

WEEKLY COMMENTARY

Mixed Signals on the Budget Risk Eroding Canada's Federal Fiscal Credibility

By Randall Bartlett, Deputy Chief Economist

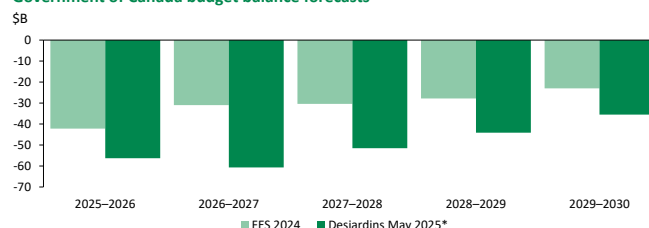
Last week, word came down from Canada's newly minted Prime Minister that there will be no Budget 2025 until the fall. That followed some mixed messages from the Finance Minister as to whether it would be a full budget or just a fall update. Save for the pandemic and post-9/11, this will be the first time Canada won't have a fiscal plan published in the spring going back to at least 1968. And when a spring budget wasn't tabled in the past, it was because an emergency budget was passed either earlier (as in the case of December 2001's "security budget") or not long after (as in the case of the pandemic's July 2020 Economic and Fiscal Snapshot).

The decision by the Government of Canada to not publish a spring budget is surprising given the scale of electoral commitments. The Liberal Party of Canada's 2025 election platform contained more than 100 new measures, totalling about \$130B in new spending and tax cuts. Beyond \$20B in income from retaliatory tariffs, offsetting revenues and savings were estimated at only \$32B and came from the often elusive "increasing penalties and fines" and "savings from increased government productivity." Even if these were realized, federal deficits are still planned to be about \$20B larger on average annually over the next four years than those published in the Fall Economic Statement 2024 (graph 1).

Under these optimistic assumptions, the debt-to-GDP ratio is set to rise (graph 2). But the Canadian economy could easily underperform the Parliamentary Budget Officer's economic outlook used for election platform costing as risks to that

Graph 1
Federal Deficits Are Expected to Be Much Larger than Previously Planned

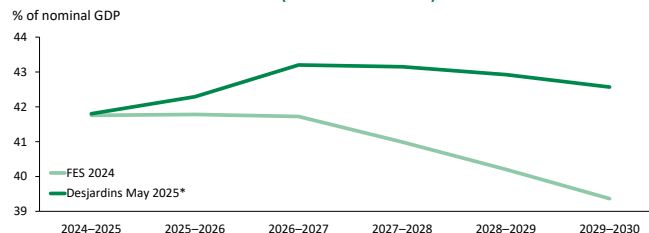
Government of Canada budget balance forecasts



FES: Fall Economic Statement; * Based on Desjardins Economic Studies May 2025 Economic and Financial Outlook, the Fall Economic Statement 2024 and the 2025 Liberal Party of Canada election platform. Government of Canada, Liberal Party of Canada and Desjardins Economic Studies

Graph 2
The Federal Debt-to-GDP Ratio Is Likely to Be Much Higher than Expected in the FES 2024

Government of Canada federal debt (accumulated deficit) forecasts



FES: Fall Economic Statement; * Based on Desjardins Economic Studies May 2025 Economic and Financial Outlook, the Fall Economic Statement 2024 and the 2025 Liberal Party of Canada election platform. Government of Canada, Liberal Party of Canada and Desjardins Economic Studies

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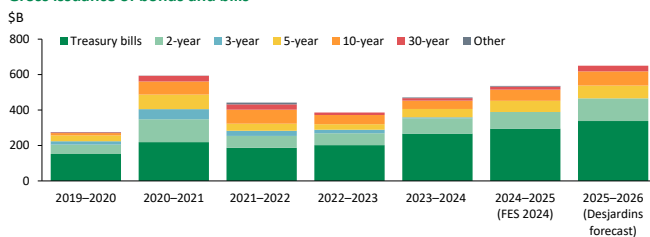
forecast are very much tilted to the downside. (See our May 2025 [Economic and Financial Outlook](#), published yesterday.) The deficit in the 2024–2025 fiscal year is also on track to be larger than was assumed at the time of the 2025 election. As such, if the federal government follows through with its election platform, the debt-to-GDP ratio could easily be even higher than currently projected.

However, while deficit forecasts were published in the federal election platforms, debt projections were not. As a result, Canadians have been left guessing what ballooning deficits will mean for outstanding debt, the cost of which will be shouldered by current and future taxpayers. And without the publication of a Debt Management Strategy, markets are left guessing how much debt the federal government will issue in the 2025–2026 fiscal year and at what maturities. Our analysis puts the estimate for gross issuance this fiscal year at well over \$600B, but no one knows for sure (graph 3).

Canada is at a unique moment in its history, when exceptional economic threats from south of the border call for exceptional measures. But along with exceptional measures must come exceptional transparency and accountability. Delaying Budget 2025 until the fall does not meet that standard. The Government of Canada’s hard-won fiscal credibility could be at stake as a result.

Graph 3
Debt Issuance Should Increase Sharply Due to Larger-than-Planned Deficits

Gross issuance of bonds and bills



FES: Fall Economic Statement
Government of Canada and Desjardins Economic Studies

The delay in publishing a comprehensive fiscal plan introduces a degree of opacity at a time when global markets are likely to scrutinize sovereign balance sheets. The Government of Canada risks having its credit rating downgraded as a result. Fitch, a rating agency, raised this concern even before it was announced that there would be no budget this spring. And this comes on the heels of the US government debt downgrade by Moody’s late last week.

The previous federal government was often criticized for regularly missing its “fiscal anchors,” and rightly so. But the current administration doesn’t appear to feel the need to publish a deficit and debt forecast in a timely manner, let alone fiscal targets. That is concerning. This is especially true as the current administration plans to introduce legislation that will cut taxes and increase spending without providing parliamentarians and Canadians with a sense of what it means for the Government of Canada’s bottom line.

What to Watch For

TUESDAY May 27 - 8:30

April	m/m
Consensus	-8.0%
Desjardins	-7.4%
March	9.2%

TUESDAY May 27 - 9:00

March	y/y
Consensus	n/a
Desjardins	4.60%
February	4.50%

TUESDAY May 27 - 10:00

May	
Consensus	87.0
Desjardins	87.0
April	86.0

FRIDAY May 30 - 8:30

April	m/m
Consensus	0.2%
Desjardins	0.2%
March	0.7%

THURSDAY May 29 - 8:30

Q1 2025	\$B
Consensus	n/a
Desjardins	-7.90
Q4 2024	-4.99

UNITED STATES

Durable goods orders (April) – Durable goods orders posted their strongest monthly growth since July 2020 in March. However, this gain was mainly due to a spike in nondefense aircraft orders, which likely plummeted in April according to Boeing's data. Coupled with a more modest decline in motor vehicle orders, the drop in aircraft orders probably took a major toll on growth in total orders. We expect orders excluding transportation to have gained 0.2% in April, a slight improvement on March's 0.4% dip. However, there are acute downside risks due to the trade war, as shown in the ISM Manufacturing index's recent weakness. All sectors combined, durable goods orders probably contracted 7.4%.

S&P/Case-Shiller home price index (March) – The S&P/Case-Shiller index for the top 20 cities posted another monthly gain of 0.4% in February, similar to January's print. However, year-over-year growth in the index slowed from 4.7% to 4.5%. Look for a smaller 0.3% gain in March's print given that existing home sales slowed by 5.9%. That would still bump the year-over-year change in the index up from 4.5% to 4.6%.

Conference Board Consumer Confidence Index (May) – The Conference Board index fell 7.9 points in April, its biggest drop since August 2021. The index has plummeted 26.8 points from its November peak. A decline of this scale usually suggests acute weakness in household spending. However, the situation has improved a little since April's print was released. The most punitive tariffs—particularly those on China—have been paused, and the stock market has clawed back lost ground. The University of Michigan index fell again in May, but the preliminary survey was mostly conducted before the temporary deal with China. May's Conference Board index could end up being flatter and may even improve slightly. However, downside risks remain elevated.

Consumer spending (April) – Real consumption rose 0.7% in March, its biggest monthly gain since January 2023. This was mainly due to strong growth in motor vehicle sales. Look for April's consumer spending print to be much weaker. The number of new vehicles sold dropped by 3.1% as consumers were no longer trying to get ahead of tariffs to the extent they were in March. This pull-forward was evident in other sectors too, where declines are anticipated given April's lacklustre real retail sales. However, services likely performed well, thanks in particular to the food services and energy sectors. Overall, we're forecasting a flat real consumer spending print. Nominal consumption probably rose 0.2%, reflecting the expected increase in the Personal Consumption Expenditures price index. PCE inflation likely dropped from 2.3% to 2.2% year over year, while the core deflator, which strips out food and energy, was probably flat at 2.6%.

CANADA

Current account balance (Q1) – We anticipate that the current account deficit widened in Q1 2025 to \$7.9B from \$5.0B in Q4 2024. The Canadian dollar continued to depreciate, adding further weakness. Lower oil prices added some drag despite [increased Chinese demand for Canadian oil helping to maintain a historically narrow WTI-WCS spread](#). In contrast, modest performance by Canadian equities provided some tailwind.

FRIDAY May 30 - 8:30

March	m/m
Consensus	n/a
Desjardins	0.1%
February	-0.2%

Real GDP by industry (March) – We anticipate that monthly real GDP by industry grew by 0.1% m/m in March, in line with Statistics Canada’s flash estimate. Resource extraction likely drove up growth. We also expect retail sales to have recovered from the previous month’s decline. In contrast, we anticipate some headwind from manufacturing and wholesale trade sectors as tariff pressures continued to mount. In addition, the March [Labour Force Survey](#) showed signs of a weakening labour market, likely putting downward pressure on growth. Looking ahead to the April 2025 real GDP release, we expect Statistics Canada’s flash estimate will show a weaker profile relative to March.

FRIDAY May 30 - 8:30

Q1 2025	ann. rate
Consensus	n/a
Desjardins	1.7%
Q4 2024	2.6%

Real GDP (Q1) – Turning to quarterly real GDP by expenditure, we anticipate that growth in the first quarter of 2025 likely came in at 1.7% annualized, a tick below the Bank of Canada’s forecast in the April 2025 Monetary Policy Report. Household consumption probably continued to be positive despite an uncertain outlook. Government expenditures should grow modestly. We look for net exports to have increased this quarter, driven heavily by US importers trying to build inventories ahead of tariffs. Business fixed investment should be a drag on growth, mainly driven by the uncertain outlook for trade, as well as weakness in residential structures.

OVERSEAS


FRIDAY May 30 - 21:30

May	
Consensus	n/a
April	50.2

China: Composite PMI (May) – The fallout from the US–China trade war dragged down China’s composite PMI in April. However, it remained just above the 50-point threshold at 50.2, which indicates economic expansion. That said, the manufacturing index fell to 49.0 last month, due in part to a decline in the import (-4.1), purchase quantity (-5.5) and production (-2.8) sub-indexes. Amid April’s exorbitant tariffs, China’s manufacturing sector seemed set to slow its pace further to let the storm pass. However, since the 90-day reduction in US–China tariffs was announced, conflicting signals are emerging in the market and the media. We may see a rebound in activity in May if manufacturers take advantage of this pause to ramp up goods exports before tariffs potentially rise again. In contrast, PMIs could fall if businesses choose to wait for a more formal agreement that could keep tariffs low for the long term.


Economic Indicators

Week of May 26 to 30, 2025

Date	Time	Indicator	Period	Consensus		Previous reading
UNITED STATES						
SUNDAY 25	14:40	Speech by Federal Reserve Chair J. Powell				
MONDAY 26	---	Markets closed (Memorial Day)				
TUESDAY 27	4:00	Speech by Federal Reserve Bank of Minneapolis President N. Kashkari				
	8:30	Durable goods orders (m/m)	April	-8.0%	-7.4%	9.2%
	9:00	S&P/Case-Shiller home price index (y/y)	March	n/a	4.60%	4.50%
	10:00	Consumer confidence	May	87.0	87.0	86.0
WEDNESDAY 28	14:00	Release of the Federal Reserve's meeting minutes				
THURSDAY 29	8:30	Initial unemployment claims	May 19–23	229,000	230,000	227,000
	8:30	Real GDP (ann. rate)	Q1s	-0.3%	-0.3%	-0.3%
	10:00	Pending home sales (m/m)	April	-1.0%	n/a	6.1%
	10:40	Speech by Federal Reserve Bank of Chicago President A. Goolsbee				
	20:25	Speech by Federal Reserve Bank of Dallas President L. Logan				
FRIDAY 30	8:30	Personal income (m/m)	April	0.3%	0.4%	0.5%
	8:30	Personal consumption expenditures (m/m)	April	0.2%	0.2%	0.7%
	8:30	Personal consumption expenditures deflator				
		Total (m/m)	April	0.1%	0.2%	0.0%
		Excluding food and energy (m/m)	April	0.1%	0.2%	0.0%
		Total (y/y)	April	2.2%	2.2%	2.3%
		Excluding food and energy (y/y)	April	2.6%	2.6%	2.6%
	8:30	Goods trade balance – preliminary (US\$B)	April	-143.0	-140.0	-162.0
	8:30	Retail inventories (m/m)	April	-0.1%	n/a	-0.1%
	8:30	Wholesale inventories – preliminary (m/m)	April	0.4%	n/a	0.4%
	9:45	Chicago PMI	May	45.3	45.0	44.6
	10:00	University of Michigan consumer sentiment index – final	May	51.0	51.5	50.8

CANADA

MONDAY 26	---	---				
TUESDAY 27	---	---				
WEDNESDAY 28	---	---				
THURSDAY 29	8:30	Current account balance (\$B)	Q1	n/a	-7.90	-4.99
FRIDAY 30	8:30	Real GDP by industry (m/m)	March	n/a	0.1%	-0.2%
	8:30	Real GDP (ann. rate)	Q1	n/a	1.7%	2.6%

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 Daylight Time (GMT -4 hours).  Desjardins Economic Studies forecast.

Economic Indicators

Week of May 26 to 30, 2025

Country	Time	Indicator	Period	Consensus		Previous reading	
				m/m (q/q)	y/y	m/m (q/q)	y/y
OVERSEAS							
MONDAY 26							
Japan	1:00	Leading index – final	March	n/a		107.7	
Japan	1:00	Coincident index – final	March	n/a		116.0	
TUESDAY 27							
Germany	2:00	Consumer confidence	June	-20.0		-20.6	
France	2:45	Consumer price index – preliminary	May	0.1%	0.9%	0.6%	0.8%
Eurozone	5:00	Consumer confidence – final	May	n/a		-15.2	
Eurozone	5:00	Industrial confidence	May	-10.5		-11.2	
Eurozone	5:00	Services confidence	May	1.0		1.4	
Eurozone	5:00	Economic confidence	May	94.0		93.6	
New Zealand	22:00	Reserve Bank of New Zealand meeting	May	3.25%		3.50%	
WEDNESDAY 28							
South Korea	---	Bank of Korea meeting	May	2.50%		2.75%	
France	2:45	Personal consumption expenditures	April	0.8%	n/a	-1.0%	-1.5%
France	2:45	Real GDP – final	Q1	0.1%	0.8%	0.1%	0.8%
THURSDAY 29							
Japan	1:00	Consumer confidence	May	31.8		31.2	
Italy	4:00	Consumer confidence	May	93.0		92.7	
Italy	4:00	Economic confidence	May	862		91.5	
Japan	19:30	Tokyo Consumer Price Index	May		3.4%		3.4%
Japan	19:30	Unemployment rate	April	2.5%		2.5%	
Japan	19:50	Industrial production – preliminary	April	-1.5%	0.1%	0.2%	1.0%
Japan	19:50	Retail sales	April	0.5%	3.0%	-1.2%	3.1%
FRIDAY 30							
Japan	1:00	Housing starts	April		-18.1%		39.1%
Germany	2:00	Retail sales	April	0.2%	-1.8%	0.4%	0.9%
Eurozone	4:00	M3 money supply	April	3.7%		3.6%	
Italy	4:00	Real GDP – final	Q1	0.3%	0.6%	0.3%	0.6%
Italy	5:00	Consumer price index – preliminary	May	0.1%	1.7%	0.1%	1.9%
Germany	8:00	Consumer price index – preliminary	May	0.1%	2.1%	0.4%	2.1%
China	21:30	Composite PMI	May	n/a		50.2	
China	21:30	Manufacturing PMI	May	49.5		49.0	
China	21:30	Non-manufacturing PMI	May	50.6		50.4	

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