

Quarterly Economic Forecast Navigating the New Trade Normal

September 18, 2025

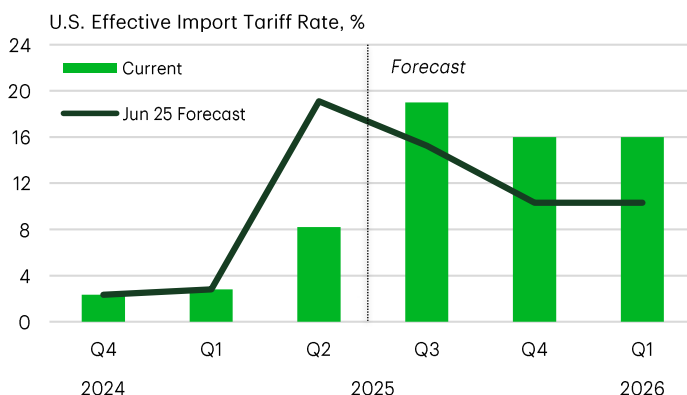
Highlights

- Despite all the twists and turns in U.S. trade policy, our forecast for the global economy is broadly unchanged from our June view.
- Ditto for the U.S. economy, at least on the surface. Consumers have pulled back as the labor market has cooled, but that has been offset by strong business investment. The Fed is expected to cut interest rates further to support the labor market that has cooled further than previously believed.

Economists are still suffering from whiplash following the twists and turns of U.S. trade policy. But despite all the back and forth, our forecast for the global economy is broadly unchanged from our view in June. Global growth is on track to advance 3.1% this year, with a slight slowdown in the cards for 2026. In the euro area, GDP rose at a 0.4% annualized pace in Q2, slightly above expectations but sharply slower than the 2.4% pace in Q1. China expanded 5.2% year-on-year in Q2, stronger than forecast, though weak credit growth and continued property stress point to softer momentum in the second half. Japan's economy grew at a 1.0% annualized rate, beating expectations.

On the trade front, risks have eased for now: the U.S. capped tariffs on the EU at 15% in July, the U.S. extended their truce with China and Mexico in August for 90 days, and the U.S. and Japan reached a limited accord preserving market access. Yet frictions persist, with China imposing new duties on European agricultural goods, and there remains considerable uncertainty around the direction of trade policy once temporary truces expire and if the U.S. Supreme Court rules against the legality of IEEPA tariffs. Front running leading up to President Trump's reciprocal tariff deadline, originally set for July but subsequently delayed, led to a pull-forward of industrial output and inventory builds. This will likely result in a choppy pace of growth across both advanced and emerging markets depending on trade exposures. The result is a global economy that continues to advance on average, but at an unspectacular

Chart 1: U.S. Tariffs Assumed to Remain Higher



Source: Census Bureau, TD Economics.

pace with divergence among countries. This modest pace is supported by domestic demand and services but constrained by weak goods trade and unsettled policy risks.

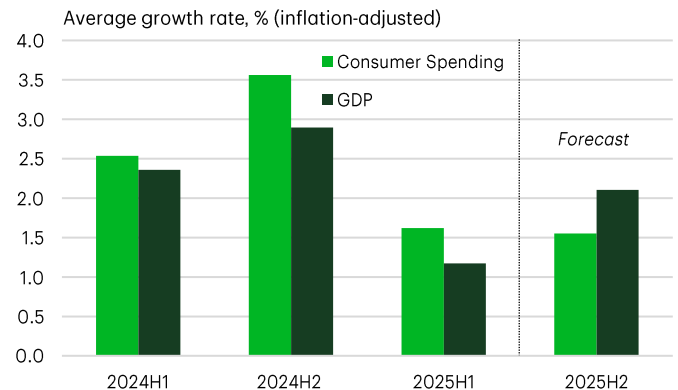
U.S. economy softens, more rate cuts ahead

Broadly speaking, the economic narrative remains the same for the U.S. economy as in our June forecast, with growth on track to expand by 1.8% this year. Shifting trade policies remain the biggest source of uncertainty in our forecast and downside risk for the U.S. economy. Given recent trade deals reached with the EU and Japan, we have raised our assumption for the effective tariff rate on imports over the medium term (Chart 1). Higher tariffs have contributed to a slight downgrade to growth in 2026, which is now expected to remain steady at 1.8%, a few tenths lower than in June, although a larger than expected response to the tax cuts in the [One Big Beautiful Bill Act](#) is a source of upside risk.

Shifts in tariff policies contributed to volatility in growth over the first half of the year, although private domestic demand held up better than we had expected thanks to sizeable gains in business investment. Business spending on both equipment and intellectual property products, most notably on software, has been very strong. Some of these investments were likely businesses pulling forward outlays to get ahead of any tariff related price increases. But the sizeable increase in computers & other electronics and software investment may represent increased outlays on AI tools. Further gains in computer and electronic imports in July suggest the push on equipment spending could continue into the third quarter.

Consumers have not held up as well. Consumer spending growth more than halved in the first half of the year, to a 1.6% pace as households pulled back on spending on discretionary services in the face of a softer labor market among other impediments (see [report](#)). These challenges are expected to restrain consumer spending below 2% over the next four quarters (Chart 2), before lower interest rates, cooler inflation, tax cuts and a better job market push spending back up to a more trend-like 2% pace towards the end of 2026.

Chart 2: U.S. Consumers Lose Momentum



Source: Bureau of Economic Analysis, TD Economics.

The cooling in the labor market has increased the risk of recession and caught the attention of the Federal Reserve. The FOMC resumed lowering interest rates in September, and we expect two more cuts this year. Even though inflation is expected to run above the Fed's 2% target for some time, data revisions have revealed a more pronounced slowdown in hiring earlier than initially thought, suggesting that the Fed funds rate at 4.5% was too restrictive to foster maximum employment. We expect employment to soften further, leading to net job losses in the fourth quarter and pulling up the unemployment rate to 4.4%. We expect the FOMC to make further interest rate cuts next year to reach a resting point at 3.25%, unchanged from our view in June. Our year-end forecasts for longer-term Treasury yields have come down slightly, reflecting increased conviction by financial markets that the Fed will need to bring rates down from their current restrictive level.

Exhibits

Interest Rate Outlook

Interest Rates	2025				2026				2027			
	Q1	Q2	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Fed Funds Target Rate	4.50	4.50	4.25	3.75	3.75	3.25	3.25	3.25	3.25	3.25	3.25	3.25
3-mth T-Bill Rate	4.21	4.24	4.03	3.65	3.40	3.15	3.15	3.15	3.15	3.15	3.15	3.15
2-yr Govt. Bond Yield	3.89	3.72	3.55	3.40	3.30	3.25	3.25	3.25	3.25	3.25	3.25	3.25
5-yr Govt. Bond Yield	3.96	3.79	3.60	3.65	3.70	3.70	3.70	3.70	3.70	3.70	3.70	3.70
10-yr Govt. Bond Yield	4.23	4.24	4.05	4.05	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
30-yr Govt. Bond Yield	4.59	4.78	4.67	4.60	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50
10-yr-2-yr Govt Spread	0.34	0.52	0.50	0.65	0.70	0.75	0.75	0.75	0.75	0.75	0.75	0.75

F: Forecast by TD Economics, September 2025. All forecasts are end-of-period.

Source: Bloomberg, Federal Reserve, TD Economics.

Foreign Exchange Outlook

Currency	Exchange Rate	2025				2026				2027			
		Q1	Q2	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Euro	USD per EUR	1.08	1.18	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20
UK Pound	USD per GBP	1.29	1.37	1.35	1.36	1.38	1.39	1.40	1.40	1.40	1.40	1.40	1.40
Canadian Dollar	CAD per USD	1.44	1.36	1.39	1.38	1.37	1.36	1.35	1.34	1.33	1.33	1.33	1.33
Swiss Franc	CHF per USD	0.88	0.79	0.79	0.79	0.79	0.79	0.79	0.79	0.79	0.79	0.79	0.79
Japanese Yen	JPY per USD	150	144	143	141	141	140	139	138	138	137	136	136

F: Forecast by TD Economics, September 2025. All forecasts are end-of-period.

Source: Bloomberg, Federal Reserve, TD Economics.

Commodity Price Outlook

Commodity	2025				2026				2027			
	Q1	Q2	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Crude Oil (WTI, \$US/bbl)	72	64	65	62	63	65	66	67	68	69	70	70
Natural Gas (\$US/MMBtu)	4.20	3.19	3.15	3.30	3.70	4.10	4.10	4.00	4.00	4.00	4.00	4.00
Gold (\$US/troy oz.)	2856	3284	3435	3550	3650	3600	3550	3500	3400	3400	3400	3400
Silver (\$US/troy oz.)	31.86	33.65	39.00	38.00	37.75	37.50	37.00	37.00	37.00	37.00	37.00	37.00
Copper (cents/lb)	423	432	480	450	460	465	470	475	475	475	475	475
Nickel (\$US/lb)	7.06	6.88	6.80	6.85	6.90	6.95	7.00	7.05	7.05	7.05	7.05	7.05
Aluminum (cents/lb)	119	111	118	116	160	116	115	115	113	113	113	113
Wheat (\$US/bu)	5.65	5.34	5.19	5.05	5.25	5.35	5.45	5.55	5.55	5.55	5.55	5.55

F: Forecast by TD Economics, September 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	-0.5	3.3	2.0	1.1	1.4	2.0	2.2	2.2	2.2	2.2	2.1	2.1	1.8	1.8	2.2	1.5	2.0	2.1
Consumer Expenditure	0.5	1.6	2.0	0.6	1.2	1.8	2.1	2.0	2.0	2.0	2.0	2.0	2.1	1.5	2.0	1.2	1.8	2.0
Durable Goods	-3.7	2.6	3.6	-2.8	0.5	3.5	4.5	3.5	3.5	3.5	3.5	3.5	3.3	1.6	3.6	-0.1	3.0	3.5
Business Investment	10.3	5.7	2.8	2.4	2.6	3.6	3.2	3.2	2.9	3.0	3.0	3.0	4.3	3.1	3.1	5.3	3.1	3.0
Non-Res. Structures	-2.4	-8.9	-5.0	0.0	1.0	2.0	2.0	2.0	2.5	3.0	3.0	3.0	-3.0	-0.2	2.5	-4.1	1.7	2.9
Equipment & IPP*	14.2	10.1	5.0	3.0	3.0	4.0	3.5	3.5	3.0	3.0	3.0	3.0	6.5	3.9	3.2	8.0	3.5	3.0
Residential Investment	-1.3	-4.7	-6.0	-2.5	1.3	4.7	6.4	6.4	6.3	5.0	4.3	3.9	-1.9	0.8	5.6	-3.7	4.7	4.9
Govt. Expenditure	-0.6	-0.2	-0.1	2.0	0.9	0.9	1.1	1.1	1.1	1.2	1.1	1.2	1.3	1.0	1.1	0.3	1.0	1.2
Final Domestic Demand	1.5	1.6	1.5	1.0	1.4	2.0	2.2	2.2	2.1	2.1	2.1	2.1	2.1	1.6	2.1	1.4	1.9	2.1
Exports	0.4	-1.3	-3.0	0.3	2.1	2.5	3.0	3.0	3.0	3.0	3.0	3.0	0.7	1.1	3.0	-0.9	2.6	3.0
Imports	38.0	-29.8	0.0	0.8	2.0	2.9	3.6	3.6	2.5	2.5	2.5	2.5	2.9	-0.4	2.8	-0.6	3.0	2.5
Change in Private Inventories	160.5	-32.9	13.6	26.9	31.8	36.8	41.7	46.7	46.7	46.7	46.7	46.7	42.0	39.2	46.7	--	--	--
Final Sales	-3.1	6.8	1.2	0.9	1.4	1.9	2.1	2.1	2.2	2.2	2.1	2.1	1.8	1.8	2.1	1.4	1.9	2.1
Pre-tax Corporate Profits																		
Including IVA&CCA	-8.7	6.9	-12.2	-10.2	-5.8	10.6	6.9	9.2	8.1	8.9	7.7	5.9	1.3	-1.4	8.2	-6.3	5.0	7.6
% of GDP	13.1	13.1	12.5	12.1	11.8	12.0	12.0	12.1	12.2	12.4	12.5	12.5	12.7	12.0	12.4	--	--	--
GDP Deflator (y/y)	2.6	2.5	2.9	2.7	2.7	2.8	2.4	2.7	2.4	2.4	2.3	2.3	2.7	2.6	2.3	2.7	2.7	2.3
Nominal GDP	3.2	5.3	5.7	2.7	5.0	4.5	4.6	4.7	4.5	4.6	4.3	4.6	4.6	4.5	4.5	4.2	4.7	4.5
Labor Force	5.2	0.3	-0.5	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	1.5	0.3	0.4	1.3	0.4	0.4
Non-Farm Employment	1.3	0.7	0.2	-0.2	0.4	0.7	0.8	0.8	0.7	0.5	0.5	0.5	0.9	0.4	0.7	0.5	0.7	0.6
Change in Non-Farm Empl. ('000s)	521	280	90	-64	160	285	300	300	300	200	200	200	1440	666	1046	827	1045	900
Unemployment Rate (%)	4.1	4.2	4.3	4.4	4.4	4.3	4.2	4.1	4.0	4.0	4.0	4.0	4.2	4.2	4.0	--	--	--
Personal Disp. Income	6.2	5.0	2.4	4.5	5.3	4.5	4.8	5.3	5.7	4.6	4.7	4.5	4.4	4.6	5.0	4.5	5.0	4.9
Pers. Savings Rate (%)	4.3	4.6	4.0	4.3	4.5	4.4	4.5	4.8	5.2	5.3	5.5	5.5	4.3	4.6	5.4	--	--	--
Cons. Price Index (y/y)	2.7	2.5	2.9	2.9	2.6	3.0	3.0	2.8	2.6	2.4	2.2	2.2	2.7	2.8	2.4	2.9	2.8	2.2
Core CPI (y/y)	3.1	2.8	3.0	3.1	3.0	3.3	3.1	2.8	2.5	2.3	2.2	2.2	3.0	3.1	2.3	3.1	2.8	2.2
Core PCE Price Index (y/y)	2.8	2.7	3.0	3.2	3.1	3.2	2.9	2.6	2.3	2.1	2.0	2.0	2.9	3.0	2.1	3.2	2.6	2.0
Housing Starts (mns)	1.40	1.35	1.32	1.27	1.30	1.33	1.38	1.43	1.46	1.48	1.50	1.52	1.33	1.36	1.49	--	--	--
Real Output per Hour** (y/y)	1.2	1.5	1.6	1.4	2.1	1.6	1.0	1.1	1.1	1.3	1.4	1.5	1.4	1.4	1.3	1.4	1.1	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.

Economic Indicators: G7 & Europe			
	2025F	2026F	2027F
Real GDP (Annual Per Cent Change)			
G7 (42.4%)*	1.3	1.3	1.7
U.S.	1.8	1.8	2.2
Japan	1.1	0.7	0.8
Euro Area	1.2	0.8	1.4
Germany	0.2	1.0	1.7
France	0.5	0.8	1.4
Italy	0.5	0.5	0.9
United Kingdom	1.2	0.9	1.5
Canada	1.2	1.1	1.7
Consumer Price Index (Annual Per Cent Change)			
G7	2.2	2.0	2.0
U.S.	2.7	2.8	2.4
Japan	3.1	1.9	1.8
Euro Area	2.0	1.8	1.9
Germany	1.8	1.7	2.0
France	1.3	1.9	1.8
Italy	1.7	1.9	2.0
United Kingdom	3.0	2.3	2.0
Canada	2.0	2.1	2.0
Unemployment Rate (Per Cent Annual Averages)			
U.S.	4.2	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	7.0	6.9	6.3
F: Forecast by TD Economics, September 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	3.1	2.7	2.9
North America	18.9	1.7	1.7	2.1
United States	15.5	1.8	1.8	2.2
Canada	1.4	1.2	1.1	1.7
Mexico	1.9	0.7	1.1	2.1
European Union (EU-27)	14.9	1.4	1.2	1.6
Euro Area (EU-20)	12.0	1.2	0.8	1.4
Germany	3.3	0.2	1.0	1.7
France	2.3	0.5	0.8	1.4
Italy	1.9	0.5	0.5	0.9
Other EU Members	2.8	2.5	2.7	2.3
Asia	45.0	4.3	3.7	3.8
Japan	3.8	1.1	0.7	0.8
Asian NIC's	3.5	2.6	2.0	2.2
Hong Kong	0.3	3.2	2.1	2.4
Korea	1.7	0.5	1.7	2.3
Singapore	0.4	3.0	2.2	2.4
Taiwan	1.0	6.1	2.5	2.1
Russia	2.9	0.9	0.8	0.9
Australia & New Zealand	1.2	1.8	2.4	2.3
Emerging Asia	32.8	5.3	4.5	4.7
ASEAN-5	5.2	4.9	4.8	4.8
China	18.4	4.8	3.8	4.0
India**	7.3	6.9	6.2	6.2
Central/South America	5.4	3.1	2.0	2.3
Brazil	2.3	2.7	1.5	2.1
Other Emerging Markets	12.7	3.4	3.4	3.2
Other Advanced	3.4	1.2	1.4	2.2
United Kingdom	2.3	1.2	0.9	1.5
F: Forecast by TD Economics, September 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.				

For any media enquiries please contact Oriana Kobelak at 416-982-8061

Disclaimer

This report is provided by TD Economics. It is for informational and educational purposes only as of the date of writing, and may not be appropriate for other purposes. The views and opinions expressed may change at any time based on market or other conditions and may not come to pass. This material is not intended to be relied upon as investment advice or recommendations, does not constitute a solicitation to buy or sell securities and should not be considered specific legal, investment or tax advice. The report does not provide material information about the business and affairs of TD Bank Group and the members of TD Economics are not spokespersons for TD Bank Group with respect to its business and affairs. The information contained in this report has been drawn from sources believed to be reliable, but is not guaranteed to be accurate or complete. This report contains economic analysis and views, including about future economic and financial markets performance. These are based on certain assumptions and other factors, and are subject to inherent risks and uncertainties. The actual outcome may be materially different. The Toronto-Dominion Bank and its affiliates and related entities that comprise the TD Bank Group are not liable for any errors or omissions in the information, analysis or views contained in this report, or for any loss or damage suffered.