

WEEKLY COMMENTARY

'Tis the Season for Provincial Budgets

By Marc Desormeaux, Principal Economist

Budget season 2024 officially kicks off next Thursday with the release of British Columbia's (BC) fiscal year 2024–25 (FY2025) plan. Easing price pressures mean we probably won't see as many revenue windfalls or high-profile affordability relief measures as in the last two years. But spring 2024 plans will still tell us a lot about risks to inflation, the economic outlook and the kind of public services Canadians can expect in the years ahead. What should taxpayers and investors be watching for this year?

Amid ongoing concerns about an economic slowdown, the revenue outlook is mixed. In Quebec and Ontario, nominal GDP growth is tracking stronger than forecast at mid-year, supporting income and consumption tax receipts. But corporate tax revenues have been revised lower. In Ontario's case, that reflected another federal government adjustment to the tax base in prior years. [This effect hammered the province's financial position in November](#) and remains a risk for many provinces this year. In Alberta, weaker-than-anticipated oil prices won't undo the hefty surpluses forecast last year, but historic and rising sensitivity to crude values means that even small oil price movements will have big fiscal impacts going forward. More optimistically, despite a softer outlook for American natural gas prices, BC should benefit from [new export capacity in Kitimat](#) this year. The province has also [built a significant cushion into natural gas price forecasts](#).

The four largest provinces already increased their population projections at mid-year, but further upward revisions are possible given how much headcounts have gone up since. [This could certainly boost the expansion](#), but also put new pressure on public services at a time when [some governments are projecting per-person spending cuts](#). This interplay will be particularly important in smaller provinces that have not updated their longer-term projections since the 2023 budget season—especially provinces whose infrastructure plans have increased and bottom lines have deteriorated.

On infrastructure, the last several budget seasons have often seen rising ambitions run headlong into major project delays. Those delays primarily reflect the labour shortages in the construction sector, which will likely [remain a concern in the years ahead](#). Restarting project activity could put upward pressure on debt and borrowing in FY2025 and beyond.

We've argued for more than a year that the high cost of living would eventually put upward pressure on the wages of public sector employees, the costs of which will be borne by provincial governments. This is arguably the key fiscal risk in 2024 and could also further stimulate inflation. Indeed, public sector wage negotiations are ongoing in several provinces. This follows earlier strikes in Quebec and at the federal level. Relatedly, Ontario's third-quarter fiscal update released this week unveiled an additional \$1.7B in healthcare spending "primarily to address pressures related to compensation costs."

The good news is that some (but not all) provinces still have significant financial buffers to help them absorb unexpected shocks. Ontario covered new costs using its contingency fund, of which \$3.3B remained at Q3. Alberta set aside a \$1.5B forecast reserve in every year of its mid-year forecast horizon. BC is perhaps the most prudent of all, with planned contingencies exceeding forecast deficits through FY2026, of which \$7.5B was earmarked for public sector raises beyond the budgeted baseline increase.

Climate change is a final theme to watch. Just in the past year, we've seen extreme weather events weaken Quebec energy exports, reduce Manitoba Hydro revenues, pressure Saskatchewan agricultural insurance payments and cause Alberta disaster assistance spending to spike.

CONTENT

Musing of the Week	1	What to Watch For	3	Economic Indicators	5
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There's no shortage of issues to watch and discuss as we begin budget season 2024. When it comes to our public finances, the most dramatic effects of the pandemic and the excitement of new affordability measures may be behind us. But this year will tell us a lot about how Canada's provincial governments envision the years ahead. It will also lay the groundwork for what's possible going forward.

What to Watch For

By Randall Bartlett, Senior Director of Canadian Economics, Tiago Figueiredo, Associate – Macro Strategy, Marc Desormeaux, Principal Economist, Marc-Antoine Dumont, Economist, and Francis Généreux, Principal Economist

TUESDAY February 20 - 10:00

January	m/m
Consensus	-0.3%
Desjardins	-0.3%
December	-0.1%

THURSDAY February 22 - 10:00

January	ann. rate
Consensus	3,970,000
Desjardins	4,070,000
December	3,780,000

TUESDAY February 20 - 8:30

January	m/m
Consensus	0.4%
Desjardins	0.5%
December	-0.3%

THURSDAY February 22 - 8:30

December	m/m
Consensus	0.8%
Desjardins	0.6%
November	-0.2%

UNITED STATES

Leading indicator (January) – The Conference Board’s Leading Economic Index has remained stuck on the same downward trend since Spring 2022. But, at 0.1%, December’s month-on-month decline was the smallest dip so far in this 22-month losing streak. We nonetheless expect a somewhat steeper slide in January. The reduction in hours worked last month, followed by the interest rate spread, likely did the most to drag down the indicator, which probably shed 0.3% overall.

Existing home sales (January) – In December, existing home sales fell to their lowest level since August 2010. The situation appears to have improved in early 2024. The 8.3% increase in pending home sales is a clear sign that the resale market is bouncing back. Preliminary regional data is telling the same story, as is the run-up in mortgage applications for home purchases. We therefore expect existing home sales to come in above the 4 million threshold.

CANADA

Consumer Price Index (January) – Headline inflation likely remained at 3.4% in January, with a 0.5% increase in prices during the month. Energy prices should have posted a modest advance, but even excluding food and energy prices, core inflation is expected to have accelerated to 3.6% from 3.4%. That said, much of that strength is still being driven by high shelter price inflation, which is outside the control of the central bank. The Bank of Canada’s median and trimmed-mean indicators also look likely to remain stuck just above 3.5%, but revisions provide a wildcard for these measures, making them a less-than-ideal metric for calibrating policy. Overall, this data release shouldn’t see markets pull forward the timing of rate cuts, which traders currently have priced for between July and September.

Retail sales (December) – Retail sales likely edged up 0.6% in December after a 0.2% decrease in November. This is slightly below Statistics Canada’s flash estimate of 0.8%. Seasonally adjusted auto sales probably picked up some speed due to pent-up demand, driving unit sales and prices higher. Despite falling on the month, gasoline prices edged higher when adjusted for seasonality, likely pushing up seasonally adjusted retail sales at gas stations. Core retail sales probably shrunk for a second consecutive month. For January’s flash estimate, we expect positive growth in retail sales, with upward trends in auto and gasoline sales continuing and more than offsetting an anticipated moderate drop in core.

THURSDAY February 22 - 4:00

February


Consensus 48.5


January 47.9**OVERSEAS**

Eurozone: Purchasing Managers' Index (February, preliminary) – After staying flat in December, the eurozone's composite PMI inched up in January. At 47.9, it nevertheless remained relatively low, a persistent sign that eurozone real GDP would level off or even drop slightly. In January, the Manufacturing PMI rose sharply (+2.2 points), but the Services PMI ticked lower (-0.4 points). We'll see whether this latest trend continued in February, moving the PMI closer to the 50-point threshold. We'll also keep an eye on changes in components related to prices paid and delivery times that could be affected by disruptions in [Red Sea shipping](#).

Economic Indicators

Week of February 19 to 23, 2024

Day	Time	Indicator	Period	Consensus		Previous reading
UNITED STATES						
MONDAY 19	---	Markets closed (Presidents' Day)				
TUESDAY 20	10:00	Leading indicator (m/m)	Jan.	-0.3%	-0.3%	-0.1%
WEDNESDAY 21	8:00	Speech by Federal Reserve Bank of Atlanta President R. Bostic				
	14:00	Release of the Federal Reserve's meeting minutes				
THURSDAY 22	8:30	Initial unemployment claims	Feb. 12–16	n/a	218,000	212,000
	10:00	Existing home sales (ann. rate)	Jan.	3,970,000	4,070,000	3,780,000
	10:00	Speech by Federal Reserve Vice Chair P. Jefferson				
	13:00	Speech by Federal Reserve Governor M. Bowman				
	14:00	Speech by Federal Reserve Bank of Philadelphia President P. Harker				
	17:00	Speech by Federal Reserve Governor L. Cook				
	17:00	Speech by Federal Reserve Bank of Minneapolis President N. Kashkari				
	19:35	Speech by Federal Reserve Governor C. Waller				
FRIDAY 23	---	---				
CANADA						
MONDAY 19	---	Markets closed (Family Day, except for Quebec)				
	8:30	Industrial product price index (m/m)	Jan.	n/a	-0.2%	-1.5%
	8:30	Raw materials price index (m/m)	Jan.	n/a	-0.6%	-4.9%
TUESDAY 20	8:30	Consumer price index				
		Total (m/m)	Jan.	0.4%	0.5%	-0.3%
		Total (y/y)	Jan.	3.3%	3.4%	3.4%
WEDNESDAY 21	---	---				
THURSDAY 22	---	2024 British Columbia Budget				
	8:30	Retail sales				
		Total (m/m)	Dec.	0.8%	0.6%	-0.2%
		Excluding automobiles (m/m)	Dec.	0.6%	0.1%	-0.5%
FRIDAY 23	---	---				

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 February 19 to 23, 2024

Country	Time	Indicator	Period	Consensus		Previous reading		
				m/m (q/q)	y/y	m/m (q/q)	y/y	
OVERSEAS								
MONDAY 19								

TUESDAY 20								
Eurozone	4:00	Current account (€B)	Dec.	n/a			24.6	
Italy	4:30	Current account (€M)	Dec.	n/a			-363	
Eurozone	5:00	Construction	Dec.	n/a	n/a		-1.0%	-2.2%
Japan	18:50	Trade balance (¥B)	Jan.	-230.7			-412.7	
WEDNESDAY 21								
Eurozone	10:00	Consumer confidence – preliminary	Feb.	-15.8			-16.1	
Japan	19:30	Composite PMI – preliminary	Feb.	n/a			51.5	
Japan	19:30	Manufacturing PMI – preliminary	Feb.	n/a			48.0	
Japan	19:30	Services PMI – preliminary	Feb.	n/a			53.1	
THURSDAY 22								
South Korea	---	Bank of Korea meeting	Feb.	3.50%			3.50%	
France	2:45	Business confidence	Feb.	99			98	
France	2:45	Production outlook	Feb.	n/a			-7	
France	3:15	Composite PMI – preliminary	Feb.	45.0			44.6	
France	3:15	Manufacturing PMI – preliminary	Feb.	43.5			43.1	
France	3:15	Services PMI – preliminary	Feb.	45.6			45.4	
Germany	3:30	Composite PMI – preliminary	Feb.	47.3			47.0	
Germany	3:30	Manufacturing PMI – preliminary	Feb.	46.0			45.5	
Germany	3:30	Services PMI – preliminary	Feb.	47.3			47.7	
Eurozone	4:00	Composite PMI – preliminary	Feb.	48.5			47.9	
Eurozone	4:00	Manufacturing PMI – preliminary	Feb.	47.0			46.6	
Eurozone	4:00	Services PMI – preliminary	Feb.	48.8			48.4	
United Kingdom	4:30	Composite PMI – preliminary	Feb.	52.9			52.9	
United Kingdom	4:30	Manufacturing PMI – preliminary	Feb.	47.5			47.0	
United Kingdom	4:30	Services PMI – preliminary	Feb.	54.3			54.3	
Eurozone	5:00	Consumer price index – final	Jan.	-0.4%	2.8%		-0.4%	2.9%
United Kingdom	19:01	Consumer confidence	Feb.	-18			-19	
FRIDAY 23								
Germany	2:00	Real GDP – final	Q4	-0.3%	-0.2%		-0.3%	-0.2%
Germany	4:00	ifo Business Climate Index	Feb.	85.5			85.2	
Germany	4:00	ifo Current Assessment Index	Feb.	86.7			87.0	
Germany	4:00	ifo Expectations Index	Feb.	83.8			83.5	

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. Times shown are Eastern Standard Time (GMT - 5 hours).