TD Economics

Quarterly Economic Forecast

One Battle After Another

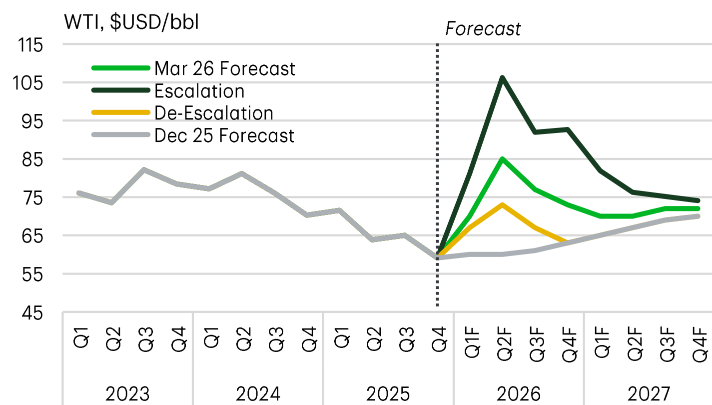
March 17, 2026

Highlights

- The Middle East conflict has not just lifted oil prices, but forecast uncertainty is even snaking its way into other areas like food security for some nations. The economic fallout hinges on duration. Our baseline outlook assumes a short-lived conflict, implying a temporary impact on inflation and growth; a prolonged escalation would materially worsen the global outlook.
- The U.S. is facing this new shock from a solid starting point, and overall economic growth in 2026 is still expected to run at a healthy 2.4%.
- Higher energy costs layered onto already-stubborn core inflation increase the likelihood that the Fed stays on hold for longer. The earliest window for rate cuts is unlikely to open until at least September.

It is one battle after another for forecasters in 2026. Less than a month ago, changes in U.S. tariffs were the primary source of uncertainty (see commentary). Now a new war in the Middle East has added a far more consequential source of risk to the outlook. Energy prices have whipsawed day-to-day, but are well above pre-war levels, reflecting reduced supply through the Strait of Hormuz. Roughly 20% of the world's oil passes through the Strait, including about half of Asia's oil imports and a quarter of its LNG imports.

Chart 1: Oil Price Outlook Uncertain, But Higher Prices in the Short Term to Raise Inflation



Source: TD Economics.

Beyond the terrible human toll, the duration of the conflict will determine how severely global energy markets are disrupted and how large the economic fallout becomes. This forecast assumes very limited transit through the Strait, which remains effectively closed for the next couple of weeks. This would keep oil prices elevated through the remainder of the month. Assuming oil and LNG shipments slowly resume in April, the average price of WTI is expected to moderate to $85 per barrel in Q2. We expect shipment activity to normalize by June, but oil prices remain elevated through mid-2026, reflecting tighter markets (as some supply remains offline) and a higher risk premium (Chart 1).

In the event that the crisis escalates and oil supply is further reduced or takes longer to come back online, oil prices could easily average more than $100 per barrel in the second quarter, staying above $90 per barrel through the end of the year as supply is more gradually restored (Chart 1). For North America, the impact on economic growth is manageable given its status as both a producer and consumer of energy. For countries more exposed, further escalation could tip the scales into recession.

Even if the jump in energy prices proves short-lived, it still leads to higher inflation in the near term, eroding purchasing power and slowing consumption. The disruption to energy markets poses a greater challenge for Europe and Asia than for North America. Low natural gas inventories leave Europe especially vulnerable if the conflict drags on, while several major Asian economies face heightened exposure to disruptions in oil and LNG shipments. Prior to the outbreak of the conflict, incoming data had pointed to potential upside in both regions. The eurozone was expected to gain further momentum on the back of expanded government spending, while China, supported by rising deficits, had announced a new target for solid growth this year. We still expect global growth in 2026 to come in slightly stronger than in our last update, largely reflecting resilience in the U.S. and parts of Asia outside of China, though risks are now more clearly tilted to the downside.

U.S. Economy Facing Down the Headwinds

The U.S. economy is facing higher oil prices from a position of strength. Growth in the second half of last year was stronger than expected, sustained by large investments in AI and a resilient consumer, despite a government shutdown weighing on fourth-quarter activity. This momentum, alongside the normalization in government operations, pointed to a firmer start to 2026 – a year expected to benefit from tax cuts and lower interest rates.

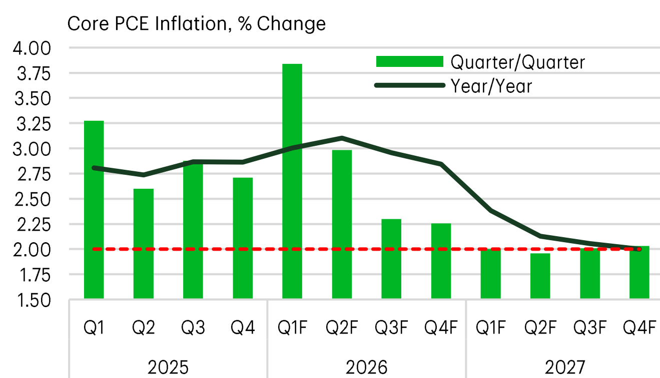
How quickly conditions can change. The conflict in the Middle East has sent shockwaves through global energy markets and reignited stagflation chatter. That conclusion is premature. At this point, the direct impact of higher oil prices shaves only a few tenths from economic growth in 2026 and adds about 0.8 percentage points to headline CPI, with a peak of 3.8% in the second quarter, while secondary effects contribute roughly a quarter of that to core inflation. This still leaves the economy expanding by a healthy 2.4% in 2026. In the escalation scenario, inflation could get as high as 4.5%, while growth would be trimmed by at least another two-tenths, and possibly more if a prolonged oil shock triggers much tighter financial conditions.

Still, the energy shock has been particularly ill-timed for businesses that are already adjusting to higher costs from tariffs. After the Supreme Court struck down President Trump's IEEPA tariffs, the administration quickly imposed a 10%—soon to be 15%—global tariff under Section 122. Assuming the higher rate is implemented, the effective tariff rate would fall from roughly 16% to 13%. Even so, uncertainty persists around the longer-run tariff regime. The Section 122 tariffs expire after 150 days without congressional approval, which appears unlikely. The administration is therefore expected to rely more heavily on Section 301 (unfair trade practices) or Section 232 (sector-specific national security) tariffs to replace them. All told, a modestly lower effective tariff rate, combined with continued uncertainty about the final tariff regime, is unlikely to materially improve the outlook.

Through the volatility, the fundamentals supporting growth this year remain intact. Despite swings in financial markets, underlying financial conditions show no imminent signs of stress and remain accommodative by historical standards (see report). That's good news for businesses pursuing their investment plans. At the same time, the roughly 60% increase in planned expenditures by hyperscalers, underscores that AI is likely to remain a significant driver of investment.

The outlook for the consumer is also constructive. Households are beginning to see the benefits of the One Big Beautiful Bill through higher take-home pay and larger tax refunds (see report). The main area to watch is the labor market. February's employment re-

Chart 2: U.S. Core Inflation to Remain Elevated Through 2026



Source: U.S. Bureau of Economic Analysis, TD Economics.

port was weak but with some comfort that it came off a strong January print and was influenced by one-off factors, including a strike and weather-related disruptions (Chart 2). From that perspective, it is too soon to fundamentally change our view that the unemployment rate has peaked, though it ups the ante for the March report. A higher inflation forecast alongside rising labor-market risks present a challenging backdrop for the Federal Reserve. Core inflation is still running above the Fed's 2% target, tariff-related price pressures are still filtering through, and now the energy shock provides less scope for further disinflation (Chart 2). As a result, the Fed is likely to remain cautious on rate cuts in the months ahead. There is still scope for a couple of additional cuts this year, but the timing is unlikely to be before September, absent a clearer cooling in inflation or more pronounced labor market softening.

Exhibits

Interest Rate Outlook												
Interest Rates	2025				2026				2027			
	Q1	Q2	Q3	Q4	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Fed Funds Target Rate	4.50	4.50	4.25	3.75	3.75	3.75	3.50	3.25	3.25	3.25	3.25	3.25
3-mth T-Bill Rate	4.21	4.24	3.86	3.57	3.70	3.55	3.30	3.15	3.15	3.15	3.15	3.15
2-yr Govt. Bond Yield	3.89	3.72	3.60	3.47	3.70	3.45	3.35	3.35	3.35	3.35	3.35	3.35
5-yr Govt. Bond Yield	3.96	3.79	3.74	3.73	3.80	3.75	3.70	3.70	3.70	3.70	3.70	3.70
10-yr Govt. Bond Yield	4.23	4.24	4.16	4.18	4.25	4.20	4.15	4.10	4.10	4.10	4.10	4.10
30-yr Govt. Bond Yield	4.59	4.78	4.73	4.84	4.90	4.75	4.65	4.60	4.60	4.60	4.60	4.60
10-yr-2-yr Govt Spread	0.34	0.52	0.56	0.71	0.55	0.75	0.80	0.75	0.75	0.75	0.75	0.75

F: Forecast by TD Economics, March 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	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Euro	USD per EUR	1.08	1.18	1.17	1.17	1.15	1.17	1.19	1.20	1.20	1.20	1.20	1.20
UK Pound	USD per GBP	1.29	1.37	1.34	1.35	1.33	1.36	1.37	1.39	1.39	1.39	1.39	1.39
Canadian Dollar	CAD per USD	1.44	1.36	1.39	1.37	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	0.80	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	148	157	156	155	154	154	153	152	151	151

F: Forecast by TD Economics, March 2026. All forecasts are end-of-period.
Source: Bloomberg, Federal Reserve, TD Economics.

Commodity Price Outlook												
Commodity	2025				2026				2027			
	Q1	Q2	Q3	Q4	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Crude Oil (WTI, $US/bbl)	72	64	65	59	70	85	77	73	70	70	72	72
Natural Gas ($US/MMBtu)	4.20	3.19	3.03	3.76	3.50	3.60	3.70	3.80	3.90	3.90	3.90	3.90
Gold ($US/troy oz.)	2856	3284	3455	4150	4975	5000	4900	4800	4700	4700	4600	4600
Silver ($US/troy oz.)	31.86	33.65	39.51	55.21	86.00	80.00	77.00	75.00	73.00	72.00	70.00	70.00
Copper (cents/lb)	423	432	444	505	590	575	560	560	575	580	585	590
Nickel ($US/lb)	7.06	6.88	6.81	6.76	7.90	7.70	7.50	7.30	7.25	7.25	7.25	7.25
Aluminum (cents/lb)	119	111	119	128	145	135	130	125	125	125	125	125
Wheat ($US/bu)	5.65	5.34	4.88	5.13	5.50	5.55	5.70	5.85	5.90	5.90	6.00	6.00

F: Forecast by TD Economics, March 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	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	25F	26F	27F	25F	26F	27F
Real GDP	-0.6	3.8	4.4	0.7	2.4	2.1	2.6	2.5	2.2	2.1	2.0	2.0	2.1	2.4	2.2	2.0	2.4	2.1
Consumer Expenditure	0.6	2.5	3.5	2.0	2.0	2.4	2.2	2.0	2.0	1.9	1.9	2.0	2.6	2.3	2.0	2.1	2.1	2.0
Durable Goods	-3.4	2.3	1.5	0.0	0.0	6.9	4.3	3.0	2.8	2.8	2.8	3.2	3.6	2.3	3.3	0.1	3.5	2.9
Business Investment	9.5	7.3	3.2	2.3	4.0	4.2	5.7	5.2	3.6	3.6	3.2	3.2	4.1	4.1	4.1	5.5	4.7	3.4
Non-Res. Structures	-3.1	-7.5	-5.0	-7.1	-3.0	-2.0	1.0	1.0	1.0	1.0	1.0	1.0	-5.3	-3.4	0.8	-5.7	-0.8	1.0
Equipment & IPP*	13.4	11.8	5.4	5.4	5.8	5.7	6.9	6.2	4.2	4.3	3.7	3.7	7.0	6.2	4.9	8.9	6.2	4.0
Residential Investment	-1.0	-5.1	-7.1	-0.6	-1.1	2.2	5.8	5.7	5.9	4.5	3.6	3.3	-2.1	-0.2	4.9	-3.5	3.1	4.3
Govt. Expenditure	-1.0	-0.1	2.2	-5.8	5.9	0.7	0.7	0.6	0.7	0.7	0.7	0.7	1.1	0.8	0.7	-1.2	2.0	0.7
Final Domestic Demand	1.4	2.4	2.8	0.6	2.8	2.3	2.5	2.3	2.1	2.0	1.9	2.0	2.4	2.2	2.2	1.8	2.5	2.0
Exports	0.2	-1.8	9.6	-3.3	4.3	2.7	3.0	3.0	3.0	3.0	3.0	3.0	1.6	2.5	3.0	1.0	3.3	3.0
Imports	38.0	-29.3	-4.4	-1.1	11.0	5.1	3.6	2.8	2.5	2.5	2.5	2.5	2.7	1.2	2.8	-2.0	5.6	2.5
Change in Private Inventories	172.0	-18.3	-23.9	-7.5	16.1	23.0	33.0	42.9	42.9	42.9	42.9	42.9	30.6	28.7	42.9	--	--	--
Final Sales	-3.2	7.5	4.5	0.4	1.9	2.0	2.4	2.3	2.2	2.1	2.0	2.0	2.2	2.4	2.2	2.2	2.2	2.1
Pre-tax Corporate Profits																		
Including IVA&CCA	-4.7	0.7	19.1	12.5	7.0	6.5	3.8	4.0	-0.4	0.0	-0.4	1.4	6.4	8.3	1.6	6.5	5.3	0.2
% of GDP	13.1	12.9	13.2	13.4	13.5	13.6	13.5	13.5	13.3	13.2	13.0	13.0	13.2	13.5	13.1	--	--	--
GDP Deflator (y/y)	2.6	2.5	3.0	3.3	3.1	3.2	2.7	2.4	2.2	2.3	2.3	2.3	2.8	2.9	2.3	3.3	2.4	2.3
Nominal GDP	2.9	6.0	8.3	4.5	5.6	4.5	4.6	5.1	4.3	4.7	4.2	4.4	5.0	5.4	4.6	5.4	4.9	4.4
Labor Force	5.4	0.1	0.4	1.6	-2.1	0.3	0.3	0.2	0.3	0.2	0.1	0.2	1.6	-0.1	0.2	1.8	-0.3	0.2
Non-Farm Employment	0.5	0.4	0.1	-0.2	0.2	0.2	0.4	0.6	0.6	0.5	0.3	0.3	0.5	0.2	0.5	0.2	0.3	0.4
Change in Non-Farm Empl. ('000s)	205	169	34	-91	80	86	160	223	240	180	120	100	745	271	729	317	549	640
Unemployment Rate (%)	4.1	4.2	4.3	4.5	4.4	4.4	4.3	4.2	4.1	4.0	4.0	4.0	4.3	4.3	4.0	--	--	--
Personal Disp. Income	5.8	4.0	3.8	3.1	8.3	5.7	5.3	6.0	5.6	5.7	5.4	5.1	4.4	5.5	5.6	4.2	6.3	5.5
Pers. Savings Rate (%)	5.2	5.0	4.4	4.0	4.1	4.0	4.3	4.7	5.2	5.6	5.9	6.1	4.7	4.3	5.7	--	--	--
Cons. Price Index (y/y)	2.7	2.5	2.9	2.7	2.9	3.8	3.4	3.2	2.4	1.6	1.8	1.9	2.7	3.3	1.9	2.7	3.2	1.9
Core CPI (y/y)	3.1	2.8	3.1	2.7	2.7	2.9	2.7	2.9	2.6	2.4	2.3	2.2	2.9	2.8	2.4	2.7	2.9	2.2
Core PCE Price Index (y/y)	2.8	2.7	2.9	2.9	3.0	3.1	3.0	2.8	2.4	2.1	2.1	2.0	2.8	3.0	2.1	2.9	2.8	2.0
Housing Starts (mns)	1.40	1.35	1.35	1.33	1.32	1.35	1.39	1.43	1.45	1.48	1.50	1.52	1.36	1.37	1.49	--	--	--
Real Output per Hour** (y/y)	2.0	2.1	2.4	2.8	3.8	3.4	2.6	2.4	1.9	1.7	1.6	1.5	2.3	3.0	1.7	2.8	2.4	1.5

F: Forecast by TD Economics, March 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 (28.7%)*	1.6	1.7	1.8
U.S.	2.1	2.4	2.2
Japan	1.1	0.5	0.8
Euro Area	1.5	0.9	1.3
Germany	0.4	0.8	1.7
France	0.9	1.0	1.4
Italy	0.7	0.6	0.9
United Kingdom	1.3	0.9	1.3
Canada	1.7	1.1	1.7
Consumer Price Index (Annual Per Cent Change)			
G7	2.3	2.2	2.0
U.S.	2.7	3.3	1.9
Japan	3.2	2.2	1.7
Euro Area	2.1	2.8	2.1
Germany	2.3	2.1	1.9
France	0.9	1.6	1.5
Italy	1.6	2.2	1.5
United Kingdom	3.4	2.6	1.9
Canada	2.1	2.5	2.0
Unemployment Rate (Per Cent Annual Averages)			
U.S.	4.3	4.3	4.0
Japan	2.5	2.5	2.3
Euro Area	6.3	6.3	6.2
Germany	6.3	6.1	5.5
France	7.7	7.6	7.3
Italy	6.1	6.0	6.3
United Kingdom	4.9	5.2	4.9
Canada	6.8	6.6	6.3

F: Forecast by TD Economics, March 2026.
*Share of 2024 world gross domestic product (GDP) at PPP.
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**	**3.1**	**3.1**
North America	**17.9**	**2.0**	**2.3**	**2.2**
United States	14.8	2.1	2.4	2.2
Canada	1.3	1.7	1.1	1.7
Mexico	1.7	0.8	1.6	1.9
European Union (EU-27)	**14.2**	**1.6**	**1.2**	**1.5**
Euro Area (EU-20)	12.2	1.5	0.9	1.3
Germany	3.0	0.4	0.8	1.7
France	2.2	0.9	1.0	1.4
Italy	1.8	0.7	0.6	0.9
Other EU Members	3.8	3.0	3.0	2.3
Asia	**46.9**	**4.8**	**4.2**	**4.1**
Japan	3.3	1.1	0.5	0.8
Asian NIC's	3.5	3.7	2.6	2.0
Hong Kong	0.3	3.5	2.4	2.2
Korea	1.6	0.9	2.0	2.1
Singapore	0.5	5.0	3.6	2.1
Taiwan	0.9	8.7	3.7	2.0
Russia	3.5	0.8	0.9	1.0
Australia & New Zealand	1.2	1.8	2.4	2.4
Emerging Asia	35.7	5.7	5.0	5.0
ASEAN-5	5.2	5.3	4.7	4.9
China	19.3	5.0	4.5	4.4
India**	8.2	7.7	6.5	6.3
Central/South America	**5.3**	**2.9**	**1.7**	**2.3**
Brazil	2.4	2.6	1.2	2.1
Other Emerging Markets	**12.8**	**3.6**	**3.3**	**3.0**
Other Advanced	**3.2**	**1.2**	**1.4**	**2.2**
United Kingdom	2.2	1.3	0.9	1.3

F: Forecast by TD Economics, March 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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