
LONG-TERM ECONOMIC FORECAST

TD Economics



December 16, 2013

UNITED STATES

- U.S. economic growth is expected to accelerate from 1.8% in 2013 to 2.7% in 2014 and 3.1% in 2015. Reduced fiscal drag over the next two years will be a key factor in improving the economic outlook. Real GDP should maintain growth of around 3.0% through 2016 and 2017.
- Buoyed by rising wealth and faster income growth in the absence of tax hikes, consumer spending will play a lead role in the acceleration of economic growth over the next several years. Residential construction will also share the spotlight. From an average of just over 900k in 2013, housing starts are expected to rise by nearly 80% to 1.6 million in 2017.
- Rounding out the supporting cast will be business investment and spending by state and local governments. In the case of businesses, higher topline sales growth alongside diminished policy uncertainty should support faster investment. For state and local governments, after three straight years of cutbacks, rebounding revenues on the back of strengthening housing and retail markets should support reinvestment and rehiring.
- The Federal Reserve is expected to leave short-term interest rates at its current level until the fourth quarter of 2015. At that point, we expect to see a slow removal of monetary stimulus, with the federal funds rate reaching 3.25% by the end of 2017.

CANADA

- After a solid bounce back from the last recession, Canada's economy has had two years of economic growth below 2%. This underperformance has opened up a greater degree of excess capacity in the economy, and left inflation below the Bank of Canada's 2% target. Over the next two years, stronger growth globally, and most importantly in the U.S., should help Canada's economy accelerate to a still-modest 2.3% in 2014 and 2.4% in 2015.
- There are limits to how fast the Canadian economy can expand given the high level of indebtedness in the household sector. Canadian consumers have adjusted their behavior, the pace of borrowing has moderated, and the household debt-to-income ratio has stabilized over the past year at a very high level. A more modest pace of borrowing over the medium term should keep a lid on consumer spending growth, while a slowing housing market will also influence Canada's economy over the next several years.
- Fortunately, as the global environment improves, exports are set to play a bigger role in driving Canada's growth. Over the next five years, Canada's economy is expected to grow by 2.2% on average. This modest medium-term economic outlook means inflation will increase very gradually, and the overnight rate is likely to remain at 1.00% until the second half of 2015. The Bank of Canada is likely to increase interest rates very slowly thereafter, reaching 1.50% by the end of 2015, 2.00% by the end of 2016, and 3.00% at end of 2017.

U.S. ECONOMIC OUTLOOK												
Period-Over-Period Annualized Per Cent Change Unless Otherwise Indicated												
	Annual Average						4th Qtr/4th Qtr					
	12	13F	14F	15F	16F	17F	12	13F	14F	15F	16F	17F
Real GDP	2.8	1.8	2.7	3.1	3.0	2.8	2.0	2.2	3.0	3.2	2.8	2.8
Consumer Expenditure	2.2	1.9	2.6	2.9	2.7	2.4	2.0	2.2	2.8	2.9	2.6	2.4
Durable Goods	7.7	7.3	6.4	6.0	5.0	4.0	7.8	6.9	5.8	5.8	4.5	3.9
Business Investment	7.3	2.4	4.2	6.0	5.4	4.9	5.0	1.5	5.1	6.2	5.1	4.7
Non-Res. Structures	12.7	1.5	4.5	3.8	3.7	3.9	9.2	0.1	3.1	3.9	3.3	4.2
Equipment & Software	5.8	2.6	4.1	6.6	6.0	5.2	3.8	1.8	5.7	6.8	5.6	4.9
Residential Investment	12.9	13.5	12.8	15.2	10.0	4.5	15.5	11.2	15.5	13.9	7.1	3.8
Gov't. Expenditures	-1.0	-2.0	0.4	0.9	1.0	1.1	-1.1	-1.4	0.9	1.0	1.0	1.1
Final Domestic Demand	2.4	1.5	2.7	3.3	3.0	2.6	2.1	1.7	3.1	3.4	2.8	2.5
Exports	3.5	2.5	5.9	6.7	6.6	5.9	2.4	4.2	6.1	6.9	6.3	5.6
Imports	2.2	1.7	5.3	6.6	6.2	3.9	0.1	3.9	5.7	7.1	5.3	3.4
Change in Non-Farm Inventories	57.6	76.5	79.3	70.0	67.5	65.5	---	---	---	---	---	---
Final Sales	2.6	1.7	2.7	3.2	3.0	2.8	2.5	1.7	3.1	3.2	2.9	2.8
International Current Account Balance (\$Bn)	-439	-412	-412	-454	-511	-542	---	---	---	---	---	---
% of GDP	-2.7	-2.5	-2.3	-2.5	-2.6	-2.6	---	---	---	---	---	---
Pre-tax Corp. Profits including IVA&CCA	7.0	4.0	4.3	4.5	4.6	3.5	2.7	4.0	3.9	4.9	4.1	3.3
% of GDP	12.4	12.5	12.4	12.3	12.2	12.0	---	---	---	---	---	---
GDP Deflator (Y/Y)	1.8	1.5	1.8	2.2	2.3	2.3	1.8	1.5	2.0	2.2	2.3	2.3
Nominal GDP	4.6	3.3	4.6	5.4	5.3	5.2	3.8	3.7	5.0	5.5	5.2	5.1
Labour Force	0.9	0.3	0.5	1.0	1.0	0.9	0.9	-0.2	1.0	1.0	0.9	0.9
Employment	1.7	1.6	1.7	1.8	1.8	1.5	1.6	1.7	1.7	1.8	1.8	1.4
Employment ('000s)	2,237	2,193	2,279	2,426	2,525	2,170	2,176	2,295	2,335	2,465	2,506	1,966
Unemployment Rate (%)	8.1	7.4	6.7	6.2	5.7	5.5	---	---	---	---	---	---
Personal Disp. Income	3.9	2.0	4.4	5.2	5.4	5.2	5.3	1.3	4.8	5.3	5.4	5.2
Pers. Savings Rate (%)	5.6	4.6	4.6	4.8	5.1	5.4	---	---	---	---	---	---
Cons. Price Index (Y/Y)	2.1	1.5	1.8	2.3	2.4	2.4	1.9	1.2	2.2	2.4	2.5	2.3
Core CPI (Y/Y)	2.1	1.8	2.0	2.3	2.4	2.5	1.9	1.7	2.2	2.3	2.5	2.3
Housing Starts (mns)	0.78	0.91	1.09	1.36	1.53	1.61	---	---	---	---	---	---
Productivity: Real GDP / worker (Y/Y)	1.5	0.4	1.5	1.7	1.7	1.8	0.9	0.9	1.4	1.7	1.8	1.8

F: Forecast by TD Economics as at December 2013

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

CANADIAN ECONOMIC OUTLOOK												
<i>Period-Over-Period Annualized Per Cent Change Unless Otherwise Indicated</i>												
	Annual Average						4th Qtr/4th Qtr					
	12	13F	14F	15F	16F	17F	12	13F	14F	15F	16F	17F
Real GDP	1.7	1.7	2.3	2.4	2.4	2.2	1.0	2.2	2.3	2.4	2.4	2.1
Consumer Expenditure	1.9	2.2	2.4	2.3	2.1	2.0	2.1	2.3	2.4	2.2	2.1	2.0
Durable Goods	2.6	3.5	3.0	2.3	2.0	2.0	2.4	4.2	2.7	2.1	1.9	2.0
Business Investment	6.2	1.8	1.7	3.3	3.5	3.4	4.9	0.9	2.2	3.8	3.2	3.5
Non-Res. Structures	6.9	2.0	1.7	2.3	2.6	2.9	5.3	0.9	2.0	2.5	2.5	3.1
Machinery & Equipment	5.2	1.4	1.7	4.8	5.0	4.2	4.3	1.0	2.5	5.8	4.2	4.1
Residential Investment	6.1	0.5	3.2	-2.3	-0.4	1.4	3.6	2.1	1.6	-3.4	1.4	1.4
Government Expenditures	1.0	0.7	0.9	1.2	1.5	1.8	1.1	0.6	0.9	1.1	1.5	1.8
Final Domestic Demand	2.3	1.5	2.0	1.8	2.0	2.1	2.3	1.5	2.0	1.8	2.1	2.2
Exports	1.5	1.4	2.5	4.0	3.9	3.2	-2.7	2.4	3.2	4.2	3.7	2.9
Imports	3.1	0.8	1.5	2.1	2.6	2.9	1.7	0.9	2.2	2.2	2.7	3.2
Change in Non-Farm Inventories (\$2007 Bn)	8.3	4.9	4.5	6.1	8.5	8.5	---	---	---	---	---	---
Final Sales	1.7	1.8	2.4	2.4	2.4	2.2	0.9	2.1	2.3	2.5	2.4	2.1
International Current Account Balance (\$Bn)	-62.2	-59.7	-60.9	-45.0	-38.4	-33.9	---	---	---	---	---	---
% of GDP	-3.4	-3.2	-3.1	-2.2	-1.8	-1.5	---	---	---	---	---	---
Pre-tax Corp. Profits	-4.9	-4.6	4.9	6.7	5.3	4.5	-12.9	2.0	5.1	7.0	4.3	4.4
% of GDP	13.5	12.5	12.7	12.9	13.0	13.0	---	---	---	---	---	---
GDP Deflator (Y/Y)	1.7	1.3	1.1	2.3	2.1	2.0	1.0	1.0	1.7	2.2	2.1	2.0
Nominal GDP	3.4	3.1	3.4	4.8	4.6	4.2	2.1	3.3	4.1	4.7	4.5	4.1
Labour Force	1.0	1.0	0.9	0.9	0.8	0.8	1.4	0.7	1.0	0.9	0.8	0.8
Employment	1.2	1.3	1.3	1.4	1.3	1.1	1.6	1.1	1.3	1.5	1.1	1.1
Employment ('000s)	201	227	223	256	228	198	278	187	238	267	197	199
Unemployment Rate (%)	7.3	7.0	6.7	6.3	5.9	5.6	---	---	---	---	---	---
Personal Disp. Income	3.9	3.8	3.5	4.4	4.4	4.2	4.2	3.5	4.1	4.3	4.4	4.1
Pers. Savings Rate (%)	5.0	5.5	5.0	5.1	5.5	5.6	---	---	---	---	---	---
Cons. Price Index (Y/Y)	1.5	1.0	1.5	2.0	2.0	2.0	0.9	1.2	1.7	2.1	2.0	2.0
Core CPI (Y/Y)	1.7	1.2	1.5	1.8	2.0	2.0	1.2	1.1	1.6	1.9	2.1	1.9
Housing Starts ('000s)	215	188	179	165	175	175	---	---	---	---	---	---
Productivity:												
Real GDP / worker (Y/Y)	0.5	0.4	1.0	1.0	1.2	1.1	-0.6	1.2	1.0	0.9	1.3	1.0

F: Forecast by TD Economics as at December 2013

Source: Statistics Canada, Bank of Canada, Canada Mortgage and Housing Corporation, Haver Analytics

INTEREST RATE OUTLOOK												
	Annual Average						End of Period					
	12	13F	14F	15F	16F	17F	12	13F	14F	15F	16F	17F
U.S. FIXED INCOME												
Fed Funds Target Rate (%)	0.25	0.25	0.25	0.30	1.50	3.15	0.25	0.25	0.25	0.50	2.25	3.25
3-mth T-Bill Rate (%)	0.10	0.10	0.20	0.65	2.35	3.40	0.05	0.20	0.20	1.00	2.95	3.55
2-yr Govt. Bond Yield (%)	0.30	0.30	0.55	1.20	2.75	3.60	0.25	0.30	0.70	1.65	3.15	3.75
5-yr Govt. Bond Yield (%)	0.80	1.25	1.75	2.70	3.95	4.50	0.72	1.40	1.95	3.05	4.20	4.65
10-yr Govt. Bond Yield (%)	1.85	2.45	3.10	3.70	4.30	4.75	1.78	2.75	3.30	3.75	4.55	4.75
10-yr-2-yr Govt. Spread (%)	1.55	2.15	2.55	2.50	1.55	1.15	1.53	2.45	2.60	2.10	1.40	1.20
CANADIAN FIXED INCOME												
Overnight Target Rate (%)	1.00	1.00	1.00	1.25	1.80	2.75	1.00	1.00	1.00	1.50	2.00	3.00
3-mth T-Bill Rate (%)	0.90	1.00	0.95	1.20	1.85	2.80	0.92	0.95	0.95	1.40	2.05	3.05
2-yr Govt. Bond Yield (%)	1.10	1.15	1.25	1.80	2.55	3.35	1.14	1.10	1.35	2.05	2.85	3.55
5-yr Govt. Bond Yield (%)	1.40	1.70	2.10	2.70	3.40	3.95	1.38	1.80	2.25	2.90	3.65	4.05
10-yr Govt. Bond Yield (%)	1.85	2.35	2.95	3.40	3.90	4.30	1.80	2.65	3.10	3.55	4.10	4.45
10-yr-2-yr Govt. Spread (%)	0.75	1.20	1.70	1.60	1.35	0.95	0.66	1.55	1.75	1.50	1.25	0.90
F: Forecast by TD Bank Group as at December 2013												
Source: Statistics Canada, Bank of Canada, Bloomberg												

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