

# Quarterly Economic Forecast

## He's Got the Whole World in His Hands

March 18, 2025

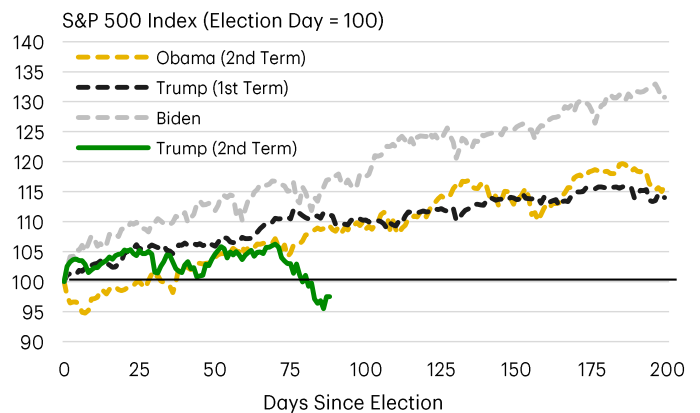
### Highlights

- Once again, policy shifts from the Trump administration are the main forecast theme this quarter, underpinning a downgrade to the global outlook.
- There is no way of knowing with certainty what tomorrow will bring in this on-again, off-again policy environment, forcing us to lay out a balanced set of assumptions to underpin this forecast cycle.
- One theme dominates...lower economic growth and higher inflation.
- The risk of a stagnating U.S. economy rises the longer tariffs remain elevated amidst DOGE efforts that also undermine labor market dynamics. This occurs even with the inclusion of our tax cut assumptions.

The world has been on the edge of its seat as President Trump feverishly implements an agenda that saw 90 Executive Orders in the first 60 days. Much of the focus thus far has been on policies that will weigh on economic growth – the dramatic cuts by Elon Musk’s DOGE to rein in government spending, and on-again, off-again tariff threats. The positive impulses are yet to come from de-regulation and tax cuts. Given the limitations to government finances, we don’t think new tax initiatives will be of a magnitude to fully lean against the complex and forced reorganization being initiated by the administration. Right now, markets are of the same view. Uncertainty on trade policy has soured sentiment among investors, sending the S&P500 into correction territory (Chart 1). Navigating uncertainty is the name of the game right now. Our global forecast is based on the U.S. tariff and other policy assumptions outlined in the text box on page 2, which we believe balance the upside risk that tariffs will settle at lower levels, or have a shorter shelf life against some trading partners, with the downside risk that they are more punitive or longer lasting.

It’s not just investors’ whose moods have darkened, consumer and business confidence measures have also come off highs from when Trump was first elected (Chart 2). This has occurred despite the U.S. economic data painting a resilient picture. The job market has remained solid relative to history. The unemployment rate has remained steady between 4-4.2% since last summer. Economic growth in

**Chart 1: Financial Market's Honeymoon with Trump is Over**



Source: Bloomberg, TD Economics. Last Observation: March 17th, 2025

## Text Box: Policy Assumptions

### Tariffs

The range of scenarios on U.S. import tariffs is very wide. Our assumptions below balance the risk that tariffs are even higher and last longer, with the risk that reductions are negotiated more swiftly. We believe these form a reasonable scenario given President Trump's consistent support for tariffs as a policy tool to achieve non-trade aims and his desire to bring more production back to the United States.

- President Trump levies widespread tariffs in early April on most trading partners.
- The effective tariff rate (ETR) rises from its 2024 level of around 2.5% to 14% in early April and remains there for 6 months.
- Trading partners retaliate on U.S. exports, but not one-for-one.
- Through concessions and negotiations, U.S. import tariffs are lowered in a piecemeal fashion in the fourth quarter of 2025. But many tariffs remain in place, so the ETR drops to approximately 7.5% by year end.
- A new USMCA deal is reached in late 2026, which brings the effective tariff rate on U.S. imports to approximately 5.3%, where it remains through our forecast horizon.
- For Canada, the average tariff rate faced by exporters to the U.S. rises to 12.5% in April, and remains there for six months, before easing to 5% through negotiations. Once a new USMCA deal is reached, the average tariff rate falls to 2.5%, remaining above its pre-Trump administration average.

### Fiscal

- For the U.S., we assume Congress will go halfway on the tax cuts Trump campaigned on, exempting some overtime pay, tip income and social security benefits from taxation. This amounts to a tax break of ~0.5% of GDP.
- Canadian government spending is expected to increase by an additional 1% of GDP to soften the economic impact of tariffs.

### Immigration

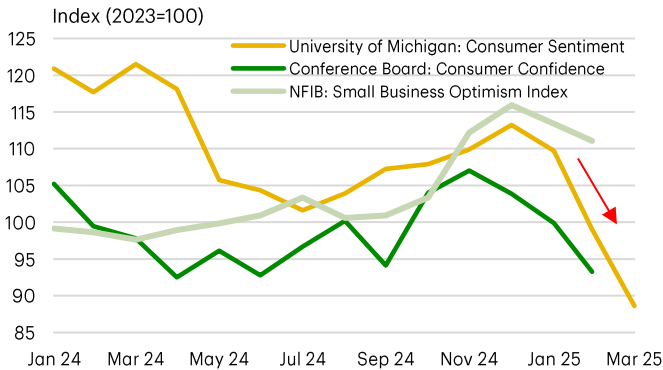
- U.S. immigration is expected to slow to 750k in 2025 (from 2.8M in 2024) and 500k in 2026, before gradually normalizing to a more sustainable 1.1M by 2029.
- Canada's population growth is expected to ease from nearly 3% in 2024 to 1% in 2025 and 0.2% in 2026. This follows the government's reduced immigration targets and contractions in the number of non-permanent residents.

the fourth quarter outperformed our expectations with a solid 2.3% pace.

We would have been releasing an upgrade to our U.S. 2025 outlook if not for the confidence hit from policy uncertainty, a higher effective tariff rate on imports and greater government restraint. The slowdown in economic growth causes the unemployment rate to be slightly higher. This estimate would have been higher if not for softer labor force expansion from weaker im-

migration, which we expect to fall from 2+ million in 2023-24 to 500 thousand by 2026. We also pared back growth in government spending given DOGE's aggressive cost cutting that has spending and employment knock-on effects to the private sector and non-for-profit institutions. And lastly, residential investment was downgraded due to the persistent high interest rate environment that's made more complex by weakened confidence and a higher cost structure, as tariffs feed

Chart 2: Trump Bump Becomes Trump Slump



Sources: University of Michigan, Conference Board, ISM, NFIB, TD Economics.

into nearly all aspects of home building (steel, aluminum, lumber...and all the production byproducts that include window frames, appliances and so forth).

One of the few indicators to receive an upward revision was exactly where it's least wanted – inflation. Our December forecast embedded an effective U.S. tariff rate of 7.5%. With the mark-up to 14% for a six month period and a gradual decline thereafter, the Federal Reserve's key inflation gauge (core PCE) now peaks at 4.3% annualized by Q2. As a result, the Fed will have to walk a tight rope in providing some support to a weakening economy, while also being mindful of higher inflation expectations becoming embedded on a longer term basis. We expect only two rate cuts with a return to our neutral rate assumption of 3% delayed until next year.

## Trump Spurs Global Policy Action

Overall, global growth has been downgraded this year and next. U.S. tariff risks are depressing sentiment, affecting most major trading economies. One of the biggest changes to our forecast resides within Europe. Germany is expected to deliver a fiscal U-turn, increasing infrastructure spending and looking to exempt defense spending (above a threshold) from their debt limits to enable higher levels of military expenditures (see table, page 6). Given typical lags in getting money out the door, the boost isn't expected to show up until late-2025. In the rest of the European Union, the uptake on newly allocated funds for defense spending presents an upside risk to the outlook and is not currently incorporated due to the lack of details.

China has seen the biggest actual increase in U.S. tariffs to an additional 20%. And yet, it recently established a "roughly" 5% growth target for this year, which includes increased government stimulus. Given the headwinds to the economy and ongoing structural issues, it remains to be seen whether the proposed stimulus measures will be sufficient to meet the growth target. As in 2024, if growth is seen as falling short, there will likely be more ad hoc spending measures to support the economy.

Exhibits

Interest Rate Outlook												
Interest Rates	2024				2025				2026			
	Q1	Q2	Q3	Q4	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Fed Funds Target Rate	5.50	5.50	5.00	4.50	4.50	4.25	4.00	4.00	3.50	3.00	3.00	3.00
3-mth T-Bill Rate	5.23	5.22	4.52	4.23	4.20	4.05	3.90	3.65	3.15	2.90	2.90	2.90
2-yr Govt. Bond Yield	4.59	4.71	3.66	4.25	4.00	3.75	3.50	3.25	3.00	3.00	3.00	3.00
5-yr Govt. Bond Yield	4.21	4.33	3.58	4.38	4.10	4.05	3.85	3.65	3.45	3.45	3.45	3.45
10-yr Govt. Bond Yield	4.20	4.36	3.81	4.58	4.30	4.20	4.00	3.85	3.75	3.75	3.75	3.75
30-yr Govt. Bond Yield	4.34	4.51	4.14	4.78	4.55	4.50	4.30	4.15	4.05	4.05	4.05	4.05
10-yr-2-yr Govt Spread	-0.39	-0.35	0.15	0.33	0.30	0.45	0.50	0.60	0.75	0.75	0.75	0.75

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

Foreign Exchange Outlook													
Currency	Exchange Rate	2024				2025				2026			
		Q1	Q2	Q3	Q4	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Euro	USD per EUR	1.08	1.07	1.12	1.04	1.06	1.05	1.07	1.09	1.11	1.14	1.15	1.16
UK Pound	USD per GBP	1.26	1.26	1.34	1.25	1.28	1.27	1.30	1.32	1.35	1.35	1.35	1.35
Canadian Dollar	CAD per USD	1.35	1.37	1.35	1.44	1.47	1.49	1.50	1.46	1.43	1.42	1.41	1.40
Swiss Franc	CHF per USD	0.90	0.90	0.84	0.91	0.91	0.91	0.91	0.91	0.91	0.91	0.91	0.91
Japanese Yen	JPY per USD	151	161	143	157	147	146	144	143	142	141	141	140

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

Commodity Price Outlook												
Commodity	2024				2025				2026			
	Q1	Q2	Q3	Q4	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Crude Oil (WTI, \$US/bbl)	77	81	76	70	72	64	65	67	68	70	72	73
Natural Gas (\$US/MMBtu)	2.23	2.07	2.10	2.46	3.90	4.15	4.15	4.25	4.40	4.40	4.40	4.40
Gold (\$US/troy oz.)	2072	2336	2475	2661	2830	2875	2850	2825	2800	2800	2750	2750
Silver (\$US/troy oz.)	23.37	28.87	29.45	31.30	31.60	32.50	32.00	31.50	31.00	31.00	31.00	31.00
Copper (cents/lb)	383	442	418	417	450	475	475	480	485	485	475	475
Nickel (\$US/lb)	7.52	8.35	7.38	7.26	7.10	7.25	7.25	7.20	7.15	7.15	7.15	7.15
Aluminum (cents/lb)	100	114	108	117	120	125	125	120	117	117	115	115
Wheat (\$US/bu)	5.87	6.04	5.06	5.47	5.53	5.65	5.70	5.70	5.83	5.87	5.92	5.96

F: Forecast by TD Economics, March 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	2024				2025				2026				Annual Average			4th Qtr/4th Qtr		
	Q1	Q2	Q3	Q4	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	24	25F	26F	24	25F	26F
Real GDP	1.6	3.0	3.1	2.3	1.4	1.4	1.3	2.0	2.1	2.2	2.4	2.4	2.8	1.9	2.0	2.5	1.5	2.3
Consumer Expenditure	1.9	2.8	3.7	4.2	1.5	1.4	1.5	1.8	2.2	2.1	2.2	2.2	2.8	2.3	2.0	3.1	1.5	2.2
Durable Goods	-1.7	5.4	7.6	12.1	-1.9	0.0	1.3	2.0	3.5	3.3	3.3	3.5	3.3	3.2	2.7	5.7	0.3	3.4
Business Investment	4.5	3.9	4.0	-3.2	5.0	1.3	1.2	2.9	3.7	3.3	3.2	3.2	3.6	1.9	2.9	2.2	2.6	3.3
Non-Res. Structures	6.2	0.2	-5.0	1.1	0.0	0.0	0.0	1.0	3.0	3.0	3.0	3.0	3.4	-0.4	2.1	0.6	0.2	3.0
Equipment & IPP*	4.8	6.4	6.7	-4.4	6.4	1.7	1.5	3.5	3.8	3.4	3.3	3.3	3.4	2.7	3.2	3.3	3.3	3.4
Residential Investment	13.7	-2.8	-4.3	5.4	-0.3	-3.2	-2.4	0.1	3.8	7.5	10.3	10.0	4.2	-0.7	3.7	2.8	-1.5	7.9
Govt. Expenditure	1.8	3.0	5.1	2.9	0.2	-1.0	-0.3	0.3	0.4	0.4	0.4	0.2	3.4	1.2	0.2	3.2	-0.2	0.4
Final Domestic Demand	2.7	2.8	3.7	3.0	1.7	0.8	1.0	1.6	2.2	2.2	2.3	2.3	3.0	2.0	1.9	3.0	1.3	2.3
Exports	1.9	1.0	9.6	-0.5	5.0	-2.6	-0.5	3.6	2.5	2.9	3.0	3.0	3.2	2.0	2.2	2.9	1.3	2.9
Imports	6.1	7.6	10.7	-1.2	12.3	-7.0	-2.5	0.0	2.3	2.5	2.5	2.5	5.4	2.8	0.7	5.7	0.5	2.5
Change in Private Inventories	17.7	71.7	57.9	10.2	54.1	44.4	43.3	41.9	39.5	39.5	39.5	39.5	39.4	45.9	39.5	--	--	--
Final Sales	2.1	1.9	3.3	3.2	0.6	1.6	1.4	2.1	2.2	2.2	2.4	2.4	2.7	1.9	2.1	2.6	1.4	2.3
Pre-tax Corporate Profits																		
Including IVA&CCA	-6.8	15.2	-1.6	0.9	-7.0	-23.7	5.0	10.8	5.3	3.1	1.9	6.8	6.5	-4.7	3.4	1.6	-4.7	4.3
% of GDP	12.9	13.2	12.9	12.8	12.5	11.5	11.5	11.7	11.7	11.7	11.6	11.7	12.9	11.8	11.7	--	--	--
GDP Deflator (y/y)	2.4	2.6	2.2	2.5	2.5	2.9	3.2	3.0	2.9	2.3	2.0	2.2	2.4	2.9	2.4	2.5	3.0	2.2
Nominal GDP	4.7	5.6	5.0	4.8	4.5	5.7	4.3	3.8	5.1	3.8	4.4	4.7	5.3	4.8	4.4	5.0	4.6	4.5
Labor Force	-0.4	0.8	1.4	-0.2	4.7	0.4	0.5	0.5	0.5	0.6	0.6	0.4	0.6	1.5	0.5	0.4	1.5	0.5
Non-Farm Employment	1.5	1.3	0.9	1.3	0.9	0.5	0.6	0.5	0.9	1.0	1.0	1.0	1.3	0.9	0.8	1.2	0.6	1.0
Change in Non-Farm Empl. ('000s)	575	514	337	510	375	180	229	200	350	400	400	399	2082	1354	1259	1936	984	1549
Unemployment Rate (%)	3.8	4.0	4.2	4.2	4.1	4.3	4.4	4.5	4.5	4.4	4.3	4.2	4.0	4.3	4.3	--	--	--
Personal Disp. Income	9.2	3.6	1.8	5.0	8.3	4.3	3.9	4.5	5.7	5.3	5.2	5.3	5.3	5.0	5.0	4.9	5.3	5.4
Pers. Savings Rate (%)	5.4	4.9	4.1	3.8	4.7	4.5	4.4	4.5	4.7	4.9	5.2	5.4	4.6	4.5	5.1	--	--	--
Cons. Price Index (y/y)	3.2	3.2	2.7	2.7	2.9	3.2	3.5	3.5	3.1	2.8	2.7	2.5	3.0	3.3	2.8	2.7	3.5	2.5
Core CPI (y/y)	3.8	3.4	3.3	3.3	3.1	3.5	3.6	3.4	3.0	2.5	2.4	2.3	3.4	3.4	2.6	3.3	3.4	2.3
Core PCE Price Index (y/y)	3.0	2.7	2.7	2.8	2.6	2.9	3.0	2.9	2.8	2.3	2.2	2.1	2.8	2.9	2.3	2.8	2.9	2.1
Housing Starts (mns)	1.4	1.3	1.3	1.4	1.3	1.3	1.3	1.3	1.4	1.4	1.4	1.5	1.4	1.3	1.4	--	--	--
Real Output per Hour** (y/y)	3.3	3.0	2.5	2.0	2.1	1.8	1.4	1.4	1.3	1.3	1.4	1.3	2.7	1.7	1.3	2.0	1.4	1.3

F: Forecast by TD Economics, March 2025.

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

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

Economic Indicators: G7 & Europe				
	2023	2024	2025F	2026F
<b>Real GDP (Annual Per Cent Change)</b>				
G7 (42.4%)*	1.9	1.7	1.2	1.6
U.S.	2.9	2.8	1.9	2.0
Japan	1.5	0.1	0.9	0.8
Euro Area	0.5	0.8	0.7	1.3
Germany	-0.1	-0.2	0.1	1.9
France	1.1	1.1	0.4	1.0
Italy	0.8	0.5	0.4	0.5
United Kingdom	0.4	0.9	0.8	1.3
Canada	1.5	1.5	1.3	1.1
<b>Consumer Price Index (Annual Per Cent Change)</b>				
G7	4.7	2.8	2.1	2.0
U.S.	4.1	3.0	3.3	2.8
Japan	3.3	2.7	1.9	1.7
Euro Area	5.4	2.4	2.0	1.8
Germany	6.0	2.5	1.8	1.8
France	5.7	2.3	1.5	2.0
Italy	5.9	1.1	1.9	1.5
United Kingdom	7.3	2.5	2.9	2.3
Canada	3.9	2.4	2.8	1.9
<b>Unemployment Rate (Per Cent Annual Averages)</b>				
U.S.	3.6	4.0	4.3	4.3
Japan	2.6	2.5	2.4	2.3
Euro Area	6.6	6.4	6.7	6.5
Germany	5.7	6.0	6.2	5.6
France	7.3	7.4	7.4	7.3
Italy	7.7	6.6	6.6	7.0
United Kingdom	4.1	4.3	4.7	4.5
Canada	5.4	6.4	6.8	6.6

F: Forecast by TD Economics, March 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	(%)	2024	2025F	2026F
<b>World</b>	<b>100.0</b>	<b>3.2</b>	<b>2.9</b>	<b>2.9</b>
<b>North America</b>	<b>18.9</b>	<b>2.5</b>	<b>1.7</b>	<b>1.8</b>
United States	15.5	2.8	1.9	2.0
Canada	1.4	1.5	1.3	1.1
Mexico	1.9	1.2	0.8	1.4
<b>European Union (EU-27)</b>	<b>14.9</b>	<b>1.0</b>	<b>1.1</b>	<b>1.5</b>
Euro Area (EU-20)	12.0	0.8	0.7	1.3
Germany	3.3	-0.2	0.1	1.9
France	2.3	1.1	0.4	1.0
Italy	1.9	0.5	0.4	0.5
Other EU Members	2.8	2.4	3.1	2.7
<b>Asia</b>	<b>45.0</b>	<b>4.4</b>	<b>4.2</b>	<b>3.9</b>
Japan	3.8	0.1	0.9	0.8
Asian NIC's	3.5	3.1	2.1	1.9
Hong Kong	0.3	2.5	2.0	2.3
Korea	1.7	2.1	1.4	1.8
Singapore	0.4	4.4	2.9	2.0
Taiwan	1.0	4.6	3.1	2.0
Russia	2.9	3.7	1.7	1.5
Australia & New Zealand	1.2	0.9	1.8	2.6
Emerging Asia	32.8	5.2	5.1	4.8
ASEAN-5	5.2	5.0	4.6	4.7
China	18.4	5.0	4.6	4.3
India**	7.3	6.2	6.6	6.4
<b>Central/South America</b>	<b>5.4</b>	<b>1.8</b>	<b>2.3</b>	<b>2.0</b>
Brazil	2.3	2.9	1.7	1.3
<b>Other Emerging Markets</b>	<b>12.7</b>	<b>2.8</b>	<b>3.3</b>	<b>3.5</b>
<b>Other Advanced</b>	<b>3.4</b>	<b>1.2</b>	<b>1.4</b>	<b>2.2</b>
United Kingdom	2.3	0.9	0.8	1.3

F: Forecast by TD Economics, March 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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