

WEEKLY COMMENTARY

Why Central Bank Independence Matters

By Randall Bartlett, Deputy Chief Economist

On Friday, January 9, 2026, the US Department of Justice took the unprecedented step of serving the Federal Reserve with grand jury subpoenas. This action followed an [unrelenting campaign](#) by the US administration to pressure the Federal Reserve Board to cut interest rates, regardless of whether it was warranted by the developments in the US economy. Chair Powell released an equally unprecedented [statement](#) the following Sunday, calling out the grand jury subpoenas for what they are—the most recent escalation in the political attacks on the Federal Reserve's independence.

Given the success of central bank independence, it's easy to forget why it's so important. Indeed, while it's taken for granted today, the conduct of monetary policy wasn't always this way. Central banks were increasingly granted independence following the surging inflation that started in the late 1960s and peaked in the early 1980s. Political interference in interest rate setting was determined to be a primary culprit of this inflation, with politicians putting their own short-term electoral interests before the long-term economic interests of their respective countries' economies. Aggressive interest rate hikes, [first by the Federal Reserve](#) and followed by other central banks, caused overheated economies to contract and inflation to slow rapidly. Further innovations ultimately led to the inflation-targeting frameworks used the world over today. Beginning in the early 1990s, these helped to keep inflation at or around central banks' targets for decades until supply chain disruptions pushed prices higher following the COVID-19 pandemic.

Key to the success of inflation targeting is the credibility of central banks. Price setters in the economy, whether businesses or workers, need to have confidence that inflation will be close

to the central bank's target over the duration of a contract. Otherwise, it is a "choose your own adventure" of price increases baked into contracts to mitigate the risk of prices or compensation declining in real terms. This type of behaviour contributed to the wage-push inflation of the 1970s.

They say that credibility is hard to earn but easy to lose. And the credibility of central banks has been earned over decades of communicating a consistent message and adjusting policy with the intent of achieving a stated goal, typically inflation at around 2% in advanced economies. Recent [research](#) from the European Central Bank has confirmed that over the past 50 years, "central banks that are shielded from government control are able to pursue more credible monetary policies and are therefore better at keeping prices stable." In the context of the US specifically, [research](#) has consistently verified that past political pressure on the Federal Reserve to ease monetary policy increased the price level strongly and persistently, didn't lead to positive effects on real economic activity and had a stronger effect on inflation expectations.

Partisan attacks on, and appointments to, the Federal Reserve Board in the hope of short-term political gain risk eroding the credibility of the most important central bank on earth. These are the types of actions taken by countries like Russia, Turkey, Argentina, Venezuela and Zimbabwe—hardly beacons of institutional strength. According to the World Bank, the strength of US institutions has been heading in the wrong direction for decades. The Federal Reserve has been able to avoid much of this institutional decay due to bipartisan recognition of its central importance to the US and global economies and financial systems.

CONTENTS

Musing of the Week	1	What to Watch For	3	Economic Indicators	5
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So, why the aggressive attacks on Fed independence now? The US is going through a period of highly concentrated power in the White House accompanied by large expected US government deficits. This has become a recipe for fiscal dominance, which former Federal Reserve Chair Janet Yellen defined in a recent [speech](#) as “a situation where the government’s fiscal position—its deficits and debt—puts such pressure on its financing needs that monetary policy becomes subordinate to those needs.” In a world of fiscal dominance, easing the government’s financing burden becomes the priority while the mandate of price stability and full employment is secondary. As a result, fiscal dominance typically results in higher and more volatile inflation or politically driven business cycles. Inflation expectations may become unanchored as a consequence. Term premia and borrowing costs are also likely to rise as, according to former Fed Chair Yellen, “investors become concerned that the government will rely on inflation or financial repression to manage its debt.”

For all these reasons, fiscal dominance must be avoided, particularly in the US. Unfortunately, the US administration seems largely oblivious to the lessons of history. And while markets look to have shaken off this latest abuse of power as just more noise out of Washington, record gold prices suggest not all investors are sanguine on the outlook. Indeed, even if the US economy gets a boost in the near term thanks to needlessly low short-term interest rates, in the long run, everyone loses.

What to Watch For

UNITED STATES

* Due to the federal government shutdown in the United States, there may be some changes to the data release schedule.

THURSDAY January 22 - 8:30

November	m/m
Consensus	0.5%
Desjardins	0.3%
September	0.4%

Consumer spending (November) – Two months' worth of data will be released again next Thursday, continuing the post-shutdown trend. This time it's October and November consumer spending data, along with a new estimate of Q3 real GDP. We're likely to see divergent trends. A drop in new motor vehicle sales and the indirect effects of the shutdown suggest real consumption stayed flat in October. That's also consistent with the decline in retail sales that month. November should look better: auto sales rose and retail sales posted their strongest monthly gain since June. Consequently, real consumer spending probably increased 0.2% in November. In current dollars, nominal consumption likely ticked up 0.1% and 0.3%, respectively. Personal income is expected to show a clear decline in October and a rebound in November. The year-over-year change in total PCE inflation probably fell from 2.8% in September to 2.6% in October and then flatlined in November.

CANADA

MONDAY January 19 - 8:30

December	m/m
Consensus	-0.4%
Desjardins	-0.4%
November	0.1%

Consumer price index (December) – Consumer prices in Canada likely declined in December, with our estimate pointing to a 0.4% monthly drop driven largely by lower energy costs. Base effects from the GST/HST holiday that began in December 2024 mean an equally soft reading is dropping out of the year-over-year calculation. As a result, we expect the annual headline inflation rate to remain steady at 2.2%. The tax holiday will also affect the share of CPI components rising above 3%, likely making it a less meaningful indicator than usual. While we don't expect any surprises in the Bank of Canada's preferred core measures, with our forecasts suggesting both the year-over-year and three-month annualized rates remaining steady, the recent softening trend suggests risks are skewed to the downside.

FRIDAY January 23 - 8:30

November	m/m
Consensus	1.2%
Desjardins	1.1%
October	-0.2%

Retail sales (November) – Retail sales likely increased 1.1% in November, one tick below Statistics Canada's flash estimate. We expect receipts at gasoline stations to have jumped, driven by higher prices and volumes. Retail sales at auto and parts dealers probably grew month over month, even if seasonally adjusted CPI for private passenger vehicles was close to flat in November. Core retail sales, which exclude fuel and autos, are expected to have inched down only slightly. For December's flash estimate, we anticipate something close to a flat print. We think nominal gasoline sales likely declined, mostly driven by lower prices, offsetting the probable advance in autos, while core sales look to have stayed put. With the Canadian economy adding 62k jobs in the last two months of 2025 and a concurrent improvement in consumer confidence, we don't expect retail sales to deteriorate in the near term. But the pace of retail growth will be tempered by a still uncertain economic outlook, continued affordability concerns squeezing discretionary spending for many households (especially lower-income quintiles) and a demographic slowdown.

OVERSEAS

SUNDAY January 18 - 21:00

Q4 2025	y/y
Consensus	4.5%
Q3 2025	4.8%

China: Real GDP (fourth quarter) – China's real GDP growth likely slowed slightly in Q4 2025, with a quarterly bump of 1.0%, according to the Caixin survey. That would be enough to meet the government's 5% annual target but would still signal worsening economic conditions. Retail sales and industrial production both lost momentum in November. That same month, investment also posted its fourth straight year-over-year decline, mainly because of the property crisis and the trade war. Despite these headwinds, China's economy showed resilience in the face of 2025's turmoil. Keep in mind that

FRIDAY January 23 - 4:00

January
Consensus
December

51.9
51.5

the US imposed higher effective tariffs (44%) on China than on any other country. For 2026, real GDP growth is expected to slow further, with a 4.7% increase projected for the year. Note, however, that Chinese authorities have yet to announce the official growth target, which is another factor to watch for in the early months of the year.

Eurozone: Purchasing Managers' Index (January – preliminary) – Flash composite PMI data for the eurozone in December 2025 pointed to further moderation in economic activity at the end of the year. Composite PMI was revised down to 51.5 after a high of 52.8 in November. This indicated that the fall rebound was gradually losing steam, as growth in services slowed and the manufacturing contraction deepened. New orders continued to rise but at their weakest pace since September, suggesting a more cautious start to 2026. Overall, the data suggest continued expansion, though momentum is fading amid weak foreign demand.

Economic Indicators

Week of January 19 to 23, 2026

* Due to the federal government shutdown in the United States, there may be some changes to the data release schedule.

Day	Time	Indicator	Period	Consensus		Previous reading
UNITED STATES						
MONDAY 19	---	Markets closed (Martin Luther King. Jr. Day)				
TUESDAY 20	---	---				
WEDNESDAY 21	10:00	Construction spending (m/m)	Oct.	0.1%	0.0%	n/a
	10:00	Pending home sales (m/m)	Dec.	n/a	n/a	3.3%
THURSDAY 22	8:30	Initial unemployment claims	Jan. 12-16	n/a	217,000	198,000
	8:30	Real GDP (ann. rate)	Q3t	4.3%	4.3%	4.3%
	8:30	Personal income (m/m)	Nov.	0.4%	0.6%	n/a
	8:30	Personal consumption expenditures (m/m)	Nov.	0.5%	0.3%	n/a
	8:30	Personal consumption expenditures deflator				
		Total (m/m)	Nov.	0.2%	0.1%	n/a
		Excluding food and energy (m/m)	Nov.	0.2%	0.1%	n/a
		Total (y/y)	Nov.	2.7%	2.6%	n/a
		Excluding food and energy (y/y)	Nov.	2.8%	2.6%	n/a
FRIDAY 23	10:00	University of Michigan consumer sentiment index – final	Jan.	54.0	54.0	54.0
CANADA						
MONDAY 19	8:30	Consumer price index				
		Total (m/m)	Dec.	-0.4%	-0.4%	0.1%
		Total (y/y)	Dec.	2.2%	2.2%	2.2%
	10:30	Release of the Bank of Canada's Business Outlook Survey				
TUESDAY 20	---	---				
WEDNESDAY 21	8:30	Industrial product price index (m/m)	Dec.	0.1%	0.4%	0.9%
	8:30	Raw materials price index (m/m)	Dec.	n/a	0.7%	0.3%
THURSDAY 22	---	---				
FRIDAY 23	8:30	Retail sales				
		Total (m/m)	Nov.	1.2%	1.1%	-0.2%
		Excluding automobiles (m/m)	Nov.	1.2%	1.0%	-0.6%

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 Standard Time (GMT -5 hours).  Desjardins Economic Studies forecast.

Economic Indicators

Week of January 19 to 23, 2026

Country	Time	Indicator	Period	Consensus m/m (q/q)	y/y	Previous reading m/m (q/q)	y/y
OVERSEAS							
SUNDAY 18							
China	21:00	Real GDP	Q4	1.1%	4.5%	1.1%	4.8%
China	21:00	Industrial production	Dec.		5.0%		4.8%
China	21:00	Retail sales	Dec.		1.1%		1.3%
Japan	23:30	Tertiary Industry Activity Index	Nov.	0.0%		0.9%	
MONDAY 19							
Eurozone	5:00	Consumer price index – final	Dec.	0.2%	2.0%	0.2%	2.0%
TUESDAY 20							
United Kingdom	2:00	ILO unemployment rate	Nov.	5.0%		5.1%	
Eurozone	4:00	Current account (€B)	Nov.	n/a		25.7	
Germany	5:00	ZEW Current Conditions Survey	Jan.	-76.0		-81.0	
Germany	5:00	ZEW Expectations Survey	Jan.	50.0		45.8	
WEDNESDAY 21							
United Kingdom	2:00	Consumer price index	Dec.	0.4%	3.3%	-0.2%	3.2%
Norway	4:00	Bank of Norway meeting	Jan.	4.00%		4.00%	
Japan	18:50	Trade balance (¥B)	Dec.	-0.8		62.9	
THURSDAY 22							
Japan	---	Bank of Japan meeting	Jan.	0.75%		0.75%	
Eurozone	10:00	Consumer confidence – preliminary	Jan.	-13.0		-13.1	
Japan	18:30	Consumer price index	Dec.		2.1%		2.9%
United Kingdom	19:01	Consumer confidence	Jan.	-16		-17	
Japan	19:30	Composite PMI – preliminary	Jan.	n/a		51.1	
Japan	19:30	Manufacturing PMI – preliminary	Jan.	n/a		50.0	
Japan	19:30	Services PMI – preliminary	Jan.	n/a		51.6	
FRIDAY 23							
United Kingdom	2:00	Retail sales	Dec.	0.0%	1.1%	-0.1%	0.6%
France	2:45	Business confidence	Jan.	99		99	
France	2:45	Production outlook	Jan.	-7		-7	
France	2:45	Composite PMI – preliminary	Jan.	50.0		50.0	
France	2:45	Manufacturing PMI – preliminary	Jan.	50.4		50.7	
France	2:45	Services PMI – preliminary	Jan.	50.4		50.1	
Germany	3:30	Composite PMI – preliminary	Jan.	51.6		51.3	
Germany	3:30	Manufacturing PMI – preliminary	Jan.	47.6		47.0	
Germany	3:30	Services PMI – preliminary	Jan.	52.5		52.7	
Eurozone	4:00	Composite PMI – preliminary	Jan.	51.9		51.5	
Eurozone	4:00	Manufacturing PMI – preliminary	Jan.	49.2		48.8	
Eurozone	4:00	Services PMI – preliminary	Jan.	52.6		52.4	
United Kingdom	4:30	Composite PMI – preliminary	Jan.	51.5		51.4	
United Kingdom	4:30	Manufacturing PMI – preliminary	Jan.	50.6		50.6	
United Kingdom	4:30	Services PMI – preliminary	Jan.	51.7		51.4	

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 Standard Time (GMT -5 hours).