TD Economics

Quarterly Economic Forecast

Still in the Game

June 18, 2026

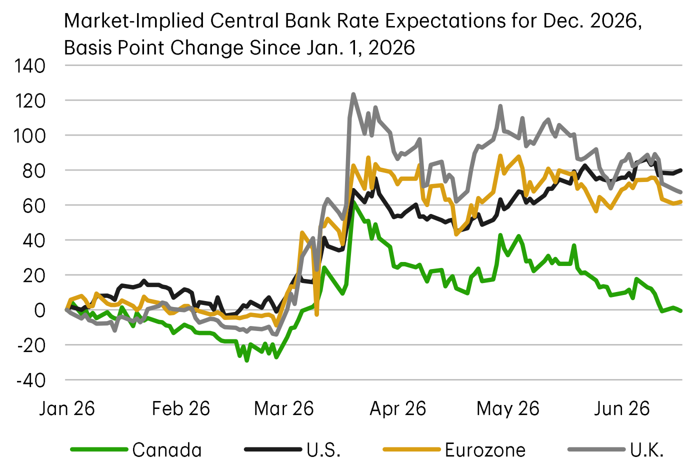
Highlights

- The Iran-U.S. peace deal has sent oil prices down, but not to pre-war levels. Four months of supply backlogs will take time to normalize, and the impact of higher prices will still be felt in the global economy. Global growth has shifted into a lower gear, compounded by prospects for renewed central bank tightening.
- The U.S. economy is set for another solid year of growth, leaving inflation too high for the Fed's comfort. Patience is expected to be the Fed's gameplan this year, with rate cuts off the table.

The Middle East conflict and ensuing energy shock lasted longer than we assumed in the early days of March. While it has not upended the global economy, it has shifted growth into a lower gear. Higher energy prices and the prospect of renewed central bank tightening are all contributing to a modestly weaker global outlook (Chart 1). Indeed, the ECB has already hiked its policy rate in response to inflation worries and may do so again later this year. They are likely to be joined by and other global central banks, notably Japan and Australia. We now see global growth expanding at around 3% in both 2026 and 2027, modestly below our March forecast. Downgrades are modest thanks to a few buffers; namely healthy oil inventories going into the conflict, targeted fiscal relief, and AI-related tailwinds.

A 60-day peace deal has been reached to re-open the Strait of Hormuz (see commentary). This forecast assumes that shipping through the Strait gradually recovers in the coming weeks, while Gulf region oil production begins a slow normalization process in July. Oil markets are expected to remain physically tight over the coming months, making WTI oil prices prone to bouts of upward pressure and remain in the $80-90/bbl range (Chart 2). The easing of supply disruptions in the second half of the year should help ensure inflation pressures do not become more entrenched, and set the stage for a pullback in global bond yields.

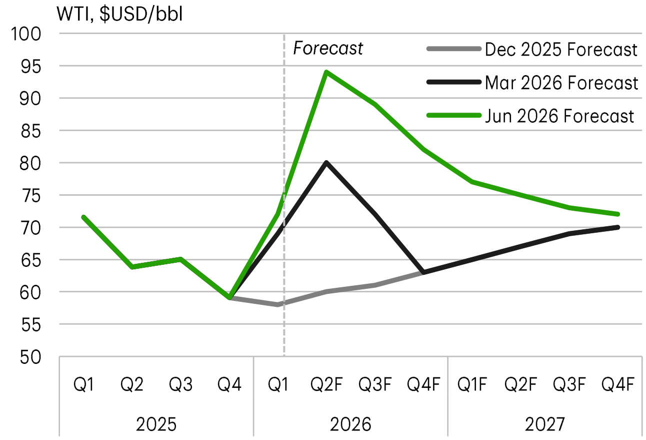
Chart 1: Higher Oil Prices Lead Markets to Price in Hikes



Source: Bloomberg, TD Economics. Last Observation: June 17, 2026.

Globally, the U.S. has been the captain of team resilience, but there have been pockets of strength elsewhere. Japan and the UK saw small rebounds early this year, but we expect higher energy prices will weigh on growth more than policy can offset. More durably, China and other emerging market economies, including India and Brazil, kept solid momentum, and AI-related demand is supporting growth in several smaller emerging

Chart 2: Oil Price Forecast Upgraded Again



Source: Bloomberg, TD Economics.

markets including South Korea and Taiwan. Europe, by contrast, disappointed in the first quarter of 2026, and tight energy supplies are expected to weigh on activity in the continent through year-end.

U.S. Resilience to See Fed Play a Game of Patience

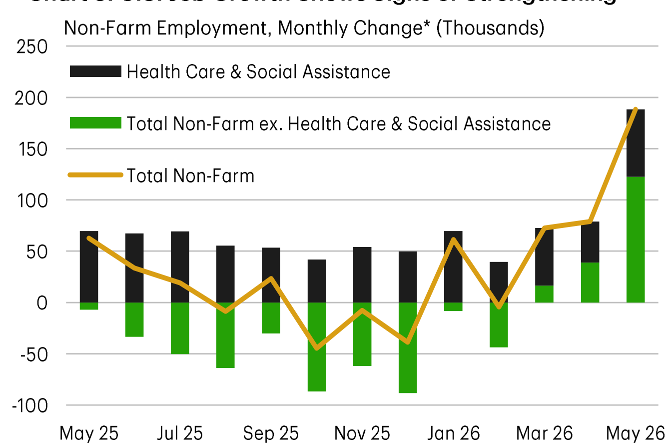
The U.S. economy's resilience through the first three-and-a-half months of the energy shock. That hasn't come as a surprise. We had noted at the onset of the U.S.-Iran war that due to substantial domestic energy production and lower energy intensity, the U.S. is far less exposed to sharp increases in energy prices. Beyond the structural factors, the AI buildout continues to provide a meaningful tailwind to growth and is also breathing renewed life into the manufacturing sector. At the same time, larger tax refunds and the recent strengthening in the labor market have provided much needed support to households. Economic growth is expected to expand by 2.2% Q4/Q4 in 2026 and 2.1% in 2027.

While households have, so far, weathered the impact of higher energy prices, we still expect the hit to consumers' pockets to impart some drag on spending activity. Outlays are forecast to advance by about 2% in 2026, or roughly half a point below what we had expected prior to the conflict. Larger tax refunds are providing some near-term cushion, which will be particularly beneficial heading into the summer travel season. However, we estimate that the average household will have exhausted its tax refund by September. Once that's gone, there's little in the way of additional spending capacity, with today's savings rate sitting at 2.6% - matching the lows of the 2022 energy shock. Prior to that, the savings rate had not had a two-handle since early-2008, when household leverage was at an all-time high.

Fortunately, the labor market has been providing sturdier support for consumers. Job growth has averaged 188k per-month in the three months ending in May, well above the economy's breakeven rate and three-times stronger than the pace measured over the same period the year-prior (Chart 3). Hiring has also broadened beyond healthcare & social services, with cyclical sectors like manufacturing, construction and leisure & hospitality all showing improvement relative to late-2025.

Interestingly, the pick-up in employment hasn't occurred because of a sudden increase in labor demand, suggesting employers are playing catch-up after hitting pause last year. More certainty on the trade front has likely been a contributing factor, despite ongoing shifts in tariff policies. The administration recently announced new Section 301 tariffs on forced labor violations, which are set to come into effect in late July. These would apply to 60 countries and range from 10%-12.5% and would effectively replace the temporary Section 122 tariffs that replaced the IEEPA tariffs back in February. But what matters to businesses is that peak uncertainty is in the rear-view mirror and that the overall effective tariff rate will hold largely unchanged at around 10%.

Chart 3: U.S. Job Growth Shows Signs of Strengthening



*Three-month moving average. Source: Bureau of Labor Statistics, TD Economics.

From an inflation standpoint, the worst of the tariff effect on prices has already occurred. However, a new force related to the repricing of software, likely due to the incorporation of generative AI, is creating a fresh inflation impulse that's helping to keep core goods prices elevated. At the same time, second round price effects from higher energy costs are already starting to surface in things like airfares and are likely to broaden to other categories in the months ahead. So, with inflation drifting further from target and the labor market no longer flashing yellow, the justification for additional rate cuts this year has evaporated.

At his first press conference as Fed Chair, Kevin Warsh did not mince words. He clearly signalled that the number one objective was to maintain stable prices, and that the last five years were not a model of success to that goal. The hawkish tone complimented the FOMC dot plot that removed an easing bias alongside a much shorter statement that provided no forward guidance other than the commitment to price stability. More difficult to answer is whether the current policy setting, at 3.75%, is the new neutral for the U.S. economy. We maintain our doubts. Rate cuts shouldn't be completely off the table in 2027, but it requires leaping over a convincing bar that inflation has stabilized with a two-handle.

Exhibits

Interest Rate Outlook												
Interest Rates	2025				2026				2027			
	Q1	Q2	Q3	Q4	Q1	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Fed Funds Target Rate	4.50	4.50	4.25	3.75	3.75	3.75	3.75	3.75	3.50	3.25	3.25	3.25
3-mth T-Bill Rate	4.21	4.24	3.86	3.57	3.61	3.70	3.65	3.55	3.30	3.15	3.15	3.15
2-yr Govt. Bond Yield	3.89	3.72	3.60	3.47	3.79	4.00	3.80	3.60	3.35	3.35	3.35	3.35
5-yr Govt. Bond Yield	3.96	3.79	3.74	3.73	3.92	4.20	3.85	3.75	3.70	3.70	3.70	3.70
10-yr Govt. Bond Yield	4.23	4.24	4.16	4.18	4.30	4.45	4.25	4.15	4.10	4.10	4.10	4.10
30-yr Govt. Bond Yield	4.59	4.78	4.73	4.84	4.88	5.05	4.80	4.65	4.60	4.60	4.60	4.60
10-yr-2-yr Govt Spread	0.34	0.52	0.56	0.71	0.51	0.45	0.45	0.55	0.75	0.75	0.75	0.75

F: Forecast by TD Economics, June 2026. All forecasts are end-of-period.

Source: Bloomberg, Federal Reserve, TD Economics.

Foreign Exchange Outlook													
Currency	Exchange Rate	2025				2026				2027			
		Q1	Q2	Q3	Q4	Q1	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Euro	USD per EUR	1.08	1.18	1.17	1.17	1.15	1.15	1.17	1.19	1.20	1.20	1.20	1.20
UK Pound	USD per GBP	1.29	1.37	1.34	1.35	1.32	1.33	1.35	1.38	1.39	1.39	1.39	1.39
Canadian Dollar	CAD per USD	1.44	1.36	1.39	1.37	1.40	1.40	1.38	1.36	1.34	1.33	1.33	1.33
Swiss Franc	CHF per USD	0.88	0.79	0.80	0.79	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80
Japanese Yen	JPY per USD	150	144	148	157	159	160	159	159	158	157	157	156

F: Forecast by TD Economics, June 2026. All forecasts are end-of-period.

Source: Bloomberg, Federal Reserve, TD Economics.

Commodity Price Outlook												
Commodity	2025				2026				2027			
	Q1	Q2	Q3	Q4	Q1	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Crude Oil (WTI, $US/bbl)	72	64	65	59	72	94	89	82	77	75	73	72
Natural Gas ($US/MMBtu)	4.20	3.19	3.03	3.76	4.62	2.90	3.25	3.75	3.65	3.50	3.50	3.50
Gold ($US/troy oz.)	2856	3284	3455	4150	4865	4525	4600	4800	4900	4850	4850	4750
Silver ($US/troy oz.)	31.86	33.65	39.51	55.21	83.71	74.00	76.00	78.00	78.50	77.00	75.00	75.00
Copper (cents/lb)	423	432	444	505	582	605	600	590	575	580	590	580
Nickel ($US/lb)	7.06	6.88	6.81	6.76	7.87	8.25	8.25	8.25	8.05	7.75	7.75	7.75
Aluminum (cents/lb)	119	111	119	128	145	163	165	162	155	155	150	150
Wheat ($US/bu)	5.65	5.34	4.88	5.13	5.50	6.05	6.15	6.30	6.50	6.65	6.60	6.55

F: Forecast by TD Economics, June 2026. 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	Q3	Q4	Q1	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	25	26F	27F	25	26F	27F
Real GDP	-0.6	3.8	4.4	0.5	1.6	2.6	2.2	2.3	2.0	2.2	2.2	2.2	2.1	2.2	2.2	2.0	2.2	2.2
Consumer Expenditure	0.6	2.5	3.5	1.9	1.4	2.2	1.8	2.1	2.0	2.0	2.1	2.1	2.6	2.1	2.0	2.1	1.9	2.1
Durable Goods	-3.4	2.3	1.5	0.1	0.4	4.7	2.2	3.5	3.2	3.2	3.2	3.2	3.6	1.8	3.2	0.1	2.7	3.2
Business Investment	9.5	7.3	3.2	2.4	10.1	9.0	6.6	5.8	3.9	3.9	3.9	4.0	4.1	6.7	4.9	5.6	7.9	3.9
Non-Res. Structures	-3.1	-7.5	-5.0	-6.6	-5.4	-3.0	-1.0	0.0	1.0	1.0	1.0	1.0	-5.3	-4.4	0.3	-5.5	-2.4	1.0
Equipment & IPP*	13.4	11.8	5.4	4.8	14.3	12.2	8.5	7.2	4.6	4.6	4.6	4.6	6.9	9.6	6.0	8.8	10.5	4.6
Residential Investment	-1.0	-5.1	-7.1	-1.7	-6.3	1.1	-1.8	3.6	6.9	6.4	5.4	4.4	-2.2	-3.0	4.3	-3.8	-0.9	5.8
Govt. Expenditure	-1.0	-0.1	2.2	-5.6	4.4	1.1	0.8	0.9	1.0	0.9	0.9	0.8	1.1	0.6	0.9	-1.2	1.8	0.9
Final Domestic Demand	1.4	2.4	2.8	0.6	2.7	2.9	2.2	2.4	2.3	2.3	2.2	2.2	2.4	2.2	2.3	1.8	2.6	2.3
Exports	0.2	-1.8	9.6	-3.2	13.1	12.4	4.0	2.8	2.7	2.7	2.7	2.7	1.6	6.6	3.4	1.1	8.0	2.7
Imports	38.0	-29.3	-4.4	-1.0	21.1	15.5	6.9	5.3	5.1	2.9	2.5	2.5	2.7	5.9	5.0	-1.9	12.0	3.2
Change in Private Inventories	172.0	-18.3	-23.9	-15.6	-25.7	-3.0	26.7	36.7	41.7	41.7	41.7	41.7	28.6	8.7	41.7	--	--	--
Final Sales	-3.2	7.5	4.5	0.3	1.5	2.2	1.7	2.1	1.9	2.2	2.3	2.2	2.2	2.2	2.1	2.2	1.9	2.2
Pre-tax Corporate Profits																		
Including IVA&CCA	-4.7	0.7	19.1	26.3	3.8	-4.2	3.6	5.7	0.9	4.6	5.5	7.7	7.3	7.7	3.5	9.6	2.2	4.7
% of GDP	13.1	12.9	13.2	13.9	13.8	13.4	13.3	13.4	13.3	13.3	13.3	13.4	13.3	13.5	13.3	--	--	--
GDP Deflator (y/y)	2.6	2.5	3.0	3.3	3.3	4.1	3.8	3.5	3.2	2.4	2.2	2.2	2.8	3.7	2.5	3.3	3.5	2.2
Nominal GDP	2.9	6.0	8.3	4.2	5.2	8.2	5.1	4.7	4.1	4.6	4.3	4.5	5.0	6.0	4.7	5.4	5.8	4.4
Labor Force	5.4	0.1	0.4	1.6	-2.6	-0.7	0.4	0.3	0.2	0.2	0.2	0.2	1.6	-0.4	0.2	1.8	-0.7	0.2
Non-Farm Employment	0.5	0.4	0.1	-0.2	0.3	1.0	0.6	0.5	0.5	0.4	0.4	0.4	0.5	0.4	0.5	0.2	0.6	0.4
Change in Non-Farm Empl. ('000s)	205	169	34	-91	129	411	230	180	180	170	160	150	745	588	778	317	950	660
Unemployment Rate (%)	4.1	4.2	4.3	4.5	4.3	4.3	4.3	4.3	4.2	4.1	4.0	4.0	4.3	4.3	4.1	--	--	--
Personal Disp. Income	5.8	4.0	3.8	2.0	5.4	4.1	3.4	4.1	5.4	5.5	5.7	5.6	4.3	3.9	4.9	3.9	4.3	5.6
Pers. Savings Rate (%)	5.2	5.0	4.4	3.8	3.7	2.9	2.6	2.7	3.0	3.4	3.8	4.2	4.6	3.0	3.6	--	--	--
Cons. Price Index (y/y)	2.7	2.5	2.9	2.7	2.7	4.1	3.9	3.5	3.0	1.6	1.5	1.8	2.7	3.5	2.0	2.7	3.5	1.8
Core CPI (y/y)	3.1	2.8	3.1	2.7	2.5	2.9	2.8	3.0	2.9	2.5	2.3	2.3	2.9	2.8	2.5	2.7	3.0	2.3
Core PCE Price Index (y/y)	2.8	2.7	2.9	2.9	3.1	3.4	3.4	3.3	2.8	2.4	2.2	2.1	2.8	3.3	2.3	2.9	3.3	2.1
Housing Starts (mns)	1.40	1.36	1.35	1.32	1.41	1.30	1.35	1.40	1.45	1.48	1.50	1.52	1.36	1.37	1.49	--	--	--
Real Output per Hour** (y/y)	2.0	2.1	2.5	2.5	2.8	2.4	1.6	1.9	2.2	1.9	1.9	1.7	2.3	2.2	1.9	2.5	1.9	1.7

F: Forecast by TD Economics, June 2026.

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

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

Economic Indicators: G7 & Europe

	2025	2026F	2027F
Real GDP (Annual Per Cent Change)			
G7	1.5	1.5	1.7
U.S.	2.1	2.2	2.2
Japan	1.1	0.6	0.7
Euro Area	1.5	0.4	1.2
Germany	0.3	0.6	1.3
France	0.9	0.7	1.2
Italy	0.7	0.9	0.9
United Kingdom	1.4	1.0	1.1
Canada	1.9	0.7	1.8
Consumer Price Index (Annual Per Cent Change)			
G7	2.3	2.3	2.2
U.S.	2.7	3.5	2.0
Japan	3.2	1.8	2.0
Euro Area	2.1	3.0	2.1
Germany	2.3	2.9	2.5
France	0.9	2.6	2.1
Italy	1.6	2.8	2.4
United Kingdom	3.4	3.3	2.7
Canada	2.1	2.6	2.0
Unemployment Rate (Per Cent Annual Averages)			
U.S.	4.3	4.3	4.1
Japan	2.5	2.6	2.4
Euro Area	6.3	6.3	6.2
Germany	6.3	6.3	5.6
France	7.7	8.0	7.4
Italy	6.1	5.4	5.8
United Kingdom	4.9	5.2	5.4
Canada	6.8	6.6	6.2

F: Forecast by TD Economics, June 2026.
Source: National Statistics Agencies, IMF, TD Economics.

Global Economic Outlook

Annual Per Cent Change Unless Otherwise Indicated

	2024 Share*	Forecast		
Real GDP	(%)	2025	2026F	2027F
World	**100.0**	**3.5**	**3.0**	**3.0**
North America	**17.9**	**1.9**	**1.9**	**2.1**
United States	14.8	2.1	2.2	2.2
Canada	1.3	1.9	0.7	1.8
Mexico	1.7	0.7	0.5	1.9
European Union (EU-27)	**14.2**	**1.6**	**0.7**	**1.5**
Euro Area (EU-20)	12.2	1.5	0.4	1.2
Germany	3.0	0.3	0.6	1.3
France	2.2	0.9	0.7	1.2
Italy	1.8	0.7	0.9	0.9
Other EU Members	3.8	3.1	3.0	2.2
Asia	**46.9**	**4.8**	**4.5**	**3.9**
Japan	3.3	1.1	0.6	0.7
Asian NIC's	3.5	3.9	4.2	1.9
Hong Kong	0.3	3.6	3.7	1.4
Korea	1.6	1.1	3.0	2.1
Singapore	0.5	5.0	3.5	2.1
Taiwan	0.9	8.8	7.6	2.0
Russia	3.5	1.1	0.7	0.9
Australia & New Zealand	1.2	1.8	2.0	2.1
Emerging Asia	35.7	5.7	5.2	4.8
ASEAN-5	5.2	5.3	4.5	4.8
China	19.3	5.0	4.5	4.2
India**	8.2	7.8	6.5	6.0
Central/South America	**5.3**	**2.9**	**2.2**	**2.3**
Brazil	2.4	2.6	2.1	2.1
Other Emerging Markets	**12.8**	**3.6**	**1.9**	**2.8**
Other Advanced	**3.2**	**1.8**	**1.6**	**2.2**
United Kingdom	2.2	1.4	1.0	1.1

F: Forecast by TD Economics, June 2026.
* Share of 2024 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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