CIBC

Economics

THE WEEK AHEAD

September 7 - 11, 2026

Japan and the US: Swimming in the same churning sea

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

The two countries sit on opposite sides of the vast Pacific Ocean, but in one sense, the US and Japan are now swimming in the same churning sea, and will at some point need to find a life boat. Both are now seeing escalating long term bond yields, and although the levels for their 10-year rates are still oceans apart, they are both quite elevated compared to where they have sat since the 2008 global financial crisis. That's also playing out in Europe, but Japan and the US represent interesting bookends of this story.

Our fixed income strategy team has written extensively on how longer-term bond yields got here, and why the room for a retreat is quite limited. Our focus is on the consequence of these higher rates, and why they will represent a material challenge for fiscal policy, one that had been masked by an extended period of atypically low bond yields.

Those ultra-low bond yields meant that interest rates on government debt were persistently lower than nominal GDP growth rates. As Olivier Blanchard pointed out back in 2019, arguing for deficit stimulus when weak economic times hit, that meant that for any given lump of government debt, the accumulated interest on that debt would grow more slowly than the economy. As a result, debt/GDP ratios, and interest on the debt as a share of GDP, would remain manageable.

Now, after years of elevated deficits in countries like the US and Japan, not just in weak economic times but year after year, the gap between growth rates and interest rates may have flipped. On the growth side, the US is getting closer to Japan style demographics, as an aging population and rising retirements, coupled with limited net immigration, results in virtually no growth in the number of available workers.

As a result, even though productivity has picked up, the non-inflationary growth ceiling for the US economy sits near 2%. Tack on 2% inflation, and nominal GDP could be constrained to only 4% growth, which puts it below current yields on everything other than bills. Short rates could at some point be eased, but long term borrowing costs aren't going to come down much.

With even weaker demographics, Japan's potential growth rate sits near 0.5%, so with 2% inflation, nominal GDP would trend near 2½%. Ten-year JGBs already are trading at yields above that mark, and longer issues are sporting a 4% handle. Even having pared back the share of financing done in ultra-longs, much of the new debt is being raised at higher rates than nominal potential growth.

Japan had long been the poster child for having massive government debts, with no real consequences. General government gross debt to GDP exceeds 200%, versus roughly 125% in the US, while its net debt tops 130% versus America's at roughly 100%. But Japan was able to borrow at near zero short rates, and 10-year rates below 1%, for more than a decade, based not just on low overnight rates, but on a huge pool of domestic savings. Now it might need to run higher policy rates to keep inflation in check and support the yen, and face the consequences in much higher interest costs on that debt mountain.

The US is headed in the same direction. CBO projections show that, assuming an average interest rate of just shy of 4%, net interest costs will go from using up 19 cents out of every dollar of federal government revenue today, to 26 cents a decade from now, and soaring well beyond that in subsequent decades. If those escalating costs just get tacked on to even larger budget deficits, the path will at some point become unsustainable. And Olivier Blanchard, the erstwhile defender of large budget deficits, is himself expressing some concern about fiscal imbalances with interest rates running above nominal growth.

None of this says that the end is nigh. Governments can kick this can down the road for now, bond markets aren't going to fear a default by a major market economy borrowing in its own currency, or that the Fed will countenance the use of escalating inflation to drive up nominal GDP and, in effect, inflate the debt away. Maybe AI will at some point give trend GDP a huge lift. But in the here and now, the pressure on long term rates means that other borrowers, including those trying to buy a home, or corporates building a factory or a mine, will face a more meaningful squeeze. The politics of keeping taxes low, and spending not as low, has been a winner in both the US and Japan for decades, but could become less so as voters feel the pinch of higher costs for their own borrowing plans.

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 7	-	Markets Closed (Labour Day)	-	-	-	-	-
Tuesday, September 8	-	AUCTION: 3-M BILLS $15.2B, 6-M BILLS $5.4B, 1-YR BILLS $5.4B	-	-	-	-	-
Wednesday, September 9	-	AUCTION: 5-YR CANADAS $5B	-	-	-	-	-
Thursday, September 10	-	-	-	-	-	-	-
Friday, September 11	-	-	-	-	-	-	-

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 7	-	Markets Closed (Labor Day)	-	-	-	-	-
Tuesday, September 8	-	AUCTION: 3-YR TREASURIES $58B	-	-	-	-	-
Tuesday, September 8	3:00 PM	CONSUMER CREDIT	(Jul)	(L)	-	$11.3B	$14.2B
Wednesday, September 9	-	AUCTION: 10-YR TREASURIES $39B	-	-	-	-	-
Wednesday, September 9	7:00 AM	MBA-APPLICATIONS	(Sep 4)	(L)	-	-	0.8%
Thursday, September 10	-	AUCTION: 30-YR TREASURIES $22B	-	-	-	-	-
Thursday, September 10	8:30 AM	INITIAL CLAIMS	(Sep 5)	(M)	-	205K	206K
Thursday, September 10	8:30 AM	CONTINUING CLAIMS	(Sep 29)	(L)	-	-	1779K
Thursday, September 10	8:30 AM	PPI M/M	(Aug)	(M)	0.3%	0.4%	0.0%
Thursday, September 10	8:30 AM	PPI M/M (core)	(Aug)	(M)	0.2%	0.3%	0.2%
Thursday, September 10	8:30 AM	PPI Y/Y	(Aug)	(M)	-	5.2%	4.7%
Thursday, September 10	8:30 AM	PPI Y/Y (core)	(Aug)	(M)	-	4.6%	4.2%
Thursday, September 10	10:00 AM	EXISTING HOME SALES SAAR	(Aug)	(M)	-	4.0M	4.1M
Thursday, September 10	10:00 AM	EXISTING HOME SALES M/M	(Aug)	(M)	-	-1.6%	-1.7%
Thursday, September 10	10:00 AM	WHOLESALE INVENTORIES M/M	(xxx)	(L)	-	-	1.3%
Friday, September 11	8:30 AM	CPI M/M	(Aug)	(H)	0.3%	0.4%	0.1%
Friday, September 11	8:30 AM	CPI M/M (core)	(Aug)	(H)	0.2%	0.2%	0.2%
Friday, September 11	8:30 AM	CPI Y/Y	(Aug)	(H)	3.4%	3.4%	3.4%
Friday, September 11	8:30 AM	CPI Y/Y (core)	(Aug)	(H)	2.4%	2.4%	2.5%
Friday, September 11	10:00 AM	MICHIGAN CONSUMER SENTIMENT	(Sep P)	(H)	-	51.0	51.7
Friday, September 11	2:00 PM	FEDERAL BUDGET BALANCE	(Aug)	(L)	-	-	-$344.8B

Week Ahead's market call

by Avery Shenfeld

In the **US**, many on the FOMC have sounded like they are looking for reasons to continue to wait and see through September, but whether that's still a viable option after the strong payrolls report will be decided by the week ahead's inflation data. While Warsh dismissed a couple of softer core CPI and PCE price index prints as not that meaningful, others on the panel have clearly put a lot of weight on them as a reason to stall for time. A 0.2% core PCE, and a matching 0.2% core CPI might be enough to at least wait until October, as the August PCE data due in late September will benefit from a methodology change that could further shave the year-on-year core PCE pace. We're also nervously watching oil and gasoline prices, as the Fed needs to take the risk of a spillover into core inflation into account if we don't start to see some relief on the energy price front.

In **Canada**, we get the week off from economic data, leaving the Canadian market to be steered by US developments, news on the Iran front, and anything that comes up in terms of trade relations with the US. We see the market's conviction that the Bank of Canada will be hiking this year to be a bit misguided, particularly since early data for Q3 are signaling that growth was slowing again after the Q2 bounce, and that was before seeing any hit from new tariffs imposed by the US in August.

There are no major Canadian data releases next week.

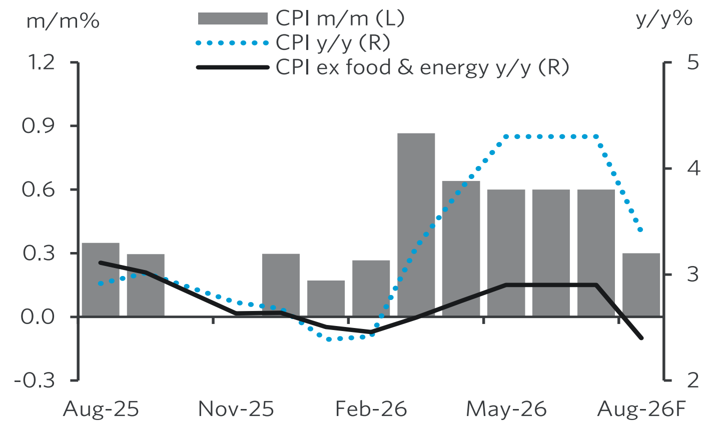
Week Ahead's key US number: Consumer price index—August

(Friday, 8:30 am)

Helen Lao helen.lao@cibc.com

Variable (%)	CIBC	Mkt	Prior
Headline CPI (m/m)	0.3	0.4	0.1
Headline CPI (y/y)	3.4	3.4	3.4
Core CPI (m/m)	0.2	0.2	0.2
Core CPI (y/y)	2.4	2.4	2.5

Chart: US consumer price index



Source: BLS, Haver Analytics, CIBC

Rising gasoline prices are expected to push monthly US CPI higher in August, to 0.3% compared with 0.1% in July. Excluding food and energy, CPI likely rose at a more moderate 0.2% month over month, the same pace as in July. Within core goods, recreation commodities such as video and audio products and recreational reading materials are unlikely to post the strong monthly gains seen in July. We also expect medical care commodities to continue declining on a monthly basis, reflecting pressure from the Trump Administration to reduce prescription drug prices. On the core services side, shelter inflation is expected to edge up to 0.2% (July: 0.1%), as lodging away from home could rebound after two consecutive monthly declines. However, that pickup is likely to be offset by slower growth in medical care services and education services, leaving core services at 0.2% m/m, unchanged from July.

Forecast implications — This will be the last inflation report before the September FOMC meeting and a key decisive data point for many voting members. Coming in at the same monthly pace as July for core CPI would imply a continued deceleration of core CPI inflation in year-over-year space. That would give the go-ahead for those looking for confirmation of signs of disinflation to vote for a hold, leaving rates unchanged for the September FOMC.

Contacts:

Avery Shenfeld
avery.shenfeld@cibc.com

Benjamin Tal
benjamin.tal@cibc.com

Andrew Grantham
andrew.grantham@cibc.com

Katherine Judge
katherine.judge@cibc.com

Helen Lao
helen.lao@cibc.com

CIBC Capital Markets
PO Box 500
161 Bay Street, Brookfield Place
Toronto, Canada, M5J 2S8
Bloomberg @ CIBC

economics.cibccm.com