WEEKLY COMMENTARY

Quebec Is Meeting Its Fiscal Targets Despite Economic Softness

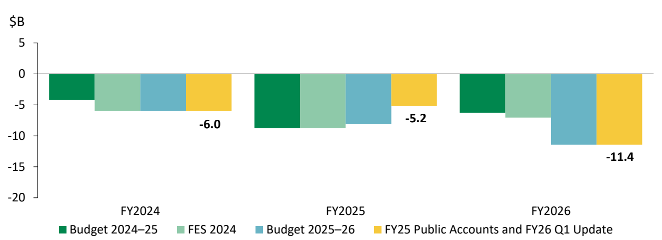
By Sonny Scarfone, Principal Economist

Last week, the Quebec government published its public accounts for the 2024–2025 fiscal year (FY25). The estimated deficit for that year narrowed, falling from $8.1 billion to $5.2 billion before contributions to the Generations Fund. This brings the deficit to 0.8% of GDP. This fiscal improvement, first hinted at in the preliminary results released in late June, was driven by both stronger own-source revenues and lower-than-expected spending (table 1 on page 2). The province's net debt remained unchanged at 38.7% of GDP.

On the very same day, the Quebec government released its Q1 fiscal update (April to June) for the 2025–2026 fiscal year (FY26). The projected deficit remains unchanged at $11.4 billion, or 1.8% of GDP (graph 1). The steady headline deficit number reflects relatively modest revisions within its components: higher revenue projections are being offset by increased spending in the education sector and higher debt servicing costs.

Graph 1
Quebec's Deficit Outlook Remains Unchanged

Budget balance projections, before contributions to the Generations Fund



FES: Fall Economic Statement; FY25 and FY26 refer to the 2024–25 fiscal year and 2025–26 fiscal year, respectively
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This fiscal stability stands in contrast to the economic softness observed in those months, when Quebec's GDP contracted at an annualized rate of 2.4%. Despite this slowdown, government revenues have held up well, underpinned by a resilient labour market. From April to June, personal income tax revenues rose 8.9% year over year, in line with the cumulative growth in employment and wages in the preceding 12 months (graph 2 on page 2). QST collections increased by 7.0%, reflecting strong domestic demand. Corporate tax revenues also posted a solid gain, up 21% compared to the same period last year. Altogether, revenue for FY2026 has been revised up by $480 million, including $350 million from own-source revenues and $130 million from federal transfers.

Portfolio expenditures rose 5.5% year over year. However, the overall spending forecast for FY26 remains unchanged, as a $250 million increase in education from the March budget was offset by an equivalent, but unspecified, reduction in "other portfolios." Meanwhile, debt service charges have been revised upward by $480 million, mirroring the increase in total revenue. This adjustment reflects changes in long-term interest rates since the budget was tabled in March.

Looking ahead to the rest of FY26, the balance of risks appears skewed towards smaller deficits. Revenue has remained stable despite signs of economic contraction, and an economic upturn is plausible and remains our baseline scenario for the rest of the year. In the first quarter, expenditures followed their usual seasonal pattern and were on track to meet the targets set for March 2026. Based on this latest update, spending should

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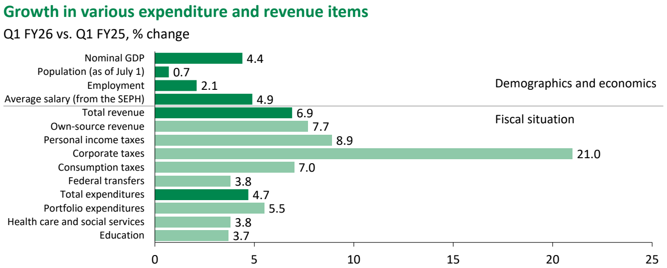
still allow this year's budget targets to be met in the midst of a marked slowdown in demographic growth (population up just 0.7% year over year as of July 1, graph 2).

Graph 2
Revenues Are Fairly Robust Under the Circumstances



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The unchanged $2 billion contingency reserve should be sufficient to absorb remaining downside risks. But looking beyond FY26, substantial revenue and expenditure adjustments will still be needed to meet the balanced budget target by 2029–30 (FY30), as required under the Balanced Budget Act. Measures to close a $2.5 billion gap had yet to be identified when the budget was tabled back in March. We expect the upcoming fall update to provide greater clarity on the government's strategy to achieve this objective.

That said, a provincial election is just 367 days away, and it will inevitably bring promises that lower revenue and increase spending. Let's hope that the parties' campaign platforms will focus on budgetary discipline, as the fiscal framework leaves little room for uncosted commitments.

TABLE 1
Quebec's Updated Fiscal Forecasts

$B (UNLESS OTHERWISE INDICATED)	2024–25		2025–26	
	Budget 2025–26	Public Accounts	Budget 2025–26	Q1 Update
Revenue	**155.2**	**156.1**	**156.3**	**156.8**
% change	*6.6*	*7.2*	*0.7*	*0.5*
Own-source revenue	124.5	125.6	125.7	126.1
% change	*8.6*	*9.5*	*1.0*	*0.4*
Federal transfers	30.6	30.5	30.6	30.7
% change	*-0.8*	*-1.2*	*-0.1*	*0.8*
Expenditure	**163.3**	**161.3**	**165.8**	**166.3**
% change	*7.7*	*6.4*	*1.5*	*3.1*
Portfolio expenditures	153.4	151.3	156.1	156.1
% change	*8.4*	*6.9*	*1.8*	*3.2*
Debt service	9.9	10.0	9.7	10.2
% change	*-1.3*	*-0.1*	*-1.9*	*1.8*
Contingency	**0.0**	**0.0**	**2.0**	**2.0**
Accounting surplus (deficit)	**-8.1**	**-5.2**	**-11.4**	**-11.4**
% of GDP	*1.3*	*0.8*	*1.8*	*1.8*
Contribution to the Generations Fund	2.4	2.4	2.2	2.2
Budget balance within the meaning of the Balanced Budget Act	**-10.4**	**-7.6**	**-13.6**	**-13.6**
% of GDP	*1.7*	*1.2*	*2.2*	*2.2*
Net debt, % of GDP	*38.7*	*38.7*	*40.4*	*40.4*
Quebec Infrastructure Plan	19.4	n/a	19.0	n/a
Real GDP, % change	*1.4*	*n/a*	*1.1*	*n/a*
Nominal GDP, % change	*5.3*	*n/a*	*3.4*	*n/a*

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What to Watch For

UNITED STATES

*** Due to the federal government shutdown in the United States, some indicators may not be released as scheduled.**

TUESDAY October 7 - 15:00	
August	**US$B**
Consensus	15.000
Desjardins	2.000
July	**16.010**

Consumer credit (August) – As the Federal Reserve (Fed) is not congressionally funded, it is not directly affected by the current government shutdown in Washington. It will continue to release data as planned, including August's figures for consumer credit. This indicator has been fairly volatile over the last few months. After falling US$4.2B in June, it jumped US$16.0B in July. This gain came from both term credit and revolving credit (lines of credit and credit cards). Weekly bank credit data is pointing to an August pullback. This would also be in line with declines in motor vehicle sales. But the solid performance by retail sales in August and the slight decline in the savings rate both suggest that credit instead grew. All in all, we expect a modest uptick, but downside risks remain.

FRIDAY October 10 - 10:00	
October	
Consensus	54.1
Desjardins	53.5
September	**55.1**

University of Michigan consumer sentiment index (October – preliminary) – With some indicators usually published by the US federal government on hold, economic data from other sources are all the more important. This includes the upcoming University of Michigan consumer sentiment index. The index fell in September, edging closer to the 52.2 low it reached in April and May. We expect a further decline in October. The stock market has done well and gas prices have come down a bit, which could give confidence a boost. However, it's likely that the government shutdown will have rattled consumer sentiment, as was the case in many of the previous shutdowns. The survey period for the preliminary version of the index ends on Monday, October 6, so it will cover nearly a week of the stalemate.

CANADA

TUESDAY October 7 - 8:30	
August	**$B**
Consensus	-5.6
Desjardins	-5.4
July	**-4.9**

International trade (August) – Canada's trade deficit in goods likely widened to -$5.4B in August following a meaningful improvement in July to -$4.9B. With nominal imports expected to have remained broadly unchanged from the prior month, low nominal exports were probably behind the larger trade deficit. The advance estimate of US imports showed a reversal in August from the bounce in July, with four of six categories posting declines. Only US imports of automotive vehicles and "other goods"—which appear to include energy—moved higher in the month. That said, given Canada's lower effective tariff rate than other major US trading partners, there may be some upside to our trade deficit forecast for August, as the advance estimate of US imports isn't broken out by country. Importantly, as in previous instances, the US government shutdown could delay the release of this trade data due to the data exchange agreement with Canada.

FRIDAY October 10 - 8:30	
September	
Consensus	5,000
Desjardins	5,000
August	**-65,500**

Net change in employment (September) – Following two months of job losses totalling 106.3k, we anticipate headline employment to have returned to growth in September, rising 5k. While such a print would be a positive development, the labour market remains fragile. Sectors not directly exposed to US trade have seen employment stagnate in recent months, and central bankers remain worried that weakness in trade-exposed sectors could spread. The unemployment rate, which has risen from 6.6% at the start of the year, is likely to have increased by one tick in September to 7.2%. We will continue to focus on the unemployment rate for those ages 25 to 54, which has also risen 5 ticks since the start of the year. Population growth has slowed rapidly as a result of federal government policies. We expect that to continue, lowering the breakeven employment rate. Wage growth has normalized this year, and we see that continuing into the end of this year and the start of next. Overall, there's still plenty of slack in the Canadian labour market, reinforcing our case for further monetary stimulus.

Economic Indicators

Week of October 6 to 10, 2025

Date	Time	Indicator	Period	Consensus	Desjardins forecast	Previous reading
UNITED STATES						
*** Due to the federal government shutdown in the United States, some indicators may not be released as scheduled.**						
MONDAY 6	---	---				
TUESDAY 7	8:30	Trade balance – goods and services (US$B)	Aug.	-61.4	-61.2	-78.3
	10:00	Speech by Federal Reserve Bank of Atlanta President R. Bostic				
	10:30	Speech by Federal Reserve Governor S. Miran				
	11:30	Speech by Federal Reserve Bank of Minneapolis President N. Kashkari				
	15:00	Consumer credit (US$B)	Aug.	15.000	2.000	16.010
WEDNESDAY 8	9:30	Speech by Federal Reserve Vice Chair M. Barr				
	14:00	Release of the Federal Reserve’s meeting minutes				
	15:15	Speech by Federal Reserve Bank of Minneapolis President N. Kashkari				
	16:30	Speech by Federal Reserve Bank of Minneapolis President N. Kashkari				
THURSDAY 9	8:30	Initial unemployment claims	Sep. 29–Oct. 3	233,000	n/a	n/a
	10:00	Wholesale inventories – final (m/m)	Aug.	n/a	-0.2%	-0.2%
	13:00	Speech by Federal Reserve Bank of Minneapolis President N. Kashkari and by Federal Reserve Vice Chair M. Barr				
	21:30	Speech by Federal Reserve Bank of San Francisco President M. Daly				
FRIDAY 10	10:00	University of Michigan consumer sentiment index – prel.	Oct.	54.1	53.5	55.1
	13:00	Speech by Federal Reserve Bank of St. Louis President A. Musalem				
CANADA						
MONDAY 6	---	---				
TUESDAY 7	8:30	International trade ($B)	Aug.	-5.68	-5.40	-4.94
WEDNESDAY 8	---	---				
THURSDAY 9	---	---				
FRIDAY 10	8:30	Net change in employment	Sep.	5,000	5,000	-65,500
	8:30	Unemployment rate	Sep.	7.2%	7.2%	7.1%

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 October 6 to 10, 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 6							
Eurozone	5:00	Retail sales	Aug.	0.1%	1.3%	-0.5%	2.2%
TUESDAY 7							
Japan	1:00	Leading index – preliminary	Aug.	107.1		106.1	
Japan	1:00	Coincident index – preliminary	Aug.	113.1		114.1	
Germany	2:00	Factory orders	Aug.	1.5%	3.0%	-2.9%	-3.4%
France	2:45	Trade balance (€M)	Aug.	n/a		-5,558	
France	2:45	Current account (€B)	Aug.	n/a		-2.5	
Japan	19:50	Current account (¥B)	Aug.	2,376.7		1,882.8	
New Zealand	21:00	Reserve Bank of New Zealand meeting	Oct.	2.75%		3.00%	
WEDNESDAY 8							
Germany	2:00	Industrial production	Aug.	-1.0%	-0.7%	1.3%	1.5%
THURSDAY 9							
Germany	2:00	Trade balance (€B)	Aug.	15.5		14.7	
Japan	19:50	Producer price index	Sep.	0.1%	2.5%	-0.2%	2.7%
FRIDAY 10							
Italy	4:00	Industrial production	Aug.	-0.4%	0.8%	0.4%	0.9%

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).