WEEKLY COMMENTARY

Trump and Powell: A Fragile Truce

By Francis Généreux, Principal Economist

In April, President Donald Trump launched a series of attacks on the Federal Reserve (Fed) and its chair, Jerome Powell. While repeatedly urging the Fed to enact "pre-emptive" rate cuts, Trump also took to Truth Social, his self-launched social media platform, to insult Powell, calling him "Mr. Too Late" and a "major loser." On April 17, he posted, "Powell's termination can't come fast enough!" and White House advisors mentioned that they were looking into their legal options for firing the Fed Chair.

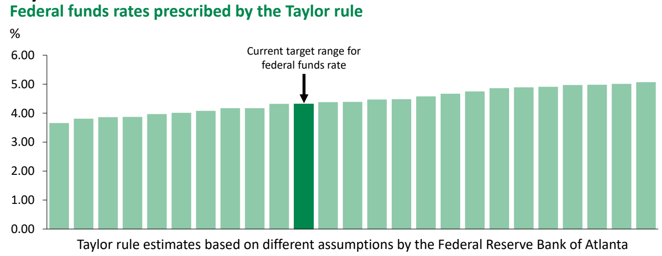
Since then, Trump has dialled down his remarks and stated that he has no intention of firing Powell. But while his tone may be less aggressive, he has continued to criticize Powell. During last week's speech celebrating the first 100 days of his second term, Trump took a moment to say, "I have a Fed person who's not really doing a good job. But I won't say that. I want to be very nice. I want to be very nice and respectful to the Fed. You're not supposed to criticize the Fed; you're supposed to let him do his own thing. But I know much more than he does about interest rates, believe me." And this Thursday morning, after the Fed announced its decision to hold rates steady, Trump once again took a jab over Truth Social: "'Too Late' Jerome Powell is a FOOL, who doesn't have a clue. Other than that, I like him very much!"

This is not the first time that Trump has attempted to influence Fed monetary policy. During his first term, in 2019, he repeatedly called for Powell to lower interest rates, as both the economy and stock markets struggled in the wake of his first trade war. Then as now, Trump's attacks grew personal—even though he had selected Powell for the role of chair in 2017, with Senate confirmation in 2018.

In some ways, we can see why Donald Trump wants a more dovish Fed. The other major central banks, including the European Central Bank and the Bank of England, have continued to cut rates. And in recent months, US inflation has surprised to the downside more than the upside. Inflation is slower than it was in December 2024 when the Fed lowered rates, so one may well ask why rates aren't going down. Especially since real GDP declined in the first quarter (Biden's fault, if you ask Trump).

But the situation is obviously more nuanced. Up until now, the US labour market has shown some resilience. And while real GDP is down, there is still little unused capacity in the American economy. Furthermore, the current key rate falls roughly in the middle of the rates prescribed by different versions of the Taylor rule (graph 1). This well-known rule and its alternative versions are used to calculate where the target federal funds rate should be based on the degree of slack in the economy and the gap between inflation and its target.

Graph 1
Current Rates Fall near the Middle of the Rates Prescribed by the Taylor Rule
Federal funds rates prescribed by the Taylor rule



Federal Reserve Bank of Atlanta and Desjardins Economic Studies

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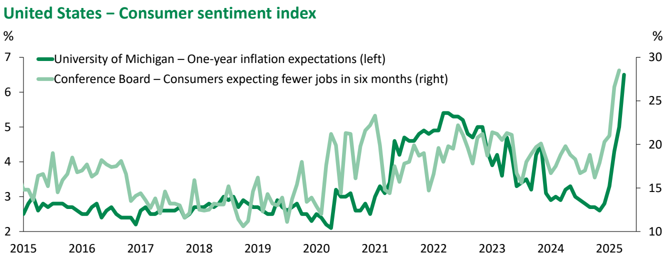
The S-Word

However, this situation is best viewed from the rear-view mirror. When we look ahead, things are far less certain. Economic indicators don't yet reflect the full impact of Trump's chaotic trade policy and the ongoing trade war with China, though confidence is already falling. Consumers in particular are worried about the possibility of runaway inflation and a sharp decline in the labour market (graph 2). If these fears become a reality, stagflation risks could take centre stage, leaving the Fed torn between the two halves of its dual mandate, controlling inflation and achieving maximum employment. The Fed statement released on Wednesday clearly noted the rising uncertainty and joint risks of overly high inflation and jobless rates, and those concerns were echoed by Jerome Powell during the FOMC press conference that followed. And all of this comes on the heels of Trump's "Liberation Day" announcements, which seem to have eroded confidence in the US economy's long-term resilience—and perhaps more importantly, in the dollar's role as a safe-haven currency. From this angle, Donald Trump's demands and attacks on the Fed and its chair are doing more harm than good.

Graph 2
US Households Expect Stagflation



University of Michigan, Conference Board, Datastream and Desjardins Economic Studies

Fed Independence Called into Question

Central bank independence is a key underpinning of modern macroeconomics. Monetary authorities must be able to make their decisions based on an objective assessment of the economic and financial conditions and outlook without letting political considerations cloud their view. For several decades now, it has been understood that independent central banks can stabilize economic cycles and better control inflation.

Trump's remarks are obviously counter to this globally accepted truth. But his attacks may have more layers than initially appear. The president's entourage has long been suggesting that the Fed is already not independent and that it leans in favour of the Democrats. If that were true, the White House's efforts to sway the central bank could be seen as a "recentring."

Other accusations toward the Fed are more explicit: Instead of saying it has a partisan bent, some believe the Fed has become too "woke" to play the role it's been given by Congress and that it has made serious errors in its conduct of monetary policy. This line of thought was recently brought forward in a speech by Kevin Warsh, a former member of the Fed's Board of Governors from 2006 to 2011. Trump is reportedly considering him as Powell's successor at the head of the Fed. Warsh has accused the Fed of acting inappropriately in the name of "inclusive employment," overstimulating the economy and driving up inflation to achieve higher rates of employment for certain socio-economic groups. He also believes that the Fed encouraged irresponsible government spending by adopting overly broad quantitative easing after the 2008–2009 financial crisis and after the pandemic. He further criticized the Fed for wanting to play a role in the fight against climate change, which is not part of its mandate. According to Warsh, these mistakes have undermined the effectiveness of monetary policy, damaged the central bank's credibility and compromised its independence.

All these arguments must sound like music to Trump's ears. Since his return to the Oval Office, he's worked to dismantle any policies that favour inclusion or the energy transition. The president could use Warsh's rhetoric to justify changes in Fed leadership and the way it works. It could also serve as a litmus test when choosing future governors, including Jerome Powell's successor when his four-year term ends in May 2026.

If Donald Trump can't wait that long, he will have to look into shortening the terms of current Fed officials. A recent order from the Chief Justice of the Supreme Court has temporarily authorized the president of the United States to fire the heads of so-called independent federal agencies. Trump's expanded power over these agencies has not yet come before the Supreme Court. If this power is confirmed, and if it applies to the Fed, Trump could be tempted to oust several governors, including Powell. This act would send the financial markets reeling. It could be perceived as a serious threat to central bank independence and raise doubts about their ability to keep inflation under control.

But until it comes to pass—if ever—Trump will likely content himself with taking further swings at the Fed. Especially if, as we predict, the White House's trade policy kicks off a recession in the United States. Having a scapegoat could be convenient if economic conditions deteriorate further. Joe Biden can only be blamed for so long. At some point, it will be time to lay the blame squarely on Jerome Powell.

What to Watch For

UNITED STATES

TUESDAY May 13 - 8:30	
April	**m/m**
Consensus	0.3%
Desjardins	0.2%
March	**-0.1%**

Consumer price index (April) – US inflation appears to be caught between opposing trends. Price pressure has eased in recent months, and monthly changes in the consumer price index (CPI) have been somewhat weaker than expected. On the flip side, the impact of the recent tariff announcements remains to be seen but will likely show up in inflation figures eventually. However, we don't expect the White House's protectionism to have had much of an effect on April's print. We think energy prices dropped again month over month, while April's growth in food prices was probably weaker than the previous month's 0.4%. Meanwhile goods prices may have edged up again after a 0.1% dip in March. That said, it'll take some time for them to reflect the full impact of tariffs, especially those on China. Most of the goods consumed in April likely came from inventories built up before the trade war escalated. We see the all items index and core CPI excluding food and energy both edging up 0.2%. Year over year, headline inflation probably inched down from 2.4% to 2.3%, while we expect core inflation to have dipped from 2.8% to 2.7%. Look for a tariff-induced increase in inflation to occur starting in June.

THURSDAY May 15 - 8:30	
April	**m/m**
Consensus	0.0%
Desjardins	-0.1%
March	**1.5%**

Retail sales (April) – Retail sales posted their strongest growth since January 2023 in March, mostly thanks to a 5.3% jump in auto sales as Americans looked to get ahead of tariffs. This impact persisted in April, albeit to a lesser extent, as the number of new motor vehicles sold fell 3.2%. We also expect sales in the food services sector to have fallen after a strong 1.9% gain in March. Other sectors likely fared better, although the impacts of the consumption pull-forward remain uncertain and consumer confidence has plummeted. However, preliminary card transaction data is fairly positive. All in all, we expect total retail sales to have fallen 0.1%, while sales excluding motor vehicles and gasoline are projected to have risen 0.3%.

THURSDAY May 15 - 9:15	
April	**m/m**
Consensus	0.2%
Desjardins	0.2%
March	**-0.3%**

Industrial production (April) – Industrial production suffered its biggest decline since October 2024 in March, largely due to a fall in energy production, while manufacturing posted a 0.3% gain. April likely saw the opposite. Hours worked and recent changes in the ISM Manufacturing index point to a decline in manufacturing production, particularly in the automotive sector. The uncertainty surrounding tariffs is taking its toll, and we're forecasting a 0.4% decline in manufacturing. In contrast, look for a rebound in both energy production and the mining sector. Total industrial production probably expanded by 0.2%.

FRIDAY May 16 - 8:30	
April	**ann. rate**
Consensus	1,365,000
Desjardins	1,400,000
March	**1,324,000**

Housing starts (April) – Housing starts posted their worst monthly decline in a year in March, nosediving 11.3%. This dragged annualized housing starts down to 1,324,000—the lowest level since October 2024, when a number of hurricanes tore through the United States. However, we're anticipating a rebound in April. While tariffs and the Trump administration's immigration policy will probably drive new builds lower sooner or later, we're unlikely to see the consequences in April's data. Building permits and new home sales both rose in March, which bodes well for housing starts in April. That said, builder confidence is relatively low. We expect April's housing starts print to come in close to 1,400,000 units.

FRIDAY May 16 - 10:00	
May	
Consensus	53.0
Desjardins	53.0
April	**52.2**

University of Michigan consumer sentiment index (May – preliminary) – Is the drop in consumer confidence ending? It's hard to say, but the preliminary data from the University of Michigan index will give us some idea. Uncertainty surrounding trade policy undoubtedly remains but seems less acute than a month ago. And even though the stock market is still volatile, it has rebounded substantially from its early April lows. The labour market is holding up, gasoline prices have edged down and mortgage rates have fallen slightly. So while confidence may have stabilized, downside risks remain elevated.

CANADA

THURSDAY May 15 - 8:15	
April	**m/m**
Consensus	235,000
Desjardins	230,000
March	**214,200**

Housing starts (April) – After two soft months, housing starts likely increased marginally to about 230k (saar) in April, remaining well below the long-run average of around 250k. Through the medium term, the momentum in the homebuilding sector seen in 2024 will likely continue to give way to downward pressure stemming from the ongoing trade war. The new federal government's plan to significantly increase the pace of homebuilding will presumably take time to implement to a level measurable in the housing starts data.

THURSDAY May 15 - 8:30	
March	**m/m**
Consensus	-1.9%
Desjardins	-1.9%
February	**0.2%**

Manufacturing sales (March) – On manufacturing sales, we anticipate a decrease of 1.9% in March, in line with Statistics Canada's flash estimate. Lower sales of transportation equipment, petroleum and coal products, and precious metals likely led the decline. In real terms, manufacturing sales appear to have increased by roughly 2.1%, as seasonally adjusted industrial product prices declined modestly (-0.2%).

THURSDAY May 15 - 9:00	
April	**m/m**
Consensus	n/a
Desjardins	0.0%
March	**-4.8%**

Existing home sales (April) – After four straight months of declines, national home sales were probably flat in April. Uncertainty created by the ever-changing trade war likely continued to weigh on many prospective homebuyers. But as of March, average and benchmark home prices were down more than 15% from their peaks, probably enticing some to take the leap. The Toronto Regional Real Estate Board announced that seasonally adjusted sales increased by a slim 1.8% month over month in April. Early year-over-year figures from local real estate boards showed that Quebec continued to lead the country, up 10% in Montreal and 12% in Quebec City, in contrast to declines of more than 20% in Vancouver and Calgary.

OVERSEAS

THURSDAY May 15 - 2:00	
Q1 2025	**q/q**
Consensus	0.6%
Q4 2024	**0.1%**

United Kingdom: Real GDP (Q1) – UK real GDP growth was rather weak in the fourth quarter of 2024 at just 0.1%. Look for a better print in early 2025. Monthly data for January and February indicate positive non-annualized carry-over growth of 0.5%. So unless growth plummeted in March, the first-quarter real GDP print should come in well above Q4 2024's level. In fact, the Bank of England's Monetary Policy Report published Thursday projected headline growth of 0.6%. Obviously there are concerns about trade policy, but the negative effects will likely only be felt later and could be mitigated by the trade agreement announced Thursday by President Trump and Prime Minister Starmer.

THURSDAY May 15 - 19:50	
Q1 2025	**q/q**
Consensus	-0.1%
Q4 2024	**0.6%**

Japan: Real GDP (Q1) – Japanese real GDP posted solid non-annualized growth of 0.6% in the fourth quarter of 2024. Japan's economy appeared to be picking up speed in early 2025, but it remains to be seen if this continued. The major economic indicators have been fairly volatile. We saw quarterly gains in retail sales, housing starts and exports, but a drop in industrial production.

Economic Indicators

Week of May 12 to 16, 2025

Date	Time	Indicator	Period	Consensus	Desjardins	Previous reading
UNITED STATES						
MONDAY 12	10:25	Speech by Federal Reserve Governor A. Kugler				
	14:00	Federal budget (US$B)	April	256.0	256.0	209.5
TUESDAY 13	8:30	Consumer price index				
		Total (m/m)	April	0.3%	0.2%	-0.1%
		Excluding food and energy (m/m)	April	0.3%	0.2%	0.1%
		Total (y/y)	April	2.4%	2.3%	2.4%
		Excluding food and energy (y/y)	April	2.8%	2.7%	2.8%
WEDNESDAY 14	9:10	Speech by Federal Reserve Vice Chair P. Jefferson				
THURSDAY 15	8:30	Initial unemployment claims	May 5–9	230,000	235,000	228,000
	8:30	Philadelphia Fed index	May	-10.0	-20.0	-26.4
	8:30	Producer price index				
		Total (m/m)	April	0.2%	0.1%	-0.4%
		Excluding food and energy (m/m)	April	0.3%	0.3%	-0.1%
	8:30	Empire State Manufacturing Index	May	-8.0	-20.0	-8.1
	8:30	Retail sales				
		Total (m/m)	April	0.0%	-0.1%	1.5%
		Excluding automobiles (m/m)	April	0.3%	0.3%	0.6%
	8:40	Speech by Federal Reserve Chair J. Powell				
	9:15	Industrial production (m/m)	April	0.2%	0.2%	-0.3%
	9:15	Production capacity utilization rate	April	77.9%	77.9%	77.8%
	10:00	NAHB Housing Market Index	May	40	n/a	40
	10:00	Business inventories (m/m)	March	0.2%	0.1%	0.2%
FRIDAY 16	8:30	Housing starts (ann. rate)	April	1,365,000	1,400,000	1,324,000
	8:30	Building permits (ann. rate)	April	1,450,000	1,440,000	1,467,000
	8:30	Export prices (m/m)	April	-0.5%	-0.4%	0.0%
	8:30	Import prices (m/m)	April	-0.4%	-0.3%	-0.1%
	10:00	University of Michigan consumer sentiment index – prel.	May	53.0	53.0	52.2
CANADA						
MONDAY 12	---	---				
TUESDAY 13	---	---				
WEDNESDAY 14	8:30	Building permits (m/m)	March	n/a	-1.8%	2.9%
THURSDAY 15	8:15	Housing starts (ann. rate)	April	235,000	230,000	214,200
	8:30	Wholesale sales (m/m)	March	n/a	-0.3%	0.3%
	8:30	Manufacturing sales (m/m)	March	-1.9%	-1.9%	0.2%
	9:00	Existing home sales (m/m)	April	n/a	0.0%	-4.8%
FRIDAY 16	10:30	Release of the Bank of Canada's Senior Loan Officer Survey				

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 May 12 to 16, 2025

Country	Time	Indicator	Period	Consensus m/m (q/q)	Consensus y/y	Previous reading m/m (q/q)	Previous reading y/y
OVERSEAS							
SUNDAY 11							
Japan	19:50	Current account (¥B)	March	2,464.9		2,316.8	
MONDAY 12							
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TUESDAY 13							
Germany	---	Current account (€B)	March	n/a		20.0	
United Kingdom	2:00	ILO unemployment rate	March	4.5%		4.4%	
Germany	5:00	ZEW Current Conditions Survey	May	-76.9		-81.2	
Germany	5:00	ZEW Expectations Survey	May	10.0		-14.0	
Japan	19:50	Producer price index	April	0.3%	4.0%	0.4%	4.2%
WEDNESDAY 14							
Germany	2:00	Consumer price index – final	April	0.4%	2.1%	0.4%	2.1%
THURSDAY 15							
United Kingdom	2:00	Trade balance (£M)	March	-2,200		-1,956	
United Kingdom	2:00	Construction	March	0.2%	1.3%	0.4%	1.6%
United Kingdom	2:00	Index of services	March	0.1%		0.3%	
United Kingdom	2:00	Monthly GDP	March	0.0%		0.5%	
United Kingdom	2:00	Real GDP – preliminary	Q1	0.6%	1.2%	0.1%	1.5%
United Kingdom	2:00	Industrial production	March	-0.7%	-0.9%	1.5%	0.1%
France	2:45	Consumer price index – final	April	0.5%	0.8%	0.5%	0.8%
Eurozone	5:00	Net change in employment – preliminary	Q1	n/a	n/a	0.1%	0.7%
Eurozone	5:00	Real GDP – preliminary	Q1s	0.4%	1.2%	0.4%	1.2%
Eurozone	5:00	Industrial production	March	1.8%	2.2%	1.1%	1.2%
Mexico	15:00	Bank of Mexico meeting	May	8.50%		9.00%	
Japan	19:50	Real GDP – preliminary	Q1	-0.1%		0.6%	
FRIDAY 16							
Japan	0:30	Industrial production – final	March	n/a	n/a	-1.1%	-0.3%
France	1:30	ILO unemployment rate	Q1	7.4%		7.3%	
Italy	4:00	Consumer price index – final	April	0.2%	2.0%	0.2%	2.0%
Eurozone	5:00	Trade balance (€B)	March	n/a		21.0	
Italy	5:00	Trade balance (€M)	March	n/a		4,466	

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).