

Long-Term Economic Forecast

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United States

- The American economy remains on track to accelerate to 2.3% in 2017, up from 1.5% last year. Healthy momentum and fiscal stimulus should see growth improve further to 2.6% in 2018, and then edge down to 2.3% in 2019 as the economic cycle matures.
- This forecast incorporates the impact of tax cuts, which are anticipated to lift annual economic growth by around 0.2 percentage points on average in 2018 and 2019, but become a modest drag thereafter as some provisions expire. Given the proximity of the economy to full employment, the modest fiscal boost is expected to pull forward the path of inflation and monetary tightening.
- At 4.1%, the current unemployment rate is below estimates of full employment. We expect modest declines from here, with the rate averaging 3.9% in 2018 and 3.8% in 2019, helping to absorb any remaining shadow slack.
- As the labor market tightens further, it is likely to pull underlying inflation higher, although the process is taking longer than anticipated. From 1.5% in 2017, core inflation, as measured by the core personal consumption expenditure (PCE) price index, is expected to rise to 2.0% in 2019.
- The Federal Reserve is expected to normalize monetary policy gradually, bringing the fed funds rate to a range of 2.50%-2.75% by the end of 2019.

Canada

- Canada's robust start to 2017 will underpin a 3.0% expansion for that year. Healthy income growth, ongoing business investment, and fiscal stimulus will help maintain an above-trend pace of 2.4% in 2018.
- Economic growth is anticipated to moderate thereafter, partly reflecting a return to a more sustainable pace of housing activity and credit growth. Population aging and modest productivity growth conspire to hold down Canada's longer-term growth potential, although immigration will act as a counterbalance to these factors.
- A more stable outlook for oil prices should contribute to an ongoing recovery in investment. We expect a continued gradual rise in the price of oil to the \$60 U.S. to \$65 U.S. range by 2021. Still, ongoing competition from lower-cost shale producers will remain a constraining factor for investment in the oil sands. As a result, non-residential investment is expected to average only 2.7% growth per year over the longer term, well below its historic average pace of 6%.
- Excess capacity has been absorbed, and building inflationary pressures are expected to spur the Bank of Canada to continue tightening monetary policy at a gradual pace, particularly past early 2018. The policy interest rate is anticipated to reach just 2.50% by the end of the forecast horizon in 2021.



U.S. ECONOMIC OUTLOOK												
<i>Period-Over-Period Annualized Per Cent Change Unless Otherwise Indicated</i>												
	Annual Average						Fourth Quarter / Fourth Quarter					
	16	17F	18F	19F	20F	21F	16	17F	18F	19F	20F	21F
Real GDP	1.5	2.3	2.6	2.3	2.0	1.8	1.8	2.6	2.3	2.2	1.8	1.8
Consumer Expenditure	2.7	2.7	2.5	2.4	2.2	2.0	2.8	2.6	2.4	2.4	2.0	2.0
Durable Goods	5.5	6.3	5.4	3.4	3.2	3.2	7.0	5.8	3.8	3.4	3.1	3.2
Business Investment	-0.6	4.7	5.1	4.5	3.9	3.1	0.7	6.4	4.4	4.4	3.6	3.0
Non-Res. Structures	-4.1	5.2	1.7	4.4	4.7	3.6	3.5	3.0	3.8	5.1	4.2	3.2
Equipment & IPP*	0.5	4.6	6.1	4.5	3.7	3.0	-0.1	7.5	4.6	4.2	3.4	2.9
Residential Investment	5.5	1.3	2.2	4.0	4.9	3.8	2.5	0.7	3.5	5.0	4.5	3.2
Govt. Expenditure	0.8	-0.1	0.5	0.8	0.7	0.8	0.4	0.1	0.7	0.6	0.8	0.8
Final Domestic Demand	2.1	2.4	2.5	2.4	2.2	2.0	2.1	2.5	2.4	2.4	2.1	2.0
Exports	-0.3	3.2	4.7	5.7	5.6	4.9	0.6	4.1	5.6	5.8	5.4	4.6
Imports	1.3	3.4	4.9	6.3	6.6	5.5	2.7	2.5	6.2	6.6	6.2	5.3
Change in Private Inventories	33.4	21.6	56.8	62.0	54.3	48.5	---	---	---	---	---	---
Final Sales	1.9	2.4	2.4	2.3	2.0	1.9	1.9	2.7	2.2	2.2	1.9	1.8
International Current Account Balance (\$Bn)	-452	-457	-554	-633	-681	-680	---	---	---	---	---	---
% of GDP	-2.4	-2.4	-2.7	-3.0	-3.1	-3.0	---	---	---	---	---	---
Pre-tax Corporate Profits including IVA&CCA	-2.1	4.8	2.9	1.7	2.2	3.0	8.7	4.0	0.4	1.9	2.5	2.9
% of GDP	11.1	11.2	11.0	10.7	10.5	10.4	---	---	---	---	---	---
GDP Deflator (y/y)	1.3	1.8	1.8	2.2	2.4	2.3	1.5	1.8	1.9	2.3	2.4	2.3
Nominal GDP	2.8	4.1	4.4	4.6	4.4	4.2	3.4	4.5	4.2	4.6	4.3	4.2
Labor Force	1.3	0.7	0.9	1.0	0.8	0.7	1.3	0.7	1.1	0.9	0.8	0.6
Employment	1.8	1.5	1.4	1.1	0.7	0.5	1.6	1.4	1.4	1.0	0.6	0.5
Change in Empl. ('000s)	2,492	2,145	2,082	1,685	1,057	766	2,332	2,058	2,032	1,442	869	758
Unemployment Rate (%)	4.9	4.3	3.9	3.8	4.0	4.3	---	---	---	---	---	---
Personal Disp. Income	2.6	3.0	4.8	5.3	5.1	4.7	1.9	3.7	5.4	5.3	4.9	4.7
Pers. Savings Rate (%)	4.9	3.5	3.9	4.8	5.5	6.2	---	---	---	---	---	---
Cons. Price Index (y/y)	1.3	2.1	1.9	2.0	2.2	2.1	1.8	2.0	1.9	2.1	2.1	2.1
Core CPI (y/y)	2.2	1.8	2.1	2.2	2.2	2.2	2.2	1.8	2.3	2.2	2.2	2.2
Core PCE Price Index (y/y)	1.8	1.5	1.8	2.0	2.0	1.9	1.9	1.5	1.9	2.0	2.0	1.9
Housing Starts (mns)	1.18	1.21	1.28	1.37	1.45	1.50	---	---	---	---	---	---
Real Output per hour** (y/y)	0.0	1.4	1.3	1.3	1.5	1.7	0.8	1.5	1.0	1.5	1.6	1.6
*Intellectual property products. F: Forecast by TD Economics, December 2017.												
**Non-farm business sector.												
Source: Bureau of Labor Statistics, Bureau of Economic Analysis, Census Bureau, TD Economics.												



CANADIAN ECONOMIC OUTLOOK												
<i>Period-Over-Period Annualized Per Cent Change Unless Otherwise Indicated</i>												
	Annual Average						4th Quarter / 4th Quarter					
	16	17F	18F	19F	20F	21F	16	17F	18F	19F	20F	21F
Real GDP	1.4	3.0	2.4	1.8	1.6	1.6	2.0	3.2	2.1	1.7	1.6	1.7
Consumer Expenditure	2.4	3.7	2.9	1.7	1.3	1.4	2.6	3.9	2.3	1.5	1.3	1.4
Durable Goods	4.5	7.4	3.1	1.6	1.4	1.5	3.4	6.9	2.0	1.5	1.4	1.6
Business Investment	-8.9	1.4	4.1	3.4	2.6	2.5	-8.5	6.5	3.9	3.1	2.5	2.5
Non-Res. Structures	-11.5	-1.1	3.7	2.9	2.4	2.6	-8.6	3.7	3.6	2.6	2.5	2.6
Equipment & IPP*	-6.1	4.1	4.5	3.9	2.8	2.4	-8.5	9.6	4.2	3.5	2.5	2.3
Residential Investment	3.3	2.7	-2.1	0.2	2.3	2.3	2.9	2.1	-2.8	1.8	2.1	2.8
Govt. Expenditure	2.7	2.1	2.7	1.8	1.6	1.5	3.1	2.7	2.1	1.7	1.5	1.5
Final Domestic Demand	1.1	3.0	2.9	1.8	1.6	1.6	1.3	4.1	2.0	1.7	1.5	1.6
Exports	1.0	0.9	1.8	3.1	2.8	2.8	0.7	0.3	3.3	3.1	2.7	2.8
Imports	-1.0	3.0	1.9	2.8	2.7	2.6	-1.5	4.4	2.8	2.8	2.6	2.6
Change in Non-farm Inventories (2007 \$Bn)	0.9	12.3	8.2	6.5	6.0	5.9	---	---	---	---	---	---
Final Sales	1.8	2.4	2.6	1.9	1.6	1.6	2.0	2.5	2.2	1.8	1.6	1.7
International Current Account Balance (\$Bn)	-65.4	-66.2	-67.7	-49.7	-42.6	-41.4	---	---	---	---	---	---
% of GDP	-3.2	-3.1	-3.0	-2.1	-1.8	-1.7	---	---	---	---	---	---
Pre-tax Corp. Profits	-1.9	20.1	4.9	5.7	5.5	5.5	17.3	8.1	6.1	5.5	5.5	5.5
% of GDP	11.2	12.8	12.9	13.1	13.3	13.6	---	---	---	---	---	---
GDP Deflator (y/y)	0.6	2.1	1.6	2.1	1.9	1.9	2.0	1.3	2.0	2.0	1.9	1.9
Nominal GDP	2.0	5.2	4.1	3.9	3.6	3.6	3.9	4.5	4.1	3.8	3.5	3.6
Labour Force	0.8	1.1	0.8	0.6	0.6	0.6	0.9	1.0	0.7	0.6	0.6	0.6
Employment	0.7	1.8	1.3	0.6	0.5	0.6	1.1	1.9	0.8	0.5	0.5	0.6
Change in Empl. ('000s)	134	325	234	108	95	107	197	346	149	97	93	121
Unemployment Rate (%)	7.0	6.4	6.0	6.0	6.1	6.2	---	---	---	---	---	---
Personal Disp. Income	2.2	4.4	4.5	3.3	2.8	2.8	3.4	3.7	4.0	3.0	2.8	2.8
Pers. Savings Rate (%)	3.5	2.8	3.2	3.2	3.2	3.1	---	---	---	---	---	---
Cons. Price Index (y/y)	1.4	1.5	1.8	2.0	2.0	2.0	1.4	1.5	2.0	2.1	2.0	2.0
CPIX (y/y)**	1.9	1.1	1.4	1.9	2.0	2.0	1.5	1.0	1.7	2.0	2.0	2.0
BoC Inflation (y/y)**	1.8	1.5	1.8	2.0	2.0	2.0	1.7	1.6	1.8	2.0	2.0	2.0
Housing Starts ('000s)	199	222	198	193	197	205	---	---	---	---	---	---
Home Prices (y/y)	10.6	4.0	0.1	2.0	2.6	3.4	5.6	4.5	0.2	2.1	3.1	3.2
Real GDP / worker (y/y)	0.7	1.2	1.1	1.2	1.1	1.0	0.9	1.3	1.3	1.2	1.1	1.0

F: Forecast by TD Economics, December 2017.

*Intellectual Property Products. ** CPIX: CPI ex. 8 most volatile components. BoC Inflation: avg. of CPI-trim, CPI-median, and CPI-common.

Home price measure shown is the CREA Composite Sale Price.

Sources: Statistics Canada, Bank of Canada, CMHC, CREA, TD Economics.



INTEREST RATE OUTLOOK												
	Annual Average						End of Period					
	16	17F	18F	19F	20F	21F	16	17F	18F	19F	20F	21F
U.S. FIXED INCOME												
Fed Funds Target Rate (%)*	0.55	1.25	1.75	2.40	2.75	2.75	0.75	1.50	2.00	2.75	2.75	2.75
3-mth T-Bill Rate (%)	0.30	1.05	1.65	2.35	2.65	2.65	0.51	1.35	1.85	2.65	2.65	2.65
2-yr Govt. Bond Yield (%)	0.80	1.50	2.15	2.60	2.70	2.70	1.20	1.80	2.35	2.70	2.70	2.70
5-yr Govt. Bond Yield (%)	1.30	2.00	2.50	2.85	2.85	2.85	1.93	2.20	2.65	2.85	2.85	2.85
10-yr Govt. Bond Yield (%)	1.85	2.35	2.80	3.00	3.00	3.00	2.45	2.40	2.95	3.00	3.00	3.00
10-yr-2-yr Govt. Spread (%)	1.05	0.85	0.65	0.40	0.30	0.30	1.25	0.60	0.60	0.30	0.30	0.30
CANADIAN FIXED INCOME												
Overnight Target Rate (%)	0.50	0.75	1.40	1.90	2.40	2.50	0.50	1.00	1.50	2.00	2.50	2.50
3-mth T-Bill Rate (%)	0.50	0.80	1.45	1.95	2.40	2.50	0.46	0.95	1.63	2.13	2.50	2.50
2-yr Govt. Bond Yield (%)	0.60	1.25	1.90	2.35	2.50	2.55	0.74	1.55	2.10	2.45	2.55	2.55
5-yr Govt. Bond Yield (%)	0.75	1.50	2.05	2.50	2.70	2.70	1.11	1.70	2.25	2.65	2.70	2.70
10-yr Govt. Bond Yield (%)	1.25	1.85	2.35	2.75	2.85	2.85	1.72	1.90	2.55	2.80	2.85	2.85
10-yr-2-yr Govt. Spread (%)	0.65	0.60	0.45	0.40	0.35	0.30	0.98	0.35	0.45	0.35	0.30	0.30
*Upper bound of target range. F: Forecast by TD Economics as at December 2017.												
Annual averages are the average of the four quarterly end-of-period forecasts.												
Source: Bank of Canada, Bloomberg, Statistics Canada, TD Economics.												

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