9	3.2
Residential Investment	-4.0	-3.6	4.4	-4.8	-3.4	0.2	3.0	6.2	8.6	11.5	8.9	7.4	-11.6	-0.7	7.4	-2.0	1.4	9.1
Govt. Expenditure	5.0	3.3	1.9	1.5	1.3	1.0	0.8	0.6	0.5	0.4	0.5	0.5	3.3	1.4	0.6	2.9	0.9	0.5
Final Domestic Demand	3.5	2.3	3.1	1.0	0.5	0.7	1.6	2.0	2.0	2.1	2.0	1.9	2.1	1.3	1.9	2.5	1.2	2.0
Exports	7.8	-10.6	7.0	1.0	-1.0	0.1	0.7	2.7	3.1	3.0	3.1	3.0	2.5	0.4	2.5	1.0	0.6	3.1
Imports	2.0	-7.0	5.6	2.9	0.7	1.5	2.6	4.1	4.4	3.9	3.2	2.7	-1.9	1.8	3.6	0.8	2.2	3.6
Change in Private Inventories	3.5	-1.8	24.0	32.4	37.5	41.3	41.6	46.0	50.4	50.0	49.6	49.2	14.5	41.6	49.8	--	--	--
Final Sales	4.2	2.2	3.2	0.7	0.3	0.5	1.4	1.8	1.8	2.0	1.9	1.9	2.7	1.1	1.7	2.6	1.0	1.9
International Current Account Balance (\$Bn)	-877	-849	-794	-837	-823	-829	-844	-864	-880	-903	-920	-932	-840	-840	-909	--	--	--
% of GDP	-3.3	-3.2	-2.9	-3.0	-3.0	-3.0	-3.0	-3.0	-3.1	-3.1	-3.1	-3.1	-3.1	-3.0	-3.1	--	--	--
Pre-tax Corporate Profits Including IVA&CCA	-15.5	-1.5	27.1	2.2	-14.0	-6.5	-0.8	2.0	4.9	6.5	7.8	7.2	-1.7	-1.7	3.7	2.0	-5.0	6.6
% of GDP	10.6	10.5	11.0	10.9	10.4	10.2	10.1	10.0	10.0	10.1	10.2	10.2	10.7	10.2	10.1	--	--	--
GDP Deflator (y/y)	5.3	3.6	3.1	2.9	2.5	2.7	2.6	2.5	2.4	2.2	2.2	2.2	3.7	2.6	2.2	2.9	2.5	2.2
Nominal GDP	6.1	4.1	6.3	3.7	3.1	3.3	3.8	4.2	4.1	4.1	4.2	4.2	6.0	3.8	4.0	5.0	3.6	4.1
Labor Force	3.8	1.3	2.0	1.6	0.7	0.5	0.4	0.4	0.4	0.4	0.3	0.3	1.8	1.0	0.4	2.2	0.5	0.4
Employment	2.5	1.7	1.5	0.9	0.3	-0.5	-0.5	-0.3	0.6	0.9	0.8	0.8	2.3	0.4	0.3	1.6	-0.2	0.8
Change in Empl. ('000s)	966	666	571	334	134	-188	-201	-124	253	357	311	306	3488	564	512	2537	-379	1227
Unemployment Rate (%)	3.5	3.5	3.6	3.8	3.9	4.1	4.3	4.5	4.4	4.3	4.2	4.1	3.6	4.2	4.2	--	--	--
Personal Disp. Income	12.9	5.9	3.7	4.3	4.8	3.2	3.6	3.9	4.8	4.4	4.5	4.5	7.5	4.1	4.3	6.7	3.9	4.5
Pers. Savings Rate (%)	4.3	4.5	3.6	3.3	3.7	3.8	3.8	3.9	4.1	4.3	4.5	4.6	3.9	3.8	4.4	--	--	--
Cons. Price Index (y/y)	5.8	4.1	3.5	3.5	3.1	2.9	2.7	2.2	2.1	2.0	2.0	2.0	4.2	2.7	2.0	3.5	2.2	2.0
Core CPI (y/y)	5.6	5.2	4.4	4.0	3.6	3.1	3.0	2.8	2.6	2.4	2.3	2.3	4.8	3.1	2.4	4.0	2.8	2.3
Core PCE Price Index (y/y)	4.6	4.4	4.0	3.7	3.2	2.9	2.8	2.5	2.3	2.2	2.1	2.0	4.2	2.8	2.2	3.7	2.5	2.0
Housing Starts (mns)	1.39	1.44	1.44	1.40	1.38	1.31	1.30	1.31	1.35	1.37	1.40	1.43	1.42	1.33	1.39	--	--	--
Real Output per Hour** (y/y)	-0.6	1.3	1.6	1.1	1.4	0.8	0.6	1.2	1.5	1.4	1.2	0.9	0.9	1.0	1.2	1.1	1.2	0.9

F: Forecast by TD Economics, September 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	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Fed Funds Target Rate	5.00	5.25	5.50	5.50	5.50	5.25	4.75	4.25	3.75	3.25	2.75	2.75
3-mth T-Bill Rate	4.68	5.17	5.40	5.40	5.30	4.90	4.40	3.90	3.40	2.90	2.65	2.65
2-yr Govt. Bond Yield	4.06	4.87	5.00	4.70	4.40	4.10	3.80	3.50	3.20	2.90	2.75	2.75
5-yr Govt. Bond Yield	3.60	4.13	4.40	4.15	3.85	3.55	3.30	3.15	3.05	2.95	2.95	2.95
10-yr Govt. Bond Yield	3.48	3.81	4.35	4.10	3.90	3.65	3.45	3.35	3.30	3.20	3.20	3.20
30-yr Govt. Bond Yield	3.67	3.85	4.35	4.30	4.20	3.95	3.75	3.65	3.60	3.50	3.50	3.50
10-yr-2-yr Govt Spread	-0.58	-1.06	-0.65	-0.60	-0.50	-0.45	-0.35	-0.15	0.10	0.30	0.45	0.45

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

Foreign Exchange Outlook													
Currency	Exchange Rate	2023				2024				2025			
		Q1	Q2	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Euro	USD per EUR	1.09	1.09	1.07	1.05	1.04	1.03	1.05	1.07	1.09	1.12	1.14	1.16
UK Pound	USD per GBP	1.24	1.27	1.25	1.22	1.21	1.20	1.22	1.25	1.27	1.30	1.30	1.30
Australian Dollar	USD per AUD	0.67	0.67	0.63	0.63	0.62	0.62	0.62	0.63	0.65	0.66	0.67	0.72
NZ Dollar	USD per NZD	0.63	0.61	0.58	0.58	0.57	0.57	0.57	0.58	0.60	0.61	0.62	0.66
Canadian Dollar	CAD per USD	1.35	1.32	1.36	1.37	1.38	1.39	1.38	1.35	1.33	1.30	1.27	1.25
Swiss Franc	CHF per USD	0.91	0.89	0.90	0.91	0.91	0.91	0.91	0.91	0.91	0.91	0.91	0.91
Japanese Yen	JPY per USD	133	144	147	150	149	147	146	144	143	141	140	138
Chinese Renminbi	CNY per USD	6.87	7.25	7.30	7.35	7.40	7.45	7.40	7.30	7.20	7.10	7.00	6.90

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

Commodity Price Outlook												
Commodity	2023				2024				2025			
	Q1	Q2	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Crude Oil (WTI, \$US/bbl)	76	74	80	84	82	80	80	78	78	77	76	76
Natural Gas (\$US/MMBtu)	2.66	2.16	2.65	2.95	3.15	3.25	3.25	3.55	3.65	3.65	3.75	3.75
Gold (\$US/troy oz.)	1889	1977	1930	1975	2000	1975	1950	1900	1900	1875	1850	1825
Silver (\$US/troy oz.)	22.56	24.19	23.60	24.25	25.25	24.25	23.50	23.00	23.00	22.70	22.40	22.10
Copper (cents/lb)	405	384	385	390	390	380	375	375	410	410	405	400
Nickel (\$US/lb)	11.81	10.13	9.50	9.75	9.75	10.00	10.00	10.00	10.20	9.75	9.50	9.00
Aluminum (cents/lb)	109	103	100	105	110	110	115	115	115	115	111	110
Wheat (\$US/bu)	7.32	6.50	6.30	6.50	6.75	6.85	7.00	7.10	7.30	7.20	7.10	7.00

F: Forecast by TD Economics, September 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 (30.8%)*	2.3	1.5	1.0	1.5
U.S.	2.1	2.3	1.3	1.7
Japan	1.0	1.8	1.0	1.0
Euro Area	3.4	0.6	0.6	1.2
Germany	1.9	-0.3	0.5	1.3
France	2.5	0.7	0.6	1.4
Italy	3.8	0.7	0.5	0.9
United Kingdom	4.1	0.3	0.6	1.6
Canada	3.4	1.2	0.7	1.5
Consumer Price Index (Annual Per Cent Change)				
G7	7.3	4.7	2.6	1.9
U.S.	8.0	4.2	2.7	2.0
Japan	2.5	3.1	1.9	1.5
Euro Area	8.4	5.4	2.5	2.0
Germany	8.7	6.1	2.7	2.0
France	5.9	5.7	2.4	2.0
Italy	8.7	6.4	2.2	1.8
United Kingdom	9.1	7.4	2.9	1.8
Canada	6.8	3.8	2.8	2.1
Unemployment Rate (Per Cent Annual Averages)				
U.S.	3.6	3.6	4.2	4.2
Japan	2.6	2.6	2.4	2.3
Euro Area	6.7	6.7	7.4	7.0
Germany	5.3	5.7	5.9	5.5
France	7.3	7.4	7.8	7.5
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, September 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	2.2	1.3	1.8
United States	15.8	2.3	1.3	1.7
Canada	1.4	1.2	0.7	1.5
Mexico	1.8	2.9	1.8	2.2
European Union (EU-27)	14.8	0.7	0.9	1.4
Euro Area (EU-20)	12.0	0.6	0.6	1.2
Germany	3.3	-0.3	0.5	1.3
France	2.3	0.7	0.6	1.4
Italy	1.9	0.7	0.5	0.9
Other EU Members	2.8	0.3	1.9	2.2
United Kingdom	2.3	0.3	0.6	1.6
Asia	44.0	4.3	3.9	4.0
Japan	3.8	1.8	1.0	1.0
Asian NIC's	3.5	1.2	2.3	2.2
Hong Kong	0.3	4.0	2.1	2.4
Korea	1.7	1.2	2.2	2.3
Singapore	0.4	0.8	2.7	2.5
Taiwan	1.0	0.3	2.4	2.1
Russia	3.1	1.7	1.5	1.0
Australia & New Zealand	1.2	1.6	1.5	2.4
Emerging Asia	32.5	5.3	4.8	4.9
ASEAN-5	5.5	4.5	5.1	5.1
China	18.5	5.0	4.2	4.3
India**	7.0	6.7	6.0	6.3
Central/South America	5.5	1.7	1.6	2.3
Brazil	2.4	3.3	1.8	2.1
Other Emerging Markets	13.3	3.8	3.0	3.1
Other Advanced	1.1	1.7	1.9	2.2

F: Forecast by TD Economics, September 2023.  
\* Share of 2021 world gross domestic product (GDP) at PPP.  
\*\* Forecast for India refers to fiscal year.  
Source: International Monetary Fund, TD Economics.

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