

Long-Term Economic Forecast

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United States

- The U.S. economy is forecast to remain above its long-run trend rate of growth in 2024, before normalizing closer to a trend pace in 2025. Even so, the unemployment rate is expected to edge a bit higher, reaching 4.3% in mid-2025 before gradually returning to its long-run average of 4% by the second half of 2026.
- Inflation has slowed from its multi-decade highs, though progress appears to have stalled in recent months. With the incoming U.S. administration likely to follow through on its campaign promise of raising tariffs on some of its trading partners, the adjustment process back to the Fed's 2% inflation target is likely to take a bit longer. Core PCE inflation (the Fed's preferred measure of inflation) isn't expected to reach the FOMC's 2% inflation target until the second half of 2026.
- We project the fed funds rate to be lowered steadily back to a level more consistent with its neutral (3.0%) rate by 2026, and hold there as the economy finds its balance.

Canada

- Following an economic slowdown in 2023 and 2024, Canadian output is expected to rebound to around trend in 2025 and 2026. Thereafter, real GDP growth is expected to move to around 1.9% to 2.0% from 2027 to 2029. Population growth is expected to decelerate in the coming years after its recent boom, boosting labour productivity growth.
- Consumer spending has been weak due to the impact of high interest rates, but we expect this to improve over the coming years as lower rates incentivize greater spending.
- Business investment is expected to grow above trend over the medium term before returning to trend over the long-run. The need to build more homes will boost residential investment, and the opportunity to fast track the clean energy transition will cause a lift to investment in structures, machinery, and equipment.
- After a period of high inflation, headline and core consumer price inflation are expected to stabilize around the 2% target over the medium term.
- As a result, the Bank of Canada is expected to cut its policy rate back to our estimate of the neutral rate of 2.25% by 2025. We expect the loonie to return to the 74 - 76 U.S. cent range once Canadian economic growth is able to catch-up to 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						
	24F	25F	26F	27F	28F	29F	30F	24F	25F	26F	27F	28F	29F	30F
Real GDP	2.7	2.0	1.9	2.0	2.0	2.0	1.9	2.3	1.9	1.9	2.0	2.0	2.0	1.9
Consumer Expenditure	2.6	2.4	1.8	1.9	2.1	2.2	2.2	2.7	1.9	1.8	2.0	2.2	2.2	2.2
Durable Goods	2.8	2.9	2.7	3.1	3.0	3.0	3.0	3.8	1.6	3.1	3.0	3.0	3.0	3.0
Business Investment	3.7	2.1	3.4	3.0	3.0	3.0	3.0	2.9	2.8	3.2	3.0	3.0	3.0	3.0
Non-Res. Structures	3.3	-0.2	2.4	3.0	3.0	3.0	3.0	0.1	1.4	2.8	3.0	3.0	3.0	3.0
Equipment & IPP*	3.6	2.8	3.7	3.0	3.0	3.0	3.0	4.2	3.2	3.4	3.0	3.0	3.0	3.0
Residential Investment	3.7	-1.5	6.7	6.3	2.5	1.6	1.3	0.8	0.8	8.9	4.2	2.0	1.4	1.3
Govt. Expenditure	3.3	1.3	0.2	0.1	0.1	0.1	0.0	2.7	0.4	0.2	0.1	0.1	0.1	0.0
Final Domestic Demand	2.9	2.0	1.9	2.0	1.9	1.9	1.9	2.7	1.8	2.0	1.9	1.9	1.9	1.9
Exports	2.9	2.2	2.7	3.0	3.0	3.0	3.0	2.1	2.5	2.9	3.0	3.0	3.0	3.0
Imports	5.3	2.7	2.1	2.5	2.5	2.5	2.5	5.7	1.9	2.3	2.5	2.5	2.5	2.5
Change in Private Inventories	51.9	71.3	51.4	44.2	44.3	44.4	44.5	---	---	---	---	---	---	---
Final Sales	2.6	1.9	2.0	2.0	2.0	2.0	1.9	2.2	1.8	2.0	2.0	2.0	2.0	2.0
Pre-Tax Corporate Profits Including IVA&CCA	6.9	-2.6	-1.9	5.1	3.5	2.7	2.4	2.7	-10.5	7.9	3.8	3.0	2.3	2.7
% of GDP	13.0	12.1	11.4	11.5	11.4	11.2	11.0	---	---	---	---	---	---	---
GDP Deflator (y/y)	2.5	2.8	2.2	2.1	2.3	2.2	2.2	2.6	2.9	1.9	2.2	2.2	2.2	2.2
Nominal GDP	5.2	4.9	4.2	4.1	4.3	4.2	4.2	4.9	4.9	3.8	4.2	4.2	4.2	4.2
Labor Force	0.6	0.6	0.6	0.5	0.5	0.5	0.5	0.5	0.6	0.5	0.5	0.5	0.5	0.5
Employment	1.6	1.0	0.8	0.7	0.7	0.7	0.7	1.4	0.8	0.9	0.6	0.7	0.7	0.7
Change in Empl. ('000s)	2,512	1,530	1,309	1,113	1,080	1,080	1,080	2,215	1,249	1,371	1,050	1,080	1,080	1,080
Unemployment Rate (%)	4.0	4.3	4.1	4.0	4.0	4.0	4.0	---	---	---	---	---	---	---
Personal Disp. Income	5.4	4.5	4.2	4.2	4.1	4.1	4.1	5.0	4.7	3.9	4.2	4.1	4.1	4.1
Pers. Savings Rate (%)	4.7	4.3	4.4	4.6	4.5	4.4	4.4	---	---	---	---	---	---	---
Cons. Price Index (y/y)	2.9	2.7	2.6	2.2	2.2	2.2	2.2	2.7	2.9	2.4	2.2	2.2	2.2	2.2
Core CPI (y/y)	3.4	3.0	2.4	2.2	2.2	2.2	2.2	3.3	2.9	2.2	2.2	2.2	2.2	2.2
Core PCE Price Index (y/y)	2.8	2.8	2.2	2.0	2.0	2.0	2.0	3.0	2.7	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)	2.2	1.7	1.2	1.4	1.5	1.5	1.5	1.6	1.6	1.1	1.4	1.5	1.5	1.5

F: Forecast by TD Economics, December 2024.
* 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						
	24F	25F	26F	27F	28F	29F	30F	24F	25F	26F	27F	28F	29F	30F
Real GDP	1.3	1.7	1.7	1.9	2.0	1.8	1.8	1.7	1.8	1.8	2.0	1.9	1.8	1.8
Consumer Expenditure	1.9	2.1	1.4	1.7	2.0	1.9	1.8	2.4	1.9	1.3	1.9	2.0	1.8	1.8
Durable Goods	2.5	2.2	1.3	1.6	1.9	1.8	1.8	0.7	1.5	1.2	1.8	1.9	1.8	1.8
Business Investment	-1.3	1.8	2.7	2.3	2.0	1.9	1.8	1.9	2.8	2.5	2.1	1.9	1.8	1.8
Non-Res. Structures	-1.5	2.9	2.9	2.3	2.0	1.9	1.8	3.8	3.1	2.6	2.2	2.0	1.8	1.8
Equipment & IPP*	-1.1	0.8	2.5	2.2	2.0	1.8	1.8	0.1	2.5	2.4	2.1	1.9	1.8	1.8
Residential Investment	-1.6	2.9	2.9	2.3	2.0	1.9	1.8	-1.7	3.5	2.7	2.2	2.0	1.8	1.8
Govt. Expenditure	3.0	2.7	2.0	1.9	1.8	1.8	1.8	3.7	2.2	2.0	1.9	1.8	1.8	1.8
Final Domestic Demand	1.5	2.2	1.8	1.9	2.0	1.8	1.8	2.3	2.1	1.7	1.9	1.9	1.8	1.8
Exports	0.7	1.6	2.3	2.4	2.5	2.5	2.5	-0.4	2.3	2.4	2.4	2.5	2.5	2.5
Imports	0.5	1.8	2.3	2.4	2.4	2.5	2.5	-0.1	2.3	2.3	2.4	2.5	2.5	2.5
Change in Non-Farm Inventories (2012 \$Bn)	19.3	9.6	8.0	10.1	10.6	11.0	11.4	--	--	--	--	--	--	--
Final Sales	1.9	2.6	1.9	1.8	1.9	1.8	1.8	2.8	2.4	1.6	1.9	1.9	1.8	1.8
International Current Account Balance (\$Bn)	-12.7	-16.2	-12.4	-10.7	-9.7	-8.7	-7.7	--	--	--	--	--	--	--
% of GDP	-0.4	-0.5	-0.4	-0.3	-0.3	-0.2	-0.2	--	--	--	--	--	--	--
Pre-Tax Corp. Profits	-5.7	4.0	4.6	4.2	4.2	4.0	3.9	-9.9	6.5	4.2	4.2	4.1	4.0	3.9
% of GDP	12.8	12.8	12.9	12.9	12.9	12.9	12.9	--	--	--	--	--	--	--
GDP Deflator (y/y)	3.0	2.2	2.2	2.0	2.0	2.0	2.0	1.7	2.2	2.1	2.0	2.0	2.0	2.0
Nominal GDP	4.3	3.9	4.0	4.0	4.0	3.9	3.8	3.5	4.1	3.9	4.0	4.0	3.8	3.8
Labour Force	2.7	1.3	0.1	0.3	0.6	0.6	0.6	2.6	0.4	0.1	0.4	0.6	0.6	0.6
Employment	1.7	1.1	0.5	0.5	0.6	0.6	0.6	1.6	0.8	0.5	0.5	0.6	0.6	0.6
Change in Empl. ('000s)	340	234	105	98	124	136	133	315	163	108	96	133	135	131
Unemployment Rate (%)	6.3	6.5	6.1	5.9	5.9	5.9	5.9	--	--	--	--	--	--	--
Personal Disp. Income	7.5	5.2	2.4	3.1	3.3	3.4	3.4	8.3	2.8	2.6	3.2	3.4	3.4	3.4
Pers. Savings Rate (%)	6.5	7.3	6.3	5.7	5.0	4.5	4.1	--	--	--	--	--	--	--
Cons. Price Index (y/y)	2.4	2.4	2.1	2.0	2.0	2.0	2.0	1.9	2.4	2.0	2.0	2.0	2.0	2.0
CPIX (y/y) **	1.8	2.1	2.1	2.0	2.0	2.0	2.0	1.5	2.2	2.0	2.0	2.0	2.0	2.0
BoC Inflation (y/y) ***	2.7	2.2	2.0	2.0	2.0	2.0	2.0	2.4	2.1	2.0	2.0	2.0	2.0	2.0
Housing Starts ('000s)	241.0	228.0	225.7	241.9	252.4	249.6	248.6	--	--	--	--	--	--	--
Home Prices (y/y)	2.2	8.0	3.1	2.6	2.7	2.4	2.4	6.6	6.1	2.5	2.8	2.5	2.4	2.4
Real GDP / Worker (y/y)	-0.4	0.6	1.2	1.4	1.4	1.2	1.1	0.2	1.0	1.2	1.5	1.3	1.2	1.1

F: Forecast by TD Economics, December 2024.

* 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						
	24F	25F	26F	27F	28F	29F	30F	24F	25F	26F	27F	28F	29F	30F
U.S. FIXED INCOME														
Fed Funds Target Rate (%)*	5.30	4.01	3.13	3.00	3.00	3.00	3.00	4.50	3.50	3.00	3.00	3.00	3.00	3.00
3-mth T-Bill Rate (%)	5.02	3.81	2.98	2.90	2.90	2.90	2.90	4.35	3.30	2.90	2.90	2.90	2.90	2.90
2-yr Govt. Bond Yield (%)	4.37	3.66	3.02	3.00	3.00	3.00	3.00	4.15	3.15	3.00	3.00	3.00	3.00	3.00
5-yr Govt. Bond Yield (%)	4.11	3.85	3.46	3.45	3.45	3.45	3.45	4.05	3.55	3.45	3.45	3.45	3.45	3.45
10-yr Govt. Bond Yield (%)	4.20	4.02	3.71	3.70	3.70	3.70	3.70	4.20	3.75	3.70	3.70	3.70	3.70	3.70
10-yr-2-yr Govt. Spread (%)	-0.17	0.37	0.69	0.70	0.70	0.70	0.70	0.05	0.60	0.70	0.70	0.70	0.70	0.70
CANADIAN FIXED INCOME														
Overnight Target Rate (%)	4.55	2.76	2.25	2.25	2.25	2.25	2.25	3.25	2.25	2.25	2.25	2.25	2.25	2.25
3-mth T-Bill Rate (%)	4.38	2.65	2.25	2.25	2.25	2.25	2.25	3.17	2.25	2.25	2.25	2.25	2.25	2.25
2-yr Govt. Bond Yield (%)	3.51	2.48	2.35	2.35	2.35	2.35	2.35	2.95	2.35	2.35	2.35	2.35	2.35	2.35
5-yr Govt. Bond Yield (%)	3.25	2.85	2.75	2.75	2.75	2.75	2.75	2.90	2.75	2.75	2.75	2.75	2.75	2.75
10-yr Govt. Bond Yield (%)	3.34	3.07	3.00	3.00	3.00	3.00	3.00	3.10	3.00	3.00	3.00	3.00	3.00	3.00
10-yr-2-yr Govt. Spread (%)	-0.17	0.59	0.65	0.65	0.65	0.65	0.65	0.15	0.65	0.65	0.65	0.65	0.65	0.65
F: Forecast by TD Economics, December 2024.														
* 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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