

Quarterly Economic Forecast Steady As She Goes

March 19, 2024

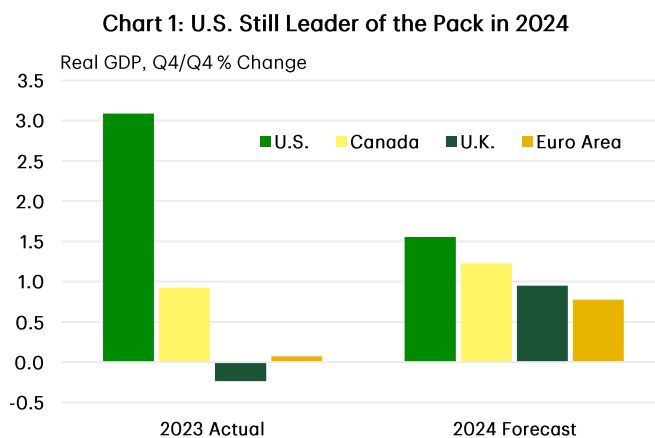
Highlights

- Advanced economy central banks are now holding steady: they have acknowledged interest rates are at a peak, but not tipping their hand on when they expect to cut rates.
- However, the U.S. economy's resilience has once again defied expectations. This means the Fed can afford to be patient with rate cuts and ride out the recent flare up in inflation. Slower growth and inflation are still expected, which should lead to the first Fed rate cut in July.

At 30,000 feet, the global economic outlook has evolved broadly in line with our expectations from last quarter. One exception is the U.S., which stands out as the biggest upgrade in the forecast. Advanced economy central banks are holding steady as she goes for now, placing the burden of proof on the data to provide reassurance that a reduction in interest rates won't accelerate inflation after a hard-fought battle.

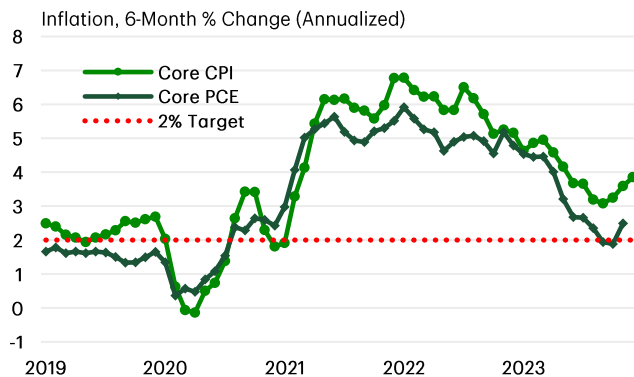
The European Central Bank (ECB) and the Bank of Canada (BoC) should be among the first to lower rates, likely mid-year. The economy has materially downshifted in both regions, but earlier in Europe due to the fallout of Russia's war in Ukraine. Europe has also experienced a more decisive cooling in inflation than Canada. Once interest rates head lower, economic momentum would gain a step as the year comes to an end, but still trail the impressive pace of the United States (Chart 1).

China's economy is still on track to slow from 2023, reflecting the ripple effects from the overhang in the housing market (see [details](#)). The government has set a 5% target for real GDP growth in 2024. Previously announced stimulus measures should help growth this year, but absent structural reforms, this will only be a band aid fix. China's economy will continue to struggle with its long-term growth prospects. In the meantime, excess capacity in China's good-producing sectors is lending a hand to cooling global inflation, offering a timely offset to the rise in shipping costs from conflict in the Red Sea.



Source: National Statistical Agencies, TD Economics.

Chart 2: Progress on U.S. Inflation Uneven



Note: Core = Ex. Food & Energy.
Source: Bureau of Labor Statistics, Bureau of Economic Analysis, TD Economics.

U.S. economic juggernaut to gear down this year

The U.S. economy continues to defy expectations in the face of high interest rates. At the risk of sounding like the boy who cried wolf, we still expect growth to gear down this year, but to a lesser extent than we forecasted one quarter ago. The annual average growth forecast of 2.3% for 2024 is flattered by a strong hand off from last year, masking a slowdown to 1.6% by the end of this year on a Q4/Q4 basis.

Consumer spending is tracking a solid 2.6% pace in the first quarter, but households will really have to dig into savings and wealth to maintain this pace going forward, and we're betting against that dynamic. First, spending growth is already outpacing income by a wide margin, leaving households increasingly reliant on credit. Second, excess savings are depleted for all but the highest income households. Third, delinquency rates on credit cards and autos have risen beyond pre-pandemic levels. This is one of the clearest signals that strain is seeping into households, who will likely economize to a greater extent as time rolls forward. In all, consumer spending is forecast to slow from a 2.7% pace (on a Q4/Q4 basis) at the end of 2023 to 1.8% by the end of this year. However, relative to other countries, this would still mark a stellar performance.

Business investment is performing as we expected and has not undergone any significant forecast revisions. It has already cooled from a heartier pace in the first half of last year on a collision of factors. Businesses are responding to lower levels of profits relative to the earlier phases of the recovery, while also absorbing higher financing costs and judging their sales outlook against talk of economic slowdown.

Their response is also evident in their hiring patterns. Private sector hiring slowed through last year, and only recently showed a little more oomph to start 2024. Any downshift in economic momentum should correspond with lower hiring intentions that would push the unemployment rate a bit higher to 4.2% by the end of this year. We have not pencilled in outright or continuous job losses because the job vacancy rate remains elevated relative to past historical cycles, even as it continues to trend down. It's still a long ways off from signaling economy-wide layoffs.

By extension, the resilient domestic demand and labor market have stymied a previously favorable downtrend trend in inflation (Chart 2). This is starting to dash hopes that the U.S. can achieve its 2% target without some degree of growth-sacrifice in the economy. It also shows that the Federal Reserve was wise to be cautious in signalling that interest rate cuts were imminent.

We have maintained an out-of-consensus view on the timing of interest rate cuts since last year, with an expectation that July is likely the better timing rather than market pricing that went from a March expectation all the way to being repriced for June. This is the right directional shift but may not yet have gone far enough. In fact, we place the risks around our outlook on a possible further delay if inflation fails to make material progress in the next two-to-three months.

Exhibits

Interest Rate Outlook												
Interest Rates	2023				2024				2025			
	Q1	Q2	Q3	Q4	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Fed Funds Target Rate	5.00	5.25	5.50	5.50	5.50	5.50	5.25	4.75	4.25	3.75	3.25	2.75
3-mth T-Bill Rate	4.68	5.17	5.32	5.20	5.25	5.30	4.90	4.40	3.90	3.40	2.90	2.65
2-yr Govt. Bond Yield	4.06	4.87	5.03	4.23	4.60	4.40	4.10	3.80	3.50	3.20	2.90	2.75
5-yr Govt. Bond Yield	3.60	4.13	4.60	3.84	4.20	4.05	3.75	3.50	3.25	3.05	2.95	2.95
10-yr Govt. Bond Yield	3.48	3.81	4.59	3.88	4.20	4.10	3.85	3.65	3.45	3.30	3.20	3.20
30-yr Govt. Bond Yield	3.67	3.85	4.73	4.03	4.35	4.25	4.15	3.95	3.75	3.60	3.50	3.50
10-yr-2-yr Govt Spread	-0.58	-1.06	-0.44	-0.35	-0.40	-0.30	-0.25	-0.15	-0.05	0.10	0.30	0.45

F: Forecast by TD Economics, March 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	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Euro	USD per EUR	1.09	1.09	1.06	1.11	1.08	1.05	1.07	1.09	1.11	1.14	1.16	1.18
UK Pound	USD per GBP	1.24	1.27	1.22	1.27	1.26	1.23	1.25	1.27	1.30	1.30	1.30	1.30
Australian Dollar	USD per AUD	0.7	0.7	0.6	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
NZ Dollar	USD per NZD	0.63	0.61	0.60	0.63	0.62	0.61	0.61	0.62	0.63	0.65	0.66	0.67
Canadian Dollar	CAD per USD	1.35	1.32	1.35	1.32	1.35	1.37	1.37	1.35	1.32	1.30	1.27	1.25
Swiss Franc	CHF per USD	0.91	0.89	0.91	0.84	0.84	0.84	0.84	0.84	0.84	0.84	0.84	0.84
Japanese Yen	JPY per USD	133	144	149	141	145	144	143	142	141	140	138	137
Chinese Renminbi	CNY per USD	6.9	7.3	7.3	7.1	7.2	7.2	7.2	7.1	7.1	7.0	7.0	6.9

F: Forecast by TD Economics, March 2024. All forecasts are end-of-period.
Source: Bloomberg, Federal Reserve, TD Economics.

Commodity Price Outlook												
Commodity	2023				2024				2025			
	Q1	Q2	Q3	Q4	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Crude Oil (WTI, \$US/bbl)	76	74	82	78	76	82	82	80	79	78	78	77
Natural Gas (\$US/MMBtu)	2.66	2.16	2.59	2.75	2.20	2.40	2.60	2.80	2.90	2.90	3.00	3.00
Gold (\$US/troy oz.)	1889	1977	1928	1977	2050	2175	2075	2000	2000	2000	2000	2000
Silver (\$US/troy oz.)	22.56	24.19	23.58	23.27	23.25	25.00	24.50	24.00	24.00	24.00	23.50	23.50
Copper (cents/lb)	405	384	379	371	380	395	400	400	395	395	390	390
Nickel (\$US/lb)	11.81	10.13	9.23	7.81	7.60	7.80	8.00	8.20	8.30	8.30	8.30	8.30
Aluminum (cents/lb)	109	103	98	99	100	100	104	104	106	106	108	108
Wheat (\$US/bu)	7.32	6.50	5.76	5.89	5.75	5.50	5.75	6.00	6.00	6.00	6.00	6.00

F: Forecast by TD Economics, March 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	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	23	24F	25F	23	24F	25F
Real GDP	2.2	2.1	4.9	3.2	2.1	1.3	1.0	1.7	1.9	2.1	2.0	2.0	2.5	2.3	1.8	3.1	1.6	2.0
Consumer Expenditure	3.8	0.8	3.1	3.0	2.6	1.9	1.2	1.5	1.6	1.7	1.9	2.0	2.2	2.2	1.6	2.7	1.8	1.8
Durable Goods	14.0	-0.3	6.7	3.2	-1.3	3.1	1.0	2.4	2.3	2.6	3.1	2.7	4.2	1.9	2.4	5.7	1.3	2.7
Business Investment	5.7	7.4	1.5	2.4	0.5	0.7	2.9	3.8	4.0	4.2	3.6	3.2	4.4	1.9	3.5	4.2	2.0	3.7
Non-Res. Structures	30.3	16.1	11.2	7.6	2.0	-2.0	3.0	6.0	5.0	4.0	3.0	3.0	13.0	4.5	3.9	16.0	2.2	3.7
Equipment & IPP*	-0.9	5.1	-1.2	1.6	0.1	1.5	2.8	3.2	3.7	4.2	3.7	3.3	2.1	1.3	3.4	1.1	1.9	3.7
Residential Investment	-5.3	-2.2	6.7	2.9	5.8	-0.6	1.3	4.2	6.2	7.5	6.0	5.1	-10.6	3.0	4.9	0.4	2.6	6.2
Govt. Expenditure	4.8	3.3	5.8	4.2	2.5	2.0	1.5	1.0	0.5	0.5	0.6	0.6	4.0	3.0	0.8	4.5	1.7	0.5
Final Domestic Demand	3.8	2.0	3.5	3.1	2.4	1.7	1.5	1.8	1.9	2.1	2.1	2.0	2.2	2.4	1.9	3.1	1.8	2.0
Exports	6.8	-9.3	5.4	6.4	4.0	2.5	2.0	2.5	2.7	3.0	3.1	3.0	2.7	3.1	2.7	2.1	2.7	2.9
Imports	1.3	-7.6	4.2	2.7	5.1	3.1	2.2	3.0	2.9	3.3	3.3	3.2	-1.6	2.8	3.0	0.0	3.3	3.2
Change in Private Inventories	27.2	14.9	77.8	66.3	61.6	50.0	31.2	31.6	36.5	41.5	41.5	41.6	46.6	43.6	40.3	--	--	--
Final Sales	4.6	2.1	3.6	3.5	2.2	1.6	1.4	1.7	1.8	2.0	2.0	2.0	2.9	2.4	1.8	3.4	1.7	1.9
International Current Account Balance (\$Bn)	-858	-867	-801	-820	-895	-912	-927	-958	-971	-994	-1007	-1013	-837	-923	-996	--	--	--
% of GDP	-3.2	-3.2	-2.9	-2.9	-3.2	-3.2	-3.2	-3.3	-3.3	-3.4	-3.4	-3.3	-3.1	-3.2	-3.3	--	--	--
Pre-tax Corporate Profits Including IVA&CCA	-9.9	0.9	14.4	3.3	7.4	-0.1	-6.6	-1.8	1.2	6.1	6.3	5.3	0.7	3.2	1.3	1.8	-0.4	4.7
% of GDP	11.8	11.7	11.9	11.8	11.9	11.8	11.5	11.3	11.3	11.3	11.4	11.4	11.8	11.6	11.3	--	--	--
GDP Deflator (y/y)	5.3	3.5	3.2	2.6	2.3	2.5	2.2	2.4	2.3	2.3	2.2	2.2	3.6	2.3	2.3	2.6	2.4	2.2
Nominal GDP	6.3	3.8	8.3	4.9	4.5	3.9	3.4	4.1	4.2	4.3	4.2	4.2	6.3	4.7	4.1	5.8	4.0	4.2
Labor Force	3.9	1.4	1.9	0.4	-0.8	2.0	1.2	0.4	0.3	0.4	0.6	0.6	1.7	0.7	0.6	1.9	0.7	0.5
Employment	2.4	2.0	1.7	1.6	1.9	1.4	0.4	0.1	0.3	0.6	0.6	0.6	2.3	1.4	0.4	1.9	0.9	0.5
Change in Empl. ('000s)	899	753	667	617	735	534	145	21	132	220	238	239	3534	2198	697	2936	1435	829
Unemployment Rate (%)	3.5	3.6	3.7	3.8	3.8	3.9	4.1	4.2	4.1	4.0	4.0	4.0	3.6	4.0	4.1	--	--	--
Personal Disp. Income	15.5	5.8	3.1	4.0	4.5	5.4	4.0	4.2	4.6	4.9	5.1	5.2	8.1	4.4	4.7	7.0	4.5	5.0
Pers. Savings Rate (%)	4.8	5.1	4.3	3.9	3.8	3.8	3.9	4.0	4.2	4.5	4.8	5.1	4.5	3.9	4.6	--	--	--
Cons. Price Index (y/y)	5.7	4.0	3.6	3.2	3.2	3.4	3.1	3.0	2.6	2.2	2.1	1.9	4.1	3.2	2.2	3.2	3.0	1.9
Core CPI (y/y)	5.5	5.2	4.4	4.0	3.8	3.5	3.5	3.3	2.8	2.5	2.3	2.2	4.8	3.6	2.4	4.0	3.3	2.2
Core PCE Price Index (y/y)	4.8	4.6	3.8	3.2	2.7	2.5	2.7	2.7	2.4	2.2	2.1	2.0	4.1	2.7	2.2	3.2	2.7	2.0
Housing Starts (mns)	1.4	1.4	1.4	1.5	1.4	1.4	1.4	1.4	1.4	1.5	1.5	1.5	1.4	1.4	1.5	--	--	--
Real Output per Hour** (y/y)	-0.7	1.2	2.3	2.6	3.4	2.6	1.5	1.2	0.9	1.2	1.4	1.4	1.3	2.2	1.2	2.6	1.2	1.4

F: Forecast by TD Economics, March 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
Real GDP (Annual Per Cent Change)				
G7 (42.4%)*	2.3	1.7	1.4	1.5
U.S.	1.9	2.5	2.3	1.8
Japan	0.9	1.9	0.7	1.1
Euro Area	3.5	0.5	0.3	1.2
Germany	1.9	-0.1	0.0	1.3
France	2.5	0.9	0.5	1.3
Italy	4.1	1.0	0.5	1.0
United Kingdom	4.3	0.1	0.2	1.3
Canada	3.8	1.1	0.9	1.5
Consumer Price Index (Annual Per Cent Change)				
G7	7.3	4.7	2.8	2.0
U.S.	8.0	4.1	3.2	2.2
Japan	2.5	3.3	2.4	1.5
Euro Area	8.4	5.4	2.3	2.0
Germany	8.7	6.0	2.4	2.0
France	5.9	5.7	2.5	2.0
Italy	8.7	5.9	1.7	1.8
United Kingdom	9.1	7.3	2.3	1.9
Canada	6.8	3.9	2.7	2.1
Unemployment Rate (Per Cent Annual Averages)				
U.S.	3.6	3.6	4.0	4.1
Japan	2.6	2.6	2.5	2.3
Euro Area	6.7	6.5	6.9	6.8
Germany	5.3	5.7	6.0	5.7
France	7.3	7.4	7.5	7.3
Italy	8.1	7.7	8.3	8.2
United Kingdom	3.9	4.0	4.5	4.4
Canada	5.3	5.4	6.3	6.6

F: Forecast by TD Economics, March 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				
Real GDP	2022 Share*	Forecast		
	(%)	2023	2024F	2025F
World	100.0	3.2	2.8	3.0
North America	18.9	2.5	2.3	1.8
United States	15.5	2.5	2.3	1.8
Canada	1.4	1.1	0.9	1.5
Mexico	1.9	3.2	2.6	1.9
European Union (EU-27)	14.9	0.5	0.6	1.4
Euro Area (EU-20)	12.0	0.5	0.3	1.2
Germany	3.3	-0.1	0.0	1.3
France	2.3	0.9	0.5	1.3
Italy	1.9	1.0	0.5	1.0
Other EU Members	2.8	0.3	2.1	2.2
United Kingdom	2.3	0.1	0.2	1.3
Asia	45.0	4.7	4.2	4.1
Japan	3.8	1.9	0.7	1.1
Asian NIC's	3.5	1.5	2.6	2.0
Hong Kong	0.3	3.2	2.3	2.5
Korea	1.7	1.3	2.2	2.1
Singapore	0.4	1.1	2.5	2.1
Taiwan	1.0	1.3	3.6	1.8
Russia	2.9	2.5	2.7	2.1
Australia & New Zealand	1.2	1.8	1.6	2.3
Emerging Asia	32.8	5.7	5.0	5.0
ASEAN-5	5.2	4.4	4.8	5.0
China	18.4	5.2	4.6	4.3
India**	7.3	8.0	6.2	6.5
Central/South America	5.4	1.4	1.1	2.3
Brazil	2.3	2.9	1.6	2.2
Other Emerging Markets	12.7	3.3	2.4	3.2
Other Advanced	1.1	1.1	1.0	2.2

F: Forecast by TD Economics, March 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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