

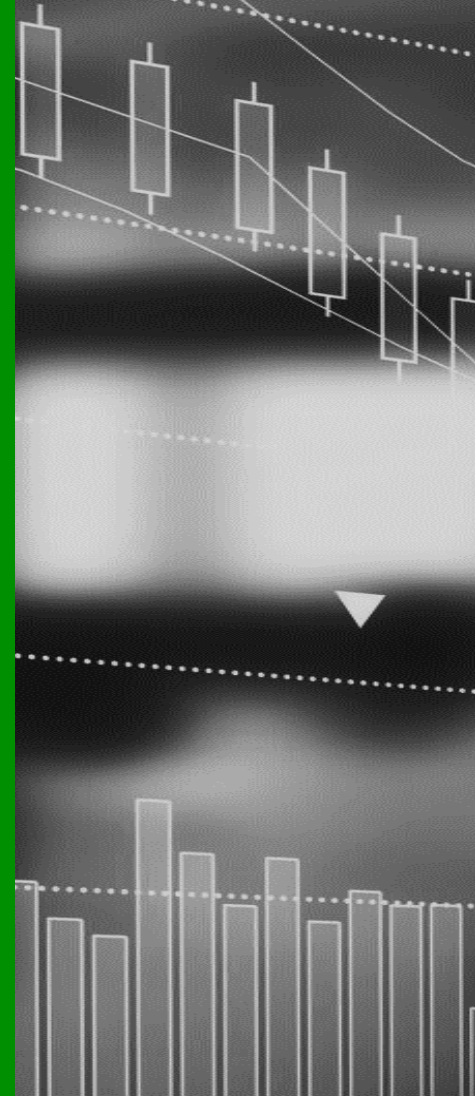
TD ECONOMICS

And Now, The Hard Part

Leslie Preston, Managing Director & Senior Economist

October 2023





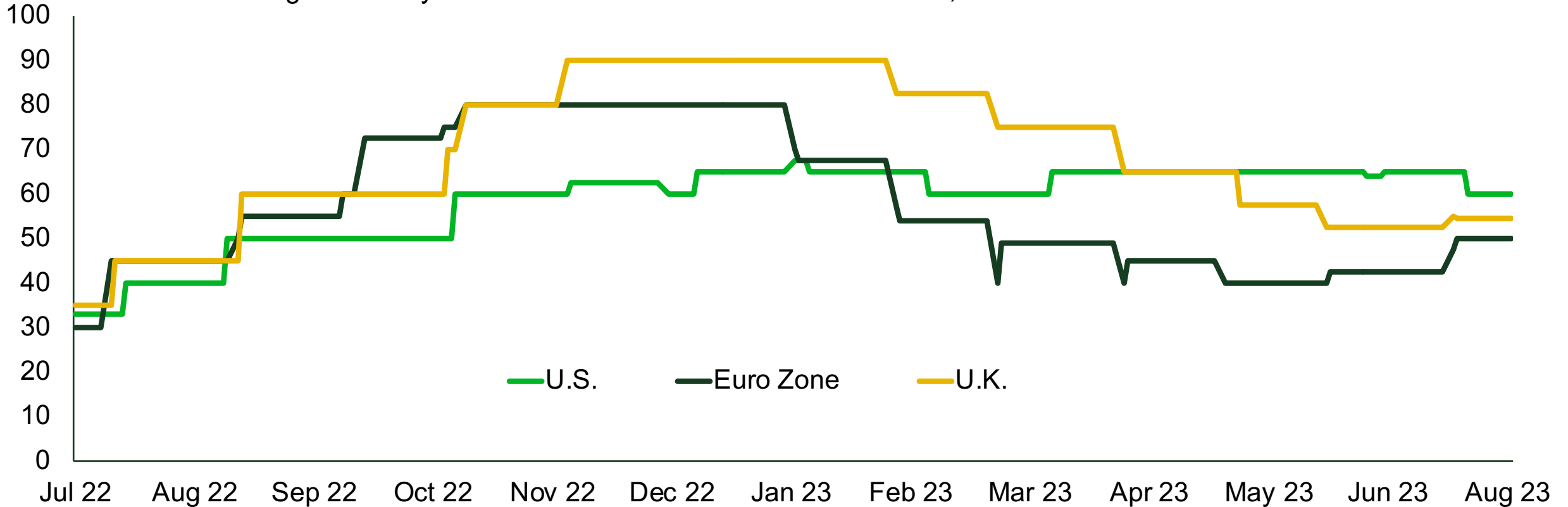
1. Recession talk shifts to soft landing
2. Atypical offsets to higher rates
3. Rates to remain higher for longer

Today's Agenda

Recession Odds Coming Off Peak Levels...

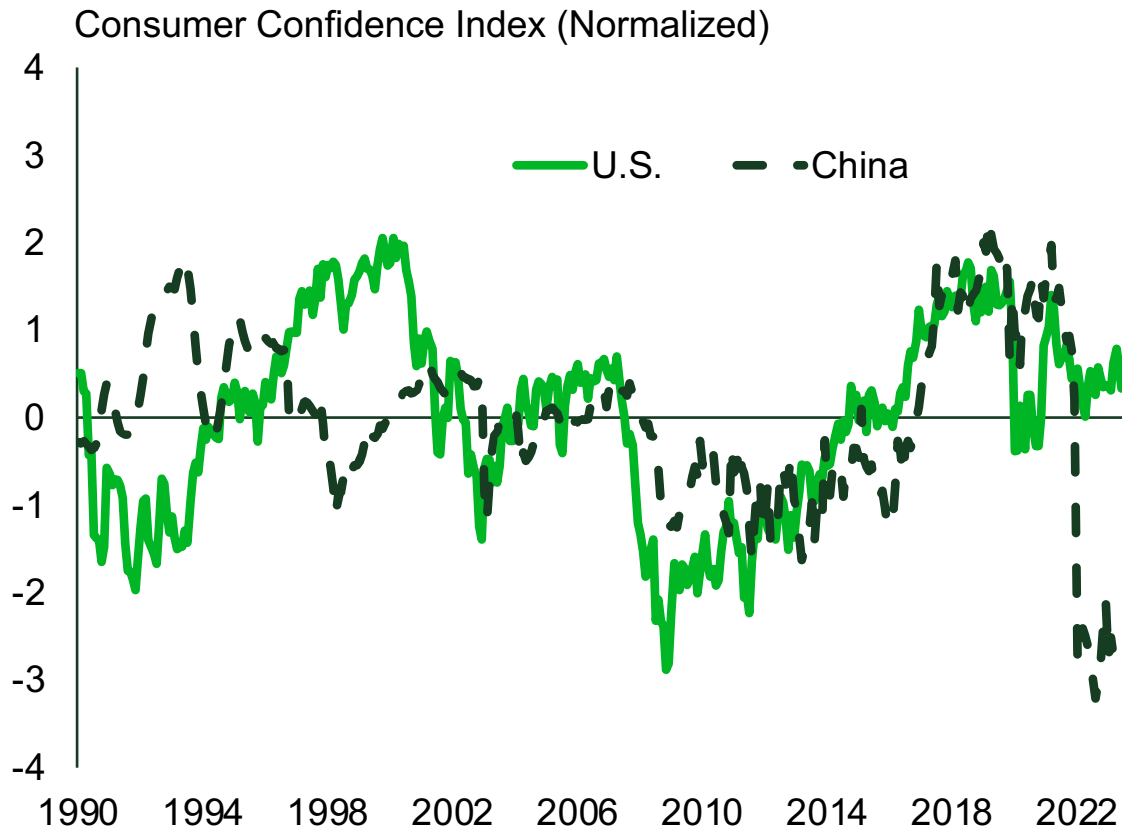


Median Bloomberg Probability of Recession Over the Next Year Estimate, %

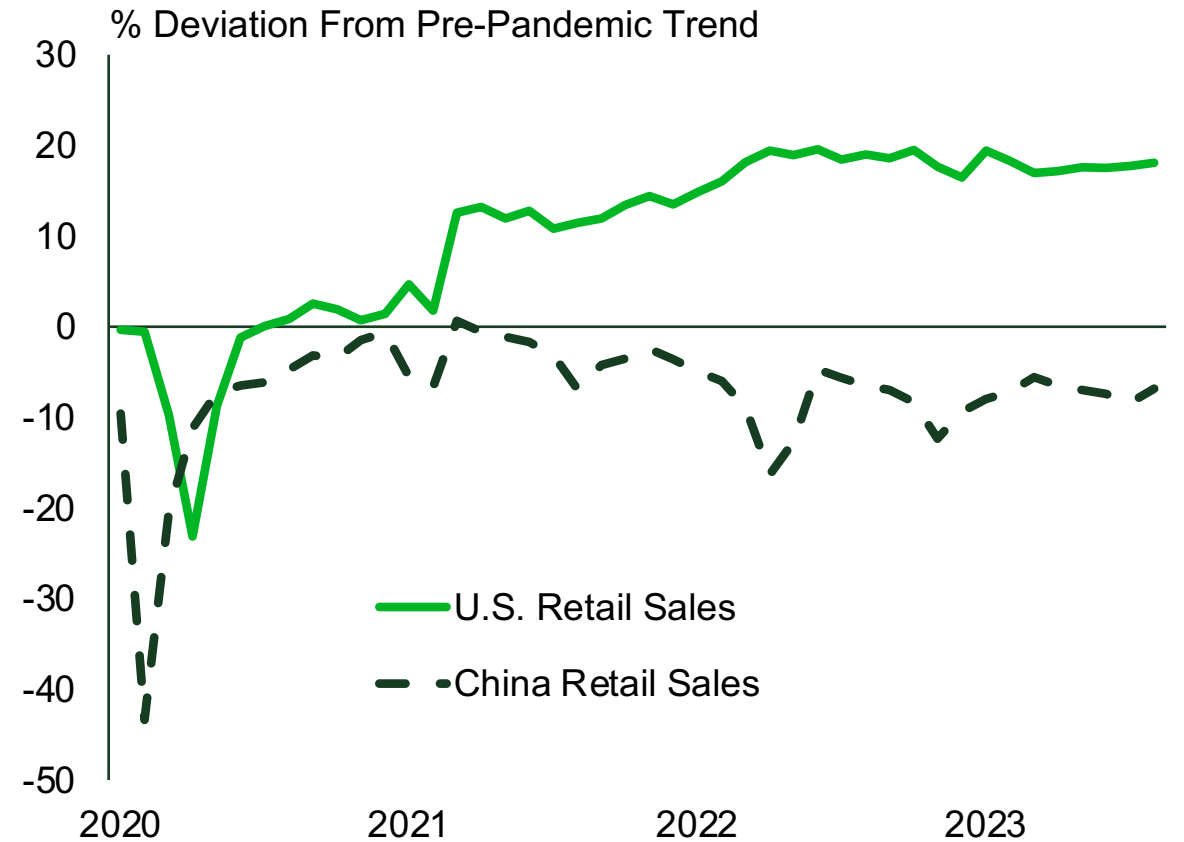


Source: Bloomberg, TD Economics.

China's Economic Recovery Bucks The Resilience Trend



Last Observation: U.S. Sep. 2023, China Aug. 2023.
Source: CNBS, Conference Board, TD Economics

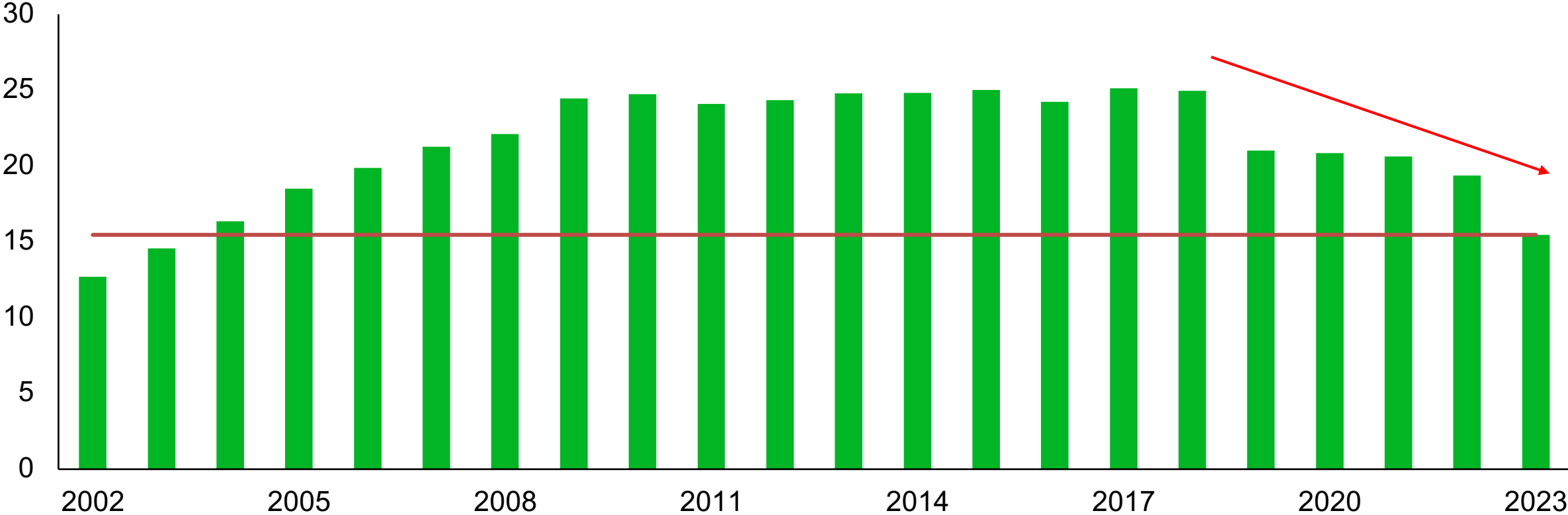


Source: CNBS, Census Bureau, TD Economics

China's Trends Don't Carry the Same Weight



Share of U.S. Manufacturing Imports from China*

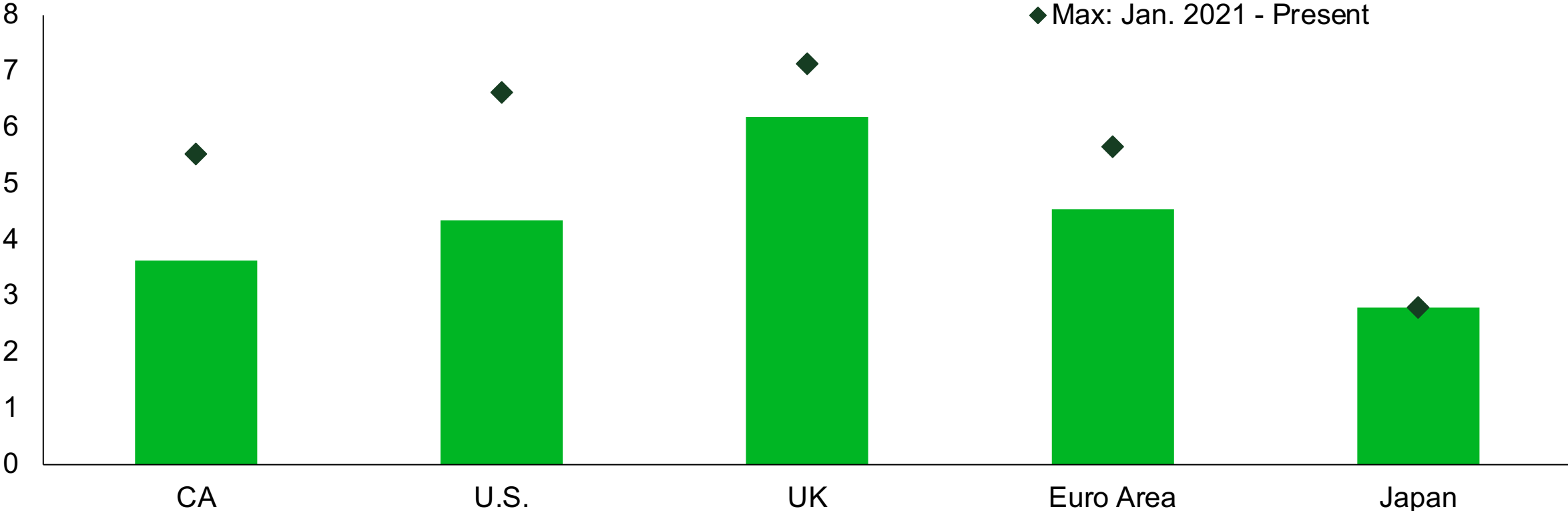


*Excluding Petroleum & Coal Products. Source: Census Bureau, TD Economics.

High Core Inflation Still a Global Challenge

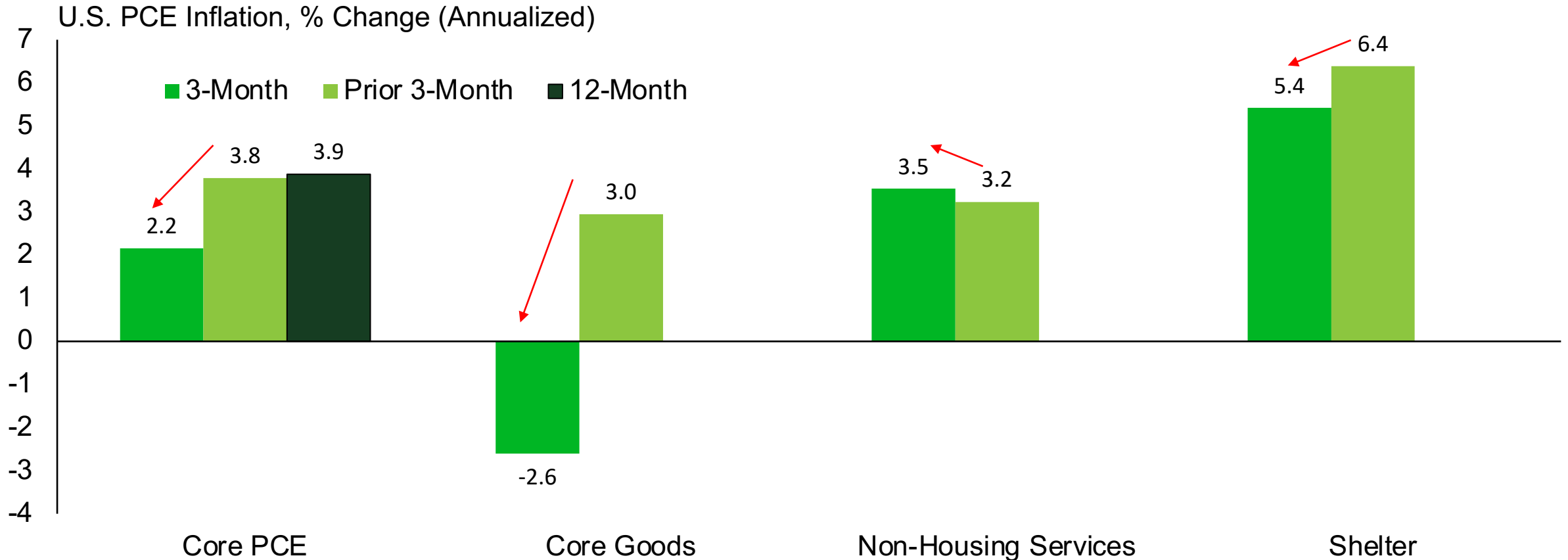


Core Inflation (Year/Year % Change)



Source: BLS, StatCan, ONS, Eurostat, MIC, TD Economics.

Cooler U.S. Inflation Offers Fed Some Breathing Room For Pause

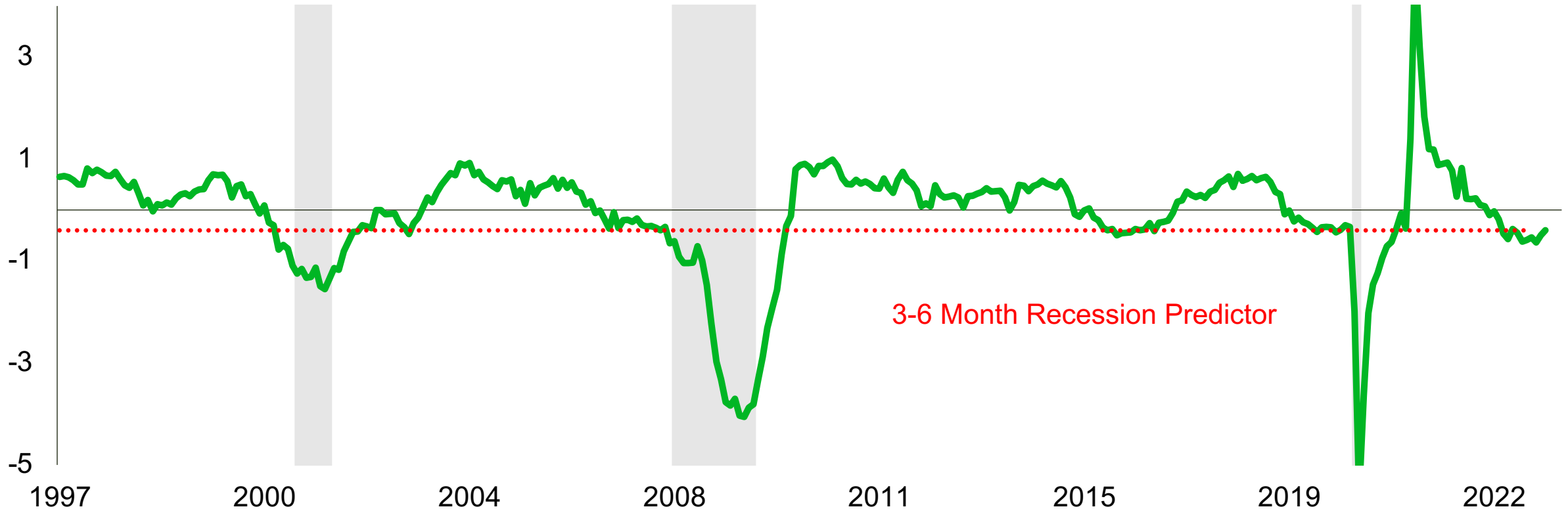


Source: Bureau of Economic Analysis, TD Economics. Data as at August 2023.

U.S. Leading Economic Index Has Turned Higher, Consistent with Increased Calls For a 'Soft Landing'



TDE U.S. Leading Economic Index, Standard Deviations from Normal

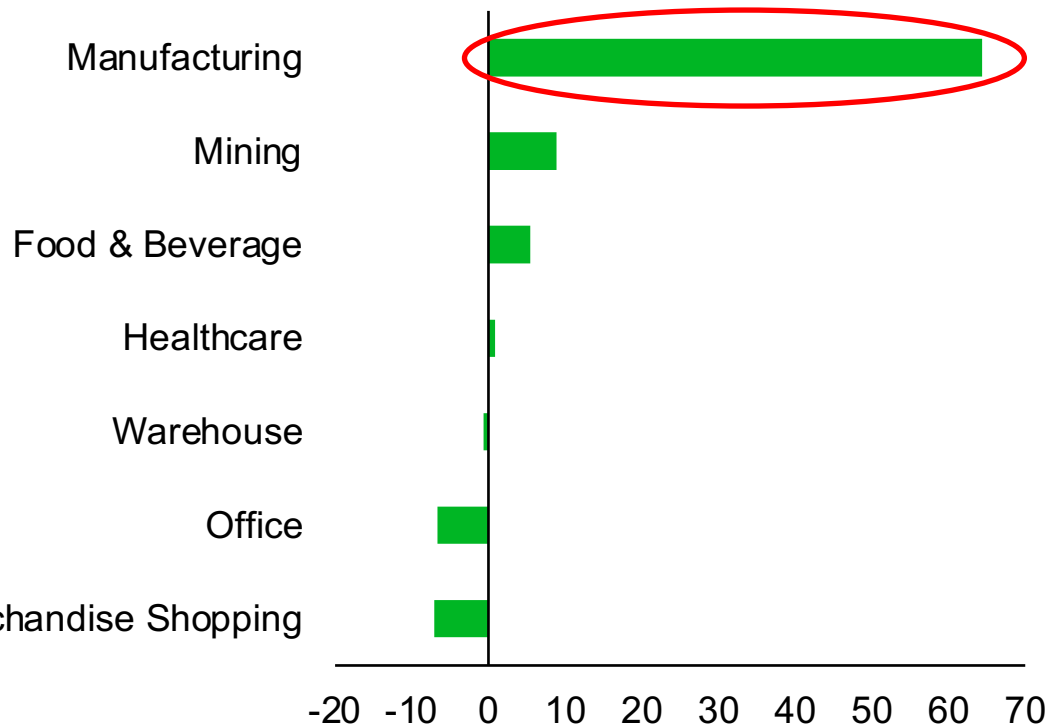


*Index is comprised of eight leading economic indicators.
Source: TD Economics.

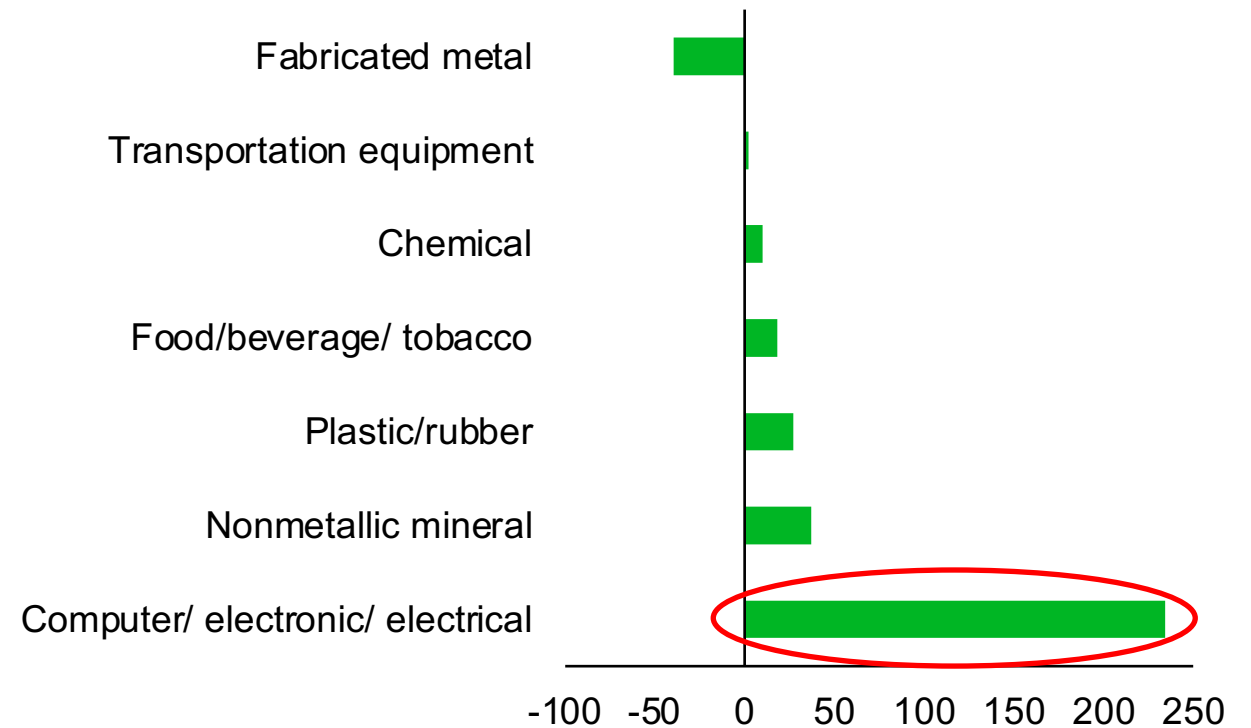
U.S. Manufacturing Revival Defies High Interest Rates...



Real Non-Residential Structures Investment, % Change from 2022 Q2



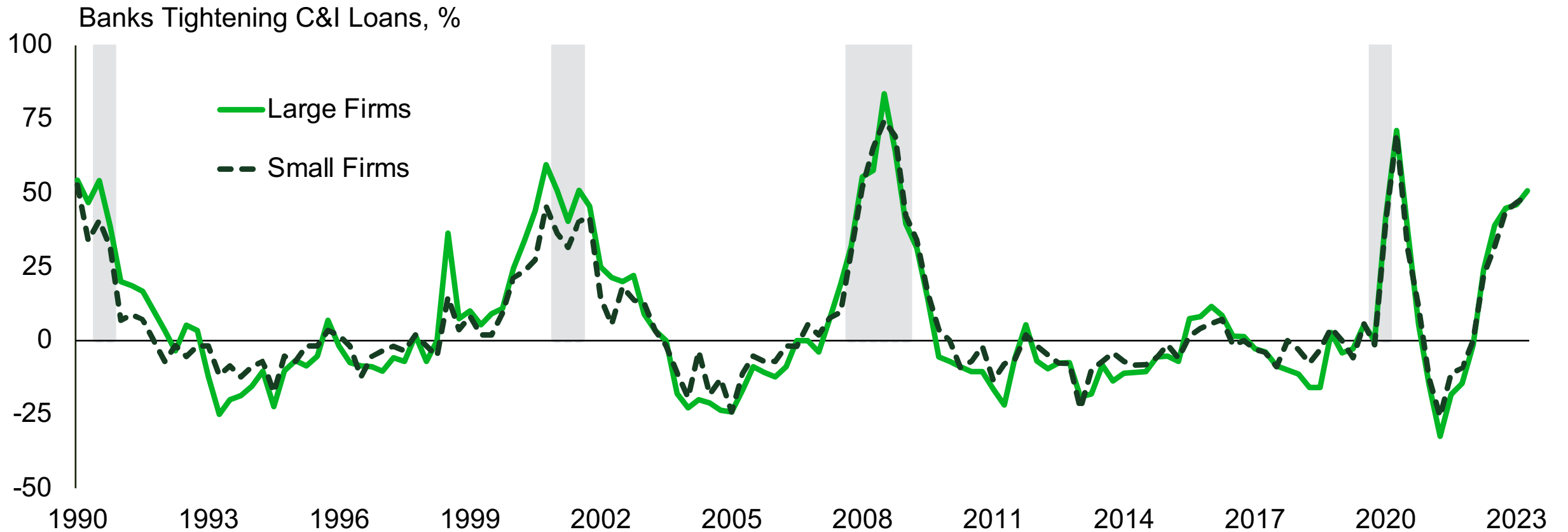
Construction Spending on Manufacturing Facilities, Year/Year % Change



Source: Bureau of Economic Analysis, TD Economics.

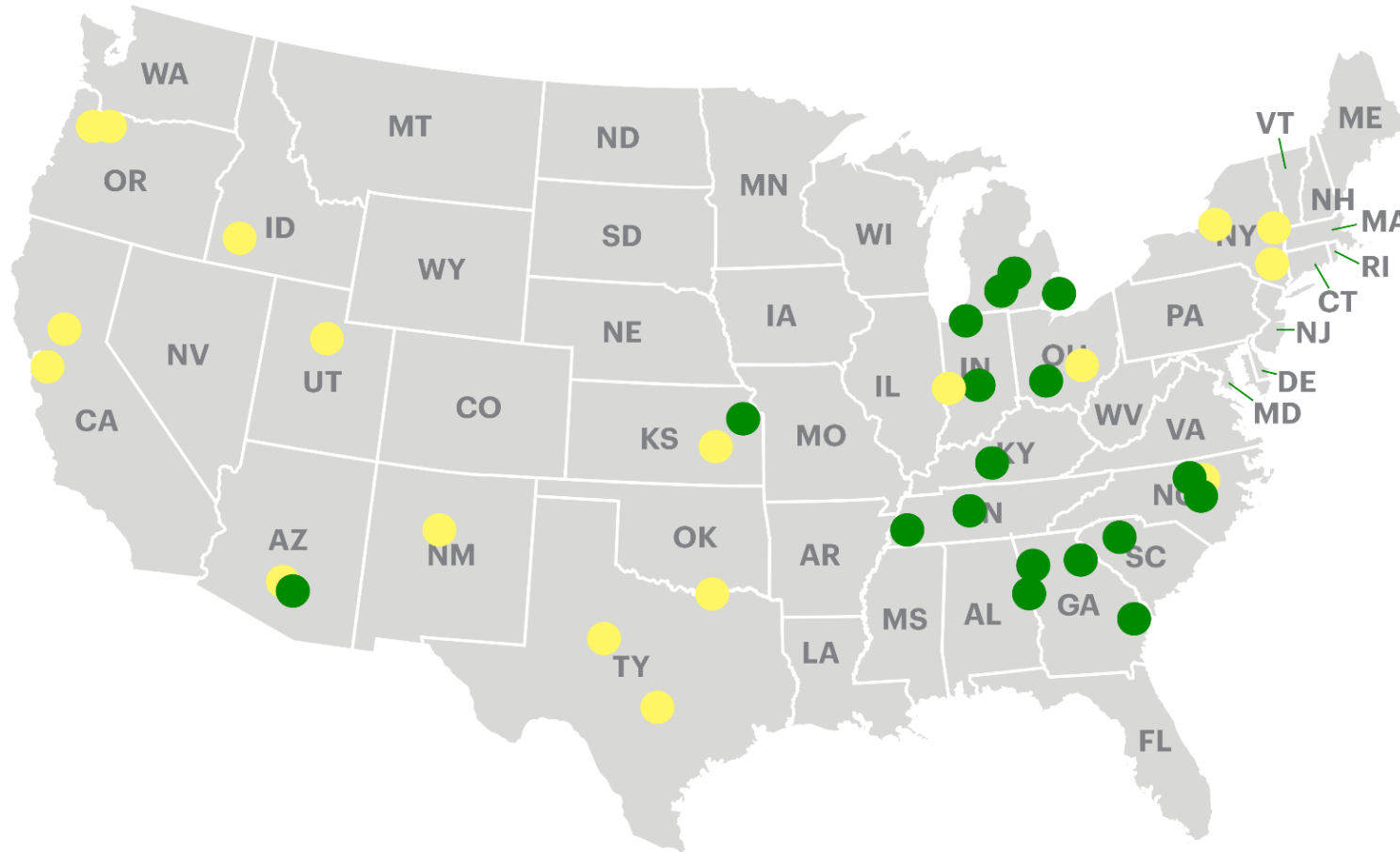
Source: Census Bureau, TD Economics.

...And Defies Credit Conditions That Historically Align To Recessions



Note: Shaded areas denote NBER recessions. Source: Federal Reserve Bank, TD Economics.

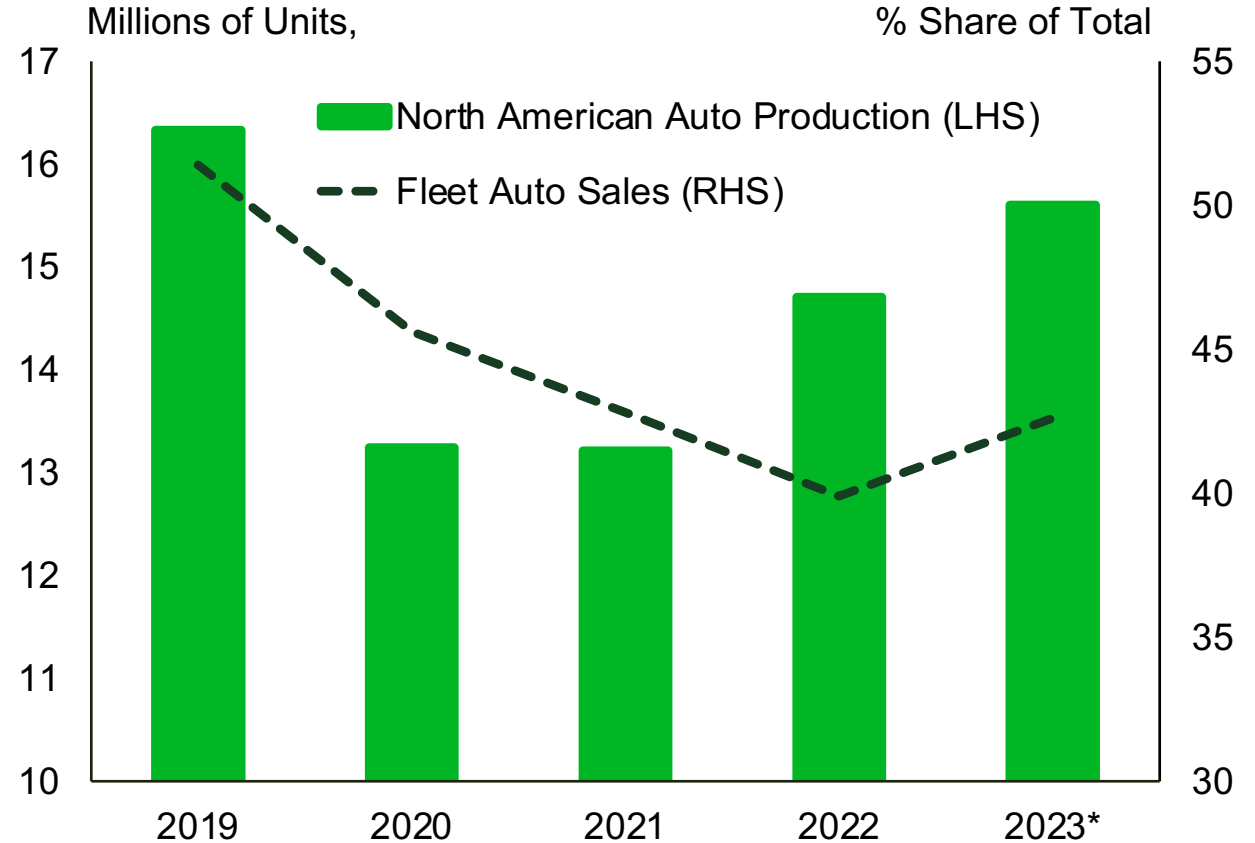
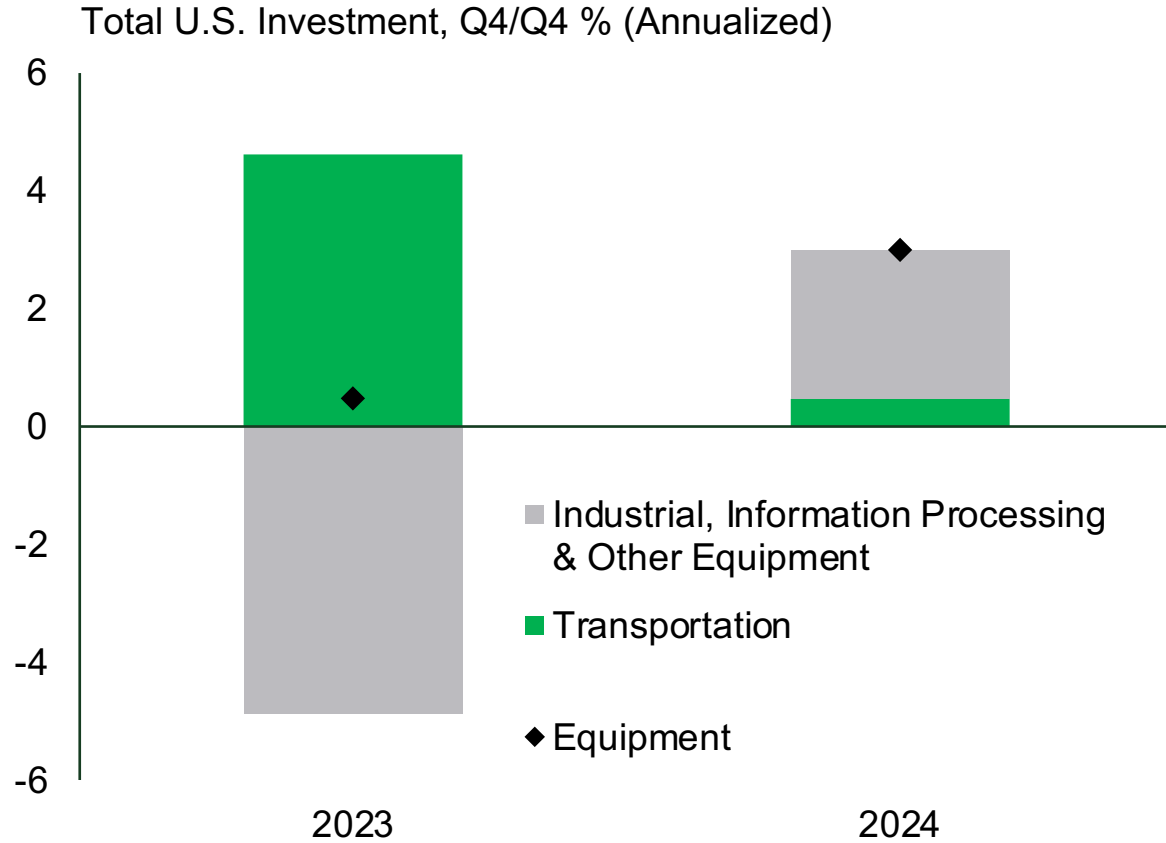
Government Policies Ignite Construction Of Manufacturing Plants



Planned
Semiconductor &
EV Battery
Manufacturing
Facilities

 Semiconductor  EV Battery

Other Unique Push-and-Pull Forces On Business Investment



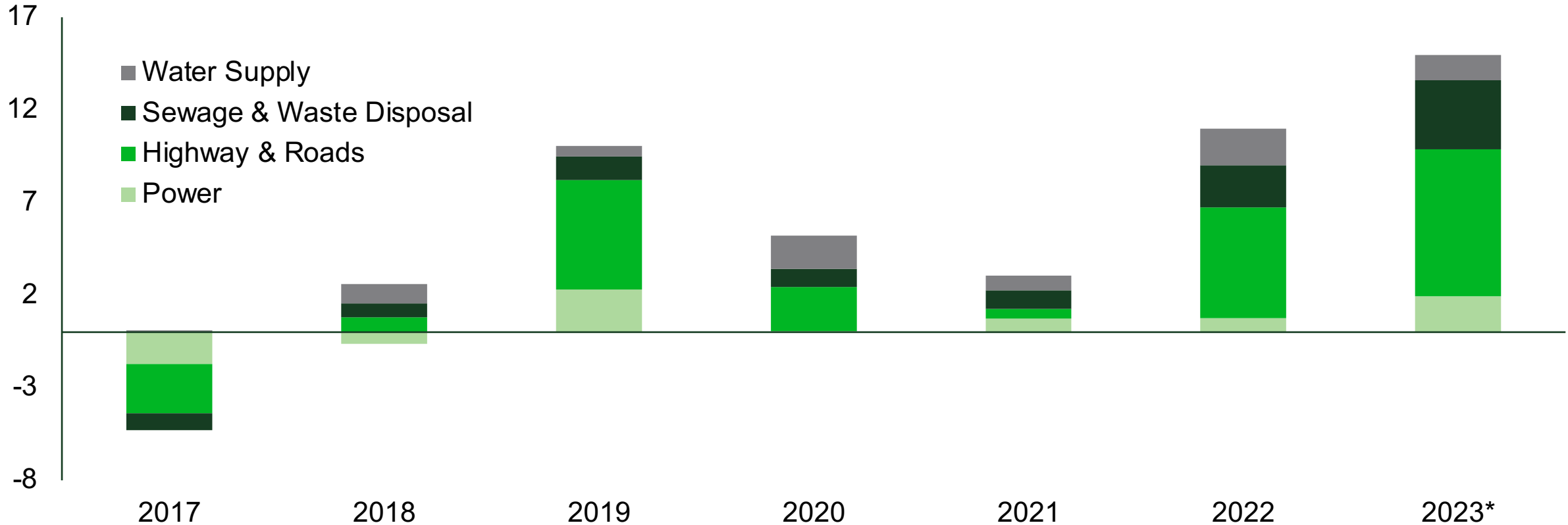
Source: Bureau of Economic Analysis, TD Economics.

*TD Economics forecast.
Source: Bureau of Economic Analysis, Wards Automotive, TD Economics.

Private Sector Is Not Alone In Investment "Catch Up"



Public Infrastructure Spending, Year/Year % Change Contribution

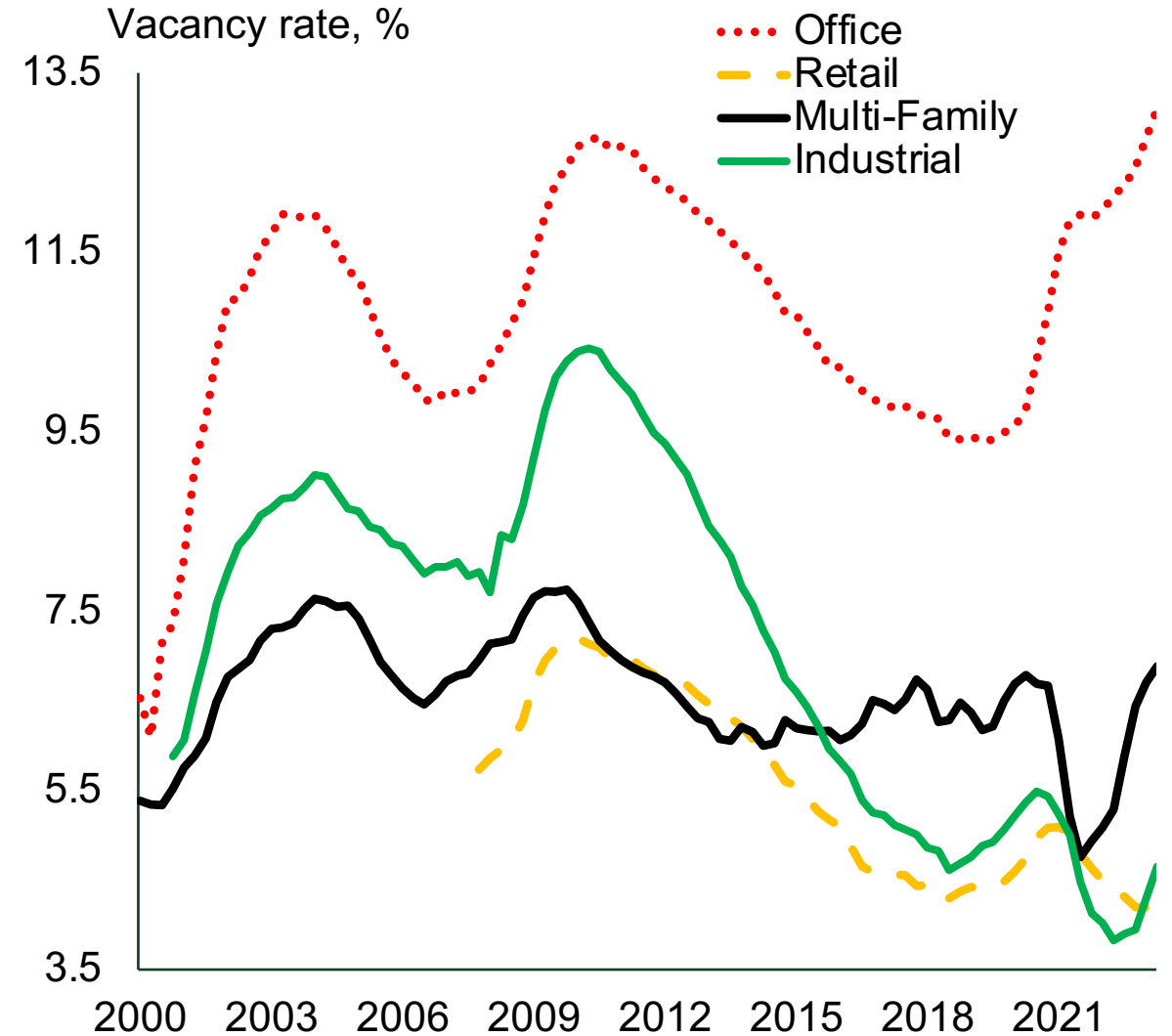
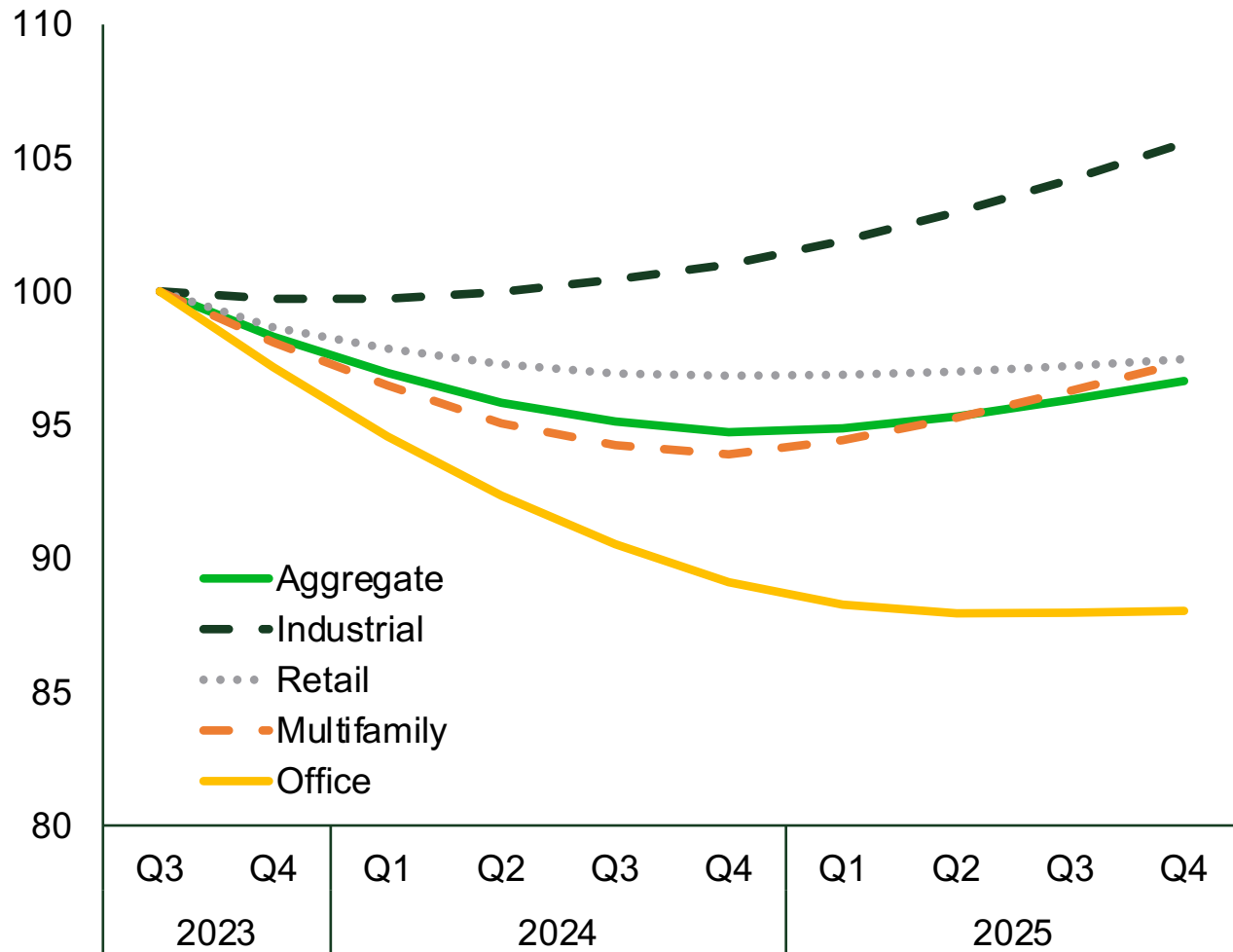


*2023 YTD values annualized. Source: Census Bureau, TD Economics.

CRE A Downside Risk



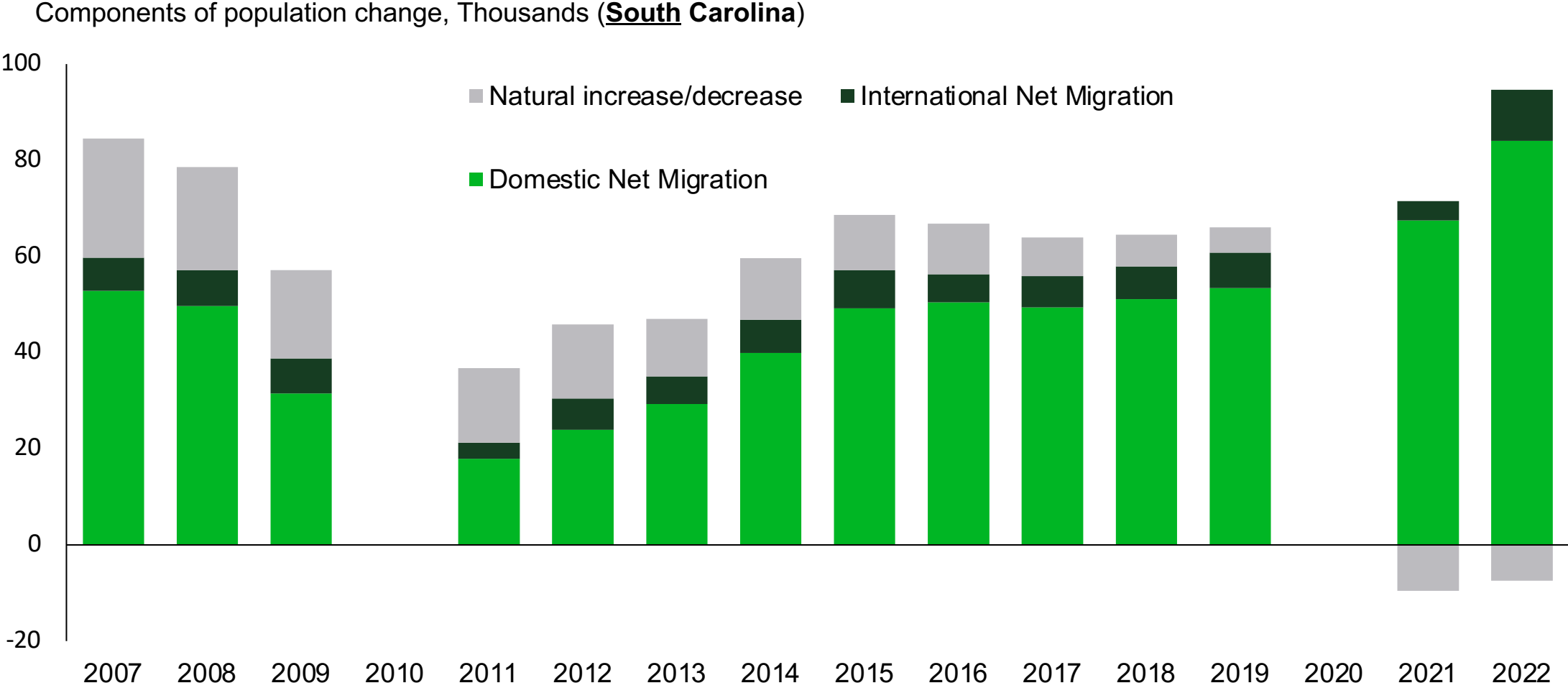
Baseline CRE Price Forecast By Segment, Q3'2023=100



Source: CoStar, TD Economics

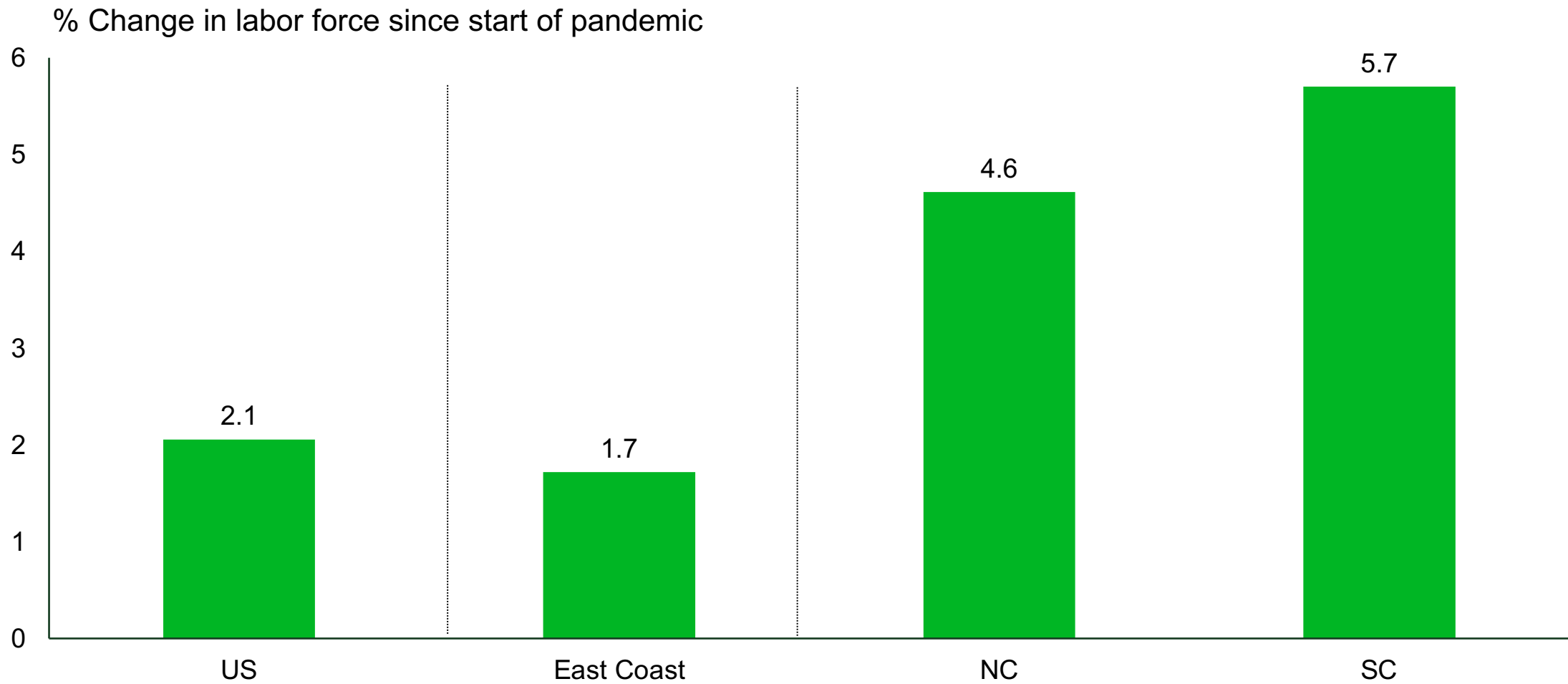
Source: CoStar, TD Economics

South Carolina Gets Tailwind from Domestic Migration.....



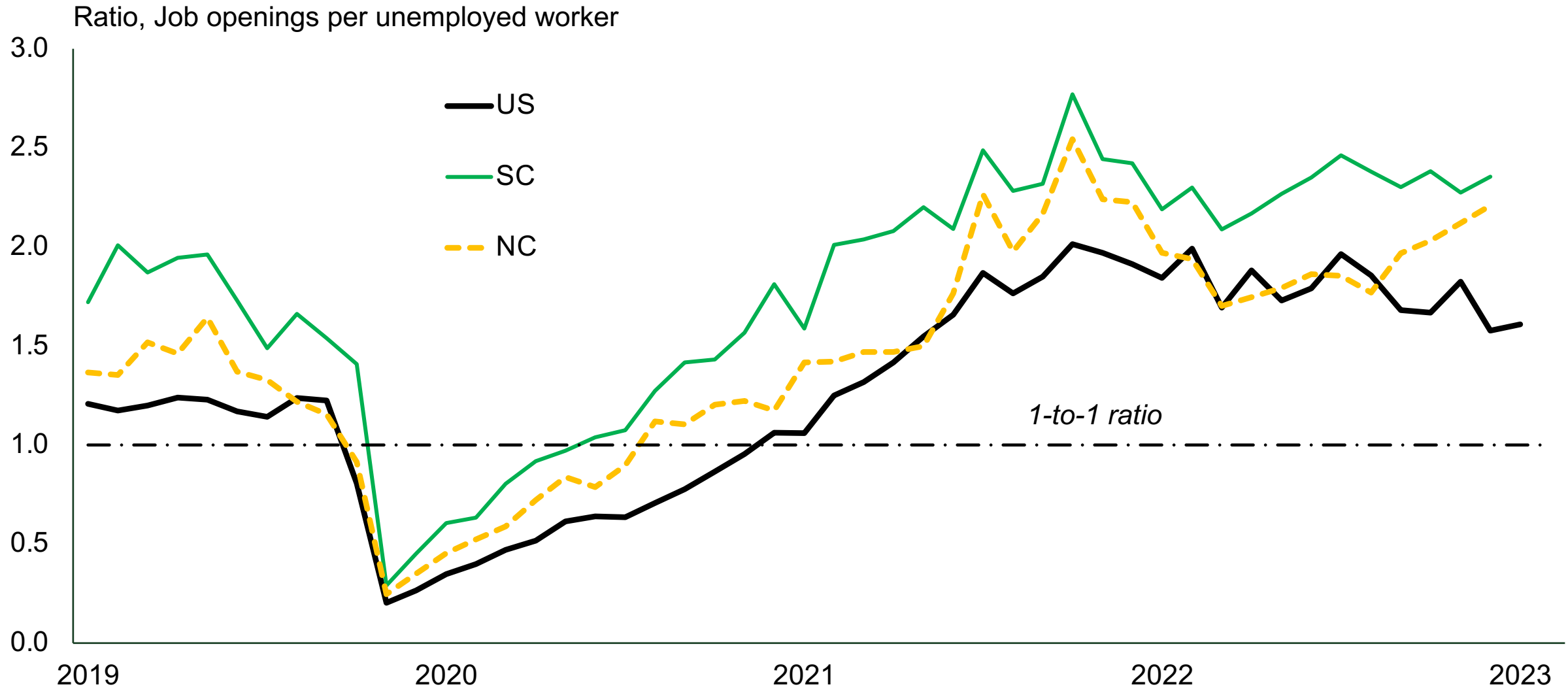
Source: Census Bureau, TD Economics

...Which Boosts Labor Force Growth



Source: BLS, TD Economics. *August 2023 vs. Feb 2020.

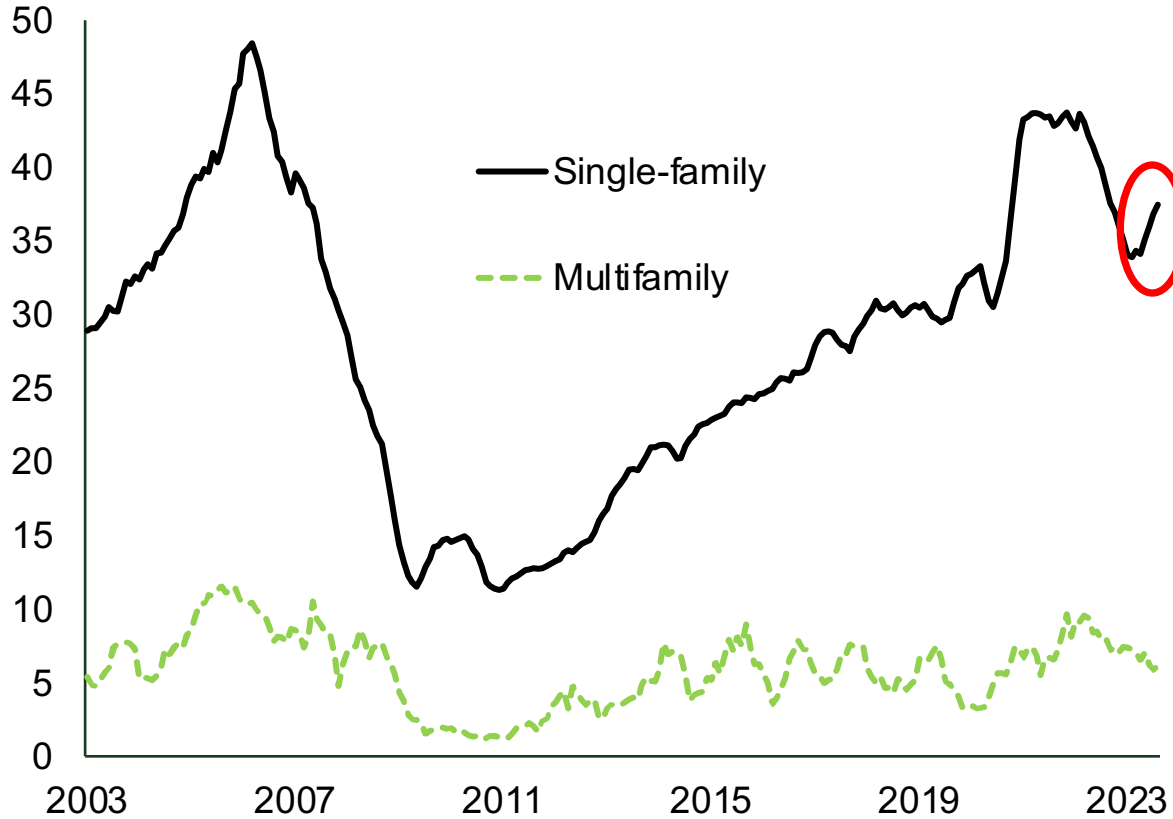
Yet, Workers Still Hard to Come By



South Carolina Housing Market

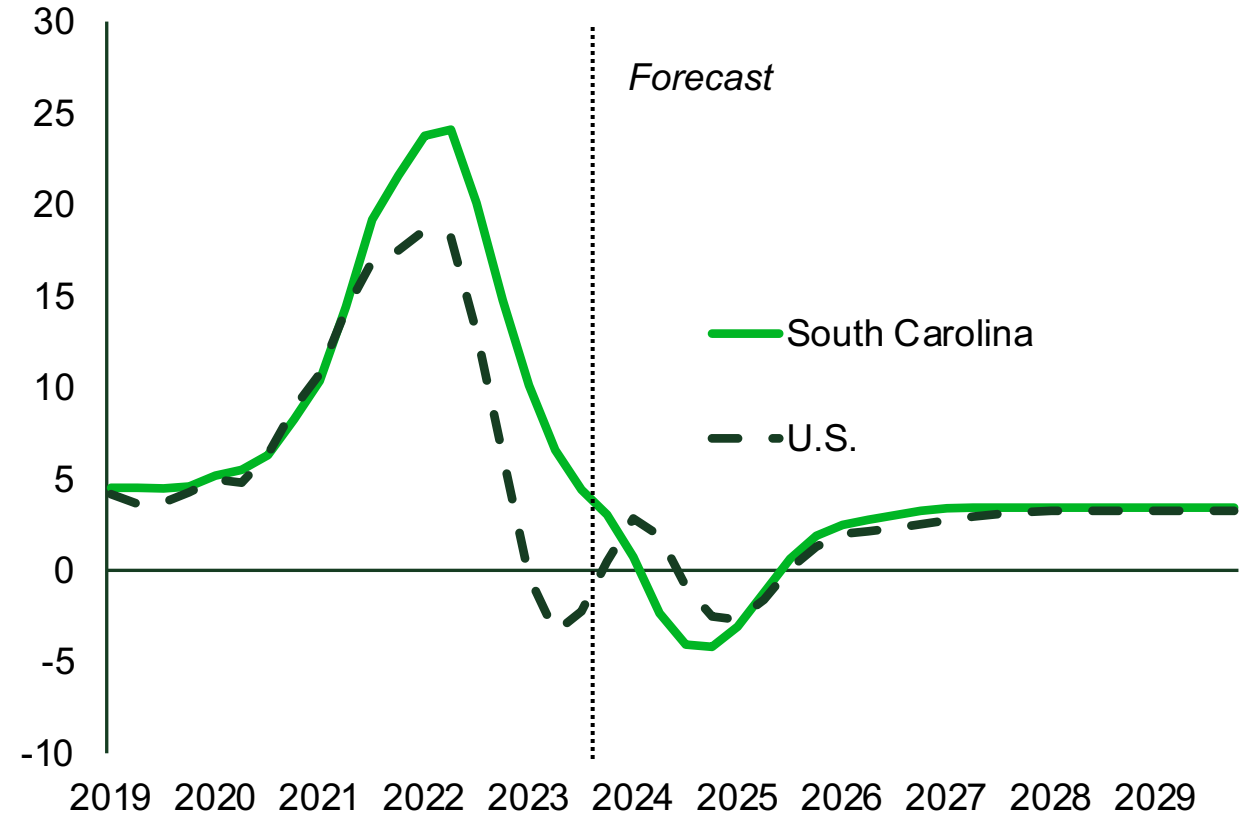


Housing permits (SAAR, Thousands)* – South Carolina



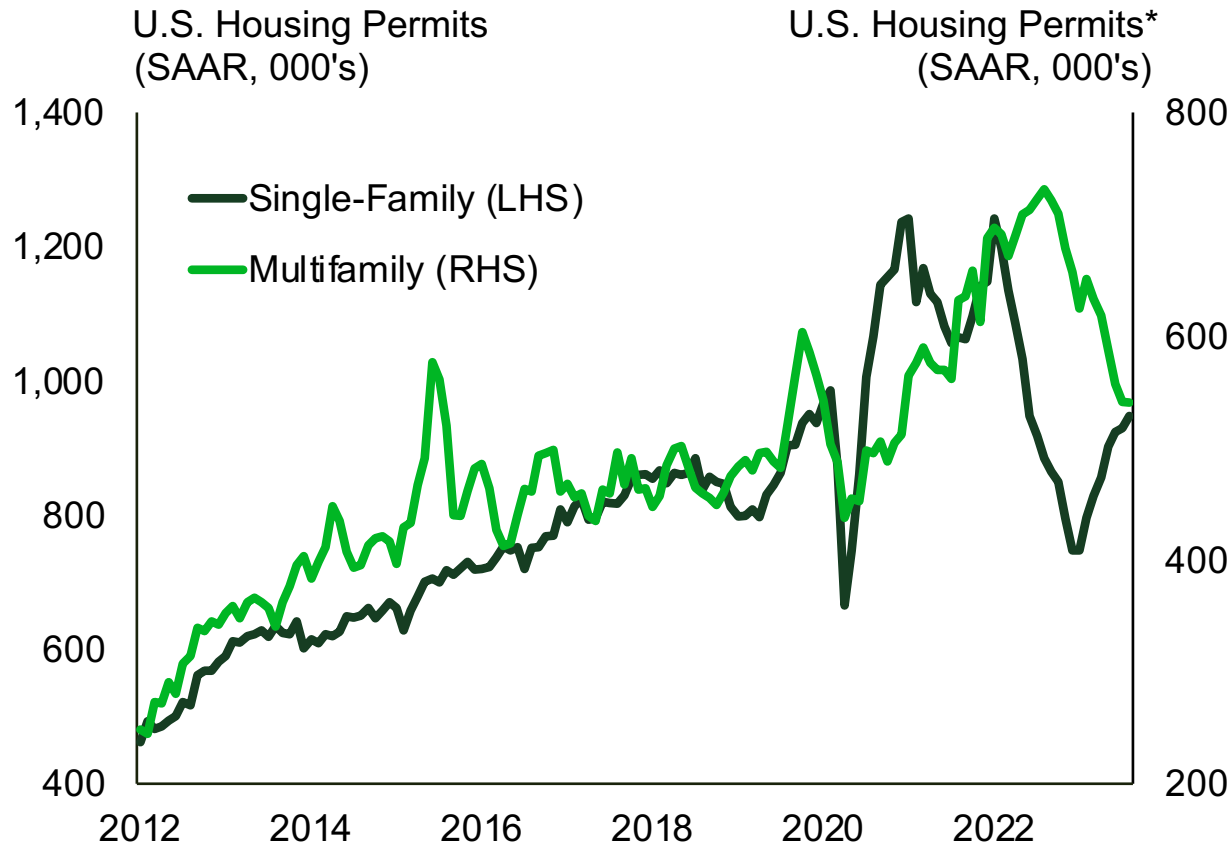
Source: BEA, TD Economics. *6-month moving average.

Home Prices, Year/Year % Change

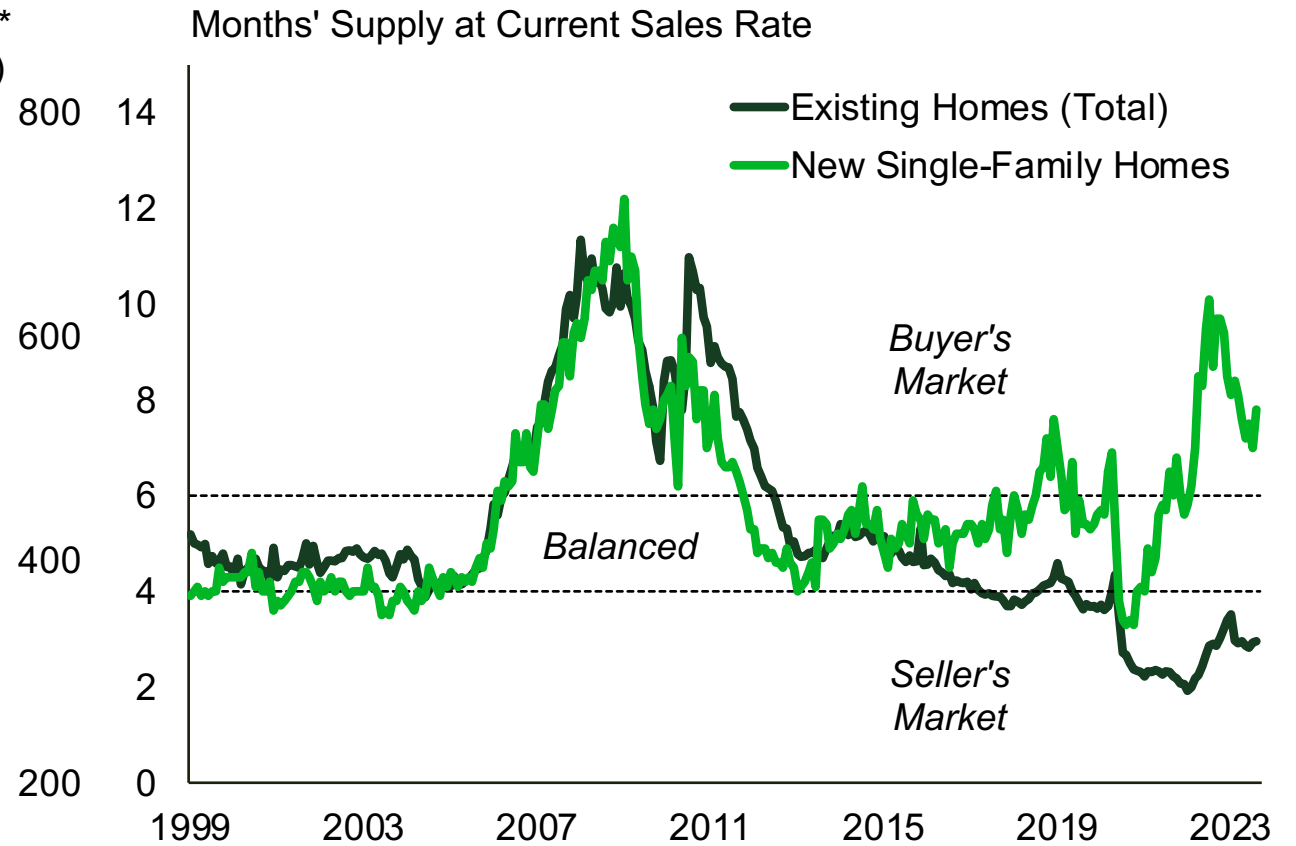


Source: TD Economics.

Crosscurrents in U.S. Housing Market

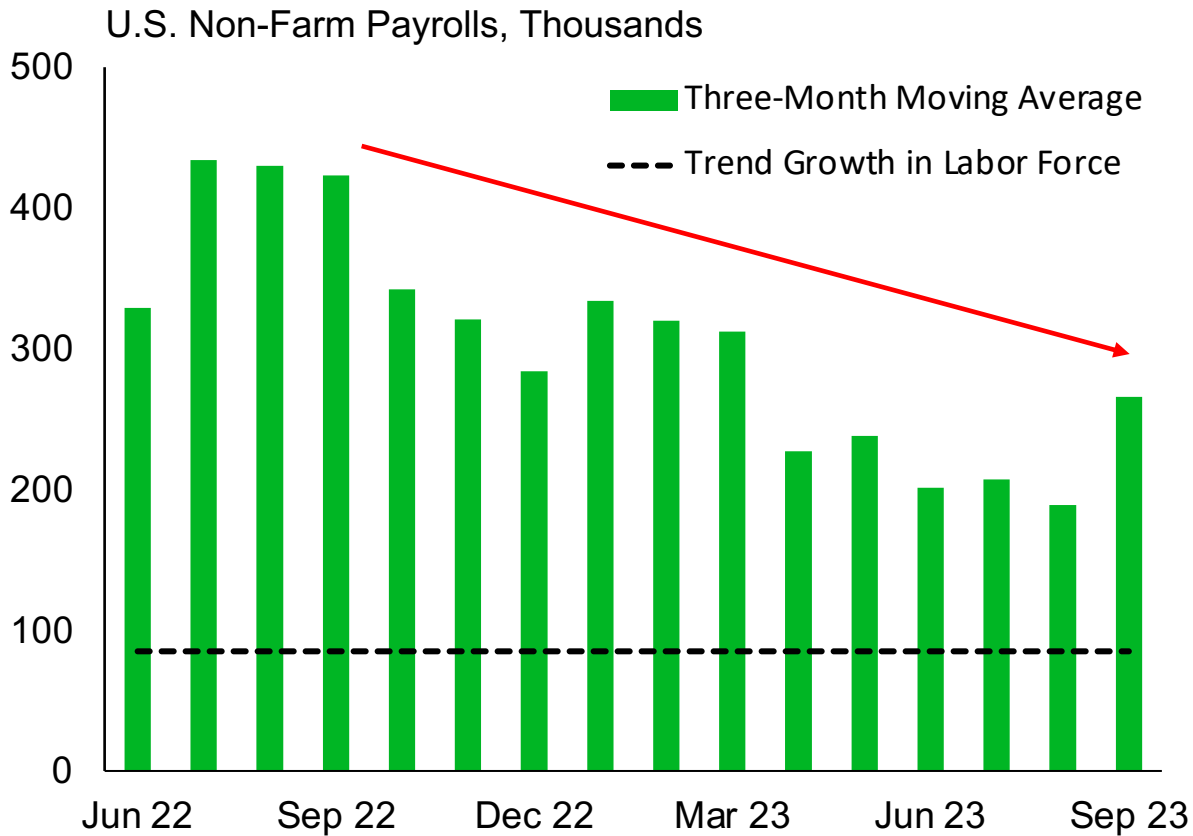


*3-month moving average.
Source: Census Bureau, National Association of Home Builders, TD Economics.

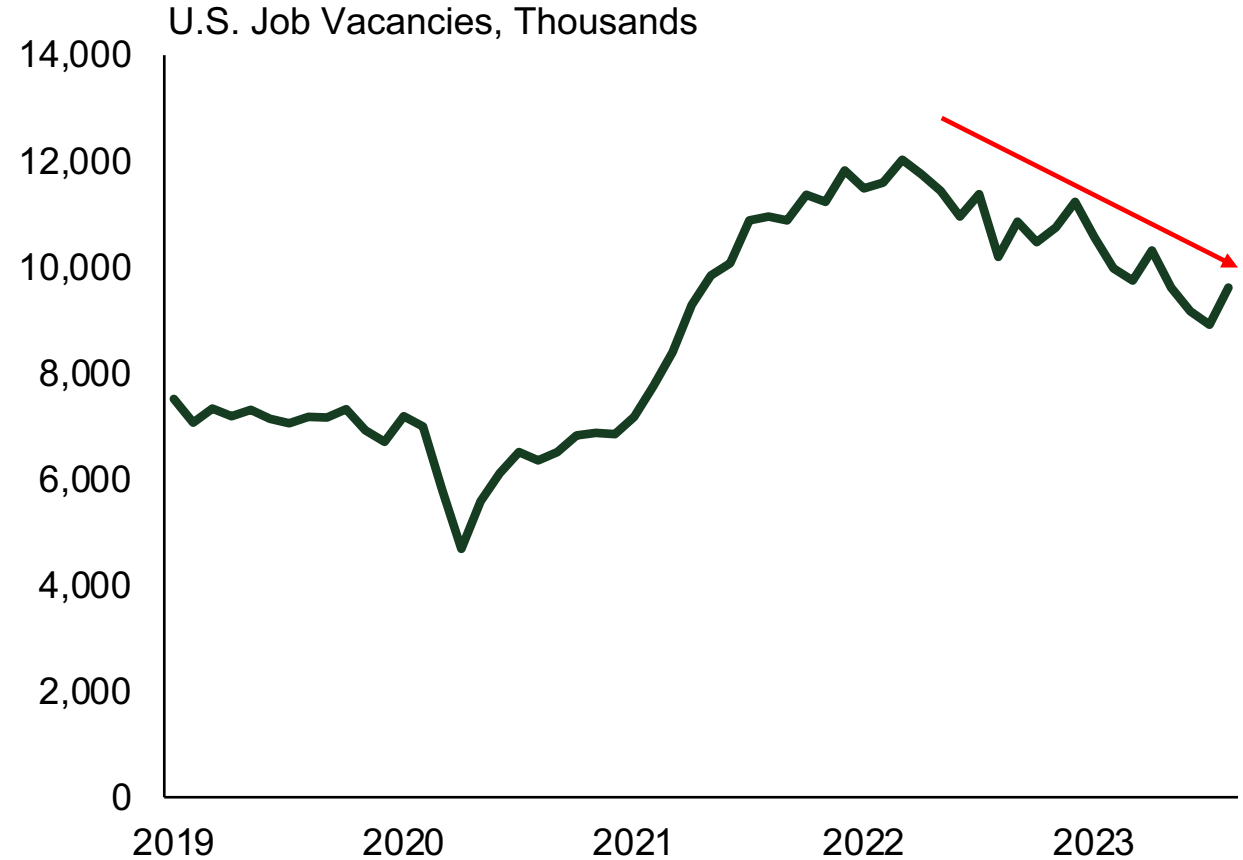


Source: NAR, Census Bureau, TD Economics.

Signs of Cooling in Labor Market



Source: Bureau of Labor Statistics, TD Economics.

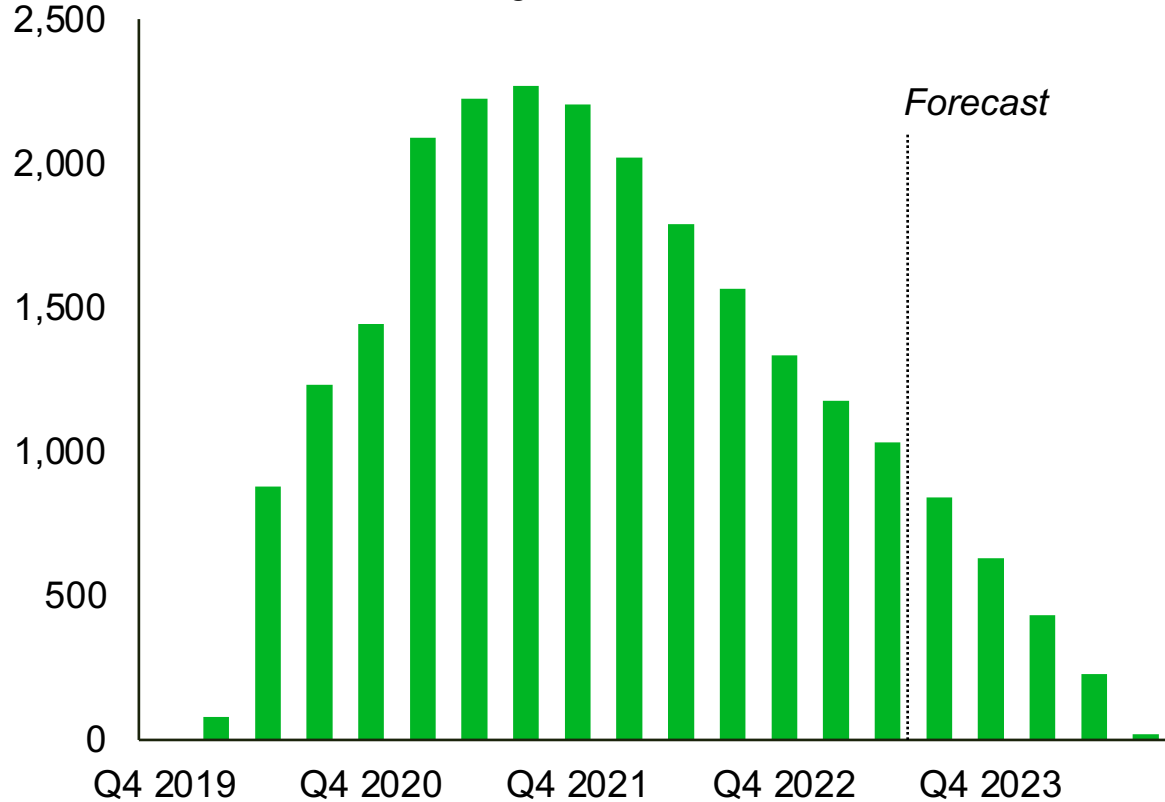


Source: Bureau of Labor Statistics, TD Economics.

Excess Savings Buffer Thinning Quickly, But Income Gaining Traction

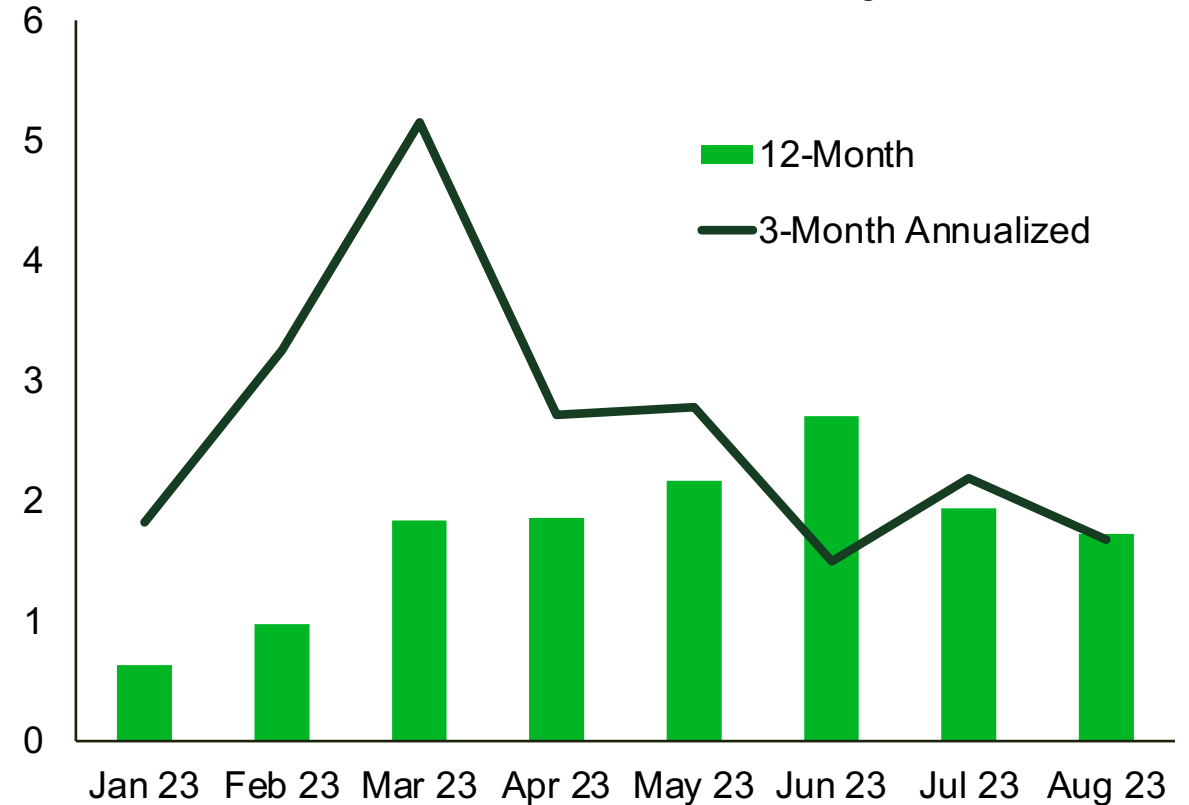


Stock of Excess Savings, Billions



Source: TD Economics.

Real Personal Income Less Transfers, % Change

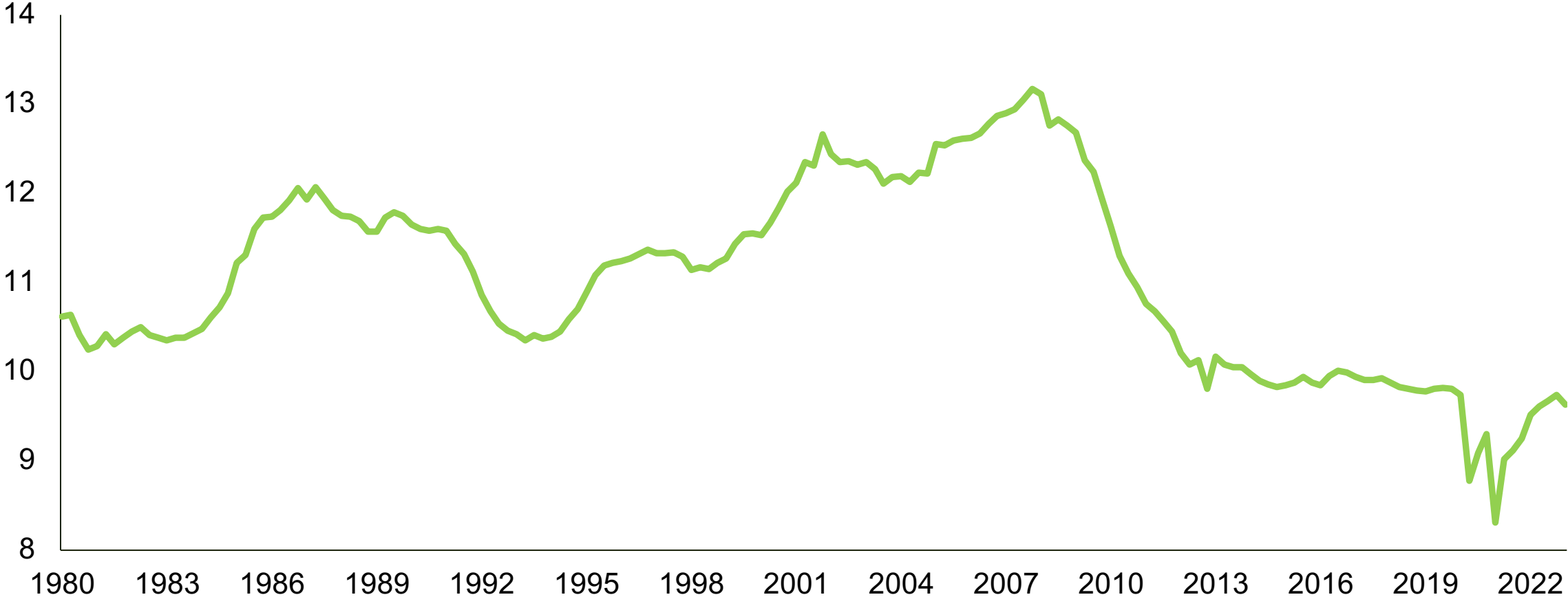


Source: Bureau of Economic Analysis, TD Economics.

Household Debt Service Burden Still Relatively Low



U.S. Household Debt Service Ratio, %
(Debt Service Payments as a % of Personal Disposable Income)

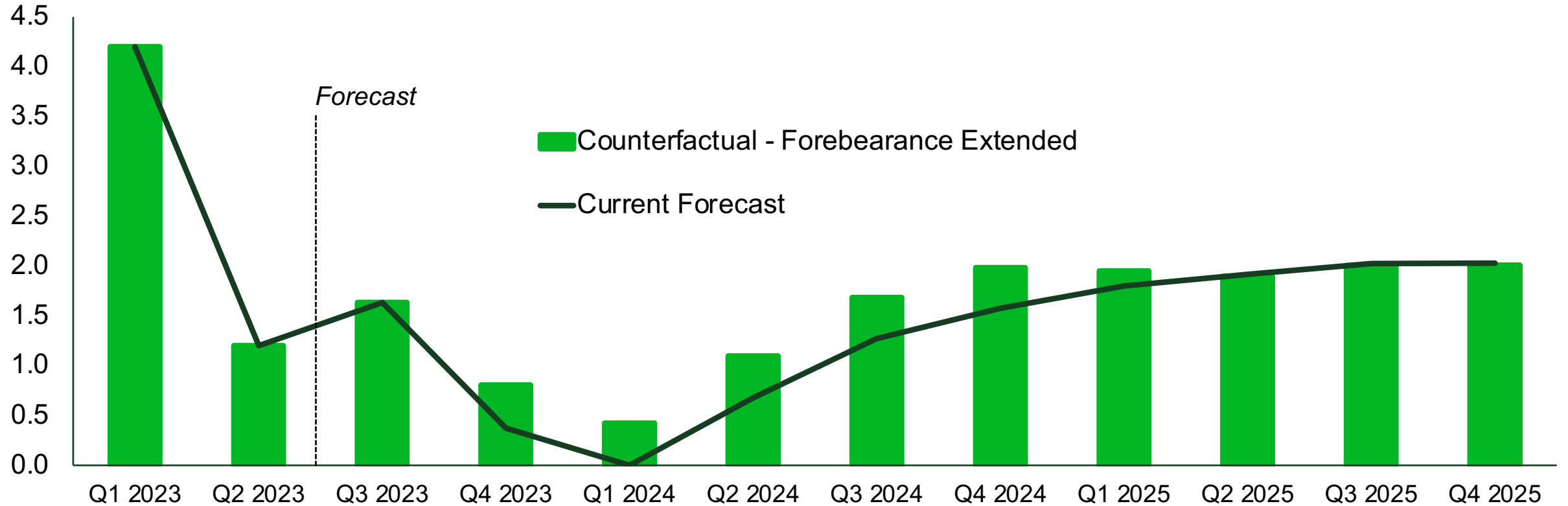


Source: Federal Reserve Board, TD Economics.

Re-Start of Student Loan Repayment One of Several Factors To Hit the U.S. Consumer

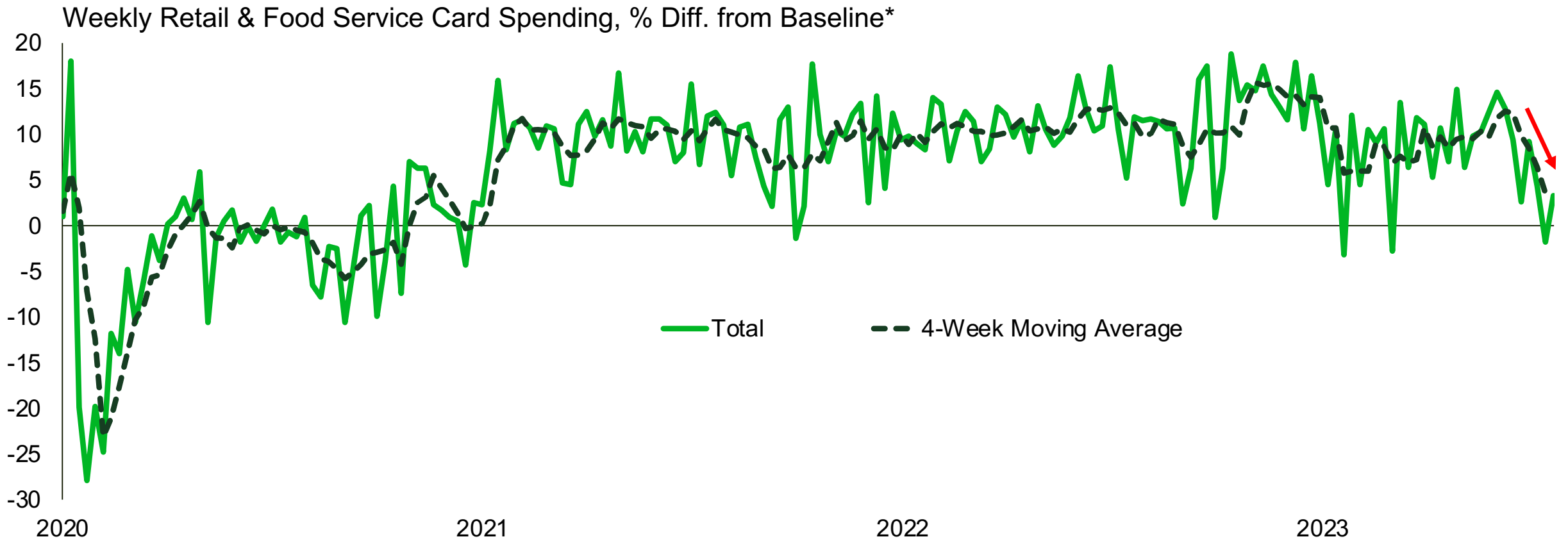


U.S. Real Personal Consumption Expenditures, Quarter/Quarter % Change (Annualized)



Source: Bureau of Economic Analysis, TD Economics.

U.S. Card Spending Data Looks Weak Heading into Q4



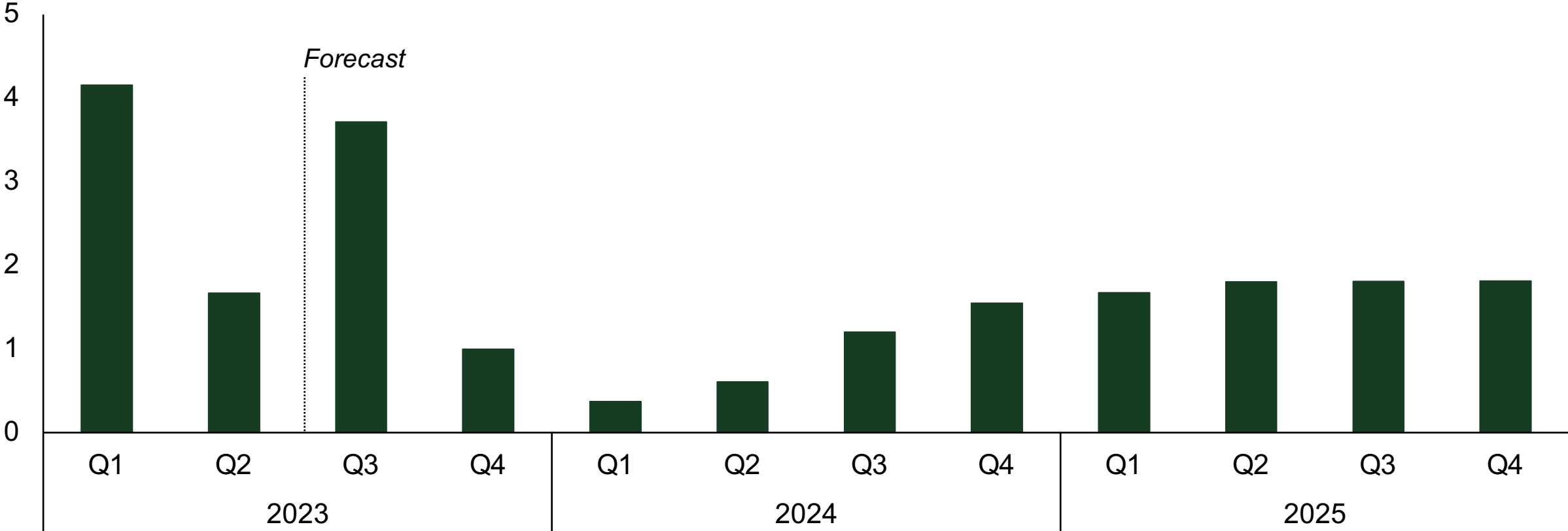
*Baseline refers to the typical level of spending prior to the pandemic and corresponds to a value of zero.

Source: Bureau of Economic Analysis, TD Economics.

Consumer Spending To Fall to Stall Speed Next Year



U.S. Consumer Spending Growth, Quarter/Quarter % Change (Annualized)

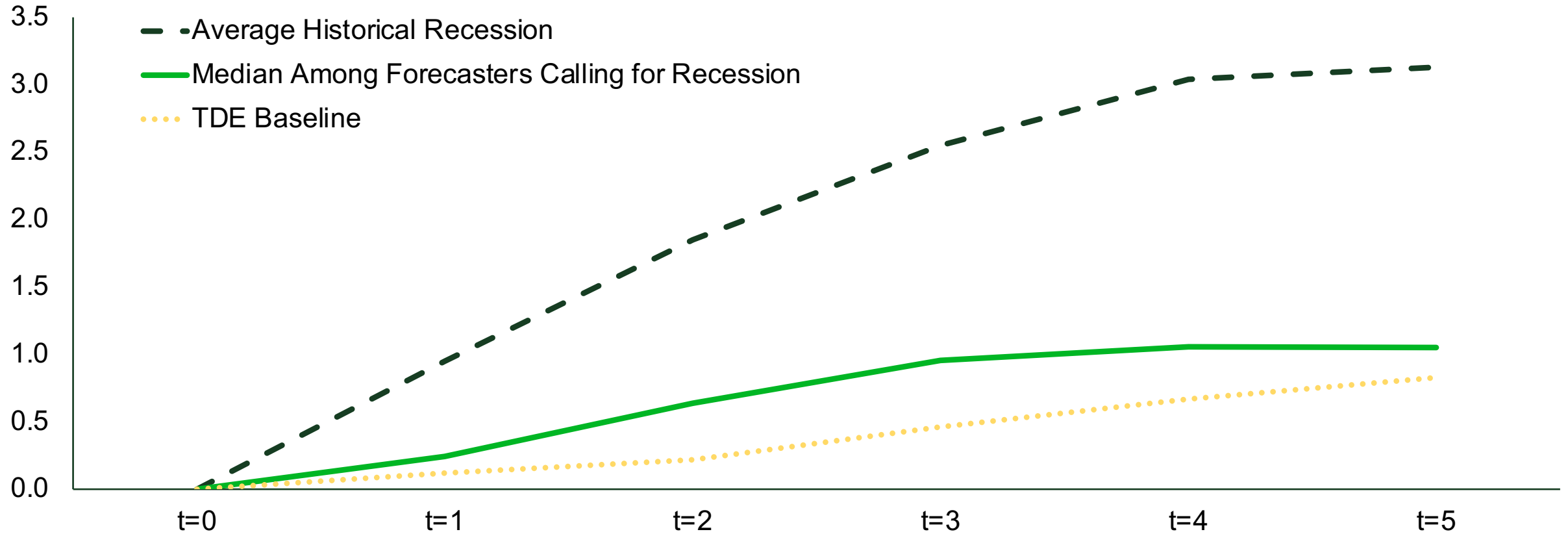


Source: TD Economics.

Unemployment Rate Still Rises in a "Soft" Landing

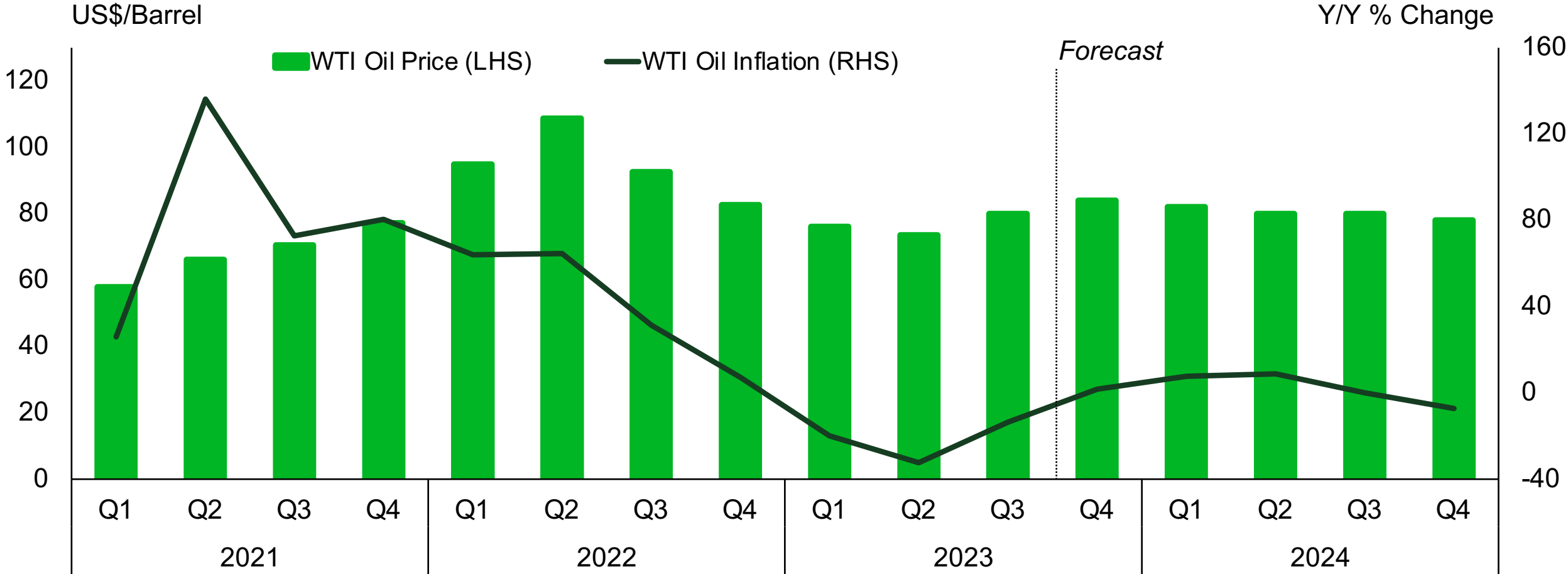


U.S. Unemployment Rate, %-pts Deviation from Q3-2023



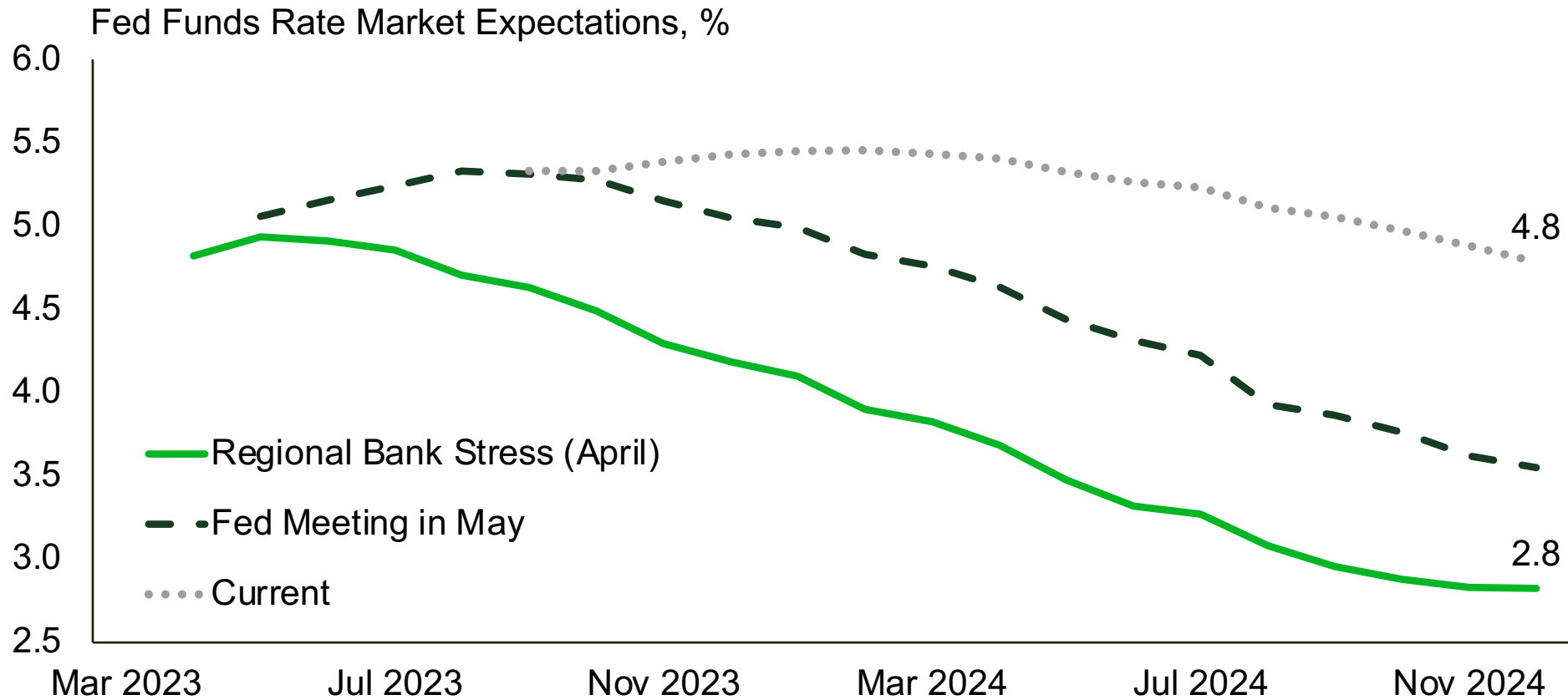
Source: Bureau of Labor Statistics, TD Economics.

Oil Prices A Risk to Inflation Slowdown



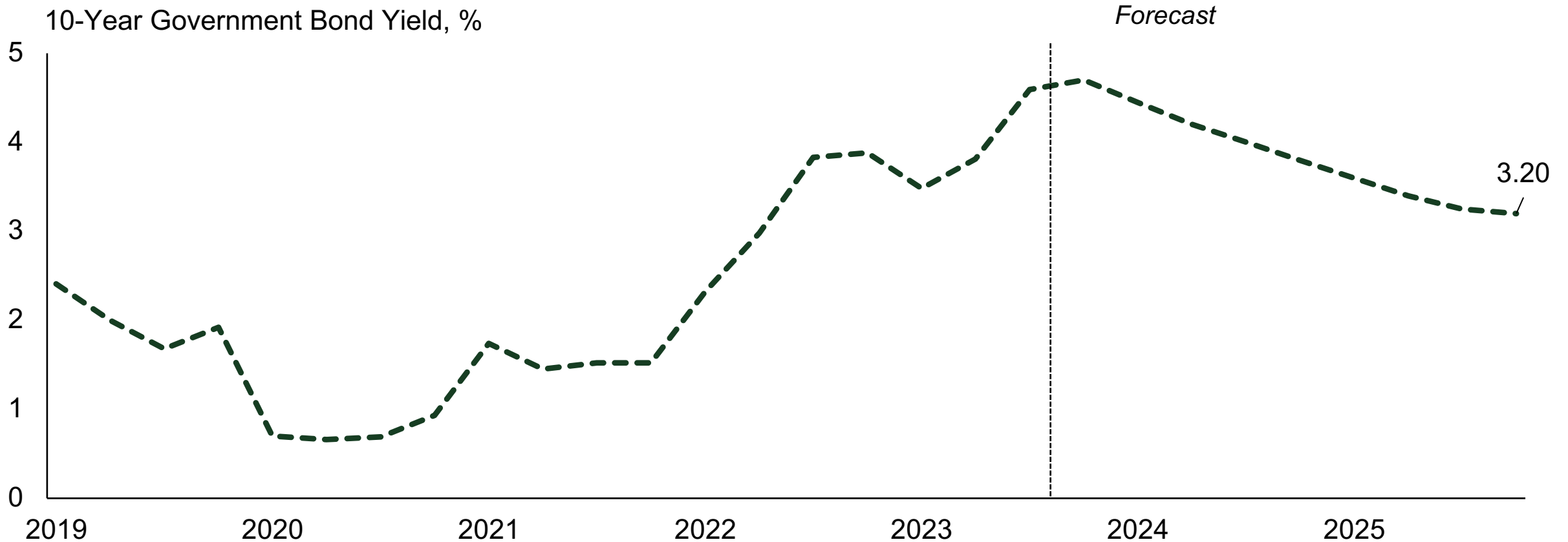
Source: TD Economics.

Markets Now Reflect Higher For Longer Expectations



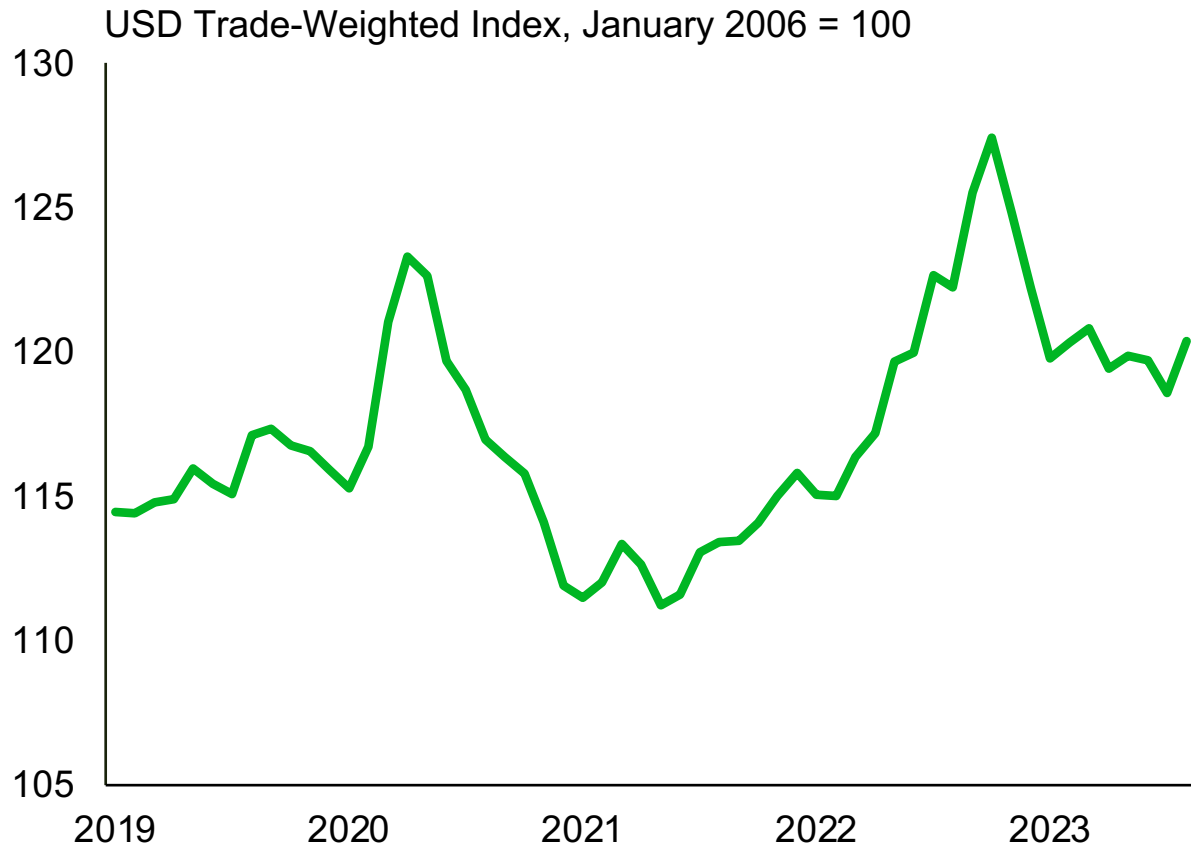
Source: Bloomberg, TD Economics.

10-Year Treasury Yield Poised To Peak, But Also Limited Downside

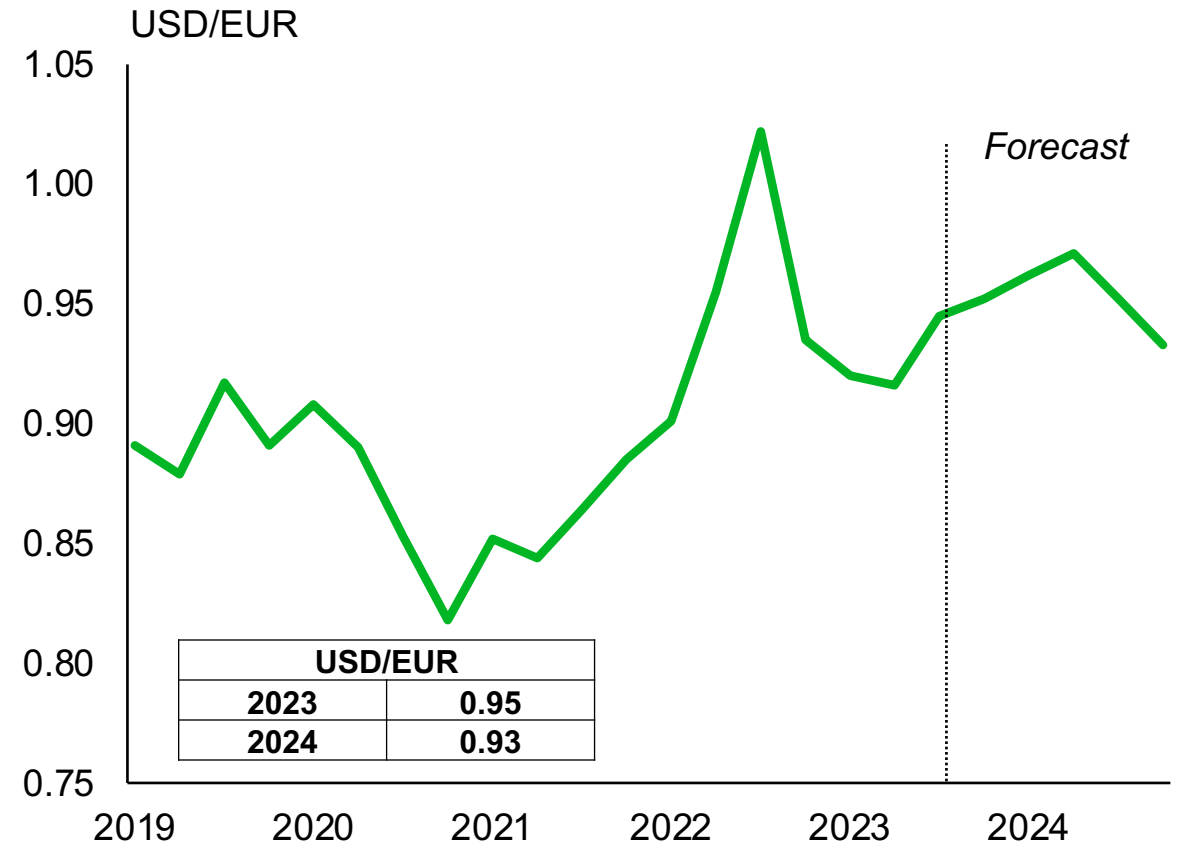


Source: TD Economics.

Reign of King US Dollar To Extend Into 2024



Source: Federal Reserve Board, TD Economics.



Source: TD Economics.

A Recipe for Rates to Stay Higher for Longer



- Bringing inflation down from a 40-year high isn't easy
- Soft landing or recession = rising unemployment rates
- Key offsetting forces to rate hikes, slowing taking time
- Inflation: Progress, not perfection
- Rates likely "higher for longer"

economics.td.com



[@TD Economics](https://twitter.com/TDEconomics)

This report is provided by TD Economics for customers of TD Bank Group. It is for information purposes only and may not be appropriate for other purposes. 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. The 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 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.