

# Quarterly Economic Forecast

## Just Enjoy the Moment

June 18, 2024

### Highlights

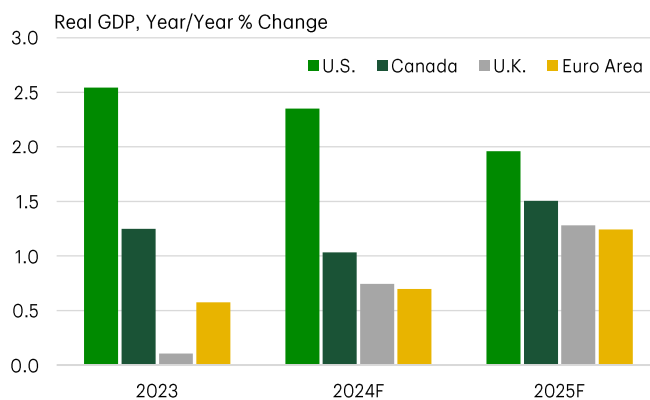
- Global economic momentum gained a step relative to expectations but, even so, the Bank of Canada and European Central Bank began rate-cut cycles, marking the first G7 central banks to do so.
- U.S. exceptionalism will place the Federal Reserve as the last member to sit at this table. Although inflation data for May was better than expected, the central bank will maintain a higher “confidence” threshold given prior head-fakes.

“Let’s just enjoy the moment” was Bank of Canada Governor, Tiff Macklem’s, response when questioned about further rate cuts immediately after cutting the policy rate for the first time this cycle. The policymaker clearly wanted to focus on the good news for an economy coping with the highest policy rate in over twenty years. The sentiment applies to the global economic outlook. With inflation broadly coming to heel and no widespread recession, the best-case scenario is unfolding for policymakers for economies that suffered through severe dislocations over the past four years.

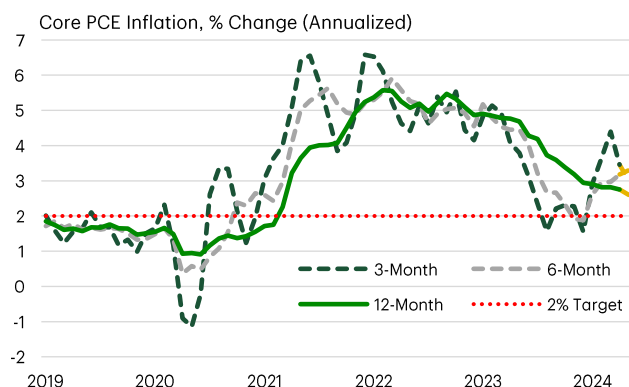
The European Central Bank joined the Bank of Canada in reducing interest rates alongside cooling inflation. Eurozone growth had also surprised to the upside in early 2024, albeit from low expectations. Nonetheless, forecast revisions are now leaning toward upgrades, as the prospect of lower interest rates creates some optimism that a floor can be maintained under economic momentum. Over time, this should help narrow the U.S.’s growth advantage (Chart 1). However, the risk of an uptick in inflation from geopolitical tensions or solid domestic labor markets remains ever-present.

China also exceeded forecasters’ expectations in the first quarter, leading to an upgrade to 2024 GDP. With the 5% growth target almost assured, we doubt the government will provide another dose of stimulus beyond the special long-dated bonds already issued. Ultimately, China’s ag-

**Chart 1: U.S. Lead Wanes As Peers Pick Up The Pace**



Note: "F" indicates TDE forecast. Source: National Statistical Agencies, TD Economics.

**Chart 2: U.S. Inflation Progress Has Slowed In 2024**

Note: Gold endpoints indicate forecast for May 2024.

Source: Bureau of Economic Analysis, TD Economics. Last Observation: April 2024.

ing demographics and restructuring of the economic drivers will maintain a slowing growth trajectory as the years progress. But for now, global growth is expected to remain steady at 3% this year and next.

Geopolitical risks are top of mind. Not just current conflicts in Ukraine and the middle east, but also the return of broader tariff action in the United States. This would weigh on growth as it has in the past. Government budgets are also an area to watch. With the pandemic expanding spending, the normalization of budget balances remains incomplete, and any abrupt adjustment would present a downside risk to growth.

### U.S. living its best-case scenario

Broadly speaking, our U.S. outlook is unchanged versus last quarter. Economic growth this year is expected to nearly match 2023's pace, at 2.4%. However, this is partly due to a very strong 4% hand-off in the second half of 2023, which has boosted the 2024 average. By the end of this year, we expect growth to slow to 1.7% on a Q4/Q4 basis, as the longevity of higher interest rates create more weight under the normalization of savings and job markets.

One key change made to the forecast relative to last quarter was a reduction in the speed of interest rate cuts, with a total of eight rate cuts by the end of 2025, versus a prior view of eleven. Why the change? Progress on inflation has been slower (Chart 2), the economy has been more resilient and we suspect the neutral interest rate is likely a touch higher due to a shift

higher in potential economic growth (for more details see [report](#)).

This might seem at odds with a seemingly slow start in the first quarter, with growth of only 1.3% annualized. However, a drag from net exports and an inventory drawdown obscured a sturdy 2.5% expansion in domestic demand. The details reveal there was less contribution from the consumer than we had expected, but a better showing from business investment. The outlook for business investment, is one of the key upgrades in our forecast with recent indicators showing more momentum on equipment orders and spending on intangible assets.

The pace of consumer spending, however, looks like it's finally bending. Overall household borrowing has slowed dramatically since the Fed started raising rates two years ago, and consumer credit growth, running at around 2%, is at its slowest pace outside of a recession. With pandemic-savings cushions largely exhausted, consumers are tightening their belts. Spending on durable goods, which are big ticket items like vehicles and furniture, has also cooled.

However, the job market hasn't quite gotten the memo. Hiring accelerated so far in 2024, enabled by much faster population growth than the official statistics captured, thanks to increased migration (see [details](#)). We have incorporated some of this upswing highlighted by the Congressional Budget Office into our population and payrolls forecasts. That said, hiring looks set to slow with recent data showing employer demand has normalized to pre-pandemic levels (i.e. the job openings rate). That should help turn down the heat on inflation trends in the service sector. However, core inflation on a year-on year basis is expected to remain a bit on the high side of the Fed's comfort level through 2024 due to unfavourable base effects. We suspect the Fed will look through that to form a decision to cut rates at the end of this year (see table).

## Exhibits

## Interest Rate Outlook

Interest Rates	2023				2024				2025			
	Q1	Q2	Q3	Q4	Q1	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Fed Funds Target Rate	5.00	5.25	5.50	5.50	5.50	5.50	5.50	5.25	5.00	4.50	4.00	3.50
3-mth T-Bill Rate	4.68	5.17	5.32	5.20	5.23	5.25	5.25	5.05	4.65	4.15	3.65	3.15
2-yr Govt. Bond Yield	4.06	4.87	5.03	4.23	4.59	4.70	4.50	4.30	4.00	3.70	3.40	3.10
5-yr Govt. Bond Yield	3.60	4.13	4.60	3.84	4.21	4.30	4.30	4.10	3.85	3.60	3.40	3.20
10-yr Govt. Bond Yield	3.48	3.81	4.59	3.88	4.20	4.30	4.30	4.15	3.95	3.75	3.60	3.45
30-yr Govt. Bond Yield	3.67	3.85	4.73	4.03	4.34	4.45	4.45	4.35	4.25	4.05	3.90	3.75
10-yr-2-yr Govt Spread	-0.58	-1.06	-0.44	-0.35	-0.39	-0.40	-0.20	-0.15	-0.05	0.05	0.20	0.35

F: Forecast by TD Economics, June 2024. All forecasts are end-of-period.

Source: Bloomberg, Federal Reserve, TD Economics.

## Foreign Exchange Outlook

Currency	Exchange Rate	2023				2024				2025			
		Q1	Q2	Q3	Q4	Q1	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Euro	USD per EUR	1.09	1.09	1.06	1.11	1.08	1.07	1.04	1.03	1.05	1.07	1.09	1.12
UK Pound	USD per GBP	1.24	1.27	1.22	1.27	1.26	1.27	1.23	1.22	1.25	1.27	1.30	1.30
Australian Dollar	USD per AUD	0.7	0.7	0.6	0.7	0.7	0.7	0.6	0.6	0.6	0.7	0.7	0.7
NZ Dollar	USD per NZD	0.63	0.61	0.60	0.63	0.60	0.61	0.59	0.58	0.60	0.61	0.62	0.63
Canadian Dollar	CAD per USD	1.35	1.32	1.35	1.32	1.35	1.38	1.39	1.39	1.38	1.36	1.35	1.34
Swiss Franc	CHF per USD	0.91	0.89	0.91	0.84	0.90	0.89	0.89	0.89	0.89	0.89	0.89	0.89
Japanese Yen	JPY per USD	133	144	149	141	151	157	156	155	154	152	151	149
Chinese Renminbi	CNY per USD	6.9	7.3	7.3	7.1	7.2	7.2	7.3	7.4	7.3	7.3	7.2	7.2

F: Forecast by TD Economics, June 2024. All forecasts are end-of-period.

Source: Bloomberg, Federal Reserve, TD Economics.

## Commodity Price Outlook

Commodity	2023				2024				2025			
	Q1	Q2	Q3	Q4	Q1	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Crude Oil (WTI, \$US/bbl)	76	74	82	78	77	80	82	80	78	78	78	76
Natural Gas (\$US/MMBtu)	2.66	2.16	2.59	2.75	2.23	2.30	2.60	2.80	3.00	3.10	3.10	3.20
Gold (\$US/troy oz.)	1889	1977	1928	1977	2072	2325	2350	2350	2350	2325	2275	2175
Silver (\$US/troy oz.)	22.56	24.19	23.58	23.27	23.37	29.00	31.00	31.00	31.00	30.00	29.00	28.00
Copper (cents/lb)	405	384	379	371	383	440	445	450	445	435	435	430
Nickel (\$US/lb)	11.81	10.13	9.23	7.81	7.52	8.36	8.15	7.95	7.70	7.70	7.70	7.70
Aluminum (cents/lb)	109	103	98	99	100	110	108	110	112	112	115	115
Wheat (\$US/bu)	7.32	6.50	5.76	5.89	5.87	6.10	6.30	6.20	6.00	6.00	6.00	6.00

F: Forecast by TD Economics, June 2024. All forecasts are period averages.

Source: Bloomberg, TD Economics.

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	Q4	Q1	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	23	24F	25F	23	24F	25F
Real GDP	2.2	2.1	4.9	3.4	1.3	1.9	1.7	1.9	2.0	2.0	2.2	2.2	2.5	2.4	2.0	3.1	1.7	2.1
Consumer Expenditure	3.8	0.8	3.1	3.3	2.0	2.1	1.8	1.6	1.9	2.0	1.9	2.1	2.2	2.3	1.9	2.7	1.9	2.0
Durable Goods	14.0	-0.3	6.7	3.2	-4.1	2.2	1.6	1.2	2.9	2.5	2.5	2.7	4.2	1.0	2.2	5.8	0.2	2.6
Business Investment	5.7	7.4	1.5	3.8	3.3	3.4	3.4	4.1	4.2	4.0	4.1	3.4	4.5	3.5	3.9	4.6	3.5	3.9
Non-Res. Structures	30.3	16.1	11.2	10.9	0.4	-2.0	3.0	6.0	5.0	3.0	3.0	3.0	13.2	4.7	3.7	16.9	1.8	3.5
Equipment & IPP*	-0.9	5.1	-1.2	1.7	4.2	5.0	3.5	3.5	4.0	4.2	4.5	3.5	2.2	3.1	4.0	1.1	4.1	4.1
Residential Investment	-5.3	-2.2	6.7	2.8	15.4	-5.1	-3.3	2.9	5.0	5.6	7.1	6.7	-10.6	3.6	3.4	0.4	2.2	6.1
Govt. Expenditure	4.8	3.3	5.8	4.6	1.3	1.5	1.3	1.0	0.7	0.4	0.4	0.4	4.1	2.6	0.8	4.6	1.3	0.5
Final Domestic Demand	3.8	2.0	3.5	3.5	2.5	1.9	1.7	1.9	2.1	2.1	2.2	2.2	2.3	2.5	2.0	3.2	2.0	2.1
Exports	6.8	-9.3	5.4	5.0	1.2	-0.3	2.2	3.3	3.4	3.8	3.8	3.8	2.6	1.7	3.2	1.8	1.6	3.7
Imports	1.3	-7.6	4.2	2.2	7.7	5.0	3.3	3.2	3.2	3.1	3.1	3.0	-1.7	3.9	3.3	-0.1	4.8	3.1
Change in Private Inventories	27.2	14.9	77.8	54.9	30.9	62.4	68.5	69.6	64.0	58.4	57.1	55.8	43.7	57.9	58.8	--	--	--
Final Sales	4.6	2.1	3.6	3.9	1.7	1.2	1.5	1.8	2.1	2.1	2.2	2.2	2.9	2.3	2.0	3.5	1.6	2.2
International Current Account Balance (\$Bn)	-851	-860	-786	-779	-841	-1002	-1061	-1073	-1080	-1073	-1062	-1049	-819	-995	-1066	--	--	--
% of GDP	-3.2	-3.2	-2.8	-2.8	-3.0	-3.5	-3.7	-3.7	-3.7	-3.6	-3.5	-3.4	-3.0	-3.5	-3.6	--	--	--
Pre-tax Corporate Profits Including IVA&CCA	-9.9	0.9	14.4	17.3	-2.4	-2.0	-3.4	1.7	-1.1	0.2	1.9	1.2	1.5	3.4	-0.2	5.1	-1.5	0.6
% of GDP	11.8	11.7	11.9	12.2	12.0	11.8	11.6	11.5	11.4	11.2	11.2	11.1	11.9	11.7	11.2	--	--	--
GDP Deflator (y/y)	5.3	3.5	3.2	2.6	2.4	2.7	2.5	2.7	2.5	2.4	2.3	2.3	3.6	2.6	2.4	2.6	2.7	2.3
Nominal GDP	6.3	3.8	8.3	5.1	4.3	4.7	4.2	4.4	4.3	4.3	4.5	4.5	6.3	5.0	4.4	5.9	4.4	4.4
Labor Force	3.9	1.4	1.9	0.4	-0.6	0.7	0.9	0.8	0.8	0.8	0.7	0.7	1.7	0.6	0.8	1.9	0.5	0.7
Employment	2.4	2.0	1.7	1.6	2.0	1.8	1.4	1.0	0.9	0.9	0.9	0.9	2.3	1.7	1.0	1.9	1.6	0.9
Change in Empl. ('000s)	899	753	667	617	772	698	551	414	356	360	361	362	3534	2659	1658	2936	2435	1439
Unemployment Rate (%)	3.5	3.6	3.7	3.8	3.8	3.9	3.9	4.0	4.0	4.0	4.0	4.0	3.6	3.9	4.0	--	--	--
Personal Disp. Income	15.5	5.8	3.1	2.7	5.3	3.6	4.3	4.4	5.3	4.8	4.9	5.1	8.0	4.1	4.7	6.7	4.4	5.0
Pers. Savings Rate (%)	4.8	5.1	4.3	3.7	3.8	3.5	3.6	3.7	4.0	4.2	4.5	4.7	4.5	3.7	4.3	--	--	--
Cons. Price Index (y/y)	5.7	4.0	3.6	3.2	3.2	3.4	3.2	3.1	2.6	2.2	2.1	2.1	4.1	3.2	2.2	3.2	3.1	2.1
Core CPI (y/y)	5.5	5.2	4.4	4.0	3.8	3.6	3.6	3.4	3.0	2.6	2.4	2.2	4.8	3.6	2.5	4.0	3.4	2.2
Core PCE Price Index (y/y)	4.8	4.6	3.8	3.2	2.8	2.7	2.8	2.9	2.5	2.3	2.1	2.0	4.1	2.8	2.2	3.2	2.9	2.0
Housing Starts (mns)	1.4	1.5	1.4	1.5	1.4	1.4	1.4	1.4	1.4	1.4	1.5	1.5	1.4	1.4	1.5	--	--	--
Real Output per Hour** (y/y)	-0.5	1.3	2.4	2.7	2.8	2.2	1.4	0.9	1.3	1.4	1.6	1.7	1.5	1.8	1.5	2.7	0.9	1.7

F: Forecast by TD Economics, June 2024.

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

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

Economic Indicators: G7 & Europe				
	2022	2023	2024F	2025F
<b>Real GDP (Annual Per Cent Change)</b>				
<b>G7 (42.4%)*</b>	2.3	1.7	1.5	1.6
U.S.	1.9	2.5	2.4	2.0
Japan	1.0	1.8	0.4	1.2
Euro Area	3.5	0.6	0.7	1.2
Germany	1.9	0.0	0.2	1.3
France	2.6	1.1	0.9	1.3
Italy	4.1	1.0	0.9	1.0
United Kingdom	4.3	0.1	0.7	1.3
Canada	3.8	1.2	1.0	1.5
<b>Consumer Price Index (Annual Per Cent Change)</b>				
<b>G7</b>	7.3	4.7	2.8	2.1
U.S.	8.0	4.1	3.2	2.2
Japan	2.5	3.3	2.2	1.6
Euro Area	8.4	5.4	2.5	2.1
Germany	8.7	6.0	2.5	2.1
France	5.9	5.7	2.6	2.0
Italy	8.7	5.9	1.2	1.8
United Kingdom	9.1	7.3	2.5	2.2
Canada	6.8	3.9	2.5	2.2
<b>Unemployment Rate (Per Cent Annual Averages)</b>				
U.S.	3.6	3.6	3.9	4.0
Japan	2.6	2.6	2.5	2.3
Euro Area	6.8	6.6	6.6	6.5
Germany	5.3	5.7	6.0	5.7
France	7.3	7.3	7.5	7.2
Italy	8.1	7.7	7.5	7.9
United Kingdom	3.9	4.0	4.6	4.7
Canada	5.3	5.4	6.3	6.6

F: Forecast by TD Economics, June 2024.  
 \*Share of 2022 world gross domestic product (GDP) at PPP.  
 Source: National Statistics Agencies, IMF, TD Economics.

Global Economic Outlook				
Annual Per Cent Change Unless Otherwise Indicated				
	2022 Share*	Forecast		
Real GDP	(%)	2023	2024F	2025F
<b>World</b>	<b>100.0</b>	<b>3.2</b>	<b>3.0</b>	<b>3.0</b>
<b>North America</b>	<b>18.9</b>	<b>2.5</b>	<b>2.2</b>	<b>1.9</b>
United States	15.5	2.5	2.4	2.0
Canada	1.4	1.2	1.0	1.5
Mexico	1.9	3.2	2.1	2.2
<b>European Union (EU-27)</b>	<b>14.9</b>	<b>0.6</b>	<b>0.9</b>	<b>1.6</b>
Euro Area (EU-20)	12.0	0.6	0.7	1.2
Germany	3.3	0.0	0.2	1.3
France	2.3	1.1	0.9	1.3
Italy	1.9	1.0	0.9	1.0
Other EU Members	2.8	0.3	2.0	3.0
<b>Asia</b>	<b>45.0</b>	<b>4.8</b>	<b>4.4</b>	<b>4.1</b>
Japan	3.8	1.8	0.4	1.2
Asian NIC's	3.5	1.5	3.0	2.0
Hong Kong	0.3	3.3	3.2	2.5
Korea	1.7	1.4	2.7	2.0
Singapore	0.4	1.1	2.5	2.5
Taiwan	1.0	1.3	3.6	1.5
Russia	2.9	3.0	2.8	1.9
Australia & New Zealand	1.2	1.8	1.3	2.4
Emerging Asia	32.8	5.8	5.3	4.9
ASEAN-5	5.2	4.4	4.9	5.0
China	18.4	5.2	5.0	4.3
India**	7.3	8.2	6.5	6.5
<b>Central/South America</b>	<b>5.4</b>	<b>1.4</b>	<b>1.1</b>	<b>2.2</b>
Brazil	2.3	2.9	1.9	2.3
<b>Other Emerging Markets</b>	<b>12.7</b>	<b>3.6</b>	<b>2.6</b>	<b>3.0</b>
<b>Other Advanced</b>	<b>3.4</b>	<b>0.4</b>	<b>1.0</b>	<b>1.6</b>
United Kingdom	2.3	0.1	0.7	1.3

F: Forecast by TD Economics, June 2024.  
 \* Share of 2022 world gross domestic product (GDP) at PPP.  
 \*\* Forecast for India refers to fiscal year.  
 Source: National Statistics Agencies, IMF, TD Economics.

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