WEEKLY COMMENTARY

Have High Oil Prices Created the Federal Fiscal Room to Spend Even More?

By Randall Bartlett, Deputy Chief Economist

It's been a whirlwind of a week in Canada, with many of the world's largest institutional investors coming to Toronto for the Prime Minister's first-ever Canada Investment Summit. News reports have been mostly positive, with heightened interest in Canada as an international destination for investment in infrastructure, energy, mining and more.

Prior to the summit, we raised a note of caution regarding the number, scale and risk-adjusted return of Canadian investment opportunities. In the past, all these attributes needed to attract institutional capital to Canada have been lacking. However, leaked documents show that at least 167 projects in need of capital were put in front of investors this week, thereby hopefully addressing the first of these concerns. At least some of these opportunities should also be of sufficient scale to attract investor attention. But there is a lot more that can be done to create large-scale investment opportunities in roads, rail, towers, transmission, airports, ports, pipelines and other infrastructure. Indeed, a greater role for institutional investors is on the table for federally owned major airports and potentially other assets as well.

That just leaves the risk-adjusted return of available opportunities to be addressed. It's a big world, and Canada is competing with every other jurisdiction for the long-term, patient capital of pension funds, insurance companies, sovereign wealth funds and other institutional investors. Emerging markets and less-regulated developed countries have historically been more attractive destinations than Canada. How much has really changed since the end of 2024?

Private infrastructure is known for its high return. But as interest rates rise around the world, so does the cost of capital, thereby eroding profitability. Fortunately, infrastructure is somewhat immune from these forces as higher costs—including inflation—can to some extent be passed on to consumers, albeit often subject to significant regulatory restraint. And with inflation-adjusted borrowing costs on the rise, real returns would need to rise at the same pace to maintain profit margins. However, given that Canada's population is currently declining and escalating trade tensions with the US are acting as an additional headwind to real GDP growth, two of the components that drive expected real infrastructure returns remain constrained.[1]

That's where the federal and provincial governments come in. At a minimum, they can reduce investment risk by facilitating faster reviews for projects and reducing red tape. Accelerating international trade diversification by inking trade deals while removing internal trade barriers can help too. And indeed, following the introduction of the *Building Canada Act* in June 2025, that's what Canadians have seen.

[1] For demand-based infrastructure assets, expected real returns are often estimated using population growth as a proxy for growth in the potential user base, combined with assumptions about take-up rates. Growth in real GDP per capita also serves as a proxy for growth in per-user inflation-adjusted revenue.

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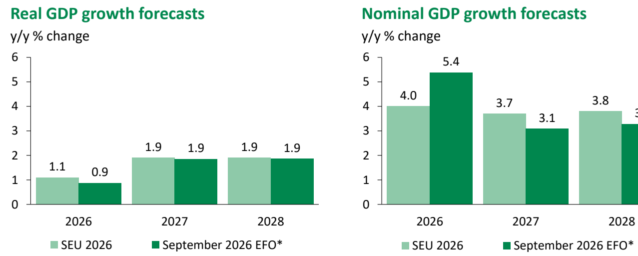
Canadian governments can't guarantee market returns on private investments. But they can guarantee a minimum return on investment, take a subordinated debt or equity position in an investment (ensuring they get paid last) or assume much of the front-end investment risk by leveraging the public balance sheet. By doing so, some portion of the risk of a project is transferred from the private to the public sector, boosting the risk-adjusted return to investors. However, this risks socializing the costs of these projects if they don't turn out as planned. That is to some extent the justification for the proposed Canada Strong Fund—leverage the federal balance sheet while ensuring that the risk taken on the part of the taxpayer is appropriately rewarded.

How much capital governments in Canada will need to commit, on net, to attract substantial international investment remains a big unknown. However, it is the federal government that has sufficient fiscal room to leverage its balance sheet for major infrastructure and other investments, as the provinces are more fiscally constrained. High oil prices mean that revenues are pouring in, as growth in Canada's nominal GDP—the broadest measure of the tax base—is expected to be about 1.5 percentage points higher this year than anticipated at the time of the Spring Economic Update (SEU) 2026 (graph 1). After that, nominal GDP growth should remain broadly in line with the spring outlook. That suggests the level of the federal deficit should be smaller, debt should be lower and nominal GDP should be higher in the near term than in the SEU 2026, all else being equal (graph 2). Together, this means the federal debt-to-GDP ratio should be pushed lower from the top and the bottom.

But all else isn't equal. The federal government has announced significant new spending measures since the SEU 2026. According to our most recent tally, the unplanned measures unveiled since the spring amount to more than $100B over the next decade, some of which can be linked to capital investment (that is, an asset on the Government of Canada's balance sheet). And while that new spending could be sufficient to push the federal debt-to-GDP ratio one percentage point higher by 2035, this should partly be offset by higher nominal GDP and revenues. However, the debt ratio could ultimately be above the SEU 2026 a decade from now (graph 3).

If the hoped-for infrastructure investment is timely, well-selected and successfully executed, it could support near-term economic activity and, crucially, expand Canada's productive capacity over time. Any resulting improvement in nominal GDP and associated revenues could place the debt-to-GDP ratio on a lower path than currently projected. But the magnitude and timing of these gains remain uncertain and would need to be weighed against the costs of financing, operating and maintaining those assets. The case for directing any resulting fiscal room towards new commitments should therefore rigorously rest on the expected economic and strategic returns of each investment.

Graph 1
Elevated Oil Prices Have Pushed Nominal GDP Growth Higher in 2026



SEU: Spring Economic Update; EFO: Economic and Financial Outlook; * Preliminary.
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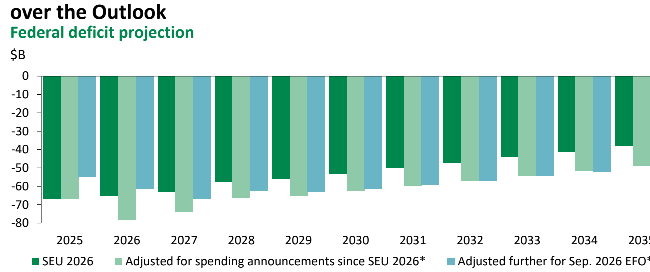
Graph 2
The Benefit of a Stronger Economy to the Federal Deficit Could Fade over the Outlook



SEU: Spring Economic Update; EFO: Economic and Financial Outlook; * Reflects announcements up to and including September 15, 2026; September 2026 EFO results are preliminary.
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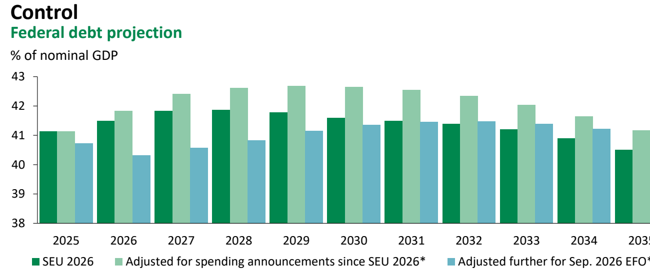
Graph 3
Higher Nominal GDP Has Helped to Keep Federal Debt Ratios Under Control



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What to Watch For

UNITED STATES

THURSDAY September 24 - 10:00	
August	**ann. rate**
Consensus	620,000
Desjardins	615,000
July	**607,000**

New home sales (August) – Sales of new single-family homes remained volatile, falling 10.5% in July after rising 7.6% in June. July's figure of 607,000 is the second-lowest print since 2022. This indicator's seesaw pattern suggests that sales may have rebounded in August. That said, there are several factors that make a sustained uptrend unlikely. First, inventory of new single-family homes for sale is high. Second, new home sales are recorded at the very beginning of the buying process, as soon as a deposit is paid or a sales contract is signed. This makes them vulnerable to changes in mortgage rates earlier, and the increase in rates starting in August may have curbed sales growth. Mortgage applications for home purchases also declined. However, despite remaining low, builder confidence was stable in August. Finally, the 1.8% decrease in building permits for single-family homes in August is also a negative sign. All in all, these factors suggest relatively weak sales for August.

FRIDAY September 25 - 8:30	
August	**m/m**
Consensus	-0.3%
Desjardins	-0.3%
July	**1.1%**

Durable goods orders (August) – July's increase in durable goods orders was, once again, largely due to a 12.7% rise in nondefense aircraft orders. However, based on falling orders at Boeing, this volatile component is expected to contribute negatively in August. Still in transportation, we expect a pullback in the automotive sector. For other durable goods, the positive trend likely continued with further contributions from tech goods and machinery. The new orders component of the ISM Manufacturing index declined in August but remains high. As a result, we expect orders excluding transportation to increase 0.4%. Overall, look for durable goods orders to decline by 0.3%.

CANADA

THURSDAY September 24 - 8:30	
July	**m/m**
Consensus	-0.8%
Desjardins	-0.8%
June	**0.6%**

Retail sales (July) – Retail sales probably declined by 0.8% m/m in July, in line with Statistics Canada's preliminary flash figure. Higher prices at the pump likely weighed on demand, reducing gasoline sales volumes and leaving nominal receipts slightly lower overall. Spending at motor vehicle and parts dealerships likely edged down as well, primarily because of weaker volumes as seasonally adjusted prices were broadly unchanged and new vehicle sales data point to softer activity. Meanwhile, core sales—which exclude automotive and gasoline receipts—are expected to post a modest decline following June's 1.2% monthly surge. For August's flash, we anticipate an advance in the month, driven by auto and core sales. Lower prices probably drove down nominal sales at gas stations, despite a potential uptick in volumes. In the coming months, we will monitor provincial divergences in the resilience of retail sales, as demographic trends and trade uncertainty affect regional labour markets unevenly. Consumer confidence and retail spending could also waver if gasoline prices rise further amid continued hostilities in the Middle East.

OVERSEAS

WEDNESDAY September 23 - 4:00	
September	
Consensus	51.6
August	**52.0**

Eurozone: PMI (September – preliminary) – The eurozone's composite PMI was stable in August, maintaining July's reading of 52.0. This is the index's highest print since November 2025. It reflects an improved Manufacturing PMI partially offset by a slightly weaker Services PMI. We observed a similar situation in the major eurozone countries. September's data will show whether these recent trends continued through the end of the third quarter. We may also get further insight into how the recent surge in gasoline and diesel prices has impacted business activity in the eurozone.

Economic Indicators

Week of September 21 to 25, 2026

Date	Time	Indicator	Period	Consensus	Desjardins forecast	Previous reading
UNITED STATES						
MONDAY 21	6:30	Speech by Federal Reserve Bank of Chicago President A. Goolsbee				
TUESDAY 22	10:05	Speech by Federal Reserve Bank of New York President J. Williams				
	10:20	Speech by Federal Reserve Vice Chair P. Jefferson				
	13:00	Speech by Federal Reserve Bank of Richmond President T. Barkin				
WEDNESDAY 23	10:05	Speech by Federal Reserve Vice Chair M. Barr				
THURSDAY 24	4:10	Speech by Federal Reserve Bank of New York President J. Williams				
	8:00	Speech by Federal Reserve Bank of Richmond President T. Barkin				
	8:30	Initial unemployment claims	Sep. 14–18	203,000	209,000	196,000
	8:30	Current account (US$B)	Q2	-260.0	-257.4	-226.8
	8:50	Speech by Federal Reserve Bank of Cleveland President B. Hammack				
	10:00	New home sales (ann. rate)	Aug.	620,000	615,000	607,000
	10:10	Speech by Federal Reserve Bank of Philadelphia President A. Paulson				
FRIDAY 25	5:15	Speech by Federal Reserve Bank of New York President J. Williams				
	8:30	Durable goods orders (m/m)	Aug.	-0.3%	-0.3%	1.1%
	10:00	University of Michigan consumer sentiment index – final	Sep.	47.5	46.0	47.8
	14:00	Speech by Federal Reserve Bank of Cleveland President B. Hammack				
CANADA						
MONDAY 21	11:20	Speech by Bank of Canada Governor T. Macklem				
TUESDAY 22	---	---				
WEDNESDAY 23	---	---				
THURSDAY 24	8:30	Retail sales				
		Total (m/m)	July	-0.8%	-0.8%	0.6%
		Excluding automobiles (m/m)	July	-0.5%	-0.5%	0.5%
FRIDAY 25	---	---				

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 September 21 to 25, 2026

Country	Time	Indicator	Period	Consensus m/m (q/q)	Consensus y/y	Previous reading m/m (q/q)	Previous reading y/y
OVERSEAS							
MONDAY 21							
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TUESDAY 22							
Eurozone	10:00	Consumer confidence – preliminary	Sep.	-16.0		-15.5	
WEDNESDAY 23							
France	3:15	Composite PMI – preliminary	Sep.	48.8		48.5	
France	3:15	Manufacturing PMI – preliminary	Sep.	50.9		51.1	
France	3:15	Services PMI – preliminary	Sep.	48.5		48.0	
Germany	3:30	Composite PMI – preliminary	Sep.	51.9		51.8	
Germany	3:30	Manufacturing PMI – preliminary	Sep.	54.0		54.3	
Germany	3:30	Services PMI – preliminary	Sep.	50.0		49.7	
Eurozone	4:00	Composite PMI – preliminary	Sep.	51.6		52.0	
Eurozone	4:00	Manufacturing PMI – preliminary	Sep.	52.6		52.7	
Eurozone	4:00	Services PMI – preliminary	Sep.	51.4		51.6	
United Kingdom	4:30	Composite PMI – preliminary	Sep.	52.0		52.5	
United Kingdom	4:30	Manufacturing PMI – preliminary	Sep.	51.4		51.7	
United Kingdom	4:30	Services PMI – preliminary	Sep.	52.0		52.5	
Japan	20:30	Composite PMI – preliminary	Sep.	n/a		53.5	
Japan	20:30	Manufacturing PMI – preliminary	Sep.	n/a		54.9	
Japan	20:30	Services PMI – preliminary	Sep.	n/a		52.5	
THURSDAY 24							
France	2:45	Business confidence	Sep.	98		98	
France	2:45	Consumer confidence	Sep.	85		86	
France	2:45	Production outlook	Sep.	-11		-11	
France	2:45	Wages – final	Q2	0.5%		0.7%	
Sweden	3:30	Bank of Sweden meeting	Sep.	1.75%		1.75%	
Switzerland	3:30	Swiss National Bank meeting	Sep.	0.00%		0.00%	
Norway	4:00	Bank of Norway meeting	Sep.	4.50%		4.25%	
Germany	4:00	ifo Business Climate Index	Sep.	89.0		88.8	
Germany	4:00	ifo Current Assessment Index	Sep.	89.0		88.5	
Germany	4:00	ifo Expectations Index	Sep.	89.3		89.1	
Mexico	15:00	Bank of Mexico meeting	Sep.	6.50%		6.50%	
FRIDAY 25							
Germany	2:00	Consumer confidence	Oct.	-27.2		-26.6	
Eurozone	4:00	M3 money supply	Aug.		3.5%		3.4%

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. 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).