

Long-Term Economic Forecast

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United States

- The U.S. economy is forecast to run slightly above its long-run trend rate of growth in 2026/27, aided by expansionary fiscal policy, loose financial conditions, some easing in regulation, and further investments in AI. The unemployment rate is expected to drift a bit lower in H1-2027, as above potential growth leads to some firming in employment. The unemployment rate is expected to return to its long-run average of 4% by mid-2027.
- Inflation pressures remain elevated, as the cooling in services inflation has slowed, while tariffs and higher software prices related to the inclusion of generative AI have kept goods prices elevated. Core measures of inflation are expected to hover around 3% through most of this year, with the Fed's preferred measure of inflation (core PCE) not expected to reach the FOMC's 2% inflation target until H1-2028.
- We expect the Fed to remain on hold through year-end, with the potential for two more rate cuts in H1-2027, provided inflation shows definitive evidence of moving back to the Fed's 2% inflation target.

Canada

- Canadian economic growth is expected to bounce back in 2026 and into 2027 after a dismal start to the year. However, the pace of recovery is due to be held back by slower population growth and the impact of U.S. tariffs on export demand and business and consumer sentiment. Consumer spending is expected to slow as inflation erodes buying power and the unemployment rate holds above its long-run level until late 2027.
- CPI inflation is above the Bank of Canada's 2% target. Higher oil prices are expected to lift energy price growth in 2026 and filter through to prices more broadly. However, its impacts on core inflation are expected to be mitigated by sub-par economic growth. Core measures of inflation are expected to return to the 2% target by H2-2027.
- The Bank of Canada is expected to keep its policy rate at our estimate of the neutral rate (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						
	25	26F	27F	28F	29F	30F	31F	25	26F	27F	28F	29F	30F	31F
Real GDP	2.1	2.2	2.2	2.0	2.0	2.0	2.0	2.0	2.2	2.2	1.9	2.0	2.0	2.0
Consumer Expenditure	2.6	2.1	2.0	2.0	2.1	2.2	2.2	2.1	1.9	2.1	2.0	2.2	2.2	2.2
Durable Goods	3.6	1.8	3.2	3.4	3.5	3.5	3.5	0.1	2.7	3.2	3.5	3.5	3.5	3.5
Business Investment	4.1	6.7	4.9	3.2	2.7	2.7	2.7	5.6	7.9	3.9	2.7	2.7	2.7	2.7
Non-Res. Structures	-5.3	-4.4	0.3	1.6	2.0	2.0	2.0	-5.5	-2.4	1.0	2.0	2.0	2.0	2.0
Equipment & IPP*	6.9	9.6	6.0	3.5	2.9	2.9	2.9	8.8	10.5	4.6	2.9	2.9	2.9	2.9
Residential Investment	-2.2	-3.0	4.3	3.9	2.8	2.2	1.6	-3.8	-0.9	5.8	3.0	2.8	1.8	1.6
Govt. Expenditure	1.1	0.6	0.9	0.6	0.3	0.2	0.0	-1.2	1.8	0.9	0.4	0.3	0.1	0.1
Final Domestic Demand	2.4	2.2	2.3	2.0	1.9	1.9	1.9	1.8	2.6	2.3	1.9	2.0	1.9	1.9
Exports	1.6	6.6	3.4	2.9	3.0	3.0	3.0	1.1	8.0	2.7	3.0	3.0	3.0	3.0
Imports	2.7	5.9	5.0	2.6	2.5	2.5	2.5	-1.9	12.0	3.2	2.6	2.5	2.5	2.5
Change in Private Inventories	28.6	8.7	41.7	41.7	41.7	41.7	41.7	---	---	---	---	---	---	---
Final Sales	2.2	2.2	2.1	2.0	2.0	2.0	2.0	2.2	1.9	2.2	1.9	2.0	2.0	2.0
Pre-Tax Corporate Profits Including IVA&CCA	7.3	7.7	3.5	6.2	4.8	3.2	2.8	9.6	2.2	4.7	5.5	4.5	2.9	3.0
% of GDP	13.3	13.5	13.3	13.6	13.7	13.5	13.4	---	---	---	---	---	---	---
GDP Deflator (y/y)	2.8	3.7	2.5	2.2	2.0	2.1	2.2	3.3	3.5	2.2	2.1	2.0	2.1	2.2
Nominal GDP	5.0	6.0	4.7	4.2	4.0	4.1	4.2	5.4	5.8	4.4	4.1	4.1	4.1	4.2
Labor Force	1.6	-0.4	0.2	0.3	0.4	0.4	0.4	1.8	-0.7	0.2	0.4	0.4	0.4	0.4
Employment	0.5	0.4	0.5	0.3	0.2	0.2	0.2	0.2	0.6	0.4	0.3	0.2	0.2	0.2
Change in Empl. ('000s)	745	588	778	520	400	399	400	317	950	660	435	400	399	400
Unemployment Rate (%)	4.3	4.3	4.1	4.0	4.0	4.0	4.0	---	---	---	---	---	---	---
Personal Disp. Income	4.3	3.9	4.9	5.8	5.5	5.1	4.8	3.9	4.3	5.6	5.9	5.2	5.0	4.7
Pers. Savings Rate (%)	4.6	3.0	3.6	5.3	6.5	7.2	7.6	---	---	---	---	---	---	---
Cons. Price Index (y/y)	2.7	3.5	2.0	2.1	2.2	2.2	2.2	2.7	3.5	1.8	2.2	2.2	2.2	2.2
Core CPI (y/y)	2.9	2.8	2.5	2.2	2.2	2.2	2.2	2.7	3.0	2.3	2.2	2.2	2.2	2.2
Core PCE Price Index (y/y)	2.8	3.3	2.3	2.0	2.0	2.0	2.0	2.9	3.3	2.1	2.0	2.0	2.0	2.0
Housing Starts (mns)	1.4	1.4	1.5	1.6	1.6	1.6	1.6	---	---	---	---	---	---	---
Real Output per Hour** (y/y)	2.3	2.2	1.9	1.7	1.6	1.5	1.5	2.5	1.9	1.7	1.6	1.6	1.5	1.5

F: Forecast by TD Economics, June 2026.

* 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						
	25	26F	27F	28F	29F	30F	31F	25	26F	27F	28F	29F	30F	31F
Real GDP	1.9	0.7	1.8	1.8	1.8	1.7	1.7	0.7	1.3	1.8	1.8	1.8	1.7	1.7
Consumer Expenditure	2.4	1.4	1.5	1.7	1.7	1.7	1.7	1.9	1.2	1.6	1.7	1.7	1.7	1.7
Durable Goods	0.7	-2.0	1.4	1.5	1.6	1.7	1.7	-2.5	-0.5	1.4	1.6	1.6	1.7	1.7
Business Investment	0.2	0.7	2.2	2.4	2.0	1.9	1.8	-0.6	1.3	2.6	2.2	2.0	1.8	1.8
Non-Res. Structures	1.7	-2.6	2.1	2.5	2.1	1.9	1.8	1.1	-2.6	2.8	2.3	2.0	1.9	1.8
Equipment & IPP*	-1.2	3.9	2.3	2.2	2.0	1.8	1.8	-2.3	5.1	2.4	2.1	1.9	1.8	1.8
Residential Investment	0.5	-3.4	0.6	1.1	1.4	1.5	1.6	-3.9	-1.9	0.8	1.2	1.4	1.6	1.6
Govt. Expenditure	3.2	1.4	2.3	2.1	2.0	1.9	1.8	3.1	0.9	2.3	2.0	1.9	1.8	1.8
Final Domestic Demand	2.2	1.0	1.7	1.8	1.8	1.8	1.7	1.5	0.9	1.8	1.8	1.8	1.7	1.7
Exports	-1.4	2.6	2.8	2.6	2.5	2.5	2.5	-2.9	3.9	2.5	2.5	2.5	2.5	2.5
Imports	-0.3	3.4	3.1	2.8	2.7	2.6	2.5	-1.2	5.7	3.0	2.7	2.6	2.6	2.5
Change in Non-Farm Inventories (2012 \$Bn)	0.6	6.1	10.2	12.2	14.1	14.8	15.2	--	--	--	--	--	--	--
Final Sales	2.2	0.9	1.6	1.8	1.7	1.7	1.7	1.6	0.0	1.8	1.7	1.7	1.7	1.7
International Current Account Balance (\$Bn)	-30.8	1.3	-13.9	-15.8	-16.5	-16.6	-16.5	--	--	--	--	--	--	--
% of GDP	-0.9	0.0	-0.4	-0.4	-0.4	-0.4	-0.4	--	--	--	--	--	--	--
Pre-Tax Corp. Profits	6.2	6.9	-0.9	2.1	2.8	2.9	3.0	4.5	2.1	1.3	2.4	2.8	2.9	3.1
% of GDP	14.2	14.5	14.0	13.7	13.6	13.5	13.4	--	--	--	--	--	--	--
GDP Deflator (y/y)	2.5	3.7	1.4	2.0	2.0	2.0	2.0	2.7	2.7	2.0	1.9	2.0	2.0	2.0
Nominal GDP	4.4	4.4	3.1	3.8	3.8	3.8	3.7	3.4	4.0	3.8	3.8	3.8	3.7	3.7
Labour Force	1.9	0.1	0.2	0.4	0.4	0.5	0.4	1.3	-0.2	0.3	0.4	0.5	0.4	0.4
Employment	1.4	0.4	0.6	0.7	0.5	0.5	0.5	1.3	0.1	0.7	0.6	0.5	0.5	0.4
Change in Empl. ('000s)	296	82	132	146	99	97	97	261	25	156	117	97	97	97
Unemployment Rate (%)	6.8	6.6	6.2	5.9	5.9	5.9	5.9	--	--	--	--	--	--	--
Personal Disp. Income	3.9	3.3	3.4	3.4	3.4	3.5	3.5	2.0	3.7	3.5	3.3	3.5	3.5	3.5
Pers. Savings Rate (%)	4.4	3.9	3.9	3.7	3.4	3.2	3.0	--	--	--	--	--	--	--
Cons. Price Index (y/y)	2.1	2.6	2.0	2.0	2.0	2.0	2.0	2.2	2.4	2.1	2.0	2.0	2.0	2.0
CPIX (y/y) **	2.6	2.3	2.1	2.0	2.0	2.0	2.0	2.8	2.2	2.0	2.0	2.0	2.0	2.0
BoC Inflation (y/y) ***	2.9	2.3	2.2	2.0	2.0	2.0	2.0	2.8	2.4	2.0	2.0	2.0	2.0	2.0
Housing Starts ('000s)	258.4	246.4	226.2	232.1	234.4	233.5	233.0	--	--	--	--	--	--	--
Home Prices (y/y)	-1.4	-0.3	2.9	4.0	3.8	3.4	3.3	-2.0	-0.3	3.4	4.1	3.6	3.3	3.2
Real GDP / Worker (y/y)	0.4	0.3	1.1	1.1	1.3	1.3	1.3	-0.5	1.2	1.0	1.2	1.3	1.3	1.3

F: Forecast by TD Economics, June 2026.

* 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						
	25	26F	27F	28F	29F	30F	31F	25	26F	27F	28F	29F	30F	31F
U.S. FIXED INCOME														
Fed Funds Target Rate (%)*	4.37	3.75	3.38	3.25	3.25	3.25	3.25	3.75	3.75	3.25	3.25	3.25	3.25	3.25
3-mth T-Bill Rate (%)	4.07	3.62	3.24	3.15	3.15	3.15	3.15	3.57	3.55	3.15	3.15	3.15	3.15	3.15
2-yr Govt. Bond Yield (%)	3.81	3.78	3.38	3.35	3.35	3.35	3.35	3.47	3.60	3.35	3.35	3.35	3.35	3.35
5-yr Govt. Bond Yield (%)	3.93	3.92	3.71	3.70	3.70	3.70	3.70	3.73	3.75	3.70	3.70	3.70	3.70	3.70
10-yr Govt. Bond Yield (%)	4.29	4.29	4.11	4.10	4.10	4.10	4.10	4.18	4.15	4.10	4.10	4.10	4.10	4.10
10-yr-2-yr Govt. Spread (%)	0.48	0.52	0.73	0.75	0.75	0.75	0.75	0.71	0.55	0.75	0.75	0.75	0.75	0.75
CANADIAN FIXED INCOME														
Overnight Target Rate (%)	2.71	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 (%)	2.58	2.25	2.25	2.25	2.25	2.25	2.25	2.15	2.25	2.25	2.25	2.25	2.25	2.25
2-yr Govt. Bond Yield (%)	2.53	2.74	2.60	2.60	2.60	2.60	2.60	2.58	2.65	2.60	2.60	2.60	2.60	2.60
5-yr Govt. Bond Yield (%)	2.84	3.03	2.91	2.90	2.90	2.90	2.90	2.96	2.95	2.90	2.90	2.90	2.90	2.90
10-yr Govt. Bond Yield (%)	3.24	3.40	3.26	3.25	3.16	3.15	3.15	3.42	3.30	3.25	3.25	3.15	3.15	3.15
10-yr-2-yr Govt. Spread (%)	0.71	0.66	0.66	0.65	0.56	0.55	0.55	0.84	0.65	0.65	0.65	0.55	0.55	0.55

F: Forecast by TD Economics, June 2026.
* 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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