# 5 shocks that could keep US interest rates higher for longer

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CommBank now expects US rate rises in September, December and March.

Five economic shocks are supporting growth while keeping inflation pressure elevated.

Stronger global demand for capital could also keep longer-term borrowing costs higher.

Five powerful shifts in the US economy are creating an unusual combination of resilient growth and persistent inflation, increasing the likelihood that interest rates will need to rise further.

CommBank economists Joseph Capurso and Madison Cartwright point to a boom in AI investment, personal and corporate tax cuts, lower immigration, increased retirements and the Middle East energy shock as the five forces shaping the outlook.

“We expect the five shocks will support US economic growth, keep inflation above target and ultimately require tighter monetary policy,” Capurso said.

CommBank now expects the US Federal Reserve to begin an interest rate hiking cycle in September, bringing forward its previous forecast for the first increase from December.

The forecast is for three 0.25 percentage point increases, in September, December and March, taking the Federal Funds rate 0.75 percentage points higher. Capurso said the risks were tilted towards a fourth increase being needed.

CommBank economists Joseph Capurso and Madison Cartwright identify five forces they expect to support US growth while keeping inflation pressure elevated.

Heavy spending on data centres, semiconductors, servers and other AI infrastructure is providing a major boost to US investment.

CommBank estimates hyperscaler and other AI capital spending will add about 0.5 percentage points to US economic growth in 2026.

The investment is also increasing demand for labour, energy, construction and specialised capital goods, meaning CommBank expects AI to add to inflation while the build-out continues.

Tax cuts are providing another boost to demand.

Changes to personal taxes are supporting household incomes and spending, while lower business taxes are increasing corporate cash flow.

CommBank estimates tax cuts and AI spending together could add around three-quarters to one percentage point to US economic growth in 2026.

At the same time, the supply of workers is becoming more constrained.

A sharp fall in immigration is slowing growth in the US workforce. CommBank says lower migration can make it harder for the economy to respond to stronger demand without putting upward pressure on wages and prices.

Increased retirements are adding to that pressure by reducing labour force participation among older Americans.

CommBank expects the combination of lower immigration and more retirements to increase the risk that labour shortages re-emerge as demand strengthens.

That could support faster wage growth and make underlying inflation more persistent.

The fifth shock comes from the Middle East conflict, which has disrupted global energy supply and lifted oil and gas prices.

Higher energy costs reduce household purchasing power and increase costs for businesses across areas including transport, food and supply chains.

CommBank says a sustained increase in energy inflation could also spill over into underlying inflation, especially if demand remains strong.

The five forces matter because they are pushing on different sides of the US economy at the same time.

AI investment and tax cuts are supporting demand, while lower immigration and increased retirements are restricting the economy's capacity to meet that demand. Higher energy prices add another source of inflation pressure.

CommBank expects US inflation to remain above the Federal Reserve's 2% target as a result.

Federal Reserve Chair Kevin Warsh also used a closely watched annual speech at Jackson Hole in the US state of Wyoming to signal a willingness to raise rates if inflation remains too high.

“We judge the Fed will need to tighten more than financial markets currently price,” Capurso said.

Bonds and bond markets are an important part of the economy, but most people don’t know a lot about them. Here’s a guide to what they do and how they work.

The Fed outlook also sits within a much broader change taking place in global financial markets.

Governments and businesses are competing for increasing amounts of capital to fund investment in areas including AI, defence and the transition to lower-emissions energy.

One way to see that shift is through government bond yields. A bond yield is effectively the return investors demand for lending money. When yields rise, it generally becomes more expensive for governments to borrow, while those yields also act as benchmarks for borrowing costs elsewhere in the economy, including for businesses.

“Global long-term yields have surged in recent months and years and we see little prospect for a meaningful decline,” CommBank Head of Market Strategy and Rates Research Adam Donaldson said.

For decades, a large pool of global savings helped keep borrowing costs down. Donaldson's analysis suggests that balance is changing as investment demand increases.

“The outlook for spending on the transition to a net zero emission economy, defence, and AI suggest this pressure will intensify in the years ahead,” he said.

Australia is not immune from those global forces.

Australian bond yields are influenced by international markets as well as expectations for the domestic economy and the Reserve Bank of Australia's cash rate.

Bond markets are also signalling that the “neutral”, or average, cash rate is likely to be higher than in the years before COVID, meaning borrowers may need to plan around higher interest rates over time than they became used to before the pandemic.

That means higher global yields can feed into Australian borrowing costs even when local economic conditions differ.

There are some offsets. CommBank says Australia's comparatively stronger fiscal position and demand from overseas investors for Australian-dollar bonds could help Australian yields perform better than their US counterparts over time.

But the broader message is that the outlook for borrowing costs increasingly extends beyond the question of when individual central banks will next move rates.

Persistent inflation and a global race for capital could mean the cost of money itself remains higher than households and businesses became used to in the decade before the pandemic.

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