WEEKLY COMMENTARY

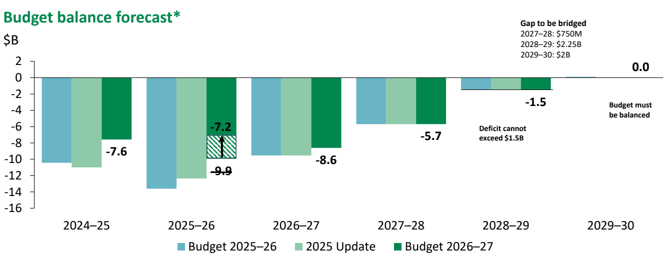
Quebec's Financial Situation:

Short-Term Improvements, Long-Term Constraints

By Sonny Scarfone, Principal Economist

The preliminary results for the 2025–2026 fiscal year point to a marked improvement in Quebec's financial situation. The accounting deficit is now reported to be $4.9B, which is $2.8B less than projected in the 2026–2027 budget released in March (graph 1). This positive development stems partly from revenues that were slightly higher than anticipated, but the biggest boost came from lower-than-expected spending, in part because some planned outlays were not yet realized.

Graph 1
Balancing the Budget by 2029–2030 Remains a Challenge



* As defined by the *Balanced Budget Act* (after deposits in the Generations Fund).
2025 Update: Fall 2025 *Update on Québec's Economic and Financial Situation*
Ministère des Finances du Québec and Desjardins Economic Studies

At first glance, these results suggest that the province is holding strong. But on closer inspection, some caution may be warranted, especially since Quebec's fundamentals are still fragile, as mentioned in our most recent Economic and Financial Outlook.

Many Improvements Can Be Attributed to One-Off Factors

A non-negligible portion of this improvement appears to be related to circumstances that will not be replicated. On the revenue front, gains in some areas were supported by macroeconomic base effects and unusually favourable conditions, including strong gold and other commodity prices. From a mathematical standpoint, even if these conditions persist, they will no longer contribute to revenue growth. And should they return to more traditional levels, revenues could pull back.

The difference in spending comes largely from expenditures being postponed, not from structural savings. Infrastructure projects, for example, are being completed at a slower pace than anticipated. Portfolio expenditures were also smaller than expected, particularly for some tax credits and financial assistance programs, while other allowances and budgets were only partly used. Taken as a whole, these elements contribute substantially to the difference between earlier projections and preliminary results. (See the Quarterly report.)

In other words, a sizeable portion of these fiscal improvements could fade away in the years ahead if planned expenditures are ultimately incurred and economic conditions return to normal. And many of the savings observed so far come from priority portfolios, including Municipal Affairs and Housing, as well as Economy, Innovation and Energy. These amounts will most likely be spent down the road as needs require.

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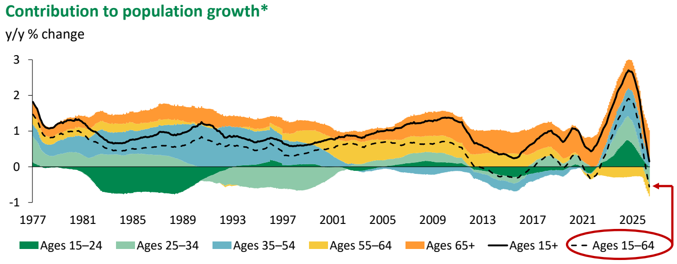
This is an important observation given the headwinds facing Quebec's economy. As our forecasts highlight, growth remains limited, the goods-producing sectors continue to struggle and exports are still under pressure. On top of that, demographic changes will limit the province's growth potential. The most recent data from Statistics Canada show that Quebec's population decreased by 25,000 people between April 2025 and April 2026. According to the Labour Force Survey, the working-age population is shrinking at an unprecedented rate (graph 2).

Graph 2
The Working-Age Population Is Experiencing Its Largest Contraction in at Least 50 Years
Contribution to population growth*



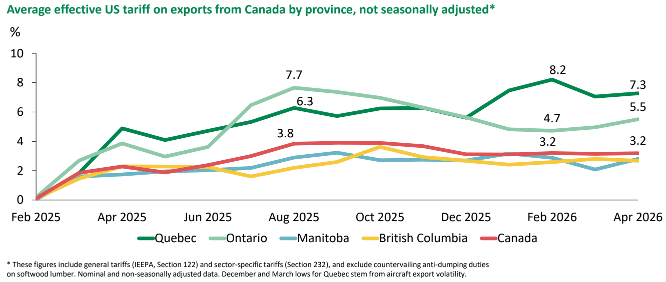
* According to the May 2026 Labour Force Survey.
Statistics Canada and Desjardins Economic Studies

It's also worth noting that Quebec's financial framework was based on fairly cautious assumptions about trade tensions with the United States, including relatively high effective tariff rates. But in reality, tariffs were nearly half their anticipated level for a good portion of the fiscal year, which helped keep revenues up. These cautious assumptions are justified given the circumstances and represent a sound budget practice.

However, Quebec has been hit hard by subsequent tariff hikes, including higher tariffs on metal products in April. As a result, the average effective rate on Quebec's exports is now close to the 10% originally projected by the Minister of Finance when the budget was tabled in March 2025 (graph 3).

Graph 3
Quebec's Effective Tariff Rate Has Been Trending Up Since Last Summer

Average effective US tariff on exports from Canada by province, not seasonally adjusted*



* These figures include general tariffs (IEEPA, Section 122) and sector-specific tariffs (Section 232), and exclude countervailing anti-dumping duties on softwood lumber. Nominal and non-seasonally adjusted data. December and March lows for Quebec stem from aircraft export volatility.
Statistics Canada, U.S. International Trade Commission and Desjardins Economic Studies

So while these favourable conditions have given the economy a one-time boost, we won't necessarily see a repeat performance. Looking forward, much will depend on the upcoming CUSMA review and on US policy choices regarding sector-specific tariffs. In short, while Quebec's financial situation at the moment comes as a welcome surprise, it largely reflects the better-than-anticipated economic environment. The province is still facing a number of structural challenges that require attention.

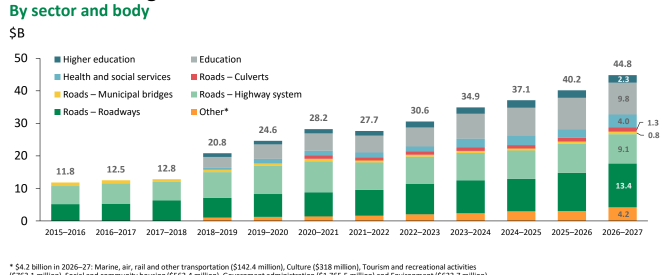
The Gap to Be Bridged Is Still Significant

Putting the 2025–2026 fiscal year behind us, let us shift our focus to the challenges that remain ahead. At this point, the government has not yet fully specified how it will close the deficit and return to a balanced budget by 2030. In fact, according to our analysis of the 2026–2027 budget, only around 20% of the measures needed to bridge that gap have been identified.

Given that Quebec is expected to continue to lag behind the national average, the current plan to reach its fiscal targets depends on rather ambitious assumptions. Softer economic growth could weigh on revenues, and pressures on spending—particularly in public services—show little sign of easing.

While the cyclical improvements to the deficit mean that we ended fiscal year 2025–2026 in a stronger position than anticipated, the issues facing our public finances are structural at their core and the gap to be bridged is still quite large. We must also remember that infrastructure projects cannot be postponed indefinitely. Quebec's high asset maintenance deficit has long been overlooked but now stands at $45B, pointing to a substantial backlog in public infrastructure upkeep (graph 4). Though it does not qualify as debt in accounting terms and no interest is charged, it still represents a real economic obligation. The costs must ultimately be borne, often at a premium. (See our note on the topic.)

Graph 4
Quebec's High Asset Maintenance Deficit Has Long Been Overlooked When Assessing the Province's Public Finances
By sector and body



* $4.2 billion in 2026–27: Marine, air, rail and other transportation ($142.4 million), Culture ($318 million), Tourism and recreational activities ($763.1 million), Social and community housing ($563.4 million), Government administration ($1,765.5 million) and Environment ($633.7 million).
Québec Infrastructure Plans and Desjardins Economic Studies

With growth projected to be moderate and fiscal room limited in the short term, this liability will weigh on public finances in the medium and long terms. At some point, service quality and infrastructure will be affected. And when much-needed repairs are eventually made, they're typically costlier and more complex.

In Summary

The preliminary results confirm that Quebec's budget has improved appreciably in the short term. However, this is largely due to one-off events at a time when Quebec's economy is fragile and unlikely to keep up with the rest of Canada, as suggested in our most recent forecasts.

The fundamental challenges remain unchanged: Quebec must still find additional savings or revenue growth, even as its public finances remain subject to economic and budgetary pressures.

The recent results may offer some respite, especially with the elections coming up this fall, but trade-offs will need to be made sooner or later.

What to Watch For

UNITED STATES

WEDNESDAY June 24 - 10:00	
May	**ann. rate**
Consensus	640,000
Desjardins	630,000
April	**620,000**

New home sales (May) – After picking up in both February and March, new single-family home sales fell 6.2% in April. Given the improvement in builder confidence, high numbers of online searches for new homes and the slight increase in building permits for single-family homes, we expect sales to have edged back up in May. However, high mortgage rates suggest that we shouldn't hold out much hope for a strong or lasting positive trend.

THURSDAY June 25 - 8:30	
May	**m/m**
Consensus	0.6%
Desjardins	0.6%
April	**0.5%**

Consumer spending (May) – Real consumer spending growth edged down to 0.1% in April following successive gains of 0.3% in February and March. May's print is likely to fall somewhere in between. Last month's retail sales show that US households continue to hold up fairly well despite rising energy prices and weak confidence indexes. Real spending on goods likely picked up, even as the number of motor vehicles sold points to a flat print for that sector. Services probably struggled more, with real spending on energy and food services expected to have declined. Overall, look for a 0.2% increase in total real consumer spending, which should translate into a 0.6% jump in nominal consumption. The year-over-year change in the Personal Consumption Expenditures deflator likely rose to 4.0%. We'll be keeping a close eye on real disposable income, which has now fallen for three consecutive months. We'll also see whether the household savings rate has continued to decline.

CANADA

MONDAY June 22 - 8:30	
May	**m/m**
Consensus	0.8%
Desjardins	0.7%
April	**0.4%**

Consumer price index (May) – Energy prices kept climbing in May. As a result, look for CPI to have increased 0.7% m/m, pushing the annual rate up two ticks to 3.0%. Despite energy-driven volatility, the Bank of Canada's preferred core measures (trimmed mean and median) probably remained at or near the 2% target. Three-month annualized core measures may have edged slightly higher, but likely stayed within a comfortable range around 2%. Looking ahead, headline CPI could moderate if recent declines in energy prices persist, taking some pressure off the Bank of Canada.

OVERSEAS

TUESDAY June 23 - 4:00	
June	
Consensus	49.1
May	**48.5**

Eurozone: PMI (June – preliminary) – The eurozone's composite PMI is on a downward trend. It hit 48.5 in May, its lowest level since January 2024 and in stark contrast to last November's peak of 52.8. The slide was primarily due to services (47.7 in May), which appear to be suffering more from the rising cost of living caused by surging energy prices. The Manufacturing PMI is performing better and remains above the 50 threshold (51.6 in May). It'll be interesting to see if the decline in oil prices from May's peak will reverse the composite PMI's negative momentum. The final May readings for both the composite and services PMIs were much better than the preliminary readings. A higher composite PMI in June could provide some hope for a better real GDP print in Q2 than the -0.2% we saw in Q1.

Economic Indicators

Week of June 22 to 26, 2026

Date	Time	Indicator	Period	Consensus		Previous reading
UNITED STATES						
MONDAY 22	9:00	Speech by Federal Reserve Governor C. Waller				
TUESDAY 23	---	---				
WEDNESDAY 24	8:30	Current account (US$B)	Q1	-227.0	-198.0	-190.7
	10:00	New home sales (ann. rate)	May	640,000	630,000	622,000
THURSDAY 25	8:30	Initial unemployment claims	June 15–19	225,000	225,000	226,000
	8:30	Real GDP (ann. rate)	Q1t	1.6%	1.6%	1.6%
	8:30	Personal income (m/m)	May	0.4%	0.5%	0.0%
	8:30	Personal consumption expenditures (m/m)	May	0.6%	0.6%	0.5%
	8:30	Personal consumption expenditures deflator				
		Total (m/m)	May	0.5%	0.4%	0.4%
		Excluding food and energy (m/m)	May	0.3%	0.2%	0.2%
		Total (y/y)	May	4.1%	4.0%	3.8%
		Excluding food and energy (y/y)	May	3.4%	3.3%	3.3%
	8:30	Durable goods orders (m/m)	May	-5.0%	-3.6%	8.0%
	15:40	Speech by Federal Reserve Bank of New York President J. Williams				
	18:30	Speech by Federal Reserve Bank of Chicago President A. Goolsbee				
FRIDAY 26	8:30	Goods trade balance – preliminary (US$B)	May	-85.0	-86.5	-82.4
	8:30	Wholesale inventories – preliminary (m/m)	May	n/a	n/a	0.7%
	8:30	Retail inventories (m/m)	May	0.2%	n/a	0.6%
	10:00	University of Michigan consumer sentiment index – final	June	50.0	50.0	48.9
	11:30	Speech by Federal Reserve Bank of Minneapolis President N. Kashkari				
CANADA						
MONDAY 22	8:30	Consumer price index				
		Total (m/m)	May	0.8%	0.7%	0.4%
		Total (y/y)	May	3.0%	3.0%	2.8%
TUESDAY 23	9:00	Speech by Bank of Canada Governor T. Macklem				
WEDNESDAY 24	---	Holiday in Quebec (National Day)				
	7:15	Speech by Bank of Canada Senior Deputy Governor C. Rogers				
	13:30	Release of the Bank of Canada Summary of Deliberations				
THURSDAY 25	---	---				
FRIDAY 26	---	---				

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 8 to 12, 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 22							
Eurozone	10:00	Consumer confidence – preliminary	June	-18.0		-19.0	
Japan	20:30	Composite PMI – preliminary	June	n/a		51.1	
Japan	20:30	Manufacturing PMI – preliminary	June	n/a		54.5	
Japan	20:30	Services PMI – preliminary	June	n/a		50.0	
TUESDAY 23							
France	2:45	Business confidence	June	95		94	
France	2:45	Production outlook	June	n/a		-17	
France	3:15	Composite PMI – preliminary	June	46.0		44.9	
France	3:15	Manufacturing PMI – preliminary	June	50.0		49.7	
France	3:15	Services PMI – preliminary	June	45.8		44.3	
Germany	3:30	Composite PMI – preliminary	June	49.7		48.8	
Germany	3:30	Manufacturing PMI – preliminary	June	50.2		50.1	
Germany	3:30	Services PMI – preliminary	June	49.0		48.1	
Eurozone	4:00	Composite PMI – preliminary	June	49.1		48.5	
Eurozone	4:00	Manufacturing PMI – preliminary	June	51.6		51.6	
Eurozone	4:00	Services PMI – preliminary	June	48.6		47.7	
United Kingdom	4:30	Composite PMI – preliminary	June	50.5		49.7	
United Kingdom	4:30	Manufacturing PMI – preliminary	June	53.5		53.9	
United Kingdom	4:30	Services PMI – preliminary	June	50.0		49.3	
WEDNESDAY 24							
Germany	4:00	ifo Business Climate Index	June	85.5		84.9	
Germany	4:00	ifo Current Assessment Index	June	86.3		86.1	
Germany	4:00	ifo Expectations Index	June	84.8		83.8	
THURSDAY 25							
Japan	1:00	Leading index – final	April	n/a		115.9	
Japan	1:00	Coincident index – final	April	n/a		117.9	
Germany	2:00	Consumer confidence	July	-27.7		-29.8	
France	2:45	Consumer confidence	June	83		82	
Mexico	15:00	Bank of Mexico meeting	June	6.50%		6.50%	
Japan	19:30	Tokyo Consumer Price Index	June		1.6%		1.4%
FRIDAY 26							
Italy	5:00	Consumer confidence	June	94.4		93.4	
Italy	5:00	Economic confidence	June	n/a		94.1	

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).