

**WEEKLY COMMENTARY**

# Have US Public Finances Really Improved, or Is It Just a Mirage?

By Francis Généreux, Lead Economist

Now that Canada’s provincial and federal governments have released their budget updates and revised their projections for the next few years, let’s take a look at the finances of our neighbour to the south after the turmoil of 2025. A more detailed version of this article with additional information on the Trump administration’s recent budget plan will be published soon in an upcoming Economic Viewpoint.

## The Current State of Affairs

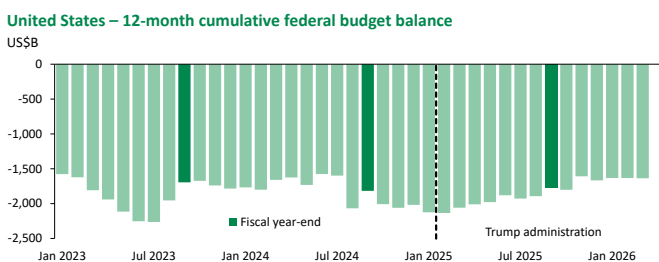
The US federal government ended its fiscal year in September 2025 with a deficit of US\$1,775B, less than the US\$1,817B deficit recorded in fiscal 2024. But a more up-to-date picture can be drawn using monthly data from the US Treasury. The 12-month rolling federal deficit fell to US\$1,637B in March of this year. That means public finances continued to improve in the first half of the current fiscal year, which ends this September (graph 1).

When compared to January 2025, the very beginning of President Trump’s second term, the numbers look even better. Back then, the 12-month deficit was US\$2,125B. So between January 2025 and March 2026, the deficit shrank by nearly 23%, which is nothing to scoff at. That said, most of that US\$488B improvement in the deficit came from higher revenues (+US\$527B), while spending went up by US\$40B. It’s also important to remember the rather unique circumstances affecting the US public sector in 2025: a government shutdown of record-breaking length that held back federal spending last fall, the budget cuts by Elon Musk’s DOGE and an administration determined to scale down departments like health and education.

Spending on major mandatory social programs has climbed by 7.4% since January 2025, while spending on debt servicing and defence have risen by 7.5% and 3.5% respectively. But non-military discretionary spending fell 17.0%, a US\$304B decrease from the start of President Trump’s second term. The new administration had a particularly strong impact on certain departments, including environmental protection (-51.4%), international aid (-58.5%) and education (-90.6%). The federal public service has obviously been affected by all this. Monthly data from the Bureau of Labor Statistics showed that in March, the federal government employed 2,059,400 civil servants (excluding the postal service). That’s down by 346,300 (-14.4%) from January 2025.

The increase in the federal government’s revenues came mainly from personal income taxes, which went up by 13.2%. In contrast, corporate income tax revenues went down by 14.1% since January 2025. The decline started in September 2025, when businesses began implementing the tax cuts passed last

**Graph 1**  
Deficits Shrank Slightly



U.S. Treasury and Desjardins Economic Studies

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summer. Higher tariffs also boosted government revenues, especially after April 2025, sending an additional US\$243B to federal coffers compared to January 2025.

### The Impact of Key Republican Policies

Our assessment of US public finances since January 2025 shows that **tariffs** have helped improve the federal government's financial position. Revenues from President Trump's protectionist policies peaked in October 2025, when monthly inflows reached US\$33.1B. They have since declined, in part because some tariffs were walked back (especially on food starting in November) and trade patterns shifted. In addition, the Supreme Court upended the whole situation when it struck down the reciprocal, fentanyl and border security tariffs. In March, tariff revenues amounted to only US\$24.0B, the lowest since May 2025. And the government will have to refund the tariffs that were ruled illegal. A [document](#) submitted to the United States Court of International Trade claimed that as of March 4, 2026, nearly 330,000 US importers had paid around US\$166B in duties before the tariffs were overturned by the Supreme Court. This money will eventually have to be paid back, and a process for claiming these refunds was recently put into place. This means that some of the improvement in the federal budget was illusory and will be reversed.

The other flagship policy affecting US public finances was the **One Big Beautiful Bill Act** (OBBBA), which was signed into law on July 4, 2025. [We commented](#) on the OBBBA shortly before it was given final approval by Congress. Its impact could already be seen in fiscal 2025, as corporate income tax revenues plummeted. The Congressional Budget Office (CBO) estimated that the OBBBA reduced corporate tax inflows by US\$100B in 2025, which will be followed by annual declines of US\$152B in both fiscal 2026 and fiscal 2027. The estimated impact of personal income tax cuts was relatively modest in 2025 (US\$32B), but will increase substantially in 2026 (US\$326B) and subsequent years.

### The Latest CBO Projections

In February, the CBO published its most recent federal budget outlook. Based on the legislation in effect at that time, including the OBBBA, the CBO's forecast showed the deficit worsening slightly over the next several years. It would grow from US\$1,775B at the end of fiscal 2025 to US\$1,853B in September 2026 and then US\$1,887B in 2027 (graph 2). As a percentage of GDP, that's actually fairly stable, amounting to 5.8% in 2025, 5.8% in 2026 and 5.7% in 2027. Debt held by the public would rise from 99.4% of GDP in 2025 to 100.6% in 2026, and climb all the way to 120.2% in 2036.

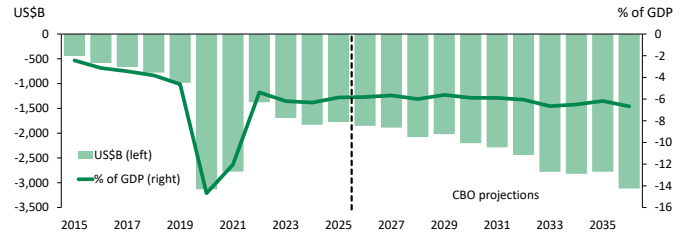
### The Cost of War

The current conflict in the Middle East could also change the outlook over the very short term. The Department of Defense notified members of Congress this week that the war with

Graph 2

The CBO Sees Deficits Rising over the Next Few Years, While Remaining Stable as a Percentage of GDP

United States – Federal budget balance



CBO: Congressional Budget Office  
CBO and Desjardins Economic Studies

Iran has so far cost approximately US\$25B. Most of this was apparently spent on munitions, but some also went to operations, maintenance and equipment replacement. Additional costs may follow, and it was recently reported that the White House was about to ask Congress for US\$200B in immediate additional funds for the war in Iran. Other, smaller amounts have also been proposed.

The economic consequences of the war in Iran are not yet clear. Confidence has been affected by higher prices for energy, especially gasoline, but so far the negative repercussions on economic growth and the labour market have been limited. If year-over-year inflation were to rise by 0.50 percentage points, with nominal interest rates increasing by an equivalent amount, the annual deficit would swell by approximately US\$30B. And if economic growth were to slow by 0.30 percentage points, the deficit would expand by around US\$15B. Our baseline scenario does not anticipate a sharp decline in real GDP growth or runaway inflation. But a prolonged conflict would heighten the risk of economic conditions that would adversely affect public finances, along with the probability that Congress or the White House would introduce new measures to support households or businesses.

### In the End, Public Finances Have Improved, but Not by Much

Public finances improved slightly from fiscal 2024 to fiscal 2025 and in the first six months of fiscal 2026. That said, once we consider the various efforts to cut costs, the extended government shutdown and the revenues from tariffs, the reduction in the deficit remains relatively modest. Meanwhile, public debt is continuing to grow rapidly. In the very short term, we'll need to consider the budgetary and economic impacts of the conflict in the Middle East, as well as any changes to the administration's trade policy. There isn't much room to manoeuvre in the event of a sudden and unexpected economic downturn. The recent rise in global uncertainty has renewed the appeal of the US dollar and Treasuries. But the risk that foreign investors will once again start to turn away from US assets remains.

# What to Watch For

TUESDAY May 5 - 10:00

<b>April</b>	
Consensus	53.7
Desjardins	53.4
<b>March</b>	<b>54.0</b>

TUESDAY May 5 - 10:00

<b>March</b>	<b>ann. rate</b>
Consensus	668,000
Desjardins	650,000
<b>January</b>	<b>587,000</b>

FRIDAY May 8 - 8:30

<b>April</b>	
Consensus	80,000
Desjardins	95,000
<b>March</b>	<b>178,000</b>

FRIDAY May 8 - 10:00

<b>May</b>	
Consensus	49.4
Desjardins	49.0
<b>April</b>	<b>49.8</b>

TUESDAY May 5 - 8:30

<b>March</b>	<b>\$B</b>
Consensus	-2.75
Desjardins	-3.14
<b>February</b>	<b>-5.74</b>

## UNITED STATES

**ISM Services index (April)** – In March, the ISM Services index saw its sharpest monthly decline in a year, though it remains relatively high at 54.0. The new orders component even reached 60.6, its highest level since February 2023. The main regional non-manufacturing indexes point to stability in the ISM Services index in April. Consumer confidence offers a mixed picture, with some indexes falling and others rising. Looking at PMIs, including in the United States, service indexes seem to be suffering more than manufacturing indexes due to the current climate of uncertainty and surging energy prices. All things considered, we expect the ISM Services index to have edged down slightly in April.

**New home sales (March)** – No new sales figures for single-family homes have been released since January, when numbers fell 17.6% and reached their lowest level since October 2022. Given the inherent volatility of this indicator, we expect activity to have rebounded in February. Revisions to January's data wouldn't be surprising either. That said, recent trends in building permits, builder confidence and online searches for new homes point to a pickup in sales in February, potentially followed by another decline in March—though likely less pronounced than in January.

**Change in nonfarm payrolls (April)** – Job creation has been extremely volatile in recent months. Nonfarm payrolls fell by 133,000 in January before rebounding with a 178,000 gain in March, the strongest monthly increase since December 2024. While these large swings complicate near-term forecasting, a pullback in April wouldn't be unexpected after March's surge. However, unemployment claims have remained very low in recent weeks, consumer confidence in job availability brightened in April and weekly ADP data point to a marked improvement in private sector hiring. Against this backdrop, hiring may have slowed relative to March, while still remaining fairly robust. We expect a net gain of 95,000 jobs, with the unemployment rate holding steady at 4.3%.

**University of Michigan consumer sentiment index (May – preliminary)** – The University of Michigan consumer sentiment index declined again in April, extending the slide that began in March. Still, the final reading came in above the preliminary estimate, pointing to some positive momentum heading into early May. That improvement, however, predates the latest run-up in oil and gas prices. After a brief dip in pump prices from mid-April to last week, prices are once again moving higher amid a protracted conflict in Iran and fading expectations of a lasting resolution. As a result, we expect the University of Michigan consumer sentiment index to fall further in May. We nonetheless expect the decline to remain modest, supported by subdued unemployment claims and the resilience of major stock indexes. The index could edge down to 49.0.

## CANADA

**International trade (March)** – Canada's trade deficit likely narrowed in March. We anticipate that Canadian exports rose in the month on the back of elevated energy prices, which led to higher crude export values. In addition, we expect some tailwind from higher motor vehicle production. That said, export gains were likely offset by higher imports, probably driven by increased sales of motor vehicles from the US and growth in consumer goods imports.

FRIDAY May 8 - 8:30

**April**

Consensus 5,000


Desjardins 15,000


**March 14,100**

**Net change in employment (April)** – The April reading of the Labour Force Survey is expected to show employment rising by about 15,000, with the unemployment rate holding steady at 6.7%. The starting point is a labour market that is neither booming nor breaking. March saw only a modest job gain, with the unemployment rate unchanged and participation steady. That pattern is consistent with a “low hire, low fire” environment where employers are cautious about adding staff but are not cutting aggressively. Elevated macro uncertainty and the recent energy price shock are likely to keep businesses measured in their hiring plans, limiting the scope for a strong rebound in employment. While hiring is expected to have improved slightly in April from recent softness, it’s not enough to materially change labour market slack. Wage growth is likely to remain firm but not re-accelerate in a way that signals overheating, especially given that the recent spike in headline wages has been influenced by a composition change rather than a broad-based surge in underlying pay.

# Economic Indicators

## Week of May 4 to 8, 2026

Date	Time	Indicator	Period	Consensus		Previous reading
<b>UNITED STATES</b>						
<b>MONDAY 4</b>	10:00	Factory orders (m/m)	March	-0.4%	0.5%	0.0%
	12:50	Speech by Federal Reserve Bank of New York President J. Williams				
<b>TUESDAY 5</b>	8:30	Trade balance – Goods and services (US\$B)	March	-59.0	-59.9	-57.3
	10:00	ISM Services index	April	53.7	53.4	54.0
	10:00	New home sales (ann. rate)	March	668,000	650,000	n/a
	10:00	Speech by Federal Reserve Vice Chair M. Bowman				
	12:30	Speech by Federal Reserve Vice Chair M. Barr				
<b>WEDNESDAY 6</b>	9:30	Speech by Federal Reserve Bank of St. Louis President A. Musalem				
	13:00	Speech by Federal Reserve Bank of Chicago President A. Goolsbee				
<b>THURSDAY 7</b>	8:30	Initial unemployment claims	April 27–May 1	197,000	210,000	189,000
	8:30	Nonfarm productivity – preliminary (ann. rate)	Q1	n/a	2.3%	1.8%
	8:30	Unit labor costs – preliminary (ann. rate)	Q1	n/a	3.3%	4.4%
	10:00	Construction spending (m/m)	March	n/a	0.3%	n/a
	14:05	Speech by Federal Reserve Bank of Cleveland President B. Hammack				
	15:00	Consumer credit (US\$B)	March	12.500	20.000	9.484
	15:30	Speech by Federal Reserve Bank of New York President J. Williams				
<b>FRIDAY 8</b>	5:45	Speech by Federal Reserve Governor L. Cook				
	8:30	Change in nonfarm payrolls	April	80,000	95,000	178,000
	8:30	Unemployment rate	April	4.3%	4.3%	4.3%
	8:30	Average weekly hours	April	34.2	34.2	34.2
	8:30	Average hourly earnings (m/m)	April	0.3%	0.3%	0.2%
	10:00	University of Michigan consumer sentiment index – prel.	May	49.4	49.0	49.8
	10:00	Wholesale inventories – final (m/m)	March	n/a	1.4%	1.4%
<b>CANADA</b>						
<b>MONDAY 4</b>	15:30	Speech by Bank of Canada Governor T. Macklem				
	15:30	Speech by Bank of Canada Senior Deputy Governor C. Rogers				
<b>TUESDAY 5</b>	8:30	International trade (\$B)	March	-2.75	-3.14	-5.74
<b>WEDNESDAY 6</b>	---	---				
<b>THURSDAY 7</b>	---	---				
<b>FRIDAY 8</b>	8:30	Net change in employment	April	5,000	15,000	14,100
	8:30	Unemployment rate	April	6.7%	6.7%	6.7%

**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 May 4 to 8, 2026

Country	Time	Indicator	Period	Consensus		Previous reading		
				m/m (q/q)	y/y	m/m (q/q)	y/y	
<b>OVERSEAS</b>								
<b>DURING THE WEEK</b>								
China	---	Trade balance (US\$B)	April	82.35		51.13		
<b>MONDAY 4</b>								
Italy	3:45	Manufacturing PMI	April	51.7		51.3		
France	3:50	Manufacturing PMI – final	April	52.8		52.8		
Germany	3:55	Manufacturing PMI – final	April	51.2		51.2		
Eurozone	4:00	Manufacturing PMI – final	April	52.2		52.2		
<b>TUESDAY 5</b>								
Australia	0:30	Reserve Bank of Australia meeting	May	4.35%		4.10%		
<b>WEDNESDAY 6</b>								
France	2:45	Industrial production	March	0.5%	0.2%	-0.7%	-0.3%	
Italy	3:45	Composite PMI	April	48.3		49.2		
Italy	3:45	Services PMI	April	48.0		48.8		
France	3:50	Composite PMI – final	April	47.6		47.6		
France	3:50	Services PMI – final	April	46.5		46.5		
Germany	3:55	Composite PMI – final	April	48.3		48.3		
Germany	3:55	Services PMI – final	April	46.9		46.9		
Eurozone	4:00	Composite PMI – final	April	48.6		48.6		
Eurozone	4:00	Services PMI – final	April	47.4		47.4		
Italy	4:00	Retail sales	March	-0.4%	1.4%	0.0%	1.6%	
United Kingdom	4:30	Composite PMI – final	April	52.0		52.0		
United Kingdom	4:30	Services PMI – final	April	52.0		52.0		
Eurozone	5:00	Producer price index	March	3.3%	1.6%	-0.7%	-3.0%	
<b>THURSDAY 7</b>								
Germany	2:00	Factory orders	March	1.0%	1.7%	0.9%	3.5%	
France	2:45	Trade balance (€M)	March	n/a		-5,778		
France	2:45	Current account (€B)	March	n/a		-1.8		
France	2:45	Wages – preliminary	Q1	n/a		0.2%		
Sweden	3:30	Bank of Sweden meeting	May	1.75%		1.75%		
Norway	4:00	Bank of Norway meeting	May	4.00%		4.00%		
Eurozone	5:00	Retail sales	March	-0.3%	1.2%	-0.2%	1.7%	
Mexico	15:00	Bank of Mexico meeting	May	6.50%		6.75%		
Japan	20:30	Composite PMI – final	April	n/a		52.4		
Japan	20:30	Services PMI – final	April	n/a		51.2		
<b>FRIDAY 8</b>								
Germany	2:00	Trade balance (€B)	March	18.9		19.8		
Germany	2:00	Industrial production	March	0.4%	1.9%	-0.3%	0.0%	

**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).