Economics

THE WEEK AHEAD

September 28 - October 2, 2026

Two's company, three's a crowding out

by **Avery Shenfeld** avery.shenfeld@cibc.com

Long term bond yields have climbed, and are garnering a lot of headlines, but market expectations for central bank rate hikes have also moved up dramatically. As of this morning, fed funds futures were building in a nearly 5% policy rate at this time next year. While the FOMC forecast dots can be wrong, that 5% expectation is miles from the modest tightening envisaged by the median vote from the Fed's policy committee, and we can't recall a greater divergence in the past. Markets were also implying that the Bank of Canada would take its overnight rate up 125 bps to roughly 3.5%, well through the Bank's central estimate for the neutral rate.

But if any of the pressures further out the curve are tied to factors that aren't likely to ease off much, longer-term rates represent a reason why policy rates are unlikely to move up that aggressively. Three factors have forced long rates up globally, and at least one of them is unlikely to dissipate soon: a structural increase in issuance due to persistent budget deficits, at a time in which the structural demand for bonds from some key, less-rate-sensitive sectors (central banks, pensions and insurers) has weakened, for reasons that our FICC strategists have outlined.

Less likely to persist are any increases in longer term inflation fears coming from energy costs and other supply disruptions, particularly if AI generates cost savings down the road, and if global growth eases off due to higher interest rates. Central bank rate hikes also, to some extent, get built into bond yields, at least out to the five year part of the curve, and that force would dissipate if those central bankers don't follow through with the hikes that markets are expecting.

If US 10-year and 30-year rates stay elevated by government debt issuance, they will continue to crowd out spending by non-government and non-AI-related borrowers. The implication is that the growth being fueled by government deficit spending will see more of an offset from weakness in other interest-sensitive parts of the economy. We've already seen sagging activity in the US housing sector in the face of near-7% mortgage rates, and similar weakness in non-residential structures. Machinery and durable consumer goods demand have held up better in the most recent quarters, but we would expect to see a drag on activity in these sectors if these higher borrowing costs persist.

These crowding out impacts are one reason why the Fed is unlikely to have to push rates nearly as far as the markets are assuming. Moreover, a lot of the inflation threat that the central bank is responding to is tied to supply-side disruptions relating to the conflict in the Middle East, which we still see as likely to be resolved in upcoming quarters.

In Canada's case, some of the pressure on yields further out the curve is the spillover from developments in the US and overseas, rather than strong activity or larger deficits in Canada. Escalating term rates on mortgages will put further downward pressure on an already soft homebuilding sector, and rising bond yields will add to the damping impact of tariff uncertainties on business capital spending in sectors vulnerable to US trade barriers. You would need rapid growth elsewhere to justify a Bank of Canada move to take rates well through 3%, as these crowding out impacts, along with trade frictions, could supply much of the headwind to demand that would be needed to keep energy inflation from spilling over into other prices.

The bottom line is that, if high (not necessarily higher) for longer is in the future for interest rates further out the yield curve, the resulting crowding out of interest sensitive demand would be a substitute for some of the policy-rate hikes that markets are expecting. If so, mid-term bond yields that build in those policy-rate expectations would represent a good buying opportunity at current levels.

Week Ahead Calendar And Forecast—Canada

H, M, L = High, Medium or Low Priority

SAAR = Seasonally Adjusted Annual Rate

Consensus Source: Bloomberg

Date	Time	Economic Releases, Auctions and Speakers	Month	Priority	CIBC	Consensus	Prior
Monday, September 28	-	-	-	-	-	-	-
Tuesday, September 29	8:30 AM	GDP M/M	(Jul)	(H)	-0.1%	0.1%	0.3%
Tuesday, September 29	1:35 PM	Speaker: Toni Gravelle (Deputy Gov.)	-	-	-	-	-
Wednesday, September 30	-	Bond Market closed (National Day for Truth and Reconciliation)	-	-	-	-	-
Thursday, October 1	4:00 PM	Speaker: Carolyn Rogers (Sr. Deputy Gov.)	-	-	-	-	-
Friday, October 2	-	-	-	-	-	-	-

Week Ahead Calendar And Forecast—United States

H, M, L = High, Medium or Low Priority

SAAR = Seasonally Adjusted Annual Rate

Consensus Source: Bloomberg

Date	Time	Economic Releases, Auctions and Speakers	Month	Priority	CIBC	Consensus	Prior
Monday, September 28	1:30 PM	Speaker: Thomas I. Barkin (Richmond) (Non-Voter)	-	-	-	-	-
Tuesday, September 29	-	AUCTION: 1-YR TREASURIES $54B	-	-	-	-	-
Tuesday, September 29	9:00 AM	HOUSE PRICE INDEX M/M	(Jul)	(M)	-	-	0.0%
Tuesday, September 29	9:00 AM	S&P CORELOGIC CS Y/Y	(Jul)	(H)	-	-	2.1%
Tuesday, September 29	10:00 AM	CONF.BOARD CONSUMER CONFIDENCE	(Sep)	(H)	89.8	90.0	89.4
Tuesday, September 29	10:00 AM	JOLTS Job Openings	(Aug)	-	-	7225K	7271K
Tuesday, September 29	1:00 PM	Speaker: Austan D. Goolsbee, Chicago (Non-Voter)	-	-	-	-	-
Tuesday, September 29	2:00 PM	Speaker: John C. Williams (Vice Chairman, New York) (Voter)	-	-	-	-	-
Wednesday, September 30	7:00 AM	MBA-APPLICATIONS	(Sep 25)	(L)	-	-	-1.5%
Wednesday, September 30	8:15 AM	ADP EMPLOYMENT CHANGE	(Sep)	(M)	-	70K	38K
Wednesday, September 30	8:30 AM	RETAIL INVENTORIES M/M	(Aug)	(H)	-	-	0.8%
Wednesday, September 30	8:30 AM	PCE DEFLATOR Y/Y	(Aug)	(H)	3.6%	3.7%	3.7%
Wednesday, September 30	8:30 AM	PCE DEFLATOR Y/Y (core)	(Aug)	(H)	3.2%	3.3%	3.3%
Wednesday, September 30	8:30 AM	PERSONAL INCOME M/M	(Aug)	(H)	0.4%	0.5%	0.4%
Wednesday, September 30	8:30 AM	PERSONAL SPENDING M/M	(Aug)	(H)	0.9%	0.9%	0.2%
Wednesday, September 30	8:30 AM	GDP (annualized)	(2Q T)	(H)	1.5%	1.5%	1.5%
Wednesday, September 30	8:30 AM	GDP DEFLATOR (annualized)	(2Q T)	(H)	6.4%	6.4%	6.4%
Wednesday, September 30	8:30 AM	ADVANCE GOODS TRADE BALANCE	(Aug)	(M)	-$114.0B	-$113.9B	-$118.9B
Wednesday, September 30	8:30 AM	WHOLESALE INVENTORIES M/M	(Aug P)	(L)	-	-	1.3%
Wednesday, September 30	9:45 AM	CHICAGO PMI	(Sep)	(M)	-	51.2	47.1
Wednesday, September 30	1:30 PM	Speaker: Thomas I. Barkin (Richmond) (Non-Voter)	-	-	-	-	-
Wednesday, September 30	3:25 PM	Speaker: Lisa D. Cook (Governor) (Voter)	-	-	-	-	-
Wednesday, September 30	5:10 PM	Speaker: Austan D. Goolsbee, Chicago (Non-Voter)	-	-	-	-	-
Wednesday, September 30	6:00 PM	Speaker: Neel Kashkari (Minneapolis) (Voter)	-	-	-	-	-
Thursday, October 1	8:30 AM	INITIAL CLAIMS	(Sep 26)	(M)	-	-	197K
Thursday, October 1	8:30 AM	CONTINUING CLAIMS	(Sep 19)	(L)	-	-	1719K
Thursday, October 1	9:45 AM	S&P GLOBAL US MANUFACTURING PMI	(Sep)	(L)	-	-	57.0
Thursday, October 1	10:00 AM	ISM - MANUFACTURING	(Sep)	(H)	54.9	55.0	54.6
Thursday, October 1	10:00 AM	CONSTRUCTION SPENDING M/M	(Aug)	(M)	-	0.1%	-0.5%
Thursday, October 1	9:05 AM	Speaker: Barkin (Richmond) (Non-Voter), Collins (Boston) (Non-Voter) & Schmid (Kansas City) (Non-Voter)	-	-	-	-	-
Thursday, October 1	3:30 PM	Speaker: Lisa D. Cook (Governor) (Voter) & John C. Williams (Vice Chairman, New York) (Voter)	-	-	-	-	-
Thursday, October 1	6:45 PM	Speaker: Lorie K. Logan (Dallas) (Voter)	-	-	-	-	-
Friday, October 2	8:30 AM	NON-FARM PAYROLLS	(Sep)	(H)	80K	100K	162K
Friday, October 2	8:30 AM	UNEMPLOYMENT RATE	(Sep)	(H)	4.1%	4.1%	4.1%
Friday, October 2	8:30 AM	AVERAGE HOURLY EARNINGS ALL EMPLOYEES M/M	(Sep)	(H)	0.2%	0.3%	0.3%
Friday, October 2	8:30 AM	AVERAGE WEEKLY HOURS ALL EMPLOYEES	(Sep)	(H)	-	34.3	34.4
Friday, October 2	8:30 AM	MANUFACTURING PAYROLLS	(Sep)	(H)	-	10K	16K
Friday, October 2	10:00 AM	FACTORY ORDERS M/M	(Aug)	(M)	0.0%	-0.1%	0.9%
Friday, October 2	10:00 AM	DURABLE GOODS ORDERS M/M	(Aug)	(H)	-	-	-
Friday, October 2	10:00 AM	DURABLE GOODS ORDERS EX-TRANS M/M	(Aug)	(H)	-	-	-

Week Ahead's market call

by Avery Shenfeld

In the **US**, a trend-like payrolls number should leave the jobless rate at a lean 4.1%, leaving inflation as the top concern for the central bank, and unlikely to be a market mover as a result. PCE inflation could come in a touch lower than consensus expectations, helped by methodology revisions, but the same report should show a strong monthly gain in personal consumption. All markets still seem to be oil watchers, responding more than we would expect to some not-very-substantive signals about US-Iran developments.

In **Canada**, monthly GDP seems likely to start Q3 with a small outright decline, which would be a bit weaker than consensus expectations. While growth for Q3 should still be in line with potential, we see more of a deceleration coming in Q4 as newly escalated tariffs take a bite out of exports and business confidence.

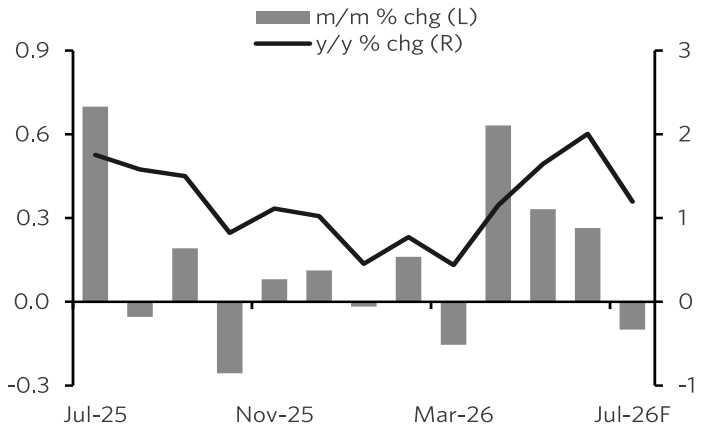
Week Ahead's key Canadian number: Gross domestic product—July

(Tuesday, 8:30 am)

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Variable (%)	CIBC	Mkt	Prior
GDP (m/m)	-0.1	0.1	0.3

Chart: Canadian GDP at basic prices



Source: Statistics Canada, Haver Analytics, CIBC

Following impressive growth in the second quarter, the Canadian economy may have stumbled slightly at the beginning of Q3. Manufacturing, retail and wholesale activity appear to have given back part of their prior month advances, while export data also pointed to a decline in energy exports in volume terms. The positive impact of FIFA World cup spending on areas such as recreation & culture may have also partly reversed, with most of Canada's games played in June. Overall, we forecast a 0.1% decline in economic activity, which would be slightly worse than the advance estimate for a flat reading.

Forecast implications — July's data will be a sign that growth was starting to wane again even before new US tariffs were threatened. Efforts to front-run tariffs that came into effect late in the month may have seen a slight rebound in activity during August. But for Q3 as a whole, GDP growth will likely be tracking around 1½%, with a further deceleration in Q4 likely as new US tariffs take a fuller bite out of activity and delay investment/hiring plans.

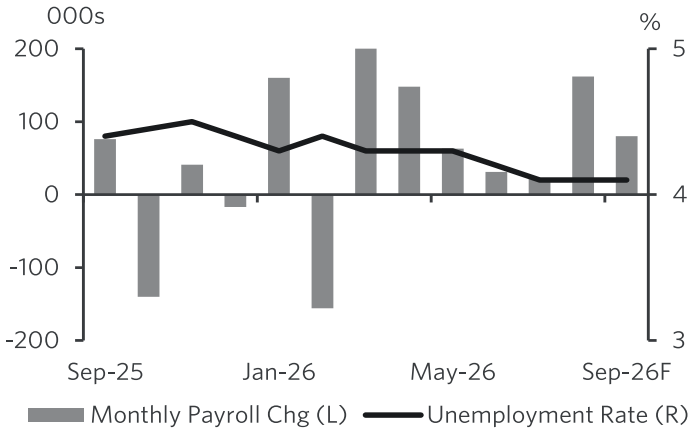
Week Ahead's key US number: Employment situation—September

(Friday, 8:30 am)

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Variable	CIBC	Mkt	Prior
Employment (m/m)	80K	100K	162K
Unemployment rate	4.1%	4.1%	4.1%
Avg hourly earnings	0.2%	0.3%	0.3%

Chart: US payroll employment



Source: BLS, Haver Analytics, CIBC

We expect job gains to moderate slightly in September. Strong rebounds in leisure and hospitality as well as government following previous monthly declines were behind the solid aggregate job gains in August. We do not expect these strong gains to recur this month. Our forecast for payroll gains of 80K is consistent with the average over the last three months and a stable unemployment rate. After dipping in June and July, the participation rate bounced back slightly in August, and could continue to tick up a touch this month as the prime-age participation rate has room to recover back to level seen earlier this year. Average hourly earnings are projected to increase 0.2% month over month, which would match the annual pace of 3.1% recorded in August.

Forecast implications — Headline job gains have been volatile recently but with the unemployment rate expected to remain at 4.1%, the labour market is still near full employment. That frees up the Fed to lean into the inflation fight and focus on inflation as energy prices climbed higher this month. We expect the Fed to deliver another 25 bps hike in the upcoming October FOMC meeting.

Other US Releases: Personal income & outlays—August

(Wednesday, 8:30 am)

We expect the monthly pace of personal spending to accelerate to 0.9% in August, as retail sales this month grew strongly driven by broad-based expansion. Personal income is expected to grow at the same pace as July at 0.4%, roughly in line with August average hourly earnings growth. However, this release will include the annual update to the national account with revisions back to 2021. It includes important methodology changes to deflator of portfolio management and investment advice services as well as the AI-related deflator for computer software and accessories, both of which had been running above their historical averages. These methodology changes will likely result in a softer than other wise print on PCE inflation. In the FOMC press conference two weeks ago, Fed Chair Warsh mentioned that total PCE prices likely was around 3.6% in August with core PCE running at about 3.2%, and we think that roughly translates into 0.3% monthly pace for both total and core PCE.

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