WEEKLY COMMENTARY

The Truth About Balancing Quebec's Budget: Without Unprecedented Efficiency Gains, Services Will Be Impacted

By Jimmy Jean, Vice-President, Chief Economist and Strategist, and Sonny Scarfone, Principal Economist

We've just released our latest Economic and Financial Outlook, reflecting an economic and geopolitical landscape that was—and still is—in flux. Our projections are mixed: while the situation is less dire than our winter scenarios suggested, it still remains less favourable than it was before the US election.

New developments are unfolding on a near-daily basis. In a rare twist for forecasters, it now seems easier to predict growth over the medium term than the short term. But stripping away the noise of the ongoing trade disruptions, we can see that Quebec's economic gains are set to be more modest than the rest of the country's. Two key factors explain this divergence: a sharper demographic slowdown and reduced budgetary flexibility.

Demographics: More than Just a Numbers Game

While it can't be denied that immigration levels over the last few years have outpaced Quebec's physical and administrative capacities, it's also true that the province has reached a symbolic turning point. Last year, natural population growth turned negative for the first time, with deaths outnumbering births. In this respect, Quebec has joined a growing group of provinces and countries, which includes British Columbia and the Atlantic provinces, as well as several countries in Europe and Asia, that have crossed this demographic threshold.

There's no need to sound the alarm just yet, but it does raise a point that will need to be addressed: without sufficient, well-integrated immigration, the burden of our public sector—from healthcare to education to public services—will fall on an increasingly smaller pool of workers. And as more countries face this demographic dilemma, global competition for talent will intensify.

The recent population surge has begun to strain the long-standing consensus on immigration that has existed across Canada, including in Quebec to an extent. For several quarters, population growth has outstripped that of the economy, leading to a drop in real gross domestic product (GDP) per capita. This is a basic mathematical ratio, and when it declines, it's often interpreted as a sign that our standard of living is eroding. This perspective is founded on the assumption that GDP reliably reflects a society's economic well-being—a view that has been debated, though there is a strong correlation between GDP and human development indexes.

In the short term, one way to raise real GDP per capita may be to simply limit the number of workers with low-paying jobs—by lowering the number of temporary work permits in sectors where those jobs are concentrated, or letting in fewer immigrants who are willing to take those jobs. This approach may feel intuitive, but it risks oversimplifying a complex issue. It's not necessarily true that a low-paying job negatively affects the well-being of someone already employed in the economy. This reflects the composition effect: the presence of lower-wage employment doesn't automatically drag down individual outcomes.

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Over the longer term, flat population growth may lead us into a vicious circle: innovation slows, then private investment dwindles, public services deteriorate, skilled workers leave and innovation slows some more. A review by the Economic Innovation Group highlights these dynamics in several US metropolitan areas grappling with demographic decline. When we focus on the numbers and reduce the economy to a per capita GDP figure, we risk overlooking the deeper consequences of prolonged demographic stagnation.

From a public finance perspective, fewer workers also means fewer taxpayers to shoulder the province's debt and spending obligations. This brings us to the second factor that could rein in Quebec's economic growth through the next decade compared to the rest of Canada.

A Limited Contribution from the Public Sector

Much of Quebec's current economic strength stems from steady employment in publicly funded sectors such as healthcare, education and public administration. But with public finances under strain, it's fair to question how long this can last.

The next quarterly report on Quebec's financial situation is planned for late June. It will give us more details on the situation as at March 31, 2025. In the meantime, let's review the key takeaways of the budget presented by the government of Quebec:

- For 2025–2026, the deficit projected in the public accounts is $11.4B (1.8% of GDP).
- In that same fiscal year, the deficit under the *Balanced Budget Act*, which includes deposits in the Generations Fund, will be $13.6B (2.2% of GDP).
- The Act requires a return to a balanced budget by 2029–2030, with a maximum deficit of $1.5B allowed in 2028–2029.

As we noted in our March analysis, the budget generally outlines where fiscal consolidation efforts will be focused over the next few years. But many measures remain undefined, leaving a gap to be closed by the end of the decade.

Revenue remains closely tied to economic conditions. Government forecasts, while slightly more optimistic than our own, remain broadly aligned with those of the private sector. That said, the growth outlook is constrained. Demographic dynamics will not be a driving force, and a tax increase appears improbable in the near term. Quebecers already face some of the highest tax burdens in North America, and with elections just over a year away, the political appetite for new taxes is likely to remain limited.

With few improvements expected from the revenue side, more will be needed from the spending half of the equation. The 2025–2026 budget includes a breakdown of how the $165.7B in projected consolidated expenditures will be allocated:

- 40% for healthcare and social assistance
- 21% for education and higher education (roughly 2/3 going to education)
- 34% to cover other ministry portfolios (family, transportation and sustainable mobility, employment, social security, etc.)
- Just under 6% for debt servicing

Given that most additional consolidation will have to come from spending, it seems reasonable to wonder what that might entail. Expenditure growth is estimated to be just 1.7% per year from 2024–2025 to 2029–2030, and two observations must be made: First, this figure is likely an upper bound, as it excludes further cost-cutting measures. Second, with average inflation running slightly above 2%, this would imply a real decline in government spending and a negative contribution to economic growth.[1] This would, in fact, be the weakest sustained growth in public spending in recent decades.

There are limits to how much spending can be restrained before it begins to affect the quality of public services. While the budget does not provide a complete breakdown of expenses through 2029–2030, it does call for annual expenditure growth of 2.5% in healthcare and social assistance until 2026–2027. While this pace is above inflation, it may not be enough to maintain quality of care, especially in a sector where wages, governed by collective agreements, make up a large share of costs and are set to exceed that threshold. (See Section B of Budget 2024–2025.)

This means there will have to be freezes—or cuts—elsewhere in the system. And this is coming when studies suggest that, accounting for technological advancements and rising needs, annual spending growth of 5% would be ideal, or perhaps necessary, to ensure "continued growth in access and [healthcare] system improvement."

In education and higher education, expenditures are expected to grow annually by 2.1% and 0.9% respectively. Here as well, faster wage growth often governed by collective agreements will put pressure on other budget line items. In the last week, school service centres and private schools were asked to identify an additional $570M in spending cuts. One potential source of relief is the projected decline in the number of primary and

[1] Unless there are major efficiency gains, which several ongoing initiatives aim to achieve.

secondary school students based on demographic forecasts [in French only] from the Institut de la statistique du Québec. This may ease some pressure as the province returns to fiscal balance. That said, educators and advocates in Quebec are already raising concerns over the widening gap between classroom needs and the resources being provided.

Debt servicing is expected to grow and is non-discretionary. That means any shortfall will have to be absorbed by the remaining portfolios, which account for only a third of consolidated expenditures—and many of them are already projected to grow more slowly than inflation. There are still a few exceptions, including the budgets for family affairs, transportation and sustainable mobility, and the environment and climate action. But with the challenges we're facing (climate change, electrification, etc.), that additional boost is needed, as keeping pace with inflation won't be enough to reach Quebec's societal ambitions.

What conclusions can we logically draw from this? Over the next five years, we cannot expect Quebec's planned public expenditures to make a positive contribution to economic growth. The fiscal framework is already tight, and it could tighten further. There will remain limited leeway, and increasing the burden on taxpayers seems unlikely. Efficiency gains within the public sector are clearly desirable, and even necessary, but they won't be enough. Given the effort that will be needed to balance the budget, some cuts seem inevitable. And we'll have to hope that the next few years are uneventful, as any severe economic shock would further complicate the task.

In short, the path to balancing the budget will require some hard decisions. And those decisions will have to reflect social priorities. What will we protect? What can we do without? And at what cost to society? In a Quebec that hopes to age better, educate better, care better and transform its economy, these questions deserve more than quiet deliberation. They deserve a frank and open public debate.

What to Watch For

MONDAY June 23 - 10:00	
May	**ann. rate**
Consensus	3,950,000
Desjardins	3,890,000
April	**4,000,000**

UNITED STATES

Existing home sales (May) – Existing home sales ticked 0.5% lower in April to hit their lowest level since September 2024. We expect a further drop in May. Pending sales shrank the most since September 2022. Preliminary regional data also point to a decline. Our expectation is that sales fell below 3,900,000 units.

TUESDAY June 24 - 9:00	
April	**y/y**
Consensus	n/a
Desjardins	3.90%
March	**4.07%**

S&P/Case-Shiller home price index (April) – In March, the S&P/Case-Shiller 20-city composite index recorded its first monthly slide since January 2023. This is in sharp contrast to the upward momentum observed in previous months. Prices also fell in 14 of the 20 cities in the index. We nevertheless expect a modest 0.1% uptick in April, although the risk of another contraction remains high. But the year-over-year change in the index probably fell from 4.1% to 3.9%. This would be the first time that year-over-year price growth has slipped below 4% since the summer of 2023.

TUESDAY June 24 - 10:00	
June	
Consensus	99.0
Desjardins	99.0
May	**98.0**

Conference Board Consumer Confidence Index (June) – Consumer sentiment plummeted during the first few months of 2025, but the situation changed in May. The Conference Board index rose 12.3 points month over month after shedding 23.8 points over the first four months of the year. The turnaround appeared to be fuelled by easing trade tensions with China and a rising stock market. We'll have to wait and see whether the uptrend continued in June. The University of Michigan and TIPP indexes both rose this month. However, the escalating Israel–Iran conflict has somewhat tempered the stock market rally. Gasoline prices fell recently, but the conflict could drive them back up. We therefore expect the Conference Board index to remain relatively unchanged.

WEDNESDAY June 25 - 10:00	
May	**ann. rate**
Consensus	693,000
Desjardins	685,000
April	**743,000**

New home sales (May) – Sales of new single-family homes accelerated sharply in March (+2.6%) and especially April (+10.9%). Annualized sales reached their highest level since February 2022. This surge occurred despite multiple indicators signalling a slowdown. In fact, they continued to do so in May. Both the recent volume of building permits and faltering home builder confidence suggest the number of new single-family home sales went down. However, mortgage applications for home purchases went up (despite a slight uptick in mortgage rates), while the number of online searches for new homes appears to have stabilized. All in all, we expect new single-family home sales dipped back below 700,000.

THURSDAY June 26 - 8:30	
May	**m/m**
Consensus	6.9%
Desjardins	13.5%
April	**-6.3%**

Durable goods orders (May) – In April, durable goods orders experienced their biggest monthly drop since January 2024. This was largely due to a 51.5% collapse in nondefense aircraft orders. Yet that very same sector probably fuelled a strong upswing in May. Boeing orders—especially from international buyers—skyrocketed in May, while orders likely tripled for the industry as a whole. But if we exclude transportation, durable goods orders probably flatlined, while manufacturing output fell short of expectations in May. All sectors combined, durable goods orders probably climbed 13.5%.

FRIDAY June 27 - 8:30	
May	**m/m**
Consensus	0.2%
Desjardins	0.0%
April	**0.2%**

Consumer spending (May) – After spiking 0.7% in March, real consumer spending slowed to a more modest 0.1% in April. We expect further deceleration in May, and maybe even a 0.1% decline. That would be the first real contraction since January 2024. As with retail sales, the pullback in consumer spending was likely mostly driven by the automotive sector, which is in the midst of a slump following the frontloading prompted by US trade policy. Meanwhile, the other segments of durable and non-durable goods spending are expected to post modest monthly growth for May. Spending on services probably stalled, with retail sales suggesting a slowdown in real spending on food services, while industrial production signals softer demand for energy. Total nominal consumption is expected to have recorded zero growth (0%). PCE inflation likely increased from 2.1% to 2.2% year over year, while the core deflator, which strips out food and energy, probably rose from 2.5% to 2.6%.

CANADA

TUESDAY June 24 - 8:30	
May	**m/m**
Consensus	0.5%
Desjardins	0.5%
April	**-0.1%**

Consumer price index (May) – Headline consumer price growth likely remained steady at 1.7% on an annual basis and rose 0.5% in non-seasonally adjusted terms over the month. This CPI release will come alongside updated basket weights. The most significant changes are a reduction in the energy component from 7.01% to 5.83% and an increase in shelter from 29.15% to 29.41%. Last month saw unusually high volatility, in part due to the removal of the carbon tax, but also an outsized gain in rented accommodation, which is expected to normalize. April's release also saw some impacts from tariffs, which should become more pronounced in May. The Bank of Canada's core measures of inflation, which have been increasing lately, are likely to fall.

FRIDAY June 27 - 8:30	
April	**m/m**
Consensus	0.0%
Desjardins	0.1%
March	**0.1%**

Real GDP by industry (April) – We anticipate that monthly real GDP by industry grew by 0.1% m/m in April, in line with Statistics Canada's flash estimate. Resource extraction likely pushed growth higher, driven by a modest rise in oil and gas production. In addition, the April Labour Force Survey showed that temporary federal election hiring masked growing weakness in the broader labour market. In contrast, we anticipate some headwind from the manufacturing and wholesale trade sectors due to mounting tariff pressures. Looking ahead to the May 2025 real GDP release, we expect Statistics Canada's flash estimate will show a weaker profile relative to April. This would partly result from one-off factors such as wildfires out West and the reversal of short-lived federal election employment and spending.

OVERSEAS

MONDAY June 23 - 4:00	
June	
Consensus	50.5
May	**50.3**

Eurozone: PMI (June – preliminary) – The eurozone's composite PMI edged down from 50.4 in April to 50.2 in May. But this decline masked major disparities between the region's largest economies. The index plunged 1.6 points in Germany, but jumped 1.5 points in France. The eurozone economy seems to have avoided the worst impacts of the trade war with the United States, at least for now. For the most part, the retaliatory measures adopted by the European Union remain symbolic, limiting their direct economic impact. In light of this, the European Central Bank has cut its key rate four times this year, indicating that it's currently more concerned about growth than inflation. The June print will serve as a key indicator of whether the tariffs are becoming a heavier burden on the European economy.

Economic Indicators

Week of June 23 to 27, 2025

Date	Time	Indicator	Period	Consensus	Desjardins	Previous reading
UNITED STATES						
SUNDAY 22	13:15	Speech by Federal Reserve Bank of San Francisco President M. Daly				
MONDAY 23	10:00	Existing home sales (ann. rate)	May	3,950,000	3,890,000	4,000,000
	13:10	Speech by Federal Reserve Bank of Chicago President A. Goolsbee				
TUESDAY 24	8:30	Current account (US$B)	Q1	-445.5	-452.2	-303.9
	9:00	S&P/Case-Shiller home price index (y/y)	April	n/a	3.90%	4.07%
	9:15	Speech by Federal Reserve Bank of Cleveland President B. Hammack				
	10:00	Consumer confidence	June	99.0	99.0	98.0
	10:00	Testimony of Federal Reserve Chair J. Powell before a House committee				
	12:30	Speech by Federal Reserve Bank of New York President J. Williams				
WEDNESDAY 25	10:00	New home sales (ann. rate)	May	693,000	685,000	743,000
	10:00	Testimony of Federal Reserve Chair J. Powell before a Senate committee				
THURSDAY 26	8:30	Initial unemployment claims	May 16 – 20	248,000	252,000	245,000
	8:30	Real GDP (ann. rate)	Q1t	-0.2%	-0.2%	-0.2%
	8:30	Durable goods orders (m/m)	May	6.9%	13.5%	-6.3%
	8:30	Goods trade balance – preliminary (US$B)	May	-92.0	-85.3	-87.6
	8:30	Retail inventories (m/m)	May	n/a	n/a	-0.1%
	8:30	Wholesale inventories – preliminary (m/m)	May	n/a	n/a	0.2%
FRIDAY 27	8:30	Personal income (m/m)	May	0.2%	0.5%	0.8%
	8:30	Personal consumption expenditures (m/m)	May	0.2%	0.0%	0.2%
	8:30	Personal consumption expenditures deflator				
		Total (m/m)	May	0.1%	0.1%	0.1%
		Excluding food and energy (m/m)	May	0.1%	0.1%	0.1%
		Total (y/y)	May	2.3%	2.2%	2.1%
		Excluding food and energy (y/y)	May	2.6%	2.6%	2.5%
	10:00	University of Michigan consumer sentiment index – final	June	60.5	60.5	60.5
CANADA						
MONDAY 23	---	---				
TUESDAY 24	---	Holiday in Quebec (National Day)				
	8:30	Consumer price index				
		Total (m/m)	May	0.5%	0.5%	-0.1%
		Total (y/y)	May	1.7%	1.7%	1.7%
WEDNESDAY 25	---	---				
THURSDAY 26	---	---				
FRIDAY 27	8:30	Real GDP by industry (m/m)	April	0.0%	0.1%	0.1%

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 June 23 to 27, 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 22							
Japan	20:30	Composite PMI – preliminary	June	n/a		50.2	
Japan	20:30	Manufacturing PMI – preliminary	June	n/a		49.4	
Japan	20:30	Services PMI – preliminary	June	n/a		51.0	
MONDAY 23							
France	3:15	Composite PMI – preliminary	June	49.4		49.3	
France	3:15	Manufacturing PMI – preliminary	June	49.9		49.8	
France	3:15	Services PMI – preliminary	June	49.2		48.9	
Germany	3:30	Composite PMI – preliminary	June	49.1		48.5	
Germany	3:30	Manufacturing PMI – preliminary	June	49.0		48.3	
Germany	3:30	Services PMI – preliminary	June	47.9		47.1	
Eurozone	4:00	Composite PMI – preliminary	June	50.5		50.2	
Eurozone	4:00	Manufacturing PMI – preliminary	June	49.8		49.4	
Eurozone	4:00	Services PMI – preliminary	June	50.0		49.7	
United Kingdom	4:30	Composite PMI – preliminary	June	50.5		50.3	
United Kingdom	4:30	Manufacturing PMI – preliminary	June	46.9		46.4	
United Kingdom	4:30	Services PMI – preliminary	June	51.3		50.9	
TUESDAY 24							
Germany	4:00	ifo Business Climate Index	June	88.2		87.5	
Germany	4:00	ifo Current Assessment Index	June	86.5		86.1	
Germany	4:00	ifo Expectations Index	June	89.9		88.9	
WEDNESDAY 25							
France	2:45	Consumer confidence	June	89		88	
THURSDAY 26							
Germany	2:00	Consumer confidence	July	-19.0		-19.9	
Mexico	15:30	Bank of Mexico meeting	June	8.00%		8.50%	
Japan	19:30	Tokyo Consumer Price Index	June		3.3%		3.4%
Japan	19:30	Unemployment rate	May	2.5%		2.5%	
Japan	19:50	Retail sales	May	0.3%	2.5%	0.5%	3.3%
FRIDAY 27							
France	2:45	Personal consumption expenditures	May	0.1%	n/a	0.3%	-0.1%
France	2:45	Consumer price index – preliminary	June	0.2%	0.8%	-0.1%	0.7%
Italy	4:00	Consumer confidence	June	97.0		96.5	
Italy	4:00	Economic confidence	June	n/a		93.1	
Eurozone	5:00	Consumer confidence – final	June	n/a		-15.3	
Eurozone	5:00	Economic confidence	June	95.0		94.8	
Eurozone	5:00	Industrial confidence	June	-9.9		-10.3	
Eurozone	5:00	Services confidence	June	1.6		1.5	

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).