

**Long-Term Economic Forecast****March 16, 2011****TD Economics**
www.td.com/economics**UNITED STATES**

- Following growth of 3.0% in 2011 and 2012, U.S. real GDP growth is expected to average 3.5% between 2013 and 2015.
- With our forecasted pace of economic growth, the unemployment rate will move down from a starting point above 8.0% to an average of 5.2% in 2015.
- Residential construction will play an important role in economic growth in the 2013 to 2015 period, adding 0.5 percentage points to growth each year on average. Housing starts, which are currently below 600,000, are expected to move up to 1.5 million by 2015 – in line with trend household growth.
- Headline consumer price inflation is expected to average 2.7% between 2013 and 2015. We assume the balance of risks are tilted towards a Federal Reserve that will err on the side of inflation as they attempt to juggle the task of normalizing monetary policy and unwinding their balance sheet amid still elevated unemployment.
- Fiscal austerity at the federal level is likely to become a more pronounced theme over the long-term. Reducing the U.S. budget deficit will require not only cuts in government spending, but also revenue increases and reforms to entitlement programs that will reduce the level of transfers to individuals. These will weigh on the pace of economic growth over the forecast horizon.

CANADA

- Following growth of 3.0% in 2011 and 2.5% in 2012, Canadian economic growth is expected to average 2.3% over 2013-2015. This would represent the first time in five years that the Canadian economy underperforms the U.S.
- Compared to the U.S., the Canadian economy has much less slack to make up for, and is expected to turn the page from recovery to expansion by early to mid-2012.
- Beyond 2012, Canadian economic growth will be constrained by an aging population and Canada's poor productivity performance. The five year outlook incorporates some improvement in labour productivity relative to the last decade, as provincial and federal governments have implemented a number of measures that are expected to encourage spending on business investment and research and development.
- Households and governments will pose additional constraints to economic growth over the medium-term as both these sectors are expected to focus on spending restraint, following the large run-up in debt over the past four years.
- In this environment, the Bank of Canada's overnight rate will be back to neutral by mid-2013, and inflation is expected to remain contained at the Bank of Canada's target of 2.0%.

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INTEREST RATE OUTLOOK												
	Annual Average						End of Period					
	2010	2011F	2012F	2013F	2014F	2015F	2010	2011F	2012F	2013F	2014F	2015F
CANADIAN FIXED INCOME												
Overnight Target Rate (%)	0.69	1.38	2.63	3.56	3.75	3.75	1.00	2.00	3.00	3.75	3.75	3.75
3-mth T-Bill Rate (%)	0.68	1.39	2.65	3.61	3.80	3.80	1.04	2.00	3.05	3.80	3.80	3.80
2-yr Govt. Bond Yield (%)	1.55	2.26	3.20	3.90	4.15	4.15	1.68	2.60	3.45	4.15	4.15	4.15
5-yr Govt. Bond Yield (%)	2.42	3.13	3.71	4.26	4.35	4.35	2.42	3.50	3.80	4.35	4.35	4.35
10-yr Govt. Bond Yield (%)	3.13	3.80	4.34	4.63	4.75	4.75	3.12	4.05	4.40	4.75	4.75	4.75
10-yr-2-yr Govt. Spread (%)	1.59	1.54	1.14	0.73	0.60	0.60	1.44	1.45	0.95	0.60	0.60	0.60
U.S. FIXED INCOME												
Fed Funds Target Rate (%)	0.25	0.25	0.63	2.56	3.75	3.75	0.25	0.25	1.00	3.50	3.75	3.75
3-mth T-Bill Rate (%)	0.15	0.16	0.69	2.66	3.85	3.85	0.12	0.20	1.10	3.60	3.85	3.85
2-yr Govt. Bond Yield (%)	0.66	0.76	1.49	3.04	4.00	4.05	0.59	0.90	1.95	3.75	4.05	4.05
5-yr Govt. Bond Yield (%)	1.90	2.44	3.08	4.10	4.63	4.80	2.01	2.75	3.35	4.50	4.70	4.80
10-yr Govt. Bond Yield (%)	3.14	3.75	4.14	4.56	5.06	5.35	3.29	3.95	4.20	4.75	5.25	5.35
10-yr-2-yr Govt. Spread (%)	2.48	2.99	2.65	1.53	1.06	1.30	2.70	3.05	2.25	1.00	1.20	1.30
CANADA-U.S. SPREADS												
3-mth T-Bill Rate (%)	0.53	1.23	1.96	0.95	-0.05	-0.05	0.92	1.80	1.95	0.20	-0.05	-0.05
2-yr Govt. Bond Yield (%)	0.89	1.50	1.71	0.86	0.15	0.10	1.09	1.70	1.50	0.40	0.10	0.10
5-yr Govt. Bond Yield (%)	0.52	0.69	0.64	0.16	-0.28	-0.45	0.41	0.75	0.45	-0.15	-0.35	-0.45
10-yr Govt. Bond Yield (%)	-0.01	0.05	0.20	0.06	-0.31	-0.60	-0.17	0.10	0.20	0.00	-0.50	-0.60
Source: Bloomberg, TDBFG, Forecast by TD Bank Financial Group												

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