WEEKLY COMMENTARY

US Debt: 2001 Was a Turning Point Whose Impact Is Still Felt Today

By Francis Généreux, Lead Economist

Today, memorial events across the United States will commemorate the 25th anniversary of the September 11, 2001 attacks. On that fateful day, the world stood on the brink of profound change.

2001 was a year marked by geopolitical and economic transition. But the recession that year started well before 9/11. According to the National Bureau of Economic Research (NBER), it had begun a few months earlier, after the business cycle peaked in March 2001. The labour market had already recorded a net loss of 695,000 jobs from January to August 2001. The stock market had been trending sharply downward since the collapse of the dotcom bubble, with the S&P 500 down by nearly 30% between its own peak in 2000 and the start of September 2001. Of course, the terrorist attacks threw the economy into further disarray. The next six months saw another 1,284,000 net layoffs. That said, the recession officially ended soon after 9/11. According to the NBER, the business cycle hit bottom in November, and real GDP grew in the fourth quarter of 2001. The economy was bolstered by resilient consumer spending (partly fuelled by a sense of patriotism), as well as rate cuts by the Federal Reserve (Fed) and fiscal measures introduced earlier that year by the George W. Bush administration. But the last of these factors—federal fiscal policy—is the one whose consequences are still being felt most acutely 25 years later. 2001 was both a major geopolitical tipping point and a pivotal moment for public finances.

The federal government had just recorded four consecutive fiscal years of budget surpluses. The US$69.3 billion surplus in 1998 was the first since 1969, while the US$128.2 billion surplus in 2001 remains the last to date. The question of how to use these surpluses, including those projected for the years ahead, became a key point of debate among politicians, particularly during the 2000 presidential election. Several schools of thought emerged. Some wanted to gradually pay down the federal debt, which stood at US$5.629 trillion in 2000, including US$3.410 trillion in debt held by the public. Others wanted to ensure the long-term viability of Social Security by putting money into a dedicated fund (“lockbox”). And then there were those who were eager to return the projected surpluses to taxpayers through tax cuts. The new Bush administration’s decision to pursue this last option through the *Economic Growth and Tax Relief Reconciliation Act* (EGTRRA), which was signed into law in June 2001, was significant for several reasons.

First, the fiscal cost of these tax cuts was staggering. At the time, it was estimated at about US$1.3 trillion over 10 years. Second, it entrenched within the Republican Party the idea that “Reagan proved deficits don’t matter,” as then-Vice President Dick Cheney reportedly claimed.[1] Lowering taxes was more important than preserving the short- and long-term sustainability of public finances. Third, the EGTRRA didn’t simply provide temporary

[1] Ron Suskind, *The Price of Loyalty: George W. Bush, the White House, and the Education of Paul O'Neill* (New York: Simon & Schuster, 2004), page 291.

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Oskar Stone, Macro Strategy Associate • LJ Valencia, Economist
Desjardins Economic Studies: 514-281-2336 or 1-866-866-7000, ext. 5552336 • desjardins.economics@desjardins.com • desjardins.com/economics

support to the economy through short-lived tax cuts. Instead, it reduced government revenue on a near-permanent basis. Finally, although a comparable mechanism had been introduced in 1975, the measure reinforced an idea that would become increasingly influential: Tax cuts were no longer enough. Money also had to be paid directly to households. This was done in the summer of 2001, with payments of up to US$600 per household.

At first, those cheques had little impact on economic growth and were used mainly to boost personal savings (including debt repayment). But then September 11 happened, and consumers were able to use those additional savings to boost their spending in the aftermath of the attacks. Car sales also increased, supported by favourable credit conditions and substantial discounts.

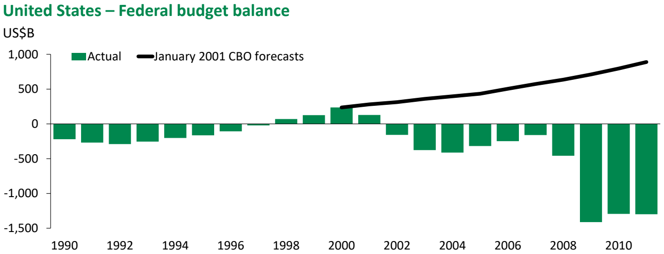
The lesson was clear: Direct payments to households could produce results faster than tax cuts, whose effects generally take longer to materialize. Subsequent administrations followed suit during other periods of economic weakness. For example, there was a refundable family tax credit in 2003, a refundable tax rebate under Obama in 2008 and three rounds of pandemic stimulus cheques (in March and December 2020 under Trump and in 2021 under Biden).

The recession, lower corporate income, the sharp decline in capital gains following the dotcom crash, tax cuts including cheques sent to households, the immediate consequences of September 11, increased homeland security spending and military operations in Afghanistan all contributed to a deterioration of public finances. A US$128.2 billion deficit was recorded as early as 2002.

The situation continued to deteriorate in subsequent years as deficits accumulated. The 2003 tax cuts, the war in Iraq, the expansion of social programs, the financial crisis and the Great Recession of 2008–2009 all contributed to the mounting deficits. Actual budget results diverged completely from the Congressional Budget Office's (CBO) 2001 projections (graph 1). Debt held by the public was projected to reach just

Graph 1
A String of Surpluses Ended Sooner Than Expected

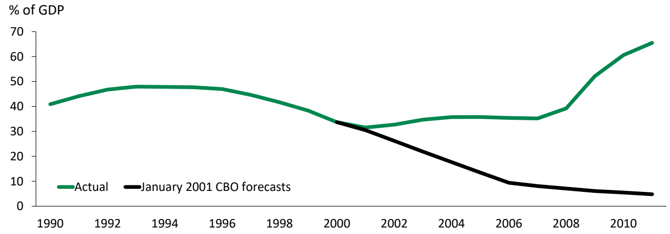
United States – Federal budget balance



Congressional Budget Office and Desjardins Economic Studies

Graph 2
Instead of Disappearing, Public Debt Soared

United States – Federal debt held by the public



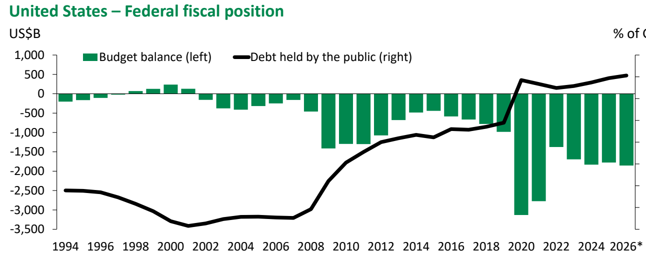
Congressional Budget Office and Desjardins Economic Studies

US$818 billion, or 5.3% of GDP, in 2011. Instead, it came to US$10.128 trillion, or 65.5% of GDP (graph 2).

Tax adjustments and slightly more spending restraint, imposed in part by the bipartisan *Budget Control Act* of 2011, helped reduce deficits starting in 2013. But the 2018 tax cuts once again worsened the situation. The COVID-19 pandemic and the response by the Trump and Biden administrations dealt another major blow, causing deficits and debt to soar. Since then, budget shortfalls have remained high, despite the DOGE spending cuts and the tariffs imposed by the Trump administration. The 2025 tax cuts clearly made matters worse, with little positive impact on economic growth so far. In February 2026, the CBO projected a US$1.853 trillion deficit for the fiscal year ending on September 30. Depending on the August and September results, it could move closer to US$2 trillion. Total federal debt recently made headlines by rising above US$40 trillion. More specifically, debt held by the public stood at US$32.415 trillion on August 31, close to 100% of GDP (graph 3).

Graph 3
The Fiscal Situation Continues to Deteriorate

United States – Federal fiscal position



* February 2026 forecasts for fiscal year 2026.
Congressional Budget Office and Desjardins Economic Studies

The problem is that there's little real political will to significantly and sustainably reduce deficits. Every election campaign brings a new round of promises to cut taxes. For example, President Trump recently offered to send every adult US citizen a US$5,000 "dividend" after the November 3 midterms if Republicans retain their congressional majority. The cost of such a measure could run as high as US$1.3 trillion.

Even the seemingly draconian spending cuts introduced in 2025 did little to slow the growth of federal spending. Instead, the real change was the composition of federal expenditures. Defence and social programs are taking up an increasingly large share of government revenues, which never seem to be enough.

And that doesn't include the growing cost of servicing the debt. Over the first ten months of the current fiscal year, interest charges will have cost the US Treasury US$1.170 trillion, compared with US$970 billion for the entire 2025 fiscal year. The recent rise in bond yields both reflects the deterioration of public finances and strains them even further. All else being equal, a 0.10 percentage point increase in interest rates would add US$379 billion to the deficit after ten years, according to the CBO.

This places a heavy burden on the Treasury and is also becoming a constraint for the Fed. In particular, without clear forward guidance on monetary policy from Fed Chair Warsh, bond market participants must respond to factors affecting supply and demand in the market. The sad state of federal public finances is one of the factors pushing bond yields higher. And rising yields could have economic consequences. Among other things, higher mortgage rates could further hold back an already weak housing market. The Fed will need to take this into account at next week's monetary policy committee meeting, and Chair Warsh will no doubt be asked about it at Wednesday's press conference.

What to Watch For

UNITED STATES

WEDNESDAY September 16 - 8:30

August	m/m
Consensus	0.8%
Desjardins	0.6%
July	**-0.6%**

Retail sales (August) – In July, retail sales fell 0.6%, marking the sharpest decline since May 2024. However, we expect sales to post an encouraging increase starting in August. Two factors that weighed on sales in the previous month, namely automobile and gasoline sales, should instead support month-over-month growth in August. Preliminary data point to higher new vehicle purchases, while rising pump prices are expected to boost gas station receipts. Preliminary indicators for other retail categories are less encouraging. A modest recovery in online sales is nevertheless expected following the unexpected 2.3% decline recorded in July. All in all, we expect a 0.6% increase in total sales and a 0.3% gain in sales excluding motor vehicles and gasoline.

WEDNESDAY September 16 - 14:00

September	
Consensus	3.75%
Desjardins	4.00%
July 29	**3.75%**

Federal Reserve meeting (September) – It remains difficult to accurately gauge the Federal Reserve (Fed) under the leadership of Kevin Warsh. While forward guidance was relatively clear under Jerome Powell, the new Fed chair has preferred to avoid telegraphing the central bank's intentions. His recent speech at the Jackson Hole Economic Symposium in Wyoming delivered mixed signals. On the one hand, he reiterated that inflation has been too high for too long. On the other, he noted that inflation has come in softer than expected in recent months. However, August's consumer price data were more in line with expectations and, more importantly, gasoline prices, particularly diesel prices, are once again moving higher. In addition, the labour market has been increasingly resilient of late. The Fed is therefore likely to raise rates at next week's meeting. That said, the recent increase in bond yields is already helping to tighten monetary conditions. Against this backdrop, Chair Warsh's press conference will be closely watched, as will the Fed's latest dot plot, although its usefulness is somewhat diminished by the fact that the new chair didn't contribute to it.

THURSDAY September 17 - 8:30

August	ann. rate
Consensus	1,320,000
Desjardins	1,350,000
July	**1,239,000**

Housing starts (August) – Volatility remains elevated in US housing starts. Following a 16.4% decline in May and a 19.7% surge in June, housing starts fell 12.4% in July. This pattern of sharp swings is expected to continue in August, with housing starts projected to increase. The main encouraging sign is the increase in building permits issued in July, which pushed their level back above that of housing starts. Employment and hours worked in residential construction also increased. However, there are few other signs of a rebound. Sales of new single-family homes have declined recently, while the inventory of homes available for sale remains high. As a result, we only expect housing starts to edge up slightly to 1,350,000 units.

FRIDAY September 18 - 9:15

August	m/m
Consensus	0.3%
Desjardins	0.2%
July	**0.2%**

Industrial production (August) – Industrial production grew 0.2% in July. We expect the August uptick was about the same. The automotive sector is poised to rebound following the unexpected 2.1% decline recorded in July. Although employment in the sector declined, hours worked rose last month. However, activity in the broader manufacturing sector is expected to slow, as hours worked have levelled off. That said, the ISM Manufacturing PMI remains relatively encouraging for the sector as a whole. We also anticipate modest monthly gains in energy production and mining. Overall, we expect industrial production and manufacturing output to both increase by 0.2%, matching July's pace.

CANADA

MONDAY September 14 - 8:30	
August	**m/m**
Consensus	0.0%
Desjardins	-0.1%
July	**0.5%**

Consumer price index (August) – Headline inflation is expected to have remained elevated at 3.0% despite the potential for a weak monthly reading of -0.1%. While the conflict in the Middle East continued, gasoline prices eased over the month of August. That said, energy prices are back up again, and the longer oil prices remain elevated, the more likely they are to feed through to broader inflationary pressures. Core inflation measures, particularly the Bank of Canada's preferred metrics, will take a back seat, with the Bank of Canada more worried about what's coming down the pike. As a result, even though those measures are likely to remain around 2%, markets will continue to price in near-term rate hikes unless oil prices come back down.

MONDAY September 14 - 8:30	
July	**m/m**
Consensus	-0.2%
Desjardins	-0.2%
June	**0.1%**

Manufacturing sales (July) – We anticipate that manufacturing sales fell by 0.2% m/m in July, in line with Statistics Canada's flash estimate. Lower sales of chemicals and fabricated metals likely contributed the most to the decline. In real terms, manufacturing sales appear to have declined by 0.9%, as seasonally adjusted industrial product prices rose (0.7%).

TUESDAY September 15 - 5:00	
August	**m/m**
Consensus	n/a
Desjardins	-2.0%
July	**0.5%**

Existing home sales (August) – National seasonally adjusted home sales likely declined by about 2% month over month in August. Preliminary year-over-year data from several local real estate boards point to weaker activity than in August 2025. Toronto also ended its five-month growth streak, with seasonally adjusted sales falling 1.3% from July.

WEDNESDAY September 16 - 8:15	
August	**ann. rate**
Consensus	237,500
Desjardins	255,000
July	**229,100**

Housing starts (August) – August housing starts likely climbed to roughly 255k (saar), partially reversing the unusual weakness recorded in July. Construction activity is expected to remain increasingly concentrated in purpose-built rental projects, supported by government incentives, while condo starts continue to hover near levels last seen following the Global Financial Crisis.

OVERSEAS

MONDAY September 14 - 22:00
August

China: Industrial production and retail sales (August) – China's economy lost momentum early in the second half of the year. Industrial production growth slowed to 4.5% year over year in July from 5.3% in June, while retail sales rose just 0.6%. Both figures came in well below expectations. The economy's two-speed pattern is expected to persist in August. Production will continue to be supported by foreign demand, with exports maintaining solid growth. Consumption, however, remains the economy's weak spot. The waning impact of the trade-in program, which raised the comparison base a year ago, will continue to weigh on retail sales, while new home prices continue to decline and inflation remains subdued. Another disappointing reading would increase pressure on Beijing to expedite the rollout of previously announced fiscal measures.

THURSDAY September 17 - 7:00	
September	
Consensus	3.75%
Desjardins	3.75%
July 30	**3.75%**

United Kingdom: Bank of England meeting (September) – We expect the Bank of England to leave the Bank Rate unchanged at 3.75% next week. While recent labour market data has kept the easing bias alive, risks are clearly skewing towards rate hikes, not cuts. The Burnham administration has not signalled a meaningful fiscal tightening, and global energy prices remain elevated. We think there is a meaningful risk that the Bank will abandon the easing bias and open the door to a rate hike (contingent on energy prices).

FRIDAY September 18	
September	
Consensus	1.25%
Desjardins	1.25%
July 30	**1.00%**

Japan: Bank of Japan meeting (September) – We expect the Bank of Japan to raise rates by 25bps. However, we believe there is a 25% risk of the Bank delivering a jumbo 50bps hike. If the Bank hikes rates by 25bps only, we expect it will be a hawkish hike that would leave the door open to a 25bps increase at the next meeting as well. This is a meaningful acceleration of BoJ's policy normalization, spurred on by a tacit acknowledgement that currency intervention will ultimately fail unless it is backed by higher interest rates.

Economic Indicators

Week of September 14 to 18, 2026

Date	Time	Indicator	Period	Consensus	Desjardins	Previous reading
UNITED STATES						
MONDAY 14	---	---				
TUESDAY 15	8:30	Empire State Manufacturing Index	Sep.	14.2	14.0	20.6
WEDNESDAY 16	8:30	Export prices (m/m)	Aug.	0.4%	0.5%	-1.3%
	8:30	Import prices (m/m)	Aug.	0.0%	1.0%	-0.4%
	8:30	Retail sales				
		Total (m/m)	Aug.	0.8%	0.6%	-0.6%
		Excluding automobiles (m/m)	Aug.	0.5%	0.5%	-0.3%
	10:00	NAHB Housing Market Index	Sep.	34	n/a	35
	10:00	Business inventories (m/m)	July	0.2%	0.8%	0.0%
	14:00	Federal Reserve meeting	Sep.	3.75%	4.00%	3.75%
	14:30	Speech by Federal Reserve Chair K. Warsh				
	16:00	Net foreign securities purchases (US$B)	July	n/a	n/a	172.7
THURSDAY 17	8:30	Initial unemployment claims	Sep. 7–11	210,000	209,000	206,000
	8:30	Philadelphia Fed index	Sep.	32.1	14.0	47.4
	8:30	Housing starts (ann. rate)	Aug.	1,320,000	1,350,000	1,239,000
	8:30	Building permits (ann. rate)	Aug.	1,400,000	1,410,000	1,433,000
	10:00	Pending home sales (m/m)	Aug.	n/a	n/a	-2.3%
FRIDAY 18	9:15	Industrial production (m/m)	Aug.	0.3%	0.2%	0.2%
	9:15	Production capacity utilization rate	Aug.	76.4%	76.4%	76.3%
	10:00	Leading indicator (m/m)	Aug.	0.2%	-0.2%	0.2%
CANADA						
MONDAY 14	8:30	Consumer price index				
		Total (m/m)	Aug.	0.0%	-0.1%	0.5%
		Total (y/y)	Aug.	3.0%	3.0%	3.0%
	8:30	Manufacturing sales (m/m)	July	-0.2%	-0.2%	0.1%
TUESDAY 15	5:00	Existing home sales (m/m)	Aug.	n/a	-2.0%	0.5%
	8:30	Wholesale sales (m/m)	July	-0.5%	-0.6%	2.8%
WEDNESDAY 16	8:15	Housing starts (ann. rate)	Aug.	237,500	255,000	229,100
	8:30	Building permits (m/m)	July	n/a	6.4%	18.5%
	13:30	Release of the Bank of Canada Summary of Deliberations				
THURSDAY 17	8:30	Industrial product price index (m/m)	Aug.	n/a	0.2%	0.6%
	8:30	Raw materials price index (m/m)	Aug.	n/a	-0.3%	-2.2%
	8:30	International securities transactions ($B)	July	n/a	n/a	40.83
FRIDAY 18	---	---				

Note: Each week, Desjardins Economic Studies takes part in the Bloomberg survey for Canada and the United States. Approximately 15 economists are consulted for the Canadian survey and a hundred or so for the United States. The abbreviations m/m, q/q and y/y correspond to month-over-month, quarter-over-quarter and year-over-year change respectively. Following the quarter, the abbreviations f, s and t correspond to first estimate, second estimate and third estimate respectively. Times shown are Eastern Daylight Time (GMT -4 hours). Desjardins Economic Studies forecast.

Economic Indicators

Week of September 14 to 18, 2026

Country	Time	Indicator	Period	Consensus m/m (q/q)	Consensus y/y	Previous reading m/m (q/q)	Previous reading y/y
OVERSEAS							
MONDAY 14							
Japan	0:30	Industrial production – final	July	n/a	n/a	0.1%	4.1%
China	22:00	Industrial production	Aug.		4.8%		4.5%
China	22:00	Retail sales	Aug.		0.8%		0.6%
TUESDAY 15							
United Kingdom	2:00	ILO unemployment rate	July	4.9%		4.9%	
France	2:45	Consumer price index – final	Aug.	0.7%	2.4%	0.7%	2.4%
Italy	4:00	Trade balance (€M)	July	n/a		4,232	
Eurozone	5:00	Trade balance (€B)	July	n/a		1.8	
Germany	5:00	ZEW Current Conditions Survey	Sep.	-52.1		-61.1	
Germany	5:00	ZEW Expectations Survey	Sep.	40.0		34.2	
Japan	19:50	Trade balance (¥B)	Aug.	-978.6		-686.0	
WEDNESDAY 16							
United Kingdom	2:00	Consumer price index	Aug.	0.5%	3.1%	0.3%	2.9%
United Kingdom	2:00	Producer price index	Aug.	0.6%	3.5%	0.2%	3.1%
Italy	4:00	Consumer price index – final	Aug.	0.5%	3.3%	0.5%	3.3%
Eurozone	5:00	Industrial production	July	-0.2%	-0.1%	0.0%	0.1%
Brazil	17:30	Central Bank of Brazil meeting	Sep.	13.75%		14.00%	
THURSDAY 17							
Japan	---	Bank of Japan meeting	Sep.	1.25%		1.00%	
Eurozone	5:00	Consumer price index – final	Aug.	0.4%	3.3%	0.4%	3.3%
United Kingdom	7:00	Bank of England meeting	Sep.	3.75%		3.75%	
United Kingdom	19:01	Consumer confidence	Sep.	-16		-14	
Japan	19:30	Consumer price index	Aug.		2.0%		1.9%
FRIDAY 18							
United Kingdom	2:00	Retail sales	Aug.	-0.2%	1.9%	-0.5%	1.6%
Germany	2:00	Producer price index	Aug.	0.6%	3.9%	1.1%	3.0%
Eurozone	4:00	Current account (€B)	July	n/a		35.1	
Italy	4:00	Current account (€M)	July	n/a		5,839	
Eurozone	5:00	Construction	July	n/a	n/a	-1.3%	-0.7%

Note: Unlike release times for US and Canadian economic data, release times for overseas economic data are approximate. Publication dates are provided for information only. The abbreviations m/m, q/q and y/y correspond to month-over-month, quarter-over-quarter and year-over-year change respectively. Following the quarter, the abbreviations f, s and t correspond to first estimate, second estimate and third estimate respectively. Times shown are Eastern Daylight Time (GMT -4 hours).