TD Economics

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, further investments in AI and a resilient consumer. The unemployment rate is expected to drift a bit lower, reaching its long-run average of 4% by Q1-2027.
- 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. The Fed's preferred measure of inflation (core PCE) is not expected to reach the FOMC's 2% inflation target until Q4-2027.
- We expect the Fed to follow through with another quarter-point hike before the end of this year, bringing the target range to 4.0-4.25%. Easing inflationary pressures by mid-2027 will lead to a policy reversal in H2-2027, bringing the policy rate back to 3.5-3.75%. We expect uncertainty about the neutral rate of interest to lead to a more gradual return to a long run steady state for the fed funds rate (3.00-3.25%).

Canada

- The Canadian economy is expected to expand at a below trend pace in 2027 and accelerate thereafter as population growth and the initial shocks from tariffs recede. The unemployment rate is expected to only moderately fall in 2027 and not return to a long-run average until 2028, keeping consumption spending growth muted.
- Inflation is expected to average over 3% into 2027 as elevated energy prices persist. However, economic slack should continue to provide some offset for core inflation, limiting the degree of uptick in price categories beyond gasoline and airfares. The Bank of Canada's core inflation measures are expected to reach roughly 2.4% in mid-2027 and gradually recede thereafter.
- We expect the Bank of Canada to remain on the sidelines. Higher longer-term yields and trade uncertainty are expected to act as drags on growth and counteract energy driven inflation. The wider spread between Canadian and U.S. interest rates will limit upside to the loonie until mid-2027.

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						
	26F	27F	28F	29F	30F	31F	32F	26F	27F	28F	29F	30F	31F	32F
Real GDP	2.2	2.1	2.1	2.0	2.0	2.0	2.0	2.2	2.1	2.0	2.0	2.0	2.0	2.0
Consumer Expenditure	2.2	2.1	2.1	2.1	2.2	2.3	2.2	2.2	1.9	2.1	2.2	2.3	2.3	2.2
Durable Goods	1.9	2.2	3.3	3.5	3.5	3.5	3.5	2.3	2.5	3.5	3.5	3.5	3.5	3.5
Business Investment	7.2	6.6	3.9	2.8	2.7	2.7	2.7	8.9	5.5	3.1	2.7	2.7	2.7	2.7
Non-Res. Structures	-4.2	-1.0	0.7	1.9	2.0	2.0	2.0	-2.4	-0.5	1.5	2.0	2.0	2.0	2.0
Equipment & IPP*	10.1	8.3	4.6	3.0	2.9	2.9	2.9	11.7	6.9	3.5	2.9	2.9	2.9	2.9
Residential Investment	-4.1	1.5	3.3	3.1	1.9	1.5	1.7	-3.2	3.5	3.2	3.0	1.4	1.7	1.7
Govt. Expenditure	0.4	1.2	0.5	0.1	0.1	0.0	0.1	1.8	1.0	0.3	0.0	0.1	0.1	0.0
Final Domestic Demand	2.3	2.6	2.1	1.9	1.9	1.9	1.9	2.8	2.3	2.0	1.9	1.9	1.9	1.9
Exports	3.6	2.0	2.9	3.0	3.0	3.0	3.0	3.4	2.7	3.0	3.0	3.0	3.0	3.0
Imports	3.4	6.4	3.4	2.5	2.5	2.5	2.5	9.6	5.3	2.6	2.5	2.5	2.5	2.5
Change in Private Inventories	-15.4	31.7	46.7	46.7	46.7	46.7	46.7	---	---	---	---	---	---	---
Final Sales	2.3	1.9	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Pre-Tax Corporate Profits Including IVA&CCA	17.9	9.8	5.4	2.8	3.6	4.4	5.0	15.9	7.4	3.8	2.8	3.9	4.7	5.1
% of GDP	14.7	15.4	15.6	15.4	15.3	15.3	15.4	---	---	---	---	---	---	---
GDP Deflator (y/y)	3.8	2.5	2.2	2.1	2.2	2.3	2.3	3.6	2.2	2.2	2.1	2.2	2.3	2.3
Nominal GDP	6.0	4.7	4.4	4.1	4.2	4.3	4.3	5.9	4.4	4.2	4.1	4.3	4.3	4.3
Labor Force	-0.6	0.2	0.4	0.4	0.4	0.4	0.4	-0.9	0.3	0.4	0.4	0.4	0.4	0.4
Employment	0.3	0.4	0.3	0.3	0.2	0.2	0.2	0.5	0.3	0.3	0.2	0.2	0.2	0.2
Change in Empl. ('000s)	494	704	467	400	400	401	400	851	553	421	400	400	401	400
Unemployment Rate (%)	4.2	4.0	4.0	4.0	4.0	4.0	4.0	---	---	---	---	---	---	---
Personal Disp. Income	4.1	5.0	5.1	4.9	4.7	4.6	4.6	4.8	5.1	5.0	4.8	4.7	4.6	4.6
Pers. Savings Rate (%)	3.0	3.6	4.6	5.2	5.6	5.9	6.1	---	---	---	---	---	---	---
Cons. Price Index (y/y)	3.3	2.0	2.0	2.2	2.2	2.2	2.2	3.4	1.6	2.2	2.2	2.2	2.2	2.2
Core CPI (y/y)	2.6	2.3	2.2	2.2	2.2	2.2	2.2	2.6	2.2	2.2	2.2	2.2	2.2	2.2
Core PCE Price Index (y/y)	3.3	2.3	2.0	2.0	2.0	2.0	2.0	3.3	2.0	2.0	2.0	2.0	2.0	2.0
Housing Starts (mns)	1.3	1.4	1.4	1.5	1.5	1.5	1.5	---	---	---	---	---	---	---
Real Output per Hour** (y/y)	2.1	1.9	1.8	1.6	1.5	1.5	1.6	1.7	1.9	1.6	1.6	1.5	1.6	1.6

F: Forecast by TD Economics, September 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						
	26F	27F	28F	29F	30F	31F	32F	26F	27F	28F	29F	30F	31F	32F
Real GDP	0.9	1.6	1.8	1.8	1.7	1.7	1.7	1.5	1.7	1.8	1.8	1.7	1.7	1.7
Consumer Expenditure	2.3	1.8	1.7	1.7	1.7	1.7	1.7	2.4	1.6	1.7	1.7	1.7	1.7	1.7
Durable Goods	-0.3	1.9	1.5	1.6	1.7	1.7	1.7	1.6	1.5	1.6	1.6	1.7	1.7	1.7
Business Investment	1.4	2.6	2.4	2.0	1.9	1.8	1.7	2.3	2.6	2.2	2.0	1.8	1.8	1.7
Non-Res. Structures	-0.9	3.4	2.5	2.1	1.9	1.8	1.8	0.3	2.9	2.3	2.0	1.9	1.8	1.7
Equipment & IPP*	3.7	1.9	2.2	2.0	1.8	1.8	1.7	4.4	2.4	2.1	1.9	1.8	1.8	1.7
Residential Investment	-2.0	1.0	1.1	1.4	1.5	1.6	1.7	-0.2	0.7	1.2	1.4	1.6	1.6	1.7
Govt. Expenditure	1.6	2.1	2.1	2.0	1.9	1.8	1.8	0.9	2.3	2.0	1.9	1.8	1.8	1.8
Final Domestic Demand	1.7	1.9	1.8	1.8	1.8	1.7	1.7	1.8	1.9	1.8	1.8	1.7	1.7	1.7
Exports	2.7	1.9	2.6	2.5	2.5	2.5	2.5	3.3	2.3	2.5	2.5	2.5	2.5	2.5
Imports	2.9	2.6	2.9	2.7	2.6	2.6	2.5	4.8	2.9	2.8	2.7	2.6	2.5	2.5
Change in Non-Farm Inventories (2012 $Bn)	-6.5	-7.8	-5.8	-3.9	-3.2	-2.8	-2.4	--	--	--	--	--	--	--
Final Sales	2.3	2.0	1.8	1.7	1.7	1.7	1.7	1.7	1.8	1.7	1.7	1.7	1.7	1.7
International Current Account Balance ($Bn)	10.4	20.8	19.5	19.9	21.1	22.9	24.9	--	--	--	--	--	--	--
% of GDP	0.3	0.6	0.5	0.5	0.5	0.6	0.6	--	--	--	--	--	--	--
Pre-Tax Corp. Profits	17.3	-2.4	-1.1	1.8	2.6	2.8	3.0	18.1	-7.3	0.8	2.4	2.7	2.9	3.0
% of GDP	15.8	14.8	14.1	13.8	13.7	13.6	13.4	--	--	--	--	--	--	--
GDP Deflator (y/y)	4.5	2.7	1.9	2.0	2.0	2.0	2.0	4.7	2.0	2.0	2.0	2.0	2.0	2.0
Nominal GDP	5.5	4.3	3.7	3.8	3.8	3.8	3.8	6.2	3.7	3.8	3.8	3.8	3.8	3.8
Labour Force	0.2	0.5	0.7	0.7	0.5	0.5	0.4	0.1	0.5	0.8	0.6	0.4	0.5	0.4
Employment	0.5	0.7	1.1	0.9	0.5	0.5	0.4	0.3	0.8	1.1	0.6	0.5	0.5	0.5
Change in Empl. ('000s)	114	153	226	183	99	98	99	68	175	245	128	98	98	99
Unemployment Rate (%)	6.6	6.4	6.0	5.9	5.9	5.9	5.9	--	--	--	--	--	--	--
Personal Disp. Income	4.4	3.9	3.8	3.7	3.5	3.5	3.5	5.2	3.6	3.8	3.6	3.5	3.5	3.5
Pers. Savings Rate (%)	3.4	2.9	3.1	3.1	2.9	2.6	2.4	--	--	--	--	--	--	--
Cons. Price Index (y/y)	2.9	2.5	1.9	2.0	2.0	2.0	2.0	3.2	1.9	2.0	2.0	2.0	2.0	2.0
CPIX (y/y) **	2.3	2.3	2.0	2.0	2.0	2.0	2.0	2.4	2.0	2.0	2.0	2.0	2.0	2.0
BoC Inflation (y/y) ***	2.1	2.3	2.0	2.0	2.0	2.0	2.0	2.2	2.0	2.0	2.0	2.0	2.0	2.0
Housing Starts ('000s)	242.3	226.6	230.5	233.5	233.5	233.0	233.0	--	--	--	--	--	--	--
Home Prices (y/y)	0.1	1.7	3.3	3.8	3.4	3.3	3.2	0.2	1.6	3.8	3.6	3.3	3.2	3.2
Real GDP / Worker (y/y)	0.4	0.9	0.7	0.9	1.3	1.3	1.3	1.1	0.9	0.6	1.2	1.3	1.3	1.3

F: Forecast by TD Economics, September 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 Rates	Annual Average							End of Period						
	26F	27F	28F	29F	30F	31F	32F	26F	27F	28F	29F	30F	31F	32F
U.S. FIXED INCOME														
Fed Funds Target Rate (%)*	3.88	4.13	3.75	3.38	3.25	3.25	3.25	4.25	3.75	3.75	3.25	3.25	3.25	3.25
3-mth T-Bill Rate (%)	3.76	3.98	3.64	3.24	3.15	3.15	3.15	4.15	3.65	3.55	3.15	3.15	3.15	3.15
2-yr Govt. Bond Yield (%)	4.08	3.96	3.55	3.36	3.35	3.35	3.35	4.40	3.65	3.40	3.35	3.35	3.35	3.35
5-yr Govt. Bond Yield (%)	4.23	4.20	3.89	3.81	3.80	3.80	3.80	4.55	3.95	3.85	3.80	3.80	3.80	3.80
10-yr Govt. Bond Yield (%)	4.52	4.45	4.25	4.20	4.20	4.20	4.20	4.70	4.25	4.20	4.20	4.20	4.20	4.20
10-yr-2-yr Govt. Spread (%)	0.45	0.49	0.70	0.84	0.85	0.85	0.85	0.30	0.60	0.80	0.85	0.85	0.85	0.85
CANADIAN FIXED INCOME														
Overnight Target Rate (%)	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	2.25
3-mth T-Bill Rate (%)	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	2.25
2-yr Govt. Bond Yield (%)	2.99	2.65	2.60	2.60	2.60	2.60	2.60	3.10	2.60	2.60	2.60	2.60	2.60	2.60
5-yr Govt. Bond Yield (%)	3.21	3.27	2.99	2.91	2.90	2.90	2.90	3.50	3.05	2.95	2.90	2.90	2.90	2.90
10-yr Govt. Bond Yield (%)	3.57	3.46	3.30	3.26	3.25	3.25	3.25	3.70	3.30	3.30	3.25	3.25	3.25	3.25
10-yr-2-yr Govt. Spread (%)	0.58	0.81	0.70	0.66	0.65	0.65	0.65	0.60	0.70	0.70	0.65	0.65	0.65	0.65

Interest Rate Outlook

F: Forecast by TD Economics, September 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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