

September 22 - 26, 2025

## Sooner or later?

by Avery Shenfeld [avery.shenfeld@cibc.com](mailto:avery.shenfeld@cibc.com)

When asked by Alice which way she ought to go, the Cheshire Cat rightly pointed out that the answer depends on where she wants to get to. That's just as true for a central bank. If the destination for interest rates is sharply lower, it would typically be wiser to move there at a faster clip. If not, a shallower path would usually be fine.

Despite all the politics, other than Stephen Miran, FOMC members, including the two previous Trump appointees, don't seem to be in a rush to drop rates at a rapid clip. That's largely because they agree, for the most part, on where they want to get to, which is to a "neutral" setting by the end of 2026. After dropping out the three highest and lowest projections, the range for their forecasts of the funds rate at that point, from 2.9% to 3.6%, is nearly identical to their estimate of the "long run" outlook. Our own projection, entailing three more quarter point cuts, lies within that same range, implying that the destination isn't at the bottom of steep hill.

In theory, the neutral rate is a setting that keeps the economy growing in line with its non-inflationary potential, with labour markets neither tightening further nor adding slack. That's a sensible objective for the US central bank at this point, given that the American labour market is not that far from full employment, and core inflation has yet to reach the 2% target.

The textbook definition for where that rate sits in the "long run" measures it under the assumption that there are no other major headwinds or tailwinds acting on growth. But in practice, the interest rate that will keep the economy on that cruise control path at any point in time can be above or below neutral due to those other forces. Slower population growth, and a slower pace for trend GDP and the capital spending needed for the matching growth in capacity, would generally push the neutral rate lower. You'll need that lower rate to get enough capital spending to recycle savings back into the economy.

But there are reasons to believe that what would keep the economy at its potential growth rate today, could temporarily be a bit higher than the longer term neutral rate. Along with jitters over an above-target core inflation pace, that gives the Fed reason to have some pauses along the way to lower rates in the quarters ahead.

Start with what we are seeing in terms of growth in the here and now. Albeit after a sluggish first half, the third quarter seems to be on pace for a respectable 2½% growth rate. In the face of a much slower new normal for population growth, that might actually be a bit above the economy's non-inflationary potential. If rates are indeed a percentage point above where the long run neutral rate lies, the current pace suggests that there are meaningful tailwinds offsetting the drag from the policy rate.

That interest-rate drag is indeed visible in some parts of the economy. Home sales have been weak, and both residential and non-residential construction spending have been declining this year.

But there are some major tailwinds that could persist for a while and drive growth elsewhere in the economy. Spending on massive capital projects tied to AI, including information processing equipment and software, was a key force over the first half of the year, and there is still heavy demand for data centres and the power projects to run them.

That same tech boom, and the market's high hopes for it, has been part of the story for equity-driven wealth gains for American households. Those in the upper strata of incomes and wealth have been able to sustain solid growth in recent retail sales figures, even amidst a softening labour market that is likely restraining spending by the less fortunate, as well as the dampened population growth rate. The optimism in financial markets has also led to tight corporate spreads and receptive equity markets for those seeking capital to fund the AI boom.

Should these factors persist in the next few months, the Fed will face a dilemma by the time it gets to its December rate decision. If growth holds up, and the jobless rate levels off, it won't be as easy a call to keep cutting rates with core inflation above target. A pause at that point, or in the first quarter, won't rule out additional easing later on, when we might be past the peak of AI capital spending, or equity driven wealth gains. Sooner or later we'll have to get to something close to a longer-term neutral rate, but given today's tailwinds, it might be a bit later than markets now expect.

## 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 22	8:30 AM	INDUSTRIAL PROD. PRICES M/M	(Aug)	(M)	-	-	0.7%
Monday, September 22	8:30 AM	RAW MATERIALS M/M	(Aug)	(M)	-	-	0.3%
Monday, September 22	9:45 AM	Speaker: Sharon Kozicki (Deputy Gov.)	-	-	-	-	-
Monday, September 22	1:15 PM	Speaker: Carolyn Rogers (Sr. Deputy Gov.)	-	-	-	-	-
Tuesday, September 23	-	AUCTION: 3-M BILLS \$14.6B, 6-M BILLS \$5.2B, 1-YR - BILLS \$5.2B	-	-	-	-	-
Tuesday, September 23	2:30 PM	Speaker: Tiff Macklem (Governor)	-	-	-	-	-
Wednesday, September 24	-	AUCTION: 10-YR CANADAS \$5.3B	-	-	-	-	-
Thursday, September 25	-	AUCTION: 30-YR CANADAS \$3B	-	-	-	-	-
Thursday, September 25	8:30 AM	PAYROLL EMPLOYMENT, EARNINGS & HRS	(Jul)	-	-	-	-32.9K
Friday, September 26	8:30 AM	GDP M/M	(Jul)	(H)	0.2%	0.1%	-0.1%

## 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 22	8:30 AM	CHICAGO FED NAT.ACTIVITY INDEX	(Aug)	(M)	-	-	-0.2
Monday, September 22	9:45 AM	Speaker: John C. Williams (Vice Chairman, New York) (Voter)	-	-	-	-	-
Monday, September 22	10:00 AM	Speaker: Alberto G. Musalem (St Louis) (Non-Voter)	-	-	-	-	-
Monday, September 22	10:00 AM	Speaker: Alberto G. Musalem (St Louis) (Non-Voter)	-	-	-	-	-
Monday, September 22	12:00 PM	Speaker: Beth Hammack (Cleveland) (Voter) & Thomas I. Barkin (Richmond) (Voter)	-	-	-	-	-
Monday, September 22	12:00 PM	Speaker: Stephen Miran (	-	-	-	-	-
Tuesday, September 23	-	AUCTION: 2-YR TREASURIES \$69B	-	-	-	-	-
Tuesday, September 23	8:30 AM	PHILADELPHIA FED - NON-MANUFACTURING	(Aug)	(M)	-	-	-17.5
Tuesday, September 23	8:30 AM	CURRENT ACCOUNT BALANCE	(2Q)	(L)	-	-	-\$450.2B
Tuesday, September 23	9:45 AM	S&P GLOBAL US SERVICES PMI	(Sep P)	(L)	-	-	54.5
Tuesday, September 23	9:45 AM	S&P GLOBAL US COMPOSITE PMI	(Sep P)	(L)	-	-	54.6
Tuesday, September 23	9:45 AM	S&P GLOBAL US MANUFACTURING PMI	(Sep P)	(L)	-	-	53.0
Tuesday, September 23	10:00 AM	RICHMOND FED MANUF. INDEX	(Sep)	(M)	-	-	-7
Tuesday, September 23	9:00 AM	Speaker: Michelle W Bowman (Governor) (Voter)	-	-	-	-	-
Tuesday, September 23	10:00 AM	Speaker: Raphael W. Bostic (Atlanta) (Voter)	-	-	-	-	-
Tuesday, September 23	12:35 AM	Speaker: Jerome H Powell (Chairman) (Voter)	-	-	-	-	-
Wednesday, September 24	-	AUCTION: 5-YR TREASURIES \$70B	-	-	-	-	-
Wednesday, September 24	-	AUCTION: 2-YR FRN \$28B	-	-	-	-	-
Wednesday, September 24	7:00 AM	MBA-APPLICATIONS	(Sep 19)	(L)	-	-	29.7%
Wednesday, September 24	10:00 AM	NEW HOME SALES SAAR	(Aug)	(M)	640K	653K	652K
Wednesday, September 24	10:00 AM	NEW HOME SALES M/M	(Aug)	(M)	-1.8%	0.1%	-0.6%
Wednesday, September 24	4:10 PM	Speaker: Mary C. Daly (San Francisco) (Voter)	-	-	-	-	-
Thursday, September 25	-	AUCTION: 7-YR TREASURIES \$44B	-	-	-	-	-
Thursday, September 25	8:30 AM	INITIAL CLAIMS	(Sep 20)	(M)	-	-	231K
Thursday, September 25	8:30 AM	CONTINUING CLAIMS	(Sep 13)	(L)	-	-	1920K
Thursday, September 25	8:30 AM	ADVANCE GOODS TRADE BALANCE	(Aug)	(M)	-\$94.0B	-\$95.2B	-\$102.8B
Thursday, September 25	8:30 AM	WHOLESALE INVENTORIES M/M	(Aug P)	(L)	-	-	0.1%
Thursday, September 25	8:30 AM	RETAIL INVENTORIES M/M	(Aug)	(H)	-	-	0.2%
Thursday, September 25	8:30 AM	GDP (annualized)	(2Q T)	(H)	3.3%	3.3%	3.3%
Thursday, September 25	8:30 AM	GDP DEFLATOR (annualized)	(2Q T)	(H)	-	-	2.0%
Thursday, September 25	8:30 AM	DURABLE GOODS ORDERS M/M	(Aug P)	(H)	-0.6%	-0.5%	-2.8%
Thursday, September 25	8:30 AM	DURABLE GOODS ORDERS EX-TRANS M/M	(Aug P)	(H)	-0.3%	-0.2%	1.0%
Thursday, September 23	10:00 AM	EXISTING HOME SALES SAAR	(Aug)	(M)	-	4.0M	4.0M
Thursday, September 23	10:00 AM	EXISTING HOME SALES M/M	(Aug)	(M)	-	-0.8%	2.0%
Thursday, September 25	8:20 AM	Speaker: Austan D. Goolsbee, Chicago (Non-Voter)	-	-	-	-	-
Thursday, September 25	9:00 AM	Speaker: John C. Williams (Vice Chairman, New York) (Voter)	-	-	-	-	-
Thursday, September 25	10:00 AM	Speaker: Michelle W Bowman (Governor) (Voter)	-	-	-	-	-
Thursday, September 25	1:00 PM	Speaker: Michael S Barr (Governor) (Voter)	-	-	-	-	-
Thursday, September 25	1:40 PM	Speaker: Lorie K. Logan (Dallas) (Non-Voter)	-	-	-	-	-
Thursday, September 25	3:30 PM	Speaker: Mary C. Daly (San Francisco) (Voter)	-	-	-	-	-
Friday, September 26	8:30 AM	PCE DEFLATOR Y/Y	(Aug)	(H)	2.7%	2.7%	2.6%
Friday, September 26	8:30 AM	PCE DEFLATOR Y/Y (core)	(Aug)	(H)	3.0%	2.9%	2.9%
Friday, September 26	8:30 AM	PERSONAL INCOME M/M	(Aug)	(H)	0.3%	0.3%	0.4%
Friday, September 26	8:30 AM	PERSONAL SPENDING M/M	(Aug)	(H)	0.4%	0.5%	0.5%
Friday, September 26	10:00 AM	MICHIGAN CONSUMER SENTIMENT	(Sep)	(H)	-	56.0	55.4
Friday, September 26	9:00 AM	Speaker: Thomas I. Barkin (Richmond) (Voter)	-	-	-	-	-
Friday, September 26	1:00 PM	Speaker: Michelle W Bowman (Governor) (Voter)	-	-	-	-	-

## Week Ahead's market call

by Avery Shenfeld

In the **US**, core PCE inflation is “supposed” to be 2%, but the magic number these days is actually a three. We’re expecting a 3.0% year-on-year rate, and a commensurate 0.3% month-over-month reading for that core benchmark, a touch on the high side for the market’s liking. Consumer spending numbers due in the week ahead also look fairly solid. There will be some offsets for the doves, as Fed speakers will be out explaining why their easing program makes sense, and in some softer readings for durable orders and home sales.

In **Canada**, the plunge in GDP in Q2 was exacerbated by the fact that exporters rushed goods to the US market in Q1 to beat a feared across-the-board tariff. The monthly GDP figures for July and the advance reading for August will likely be consistent with a rebound in Q3 that will only erase some of the Q2 dip, thereby leaving the Bank of Canada on track for a further quarter point cut in October, even with July a hair above the consensus expectation.

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

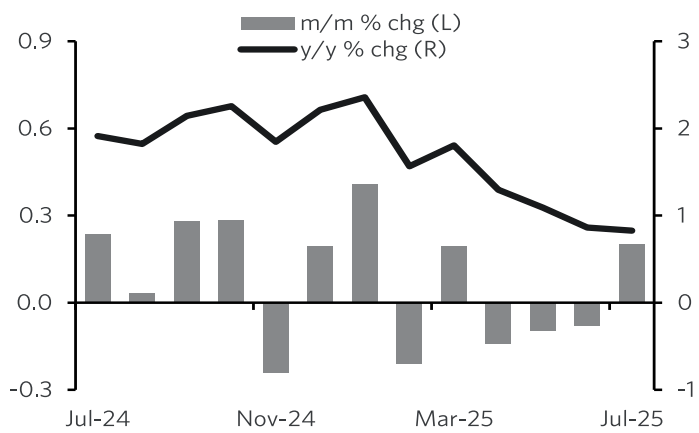
(Friday, 8:30 am)

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Variable (%)	CIBC	Mkt	Prior
GDP (m/m)	0.2	0.1	-0.1

The Canadian economy's recovery from Q2's contraction likely began in July, and may have initially been a little stronger than first advertised. A better than expected advance in manufacturing shipments should see that sector contribute positively to monthly GDP, alongside previously cited increases in real estate and wholesale trade. That could drive a 0.2% gain in July activity, which would be slightly better than the advance estimate for a 0.1% increase. There are mixed signals for the advanced reading for August with retailing picking up, but employment taking another step back during that month and housing starts slowing.

Chart: Canadian GDP at basic prices



Source: Statistics Canada, Haver Analytics, CIBC

**Forecast implications —** While July GDP could come in a touch stronger than the advance estimate, tracking for the third quarter as a whole would still be a touch below the Bank of Canada's July MPR forecast, and as a result wouldn't be an obstacle to a further interest rate cut at the October meeting.

Week Ahead’s key US number:  
Personal income & outlays—August

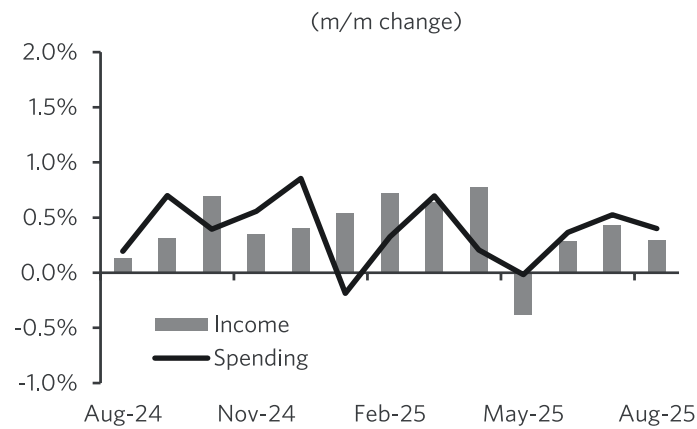
(Friday, 8:30 am)

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Variable (%)	CIBC	Mkt	Prior
Personal income (m/m)	0.3	0.3	0.4
Personal spending (m/m)	0.4	0.5	0.5
Core PCE price index (y/y)	3.0	2.9	2.9

The most important data next week will be the August personal income and spending report. Price pressures should remain firm with the core PCE price index coming in at 0.3% m/m. The August CPI showed all major core categories: goods, services ex. shelter and shelter print at a 0.3% pace, and we expect that picture to show up in the PCE data. In annual terms, core PCE will edge up to 3.0% and three-month annualized change should move up above that. Consumption growth in inflation-adjusted terms will accelerate to 0.3% while personal income growth, based on the payroll data, will moderate to 0.3% gain. The bottom line of the report will be that underlying inflation is trending at 3% but the consumer, while not spending like it’s 2023, looks fine.

Chart: US personal income and spending



Source: BEA, Haver Analytics, CIBC

**Forecast implications** — Our GDP nowcast is tracking close to 2.5%, somewhat below the Atlanta Fed nowcast model, which is current at 3.3%.

**Market implications** — We expect core PCE to be a little hotter than the consensus view, and cause markets to pull back a little on the view that the Fed will cut two more times this year, but there is greater sensitivity around the labor market than inflation.

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