

## 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, a less restrictive federal funds rate, some easing in regulation, and further investments in AI. The unemployment rate is expected to gradually drift lower starting in H2-2026, 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 higher tariffs have pressured consumer goods prices higher. The impact of tariffs on prices is expected to persist through mid-2026, while secondary effects from higher oil prices will add further upward pressure. 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 Q4-2027.
- 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 Q4-2026, 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 U.S. tariffs on export demand and business and consumer sentiment. Consumer spending had been improving on lower interest rates, but this is expected to slow as the unemployment rate holds above its long-run level until late 2027.
- CPI inflation is roughly at 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 and Canada's removal of many retaliatory tariffs. Core measures of inflation are expected to return to the 2% target by H1-2027.
- 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														
<i>Period-Over-Period Annualized Per Cent Change Unless Otherwise Indicated</i>														
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	2.4	2.2	2.0	2.0	2.0	2.0	2.0	2.4	2.1	1.9	2.0	2.0	2.0
Consumer Expenditure	2.6	2.3	2.0	2.0	2.2	2.2	2.2	2.1	2.1	2.0	2.1	2.2	2.2	2.2
Durable Goods	3.6	2.3	3.3	3.3	3.5	3.5	3.5	0.1	3.5	2.9	3.5	3.5	3.5	3.5
Business Investment	4.1	4.1	4.1	2.9	2.7	2.7	2.7	5.5	4.7	3.4	2.7	2.7	2.7	2.7
Non-Res. Structures	-5.3	-3.4	0.8	1.6	2.0	2.0	2.0	-5.7	-0.8	1.0	2.0	2.0	2.0	2.0
Equipment & IPP*	7.0	6.2	4.9	3.2	2.9	2.9	2.9	8.9	6.2	4.0	2.9	2.9	2.9	2.9
Residential Investment	-2.1	-0.2	4.9	3.1	2.8	2.2	1.7	-3.5	3.1	4.3	2.8	2.8	1.8	1.6
Govt. Expenditure	1.1	0.8	0.7	0.5	0.3	0.1	0.1	-1.2	2.0	0.7	0.4	0.3	0.1	0.1
Final Domestic Demand	2.4	2.2	2.2	1.9	2.0	1.9	1.9	1.8	2.5	2.0	1.9	2.0	1.9	1.9
Exports	1.6	2.5	3.0	3.0	3.0	3.0	3.0	1.0	3.3	3.0	3.0	3.0	3.0	3.0
Imports	2.7	1.2	2.8	2.5	2.5	2.5	2.5	-2.0	5.6	2.5	2.5	2.5	2.5	2.5
Change in Private Inventories	30.6	28.7	42.9	42.9	42.9	42.9	42.9	---	---	---	---	---	---	---
Final Sales	2.2	2.4	2.2	2.0	2.0	2.0	2.0	2.2	2.2	2.1	2.0	2.0	2.0	2.0
Pre-Tax Corporate Profits Including IVA&CCA	6.4	8.3	1.6	0.6	1.7	2.7	4.1	6.5	5.3	0.2	0.7	2.2	3.2	4.7
% of GDP	13.2	13.5	13.1	12.7	12.3	12.2	12.1	---	---	---	---	---	---	---
GDP Deflator (y/y)	2.8	2.9	2.3	2.3	2.2	2.2	2.3	3.3	2.4	2.3	2.3	2.3	2.2	2.3
Nominal GDP	5.0	5.4	4.6	4.4	4.3	4.3	4.3	5.4	4.9	4.4	4.3	4.3	4.3	4.3
Labor Force	1.6	-0.1	0.2	0.3	0.4	0.4	0.4	1.8	-0.3	0.2	0.4	0.4	0.4	0.4
Employment	0.5	0.2	0.5	0.3	0.3	0.2	0.2	0.2	0.3	0.4	0.2	0.2	0.2	0.2
Change in Empl. ('000s)	745	271	729	429	400	400	400	317	549	640	399	400	400	400
Unemployment Rate (%)	4.3	4.3	4.0	4.0	4.0	4.0	4.0	---	---	---	---	---	---	---
Personal Disp. Income	4.4	5.5	5.6	5.2	4.9	4.7	4.6	4.2	6.3	5.5	5.0	4.8	4.7	4.6
Pers. Savings Rate (%)	4.7	4.3	5.7	6.7	7.3	7.7	8.0	---	---	---	---	---	---	---
Cons. Price Index (y/y)	2.7	3.3	1.9	2.2	2.2	2.2	2.2	2.7	3.2	1.9	2.2	2.2	2.2	2.2
Core CPI (y/y)	2.9	2.8	2.4	2.2	2.2	2.2	2.2	2.7	2.9	2.2	2.2	2.2	2.2	2.2
Core PCE Price Index (y/y)	2.8	3.0	2.1	2.0	2.0	2.0	2.0	2.9	2.8	2.0	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	3.0	1.7	1.6	1.6	1.5	1.5	2.8	2.4	1.5	1.5	1.6	1.5	1.5

F: Forecast by TD Economics, March 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	1.7	1.1	1.7	1.8	1.8	1.7	1.7	0.7	1.6	1.8	1.8	1.7	1.7	1.7
Consumer Expenditure	2.3	1.2	1.5	1.7	1.7	1.7	1.7	1.7	1.2	1.7	1.7	1.7	1.7	1.7
Durable Goods	1.6	0.1	1.5	1.7	1.7	1.7	1.7	-1.2	1.2	1.7	1.7	1.7	1.7	1.7
Business Investment	-0.2	0.5	1.6	1.7	1.7	1.7	1.7	-1.2	1.3	1.7	1.7	1.7	1.7	1.7
Non-Res. Structures	1.6	0.6	1.6	1.7	1.7	1.7	1.7	0.6	1.4	1.7	1.7	1.7	1.7	1.7
Equipment & IPP*	-1.9	0.4	1.5	1.6	1.7	1.7	1.7	-2.9	1.2	1.6	1.7	1.7	1.7	1.7
Residential Investment	1.0	-1.3	0.9	1.4	1.6	1.6	1.7	-2.3	-1.1	1.3	1.5	1.6	1.6	1.7
Govt. Expenditure	3.0	3.5	2.8	2.4	2.1	1.9	1.8	2.9	3.3	2.6	2.2	2.0	1.9	1.8
Final Domestic Demand	2.1	1.6	1.8	1.9	1.8	1.8	1.7	1.4	1.6	1.9	1.8	1.8	1.7	1.7
Exports	-1.7	0.8	2.0	2.2	2.3	2.4	2.5	-3.3	1.7	2.1	2.2	2.4	2.4	2.5
Imports	-0.4	0.9	3.7	2.7	2.6	2.6	2.5	-1.6	4.0	3.0	2.7	2.6	2.6	2.5
Change in Non-Farm Inventories (2012 \$Bn)	-0.7	-6.6	3.2	7.8	11.0	11.7	12.1	--	--	--	--	--	--	--
Final Sales	2.1	1.8	1.5	1.7	1.7	1.7	1.7	1.4	0.9	1.7	1.7	1.7	1.7	1.7
International Current Account Balance (\$Bn)	-30.4	-13.0	-47.5	-56.1	-61.4	-65.0	-67.8	--	--	--	--	--	--	--
% of GDP	-0.9	-0.4	-1.4	-1.6	-1.6	-1.7	-1.7	--	--	--	--	--	--	--
Pre-Tax Corp. Profits	5.7	6.3	-3.3	3.3	3.3	3.0	3.1	3.4	1.3	0.2	3.5	3.1	3.1	3.2
% of GDP	14.1	14.4	13.6	13.5	13.5	13.4	13.3	--	--	--	--	--	--	--
GDP Deflator (y/y)	2.5	3.0	1.3	1.7	1.9	1.9	2.0	2.4	2.2	1.7	1.8	1.9	2.0	2.0
Nominal GDP	4.3	4.1	3.0	3.6	3.7	3.7	3.7	3.2	3.8	3.6	3.6	3.7	3.7	3.7
Labour Force	1.9	0.0	0.1	0.5	0.6	0.6	0.6	1.3	-0.4	0.3	0.6	0.6	0.6	0.6
Employment	1.4	0.2	0.5	0.9	0.7	0.6	0.6	1.3	-0.2	0.6	0.9	0.6	0.6	0.6
Change in Empl. ('000s)	296	42	99	182	155	134	131	261	-38	135	197	137	133	130
Unemployment Rate (%)	6.8	6.6	6.3	6.0	5.9	5.9	5.9	--	--	--	--	--	--	--
Personal Disp. Income	4.7	3.0	3.0	3.6	3.6	3.6	3.6	3.0	2.8	3.4	3.7	3.6	3.6	3.6
Pers. Savings Rate (%)	4.9	4.1	3.7	3.8	3.8	3.7	3.6	--	--	--	--	--	--	--
Cons. Price Index (y/y)	2.1	2.5	2.0	2.0	2.0	2.0	2.0	2.2	2.3	2.1	2.0	2.0	2.0	2.0
CPIX (y/y) **	2.6	2.5	2.0	2.0	2.0	2.0	2.0	2.8	2.3	1.9	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	2.1	2.0	2.0	2.0	2.0	2.0
Housing Starts ('000s)	258.2	236.4	222.2	226.1	233.7	233.5	233.0	--	--	--	--	--	--	--
Home Prices (y/y)	-1.4	-0.3	2.7	4.6	3.8	3.3	3.3	-1.8	-1.1	4.3	4.4	3.4	3.3	3.2
Real GDP / Worker (y/y)	0.3	0.9	1.2	1.0	1.1	1.1	1.1	-0.5	1.7	1.2	0.9	1.1	1.1	1.1

F: Forecast by TD Economics, March 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
<b>U.S. FIXED INCOME</b>														
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 (%)	4.07	3.46	3.15	3.15	3.15	3.15	3.15	3.57	3.15	3.15	3.15	3.15	3.15	3.15
2-yr Govt. Bond Yield (%)	3.81	3.48	3.35	3.35	3.35	3.35	3.35	3.47	3.35	3.35	3.35	3.35	3.35	3.35
5-yr Govt. Bond Yield (%)	3.93	3.75	3.70	3.70	3.70	3.70	3.70	3.73	3.70	3.70	3.70	3.70	3.70	3.70
10-yr Govt. Bond Yield (%)	4.29	4.18	4.10	4.10	4.10	4.10	4.10	4.18	4.10	4.10	4.10	4.10	4.10	4.10
10-yr-2-yr Govt. Spread (%)	0.48	0.70	0.75	0.75	0.75	0.75	0.75	0.71	0.75	0.75	0.75	0.75	0.75	0.75
<b>CANADIAN FIXED INCOME</b>														
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 (%)	2.58	2.24	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	2.65	2.60	2.60	2.60	2.60	2.60	2.58	2.60	2.60	2.60	2.60	2.60	2.60
5-yr Govt. Bond Yield (%)	2.84	2.95	2.90	2.90	2.90	2.90	2.90	2.96	2.90	2.90	2.90	2.90	2.90	2.90
10-yr Govt. Bond Yield (%)	3.24	3.38	3.25	3.25	3.16	3.15	3.15	3.42	3.25	3.25	3.25	3.15	3.15	3.15
10-yr-2-yr Govt. Spread (%)	0.71	0.73	0.65	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, March 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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