

## Long-Term Economic Forecast

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### United States

- The U.S. economy is forecast to run below its long-run trend rate of growth in 2025 and 2026, as growth is slowed by higher tariffs, some fiscal restraint and slower population growth. Real GDP growth then briefly overshoots in 2027 and then converges closer to potential by 2028. Slower near-term growth pushes the unemployment rate slightly higher, reaching 4.4% by Q4-2025 before gradually returning to its long-run average of 4% by mid-2027.
- Inflation has shown signs of heating up in recent months, as elevated tariffs have started to pressure consumer prices higher for some goods. Tariff passthrough is expected to intensify through year-end, holding core measures of inflation around 3% through mid-2026. Core PCE inflation (the Fed's preferred measure of inflation) isn't expected to reach the FOMC's 2% inflation target until H1-2027.
- 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 2026, and hold there as the economy finds its balance.

### Canada

- Canadian economic growth is expected to run below trend through 2026 and into 2027. Output is held back by slower population growth and the impact of tariffs on export demand and business and consumer sentiment. Consumer spending had been improving on lower interest rates, but we expect this to slow as the unemployment rate moves above its long-run level until late 2027.
- CPI inflation is currently roughly at the Bank of Canada's 2% target, but underlying core inflation measures have been running at the top of the Bank's target recently. Looking ahead, sub-par economic growth and Canada's removal of many retaliatory tariffs should see core inflation return to target.
- The Bank of Canada is expected to cut its policy rate back to our estimate of the neutral of 2.25% by year-end 2025. We expect the policy rate to remain at this neutral setting over the remainder of the forecast horizon, as economic growth returns to its trend pace.
- We expect the loonie to return to the 74 - 76 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						
	25F	26F	27F	28F	29F	30F	31F	25F	26F	27F	28F	29F	30F	31F
Real GDP	1.8	1.8	2.2	2.1	2.0	2.0	2.0	1.5	2.0	2.1	2.1	2.0	2.0	2.0
Consumer Expenditure	2.1	1.5	2.0	2.0	2.1	2.2	2.2	1.2	1.8	2.0	2.0	2.1	2.2	2.2
Durable Goods	3.3	1.6	3.6	3.5	3.5	3.5	3.5	-0.1	3.0	3.5	3.5	3.5	3.5	3.5
Business Investment	4.3	3.1	3.1	3.0	3.0	3.0	3.0	5.3	3.1	3.0	3.0	3.0	3.0	3.0
Non-Res. Structures	-3.0	-0.2	2.5	3.0	3.0	3.0	3.0	-4.1	1.7	2.9	3.0	3.0	3.0	3.0
Equipment & IPP*	6.5	3.9	3.2	3.0	3.0	3.0	3.0	8.0	3.5	3.0	3.0	3.0	3.0	3.0
Residential Investment	-1.9	0.8	5.6	3.9	3.0	2.0	1.7	-3.7	4.7	4.9	3.6	2.6	1.7	1.7
Govt. Expenditure	1.3	1.0	1.1	1.0	0.8	0.4	0.3	0.3	1.0	1.2	0.9	0.6	0.3	0.3
Final Domestic Demand	2.1	1.6	2.1	2.0	2.0	2.0	2.0	1.4	1.9	2.1	2.0	2.0	2.0	2.0
Exports	0.7	1.1	3.0	3.0	3.0	3.0	3.0	-0.9	2.6	3.0	3.0	3.0	3.0	3.0
Imports	2.9	-0.4	2.8	2.5	2.5	2.5	2.5	-0.6	3.0	2.5	2.5	2.5	2.5	2.5
Change in Private Inventories	42.0	39.2	46.7	46.7	46.7	46.7	46.7	---	---	---	---	---	---	---
Final Sales	1.8	1.8	2.1	2.1	2.0	2.0	2.0	1.4	1.9	2.1	2.1	2.0	2.0	2.0
Pre-Tax Corporate Profits Including IVA&CCA	1.3	-1.4	8.2	5.6	4.3	4.4	4.3	-6.3	5.0	7.6	4.4	4.4	4.4	4.1
% of GDP	12.7	12.0	12.4	12.5	12.5	12.5	12.5	---	---	---	---	---	---	---
GDP Deflator (y/y)	2.7	2.6	2.3	2.3	2.2	2.3	2.3	2.7	2.7	2.3	2.3	2.2	2.3	2.3
Nominal GDP	4.6	4.5	4.5	4.5	4.3	4.3	4.3	4.2	4.7	4.5	4.4	4.3	4.3	4.3
Labor Force	1.5	0.3	0.4	0.5	0.5	0.4	0.4	1.3	0.4	0.4	0.5	0.5	0.4	0.4
Employment	0.9	0.4	0.7	0.5	0.5	0.5	0.5	0.5	0.7	0.6	0.5	0.5	0.5	0.5
Change in Empl. ('000s)	1,440	666	1,046	800	800	780	801	827	1,045	900	800	800	780	801
Unemployment Rate (%)	4.2	4.2	4.0	4.0	4.0	4.0	4.0	---	---	---	---	---	---	---
Personal Disp. Income	4.4	4.6	5.0	4.6	4.5	4.5	4.5	4.5	5.0	4.9	4.6	4.5	4.5	4.5
Pers. Savings Rate (%)	4.3	4.6	5.4	5.9	6.3	6.7	6.9	---	---	---	---	---	---	---
Cons. Price Index (y/y)	2.7	2.8	2.4	2.2	2.1	2.1	2.2	2.9	2.8	2.2	2.1	2.1	2.2	2.2
Core CPI (y/y)	3.0	3.1	2.3	2.2	2.2	2.2	2.2	3.1	2.8	2.2	2.2	2.2	2.2	2.2
Core PCE Price Index (y/y)	2.9	3.0	2.1	2.0	2.0	2.0	2.0	3.2	2.6	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)	1.4	1.4	1.3	1.5	1.5	1.5	1.5	1.4	1.1	1.5	1.5	1.5	1.5	1.5

F: Forecast by TD Economics, September 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						
	25F	26F	27F	28F	29F	30F	31F	25F	26F	27F	28F	29F	30F	31F
Real GDP	1.2	1.1	1.7	1.8	1.7	1.7	1.7	0.6	1.5	1.8	1.7	1.7	1.7	1.7
Consumer Expenditure	2.5	1.2	1.4	1.6	1.6	1.7	1.7	1.4	1.3	1.5	1.6	1.7	1.7	1.7
Durable Goods	0.9	-1.3	1.8	1.5	1.6	1.7	1.7	-5.8	2.5	1.5	1.6	1.6	1.7	1.7
Business Investment	-1.6	-0.3	1.4	1.5	1.6	1.6	1.7	-3.2	1.4	1.4	1.5	1.6	1.7	1.7
Non-Res. Structures	-0.6	-1.0	1.2	1.4	1.6	1.6	1.7	-2.6	0.6	1.3	1.5	1.6	1.6	1.7
Equipment & IPP*	-2.6	0.3	1.6	1.6	1.6	1.7	1.7	-3.9	2.1	1.5	1.6	1.6	1.7	1.7
Residential Investment	1.8	2.7	1.6	1.6	1.7	1.7	1.7	0.5	1.6	1.6	1.6	1.7	1.7	1.7
Govt. Expenditure	3.0	3.8	3.0	2.6	2.2	2.0	1.9	2.9	3.6	2.8	2.4	2.1	1.9	1.8
Final Domestic Demand	2.1	1.8	1.8	1.8	1.8	1.8	1.7	1.2	1.9	1.8	1.8	1.8	1.7	1.7
Exports	-3.0	0.3	1.9	2.1	2.3	2.4	2.4	-5.1	2.3	1.9	2.2	2.3	2.4	2.5
Imports	-0.1	1.5	2.3	2.3	2.4	2.5	2.5	-0.7	2.7	2.3	2.4	2.4	2.5	2.5
Change in Non-Farm Inventories (2012 \$Bn)	20.0	13.5	12.3	13.3	13.7	14.1	14.5	--	--	--	--	--	--	--
Final Sales	2.0	2.1	1.9	1.8	1.8	1.7	1.7	0.3	2.1	1.8	1.8	1.8	1.7	1.7
International Current Account Balance (\$Bn)	-49.8	-50.3	-52.9	-56.5	-59.0	-61.1	-63.0	--	--	--	--	--	--	--
% of GDP	-1.6	-1.5	-1.5	-1.6	-1.6	-1.6	-1.6	--	--	--	--	--	--	--
Pre-Tax Corp. Profits	2.9	1.5	4.2	4.2	4.0	4.0	3.9	-2.2	3.9	4.2	4.1	4.0	3.9	3.9
% of GDP	13.0	12.8	12.8	12.8	12.9	12.9	12.9	--	--	--	--	--	--	--
GDP Deflator (y/y)	2.3	2.3	2.2	2.0	2.0	2.0	2.0	1.8	2.5	2.0	2.0	2.0	2.0	2.0
Nominal GDP	3.6	3.4	3.9	3.8	3.8	3.8	3.7	2.3	4.0	3.8	3.8	3.8	3.8	3.7
Labour Force	1.8	0.0	0.2	0.4	0.6	0.6	0.6	0.8	0.1	0.3	0.5	0.6	0.6	0.6
Employment	1.1	0.1	0.9	0.8	0.7	0.6	0.6	0.2	0.8	0.8	0.8	0.6	0.6	0.6
Change in Empl. ('000s)	235	17	184	163	152	134	131	35	173	171	167	137	133	129
Unemployment Rate (%)	7.0	6.9	6.3	6.0	5.9	5.9	5.9	--	--	--	--	--	--	--
Personal Disp. Income	4.2	2.1	3.5	3.5	3.5	3.4	3.4	2.2	2.7	3.5	3.5	3.4	3.4	3.4
Pers. Savings Rate (%)	5.3	4.1	4.1	4.0	3.8	3.5	3.1	--	--	--	--	--	--	--
Cons. Price Index (y/y)	2.0	2.1	2.0	2.0	2.0	2.0	2.0	2.1	2.1	2.0	2.0	2.0	2.0	2.0
CPIX (y/y) **	2.5	2.2	2.0	2.0	2.0	2.0	2.0	2.6	2.1	2.0	2.0	2.0	2.0	2.0
BoC Inflation (y/y) ***	3.0	2.3	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)	262.5	254.4	246.9	246.8	242.6	241.6	241.1	--	--	--	--	--	--	--
Home Prices (y/y)	-0.7	5.4	4.9	4.3	3.3	3.2	3.2	-0.2	4.8	4.9	3.7	3.2	3.2	3.2
Real GDP / Worker (y/y)	0.1	1.0	0.8	1.0	1.0	1.1	1.1	0.4	0.7	0.9	0.9	1.1	1.1	1.1

F: Forecast by TD Economics, September 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						
	25F	26F	27F	28F	29F	30F	31F	25F	26F	27F	28F	29F	30F	31F
<b>U.S. FIXED INCOME</b>														
Fed Funds Target Rate (%)*	4.35	3.44	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 (%)	4.15	3.28	3.15	3.15	3.15	3.15	3.15	3.65	3.15	3.15	3.15	3.15	3.15	3.15
2-yr Govt. Bond Yield (%)	3.81	3.28	3.25	3.25	3.25	3.25	3.25	3.40	3.25	3.25	3.25	3.25	3.25	3.25
5-yr Govt. Bond Yield (%)	3.92	3.70	3.70	3.70	3.70	3.70	3.70	3.65	3.70	3.70	3.70	3.70	3.70	3.70
10-yr Govt. Bond Yield (%)	4.29	4.01	4.00	4.00	4.00	4.00	4.00	4.05	4.00	4.00	4.00	4.00	4.00	4.00
10-yr-2-yr Govt. Spread (%)	0.48	0.73	0.75	0.75	0.75	0.75	0.75	0.65	0.75	0.75	0.75	0.75	0.75	0.75
<b>CANADIAN FIXED INCOME</b>														
Overnight Target Rate (%)	2.70	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 (%)	2.61	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 (%)	2.53	2.50	2.50	2.50	2.50	2.50	2.50	2.55	2.50	2.50	2.50	2.50	2.50	2.50
5-yr Govt. Bond Yield (%)	2.86	2.90	2.90	2.90	2.90	2.90	2.90	2.85	2.90	2.90	2.90	2.90	2.90	2.90
10-yr Govt. Bond Yield (%)	3.25	3.16	3.15	3.15	3.15	3.15	3.15	3.20	3.15	3.15	3.15	3.15	3.15	3.15
10-yr-2-yr Govt. Spread (%)	0.72	0.66	0.65	0.65	0.65	0.65	0.65	0.65	0.65	0.65	0.65	0.65	0.65	0.65
F: Forecast by TD Economics, September 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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