



Quebec Fall Fiscal Update: Deeper into the Red

The Province of Quebec raised its deficit forecast for both the current and next fiscal year as economic headwinds continue to weigh on revenues and spending was ratcheted slightly higher. The FY2009/10 deficit is now pegged at \$4.7 bln, up from the budget estimate of \$3.9 bln—this includes a slightly bigger draw from the reserve fund, but also a \$300 mln contingency for further revenue declines. The bigger deficit reflects a downgraded revenue outlook, now forecast to be \$62.0 bln, or \$187 mln (0.3%) below the budget estimate—tax receipts have fallen about \$475 mln, but offset by higher Federal transfers. Meantime, spending is slightly higher at \$66.3 bln. At 1.6% of GDP, Quebec’s FY2009/10 deficit remains relatively small when stacked up against Ontario (4.3%) and all provinces combined (2.6%)—but the problems lie in future years.

Next year’s deficit was also revised up to \$4.7 bln versus the \$3.8 bln budget projection, due to weaker revenue and higher spending. The Province reiterated its wish to return to balance by FY2013/14—it will focus on cost cuts, implement a 1 ppt increase in the QST (effective January, 2011) and increase other user fees. Still, this return to balance hinges on \$5.1 bln in yet-to-be-

identified cost savings or revenue gains by FY2013/14 (see chart), up from the \$3.8 bln outlined in March.

The Quebec economy succumbed to global recessionary forces after holding up relatively well early in the downturn—real GDP will likely contract a better-than-average 1.4% this year (the Province is forecasting a 1.5% decline). However, sights are now set on recovery, and the province is positioned to see a respectable 2.2% rebound in 2010 followed by 3.2% growth in 2011—the Province is more conservative in both years.

Manufacturing activity in the province held up well through most of 2008 thanks to strength in aerospace, but by the turn of the year, activity deteriorated sharply as global demand tailed off. However, shipments have begun to improve in recent months, and this bounce back in manufacturing activity from extremely depressed levels should help drive the recovery. Another pillar of support that should remain in place is nonresidential construction. The Province has embarked on a five-year, \$41.8 bln infrastructure spending program (about 3% of GDP in FY2009/10) that will continue to drive growth. Also, stimulus measures like the home renovation tax credit (similar to the Federal version) have added support.

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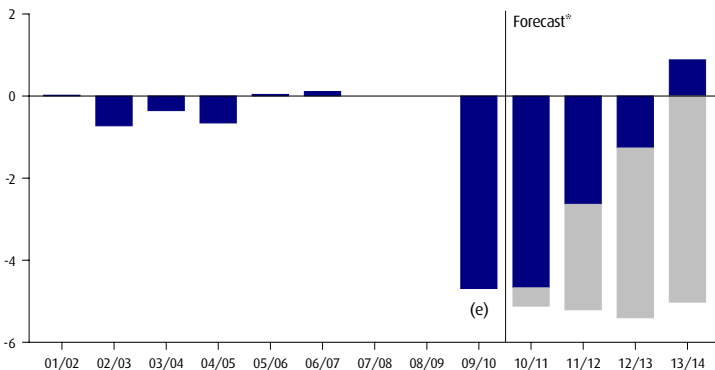
(FY2009/10, \$ millions)

	09/10 Prior	09/10 Updated	09/10 Change
Revenues	62,212	62,025	-187
Expenditures	66,093	66,293	200
Consolidated organizations	355	155	-200
Contingency reserve	0	-300	-300
Balance before reserves	-3,526	-4,413	-887
Budgetary reserve use	295	433	138
Generations Fund	-715	-715	0
Consolidated budget balance	-3,946	-4,695	-749

Source: Province of Quebec

Structural Shakiness

Quebec: Budget Balance, \$blns



*Source: Province of Quebec. Grey area reflects "measures to be identified".



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