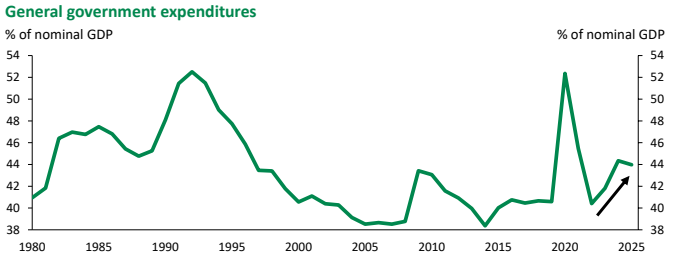
WEEKLY COMMENTARY

Do Canadian Governments Have a Revenue Problem?

By Randall Bartlett, Deputy Chief Economist, and Laura Gu, Senior Economist

Canadian governments are running near-record deficits almost across the broad, with the recent exception of some oil-producing provinces. Some of these mounting deficits are undoubtedly related to spending needed to fund public services and support households and businesses adversely impacted by the trade war with the US and higher prices at the pump. Indeed, general government spending—which includes expenditures by all levels of government—has risen considerably in recent years, hitting the highest level as a share of GDP in 30 years, not counting the pandemic (graph 1). But are weak revenues also to blame?

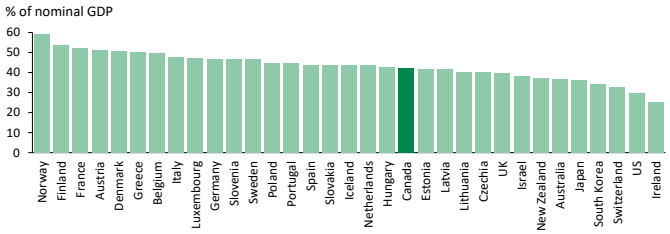
Graph 1
Government Spending in Canada Has Been Trending Higher



International Monetary Fund and Desjardins Economic Studies

Canada's general government revenues as a share of nominal GDP are below the OECD median (graph 2). This may come as a surprise to some given that Canada had the fifth highest top statutory personal income tax rate in the Organisation for Economic Co-operation and Development (OECD) in 2025. But while personal income taxes are typically the largest source of non-resource revenue in Canada, Canada had competitive corporate tax rates, and consumption taxes for the whole country were the eighth lowest in the OECD in 2025 (Tax Foundation, 2026). This lower level of own-source taxation is partly offset by the revenues some Canadian governments get from resources, a benefit not available to all provinces or many other countries.

Graph 2
Government Revenues in Canada Are Below the Median of the OECD



OECD: Organisation for Economic Co-operation and Development
International Monetary Fund, Organisation for Economic Co-operation and Development and Desjardins Economic Studies

Looking first to the Government of Canada, revenues as a share of GDP remain above their pre-pandemic levels and are expected to stay high despite slightly falling in recent years (graph 3 on page 2). Elevated inflation because of sustained high energy prices has provided a tailwind to federal revenues in the near term. But this is likely to fade over the next couple of years, no longer providing an offset to recent permanent tax reductions. Slower revenue growth, combined

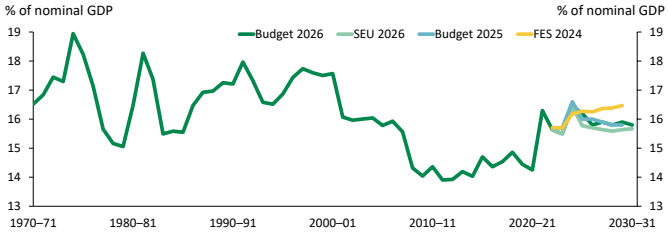
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Graph 3
Planned Federal Revenues Have Been Revised Lower over the Last Couple of Years but Remain Elevated
Government of Canada revenue forecasts

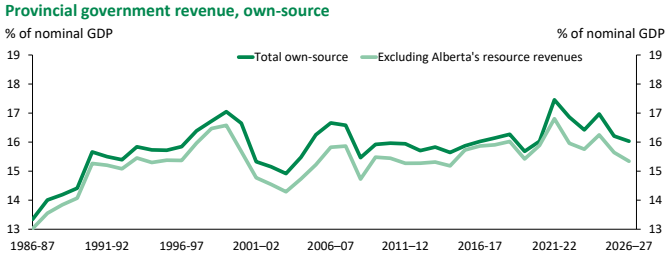


SEU: Spring Economic Update; FES: Fall Economic Statement
Government of Canada and Desjardins Economic Studies

with ongoing and newly announced spending measures, resulted in the Government of Canada projecting the largest deficits on record outside of the pandemic in its latest budget. However, with revenues near their highest share of GDP in two decades—a time when the Government of Canada was running significant and sustained budget surpluses—ongoing large federal deficits today point more to a spending problem than a revenue one.

The provincial story is more nuanced. Provinces have enjoyed modest revenue upside in recent years beyond the substantial boost from stronger oil prices in energy-producing provinces. But these slight improvements do not change the broader trend of the post-pandemic revenue windfall dwindling rapidly. Provincial revenues reached 20.9% of nominal GDP in the 2024–25 fiscal year (FY25), are projected to ease to 20.1% in FY27 and could fall further and approach their pre-pandemic decade average of 19.7% in FY28. The decline is being driven largely by slowing own-source revenues and extends beyond royalties (graph 4). Even excluding resource receipts, revenues relative to GDP are moving back toward pre-pandemic norms. Lower property income may have contributed to this reversal, while strong equity markets should continue to support realized capital gains and related income tax receipts. That support remains vulnerable to a correction, particularly given stretched valuations. Similar concerns also apply to the federal government's aspirational revenue projections.

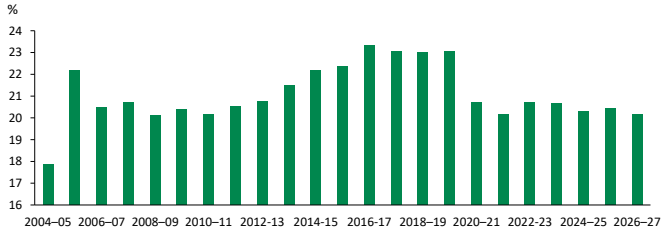
Graph 4
Provincial Revenues Are Trending Lower as a Share of the Economy
Provincial government revenue, own-source



Budget documents, Statistics Canada and Desjardins Economic Studies

Although federal transfers remain elevated relative to GDP, they have not kept pace with the cost of delivering public services, particularly health care. The Canada Health Transfer grows with nominal GDP and is subject to a temporary 5% minimum through FY28. Its share of provincial health spending has fallen from an average of 23% in the three years before the pandemic to close to 20% (graph 5). Provinces must therefore devote more of their own resources to meeting these steadily rising costs.

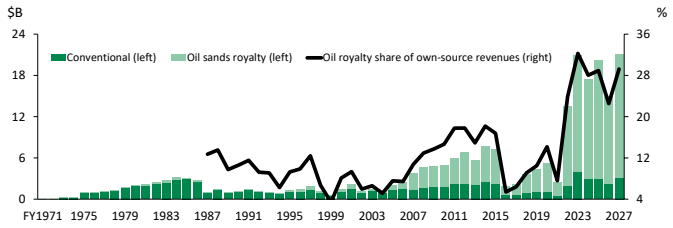
Graph 5
Provinces Are Devoting More of Their Own Resources to Health Care
Canada Health Transfer (CHT) as a share of provincial health spending



Finance Canada, Canadian Institute for Health Information and Desjardins Economic Studies

In resource-producing provinces, elevated commodity prices have provided an additional boost, but these gains can reverse quickly. In Alberta's first-quarter update, higher oil royalties accounted for $9.3B of the $11.7B upward revenue revision. They now represent 29.2% of own-source revenues, well above the pre-pandemic average of 13.5% (graph 6). Without that support, Alberta would face an imbalance between revenues and expenditures, although it has more room to raise revenues than other provinces because of its relatively low level of non-resource revenues (graph 7 on page 3). Saskatchewan is less exposed, with resource revenues accounting for 15.2% of own-source revenues, but its fiscal outlook also remains sensitive to commodity prices.

Graph 6
Fiscal Sensitivity to Oil Prices Is Historically High in Alberta
Alberta's oil royalties

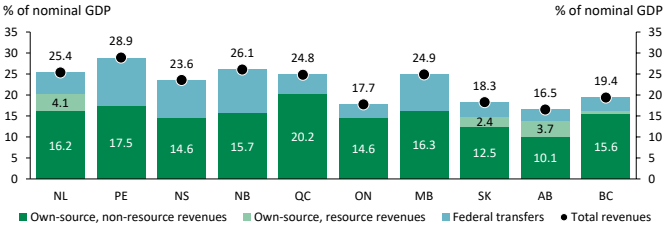


Alberta Treasury Board and Finance and Desjardins Economic Studies

Graph 7

Resource Revenues Play a Key Role in Alberta, Saskatchewan and Newfoundland and Labrador

Provincial government revenues by source, 2025–26 fiscal year



Provincial governments and Desjardins Economic Studies

As revenue growth faces mounting headwinds, provinces lack a durable revenue base to support their expanding spending commitments. Additional federal funding could narrow the gap, while raising provincial own-source revenues through higher taxes and fees is another option. Spending cuts and/or often hard-to-find efficiencies are of course another option. But with spending maintained as currently planned, our calculations suggest the provinces collectively would need additional revenues approaching 1% of nominal GDP to balance their budgets on a sustainable basis over the next three years.

So, do Canadian governments have a revenue problem? Not necessarily. What Canadian governments have is a mismatch between the revenue-raising capacity and spending commitments of provinces and the priorities of the federal government. For instance, the Productivity Mega Deduction not only hit federal coffers but those of the provinces too. However, there was no increase in transfers to offset this lost revenue, transfers that were already shrinking as a share of expenses. At a time when the federal government is pursuing an ambitious spending and investment agenda, it should not lose sight of the mounting structural pressures facing provincial finances. With federal fiscal room potentially more constrained than budget projections suggest, there is a risk that Ottawa's ability to respond to these pressures will become even more limited. While provinces ultimately remain responsible for managing their own finances, ensuring that fiscal arrangements adequately reflect the evolving responsibilities and spending pressures of both orders of government should remain an important consideration in federal fiscal policy. Ultimately, Canadians fund both levels of government and rely on the services they collectively provide. There is just one taxpayer in Canada after all.

What to Watch For

UNITED STATES

TUESDAY November 17 - 8:30

October	m/m
Consensus	0.2%
Desjardins	0.4%
September	**0.8%**

Retail sales (October) – After a strong 1.3% gain in August, retail sales posted fairly solid growth of 0.8% in September. In both cases, higher gasoline prices inflated the value of gas station receipts and total sales. This likely continued in October, albeit to a lesser extent. Motor vehicle sales probably dropped further, based on the new vehicle sales data published early this month. For the other retail categories, indicators are mixed. Card transaction data look rather lacklustre, but the Federal Reserve Bank of Chicago's leading indicator points to better growth, similar to September's print. All in all, we expect total retail sales to increase 0.4%, while sales excluding motor vehicles and gasoline are projected to rise 0.7%.

TUESDAY November 17 - 9:15

October	m/m
Consensus	0.1%
Desjardins	0.1%
September	**0.7%**

Industrial production (October) – Despite a 3.0% drop in automotive sector production, total industrial production increased 0.7% in September, its best performance since April. September's print was bolstered by strong growth in energy production, but this sector likely detracted from total industrial production in October. That said, the automotive sector probably fared better, based on the increase in hours worked. The ISM Manufacturing index is at a solid level, which is also encouraging for the rest of the manufacturing sector. Overall, we expect total industrial production to rise 0.1% and the manufacturing sector to gain 0.3%.

WEDNESDAY November 18 - 8:30

October	ann. rate
Consensus	1,250,000
Desjardins	1,275,000
September	**1,221,000**

Housing starts (October) – Housing starts are on a fairly pronounced downward trend. For the first time since the summer of 2024, new builds fell in three consecutive months and were 19.8% below their March 2026 peak in September. The rise in mortgage rates in late summer and early autumn is clearly hurting the construction market, and the inventory of new homes available for sale is already particularly high. Builder confidence declined again in October, while employment in residential construction also contracted last month. That said, the number of building permits issued is much higher than the level of new builds, which suggests that the recent decline in housing starts is too pronounced. We therefore expect housing starts to have edged up in October.

CANADA

MONDAY November 16 - 8:30

October	m/m
Consensus	0.3%
Desjardins	0.4%
September	**0.1%**

Consumer price index (October) – We estimate that headline inflation accelerated to 3.2% in October, with prices expected to have risen 0.4% on the month. Firmer core inflation likely began to show up. As a result, the average three-month annualized rate of the Bank of Canada's preferred core measures could move closer to 3% despite the year-over-year rates remaining close to 2%. Policymakers' worries have shifted from the direct impacts of energy to the pass-through of persistently high energy prices to consumer prices more broadly. Evidence of that dynamic would reinforce the need for central bankers to hike rates again in December.

TUESDAY November 17 - 5:00

October	m/m
Consensus	n/a
Desjardins	-0.5%
September	**-2.3%**

Existing home sales (October) – National seasonally adjusted home sales likely edged down by about 0.5% month over month in October. Early results from several local real estate boards suggest activity remained softer than a year ago. In Toronto, seasonally adjusted sales moved back into positive territory, rising 1.2% from September.

TUESDAY November 17 - 8:15

October	ann. rate
Consensus	242,500
Desjardins	245,000
September	**248,900**

Housing starts (October) – Housing starts likely moderated to around 245k (saar) in October, leaving the six-month trend close to its current pace of roughly 245k. Government-supported purpose-built rental construction should remain an important source of support, while the ongoing pullback in condo development continues to weigh on overall homebuilding.

FRIDAY November 20 - 8:30

September	m/m
Consensus	0.7%
Desjardins	0.8%
August	**1.2%**

Retail sales (September) – Retail sales probably rose by 0.8% m/m in September, one tick above Statistics Canada's preliminary flash figure. We expect significantly higher gasoline prices to have driven up nominal retail sales at fuel and gas retailers. Automotive dealerships probably registered a second consecutive increase in receipts in September, likely due to higher volumes, as prices were largely stable on a seasonally adjusted basis. Core retail sales, which exclude fuel and automotive, registered a notable increase in August. We expect a reversal in September, with core sales probably declining month to month. Two consecutive months of job losses possibly weighed on spending in September, while higher gas prices likely moderated purchases in other retail categories. However, patterns across sub-categories were probably mixed, as some consumers may have front-loaded purchases ahead of price increases from counter-tariffs on things like appliances and electronics. For October's flash, we anticipate a decline in retail sales, likely driven by lower auto sales (after two monthly gains) and gasoline volumes. Positive core sales, helped by higher prices, likely moderated the fall.

OVERSEAS

SUNDAY November 15 - 18:50

Q3 2026	q/q
Consensus	0.1%
Q2 2026	**0.4%**

Japan: Real GDP (Q3 – preliminary) – Japan maintained its real GDP growth in the second quarter with a non-annualized gain of 0.4%, following increases of 0.5% and 0.3% in the previous two quarters. For the third quarter of 2026, indicators are looking rather mixed. Retail sales and housing starts lost steam, while industrial production and real exports picked up. However, imports also rose, which could detract from real GDP growth. As a result, the consensus is forecasting a more modest advance for the third quarter.

SUNDAY November 15 - 21:00

October

China: Industrial production and retail sales (October) – China's economy picked up in the third quarter with a non-annualized real GDP gain of 1.2%. This upswing was primarily driven by strong industrial production and exports. However, we also saw firmer retail sales growth in September, following a sharp slowdown trend. October's data will tell us whether this rebound in consumption continued at the start of the fourth quarter.

Economic Indicators

Week of November 16 to 20, 2026

Day	Time	Indicator	Period	Consensus	⬡	Previous reading
UNITED STATES						
MONDAY 16	5:00	Speech by Federal Reserve Vice Chair M. Barr				
	8:30	Empire State Manufacturing Index	Nov.	17.5	15.0	25.5
	12:00	Speech by Federal Reserve Chair K. Warsh				
TUESDAY 17	8:30	Export prices (m/m)	Oct.	0.4%	0.3%	2.2%
	8:30	Import prices (m/m)	Oct.	0.7%	0.3%	1.1%
	8:30	Retail sales				
		Total (m/m)	Oct.	0.2%	0.4%	0.8%
		Excluding automobiles (m/m)	Oct.	0.4%	0.7%	0.9%
	9:15	Industrial production (m/m)	Oct.	0.1%	0.1%	0.7%
	9:15	Production capacity utilization rate	Oct.	76.8%	76.8%	76.9%
	9:30	Speech by Federal Reserve Bank of Cleveland President B. Hammack				
	10:00	Business inventories (m/m)	Sep.	0.5%	0.5%	0.4%
WEDNESDAY 18	8:30	Housing starts (ann. rate)	Oct.	1,250,000	1,275,000	1,221,000
	8:30	Building permits (ann. rate)	Oct.	1,376,000	1,385,000	1,398,000
	14:00	Release of the Federal Reserve's meeting minutes				
	14:30	Speech by Federal Reserve Bank of New York President J. Williams				
	16:15	Speech by Federal Reserve Bank of Minneapolis President N. Kashkari				
THURSDAY 19	8:30	Initial unemployment claims	Nov. 9–13	199,000	202,000	200,000
	8:30	Philadelphia Fed index	Nov.	18.0	15.0	20.9
	10:00	Leading indicator (m/m)	Oct.	0.0%	0.0%	0.0%
FRIDAY 20	10:00	University of Michigan consumer sentiment index – final	Nov.	52.0	51.0	51.0
	12:15	Speech by Federal Reserve Governor L. Cook				
CANADA						
MONDAY 16	8:30	Consumer price index				
		Total (m/m)	Oct.	0.3%	0.4%	0.1%
		Total (y/y)	Oct.	3.2%	3.4%	3.1%
TUESDAY 17	5:00	Existing home sales (m/m)	Oct.	n/a	-0.5%	-2.3%
	8:15	Housing starts (ann. rate)	Oct.	242,500	245,000	248,900
WEDNESDAY 18	13:30	Speech by Bank of Canada Deputy Governor T. Gravelle				
THURSDAY 19	8:30	Industrial product price index (m/m)	Oct.	n/a	0.3%	2.0%
	8:30	Raw materials price index (m/m)	Oct.	n/a	1.0%	4.8%
FRIDAY 20	8:30	Retail sales				
		Total (m/m)	Sep.	0.7%	0.8%	1.2%
		Excluding automobiles (m/m)	Sep.	0.7%	0.8%	1.2%
	10:30	Release of the Bank of Canada's Senior Loan Officer Survey				

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 Standard Time (GMT -5 hours). ⬡ Desjardins Economic Studies forecast.

Economic Indicators

Week of November 16 to 20, 2026

Country	Time	Indicator	Period	Consensus m/m (q/q)	Consensus y/y	Previous reading m/m (q/q)	Previous reading y/y
OVERSEAS							
SUNDAY 15							
Japan	18:50	Real GDP – preliminary	Q3	0.1%		0.4%	
China	21:00	Industrial production	Oct.		5.3%		5.5%
China	21:00	Retail sales	Oct.		0.8%		1.1%
Japan	23:30	Industrial production – final	Sep.	n/a	n/a	2.2%	1.9%
MONDAY 16							
Eurozone	5:00	Industrial production	Sep.	0.3%	-0.2%	-0.5%	-1.1%
Japan	23:30	Tertiary Industry Activity Index	Sep.	0.1%		-0.1%	
TUESDAY 17							
United Kingdom	2:00	ILO unemployment rate	Sep.	4.7%		4.7%	
Italy	4:00	Consumer price index – final	Oct.	0.9%	5.4%	0.9%	5.4%
Germany	5:00	ZEW Current Conditions Survey	Nov.	-35.3		-35.9	
Germany	5:00	ZEW Expectations Survey	Nov.	28.3		28.1	
Japan	18:50	Trade balance (¥B)	Oct.	-878.3		-704.0	
WEDNESDAY 18							
United Kingdom	2:00	Consumer price index	Oct.	0.5%	3.6%	0.4%	3.5%
United Kingdom	2:00	Producer price index	Oct.	0.6%	5.1%	0.8%	4.6%
Eurozone	5:00	Consumer price index – final	Oct.	0.4%	4.0%	0.4%	4.0%
THURSDAY 19							
Eurozone	4:00	Current account (€B)	Sep.	n/a		8.7	
Italy	4:00	Current account (€M)	Sep.	n/a		2,766	
Eurozone	5:00	Construction	Sep.	n/a	n/a	1.8%	1.4%
United Kingdom	19:01	Consumer confidence	Nov.	-22		-24	
Japan	18:30	Consumer price index	Oct.		2.5%		2.1%
FRIDAY 20							
United Kingdom	2:00	Retail sales	Oct.	0.0%	1.7%	-0.4%	0.8%
Germany	2:00	Producer price index	Oct.	1.0%	7.3%	1.9%	6.7%
France	2:45	Business confidence	Nov.	96		97	
France	2:45	Production outlook	Nov.	n/a		-8	
Eurozone	10:00	Consumer confidence – preliminary	Nov.	-18.0		-17.9	

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 Standard Time (GMT -5 hours).