

Long-Term Economic Forecast

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June 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 tariffs, fiscal restraint and slower population growth. Real GDP growth then briefly overshoots in 2026/27 - owing to a rebound in housing and further household and business tax cuts - 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.
- Inflation has slowed from its multi-decade highs, though progress towards the Fed's 2% inflation target has stalled in recent months. Higher tariffs pose an upside risk to the medium-term inflation outlook. Under our current baseline assumptions, core PCE inflation (the Fed's preferred measure of inflation) isn't expected to reach the FOMC's 2% inflation target until Q4-2026.
- 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 2026, and hold there as the economy finds its balance.

Canada

- Canadian economic growth is expected to run below trend in 2025 and 2026, before finding greater balance in 2027. Slowing population growth and the impact of tariffs on business and consumer sentiment are the drivers of lower growth. Consumer spending is expected to act as a drag on the economy as higher prices cut into spending power. This has the unemployment rate moving above its long-run level until 2027.
- After a period of somewhat stable inflation, headline and core consumer price inflation are expected to remain above target through 2025 on tariffs, before starting to return to the 2% target over the medium term.
- The Bank of Canada is expected to cut its policy rate back to our estimate of the neutral rate of 2.25% in mid-2025 as the labour market continues to soften.
- 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 | | | | | | |
| | 24 | 25F | 26F | 27F | 28F | 29F | 30F | 24 | 25F | 26F | 27F | 28F | 29F | 30F |
| Real GDP | 2.8 | 1.7 | 2.1 | 2.3 | 2.1 | 2.0 | 2.0 | 2.5 | 1.3 | 2.3 | 2.3 | 2.0 | 2.0 | 2.0 |
| Consumer Expenditure | 2.8 | 2.2 | 1.8 | 2.1 | 2.1 | 2.2 | 2.2 | 3.1 | 1.3 | 2.1 | 2.1 | 2.1 | 2.2 | 2.2 |
| Durable Goods | 3.3 | 1.5 | 2.6 | 3.6 | 3.5 | 3.5 | 3.5 | 5.8 | -2.3 | 4.4 | 3.5 | 3.5 | 3.5 | 3.5 |
| Business Investment | 3.6 | 1.7 | 2.0 | 3.1 | 3.0 | 3.0 | 3.0 | 2.3 | 1.4 | 3.4 | 3.0 | 3.0 | 3.0 | 3.0 |
| Non-Res. Structures | 3.5 | -1.3 | 1.5 | 3.2 | 3.0 | 3.0 | 3.0 | 1.0 | -1.9 | 3.5 | 3.0 | 3.0 | 3.0 | 3.0 |
| Equipment & IPP* | 3.4 | 2.4 | 2.1 | 3.1 | 3.0 | 3.0 | 3.0 | 3.2 | 2.0 | 3.4 | 3.0 | 3.0 | 3.0 | 3.0 |
| Residential Investment | 4.2 | -2.0 | 2.8 | 8.3 | 3.6 | 1.6 | 1.6 | 2.8 | -3.7 | 8.0 | 6.9 | 2.0 | 1.6 | 1.6 |
| Govt. Expenditure | 3.4 | 1.1 | 0.3 | 0.9 | 0.8 | 0.6 | 0.3 | 3.2 | -0.4 | 0.8 | 1.0 | 0.7 | 0.5 | 0.2 |
| Final Domestic Demand | 3.0 | 1.8 | 1.6 | 2.3 | 2.1 | 2.0 | 2.0 | 3.0 | 0.8 | 2.3 | 2.2 | 2.0 | 2.0 | 2.0 |
| Exports | 3.3 | 2.3 | 2.2 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 | 1.6 | 2.9 | 3.0 | 3.0 | 3.0 | 3.0 |
| Imports | 5.3 | 3.4 | -0.8 | 2.9 | 2.5 | 2.5 | 2.5 | 5.5 | -0.6 | 3.2 | 2.5 | 2.5 | 2.5 | 2.5 |
| Change in Private Inventories | 39.1 | 65.8 | 74.3 | 74.5 | 74.5 | 74.5 | 74.5 | --- | --- | --- | --- | --- | --- | --- |
| Final Sales | 2.7 | 1.6 | 2.0 | 2.3 | 2.1 | 2.0 | 2.0 | 2.7 | 1.1 | 2.3 | 2.3 | 2.0 | 2.1 | 2.0 |
| Pre-Tax Corporate Profits | | | | | | | | | | | | | | |
| Including IVA&CCA | 7.9 | -1.7 | 7.7 | 4.1 | 4.0 | 3.8 | 3.3 | 6.9 | -1.9 | 3.8 | 5.3 | 3.6 | 3.8 | 2.9 |
| % of GDP | 13.1 | 12.3 | 12.7 | 12.6 | 12.6 | 12.5 | 12.4 | --- | --- | --- | --- | --- | --- | --- |
| GDP Deflator (y/y) | 2.4 | 2.9 | 2.5 | 2.2 | 2.3 | 2.2 | 2.3 | 2.5 | 3.1 | 2.2 | 2.2 | 2.2 | 2.3 | 2.3 |
| Nominal GDP | 5.3 | 4.7 | 4.6 | 4.5 | 4.4 | 4.3 | 4.3 | 5.0 | 4.4 | 4.6 | 4.6 | 4.3 | 4.4 | 4.3 |
| Labor Force | 0.6 | 1.6 | 0.4 | 0.4 | 0.5 | 0.5 | 0.4 | 0.4 | 1.5 | 0.5 | 0.4 | 0.5 | 0.5 | 0.4 |
| Employment | 1.3 | 1.0 | 0.6 | 0.8 | 0.6 | 0.6 | 0.6 | 1.2 | 0.7 | 0.8 | 0.6 | 0.6 | 0.6 | 0.6 |
| Change in Empl. ('000s) | 2,082 | 1,579 | 942 | 1,220 | 964 | 959 | 959 | 1,936 | 1,151 | 1,234 | 1,042 | 958 | 959 | 959 |
| Unemployment Rate (%) | 4.0 | 4.3 | 4.3 | 4.0 | 4.0 | 4.0 | 4.0 | --- | --- | --- | --- | --- | --- | --- |
| Personal Disp. Income | 5.3 | 4.3 | 4.8 | 5.2 | 4.7 | 4.5 | 4.4 | 4.8 | 4.2 | 5.8 | 4.8 | 4.7 | 4.5 | 4.4 |
| Pers. Savings Rate (%) | 4.6 | 3.9 | 4.3 | 5.3 | 5.9 | 6.2 | 6.4 | --- | --- | --- | --- | --- | --- | --- |
| Cons. Price Index (y/y) | 3.0 | 2.9 | 2.7 | 2.3 | 2.1 | 2.1 | 2.2 | 2.7 | 3.1 | 2.5 | 2.1 | 2.1 | 2.2 | 2.2 |
| Core CPI (y/y) | 3.4 | 3.1 | 2.5 | 2.3 | 2.2 | 2.2 | 2.3 | 3.3 | 3.1 | 2.2 | 2.3 | 2.2 | 2.3 | 2.3 |
| Core PCE Price Index (y/y) | 2.8 | 2.8 | 2.3 | 2.0 | 2.0 | 2.0 | 2.0 | 2.8 | 2.9 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 |
| Housing Starts (mns) | 1.4 | 1.3 | 1.4 | 1.6 | 1.6 | 1.6 | 1.6 | --- | --- | --- | --- | --- | --- | --- |
| Real Output per Hour** (y/y) | 2.7 | 1.0 | 1.6 | 1.4 | 1.6 | 1.5 | 1.5 | 2.1 | 0.8 | 1.4 | 1.5 | 1.5 | 1.5 | 1.5 |
| F: Forecast by TD Economics, June 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 | | | | | | |
| | 24 | 25F | 26F | 27F | 28F | 29F | 30F | 24 | 25F | 26F | 27F | 28F | 29F | 30F |
| Real GDP | 1.6 | 0.9 | 1.1 | 2.0 | 2.1 | 1.9 | 1.8 | 2.3 | 0.1 | 1.8 | 2.1 | 2.0 | 1.8 | 1.8 |
| Consumer Expenditure | 2.4 | 1.9 | 0.9 | 1.6 | 2.0 | 1.9 | 1.8 | 3.5 | 0.5 | 1.3 | 1.9 | 2.0 | 1.8 | 1.8 |
| Durable Goods | 3.8 | 0.0 | 1.1 | 2.1 | 1.9 | 1.8 | 1.8 | 4.9 | -4.8 | 3.0 | 1.8 | 1.9 | 1.8 | 1.8 |
| Business Investment | -1.9 | -1.0 | 0.7 | 2.0 | 1.8 | 1.7 | 1.7 | 1.7 | -2.2 | 2.3 | 1.8 | 1.8 | 1.7 | 1.7 |
| Non-Res. Structures | -2.1 | -1.9 | 1.0 | 2.1 | 1.8 | 1.8 | 1.7 | 2.9 | -3.1 | 2.4 | 1.9 | 1.8 | 1.8 | 1.7 |
| Equipment & IPP* | -1.7 | -0.2 | 0.4 | 1.9 | 1.7 | 1.7 | 1.7 | 0.5 | -1.4 | 2.2 | 1.8 | 1.7 | 1.7 | 1.7 |
| Residential Investment | -0.6 | 0.1 | 2.3 | 2.3 | 2.0 | 1.9 | 1.8 | 1.6 | -2.1 | 2.6 | 2.2 | 1.9 | 1.8 | 1.8 |
| Govt. Expenditure | 4.2 | 2.8 | 4.4 | 3.4 | 2.5 | 2.2 | 2.0 | 5.3 | 2.6 | 4.5 | 2.9 | 2.4 | 2.1 | 1.9 |
| Final Domestic Demand | 2.1 | 1.6 | 1.9 | 2.2 | 2.1 | 1.9 | 1.8 | 3.6 | 0.5 | 2.3 | 2.2 | 2.0 | 1.9 | 1.8 |
| Exports | 0.6 | -1.9 | 2.2 | 2.0 | 2.2 | 2.3 | 2.4 | 0.2 | -2.4 | 2.6 | 2.1 | 2.3 | 2.4 | 2.4 |
| Imports | 0.7 | 0.0 | 3.9 | 2.4 | 2.3 | 2.4 | 2.5 | 0.1 | 1.3 | 3.2 | 2.3 | 2.4 | 2.4 | 2.5 |
| Change in Non-Farm Inventories (2012 \$Bn) | 16.6 | 14.0 | 8.2 | 7.0 | 8.0 | 8.4 | 8.8 | -- | -- | -- | -- | -- | -- | -- |
| Final Sales | 2.6 | 1.8 | 2.1 | 2.2 | 2.1 | 1.9 | 1.8 | 4.9 | -0.1 | 2.5 | 2.1 | 2.0 | 1.9 | 1.8 |
| International Current Account Balance (\$Bn) | -14.1 | -37.2 | -52.4 | -60.2 | -65.2 | -68.5 | -71.2 | -- | -- | -- | -- | -- | -- | -- |
| % of GDP | -0.5 | -1.2 | -1.6 | -1.8 | -1.8 | -1.9 | -1.9 | -- | -- | -- | -- | -- | -- | -- |
| Pre-Tax Corp. Profits | -3.1 | 2.3 | 1.6 | 4.4 | 4.4 | 4.2 | 4.0 | -3.0 | -2.6 | 3.8 | 4.4 | 4.3 | 4.1 | 4.0 |
| % of GDP | 13.1 | 13.0 | 12.8 | 12.8 | 12.8 | 12.9 | 12.9 | -- | -- | -- | -- | -- | -- | -- |
| GDP Deflator (y/y) | 3.1 | 2.2 | 2.2 | 2.0 | 1.9 | 2.0 | 2.0 | 2.3 | 1.8 | 2.0 | 1.9 | 2.0 | 2.0 | 2.0 |
| Nominal GDP | 4.7 | 3.2 | 3.3 | 4.0 | 4.1 | 3.9 | 3.8 | 4.7 | 1.9 | 3.9 | 4.1 | 4.0 | 3.9 | 3.8 |
| Labour Force | 3.0 | 1.8 | 0.1 | 0.3 | 0.6 | 0.6 | 0.6 | 2.7 | 0.9 | 0.1 | 0.4 | 0.6 | 0.6 | 0.6 |
| Employment | 1.9 | 1.0 | 0.4 | 1.1 | 0.8 | 0.6 | 0.6 | 1.6 | 0.3 | 1.0 | 1.1 | 0.7 | 0.6 | 0.6 |
| Change in Empl. ('000s) | 382 | 217 | 75 | 226 | 171 | 138 | 135 | 327 | 53 | 200 | 226 | 143 | 137 | 133 |
| Unemployment Rate (%) | 6.4 | 7.0 | 6.8 | 6.1 | 5.9 | 5.9 | 5.9 | -- | -- | -- | -- | -- | -- | -- |
| Personal Disp. Income | 7.5 | 4.7 | 2.6 | 3.6 | 3.5 | 3.4 | 3.4 | 7.6 | 3.1 | 2.8 | 3.7 | 3.4 | 3.4 | 3.4 |
| Pers. Savings Rate (%) | 6.0 | 6.4 | 6.0 | 6.0 | 5.5 | 5.0 | 4.6 | -- | -- | -- | -- | -- | -- | -- |
| Cons. Price Index (y/y) | 2.4 | 2.2 | 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 | 2.6 | 2.2 | 2.0 | 2.0 | 2.0 | 2.0 | 1.6 | 2.7 | 2.1 | 2.0 | 2.0 | 2.0 | 2.0 |
| BoC Inflation (y/y) *** | 2.9 | 3.0 | 2.3 | 2.0 | 2.0 | 2.0 | 2.0 | 2.7 | 2.9 | 2.1 | 2.0 | 2.0 | 2.0 | 2.0 |
| Housing Starts ('000s) | 245.1 | 248.5 | 221.9 | 231.8 | 245.5 | 243.6 | 242.6 | -- | -- | -- | -- | -- | -- | -- |
| Home Prices (y/y) | 1.7 | -2.6 | 5.2 | 5.1 | 4.3 | 3.3 | 3.2 | 4.9 | -3.2 | 6.2 | 4.9 | 3.7 | 3.2 | 3.2 |
| Real GDP / Worker (y/y) | -0.3 | -0.1 | 0.7 | 0.9 | 1.3 | 1.2 | 1.2 | 0.7 | -0.2 | 0.9 | 1.0 | 1.3 | 1.2 | 1.2 |

F: Forecast by TD Economics, June 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 | | | | | | |
| | 24 | 25F | 26F | 27F | 28F | 29F | 30F | 24 | 25F | 26F | 27F | 28F | 29F | 30F |
| U.S. FIXED INCOME | | | | | | | | | | | | | | |
| Fed Funds Target Rate (%)* | 5.32 | 4.35 | 3.44 | 3.25 | 3.25 | 3.25 | 3.25 | 4.50 | 3.75 | 3.25 | 3.25 | 3.25 | 3.25 | 3.25 |
| 3-mth T-Bill Rate (%) | 4.97 | 4.12 | 3.28 | 3.15 | 3.15 | 3.15 | 3.15 | 4.23 | 3.65 | 3.15 | 3.15 | 3.15 | 3.15 | 3.15 |
| 2-yr Govt. Bond Yield (%) | 4.37 | 3.92 | 3.29 | 3.25 | 3.25 | 3.25 | 3.25 | 4.25 | 3.58 | 3.25 | 3.25 | 3.25 | 3.25 | 3.25 |
| 5-yr Govt. Bond Yield (%) | 4.13 | 4.06 | 3.72 | 3.70 | 3.70 | 3.70 | 3.70 | 4.38 | 3.85 | 3.70 | 3.70 | 3.70 | 3.70 | 3.70 |
| 10-yr Govt. Bond Yield (%) | 4.21 | 4.43 | 4.03 | 4.00 | 4.00 | 4.00 | 4.00 | 4.58 | 4.25 | 4.00 | 4.00 | 4.00 | 4.00 | 4.00 |
| 10-yr-2-yr Govt. Spread (%) | -0.16 | 0.51 | 0.74 | 0.75 | 0.75 | 0.75 | 0.75 | 0.33 | 0.67 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 |
| CANADIAN FIXED INCOME | | | | | | | | | | | | | | |
| Overnight Target Rate (%) | 4.55 | 2.63 | 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 | 2.53 | 2.25 | 2.25 | 2.25 | 2.25 | 2.25 | 3.16 | 2.25 | 2.25 | 2.25 | 2.25 | 2.25 | 2.25 |
| 2-yr Govt. Bond Yield (%) | 3.50 | 2.58 | 2.50 | 2.50 | 2.50 | 2.50 | 2.50 | 2.93 | 2.55 | 2.50 | 2.50 | 2.50 | 2.50 | 2.50 |
| 5-yr Govt. Bond Yield (%) | 3.30 | 2.89 | 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 (%) | 3.34 | 3.22 | 3.16 | 3.15 | 3.15 | 3.15 | 3.15 | 3.23 | 3.20 | 3.15 | 3.15 | 3.15 | 3.15 | 3.15 |
| 10-yr-2-yr Govt. Spread (%) | -0.16 | 0.64 | 0.66 | 0.65 | 0.65 | 0.65 | 0.65 | 0.30 | 0.65 | 0.65 | 0.65 | 0.65 | 0.65 | 0.65 |
| F: Forecast by TD Economics, June 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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