

# QUARTERLY ECONOMIC FORECAST

## TD Economics



December 16, 2013

## U.S. OUTLOOK: FASTER GROWTH AHEAD AS FISCAL DRAG DISSIPATES

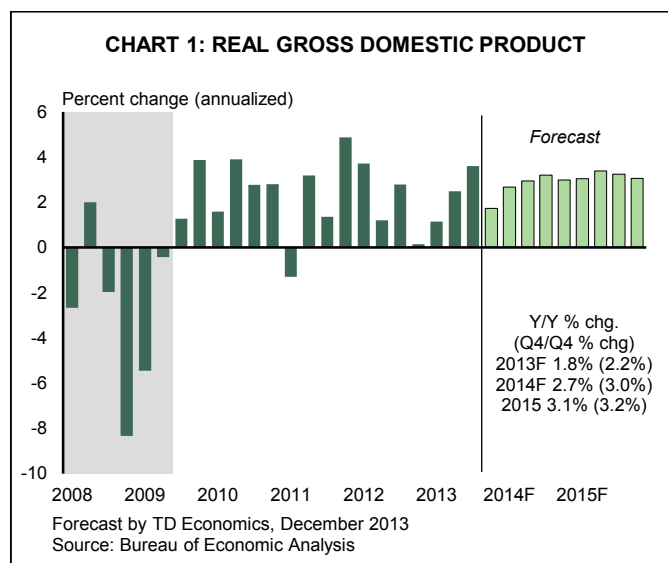
### Highlights

- The U.S. economy performed surprisingly well in the second half of 2013 despite considerable fiscal headwinds. Even the two-week government shutdown in October did not appear to take much steam out of economic growth.
- Relative to our previous forecast, the recent bi-partisan budget deal should reduce sequestration's drag on real GDP by 0.3 percentage points (pp) in 2014. Expiring tax provisions and reduced unemployment benefits will still weigh on growth in 2014, but total fiscal drag of 0.5 pp will be less than half of the 1.3 pp in 2013.
- Real GDP growth is projected to accelerate from 1.8% in 2013 to 2.7% in 2014 and 3.1% in 2015. From its current level of 7.0%, the unemployment rate is expected to reach 6.5% by the end of 2014 and 6.0% by the end of 2015.
- Less drag from fiscal policy gives the Federal Reserve room to taper asset purchases. To continue to support the economic recovery, the Fed is likely to double down on forward guidance and may consider lowering the interest rate on excess reserves. The Fed is likely to leave the federal funds rate at its current floor until the fourth quarter of 2015.

With the year coming to a close, it is a good time to look back on the economy in 2013 and look ahead to where it's headed over the next few years.

The past year has been punctuated by fiscal cliffs, tax hikes, sequestration, rising interest rates, a federal government shutdown and, to cap things off, a budget deal. Needless to say, fiscal policy has been a major drag on economic growth over the last year. Policymakers found a bridge over the fiscal cliff in January by extending income tax rates on 98% of tax filers; but, a 2 percentage point rise in the payroll tax and higher tax rates on high-income earners still cut over a percentage point from annual disposable personal income growth. The hit to personal income fed into weaker consumer spending and slower economic growth. Arbitrary government spending cuts made things worse. In March, sequestration came into full force, reducing federal outlays by over \$50 billion over the year. Altogether, tax hikes and federal spending cuts reduced real GDP growth by 1.3 percentage points over the course of 2013.

Still, the private sector continued to make progress. Home prices accelerated. The Case-Shiller price index rose at an annualized rate of nearly 12% over the first three quarters of the year, up from 6.5% in the same period in 2012. Alongside continued gains in equities, household wealth was up more than 11% over

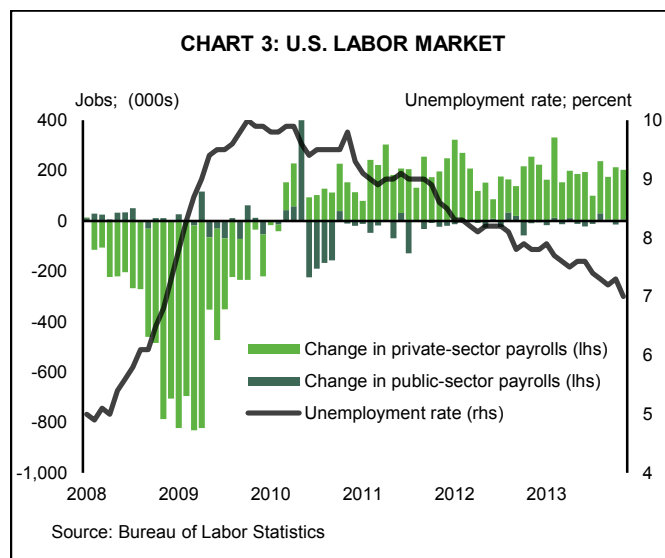


the first three quarters. So, while tax hikes restrained spending, healthier balance sheets provided a partial offset. This showed up most evidently in spending on durable goods. In November, light vehicle sales rose to 16.3 million (SAAR), the highest level since February 2007.

Just as important, the economy continued to add jobs, which grew by an average 188k a month through to November. The strength in job growth was the main factor cited by the Federal Reserve in support of tapering their asset purchase program. As a result, 10-year Treasury yields have risen by over a percentage point since May, as investors brace for an eventual tapering in asset purchases by the central bank.

So, what does all this mean for economic growth in 2014 and 2015? First, fiscal drag will diminish over the next two years. The recently passed bipartisan budget deal will reduce the drag from federal spending cuts from 0.6 percentage points to a little over 0.3 percentage points. Second, without another major tax increase, household income and improved confidence should prompt an acceleration in spending and maintain solid momentum in the housing market. Likewise, strength in broader sales growth will help propel business investment growth. Finally, with rebounding revenues, state and local governments can finally begin reinvesting after years of layoffs and spending cuts, offsetting the drag from the federal level. All together this should lead economic growth to accelerate from 1.8% in 2013 to 2.7% in 2014 and further to 3.1% in 2015.

Provided that there is more stability on the fiscal front, the Fed will be able to taper its quantitative easing program and likely end it completely before 2014 is complete. The

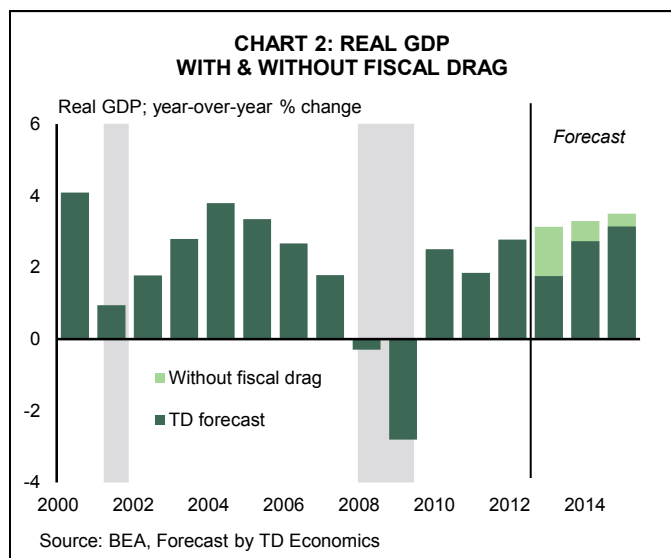


recent strength in job growth suggests that a reduction in the pace of purchases could come on December 18 or on January 29. While tapering may exert some upward pressure on yields, the upward adjustment that has already occurred in 2013 in anticipation of the shift in Fed policy should mean less of an increase in yields in 2014. In order to keep a lid on rates, the Federal Reserve is likely to redouble its efforts on forward guidance. And, they will be in no rush to raise short term rates. We anticipate the Fed will leave the fed funds rate at its current level until the very end of the forecast horizon in the fourth quarter of 2015.

### From shutdown to budget deal

Political gridlock reached an apex in October, when an inability to find accord on a spending bill led to a 16 day government shutdown. The timing of the shutdown coincided with the need to raise the statutory debt limit. This threatened to wreak havoc on financial markets as well as sour consumer and business confidence. In the end, financial markets remained relatively sanguine, but consumer confidence did fall. In a twist, however, consumer spending growth accelerated in October, while businesses slowed investment.

All things considered, the shutdown had a relatively small effect on economic activity. The direct impact came from the furlough (temporary layoff) of government workers. Originally, close to one million workers would have been affected, but 350,000 defense workers were exempted and returned to the job shortly after the shutdown began. Congress also agreed to retroactively pay workers who were not on the job, which resulted in a short-lived impact.



All told, the shutdown reduced real GDP growth by 0.2 percentage points in the fourth quarter. This will be made up entirely in the first quarter when government work hours are normalized.

In the resolution to the government shutdown, Congress passed another short-term funding bill allowing the government to operate until January 15th. However, they also appointed a committee to piece together a budget deal that would fund the government for a longer period of time and potentially also reduce the bite of sequestration. On December 12th, the House of Representatives voted 332 to 94 in favor of this bipartisan budget plan – the first since 1986.

The deal raises discretionary spending authority by \$45 billion in 2014 and \$19 billion in 2015. The increase is split evenly between defense and non-defense discretionary spending. As a result, the drag from federal spending will likely be reduced from 0.6 percentage points to slightly over 0.3 percentage points. Just as important, the budget will fund the government through the next two fiscal years. This will reduce uncertainty around government policy and should further support private investment.

#### State and local governments turn from cuts to reinvestment

While the developments on Capitol Hill capture the headlines, cutbacks by state and local governments have generally subtracted more from real GDP growth. Between 2010 and 2012, state and local government subtracted an average of 0.3 percentage points from annual GDP growth and reduced overall employment by a cumulative 737,000. With interest rates at record lows and the private sector in

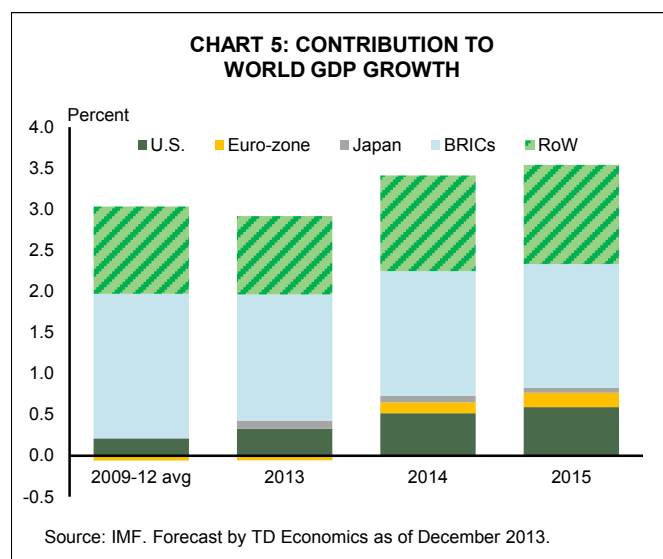
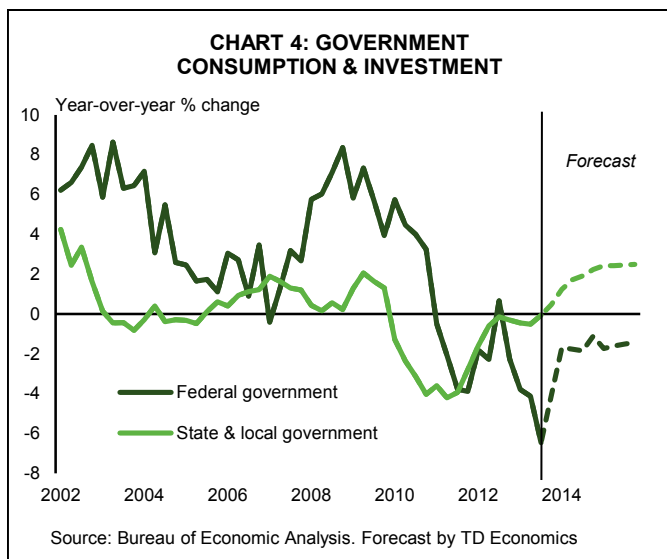
the midst of deleveraging, these cuts could not have come at a worse time.

Fortunately, after years of expenditure restraint, revenue growth is finally outpacing expenditures, closing budget gaps and supporting reinvestment. We do not expect state and local governments to be the first, second, or even third main source of economic growth over the next several years. However, there will be a meaningful 0.5 percentage point swing as the sector goes from offering a 0.3 percentage point drag to a 0.2 percentage point lift.

#### A speedier American economy is central to raising global growth

As consumers, businesses and governments combine to improve U.S. economic momentum, the forces of economic nature will work in the opposite direction with regards to the trade balance. A consistent theme in the global economy in the aftermath of the Great Recession has been the relative strength of emerging market (EM) economies relative to advanced economies. As debt overhangs and aging populations combined to slow economic growth in advanced economies, a quick monetary and fiscal policy response in EMs allowed for a faster pickup in economic activity. Greater growth in emerging economies has benefited the United States, helping to shrink its trade and current accounts deficit. Alas, while the story has not ended, it is taking a bit of a detour. Over the next two years, the drivers of global growth are likely to return to advanced economies – especially the United States.

The shift in the composition of global growth is in part due to the reverberations of U.S. monetary policy. As the Federal Reserve contemplated tapering its asset purchases,



investors headed for the exit on EM assets. This weakened their currencies, raised inflation, and forced central banks to take defensive measures, including raising interest rates. Naturally, this led to slower growth for EM economies.

At the same time, the biggest emerging economy – China – has begun to re-evaluate its growth strategy. After several years of supporting growth through investment, authorities have become concerned about the sustainability of its policies and have actively tried to slow credit growth and move the economy away from investment towards consumer demand. However, with investment representing close to half of Chinese GDP and consumer spending closer to a third, this process will necessitate a deceleration in economic growth.

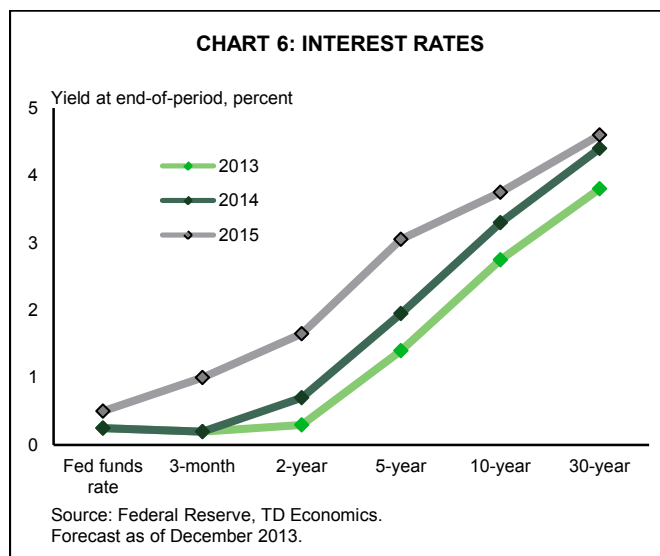
In short, the rest of the world is counting on America to help them through this transition. If all goes well it will play that role. Strengthening U.S. domestic demand implies higher imports, which are likely to be further supported by a stronger U.S. dollar – a side effect of the Federal Reserve easing asset purchases. As a result, net-exports will pose at least a modest drag on U.S. economic growth over the next two years.

### Tapers and tribulations

The main policy challenge over the next several years will be how the Federal Reserve unwinds its balance sheet policies without jeopardizing the much-needed acceleration in economic growth. The relatively steep rise in interest rates in 2013 is a cautionary tale to monetary policy makers that miscommunication can be costly.

Fortunately, the Fed's task should be a little easier going forward. The market's have front-loaded much of the adjustment in longer term yields in anticipation of tapering, implying less of a rise when the Fed finally pulls the trigger. Financial markets have now had over half a year to digest the news that QE is likely to come to a close in the near future.

However, given the fact that the Fed has ventured into unknown territory in recent years with QE purchases, it would be unrealistic to expect a perfectly calm response by financial markets. The Fed's attempt to brace the market for reduced asset purchases should help limit the speed at which Treasury yields rise once the Fed actually pulls the trigger, but there will likely still be a knee-jerk market reaction when the intent is put into place. To help ground market expectations while easing asset purchases, the Fed will likely redouble its efforts in communicating its intentions



to leave the federal funds rate on hold well into the future. By pushing out expectations for future short-term rate hikes, the Fed should be able to keep long-term rates from rising too quickly. Future rate increases will hinge less on tapering expectations and more on evidence of faster economic growth. As long as the Fed can maintain its credibility on short term rates – even as economic growth accelerates – the rise in long-term yields should prove manageable.

Another option available to the Fed, and one that it is drawing closer to considering, is cutting the interest rate paid on excess reserves. Currently, the Fed pays 25 basis points on deposits parked in reserve. Lowering the rate would signal the Fed's commitment to an extended period with rates close to zero and, by reducing the incentive to hold on to these deposits, it may also facilitate an increase in lending.

### Bottom Line

At the risk of sounding like a broken record we continue to see faster U.S. growth over the next two years. Substantial fiscal drag was a key reason for middling growth in prior years and particularly for 2013. This weight will lift on both the federal and state and local government fronts over the next two years. As fiscal policy ceases to be a drag on growth, the Federal Reserve will gain more room to move away from non-traditional monetary policy. Handling this transition will be tricky, but given the improvement in private-sector balance sheets and the considerable degree of pent up demand waiting to be unleashed, there is good reason to believe it will be achieved with stronger growth intact.

## U.S. ECONOMIC OUTLOOK:

*Period-Over-Period Annualized Per Cent Change Unless Otherwise Indicated*

|  | 2013  |      |       |      | 2014 |      |      |      | 2015 |      |      |      | Annual Average |       |       | 4th Qtr/4th Qtr |       |       |
|--|-------|------|-------|------|------|------|------|------|------|------|------|------|----------------|-------|-------|-----------------|-------|-------|
|  | Q1    | Q2   | Q3    | Q4F  | Q1F  | Q2F  | Q3F  | Q4F  | Q1F  | Q2F  | Q3F  | Q4F  | 13F            | 14F   | 15F   | 13F             | 14F   | 15F   |
| <b>Real GDP</b>  | 1.1   | 2.5  | 3.6   | 1.7  | 2.7  | 2.9  | 3.2  | 3.0  | 3.1  | 3.4  | 3.2  | 3.1  | 1.8            | 2.7   | 3.1   | 2.2             | 3.0   | 3.2   |
| <b>Consumer Expenditure</b>                            | 2.3   | 1.8  | 1.4   | 3.3  | 2.6  | 2.8  | 3.0  | 2.8  | 2.7  | 3.1  | 3.0  | 2.9  | 1.9            | 2.6   | 2.9   | 2.2             | 2.8   | 2.9   |
| Durable Goods  | 5.8   | 6.2  | 7.7   | 8.0  | 4.5  | 6.4  | 6.7  | 5.8  | 5.8  | 6.4  | 5.9  | 5.1  | 7.3            | 6.4   | 6.0   | 6.9             | 5.8   | 5.8   |
| <b>Business Investment</b>                             | -4.6  | 4.7  | 3.5   | 2.6  | 3.3  | 6.0  | 5.5  | 5.6  | 5.7  | 6.8  | 6.3  | 5.8  | 2.4            | 4.2   | 6.0   | 1.5             | 5.1   | 6.2   |
| Non-Res. Structures                                    | -25.7 | 17.6 | 13.7  | 1.0  | 0.5  | 3.9  | 4.4  | 3.5  | 3.2  | 4.3  | 3.6  | 4.7  | 1.5            | 4.5   | 3.8   | 0.1             | 3.1   | 3.9   |
| Equipment & IPP*                                       | 2.5   | 1.3  | 0.5   | 3.1  | 4.2  | 6.7  | 5.8  | 6.2  | 6.5  | 7.6  | 7.1  | 6.2  | 2.6            | 4.1   | 6.6   | 1.8             | 5.7   | 6.8   |
| <b>Residential Construction</b>                        | 12.5  | 14.2 | 13.0  | 5.2  | 12.3 | 15.7 | 17.9 | 16.3 | 15.1 | 14.4 | 13.7 | 12.6 | 13.5           | 12.8  | 15.2  | 11.2            | 15.5  | 13.9  |
| <b>Govt. Consumption &amp; Gross Investment</b>        | -4.2  | -0.4 | 0.4   | -1.3 | 1.5  | 0.7  | 0.8  | 0.7  | 1.0  | 0.9  | 1.1  | 1.0  | -2.0           | 0.4   | 0.9   | -1.4            | 0.9   | 1.0   |
| <b>Final Domestic Demand</b>                           | 0.5   | 2.1  | 1.8   | 2.4  | 2.8  | 3.2  | 3.4  | 3.2  | 3.2  | 3.6  | 3.4  | 3.3  | 1.5            | 2.7   | 3.3   | 1.7             | 3.1   | 3.4   |
| <b>Exports</b>   | -1.3  | 8.0  | 3.7   | 6.7  | 5.3  | 6.2  | 6.8  | 6.3  | 6.7  | 7.1  | 7.0  | 6.7  | 2.5            | 5.9   | 6.7   | 4.2             | 6.1   | 6.9   |
| <b>Imports</b>   | 0.6   | 6.9  | 2.7   | 5.4  | 4.9  | 5.9  | 6.2  | 6.1  | 6.5  | 7.2  | 7.4  | 7.1  | 1.7            | 5.3   | 6.6   | 3.9             | 5.7   | 7.1   |
| <b>Change in Private Inventories</b>                   | 42.2  | 56.6 | 116.5 | 90.8 | 87.6 | 80.7 | 76.4 | 72.3 | 71.3 | 70.2 | 69.8 | 68.8 | 76.5           | 79.3  | 70.0  | ---             | ---   | ---   |
| <b>Final Sales</b>                                     | 0.2   | 2.1  | 1.9   | 2.5  | 2.8  | 3.2  | 3.4  | 3.1  | 3.1  | 3.4  | 3.3  | 3.1  | 1.7            | 2.7   | 3.2   | 1.7             | 3.1   | 3.2   |
| <b>International Current Account Balance (\$Bn)</b>    | -438  | -419 | -391  | -399 | -399 | -407 | -416 | -426 | -435 | -445 | -460 | -477 | -412           | -412  | -454  | ---             | ---   | ---   |
| % of GDP   | -2.6  | -2.5 | -2.3  | -2.3 | -2.3 | -2.3 | -2.4 | -2.4 | -2.4 | -2.4 | -2.5 | -2.5 | -2.5           | -2.3  | -2.5  | ---             | ---   | ---   |
| <b>Pre-tax Corporate Profits including IVA&amp;CCA</b> | -5.1  | 13.9 | 7.5   | 0.6  | 3.4  | 4.2  | 4.5  | 3.6  | 4.3  | 4.8  | 5.3  | 5.2  | 4.0            | 4.3   | 4.5   | 4.0             | 3.9   | 4.9   |
| % of GDP   | 12.2  | 12.5 | 12.6  | 12.5 | 12.5 | 12.4 | 12.4 | 12.4 | 12.3 | 12.3 | 12.3 | 12.3 | 12.5           | 12.4  | 12.3  | ---             | ---   | ---   |
| <b>GDP Deflator (Y/Y)</b>                              | 1.7   | 1.4  | 1.4   | 1.5  | 1.5  | 1.9  | 1.9  | 2.0  | 2.1  | 2.1  | 2.2  | 2.2  | 1.5            | 1.8   | 2.2   | 1.5             | 2.0   | 2.2   |
| <b>Nominal GDP</b>                                     | 2.8   | 3.1  | 5.6   | 3.4  | 4.4  | 5.0  | 5.4  | 5.1  | 5.3  | 5.6  | 5.5  | 5.4  | 3.3            | 4.6   | 5.4   | 3.7             | 5.0   | 5.5   |
| <b>Labor Force</b>                                     | -0.2  | 0.5  | 0.1   | -1.1 | 1.2  | 0.8  | 0.9  | 1.0  | 1.0  | 1.0  | 1.0  | 1.0  | 0.3            | 0.5   | 1.0   | -0.2            | 1.0   | 1.0   |
| <b>Employment</b>                                      | 1.9   | 1.7  | 1.4   | 1.8  | 1.7  | 1.7  | 1.8  | 1.7  | 1.7  | 1.9  | 1.8  | 1.7  | 1.6            | 1.7   | 1.8   | 1.7             | 1.7   | 1.8   |
| <b>Change in Empl. ('000s)</b>                         | 645   | 579  | 479   | 592  | 571  | 577  | 603  | 585  | 594  | 645  | 627  | 599  | 2,193          | 2,279 | 2,426 | 2,295           | 2,335 | 2,465 |
| <b>Unemployment Rate (%)</b>                           | 7.7   | 7.6  | 7.3   | 7.1  | 7.0  | 6.8  | 6.6  | 6.5  | 6.4  | 6.2  | 6.1  | 6.0  | 7.4            | 6.7   | 6.2   | ---             | ---   | ---   |
| <b>Personal Disp. Income</b>                           | -7.0  | 4.0  | 5.0   | 3.6  | 4.1  | 4.7  | 5.1  | 5.1  | 5.2  | 5.3  | 5.4  | 5.4  | 2.0            | 4.4   | 5.2   | 1.3             | 4.8   | 5.3   |
| <b>Pers. Savings Rate (%)</b>                          | 4.1   | 4.7  | 5.0   | 4.6  | 4.6  | 4.6  | 4.6  | 4.6  | 4.7  | 4.8  | 4.8  | 4.8  | 4.6            | 4.6   | 4.8   | ---             | ---   | ---   |
| <b>Cons. Price Index (Y/Y)</b>                         | 1.7   | 1.4  | 1.6   | 1.2  | 1.4  | 1.9  | 1.8  | 2.2  | 2.3  | 2.3  | 2.3  | 2.4  | 1.5            | 1.8   | 2.3   | 1.2             | 2.2   | 2.4   |
| <b>Core CPI (Y/Y)</b>                                  | 1.9   | 1.7  | 1.7   | 1.7  | 1.7  | 1.9  | 2.0  | 2.2  | 2.3  | 2.3  | 2.3  | 2.3  | 1.8            | 2.0   | 2.3   | 1.7             | 2.2   | 2.3   |
| <b>Housing Starts (mns)</b>                            | 0.96  | 0.87 | 0.89  | 0.93 | 0.99 | 1.06 | 1.13 | 1.19 | 1.26 | 1.33 | 1.39 | 1.45 | 0.91           | 1.09  | 1.36  | ---             | ---   | ---   |
| <b>Productivity:</b>                                   |       |      |       |      |      |      |      |      |      |      |      |      |                |       |       |                 |       |       |
| <b>Real Output per hour (y/y)</b>                      | 0.0   | 0.2  | 0.3   | 0.9  | 1.6  | 1.6  | 1.2  | 1.4  | 1.6  | 1.7  | 1.7  | 1.7  | 0.4            | 1.5   | 1.7   | 0.9             | 1.4   | 1.7   |

\*Intellectual property products. F: Forecast by TD Economics as at December 2013

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

## INTEREST RATE OUTLOOK

|                             | 2013 |      |      |      | 2014 |      |      |      | 2015 |      |      |      |
|-----------------------------|------|------|------|------|------|------|------|------|------|------|------|------|
|                             | Q1   | Q2   | Q3   | Q4F  | Q1F  | Q2F  | Q3F  | Q4F  | Q1F  | Q2F  | Q3F  | Q4F  |
| Fed Funds Target Rate (%)   | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.50 |
| 3-mth T-Bill Rate (%)       | 0.07 | 0.04 | 0.02 | 0.20 | 0.20 | 0.20 | 0.20 | 0.20 | 0.25 | 0.50 | 0.80 | 1.00 |
| 2-yr Govt. Bond Yield (%)   | 0.25 | 0.36 | 0.33 | 0.30 | 0.35 | 0.50 | 0.60 | 0.70 | 0.95 | 1.00 | 1.25 | 1.65 |
| 5-yr Govt. Bond Yield (%)   | 0.77 | 1.41 | 1.39 | 1.40 | 1.50 | 1.65 | 1.80 | 1.95 | 2.35 | 2.50 | 2.80 | 3.05 |
| 10-yr Govt. Bond Yield (%)  | 1.87 | 2.52 | 2.64 | 2.75 | 2.85 | 3.05 | 3.20 | 3.30 | 3.65 | 3.65 | 3.70 | 3.75 |
| 30-yr Govt. Bond Yield (%)  | 3.10 | 3.52 | 3.69 | 3.80 | 3.95 | 4.20 | 4.30 | 4.40 | 4.60 | 4.55 | 4.60 | 4.60 |
| 10-yr-2-yr Govt. Spread (%) | 1.62 | 2.16 | 2.31 | 2.45 | 2.50 | 2.55 | 2.60 | 2.60 | 2.70 | 2.65 | 2.45 | 2.10 |

f: Forecast by TD Economics as at December 2013; All forecasts are for end of period; Source: Bloomberg, TD Economics

## FOREIGN EXCHANGE OUTLOOK

| Currency          | Exchange Rate | 2013 |      |      |      | 2014 |      |      |      | 2015 |      |      |      |
|-------------------|---------------|------|------|------|------|------|------|------|------|------|------|------|------|
|                   |               | Q1   | Q2   | Q3   | Q4F  | Q1F  | Q2F  | Q3F  | Q4F  | Q1F  | Q2F  | Q3F  | Q4F  |
| Canadian dollar   | CAD per USD   | 1.02 | 1.05 | 1.03 | 1.06 | 1.07 | 1.08 | 1.09 | 1.11 | 1.12 | 1.12 | 1.13 | 1.13 |
| Japanese yen      | JPY per USD   | 94   | 99   | 98   | 100  | 102  | 102  | 105  | 110  | 110  | 110  | 112  | 115  |
| Euro              | USD per EUR   | 1.28 | 1.30 | 1.35 | 1.30 | 1.27 | 1.25 | 1.24 | 1.22 | 1.22 | 1.20 | 1.20 | 1.20 |
| U.K. pound        | USD per GBP   | 1.52 | 1.52 | 1.62 | 1.59 | 1.55 | 1.54 | 1.55 | 1.56 | 1.61 | 1.60 | 1.60 | 1.58 |
| Swiss franc       | CHF per USD   | 0.95 | 0.95 | 0.90 | 0.95 | 0.98 | 1.02 | 1.05 | 1.07 | 1.07 | 1.08 | 1.08 | 1.08 |
| Australian dollar | USD per AUD   | 1.04 | 0.92 | 0.93 | 0.92 | 0.88 | 0.88 | 0.87 | 0.87 | 0.86 | 0.85 | 0.85 | 0.84 |
| NZ dollar         | USD per NZD   | 0.84 | 0.78 | 0.83 | 0.83 | 0.81 | 0.80 | 0.78 | 0.77 | 0.76 | 0.74 | 0.73 | 0.72 |

f: Forecast by TD Economics as at December 2013; All forecasts are for end of period; Source: Federal Reserve, Bloomberg, TD Economics

| GLOBAL ECONOMIC OUTLOOK                           |      |      |          |      |      |  |
|---|------|------|----------|------|------|--|
| Annual per cent change unless otherwise indicated |      |      |          |      |      |  |
| 2012 Share*                                       |      |      | Forecast |      |      |  |
| Real GDP  | (%)  | 2012 | 2013     | 2014 | 2015 |  |
| World   | 99.8 | 3.1  | 2.9      | 3.4  | 3.6  |  |
| North America                                     | 22.8 | 2.8  | 1.7      | 2.7  | 3.1  |  |
| United States                                     | 18.9 | 2.8  | 1.8      | 2.7  | 3.1  |  |
| Canada  | 1.8  | 1.7  | 1.7      | 2.3  | 2.4  |  |
| Mexico  | 2.1  | 3.7  | 1.4      | 3.2  | 3.3  |  |
| European Union (EU-27)                            | 19.4 | -0.5 | -0.2     | 1.2  | 1.4  |  |
| Euro-zone (EU-16)                                 | 13.7 | -0.6 | -0.4     | 1.0  | 1.3  |  |
| Germany   | 3.8  | 0.9  | 0.5      | 1.6  | 1.5  |  |
| France  | 2.7  | 0.0  | 0.2      | 0.8  | 1.1  |  |
| Italy   | 2.2  | -2.6 | -1.8     | 0.4  | 0.8  |  |
| United Kingdom                                    | 2.8  | 0.1  | 1.4      | 2.6  | 2.3  |  |
| EU accession members                              | 2.9  | -0.8 | -1.1     | 0.6  | 1.4  |  |
| Asia  | 38.9 | 5.2  | 4.9      | 4.9  | 4.8  |  |
| Japan   | 5.6  | 2.0  | 1.7      | 1.4  | 1.0  |  |
| Asian NIC's                                       | 3.9  | 1.7  | 2.7      | 3.2  | 3.1  |  |
| Hong Kong   | 0.4  | 1.5  | 3.0      | 3.2  | 3.1  |  |
| Korea   | 1.9  | 2.1  | 2.6      | 3.1  | 3.0  |  |
| Singapore   | 0.4  | 1.3  | 3.6      | 3.6  | 3.4  |  |
| Taiwan  | 1.1  | 1.3  | 2.3      | 3.4  | 3.2  |  |
| Russia  | 3.0  | 3.6  | 1.4      | 2.3  | 2.3  |  |
| Australia & New Zealand                           | 1.3  | 3.5  | 2.5      | 2.8  | 2.9  |  |
| Developing Asia                                   | 25.1 | 6.7  | 6.5      | 6.3  | 6.2  |  |
| ASEAN-4   | 3.4  | 6.3  | 5.0      | 5.1  | 4.9  |  |
| China   | 14.9 | 7.7  | 7.7      | 7.4  | 7.1  |  |
| India   | 5.6  | 5.1  | 4.8      | 4.9  | 5.3  |  |
| Central/South America                             | 6.7  | 2.6  | 2.9      | 3.2  | 3.3  |  |
| Argentina   | 0.9  | 1.9  | 2.8      | 2.7  | 2.7  |  |
| Brazil  | 2.8  | 0.9  | 2.4      | 2.5  | 2.9  |  |
| Other Developing                                  | 12.0 | 2.8  | 3.4      | 3.7  | 4.3  |  |

\*Regional wts. do not sum to 100% because some countries omitted  
Forecast as at December 2013  
Source: IMF, TD Economics

| ECONOMIC INDICATORS FOR THE G-7 AND THE EURO ZONE  |      |          |      |      |
|--|------|----------|------|------|
|  | 2012 | Forecast |      |      |
|  |      | 2013     | 2014 | 2015 |
| Real GDP (Annual per cent change)                  |      |          |      |      |
| G-7 (42.7%)*                                       | 1.7  | 1.3      | 2.1  | 2.3  |
| U.S.   | 2.8  | 1.8      | 2.7  | 3.1  |
| Japan  | 2.0  | 1.7      | 1.4  | 1.0  |
| EZ   | -0.6 | -0.4     | 1.0  | 1.3  |
| Germany  | 0.9  | 0.5      | 1.6  | 1.5  |
| France   | 0.0  | 0.2      | 0.8  | 1.1  |
| Italy  | -2.6 | -1.8     | 0.4  | 0.8  |
| United Kingdom                                     | 0.1  | 1.4      | 2.6  | 2.3  |
| Canada   | 1.7  | 1.7      | 2.3  | 2.4  |
| Consumer Price Index (Annual per cent change)      |      |          |      |      |
| G-7  | 1.8  | 1.3      | 1.7  | 2.0  |
| U.S.   | 2.1  | 1.5      | 1.8  | 2.3  |
| Japan  | 0.0  | 0.3      | 1.3  | 1.4  |
| EZ   | 2.5  | 1.4      | 1.2  | 1.3  |
| Germany  | 2.0  | 1.5      | 1.5  | 1.6  |
| France   | 2.0  | 0.9      | 1.3  | 1.4  |
| Italy  | 3.3  | 1.2      | 1.3  | 1.7  |
| United Kingdom                                     | 2.8  | 2.6      | 2.1  | 2.2  |
| Canada   | 1.5  | 1.0      | 1.5  | 2.0  |
| Unemployment Rate (Per cent annual averages)       |      |          |      |      |
| U.S.   | 8.1  | 7.4      | 6.7  | 6.2  |
| Japan  | 4.4  | 4.0      | 3.9  | 4.1  |
| EZ   | 11.4 | 12.0     | 11.9 | 11.1 |
| Germany  | 5.5  | 5.3      | 5.3  | 5.1  |
| France   | 10.3 | 10.9     | 11.0 | 11.2 |
| Italy  | 10.7 | 12.1     | 12.4 | 11.8 |
| United Kingdom                                     | 7.9  | 7.6      | 7.3  | 7.1  |
| Canada   | 7.3  | 7.0      | 6.7  | 6.3  |
| *Share of 2012 world gross domestic product (GDP)  |      |          |      |      |
| Forecast as at December 2013                       |      |          |      |      |
| Source: National statistics agencies, TD Economics |      |          |      |      |

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