

WEEKLY COMMENTARY

Warsh and Macklem Are Making the Same Mistake

By Royce Mendes, Managing Director and Head of Macro Strategy

Kevin Warsh, President Trump’s nominee to chair the Federal Reserve, used his confirmation hearing to defend a central plank of his macro framework. He argued that artificial intelligence will raise the economy’s productive potential, allowing output to grow faster without reigniting inflation. The implication of his argument is that a productivity-led expansion could open up room for easier monetary policy.

His theory echoes one associated with a former Fed chair. Back in the 1990s, Alan Greenspan showed a willingness to support rather than restrain the economic expansion, in part because it was being driven by productivity growth. Of course, by the end of the decade, the Maestro was hiking rates, not cutting them.

Aside from the open question of whether the US is actually in the midst of a durable productivity renaissance, Warsh’s conclusion appears to run counter to the standard savings and investment logic underpinning estimates of the neutral rate of interest (r^*). Fed Vice Chair Philip Jefferson put it plainly in a recent speech: “All other things being equal, persistent increases in productivity growth are likely to result in an increase in the neutral rate, at least temporarily.” Other members of the Federal Open Market Committee have made the same point.

The mechanism is straightforward. Stronger productivity raises the expected return on capital, which encourages firms to invest. At the same time, households that expect stronger future income growth may choose to save less of their income. Higher desired investment and lower desired savings are a textbook recipe for a higher neutral rate.

North of the border, the governor of the Bank of Canada has advanced what seems like the mirror image of Warsh’s argument. In a speech delivered earlier this year, Tiff Macklem argued that when weak growth reflects lower productive capacity rather than a cyclical shortfall in demand, cutting rates risks both “stoking future inflation” and delaying “needed structural change.” The mistake both Warsh and Macklem make is to assume—or at least imply—that changes in potential output can map directly into the appropriate setting of policy rates.

What matters for r^* , and the calibration of actual policy around it, is the balance between desired savings and investment. A sustained productivity boom generally pushes that balance toward a higher neutral rate by lifting the demand for capital. Conversely, a trade-induced deterioration in growth prospects would typically push in the opposite direction by weakening investment demand and increasing the supply of savings. For both Warsh and Macklem, the error is the same: interpreting changes in how fast the economy can grow as a guide to where interest rates belong. Operationalizing that mistake could end up delivering the exact opposite of what each economy needs.

CONTENTS

Musing of the Week	1	What to Watch For	2	Economic Indicators.....	5
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What to Watch For

TUESDAY April 28 - 9:00

February	y/y
Consensus	n/a
Desjardins	1.30%
January	1.18%

TUESDAY April 28 - 10:00

April	
Consensus	89.3
Desjardins	89.0
March	91.8

WEDNESDAY April 29 - 8:30

March	ann. rate
Consensus	1,400,000
Desjardins	1,380,000
January	1,487,000

WEDNESDAY April 29 - 14:00

April	
Consensus	3.75%
Desjardins	3.75%
March 18	3.75%

THURSDAY April 30 - 8:30

Q1 2026	ann. rate
Consensus	2.1%
Desjardins	2.7%
Q4 2025	0.5%

UNITED STATES

S&P/Case-Shiller home price index (February) – Month-on-month growth in existing home prices slowed at the start of 2026. At 0.16%, the January gain was the weakest since September 2025. Existing home sales also saw a brief dip early in the year. But the 2.7% increase in February sales should help stabilize price growth. We therefore expect the S&P/Case-Shiller index to have risen by 0.3% month on month. That would nudge year-on-year growth up from 1.2% to 1.3%.

Conference Board Consumer Confidence Index (April) – The Conference Board index unexpectedly rose in March, climbing 0.8 points from February. Amid heightened uncertainty due to the conflict in Iran and soaring gasoline prices, this gain ran counter to expectations. A decline is nevertheless anticipated in April, as the rising cost of living increasingly weighs on consumer sentiment. That said, the stock market's strength may temper the drop. Pump prices have also edged down from last week's high, as have mortgage rates. We expect the index to fall back down to its January level of 89.0.

Housing starts (March) – Data releases on housing starts and building permits are still behind schedule after the delay caused by last fall's government shutdown. Only the January data has been published at this point, and we won't get a clearer picture of the first-quarter trend for housing starts until Wednesday. For January, new builds jumped 7.2%, but building permits decreased 4.7%. Permit levels also fell below the number of housing starts in January, which would normally lead to a decline in new builds in February. We therefore expect housing starts fell to 1,350,000 units in February, before rebounding to 1,380,000 units in March.

Federal Reserve meeting (April) – The Federal Reserve (Fed) is not expected to change the federal funds rate at the meeting that concludes next Wednesday. Recent indicators of the US economy have been mixed. As expected, inflation rose in March, driven largely by the surge in gasoline prices since the conflict in the Middle East began. Pump prices remain high, and the continued attempts to improve US-Iran relations have yet to yield any tangible resolution. The job market has been particularly volatile for several months, but the March reading and the latest weekly indicators paint a more positive picture. However, some indicators suggest consumer confidence has faded and the economy may prove weaker. Given these uncertain conditions, the Fed is expected to stay on the sidelines while signalling that it stands ready to respond as needed. It will also be interesting to hear what Jerome Powell has to say at what may be his last meeting as Fed chair, if the obstacles to Kevin Warsh's Senate confirmation are removed.

Real GDP (Q1) – Following an annualized increase of just 0.5% in the final quarter of 2025, real GDP growth likely ramped up at the start of 2026. The biggest boost probably came from government spending, which is expected to have increased after last fall's shutdown caused federal spending and investment to plummet by 16.6%. We also anticipate stronger growth in business and residential investment. But growth in real consumer spending likely slowed, partly due to the pullback in auto sales in January and weaker consumption of other goods in January and February. The services sector is expected to have offset these declines, but real consumer spending growth may come in at just 1.0%. Finally, we anticipate a slightly positive contribution from the change in private inventories, along with a modest drag from net exports. In both cases, the Wednesday release of preliminary March data on retail and wholesale inventories and international trade in goods will help refine the forecast. Overall, we expect real GDP rose by 2.7% in the first quarter.

FRIDAY May 1 - 10:00
April

Consensus	53.1
Desjardins	53.1

March 52.7
WEDNESDAY April 29 - 9:45
April

Consensus	2.25%
Desjardins	2.25%

March 18 2.25%
THURSDAY April 30 - 8:30
February

Consensus	m/m
Desjardins	0.2%

January 0.1%
WEDNESDAY April 29 - 21:30
April

Consensus	n/a
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March 50.5
THURSDAY April 30 - 5:00
Q1 2026

Consensus	q/q
	0.2%

Q4 2025 0.2%

ISM Manufacturing index (April) – In March, the ISM Manufacturing index climbed to a high not seen since August 2022. But it has remained relatively stable over the past three months, coming in at 52.6 in January, 52.4 in February and 52.7 in March. This stands in contrast to the average of 48.5 recorded for the second half of 2025. The regional manufacturing surveys released so far suggest it may rise even further in April. The Federal Reserve Bank of Philadelphia Manufacturing Business Outlook Survey hit its highest level since January 2025. The Manufacturing PMI, which receives less attention in the United States than elsewhere, also improved, according to the preliminary April print. Despite uncertainty, higher oil and diesel prices, and changes to tariffs on metals, we expect the ISM Manufacturing index to rise to 53.1 in April.

CANADA

Bank of Canada decision (April) – The Bank of Canada is widely expected to leave the policy rate unchanged. Higher energy prices have lifted headline inflation, but the passthrough to core inflation and broader economic activity remains far more uncertain. That said, with the economy still operating with excess supply and measures of underlying inflation relatively tame, policymakers can afford to remain patient. We don't expect central bankers to lean too hard against current market pricing. In an environment defined by uncertainty, they're likely to prioritize keeping their options open. Our base case does not foresee the energy shock evolving into sustained, broad-based price pressures. If that view holds, the Bank of Canada should remain on the sidelines through at least year-end.

Real GDP by industry (February) – We anticipate that real GDP increased in February, in line with Statistics Canada's flash estimate. Gains in natural resources, wholesale trade and manufacturing were probably offset by weak performance in agriculture, accommodation and other services. Looking ahead to the March 2026 real GDP release, we expect Statistics Canada's flash estimate will show modestly positive growth.

OVERSEAS

China: Composite PMI (April) – China's composite PMI is expected to remain close to the stagnation threshold. After many months of mixed readings, forecasters see the index staying somewhere around 50, which suggests the economy still needs a stronger engine to drive growth. While industrial production and some service segments are still supported by exports and public policy, ongoing weakness in domestic demand and the beaten-down property market continue to weigh on business conditions. Overall, the April reading should confirm a gradual but fragile recovery in the Chinese economy. The effects of the Iran conflict and the oil shock will also be worth watching. For now, Chinese authorities appear to have mitigated most of the negative impacts on economic activity through tight price controls and the use of their oil reserves.

Eurozone: Real GDP (Q1 – preliminary) – After a modest uptick in the summer of 2025, eurozone real GDP growth slowed in the final quarter to a non-annualized 0.2%. So far, the numbers released for the first quarter of 2026 have showed declines in industrial production, construction and exports. Retail sales growth lost momentum, even before gasoline prices began rising in March. But PMI indicators were relatively resilient early in the year. All in all, these factors suggest economic growth was fairly weak at the start of 2026.

THURSDAY April 30 - 7:00
April

Consensus	3.75%
Desjardins	3.75%

March 19 3.75%

United Kingdom: Bank of England meeting (April) – We expect the Bank of England to keep rates unchanged at 3.75% on April 30, in line with market consensus. The Monetary Policy Committee will likely communicate a cautious wait and see stance in the face of higher energy prices and a weaker growth outlook. Recent UK data show headline inflation rising to 3.3%, but policymakers including Governor Andrew Bailey have emphasized the high uncertainty around how much of this shock will feed into more persistent price pressures, warning that it is too early to draw firm conclusions on second round effects. A Reuters poll shows all surveyed economists expect no change next week, despite markets pricing in some chance of rate hikes later in the year.

THURSDAY April 30 - 8:15
April


Consensus	2.00%
Desjardins	2.00%


March 19 2.00%

Eurozone: European Central Bank meeting (April) – We expect the ECB to leave rates unchanged. Governing Council members have repeatedly stressed that April is likely too early to assess whether higher oil and gas prices will translate into persistent, second round inflation effects. But we expect Governing Council’s statement and Chair Lagarde’s comments to prepare the market for hikes, conditional on inflation trends. We expect the central bank to hike in September and December, though we cannot rule out higher rates as early as June. Any hikes will be aimed at shoring up credibility rather than signalling the start of a tightening cycle.

Economic Indicators

Week of April 27 to May 1, 2026

Date	Time	Indicator	Period	Consensus		Previous reading
UNITED STATES						
MONDAY 27	---	---				
TUESDAY 28	9:00	S&P/Case-Shiller home price index (y/y)	Feb.	n/a	1.30%	1.18%
	10:00	Consumer confidence	April	89.3	89.0	91.8
WEDNESDAY 29	8:30	Housing starts (ann. rate)	March	1,400,000	1,380,000	n/a
	8:30	Building permits (ann. rate)	March	1,390,000	1,400,000	n/a
	8:30	Durable goods orders (m/m)	March	0.5%	-1.1%	-1.3%
	8:30	Goods trade balance – preliminary (US\$B)	March	-86.0	-85.7	-83.5
	8:30	Retail inventories (m/m)	March	n/a	n/a	0.0%
	8:30	Wholesale inventories – preliminary (m/m)	March	n/a	n/a	0.8%
	14:00	Federal Reserve meeting	April	3.75%	3.75%	3.75%
	14:30	Speech by Federal Reserve Chair J. Powell				
THURSDAY 30	8:30	Initial unemployment claims	April 20–24	n/a	216,000	214,000
	8:30	Employment cost index (q/q)	Q1	0.8%	0.8%	0.7%
	8:30	Real GDP (ann. rate)	Q1f	2.1%	2.7%	0.5%
	8:30	Personal income (m/m)	March	0.3%	0.6%	-0.1%
	8:30	Personal consumption expenditures (m/m)	March	0.9%	0.9%	0.5%
	8:30	Personal consumption expenditures deflator				
		Total (m/m)	March	0.7%	0.7%	0.4%
		Excluding food and energy (m/m)	March	0.3%	0.2%	0.4%
		Total (y/y)	March	3.5%	3.5%	2.8%
		Excluding food and energy (y/y)	March	3.2%	3.1%	3.0%
	9:45	Chicago PMI	April	n/a	53.0	52.8
	10:00	Leading indicator (m/m)	March	n/a	-0.3%	n/a
FRIDAY 1	10:00	ISM Manufacturing index	April	53.1	53.1	52.7
	---	Total vehicle sales (ann. rate)	April	16,100,000	16,000,000	16,340,000
CANADA						
MONDAY 27	---	---				
TUESDAY 28	---	---				
WEDNESDAY 29	9:45	Bank of Canada decision	April	2.25%	2.25%	2.25%
	9:45	Release of the Bank of Canada's Monetary Policy Report				
	10:30	Speech by Bank of Canada Governor T. Macklem and Senior Deputy Governor C. Rogers				
THURSDAY 30	8:30	Real GDP by industry (m/m)	Feb.	0.2%	0.2%	0.1%
FRIDAY 1	---	---				

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 April 27 to May 1, 2026

Country	Time	Indicator	Period	Consensus		Previous reading		
				m/m (q/q)	y/y	m/m (q/q)	y/y	
OVERSEAS								
MONDAY 27								
Japan	---	Bank of Japan meeting	April	0.75%		0.75%		
Germany	2:00	Consumer confidence	May	-30.0		-28.0		
Japan	19:30	Unemployment rate	March	2,6 %		2.6%		
TUESDAY 28								
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WEDNESDAY 29								
Eurozone	4:00	M3 money supply	March		3.1%		3.0%	
Italy	4:00	Consumer confidence	April	91.0		92.6		
Italy	4:00	Economic confidence	April	n/a		97.3		
Eurozone	5:00	Consumer confidence – final	April	n/a		-20.6		
Eurozone	5:00	Industrial confidence	April	-7.0		-7.0		
Eurozone	5:00	Services confidence	April	3.4		4.9		
Eurozone	5:00	Economic confidence	April	95.5		96.6		
Germany	8:00	Consumer price index – preliminary	April	0.7%	3.0%	1.1%	2.7%	
Brazil	17:30	Central Bank of Brazil meeting	April	14.50%		14.75%		
Japan	19:50	Industrial production – preliminary	March	1.0%	2.2%	-2.0%	0.4%	
Japan	19:50	Retail sales	March	0.6%	1.0%	-2.0%	-0.2%	
China	21:30	Composite PMI	April	n/a		50.5		
China	21:30	Manufacturing PMI	April	50.1		50.4		
China	21:30	Non-manufacturing PMI	April	49.9		50.1		
THURSDAY 30								
Japan	1:00	Consumer confidence	April	32.6		33.3		
Japan	1:00	Housing starts	March		-28.5%		-4.9%	
France	1:30	Personal consumption expenditures	March	0.7%	n/a	-1.4%	-1.5%	
France	1:30	Real GDP – preliminary	Q1	0.2%	1.3%	0.2%	1.2%	
Germany	---	Retail sales	March	-0.4%	0.5%	-0.6%	0.6%	
France	2:45	Consumer price index – preliminary	April	1.0%	2.1%	1.0%	1.7%	
Germany	4:00	Real GDP – preliminary	Q1	0.2%	0.2%	0.3%	0.4%	
Italy	4:00	Real GDP – preliminary	Q1	0.1%	0.6%	0.3%	0.8%	
Italy	4:30	Unemployment rate	March	5.3%		5.3%		
Eurozone	5:00	Consumer price index – preliminary	April	1.0%	3.0%	1.3%	2.5%	
Eurozone	5:00	Real GDP – preliminary	Q1	0.2%	0.9%	0.2%	1.2%	
Eurozone	5:00	Unemployment rate	March	6.2%		6.2%		
Italy	5:00	Consumer price index – preliminary	April	1.0%	2.5%	0.5%	1.7%	
United Kingdom	7:00	Bank of England meeting	April	3.75%		3.75%		
Eurozone	8:15	European Central Bank meeting	April	2.00%		2.00%		
Japan	19:30	Tokyo Consumer Price Index	April		1.7%		1.4%	
FRIDAY 1								
United Kingdom	2:00	Nationwide house prices	April	-0.3%	2.3%	0.9%	2.2%	
United Kingdom	4:30	Manufacturing PMI – final	April	53.3		53.6		

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).