TD Economics

Long-Term Economic Forecast

Leslie Preston, Senior Economist, 416-983-7053
Brian DePratto, Senior Economist, 416-944-5069

March 15, 2018

United States

- Healthy momentum and fiscal stimulus should see growth accelerate to 2.7% in 2018, and 2.9% in 2019, as the boost to government spending ramps up. As the temporary lift from tax cuts and spending fade, growth is expected to moderate to 1.8% by the end of 2020.
- With the economy already operating at or near full employment, the fiscal boost is expected to pull forward the path of inflation and monetary tightening.
- At 4.1%, the current unemployment rate is likely near its structural rate. Above-trend economic growth over the next two years will likely pressure this figure down in the near-term. The end result should correspond with higher wages that draw people currently on the sidelines back into the labour market. By the tail-end of the projection period there will be little-to-no remaining shadow labour market slack. The adult population that is below the age of 65 is projected to grow by just 0.2% annually, resulting in employment growth of just 0.5% – roughly half the pace observed historically.
- The tight labour market and wage pressures should result in a pass-through to consumer inflation. As a result, we anticipate a very modest overshoot of the Federal Reserve's 2.0% target over the next few years. The Federal Reserve is expected to lift the fed funds rate to a peak of 3.0% by the end of 2019. This is modestly above our estimate of the neutral rate of 2.75%, but is consistent with returning inflation to 2% over the medium term.

Canada

- Following a robust pace of 3.0% in 2017, the Canadian economy is already on a path to downshift to a more modest 2.0% pace over the next two years. Healthy income growth, ongoing business investment, and fiscal stimulus will remain supportive. On the flip side, a cooling housing market will weigh on growth, while the threat of trade disruption presents a key downside risk to the economic outlook.
- Over the 2020-2022 period, economic growth is expected to average 1.7%. Population aging and modest productivity growth equate to a slower pace relative to history.
- Similar to the U.S. market, the Canadian unemployment rate is also running near its structural rate. This will constrain employment growth to move more in line with the labour market, which is estimated at 0.6% annually. Immigration will continue to support population growth, but current levels are not sufficient to offset the retirement of baby boomers from the workforce. Labour productivity growth (as measured by output per worker) is expected to average 1.1%, slightly above its long-run historically average.
- Excess capacity has been largely absorbed, and this should keep the Bank of Canada biased towards further rate hikes. We expect just one more rate increase in 2018 and two in 2019. The policy interest rate is anticipated to reach 2.50% by 2022, which remains modest within a historical context.

U.S. ECONOMIC OUTLOOK *Period-Over-Period Annualized Per Cent Change Unless Otherwise Indicated*												
	Annual Average						Fourth Quarter / Fourth Quarter					
	17	18F	19F	20F	21F	22F	17	18F	19F	20F	21F	22F
Real GDP	2.3	2.7	2.9	2.1	1.8	1.8	2.5	2.8	2.7	1.8	1.8	1.8
Consumer Expenditure	2.7	2.8	2.6	2.3	2.1	2.0	2.8	2.6	2.5	2.1	2.1	2.0
Durable Goods	6.7	6.0	3.8	3.3	3.3	3.3	7.4	3.7	3.4	3.1	3.3	3.2
Business Investment	4.7	4.9	6.1	4.3	3.2	2.9	6.3	4.9	5.8	3.5	3.1	2.7
Non-Res. Structures	5.4	3.3	4.7	4.6	3.5	2.9	4.0	5.0	5.0	4.0	3.3	2.6
Equipment & IPP*	4.5	5.3	6.5	4.2	3.1	2.8	6.9	4.9	6.1	3.4	3.0	2.7
Residential Investment	1.8	1.7	3.0	3.4	3.8	3.1	2.6	1.8	2.7	3.8	3.6	2.8
Govt. Expenditure	0.1	1.5	2.8	0.1	-0.1	-0.1	0.7	1.8	2.3	-0.3	-0.2	-0.1
Final Domestic Demand	2.5	2.8	3.1	2.3	1.9	1.8	2.8	2.7	2.9	2.0	1.9	1.8
Exports	3.4	4.0	6.1	5.7	5.0	4.7	5.0	4.5	6.1	5.4	4.9	4.6
Imports	3.9	6.4	7.0	5.7	4.7	4.3	4.6	6.4	6.9	5.1	4.6	4.2
Change in Private Inventories	13.3	64.4	84.8	69.8	51.8	48.5	---	---	---	---	---	---
Final Sales	2.4	2.4	2.3	2.0	1.9	1.8	2.8	2.1	2.2	1.9	1.8	1.8
International Current Account Balance ($Bn)	-457	-554	-633	-682	-680	-691	---	---	---	---	---	---
% of GDP	-2.4	-2.7	-3.0	-3.0	-2.9	-2.8	---	---	---	---	---	---
Pre-tax Corporate Profits including IVA&CCA	5.7	9.2	4.9	1.1	1.7	2.2	7.6	5.9	3.3	0.6	2.1	1.7
% of GDP	11.3	11.8	11.7	11.3	11.1	10.9	---	---	---	---	---	---
GDP Deflator (y/y)	1.8	2.0	2.3	2.4	2.4	2.3	1.9	2.0	2.4	2.4	2.4	2.3
Nominal GDP	4.1	4.8	5.3	4.5	4.2	4.1	4.4	4.9	5.2	4.2	4.2	4.1
Labor Force	0.7	1.2	1.2	0.9	0.7	0.6	0.5	1.6	1.1	0.8	0.7	0.6
Employment	1.6	1.6	1.5	1.0	0.6	0.4	1.5	1.7	1.4	0.8	0.5	0.4
Change in Empl. ('000s)	2,275	2,399	2,217	1,525	944	661	2,176	2,451	2,103	1,174	821	616
Unemployment Rate (%)	4.4	4.0	3.8	3.8	3.9	4.1	---	---	---	---	---	---
Personal Disp. Income	2.9	4.9	5.6	4.9	4.5	4.4	3.6	5.5	5.7	4.6	4.5	4.4
Pers. Savings Rate (%)	3.4	3.4	4.3	4.6	5.0	5.3	---	---	---	---	---	---
Cons. Price Index (y/y)	2.1	2.4	2.1	2.3	2.2	2.2	2.1	2.3	2.2	2.2	2.2	2.2
Core CPI (y/y)	1.8	2.2	2.3	2.4	2.2	2.2	1.7	2.3	2.5	2.3	2.2	2.2
Core PCE Price Index (y/y)	1.5	1.8	2.1	2.1	2.0	2.0	1.5	2.0	2.2	2.0	2.0	2.0
Housing Starts (mns)	1.21	1.31	1.36	1.42	1.47	1.51	---	---	---	---	---	---
Real Output per hour** (y/y)	1.2	1.3	1.6	1.2	1.3	1.6	1.1	1.6	1.5	1.2	1.4	1.6

*Intellectual proprty products. F: Forecast by TD Economics, March 2018.

**Non-farm business sector.

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

CANADIAN ECONOMIC OUTLOOK *Period-Over-Period Annualized Per Cent Change Unless Otherwise Indicated*												
	Annual Average						4th Quarter / 4th Quarter					
	17	18F	19F	20F	21F	22F	17	18F	19F	20F	21F	22F
Real GDP	3.0	2.0	1.9	1.7	1.6	1.7	2.9	2.0	1.8	1.7	1.7	1.8
Consumer Expenditure	3.5	2.7	1.8	1.3	1.4	1.4	3.5	2.4	1.5	1.3	1.4	1.4
Durable Goods	6.4	2.5	1.7	1.4	1.4	1.6	5.2	2.3	1.5	1.4	1.5	1.6
Business Investment	2.3	5.2	3.1	2.7	2.5	2.4	8.4	3.9	3.0	2.5	2.5	2.4
Non-Res. Structures	0.3	4.5	2.5	2.4	2.6	2.5	6.3	3.0	2.4	2.5	2.6	2.4
Equipment & IPP*	4.6	5.9	3.7	2.9	2.4	2.4	10.8	4.8	3.5	2.5	2.3	2.4
Residential Investment	3.1	-0.9	1.1	2.9	2.8	3.3	4.7	-3.0	2.1	2.9	2.8	3.5
Govt. Expenditure	2.5	2.9	1.8	1.7	1.5	1.5	3.1	2.1	1.7	1.6	1.5	1.5
Final Domestic Demand	3.0	3.1	1.9	1.7	1.6	1.7	4.0	2.4	1.8	1.6	1.6	1.7
Exports	1.0	0.8	3.7	3.0	2.8	2.9	0.2	2.7	3.5	2.8	2.8	2.8
Imports	3.6	2.9	2.9	2.6	2.6	2.6	6.6	2.5	2.8	2.6	2.6	2.6
Change in Non-farm Inventories (2007 $Bn)	13.6	12.4	9.2	8.2	8.1	8.0	--	--	--	--	--	--
Final Sales	2.3	3.2	2.1	1.7	1.6	1.7	3.0	2.6	1.9	1.6	1.7	1.7
International Current Account Balance ($Bn)	-63.9	-71.3	-53.6	-41.4	-40.3	-39.3	--	--	--	--	--	--
% of GDP	-3.0	-3.2	-2.3	-1.7	-1.6	-1.5	--	--	--	--	--	--
Pre-tax Corp. Profits	20.2	5.9	5.7	5.4	5.5	5.5	8.9	6.4	5.5	5.5	5.5	5.5
% of GDP	12.8	13.0	13.2	13.4	13.7	13.9	--	--	--	--	--	--
GDP Deflator (y/y)	2.3	2.0	2.0	2.0	1.9	1.9	1.9	1.9	2.1	1.9	1.9	2.0
Nominal GDP	5.3	4.1	4.0	3.7	3.6	3.7	4.9	3.9	3.9	3.6	3.6	3.8
Labour Force	1.1	0.6	0.7	0.6	0.6	0.6	1.1	0.5	0.6	0.6	0.6	0.6
Employment	1.9	1.0	0.6	0.5	0.6	0.7	2.1	0.5	0.5	0.5	0.6	0.6
Change in Empl. ('000s)	337	192	108	92	111	124	379	85	95	97	120	121
Unemployment Rate (%)	6.3	5.9	6.0	6.1	6.2	6.1	--	--	--	--	--	--
Personal Disp. Income	4.8	4.8	3.3	2.8	2.8	2.8	4.4	4.0	3.1	2.8	2.8	2.8
Pers. Savings Rate (%)	3.6	4.5	4.3	4.1	4.0	3.7	--	--	--	--	--	--
Cons. Price Index (y/y)	1.6	2.2	2.1	2.0	2.0	2.0	1.8	2.2	2.1	2.0	2.0	2.0
CPIX (y/y)**	1.1	1.6	1.9	2.0	2.0	2.0	1.2	1.8	2.0	2.0	2.0	2.0
BoC Inflation (y/y)**	1.5	2.0	2.1	2.0	2.0	2.0	1.7	2.1	2.0	2.0	2.0	2.0
Housing Starts ('000s)	220	204	199	205	211	224	--	--	--	--	--	--
Home Prices (y/y)	3.9	-4.9	2.0	3.1	3.8	3.7	4.5	-5.5	2.6	3.4	3.8	3.7
Real GDP / worker (y/y)	1.1	1.0	1.4	1.2	1.0	1.1	0.8	1.5	1.3	1.1	1.0	1.1

F: Forecast by TD Economics, March 2018.
*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					
	17	18F	19F	20F	21F	22F	17	18F	19F	20F	21F	22F
U.S. FIXED INCOME												
Fed Funds Target Rate (%)*	1.25	2.05	2.80	3.00	3.00	2.75	1.50	2.25	3.00	3.00	3.00	2.75
3-mth T-Bill Rate (%)	1.05	2.00	2.80	2.90	2.85	2.65	1.39	2.23	2.90	2.90	2.78	2.65
2-yr Govt. Bond Yield (%)	1.50	2.45	2.90	2.95	2.85	2.70	1.89	2.65	2.95	2.95	2.75	2.70
5-yr Govt. Bond Yield (%)	2.00	2.80	3.05	3.10	3.00	2.85	2.20	2.95	3.10	3.10	2.90	2.85
10-yr Govt. Bond Yield (%)	2.35	3.00	3.25	3.30	3.20	3.00	2.40	3.15	3.30	3.30	3.10	3.00
10-yr-2-yr Govt. Spread (%)	0.85	0.55	0.35	0.35	0.35	0.30	0.51	0.50	0.35	0.35	0.35	0.30
CANADIAN FIXED INCOME												
Overnight Target Rate (%)	0.75	1.40	1.90	2.40	2.50	2.50	1.00	1.50	2.00	2.50	2.50	2.50
3-mth T-Bill Rate (%)	0.80	1.45	1.95	2.40	2.50	2.50	1.06	1.63	2.13	2.50	2.50	2.50
2-yr Govt. Bond Yield (%)	1.25	1.95	2.30	2.50	2.55	2.55	1.68	2.10	2.40	2.55	2.55	2.55
5-yr Govt. Bond Yield (%)	1.55	2.20	2.50	2.70	2.70	2.70	1.86	2.35	2.60	2.70	2.70	2.70
10-yr Govt. Bond Yield (%)	1.90	2.40	2.70	2.85	2.85	2.85	2.04	2.55	2.75	2.85	2.85	2.85
10-yr-2-yr Govt. Spread (%)	0.65	0.45	0.40	0.35	0.30	0.30	0.36	0.45	0.35	0.30	0.30	0.30

*Upper bound of target range. F: Forecast by TD Economics as at March 2018.

Annual averages are the average of the four quarterly end-of-period forecasts.

Source: Bank of Canada, Bloomberg, Statistics Canada, TD Economics.

Disclaimer

This report is provided by TD Economics. It is for informational and educational purposes only as of the date of writing, and may not be appropriate for other purposes. The views and opinions expressed may change at any time based on market or other conditions and may not come to pass. This material is not intended to be relied upon as investment advice or recommendations, does not constitute a solicitation to buy or sell securities and should not be considered specific legal, investment or tax advice. The report does not provide material information about the business and affairs of TD Bank Group and the members of TD Economics are not spokespersons for TD Bank Group with respect to its business and affairs. The information contained in this report has been drawn from sources believed to be reliable, but is not guaranteed to be accurate or complete. This report contains economic analysis and views, including about future economic and financial markets performance. These are based on certain assumptions and other factors, and are subject to inherent risks and uncertainties. The actual outcome may be materially different. The Toronto-Dominion Bank and its affiliates and related entities that comprise the TD Bank Group are not liable for any errors or omissions in the information, analysis or views contained in this report, or for any loss or damage suffered.