

# Long-Term Economic Forecast

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## United States

- After the COVID-19 pandemic drove a 3.5% contraction in economic growth in 2020, growth is expected to bounce back by an impressive 5.7% this year, after receiving a substantial boost from fiscal policy and support from monetary policy.
- The pandemic lifted the unemployment rate to an historic level, but it has improved more quickly than anticipated. Unfortunately that paints a stronger picture on the surface, as a large number of people have dropped out of the labor force due to the pandemic. Vaccinations should help many hard-hit sectors of the economy return to pre-pandemic levels of activity in the coming quarters. This should enable many Americans rejoin the labor force, and see the unemployment rate come very close to its pre-pandemic level.
- Labor force growth has also taken a hit from reduced immigration during the pandemic, and under the previous administration. We expect immigration levels to improve to more historically normal levels over the next few years, helping to boost labor force growth over the forecast horizon.
- In the face of the crisis, the FOMC took its policy rate to the zero-lower bound, and enacted substantial monetary stimulus. We don't expect the FOMC to raise the policy rate until mid-2023, and reach 2.0% in mid-2026, where it is expected to remain over the forecast horizon.

## Canada

- Canadian economy is showcasing greater resilience to the pandemic. Despite rising case loads and tightening restrictions, the economic recovery forged ahead in the fourth quarter, resulting in better-than-expected GDP growth to end 2020.
- Looking ahead, we expect provinces to gradually relax public health protocols as the vaccine rollout accelerates. This will help the economy return to pre-pandemic levels of output in the third quarter, one quarter earlier than our previous forecast, and generate 6% growth in 2021.
- Strong economic momentum will likely flow through to 2022. GDP growth is anticipated to reach 3.9% as the economy continues to rebuild, particularly in services-oriented sectors. This will contribute to a gradual improvement in the unemployment rate through the projection horizon.
- The Bank of Canada has committed to providing extraordinary monetary stimulus until the economic recovery is well underway. The stronger-than-expected performance of the economy will likely lead to a re-calibration in the quantitative easing program in the near-future. However, we expect the overnight rate will only rise in late-2023.

U.S. Economic Outlook														
Period-Over-Period Annualized Per Cent Change Unless Otherwise Indicated														
Economic Indicator	Annual Average							Fourth Quarter / Fourth Quarter						
	20	21F	22F	23F	24F	25F	26F	20	21F	22F	23F	24F	25F	26F
Real GDP	-3.5	5.7	4.3	2.2	1.9	1.8	1.8	-2.4	6.0	2.9	2.0	1.8	1.8	1.8
Consumer Expenditure	-3.9	5.9	5.0	2.6	2.0	2.0	2.0	-2.6	6.1	3.8	2.2	2.0	2.0	2.0
Durable Goods	6.4	12.0	3.4	3.0	2.9	3.0	3.2	11.8	5.7	3.4	2.9	2.9	3.1	3.2
Business Investment	-4.0	7.3	5.7	4.2	3.4	2.8	2.5	-1.2	6.6	5.0	3.9	3.1	2.6	2.5
Non-Res. Structures	-10.6	-2.8	1.2	2.3	2.3	1.9	1.9	-14.5	2.5	1.6	2.5	2.1	1.8	2.0
Equipment & IPP*	-2.0	10.0	6.8	4.6	3.7	3.1	2.7	2.6	7.6	5.7	4.2	3.4	2.8	2.6
Residential Investment	6.0	15.2	-2.9	-1.6	0.2	0.8	0.9	14.1	5.1	-3.7	-0.5	0.5	0.9	0.9
Govt. Expenditure	1.1	2.7	0.0	-0.3	0.6	0.7	0.7	-0.6	3.7	-0.6	0.1	0.7	0.7	0.7
Final Domestic Demand	-2.7	5.9	3.9	2.1	1.9	1.8	1.8	-1.5	5.7	2.8	2.0	1.9	1.8	1.8
Exports	-13.0	7.4	7.0	4.9	4.6	4.2	3.8	-11.0	7.7	5.8	4.8	4.5	4.0	3.7
Imports	-9.3	15.1	5.7	2.2	3.3	3.3	3.2	-0.6	9.9	3.1	2.5	3.5	3.3	3.2
Change in Private Inventories	-80.9	87.8	147.6	102.5	81.9	70.0	65.5	---	---	---	--	---	--	---
Final Sales	-2.9	4.8	3.9	2.4	2.0	1.9	1.8	-2.7	5.3	3.1	2.2	1.9	1.9	1.8
International Current Account Balance (\$Bn)	-640	-818	-812	-693	-609	-546	-492	---	---	---	--	---	--	---
% of GDP	-3.1	-3.6	-3.4	-2.7	-2.3	-2.0	-1.7	---	---	---	--	---	--	---
Pre-tax Corporate Profits including IVA&CCA	-8.3	13.3	4.9	2.7	2.3	2.6	3.0	-10.4	14.4	4.4	2.8	2.2	3.0	2.8
% of GDP	9.9	10.3	10.2	10.0	9.8	9.6	9.5	---	---	---	--	---	--	---
GDP Deflator (y/y)	1.2	2.3	2.4	2.6	2.4	2.3	2.2	1.3	2.4	2.5	2.6	2.4	2.2	2.2
Nominal GDP	-2.3	8.2	6.7	4.8	4.4	4.1	4.0	-1.2	8.5	5.5	4.7	4.2	4.1	4.0
Labor Force	-1.7	1.0	1.8	1.0	0.8	0.7	0.7	-2.3	2.1	1.3	0.9	0.7	0.7	0.7
Employment	-5.7	2.6	3.8	1.4	0.7	0.5	0.6	-6.0	4.2	2.8	0.9	0.6	0.4	0.7
Change in Empl. ('000s)	-8,648	3,717	5,506	2,175	1,066	734	871	-9,115	5,937	4,132	1,413	937	669	1,030
Unemployment Rate (%)	8.1	5.7	4.1	3.8	3.9	4.1	4.2	---	---	---	--	---	---	---
Personal Disp. Income	7.0	5.3	0.0	4.5	4.8	4.6	4.4	4.4	3.0	5.3	4.5	4.7	4.5	4.4
Pers. Savings Rate (%)	16.1	14.1	8.1	7.8	8.2	8.7	9.0	---	---	---	--	---	---	---
Cons. Price Index (y/y)	1.2	2.5	2.0	2.2	2.4	2.2	2.1	1.2	2.4	2.0	2.4	2.4	2.2	2.1
Core CPI (y/y)	1.7	1.9	2.4	2.6	2.5	2.4	2.3	1.6	2.0	2.5	2.6	2.4	2.3	2.3
Core PCE Price Index (y/y)	1.4	2.0	2.2	2.3	2.2	2.1	2.0	1.4	2.1	2.3	2.3	2.2	2.1	2.0
Housing Starts (mns)	1.40	1.57	1.53	1.49	1.47	1.47	1.47	---	---	---	--	---	--	---
Real Output per hour** (y/y)	2.5	1.8	1.0	1.4	1.8	1.8	1.6	2.4	2.0	0.7	1.8	1.8	1.8	1.5
*Intellectual property products. F: Forecast by TD Economics, March 2021.														
**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														
Economic Indicator	Annual Average							4th Quarter / 4th Quarter						
	20	21F	22F	23F	24F	25F	26F	20	21F	22F	23F	24F	25F	26F
<b>Real GDP</b>	-5.4	6.0	3.9	1.7	1.6	1.7	1.7	-3.2	5.0	2.7	1.5	1.7	1.7	1.7
<b>Consumer Expenditure</b>	-6.1	5.2	4.8	1.9	1.6	1.6	1.6	-4.8	5.6	3.3	1.6	1.6	1.6	1.6
Durable Goods	-3.7	12.1	1.0	1.0	1.3	1.5	1.5	9.0	-0.1	1.2	1.0	1.5	1.5	1.5
<b>Business Investment</b>	-11.6	2.8	6.7	3.9	2.5	2.4	2.5	-11.5	7.0	5.5	3.0	2.4	2.4	2.5
Non-Res. Structures	-11.2	-2.2	8.7	5.2	2.6	2.4	2.5	-17.8	8.1	7.8	3.7	2.4	2.4	2.5
Equipment & IPP*	-12.0	7.9	4.8	2.5	2.4	2.4	2.5	-4.6	6.0	3.2	2.3	2.4	2.4	2.5
<b>Residential Investment</b>	3.9	14.0	-0.2	1.3	1.8	1.8	1.8	14.4	0.3	1.5	1.5	1.8	1.8	1.8
<b>Govt. Expenditure</b>	-0.3	3.8	1.9	1.7	1.8	1.8	1.8	1.3	2.5	1.6	1.8	1.8	1.8	1.8
<b>Final Domestic Demand</b>	-4.5	5.3	3.8	2.0	1.7	1.7	1.7	-2.5	4.4	2.9	1.8	1.7	1.7	1.7
<b>Exports</b>	-9.8	8.4	6.4	2.8	2.6	2.6	2.5	-7.1	9.1	4.1	2.7	2.6	2.6	2.5
<b>Imports</b>	-11.3	8.9	6.9	3.8	3.0	2.7	2.7	-6.0	7.3	5.0	3.5	2.7	2.7	2.7
<b>Change in Non-farm Inventories (2012 \$Bn)</b>	-16.8	0.7	3.9	4.7	4.3	4.1	4.1	--	--	--	--	--	--	--
<b>Final Sales</b>	-2.9	4.5	3.7	2.0	1.7	1.7	1.7	-1.9	4.3	2.8	1.8	1.7	1.7	1.7
<b>International Current Account Balance (\$Bn)</b>	-42.7	2.9	0.5	-8.0	-9.8	-8.4	-7.3	--	--	--	--	--	--	--
% of GDP	-1.9	0.1	0.0	-0.3	-0.4	-0.3	-0.2	--	--	--	--	--	--	--
<b>Pre-tax Corp. Profits</b>	-6.1	21.2	14.8	3.8	3.2	3.2	3.2	4.3	18.1	7.9	3.2	3.2	3.2	3.2
% of GDP	12.4	13.6	14.7	14.7	14.7	14.6	14.6	--	--	--	--	--	--	--
<b>GDP Deflator (y/y)</b>	0.8	4.4	2.1	1.9	1.9	1.9	1.9	1.7	3.5	1.9	1.9	1.9	1.9	1.9
<b>Nominal GDP</b>	-4.6	10.6	6.1	3.7	3.5	3.6	3.6	-1.5	8.6	4.7	3.4	3.6	3.6	3.6
<b>Labour Force</b>	-1.1	2.5	1.4	0.6	0.7	0.6	0.6	0.3	1.4	0.9	0.5	0.7	0.6	0.6
<b>Employment</b>	-5.1	5.1	2.7	0.8	0.8	0.7	0.6	-2.9	4.2	1.1	0.7	0.8	0.6	0.6
<b>Change in Empl. ('000s)</b>	-975	918	504	151	153	136	125	-556	773	219	130	163	124	125
<b>Unemployment Rate (%)</b>	9.6	7.2	6.1	5.9	5.8	5.7	5.7	--	--	--	--	--	--	--
<b>Personal Disp. Income</b>	10.0	-1.6	2.6	3.2	3.1	3.2	3.3	7.7	-1.9	4.3	3.0	3.2	3.2	3.4
<b>Pers. Savings Rate (%)</b>	14.8	7.1	2.6	1.7	1.3	1.0	0.7	--	--	--	--	--	--	--
<b>Cons. Price Index (y/y)</b>	0.7	2.4	2.3	2.2	2.0	2.0	2.0	0.8	2.5	2.3	2.1	2.0	2.0	2.0
<b>CPIX (y/y) **</b>	1.2	1.9	2.0	2.1	2.0	2.0	2.0	1.3	1.9	2.2	2.0	2.0	2.0	2.0
<b>BoC Inflation (y/y) **</b>	1.3	1.8	2.0	2.1	2.0	2.0	2.0	0.0	1.9	2.2	2.0	2.0	2.0	2.0
<b>Housing Starts ('000s)</b>	219	242	214	208	210	212	214	--	--	--	--	--	--	--
<b>Home Prices (y/y)</b>	12.2	21.2	-3.6	-0.7	0.5	0.5	0.6	15.5	11.5	-4.4	0.5	0.5	0.5	0.6
<b>Real GDP / worker (y/y)</b>	-0.3	0.8	1.2	0.9	0.8	1.0	1.0	-0.3	0.8	1.6	0.8	0.8	1.0	1.0
F: Forecast by TD Economics, March 2021.														
* 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														
Interest Rates	Annual Average							End of Period						
	20	21F	22F	23F	24F	25F	26F	20	21F	22F	23F	24F	25F	26F
U.S. FIXED INCOME														
Fed Funds Target Rate (%)*	0.25	0.25	0.25	0.40	0.90	1.40	1.90	0.25	0.25	0.25	0.50	1.00	1.50	2.00
3-mth T-Bill Rate (%)	0.10	0.10	0.10	0.30	0.80	1.30	1.75	0.09	0.10	0.10	0.50	1.00	1.50	1.85
2-yr Govt. Bond Yield (%)	0.15	0.20	0.40	0.85	1.35	1.75	1.95	0.13	0.25	0.55	1.05	1.55	1.85	1.95
5-yr Govt. Bond Yield (%)	0.35	0.90	1.20	1.55	1.80	1.95	2.05	0.36	0.95	1.30	1.65	1.90	2.00	2.05
10-yr Govt. Bond Yield (%)	0.75	1.65	1.85	2.05	2.15	2.20	2.20	0.93	1.70	1.90	2.10	2.20	2.20	2.20
10-yr-2-yr Govt. Spread (%)	0.60	1.45	1.45	1.20	0.80	0.45	0.25	0.80	1.45	1.35	1.05	0.65	0.35	0.25
CANADIAN FIXED INCOME														
Overnight Target Rate (%)	0.25	0.25	0.25	0.30	0.75	1.25	1.70	0.25	0.25	0.25	0.50	1.00	1.50	1.75
3-mth T-Bill Rate (%)	0.15	0.15	0.20	0.30	0.80	1.30	1.70	0.06	0.20	0.20	0.45	1.00	1.50	1.75
2-yr Govt. Bond Yield (%)	0.30	0.30	0.45	0.85	1.35	1.70	1.85	0.20	0.30	0.55	1.05	1.50	1.80	1.85
5-yr Govt. Bond Yield (%)	0.45	1.05	1.25	1.50	1.75	1.90	1.95	0.39	1.10	1.30	1.60	1.80	1.95	1.95
10-yr Govt. Bond Yield (%)	0.60	1.60	1.80	2.00	2.10	2.10	2.10	0.67	1.65	1.85	2.05	2.10	2.10	2.10
10-yr-2-yr Govt. Spread (%)	0.30	1.30	1.35	1.15	0.75	0.40	0.25	0.47	1.35	1.30	1.00	0.60	0.30	0.25
*Upper bound of target range. F: Forecast by TD Economics as at March 2021.														
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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