

## Long-Term Economic Forecast

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December 17, 2025

### United States

- The U.S. economy is forecast to run below its long-run trend rate of growth in 2025, as growth is slowed by higher tariffs, some fiscal restraint and slower population growth. Real GDP growth then briefly overshoots in 2026/27 and then converges closer to potential by 2028. Slower near-term growth pushes the unemployment rate slightly higher, reaching 4.5% by Q4-2025 before gradually returning to its long-run average of 4% by mid-2027.
- Inflationary pressures remain elevated, as passthrough from higher tariffs have started to pressure consumer goods prices higher. Tariff passthrough is expected to intensify through year-end, holding core measures of inflation around 3% through mid-2026. Core PCE inflation (the Fed's preferred measure of inflation) isn't expected to reach the FOMC's 2% inflation target until H1-2027.
- We project the fed funds rate to be lowered at a moderate pace back to a level more consistent with its neutral (3.25%) rate by mid-2026, and hold there as the economy finds its balance.

### Canada

- Canadian economic growth is expected to run below trend through 2026. Output is held back by slower population growth and the impact of tariffs on export demand and business and consumer sentiment. Consumer spending had been improving on lower interest rates, but we expect this to slow as the unemployment rate holds above its long-run level until late 2027.
- CPI inflation is currently roughly at the Bank of Canada's 2% target, but underlying core inflation measures have been at the top of the Bank's target range recently. Looking ahead, sub-par economic growth and Canada's removal of many retaliatory tariffs should see core inflation return to target.
- The Bank of Canada is expected to keep its policy rate at our estimate of the neutral (2.25%) over the remainder of the forecast horizon, as economic growth returns to its trend pace.
- We expect the loonie to return to the 74 - 75 U.S. cent range as interest rate differentials narrow between Canada and the U.S.

## Exhibits

| Long-Term U.S. Economic Outlook  |                |      |      |      |      |      |      |                                 |       |     |     |     |     |     |
|--|----------------|------|------|------|------|------|------|---------------------------------|-------|-----|-----|-----|-----|-----|
| Period-Over-Period Annualized Per Cent Change Unless Otherwise Indicated |                |      |      |      |      |      |      |                                 |       |     |     |     |     |     |
| Economic Indicator   | Annual Average |      |      |      |      |      |      | Fourth Quarter / Fourth Quarter |       |     |     |     |     |     |
|  | 25F            | 26F  | 27F  | 28F  | 29F  | 30F  | 31F  | 25F                             | 26F   | 27F | 28F | 29F | 30F | 31F |
| Real GDP   | 2.0            | 2.2  | 2.1  | 2.0  | 2.1  | 2.0  | 2.0  | 1.8                             | 2.2   | 2.0 | 2.1 | 2.0 | 2.0 | 2.0 |
| Consumer Expenditure   | 2.5            | 2.0  | 2.0  | 2.0  | 2.2  | 2.2  | 2.2  | 1.7                             | 2.2   | 1.9 | 2.1 | 2.2 | 2.3 | 2.2 |
| Durable Goods  | 3.1            | 0.8  | 3.6  | 3.5  | 3.5  | 3.5  | 3.5  | -1.8                            | 3.3   | 3.5 | 3.5 | 3.5 | 3.5 | 3.5 |
| Business Investment  | 4.2            | 3.4  | 2.9  | 2.8  | 2.8  | 2.8  | 2.8  | 5.8                             | 3.2   | 2.7 | 2.8 | 2.8 | 2.8 | 2.8 |
| Non-Res. Structures  | -4.7           | -0.9 | 1.2  | 1.9  | 2.0  | 2.0  | 2.0  | -3.9                            | 0.7   | 1.5 | 2.0 | 2.0 | 2.0 | 2.0 |
| Equipment & IPP*   | 6.9            | 4.5  | 3.3  | 3.0  | 3.0  | 3.0  | 3.0  | 8.6                             | 3.9   | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 |
| Residential Investment   | -2.1           | 0.6  | 5.1  | 3.6  | 2.8  | 2.1  | 1.7  | -3.5                            | 4.1   | 4.6 | 3.2 | 2.6 | 1.7 | 1.7 |
| Govt. Expenditure  | 1.2            | 0.6  | 1.1  | 0.8  | 0.7  | 0.2  | 0.2  | -0.6                            | 1.3   | 1.0 | 0.8 | 0.5 | 0.1 | 0.2 |
| Final Domestic Demand  | 2.3            | 1.9  | 2.1  | 2.0  | 2.0  | 2.0  | 2.0  | 1.6                             | 2.3   | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 |
| Exports  | 0.4            | 1.3  | 3.0  | 3.0  | 3.0  | 3.0  | 3.0  | -0.8                            | 2.6   | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 |
| Imports  | 2.6            | -1.0 | 2.9  | 2.5  | 2.5  | 2.5  | 2.5  | -1.9                            | 3.2   | 2.5 | 2.5 | 2.5 | 2.5 | 2.5 |
| Change in Private Inventories  | 37.1           | 23.1 | 26.9 | 26.8 | 26.8 | 26.8 | 26.8 | ---                             | ---   | --- | --- | --- | --- | --- |
| Final Sales  | 2.0            | 2.2  | 2.1  | 2.0  | 2.1  | 2.0  | 2.0  | 1.8                             | 2.2   | 2.0 | 2.1 | 2.0 | 2.0 | 2.0 |
| Pre-Tax Corporate Profits Including IVA&CCA                              | 1.8            | -1.7 | 7.4  | 5.1  | 5.0  | 4.9  | 4.3  | -4.8                            | 3.4   | 6.3 | 5.5 | 4.6 | 5.1 | 3.9 |
| % of GDP   | 12.6           | 11.8 | 12.1 | 12.2 | 12.3 | 12.4 | 12.4 | ---                             | ---   | --- | --- | --- | --- | --- |
| GDP Deflator (y/y)   | 2.7            | 2.6  | 2.3  | 2.3  | 2.3  | 2.3  | 2.3  | 2.9                             | 2.6   | 2.3 | 2.2 | 2.3 | 2.3 | 2.3 |
| Nominal GDP  | 4.8            | 4.9  | 4.5  | 4.4  | 4.4  | 4.3  | 4.3  | 4.8                             | 4.8   | 4.3 | 4.4 | 4.4 | 4.3 | 4.3 |
| Labor Force  | 1.6            | 0.4  | 0.3  | 0.4  | 0.4  | 0.4  | 0.4  | 1.5                             | 0.3   | 0.3 | 0.4 | 0.4 | 0.4 | 0.4 |
| Employment   | 0.9            | 0.5  | 0.5  | 0.3  | 0.3  | 0.3  | 0.3  | 0.6                             | 0.6   | 0.4 | 0.3 | 0.3 | 0.3 | 0.3 |
| Change in Empl. ('000s)  | 1,478          | 774  | 788  | 480  | 481  | 480  | 480  | 961                             | 1,009 | 570 | 480 | 481 | 480 | 480 |
| Unemployment Rate (%)  | 4.3            | 4.2  | 4.0  | 4.0  | 4.0  | 4.0  | 4.0  | ---                             | ---   | --- | --- | --- | --- | --- |
| Personal Disp. Income  | 4.2            | 5.0  | 5.0  | 4.9  | 4.8  | 4.7  | 4.5  | 3.5                             | 6.0   | 5.0 | 4.8 | 4.8 | 4.6 | 4.5 |
| Pers. Savings Rate (%)   | 4.6            | 4.8  | 5.6  | 6.3  | 6.8  | 7.2  | 7.4  | ---                             | ---   | --- | --- | --- | --- | --- |
| Cons. Price Index (y/y)  | 2.7            | 2.8  | 2.4  | 2.2  | 2.2  | 2.2  | 2.2  | 2.7                             | 2.9   | 2.3 | 2.2 | 2.2 | 2.2 | 2.2 |
| Core CPI (y/y)   | 3.0            | 3.0  | 2.3  | 2.3  | 2.3  | 2.3  | 2.3  | 2.9                             | 2.9   | 2.2 | 2.3 | 2.3 | 2.3 | 2.3 |
| Core PCE Price Index (y/y)   | 2.8            | 2.9  | 2.1  | 2.0  | 2.0  | 2.0  | 2.0  | 3.0                             | 2.6   | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 |
| Housing Starts (mns)   | 1.3            | 1.4  | 1.5  | 1.6  | 1.6  | 1.6  | 1.6  | ---                             | ---   | --- | --- | --- | --- | --- |
| Real Output per Hour** (y/y)   | 1.7            | 1.8  | 1.3  | 1.5  | 1.5  | 1.5  | 1.5  | 2.0                             | 1.2   | 1.4 | 1.5 | 1.5 | 1.4 | 1.5 |

F: Forecast by TD Economics, December 2025.

\* Intellectual property products. \*\* Non-farm business sector.

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

| Long-Term Canadian Economic Outlook                                      |                |       |       |       |       |       |       |                           |      |     |     |     |     |     |
|--|----------------|-------|-------|-------|-------|-------|-------|---------------------------|------|-----|-----|-----|-----|-----|
| Period-Over-Period Annualized Per Cent Change Unless Otherwise Indicated |                |       |       |       |       |       |       |                           |      |     |     |     |     |     |
| Economic Indicator   | Annual Average |       |       |       |       |       |       | 4th Quarter / 4th Quarter |      |     |     |     |     |     |
|  | 25F            | 26F   | 27F   | 28F   | 29F   | 30F   | 31F   | 25F                       | 26F  | 27F | 28F | 29F | 30F | 31F |
| Real GDP   | 1.7            | 1.3   | 1.7   | 1.8   | 1.7   | 1.7   | 1.7   | 0.9                       | 1.6  | 1.8 | 1.7 | 1.7 | 1.7 | 1.7 |
| Consumer Expenditure   | 2.1            | 1.2   | 1.6   | 1.7   | 1.7   | 1.7   | 1.7   | 1.4                       | 1.4  | 1.7 | 1.7 | 1.7 | 1.7 | 1.7 |
| Durable Goods  | 1.1            | 0.3   | 1.8   | 1.8   | 1.8   | 1.7   | 1.7   | -1.9                      | 1.6  | 1.9 | 1.8 | 1.7 | 1.7 | 1.7 |
| Business Investment  | -0.4           | -0.1  | 1.7   | 1.7   | 1.7   | 1.7   | 1.7   | -2.1                      | 1.4  | 1.7 | 1.7 | 1.7 | 1.7 | 1.7 |
| Non-Res. Structures  | 1.0            | 0.5   | 1.2   | 1.4   | 1.6   | 1.6   | 1.7   | 0.0                       | 1.0  | 1.3 | 1.5 | 1.6 | 1.6 | 1.7 |
| Equipment & IPP*   | -1.8           | -0.6  | 2.2   | 1.9   | 1.8   | 1.8   | 1.7   | -4.1                      | 1.8  | 2.1 | 1.9 | 1.8 | 1.8 | 1.7 |
| Residential Investment   | 1.7            | 1.8   | 1.6   | 1.6   | 1.7   | 1.7   | 1.7   | -0.9                      | 1.6  | 1.6 | 1.6 | 1.7 | 1.7 | 1.7 |
| Govt. Expenditure  | 2.6            | 3.5   | 3.1   | 2.4   | 2.1   | 1.9   | 1.8   | 2.2                       | 3.8  | 2.7 | 2.2 | 2.0 | 1.9 | 1.8 |
| Final Domestic Demand  | 1.9            | 1.7   | 2.0   | 1.9   | 1.8   | 1.8   | 1.7   | 1.0                       | 2.0  | 2.0 | 1.9 | 1.8 | 1.8 | 1.7 |
| Exports  | -2.9           | -0.2  | 1.9   | 2.1   | 2.3   | 2.4   | 2.4   | -5.8                      | 2.0  | 1.9 | 2.2 | 2.3 | 2.4 | 2.5 |
| Imports  | -0.5           | 0.6   | 2.6   | 2.6   | 2.5   | 2.5   | 2.5   | -1.4                      | 2.5  | 2.6 | 2.6 | 2.5 | 2.5 | 2.5 |
| Change in Non-Farm Inventories (2012 \$Bn)                               | 14.0           | 9.3   | 8.1   | 9.1   | 9.5   | 9.9   | 10.3  | --                        | --   | --  | --  | --  | --  | --  |
| Final Sales  | 1.4            | 1.8   | 2.0   | 1.9   | 1.8   | 1.8   | 1.7   | -0.2                      | 2.2  | 1.9 | 1.8 | 1.8 | 1.7 | 1.7 |
| International Current Account Balance (\$Bn)                             | -43.7          | -36.2 | -41.8 | -47.7 | -51.4 | -54.1 | -56.1 | --                        | --   | --  | --  | --  | --  | --  |
| % of GDP   | -1.3           | -1.1  | -1.2  | -1.3  | -1.4  | -1.4  | -1.4  | --                        | --   | --  | --  | --  | --  | --  |
| Pre-Tax Corp. Profits  | 5.6            | 0.7   | 2.3   | 3.5   | 3.4   | 3.1   | 3.2   | 0.8                       | 1.4  | 3.0 | 3.6 | 3.2 | 3.1 | 3.2 |
| % of GDP   | 14.2           | 13.8  | 13.6  | 13.5  | 13.5  | 13.4  | 13.3  | --                        | --   | --  | --  | --  | --  | --  |
| GDP Deflator (y/y)   | 2.5            | 2.2   | 2.1   | 2.0   | 2.0   | 2.0   | 2.0   | 2.1                       | 2.4  | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 |
| Nominal GDP  | 4.2            | 3.6   | 3.8   | 3.8   | 3.8   | 3.7   | 3.7   | 3.0                       | 4.0  | 3.8 | 3.8 | 3.7 | 3.7 | 3.7 |
| Labour Force   | 1.9            | 0.3   | 0.1   | 0.5   | 0.6   | 0.6   | 0.6   | 1.2                       | -0.1 | 0.3 | 0.6 | 0.6 | 0.6 | 0.6 |
| Employment   | 1.4            | 0.4   | 0.5   | 0.9   | 0.7   | 0.6   | 0.6   | 1.3                       | 0.0  | 0.7 | 0.9 | 0.6 | 0.6 | 0.6 |
| Change in Empl. ('000s)  | 300            | 75    | 107   | 195   | 156   | 135   | 131   | 267                       | 7    | 156 | 197 | 137 | 133 | 130 |
| Unemployment Rate (%)  | 6.8            | 6.7   | 6.4   | 6.0   | 5.9   | 5.9   | 5.9   | --                        | --   | --  | --  | --  | --  | --  |
| Personal Disp. Income  | 4.6            | 3.0   | 3.2   | 3.6   | 3.5   | 3.4   | 3.4   | 3.5                       | 2.4  | 3.5 | 3.6 | 3.4 | 3.4 | 3.4 |
| Pers. Savings Rate (%)   | 4.9            | 4.5   | 4.1   | 3.9   | 3.7   | 3.4   | 3.0   | --                        | --   | --  | --  | --  | --  | --  |
| Cons. Price Index (y/y)  | 2.1            | 2.2   | 2.0   | 2.0   | 2.0   | 2.0   | 2.0   | 2.2                       | 2.1  | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 |
| CPIX (y/y) **  | 2.6            | 2.2   | 2.0   | 2.0   | 2.0   | 2.0   | 2.0   | 2.8                       | 2.0  | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 |
| BoC Inflation (y/y) ***  | 3.0            | 2.2   | 2.0   | 2.0   | 2.0   | 2.0   | 2.0   | 2.9                       | 2.0  | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 |
| Housing Starts ('000s)   | 256.5          | 242.5 | 228.8 | 231.9 | 237.1 | 236.1 | 235.6 | --                        | --   | --  | --  | --  | --  | --  |
| Home Prices (y/y)  | -0.8           | 4.1   | 4.4   | 3.9   | 3.4   | 3.2   | 3.2   | -0.6                      | 3.7  | 4.2 | 3.8 | 3.2 | 3.2 | 3.2 |
| Real GDP / Worker (y/y)  | 0.2            | 0.9   | 1.2   | 0.8   | 1.0   | 1.1   | 1.1   | -0.4                      | 1.6  | 1.0 | 0.8 | 1.1 | 1.1 | 1.1 |

F: Forecast by TD Economics, December 2025.

\* Intellectual Property Products. \*\* CPIX: CPI ex. 8 most volatile components. \*\*\* BoC Inflation: Avg. of CPI-trim and CPI-median.

Note: Home price measure shown is the CREA Composite Sale Price.

Source: Statistics Canada, Bank of Canada, Canada Mortgage and Housing Corporation, Canadian Real Estate Association, TD Economics.

| Interest Rate Outlook   |                |      |      |      |      |      |      |               |      |      |      |      |      |      |
|---|----------------|------|------|------|------|------|------|---------------|------|------|------|------|------|------|
| Interest Rates  | Annual Average |      |      |      |      |      |      | End of Period |      |      |      |      |      |      |
|   | 25F            | 26F  | 27F  | 28F  | 29F  | 30F  | 31F  | 25F           | 26F  | 27F  | 28F  | 29F  | 30F  | 31F  |
| U.S. FIXED INCOME   |                |      |      |      |      |      |      |               |      |      |      |      |      |      |
| Fed Funds Target Rate (%)*  | 4.37           | 3.50 | 3.25 | 3.25 | 3.25 | 3.25 | 3.25 | 3.75          | 3.25 | 3.25 | 3.25 | 3.25 | 3.25 | 3.25 |
| 3-mth T-Bill Rate (%)   | 4.08           | 3.35 | 3.15 | 3.15 | 3.15 | 3.15 | 3.15 | 3.65          | 3.15 | 3.15 | 3.15 | 3.15 | 3.15 | 3.15 |
| 2-yr Govt. Bond Yield (%)   | 3.83           | 3.42 | 3.35 | 3.35 | 3.35 | 3.35 | 3.35 | 3.60          | 3.35 | 3.35 | 3.35 | 3.35 | 3.35 | 3.35 |
| 5-yr Govt. Bond Yield (%)   | 3.94           | 3.72 | 3.70 | 3.70 | 3.70 | 3.70 | 3.70 | 3.75          | 3.70 | 3.70 | 3.70 | 3.70 | 3.70 | 3.70 |
| 10-yr Govt. Bond Yield (%)  | 4.31           | 4.03 | 4.00 | 4.00 | 4.00 | 4.00 | 4.00 | 4.15          | 4.00 | 4.00 | 4.00 | 4.00 | 4.00 | 4.00 |
| 10-yr-2-yr Govt. Spread (%)   | 0.48           | 0.61 | 0.65 | 0.65 | 0.65 | 0.65 | 0.65 | 0.55          | 0.65 | 0.65 | 0.65 | 0.65 | 0.65 | 0.65 |
| CANADIAN FIXED INCOME   |                |      |      |      |      |      |      |               |      |      |      |      |      |      |
| Overnight Target Rate (%)   | 2.72           | 2.25 | 2.25 | 2.25 | 2.25 | 2.25 | 2.25 | 2.25          | 2.25 | 2.25 | 2.25 | 2.25 | 2.25 | 2.25 |
| 3-mth T-Bill Rate (%)   | 2.61           | 2.25 | 2.25 | 2.25 | 2.25 | 2.25 | 2.25 | 2.25          | 2.25 | 2.25 | 2.25 | 2.25 | 2.25 | 2.25 |
| 2-yr Govt. Bond Yield (%)   | 2.54           | 2.60 | 2.60 | 2.60 | 2.60 | 2.60 | 2.60 | 2.65          | 2.60 | 2.60 | 2.60 | 2.60 | 2.60 | 2.60 |
| 5-yr Govt. Bond Yield (%)   | 2.86           | 2.95 | 2.90 | 2.90 | 2.90 | 2.90 | 2.90 | 3.05          | 2.90 | 2.90 | 2.90 | 2.90 | 2.90 | 2.90 |
| 10-yr Govt. Bond Yield (%)  | 3.26           | 3.23 | 3.15 | 3.15 | 3.15 | 3.15 | 3.15 | 3.45          | 3.15 | 3.15 | 3.15 | 3.15 | 3.15 | 3.15 |
| 10-yr-2-yr Govt. Spread (%)   | 0.71           | 0.63 | 0.55 | 0.55 | 0.55 | 0.55 | 0.55 | 0.80          | 0.55 | 0.55 | 0.55 | 0.55 | 0.55 | 0.55 |
| F: Forecast by TD Economics, December 2025.   |                |      |      |      |      |      |      |               |      |      |      |      |      |      |
| * Upper bound of target range. Note: Annual averages are the average of the four quarterly end-of-period forecasts. |                |      |      |      |      |      |      |               |      |      |      |      |      |      |
| Source: Bloomberg, Bank of Canada, Federal Reserve, TD Economics.   |                |      |      |      |      |      |      |               |      |      |      |      |      |      |

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