TD Economics

Quarterly Economic Forecast

As The World Turns

December 11, 2025

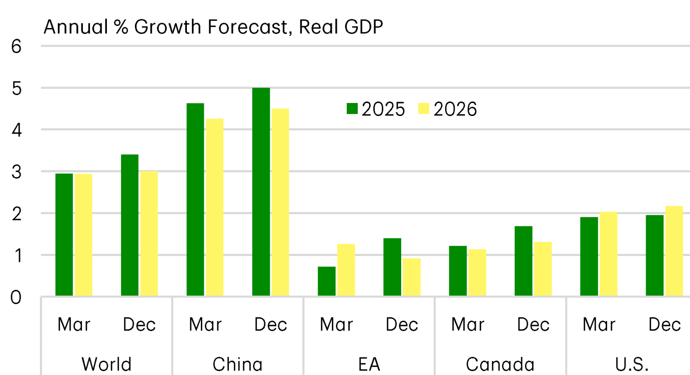
Highlights

- Global growth has stood up to trade turmoil better than many feared earlier this year. Even with momentum expected to slow in 2026, it will be to a lesser extent than we expected three months ago.
- In contrast, the U.S. economy is forecast to gain a step as Fed rate cuts, the One Big Beautiful Bill Act (OBBBA) and regulatory changes provide a tailwind.

As the world turns the page on 2025, key global growth players are on track to meet or exceed our forecasts from earlier this year, despite the disruption from U.S. trade policy (Chart 1). For a variety of reasons tariffs have not proven as punitive compared to the announced tariff rates, and interest rate cuts by global central banks provided a needed tailwind (see report). Looking ahead, the same story will unfold, but a further downshift is likely as most major central banks have reached the end of rate-cutting cycles and must now ensure balanced policy against stable inflation. And while government deficits are expanding in many economies, this is not a universal theme. Some face pressures to consolidate, minimizing the global fiscal impulse next year.

China was among the forecast outperformers, albeit investment is now weakening. This most recent bump in the road will firm the resolve of authorities to prop up the economy through policy support next year. Meanwhile, governments in the eurozone are expected to ramp up spending, particularly on defense. However, it will take time for major countries to follow through on their announcements, with that fiscal impulse becoming more evident in the second half of 2026.

Chart 1: 2025 Global Economy—Tariff Troubles Not Evident

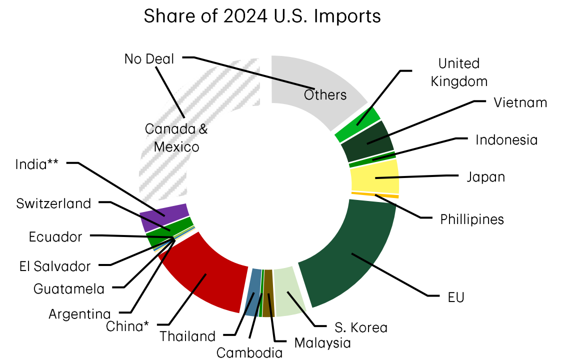


Note: EA = Euro Area. Source: TD Economics.

Tailwinds set to lift U.S. economy in 2026

The U.S. economy too was resilient and outperformed expectations, albeit much has yet to be revealed. The government shutdown has delayed the release of key official data, including third quarter GDP data, which is typically used to inform this forecast. Surveys and alternative pri-

Chart 2: Who's Left On The Trade Wheel of Fortunes? Canada and Mexico!



*A one year suspension of tariffs. **Nearing completion.
Source: White House, U.S. Census Bureau, TD Economics.

vate sector sources suggest some sluggishness has materialized recently. This wouldn't be a total surprise in the face of the longest government shutdown in history, amidst the other policy shocks from trade and immigration.

However, looking ahead to 2026, there are at least three tailwinds set to lift growth, including: fiscal stimulus from the One Big Beautiful Bill (which will help to lift household incomes and boost business investment through the accelerated depreciation), regulatory reform and the AI data center power boom. These tailwinds create a healthy updraft in growth from 1.8% in 2025 (on a Q4/Q4 basis) to 2.2% next year.

AI was not only a big part of the story in the stock market, but also in the real economy. AI related investments drove half the growth in the U.S. economy so far in 2025. CAPEX in most other areas remained subdued, reflecting heightened uncertainty following the stop-start rollout of trade policies. However, the recent string of trade agreements, which now covers 60% of US imports – has helped to reduce uncertainty (Chart 2). Nearly a quarter of small businesses are planning to make capital outlays over the next 3-6 months – the highest level in nearly a year. This supports a rotation in investment next year, supported by the OBBBA.

However, consumer spending has been losing steam. It grew at an annualized rate of 1.3% through the first nine months of the year – less than half its 2024 pace. Tighter immigration, a softening labor market, and general economic uncertainty have been contributors. There's also reason to believe that lower-and-middle income earners have disproportionately pulled back on discretionary spending, while higher-income spending remains robust. Although delinquencies for credit cards and autos have risen across all income levels in recent years, the lower-and middle-income earners have seen the steepest increase with today's rates holding well above pre-pandemic levels. Likewise, auto delinquencies for lower-and-middle income earners continue to climb.

Unfortunately, the Fed has nothing in its toolkit to address the 'K-Shaped' spending pattern that is taking hold. We expect the Fed to lower the funds rate to 3.25% in 2026, which should provide some relief to struggling households. As for future homeowners, they may not see as much of a benefit flow through fixed-term mortgage rates relative to today's levels (see report). The White House has taken notice of household dissatisfaction, with confidence by some measures at an all time low. The administration has shifted focus towards addressing affordability more directly, starting by dropping tariffs on over 200 imported food products to help with grocery bills. It has proposed mortgage policy changes, including 50-year mortgages that lower payments but could push up housing prices over time. Also, portable mortgages may allow people to keep their lower rates when moving, which could help increase housing supply. Finally, President Trump has floated $2,000 tariff dividend checks for working-class families. It remains to be seen how much influence the fiscal hawks in Congress would have in restraining or altering that intent. In the meantime, these policy proposals are not included in our forecast but would boost consumer spending and the housing market if enacted.

Exhibits

Interest Rate Outlook

Interest Rates	2025				2026				2027			
	Q1	Q2	Q3	Q4F	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Fed Funds Target Rate	4.50	4.50	4.25	3.75	3.75	3.50	3.25	3.25	3.25	3.25	3.25	3.25
3-mth T-Bill Rate	4.21	4.24	3.86	3.65	3.55	3.30	3.15	3.15	3.15	3.15	3.15	3.15
2-yr Govt. Bond Yield	3.89	3.72	3.60	3.60	3.50	3.35	3.35	3.35	3.35	3.35	3.35	3.35
5-yr Govt. Bond Yield	3.96	3.79	3.74	3.75	3.75	3.70	3.70	3.70	3.70	3.70	3.70	3.70
10-yr Govt. Bond Yield	4.23	4.24	4.16	4.15	4.05	4.00	4.00	4.00	4.00	4.00	4.00	4.00
30-yr Govt. Bond Yield	4.59	4.78	4.73	4.75	4.60	4.50	4.50	4.50	4.50	4.50	4.50	4.50
10-yr-2-yr Govt Spread	0.34	0.52	0.56	0.55	0.55	0.65	0.65	0.65	0.65	0.65	0.65	0.65

F: Forecast by TD Economics, December 2025. All forecasts are end-of-period.
Source: Bloomberg, Federal Reserve, TD Economics.

Foreign Exchange Outlook

Currency	Exchange Rate	2025				2026				2027			
		Q1	Q2	Q3	Q4F	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Euro	USD per EUR	1.08	1.18	1.17	1.16	1.18	1.20	1.20	1.20	1.20	1.20	1.20	1.20
UK Pound	USD per GBP	1.29	1.37	1.34	1.33	1.35	1.37	1.39	1.40	1.40	1.40	1.40	1.40
Canadian Dollar	CAD per USD	1.44	1.36	1.39	1.39	1.38	1.37	1.36	1.35	1.33	1.33	1.33	1.33
Swiss Franc	CHF per USD	0.88	0.79	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80
Japanese Yen	JPY per USD	150	144	148	155	154	154	153	152	151	151	150	149

F: Forecast by TD Economics, December 2025. All forecasts are end-of-period.
Source: Bloomberg, Federal Reserve, TD Economics.

Commodity Price Outlook

Commodity	2025				2026				2027			
	Q1	Q2	Q3	Q4F	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Crude Oil (WTI, $US/bbl)	72	64	65	60	58	60	61	63	65	67	69	70
Natural Gas ($US/MMBtu)	4.20	3.19	3.03	4.10	4.20	3.90	3.90	3.70	3.60	3.50	3.50	3.50
Gold ($US/troy oz.)	2856	3284	3455	4050	4000	4200	4100	4050	4000	4000	3950	3950
Silver ($US/troy oz.)	31.86	33.65	39.51	50.00	47.00	51.00	50.00	49.00	47.00	47.00	45.00	45.00
Copper (cents/lb)	423	432	444	485	495	490	470	465	470	470	470	470
Nickel ($US/lb)	7.06	6.88	6.81	6.70	6.80	6.85	6.90	6.90	7.00	7.05	7.10	7.15
Aluminum (cents/lb)	119	111	119	125	122	120	120	119	118	118	118	118
Wheat ($US/bu)	5.65	5.34	4.88	5.33	5.30	5.55	5.70	5.85	5.90	5.90	6.00	6.00

F: Forecast by TD Economics, December 2025. All forecasts are period averages.
Source: Bloomberg, TD Economics.

U.S. Economic Outlook

Period-Over-Period Annualized Per Cent Change Unless Otherwise Indicated

Economic Indicators	2025				2026				2027				Annual Average			4th Qtr/4th Qtr		
	Q1	Q2	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	25F	26F	27F	25F	26F	27F
Real GDP	-0.6	3.8	2.8	1.1	2.1	2.3	2.4	2.2	2.1	2.0	2.0	2.0	2.0	2.2	2.1	1.8	2.2	2.0
Consumer Expenditure	0.6	2.5	2.7	0.9	2.0	2.2	2.4	2.1	1.9	1.9	1.9	1.9	2.5	2.0	2.0	1.7	2.2	1.9
Durable Goods	-3.4	2.3	1.2	-7.0	2.3	3.0	4.5	3.5	3.5	3.5	3.5	3.5	3.1	0.8	3.6	-1.8	3.3	3.5
Business Investment	9.5	7.3	4.1	2.4	2.8	3.6	3.6	2.9	2.6	2.6	2.8	2.8	4.2	3.4	2.9	5.8	3.2	2.7
Non-Res. Structures	-3.1	-7.5	-3.0	-2.0	0.0	1.0	1.0	1.0	1.0	1.0	2.0	2.0	-4.7	-0.9	1.2	-3.9	0.7	1.5
Equipment & IPP*	13.4	11.8	6.0	3.5	3.5	4.3	4.2	3.4	3.0	3.0	3.0	3.0	6.9	4.5	3.3	8.6	3.9	3.0
Residential Investment	-1.0	-5.1	-6.0	-2.0	1.5	4.0	5.0	6.0	6.0	4.7	4.0	3.6	-2.1	0.6	5.1	-3.5	4.1	4.6
Govt. Expenditure	-1.0	-0.1	0.5	-2.0	1.8	1.2	1.2	1.2	1.0	1.0	1.0	0.9	1.2	0.6	1.1	-0.6	1.3	1.0
Final Domestic Demand	1.4	2.4	2.2	0.5	2.1	2.3	2.4	2.2	2.0	2.0	2.0	1.9	2.3	1.9	2.1	1.6	2.3	2.0
Exports	0.2	-1.8	-2.5	1.0	2.0	2.5	3.0	3.0	3.0	3.0	3.0	3.0	0.4	1.3	3.0	-0.8	2.6	3.0
Imports	38.0	-29.3	-6.0	0.8	2.7	3.0	3.7	3.6	2.5	2.5	2.5	2.5	2.6	-1.0	2.9	-1.9	3.2	2.5
Change in Private Inventories	172.0	-18.3	-19.4	14.1	19.4	21.9	24.4	26.9	26.9	26.9	26.9	26.9	37.1	23.1	26.9	--	--	--
Final Sales	-3.2	7.5	2.8	0.5	2.0	2.3	2.3	2.1	2.1	2.0	2.0	2.0	2.0	2.2	2.1	1.8	2.2	2.0
Pre-tax Corporate Profits																		
Including IVA&CCA	-4.7	0.7	-7.9	-7.2	-9.1	11.0	5.8	7.1	10.3	7.6	3.4	4.2	1.8	-1.7	7.4	-4.8	3.4	6.3
% of GDP	13.1	12.9	12.4	12.1	11.7	11.8	11.9	11.9	12.1	12.2	12.2	12.2	12.6	11.8	12.1	--	--	--
GDP Deflator (y/y)	2.6	2.5	3.0	2.9	2.7	2.8	2.5	2.6	2.4	2.4	2.3	2.3	2.7	2.6	2.3	2.9	2.6	2.3
Nominal GDP	2.9	6.0	6.9	3.3	4.9	4.9	5.0	4.6	4.4	4.4	4.1	4.4	4.8	4.9	4.5	4.8	4.8	4.3
Labor Force	5.2	0.3	0.3	0.5	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.4	1.6	0.4	0.3	1.5	0.3	0.3
Non-Farm Employment	1.3	0.7	0.3	0.1	0.5	0.7	0.7	0.6	0.5	0.3	0.3	0.3	0.9	0.5	0.5	0.6	0.6	0.4
Change in Non-Farm Empl. ('000s)	521	280	110	50	188	291	290	240	210	120	120	120	1478	774	788	961	1009	570
Unemployment Rate (%)	4.1	4.2	4.3	4.5	4.4	4.3	4.2	4.1	4.0	4.0	4.0	4.0	4.3	4.2	4.0	--	--	--
Personal Disp. Income	5.8	5.3	0.4	2.8	8.8	5.4	5.1	4.7	5.4	4.9	4.9	4.8	4.2	5.0	5.0	3.5	6.0	5.0
Pers. Savings Rate (%)	5.2	5.3	4.1	3.9	4.7	4.8	4.8	5.0	5.3	5.5	5.7	5.9	4.6	4.8	5.6	--	--	--
Cons. Price Index (y/y)	2.7	2.5	2.9	2.7	2.5	2.9	2.8	2.9	2.7	2.5	2.3	2.3	2.7	2.8	2.4	2.7	2.9	2.3
Core CPI (y/y)	3.1	2.8	3.0	2.9	2.9	3.2	3.0	2.9	2.5	2.3	2.2	2.2	3.0	3.0	2.3	2.9	2.9	2.2
Core PCE Price Index (y/y)	2.8	2.7	2.9	3.0	3.0	3.1	2.9	2.6	2.3	2.0	2.0	2.0	2.8	2.9	2.1	3.0	2.6	2.0
Housing Starts (mns)	1.40	1.35	1.33	1.26	1.29	1.33	1.38	1.42	1.46	1.48	1.50	1.52	1.34	1.36	1.49	--	--	--
Real Output per Hour** (y/y)	1.2	1.5	2.0	2.0	2.7	2.2	1.3	1.2	1.2	1.3	1.4	1.4	1.7	1.8	1.3	2.0	1.2	1.4

F: Forecast by TD Economics, December 2025. For 2025 Q3, inflation and labor market indicators are historical data, not forecasts.

* Intellectual Property Products. ** Non-farm business sector.

Source: Bureau of Labor Statistics, Bureau of Economic Analysis, Census Bureau, TD Economics.

Economic Indicators: G7 & Europe			
	2025F	2026F	2027F
Real GDP (Annual Per Cent Change)			
G7 (42.4%)*	1.5	1.6	1.7
U.S.	2.0	2.2	2.1
Japan	1.3	0.6	0.8
Euro Area	1.4	0.9	1.3
Germany	0.3	1.0	1.7
France	0.8	1.1	1.4
Italy	0.6	0.6	0.9
United Kingdom	1.4	0.9	1.5
Canada	1.7	1.3	1.7
Consumer Price Index (Annual Per Cent Change)			
G7	2.3	2.0	2.0
U.S.	2.7	2.8	2.4
Japan	3.2	3.2	1.8
Euro Area	2.2	1.7	1.7
Germany	2.2	2.0	2.0
France	1.2	1.9	1.8
Italy	1.7	1.6	2.0
United Kingdom	3.4	2.4	2.0
Canada	2.1	2.2	2.0
Unemployment Rate (Per Cent Annual Averages)			
U.S.	4.3	4.2	4.0
Japan	2.5	2.3	2.3
Euro Area	6.4	6.4	6.2
Germany	6.2	5.6	5.4
France	7.6	7.2	7.0
Italy	6.5	7.0	6.8
United Kingdom	4.7	4.5	4.3
Canada	6.8	6.7	6.4

F: Forecast by TD Economics, December 2025.
*Share of 2022 world gross domestic product (GDP) at PPP.
Source: National Statistics Agencies, IMF, TD Economics.

Global Economic Outlook				
Annual Per Cent Change Unless Otherwise Indicated				
2022 Share*		Forecast		
Real GDP	(%)	2025F	2026F	2027F
World	**100.0**	**3.4**	**3.0**	**3.0**
North America	**18.9**	**1.8**	**2.1**	**2.1**
United States	15.5	2.0	2.2	2.1
Canada	1.4	1.7	1.3	1.7
Mexico	1.9	0.4	1.1	2.1
European Union (EU-27)	**14.9**	**1.5**	**1.3**	**1.5**
Euro Area (EU-20)	12.0	1.4	0.9	1.3
Germany	3.3	0.3	1.0	1.7
France	2.3	0.8	1.1	1.4
Italy	1.9	0.6	0.6	0.9
Other EU Members	2.8	3.0	3.0	2.3
Asia	**45.0**	**4.6**	**3.8**	**3.9**
Japan	3.8	1.3	0.6	0.8
Asian NIC's	3.5	3.4	2.5	2.2
Hong Kong	0.3	3.4	2.3	2.4
Korea	1.7	1.1	2.3	2.3
Singapore	0.4	4.0	2.2	2.4
Taiwan	1.0	7.2	3.1	2.1
Russia	2.9	1.0	0.8	0.9
Australia & New Zealand	1.2	1.8	2.3	2.3
Emerging Asia	32.8	5.6	4.7	4.8
ASEAN-5	5.2	4.9	4.8	4.8
China	18.4	5.0	4.5	4.2
India**	7.3	7.5	6.4	6.2
Central/South America	**5.4**	**3.1**	**2.0**	**2.3**
Brazil	2.3	2.6	1.4	2.1
Other Emerging Markets	**12.7**	**3.9**	**3.6**	**3.2**
Other Advanced	**3.4**	**1.2**	**1.4**	**2.2**
United Kingdom	2.3	1.4	0.9	1.5

F: Forecast by TD Economics, December 2025.
* Share of 2022 world gross domestic product (GDP) at PPP.
** Forecast for India refers to fiscal year.
Source: National Statistics Agencies, IMF, TD Economics.

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