WEEKLY COMMENTARY

Trump's Tariff House of Cards Is Already Falling Apart

By Jimmy Jean, Vice-President, Chief Economist and Strategist

After the hardline rhetoric and sweeping tariff announcements of "Liberation Day," the US administration is beginning to reveal just how weak a hand it has been playing. While officials are now trying to strike a more conciliatory tone—talking up the prospects of a deal with China and other trading partners—their counterparts are responding with marked restraint. China has a vague willingness to initiate discussions and has labelled talks of progress as "fake news." Treasury Secretary Bessent's comment that the China–US trade war is "unsustainable" is telling insofar as it reflects not strength, but rather damage control, with an administration increasingly nervous about the financial market volatility triggered by its own policies. Let's take a closer look at how the US's mad-scientist trade war experiment with China is backfiring.

To begin with, the most direct and visible channel through which the China–US trade war will disrupt the economy is inflation. Higher tariffs on Chinese goods will erode real disposable income and purchasing power for US households. China represents the largest source of foreign content in US personal consumption expenditures, making American consumers vulnerable, particularly lower-income households. The Tax Foundation's estimate—accounting for subsequent exemptions on electronics granted by President Trump—puts the annual direct cost of these tariffs at just above US$1,200 per household.

While the impact on consumer durables should be felt quickly—the CEOs of Walmart and Target warned President Trump of empty shelves within weeks—the inflationary pressure extends to businesses' inputs as well, which could show up later in consumer prices. Machinery, construction materials and industrial equipment are set to become more expensive, posing risks to capital expenditure plans and corporate margins.

This comes on top of other trade crackdowns, such as the 3,521% tariff the US announced this week on solar panels imported from East Asian countries—believed to be transshipment hubs for Chinese producers seeking to bypass trade restrictions. The resulting surge in costs threatens to delay solar energy deployments and undercut the investment momentum spurred by the *Inflation Reduction Act*. Expect less luck for that sector than for autos, for which the administration has signaled this week a "destacking" of tariffs on parts imported from China.

Second, China–US tariffs will likely distort incentives and encourage evasion. This outcome is part of the reasons tariffs are one of the few issues on which economists across the spectrum overwhelmingly agree. The sharp increase in exports from countries like Vietnam and Mexico—used as conduits for Chinese goods—was a direct consequence of earlier US tariffs. Customs fraud, transshipping and under-invoicing became common enough that US Customs and Border Protection had to scale up enforcement.

The broader risk is that firms begin allocating resources based not on productivity, but on tariff avoidance strategies. This results in higher costs, fragmented supply chains and inefficient capital allocation, dragging down long-term productivity. It also opens the door to illicit trade practices and undermines trust in trade rules—especially when those rules are applied in a quasi-arbitrary fashion, as seen with the "Liberation Day" tariffs. The result is a

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growing compliance burden for both firms and regulators that only compounds inefficiencies while delivering little benefit.

Third, the China–US tariffs may usher in a new wave of global supply chain disruptions. That's because China is not just a major exporter of finished goods, but also a critical supplier of intermediate inputs and raw materials. One illustrative example is roofing membranes, the production of which is concentrated in a small number of Chinese factories. Pandemic-era lockdowns affecting those facilities led to significant delays and cost overruns in construction projects. In the context of what now resembles a quasi-embargo on Chinese imports, many more such stress points are likely to emerge.

Pharmaceuticals are one key area of concern: China supplies roughly 40% of the active pharmaceutical ingredients used in the United States. Other vulnerable sectors include electric vehicle batteries, defence-sensitive rare earth elements—where China controls about 70% of global output—and precision components in advanced manufacturing. These dependencies are difficult to unwind in the short term and could trigger widespread production bottlenecks.

Fourth, China holds meaningful economic leverage, which it is actively deploying in retaliation. In previous trade disputes, Beijing targeted politically sensitive US exports such as soybeans and pork—hitting agricultural states where economic pain quickly translates into political pressure. This time, the response is broader and more strategic, including the suspension of Boeing jet deliveries and sharp reductions in imports of crude oil and liquefied natural gas from the United States.

Non-tariff measures—delayed export licences, cybersecurity investigations, informal consumer boycotts—can be just as damaging as tariffs. For US multinationals with significant exposure to the Chinese market, either through revenue or supply chains, the cost of this retaliation (and the retaliatory measures from other countries) will accumulate quickly. The US International Trade Administration estimated that exports supported over 10 million American jobs in 2022—half of which were in manufacturing. One takeaway is that the US-initiated trade war undercuts the industrial revival the Trump administration is so eager to achieve.

Fifth, while the US–China conflict is bilateral in form, its economic consequences are global. Early estimates put the potential hit to global output in the US$1.5–2.0T range. Commodities are already reflecting the stress, with familiar bellwethers like oil and copper under pressure this month. But even more concerning is the dent in the US's reputation as a safe haven. Bond yields have trended upwards while the US dollar faces depreciation pressures—a combination more commonly associated with countries grappling with balance of payments crises.

While China has so far refrained from directly weaponizing its position as the second-largest foreign holder of US Treasuries, the mere perception that Beijing could shift its reserves leaves investors on tenterhooks. Such a move, however subtle, could rattle the very foundations of the global financial system, where Treasuries serve as the ultimate risk-free asset.

That said, Beijing is likely to view this option as a last resort. It has every incentive to avoid actions that would undermine its own reserve holdings or trigger unintended financial contagion. For now, it may prefer more targeted, less self-damaging responses while allowing the economic damage from tariffs to play out.

But all of this puts the Federal Reserve in a remarkably precarious position. Already caught between an inflationary supply shock and weakening growth, it could find itself forced to respond to volatility in the Treasury market without seeming to compromise its independence or inviting moral hazard by giving the administration the impression that it can count on the Fed to fix its mistakes. As nerve-wracking as striking that balance may be, the Fed now also faces the added pressure of a president who, during the election campaign, openly expressed the view that the White House should have a say in monetary policy decisions and now seems to be looking into ways of making that a reality.

Speaking of election campaigns, we'll be sharing our thoughts on the outcome of Monday's election in a note next Tuesday, with a more comprehensive analysis in our pre-budget preview next month. After a dysfunctional period without a sitting Parliament and cycling through three finance ministers in just four months, a dose of stability won't hurt. Attention will now shift to the long-overdue budget, which, unlike the costed platforms released this week, will need to incorporate more cautious economic assumptions.

Our updated forecast, released this morning, lands squarely between the Bank of Canada's two scenarios presented last week. While the direct impact of tariffs on Canada is smaller, we expect the Canadian economy to be pulled down by the broader deterioration unfolding south of the border. When the neighbour's house of cards comes crashing down, the dust doesn't settle at the property line.

What to Watch For

UNITED STATES

TUESDAY April 29 - 9:00

February	y/y
Consensus	n/a
Desjardins	4.70%
January	**4.67%**

S&P/Case-Shiller home price index (February) – The S&P/Case-Shiller index for the top 20 cities posted monthly gains of 0.5% for the three months prior to February. We believe February growth probably slowed slightly to 0.4%. That would mean the year-over-year change in the index would stay more or less the same at around 4.7%. The Trump administration's tariff policy could eventually cause resale prices to spike, as demand in the resale market may rise in response to the increase in new home construction costs. That said, if the economy goes into a real slump, the resale market could soften over the year.

TUESDAY April 29 - 10:00

April	
Consensus	87.0
Desjardins	88.0
March	**92.9**

Conference Board Consumer Confidence Index (April) – Confidence has been trending downward in the United States since the end of last year. By March, the Conference Board index had plunged nearly 20 points (17.6%) from its November peak. We expect its April reading will show another drop. All the other consumer confidence indexes, including University of Michigan, TIPP and Gallup, posted a decline for April. Although the stock market saw a few days of sharp gains, the overall trend for the past month has been downward. Mortgage rates have risen, but gasoline prices have more or less held steady and unemployment claims have remained low. Consumer expectations for inflation and the job market also bear watching. All things considered, we expect the Conference Board Consumer Confidence Index to sink below 90.

WEDNESDAY April 30 - 8:30

Q1 2025 - 1st est.	ann. rate
Consensus	0.3%
Desjardins	0.2%
Q4 2024	**2.4%**

Real GDP (Q1 – first estimate) – There's a lot of uncertainty over annualized quarterly real GDP growth for Q1. That's because the monthly data released so far has shown real imports skyrocketing, and it's unclear how that will actually be reflected in GDP. In fact, the various regional Fed estimates of current real GDP growth (nowcasts) range from -2.5% to +2.8%. We expect higher imports will result in a steep rise in inventory and stronger performance for business investment and exports. But annualized growth in real consumer spending is expected to slow to around 1% after advancing 4.0% in the fall of 2024. Overall, we expect real GDP to have gone up by 0.2% on an annualized basis in the first quarter. This would be the weakest reading for the US economy since winter 2022.

THURSDAY May 1 - 10:00

April	
Consensus	48.0
Desjardins	46.5
March	**49.0**

ISM Manufacturing index (April) – In March, the ISM Manufacturing index slipped below 50 to its lowest level since November. The 1.3-point slide brought the index down to 49.0 and was the biggest drop since July 2024. Aside from the weak numbers, the manufacturers quoted in the ISM press release sounded concerned. We expect a further drop in April. Manufacturers were not at all reassured by the introduction (and partial removal) of "reciprocal" tariffs earlier this month and, above all, the escalating trade war with China. In fact, the regional indexes published to date suggest another decline in the ISM Manufacturing index. It could fall to 46.5. Once again, it's worth keeping an eye on the new orders, export orders, import orders and prices components.

FRIDAY May 2 - 8:30

April	
Consensus	125,000
Desjardins	140,000
March	**228,000**

Change in nonfarm payrolls (April) – Job creation surprised to the upside in March with 228,000 new jobs, which was much higher than forecast. But we expect growth to have slowed in April. Mounting economic concerns over the trade war have made employers skittish about hiring. The job market probably isn't that bad, however. Unemployment claims remained low and even fell between mid-March and mid-April. The real impact of the various cuts to the federal government has yet to be determined. All in all, we expect net job creation to come in around 140,000, while the unemployment rate will likely stay put at 4.2%.

CANADA

WEDNESDAY April 30 - 8:30	
February	**m/m**
Consensus	n/a
Desjardins	0.1%
January	**0.4%**

Real GDP by industry (February) – We anticipate monthly real GDP by industry grew by 0.1% in February, in line with Statistics Canada's flash estimate. Weak numbers from transportation, retail and real estate services likely put downward pressure on growth. The February Labour Force Survey showed early signs of weakness, providing an added headwind. In contrast, we expect strength from sectors such as resource extraction and wholesale trade to provide some offset. Looking ahead to the March 2025 real GDP release, we expect Statistics Canada's flash estimate will show a decline of 0.1% m/m.

OVERSEAS

TUESDAY April 29 - 21:30	
April	
Consensus	n/a
March	**51.4**

China: Composite PMI (April) – China's composite PMI grew more than expected in March, rising to 51.4. This was probably because companies front-loaded orders to beat the massive spike in tariffs between the United States and China, as shown by the 0.4-point uptick in the new export orders component of the manufacturing index. The upward pressure from this pull-forward in economic activity may have lasted into April, albeit to a lesser extent, but current tariff levels between the world's two biggest economies basically amount to a trade embargo. We therefore expect the composite PMI to slow or even contract over the coming months. Early signs of this shift can already be seen with the declines in the Manufacturing PMI's import (-2.0) and order backlog (-0.4) components and in expectations of activity (-0.7).

WEDNESDAY April 30 - 5:00	
Q1 2025	**q/q**
Consensus	0.2%
Q4 2024	**0.2%**

Eurozone: Real GDP (Q1 – preliminary) – We expect first-quarter growth in 2025 remained fairly close to the 0.2% gain posted for the final quarter of 2024. Certain activities were fast-tracked in anticipation of higher US tariffs, which may have helped drive up economic activity. In fact, the Eurozone composite PMI improved slightly in the first quarter (before ticking lower in April), and both retail sales and industrial production climbed. Last week, European Central Bank (ECB) officials also stated that the economy likely grew in the first quarter.

FRIDAY May 2 - 5:00	
April	**y/y**
Consensus	2.1%
March	**2.2%**

Eurozone: Consumer price index (April – preliminary) – Headline inflation in the Eurozone slowed again in March. Year-over-year growth in the consumer price index fell from 2.5% in January to 2.3% in February, then slipped to 2.2% in March. That's the lowest it's been since October. A slump in energy prices contributed to the decline, but core inflation also slowed year over year. Additional disinflation in April would make it easier for the ECB to keep loosening its monetary policy.

Economic Indicators

Week of April 28 to May 2, 2025

UNITED STATES

Date	Time	Indicator	Period	Consensus		Previous reading
MONDAY 28	---	---				
TUESDAY 29	8:30	Goods trade balance – preliminary (US$B)	March	-145.0	-125.0	-147.9
	8:30	Retail inventories (m/m)	March	n/a	n/a	0.1%
	8:30	Wholesale inventories – preliminary (m/m)	March	0.8%	n/a	0.3%
	9:00	S&P/Case-Shiller home price index (y/y)	Feb.	n/a	4.70%	4.67%
	10:00	Consumer confidence	April	87.0	88.0	92.9
WEDNESDAY 30	8:30	Employment cost index (q/q)	Q1	0.9%	0.9%	0.9%
	8:30	Real GDP (ann. rate)	Q1f	0.3%	0.2%	2.4%
	9:45	Chicago PMI	April	45.8	46.0	47.6
	10:00	Personal income (m/m)	March	0.4%	0.4%	0.8%
	10:00	Personal consumption expenditures (m/m)	March	0.6%	0.5%	0.4%
	10:00	Personal consumption expenditures deflator				
		Total (m/m)	March	0.0%	0.0%	0.3%
		Excluding food and energy (m/m)	March	0.1%	0.1%	0.4%
		Total (y/y)	March	2.2%	2.2%	2.5%
		Excluding food and energy (y/y)	March	2.6%	2.5%	2.8%
	10:00	Pending home sales (m/m)	March	-0.3%	n/a	2.0%
THURSDAY 1	8:30	Initial unemployment claims	April 21–25	220,000	228,000	222,000
	10:00	Construction spending (m/m)	March	0.3%	-0.2%	0.7%
	10:00	ISM Manufacturing index	April	48.0	46.5	49.0
	---	Total vehicle sales (ann. rate)	April	16,950,000	17,650,000	17,770,000
FRIDAY 2	8:30	Change in nonfarm payrolls	April	125,000	140,000	228,000
	8:30	Unemployment rate	April	4.2%	4.2%	4.2%
	8:30	Average weekly hours	April	34.2	34.2	34.2
	8:30	Average hourly earnings (m/m)	April	0.3%	0.3%	0.3%
	10:00	Factory orders (m/m)	March	4.4%	4.8%	0.6%

CANADA

Date	Time	Indicator	Period	Consensus		Previous reading
MONDAY 28	---	Federal Election				
TUESDAY 29	---	---				
WEDNESDAY 30	8:30	Real GDP by industry (m/m)	Feb.	n/a	0.1%	0.4%
	13:30	Release of the Bank of Canada Summary of Deliberations				
THURSDAY 1	---	---				
FRIDAY 2	---	---				

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 28 to May 2, 2025

Country	Time	Indicator	Period	Consensus m/m (q/q)	Consensus y/y	Previous reading m/m (q/q)	Previous reading y/y
OVERSEAS							
MONDAY 28							
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TUESDAY 29							
Germany	2:00	Consumer confidence	May	-25.7		-24.5	
Eurozone	4:00	M3 money supply	March		4.0%		4.0%
Italy	4:00	Consumer confidence	April	94.1		95.0	
Italy	4:00	Economic confidence	April	n/a		93.3	
Eurozone	5:00	Consumer confidence – final	April	n/a		-16.7	
Eurozone	5:00	Industrial confidence	April	-10.4		-10.6	
Eurozone	5:00	Services confidence	April	2.0		2.4	
Eurozone	5:00	Economic confidence	April	94.5		95.2	
Japan	19:50	Industrial production – preliminary	March	-0.5%	0.7%	2.3%	0.1%
Japan	19:50	Retail sales	March	-0.8%	3.6%	0.4%	1.3%
China	21:30	Composite PMI	April	n/a		51.4	
China	21:30	Manufacturing PMI	April	49.8		50.5	
China	21:30	Non-manufacturing PMI	April	50.7		50.8	
WEDNESDAY 30							
Japan	---	Bank of Japan meeting	April	0.50%		0.50%	
Japan	1:00	Housing starts	March		1.0%		2.4%
France	1:30	Personal consumption expenditures	March	0.0%	-0.4%	-0.1%	0.1%
France	1:30	Real GDP – preliminary	Q1	0.1%	0.7%	-0.1%	0.6%
United Kingdom	2:00	Nationwide house prices	April	0.0%	4.2%	0.0%	3.9%
Germany	2:00	Retail sales	April	-0.5%	2.4%	0.3%	0.1%
France	2:45	Consumer price index – preliminary	April	0.4%	0.7%	0.2%	0.8%
Germany	4:00	Real GDP – preliminary	Q1	0.2%	-0.2%	-0.2%	-0.2%
Italy	4:00	Real GDP – preliminary	Q1	0.2%	0.4%	0.1%	0.6%
Eurozone	5:00	Real GDP – preliminary	Q1	0.2%	1.1%	0.2%	1.2%
Italy	5:00	Consumer price index – preliminary	April	0.2%	2.0%	0.3%	1.9%
Germany	8:00	Consumer price index – preliminary	April	0.4%	2.0%	0.3%	2.2%
THURSDAY 1							
Japan	1:00	Consumer confidence	April	33.9		34.1	
United Kingdom	4:30	Manufacturing PMI – final	April	44.0		44.0	
Japan	19:30	Unemployment rate	March	2.4%		2.4%	
FRIDAY 2							
Italy	3:45	Manufacturing PMI	April	47.0		46.6	
France	3:50	Manufacturing PMI – final	April	48.2		48.2	
Germany	3:55	Manufacturing PMI – final	April	48.0		48.0	
Eurozone	4:00	Manufacturing PMI – final	April	48.7		48.7	
Italy	4:00	Unemployment rate	March	6.0%		5.9%	
Eurozone	5:00	Consumer price index – preliminary	April	0.5%	2.1%	0.6%	2.2%
Eurozone	5:00	Unemployment rate	March	6.1%		6.1%	

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. Times shown are Eastern Daylight Time (GMT -4 hours).