WEEKLY COMMENTARY

US Public Finances: Caught Between the President's Dreams and Reality

By Francis Généreux, Principal Economist

"BALANCED BUDGET!!! DJT"

It's hard to figure out what Donald Trump meant with this outburst on Truth Social at 7 a.m. on Friday, February 7. Was he just making a wish? Was he giving an actual directive to the entire administrative and political apparatus under his leadership? Or was he making a promise to the 9.3 million people who follow him on that social network and 341 million Americans?

Whatever he meant, balancing the budget will be a big challenge for the United States. At the close of fiscal 2024 (September 30), the federal government's deficit stood at US$1.832 trillion (6.4% of GDP). The situation only got worse during the first five months of fiscal 2025. When you add up all monthly deficits since the fiscal year started last October, the total is US$318.5 billion higher than for the first five months of fiscal 2024.

It doesn't look like things will get much better, either, given the legislation in force when Donald Trump was inaugurated 47th president of the United States. In January, the Congressional Budget Office (CBO) saw the deficit hitting US$1.865 trillion by the time the current fiscal year ends in September.

The situation could improve somewhat in fiscal 2026, with a projected deficit of $1.713 trillion. But that's based on current legislation. The CBO forecast doesn't take into account the extension of some or all of the 2017 tax reductions, which are slated to expire on December 31, nor does it consider the possibility of even deeper tax cuts. According to the CBO, even if we ignore how an extension would affect the cost of servicing the debt, renewing all of the cuts would swell the primary deficit by at least another US$232 billion in fiscal 2026. That means the federal government's annual shortfall would be close to US$2 trillion next year. That's not exactly a balanced budget. Over ten years, the cost of extending the tax cuts would add up to US$4.3 trillion.

Can President Trump and the Republican congressional majority turn this ship around? The White House is clearly making an effort, especially through the "Department of Government Efficiency" (DOGE), but it's really up to Congress to take the initiative.

Congress is working on a 2026 budget that prioritizes renewing the 2017 tax cuts. But it will be quite some time before it's finalized, and a lot of work still needs to be done.

A Shutdown Averted

The first order of business was to ensure the government is funded through the end of this fiscal year, thereby preventing a shutdown that otherwise might have started earlier this month. The issue was resolved by passing a Continuing Resolution that kept most departmental funding at current levels, while increasing defence spending by US$6 billion and cutting

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US$13 billion from non-defence spending (including health care, education, housing and urban development, environment and social services)[1].

What About the Debt Ceiling?

Although a partial government shutdown was averted, the debt ceiling remains a problem. The debt ceiling was hit on January 21. Since then, the US Treasury has resorted to extraordinary measures to keep the government financed without issuing new debt on the markets. But these extraordinary measures can only do so much, and the CBO says they'll be exhausted by August or September. If the government ends up needing more funding than the CBO expects, the extraordinary measures could even run out as early as May. Congress will need to act soon to prevent a government default. One possible solution could be through bills setting out the next budget. If that takes too long, Congress would have to pass another resolution, which would probably need the approval of Democratic senators to avoid a filibuster.

And the Budget?

The filibuster will also be a critical issue in passing a 2026 budget that's aligned with Republican priorities. It's quite clear that the Republicans don't have the 60 Senate votes required to bypass a Democratic filibuster and pass legislation that fulfills the biggest campaign promises made by their party and President Trump. There are procedures, such as budget reconciliation, that are exempt from the filibuster rule, but they are limited.

The Republican majority in the House of Representatives laid the foundation for the 2026 budget. And what would that be? According to the Committee for a Responsible Federal Budget, the draft bill adds US$300 billion in spending on defence, homeland security and the judiciary over a ten-year period, which is the usual time horizon covered by federal budget bills and analyses. The same budget also called for nearly US$2 trillion in spending cuts (again, over ten years). Most of that would come from energy and commerce (-US$880 billion, primarily by rolling back measures passed by the Biden administration), education and workforce (-US$330 billion), and agriculture (-US$230 billion, including food assistance for low-income families). It also includes tax expenditures (tax cuts) amounting to US$4.5 trillion over ten years. That's basically the cost of extending the 2017 tax cuts, including the resulting debt servicing costs. For now, there isn't much slack left in the budget to implement the other tax cuts promised by Donald Trump during the election campaign. These include a reduction of corporate taxes and the elimination of taxes on tips, overtime and social security benefits, which could collectively cost US$3.55 trillion over ten years.

[1] The resolution also prevents members of Congress from attempting to terminate Trump's February 1 declaration of a national emergency justifying the imposition of additional tariffs on imports from China, Mexico and Canada.

If the 2017 tax cuts are allowed to expire and no new budget measures are introduced, the Republican plan would reduce the deficit by around US$1.7 trillion over ten years or an average of US$170 billion per year. That won't do much to balance the budget, given the size of existing and projected deficits based on current legislation.

Senate Republicans have also put forward their own proposals. But to move forward with the reconciliation process, which limits the Democrats' ability to block them, they'll probably base their proposal on the House plan. It will take several weeks to come up with a single proposal that will please both chambers of Congress and the president. Republican leaders hope to have the budget wrapped up by early April, but that seems unrealistic.

Will DOGE and Tariff Man Save the Day?

The congressional proposals floated up to now can't even get close to balancing the US budget. So far, most of the efforts to right the financial ship seem to be coming from the White House, either through its trade policy or the unconventional tactics of Tesla and SpaceX CEO Elon Musk.

Much has been made of Musk-led DOGE's attempts to slash the budget and downsize the civil service. DOGE supposedly found a number of ways to trim the budget by using cutting-edge IT to detect waste and fraud. Its efficiency leaderboard currently claims all of its "savings" add up to $130 billion. But receipts for only 30% of that total are posted right now, and a slew of mistakes and exaggerations have been identified since they were first posted. Actual, verifiable savings might be much lower than that, maybe even less than US$10 billion. That doesn't even factor in the judgments by various courts to block DOGE's efforts, while the constitutionality of its actions has been called into question.

Even if DOGE can go ahead with its cuts and the Trump administration's other decisions stand, especially the elimination of agencies (USAID, the Department of Education and more), the Trump-imposed realignment of the state doesn't seem to be enough to restore balance to public finances. Furthermore, President Trump's priorities, especially in relation to immigration and security, could lead to additional spending beyond what is already included or even proposed in Republican budget plans.

Consequently, more sources of revenue will have to be found. However, the president and Republicans are determined not to raise taxes, so that's out of the question—unless of course they disguise tax hikes as trade policy.

Donald Trump seems to believe tariffs will solve all of America's problems, including the budget. For many years, especially during the last election, he's claimed tariffs could spark a US industrial renaissance while also bringing in substantial revenue for the federal government. Meanwhile he continues to insist—falsely—that the tariffs will be paid by foreigners. But it's actually American importers who normally pay US customs duties. In fiscal 2024, tariffs added US$83.7 billion to government coffers. This amount is set to increase considerably. All of the changes to trade policy that Trump has already put in place or announced—such as higher tariffs on China, Mexico and Canada, and additional tariffs on steel, aluminum and automobiles—will quadruple tariffs. That doesn't even include other announcements that are expected in early April. Based on the assumptions of our most recent economic scenarios, which see the exemptions for Canada and Mexico ending and so-called reciprocal tariffs of 25% imposed on other countries in April, tariffs could bring in as much as US$800 billion every year. But that figure was calculated based on amounts imported in 2024. Tariffs that high would normally curb import volumes while also slowing economic growth. In fact, our scenarios expect a technical recession in 2025. Actual revenues would therefore be lower. On top of that, our scenarios see tariffs being reduced in 2026.

Still, tariff revenue wouldn't be negligible. If you add that to potential savings found by DOGE and, above all, announced restrictions on the federal government's role, the total impact on the deficit would be relatively large. But would it be enough to balance the budget? No. In a highly optimistic scenario, the annual shortfall could be trimmed by around US$1 trillion. That's less than the projected deficit and doesn't even take new tax cuts into account.

So, to get back to the original question: BALANCED BUDGET? Not yet, Mr. President!

What to Watch For

UNITED STATES

TUESDAY April 1 - 10:00

March	
Consensus	49.8
Desjardins	49.3
February	**50.3**

ISM Manufacturing index (March) – The ISM Manufacturing index edged down in February but remained above 50. However, the slight change in the total index concealed a sharp drop in the new orders component. Survey respondents' comments showed that they were extremely nervous about the Trump administration's trade policy. These jitters, combined with recent trends in regional manufacturing indexes, could push March's ISM Manufacturing index back below 50. We expect the index to dip to 49.3. Once again, a closer look at the new orders, new export orders, imports and prices components could provide some interesting reading.

THURSDAY April 3 - 10:00

March	
Consensus	53.1
Desjardins	52.5
February	**53.5**

ISM Services index (March) – The ISM Services index has been fairly strong and stable since last fall. It even gained 0.7 points in February despite a number of weak economic indicators. That said, February's comments from respondents clearly showed how nervous they were about the White House's trade policy. Based on regional and consumer confidence indexes, the ISM Services index probably fell in March. However, we expect the index to stay above 50, unlike its manufacturing counterpart.

FRIDAY April 4 - 8:30

March	
Consensus	120,000
Desjardins	160,000
February	**151,000**

Change in nonfarm payrolls (March) – Hiring picked up in February compared to January, but net monthly job growth remains lower than at the end of 2024. The total workforce likely edged up in March, but the main headlines and indicators that are already available aren't providing a very good read. Unemployment claims were flat this month after a brief spike in mid-February. Surprisingly, consumer confidence in the labour market also stabilized in March, even though other consumer sentiment components plummeted. One area of concern is the federal government payroll. Cuts continue to be announced, but these are often overturned by the courts, and there's little clarity over when employees could be terminated. All of this suggests that monthly net hires likely remained relatively stable month over month in March. That said, the balance of risks seems to be tilted toward lower payroll growth. We expect unemployment to stay put at 4.1%.

CANADA

THURSDAY April 3 - 8:30

February	$B
Consensus	3.50
Desjardins	4.00
January	**3.97**

International trade (February) – Canada probably maintained a substantial trade surplus in February as a result of sharply higher exports to the US. The depreciation of the Canadian dollar likely impacted the trade balance, boosting export volumes and import prices. We also anticipate a modest rise in Canadian import volumes, likely due to a small bump in motor vehicle sales. Indeed, US advance trade data showed a notable increase in motor vehicle exports as well. Our forecast contains a large degree of uncertainty given the threat of tariffs from the US, which could lead to unexpected increases or decreases in the trade balance.

FRIDAY April 4 - 8:30

March	
Consensus	15,600
Desjardins	10,000
February	**1,100**

Net change in employment (March) – Hiring in the Canadian economy likely rebounded slightly in March, with the Canadian economy creating 10k new jobs. Such a slightly-below-average reading would come as no surprise as the private sector adjusts to the new tariffs. Bank of Canada surveys suggest that fewer companies are looking to grow payroll given the heightened uncertainty surrounding trade with the US. That said, population growth probably also continued to slow, which should put downward pressure on the unemployment rate, which we see rising just a tick to 6.7%.

OVERSEAS

SUNDAY March 30 - 21:30

March	
Consensus	n/a
February	**51.1**

China: Composite PMI (March) – China's composite PMI has been volatile for the last four months and came out at 51.1 in February. The worst of China's property crisis that has rocked the country since December 2021 now seems to have passed, and the situation is gradually improving. That said, the road back to normal will be long and fraught with challenges. China's property market remains fragile, and consumer and business confidence indexes are still well below their pre-crisis levels. We'll be keeping an eye on the Manufacturing PMI over the coming months as Chinese exporters contend with a sharp increase in US tariffs. The end of the Lunar New Year festivities means we'll be returning to the usual economic data release schedule, which will provide a clearer picture of China's economic situation.

TUESDAY April 1 - 5:00

March	**y/y**
Consensus	2.2%
February	**2.3%**

Eurozone: Consumer price index (March – preliminary) – After a modest uptrend from September to January, eurozone inflation cooled in February. The year-over-year change in the total CPI fell from 2.5% in January to 2.3% in February. Core inflation edged down from 2.7% to 2.6%, its lowest level since October 2021. The situation seems encouraging but is mostly due to favourable base effects as month-over-month figures accelerated. These positive base effects should have continued in March, with headline and core inflation likely falling below 2%.

Economic Indicators
Week of March 31 to April 4, 2025

Date	Time	Indicator	Period	Consensus	Desjardins	Previous reading
UNITED STATES						
MONDAY 31	9:45	Chicago PMI	March	45.5	45.0	45.5
TUESDAY 1	---	Total vehicle sales (ann. rate)	March	15,900,000	16,750,000	16,000,000
	9:00	Speech by Federal Reserve Bank of Richmond President T. Barkin				
	10:00	Construction spending (m/m)	Feb.	0.2%	0.4%	-0.2%
	10:00	ISM Manufacturing index	March	49.9	49.3	50.3
WEDNESDAY 2	10:00	Factory orders (m/m)	Feb.	0.4%	0.6%	1.7%
	16:00	Speech by Federal Reserve Governor A. Kugler				
THURSDAY 3	8:30	Initial unemployment claims	March 24–28	n/a	228,000	224,000
	8:30	Trade balance – goods and services (US$B)	Feb.	-110.0	-123.5	-131.4
	10:00	ISM Services index	March	53.1	52.5	53.5
	12:30	Speech by Federal Reserve Vice Chair P. Jefferson				
	14:30	Speech by Federal Reserve Governor L. Cook				
FRIDAY 4	8:30	Change in nonfarm payrolls	March	120,000	160,000	151,000
	8:30	Unemployment rate	March	4.1%	4.1%	4.1%
	8:30	Average hourly earnings (m/m)	March	0.3%	0.3%	0.3%
	8:30	Average weekly hours	March	34.2	34.2	34.1
	11:25	Speech by Federal Reserve Chair J. Powell				
	12:00	Speech by Federal Reserve Vice Chair M. Barr				
	12:45	Speech by Federal Reserve Governor C. Waller				

CANADA

Date	Time	Indicator	Period	Consensus	Desjardins	Previous reading
MONDAY 31	---	---				
TUESDAY 1	---	---				
WEDNESDAY 2	---	---				
THURSDAY 3	8:30	International trade ($B)	Feb.	3.50	4.00	3.97
FRIDAY 4	8:30	Net change in employment	March	15,600	10,000	1,100
	8:30	Unemployment rate	March	6.7%	6.7%	6.6%

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 March 31 to April 4, 2025

Country	Time	Indicator	Period	Consensus m/m (q/q)	Consensus y/y	Previous reading m/m (q/q)	Previous reading y/y
OVERSEAS							
SUNDAY 30							
Japan	19:50	Industrial production – preliminary	Feb.	2.0%	1.2%	-1.1%	2.2%
Japan	19:50	Retail sales	Feb.	-0.2%	2.5%	1.2%	4.4%
China	21:30	Composite PMI	March	n/a		51.1	
China	21:30	Manufacturing PMI	March	50.4		50.2	
China	21:30	Non-manufacturing PMI	March	50.5		50.4	
MONDAY 31							
Germany	2:00	Retail sales	Feb.	0.0%	0.5%	0.3%	3.8%
Italy	5:00	Consumer price index – preliminary	March	0.0%	1.6%	0.2%	1.6%
Germany	8:00	Consumer price index – preliminary	March	0.3%	2.2%	0.4%	2.3%
Japan	19:30	Unemployment rate	Feb.	2.5%		2.5%	
Japan	19:50	Tankan Large Manufacturers Index	Q1	12		14	
Australia	23:30	Reserve Bank of Australia meeting	April	4.10%		4.10%	
TUESDAY 1							
United Kingdom	2:00	Nationwide house prices	March	0.2%	4.2%	0.4%	3.9%
Italy	3:45	Manufacturing PMI	March	48.0		47.4	
France	3:50	Manufacturing PMI – final	March	48.9		48.9	
Germany	3:55	Manufacturing PMI – final	March	48.3		48.3	
Eurozone	4:00	Manufacturing PMI – final	March	48.7		48.7	
United Kingdom	4:30	Manufacturing PMI – final	March	44.6		44.6	
Eurozone	5:00	Consumer price index – preliminary	March	0.6%	2.2%	0.4%	2.3%
Eurozone	5:00	Unemployment rate	Feb.	6.2%		6.2%	
WEDNESDAY 2							
Japan	20:30	Composite PMI – final	March	n/a		48.5	
THURSDAY 3							
Italy	3:45	Composite PMI	March	51.7		51.9	
Italy	3:45	Services PMI	March	52.5		53.0	
France	3:50	Composite PMI – final	March	47.0		47.0	
France	3:50	Services PMI – final	March	46.6		46.6	
Germany	3:55	Composite PMI – final	March	50.9		50.9	
Germany	3:55	Services PMI – final	March	50.2		50.2	
Eurozone	4:00	Composite PMI – final	March	50.4		50.4	
Eurozone	4:00	Services PMI – final	March	50.4		50.4	
United Kingdom	4:30	Composite PMI – final	March	52.0		52.0	
United Kingdom	4:30	Services PMI – final	March	53.2		53.2	
Eurozone	5:00	Producer price index	Feb.	0.3%	2.8%	0.8%	1.8%
FRIDAY 4							
Germany	2:00	Factory orders	Feb.	3.5%	1.5%	-7.0%	-2.6%
France	2:45	Industrial production	Feb.	0.5%	-1.2%	-0.6%	-1.6%

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 Daylight Time (GMT -4 hours).