

**WEEKLY COMMENTARY**

# Done Right, Increased Defence Spending Could Boost the Canadian Economy

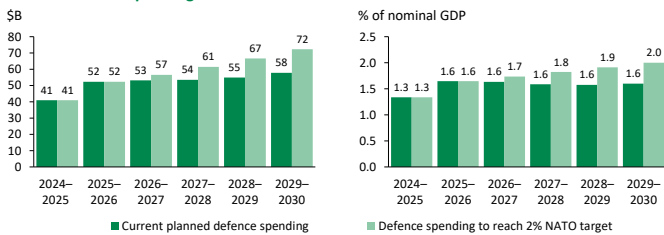
By Jimmy Jean, Vice-President, Chief Economist and Strategist

**Heightened geopolitical tensions have created a pressing need** to raise Canadian defence spending from 1.4% to at least 2% of GDP. That would involve increasing spending by an average of 15% each year if this target is to be reached by 2030 (graph). This initiative would go much further than merely expanding Canada’s defence capabilities. It could serve as a real industrial policy that affects industry, employment, innovation and public finances. The real question is how to increase spending in a way that’s economically sustainable and strategically relevant.

**Defence spending presents an opportunity for a Canadian economy struggling with poor productivity.** In 2022, the defence industry generated \$10B in GDP and employed 62,000 people. Ramping up government defence orders could have several multiplier effects. First, it would reduce Canada’s dependence on imported military equipment, which represents 45% of supply chain costs. Second, it could help usefully reallocate manufacturing capacity that may end up redundant if trade tensions with the United States continue. Finally, another potential benefit could be boosting military exports, which currently amount to less than \$7B (less than 1% of Canada’s total goods exports).

**Historically, defence spending has helped drive technological innovation that can indirectly benefit other sectors.** The internet, night-vision devices, drones and even our handy duct tape were developed for the military before finding civilian applications. In the US, the Defense Advanced Research Projects Agency (DARPA) has often been credited with much of this innovation, whereas in Israel, two thirds of startups are in cybersecurity. An [empirical study](#) of OECD countries shows that a 10% increase in defence R&D spending leads to a 5.6% increase in private R&D in the following year, resulting in productivity gains. What’s important is to allocate those funds intelligently by expanding applied research capacity, focusing on dual-use technologies, and creating synergies with technological ecosystems, especially for cybersecurity and surveillance.

**Graph**  
**Reaching the NATO Target Will Require a Significant Ramp-Up in Defence Expenditures**  
 Canada defence spending forecasts



Department of National Defence, Office of the Parliamentary Budget Officer, Statistics Canada and Desjardins Economic Studies

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**While promising, there isn't a guarantee that higher defence spending will have a positive impact.**

The Canadian defence industry has yet to prove that it has the capacity to handle an influx of new orders and level up technologically. And it's an even bigger challenge when considering that Canada is competing in a market with well-established players. The US defence sector alone has cornered 40% of the global market, while the European industry is dominated by leading national champions. Without a strategic vision or sovereign procurement policy, increasing the defence budget may very well result in massive outflows to foreign suppliers.

**Meanwhile, the budgetary impact will be considerable and has to be carefully calibrated.**

Expanding the defence budget by 76% within five years would put additional, albeit [manageable](#), pressure on public finances. It would also require trade-offs on other national priorities such as infrastructure (unless it's dual use), including in the areas of public transit, education, healthcare or the climate transition. A gradual approach would help prevent public-sector spending from crowding out private-sector spending in these critical sectors, although the trade-off would probably be a lengthening of the timeline for reaching the defence spending target.

**Canada's approach must be grounded in some key principles.**

Certain strategic segments need to be prioritized, especially Arctic surveillance, cyber defence and dual-use technologies with high domestic added value. Strengthening international cooperation and making certain joint purchases with allies, thereby lowering unit costs, would also be a step in the right direction. Finally, climate transition goals should be integrated by focusing, where feasible, on technologies that reduce the carbon footprint of military operations. This could also pave the way for carbon-neutral breakthroughs with civilian applications.

**The increase in military spending could represent a major shift for the Canadian economy.**

If poorly designed, it could squander taxpayer dollars and deepen Canada's dependence on foreign suppliers. The [Auditor General's reports](#) on this subject are full of examples of such mismanagement. But if well structured, this initiative could drive industrialization, innovation and even climate sustainability. The question isn't whether Canada should expand its defence budget, but how the country can execute in a way that maximizes the benefits of such a shift.

# What to Watch For

TUESDAY March 25 - 9:00

<b>January</b>	<b>y/y</b>
Consensus	n/a
Desjardins	4.80%
<b>December</b>	<b>4.48%</b>

TUESDAY March 25 - 10:00

<b>March</b>	
Consensus	94.0
Desjardins	94.0
<b>February</b>	<b>98.3</b>

TUESDAY March 25 - 10:00

<b>February</b>	<b>ann. rate</b>
Consensus	679,000
Desjardins	670,000
<b>January</b>	<b>657,000</b>

WEDNESDAY March 26 - 8:30

<b>February</b>	<b>m/m</b>
Consensus	-0.1%
Desjardins	-0.1%
<b>January</b>	<b>3.2%</b>

FRIDAY March 28 - 8:30

<b>February</b>	<b>m/m</b>
Consensus	0.5%
Desjardins	0.5%
<b>January</b>	<b>-0.2%</b>

## UNITED STATES

**S&P/Case-Shiller home price index (January)** – In December, the S&P/Case-Shiller 20-city composite index posted its highest monthly growth since February 2024. However, January's print will likely be weaker given the decline in existing home sales early this year and the drop in mortgage applications. We expect the S&P/Case-Shiller index to have risen by 0.2%. Thanks to base effects, this would bring the year-over-year change up from 4.5% to 4.8%.

**Conference Board Consumer Confidence Index (March)** – US consumer confidence is faltering badly. The Conference Board Consumer Confidence Index has lost 14.5 points since its recent peak in November. The expectations index has plummeted even further. The post-election rebound has completely run out of steam, and we expect another drop in confidence in March. Stock market challenges, tariff-induced inflation concerns and federal budget cuts seem to have eroded confidence further. The University of Michigan and TIPP indexes both declined again in March. We expect the Conference Board Consumer Confidence Index to have fallen from 98.3 to 94.0, but the risk of an even larger slide is quite high.

**New home sales (February)** – Like other housing market indicators, new home sales had a rough January, falling 10.5%. We're expecting a modest but improved print for February. The number of building permits for single-family homes rose in February, but builder confidence declined and online searches for new homes were flat. We expect new single-family home sales to have increased to an annualized 670,000 units.

**Durable goods orders (February)** – Durable goods orders advanced 3.2% in January thanks to a 93.9% surge in nondefense aircraft orders. But we expect orders to have edged down in February. After a spike in January, preliminary data from Boeing point to more modest aviation orders. However, we're forecasting strong growth in automotive sector orders. Excluding transportation, January's print was disappointingly flat. We're anticipating slight growth in February despite weakness in the new orders component of the ISM Manufacturing index. With US tariffs on both Canada and Mexico postponed again, some orders may have been fast-tracked. We expect orders excluding transportation to have risen 0.2% and total durable goods orders to have fallen 0.1%.

**Consumer spending (February)** – Real consumption suffered its worst monthly decline since February 2021 in January. This was primarily due to a 6.0% drop in automotive sector spending, combined with declines in several other sectors. However, we're expecting a return to growth as early as February. The volume of new vehicles sold indicates an improvement in this sector. Meanwhile, retail sales also started to rise again in February after dipping in January, although the latest print was still nothing to write home about. We're forecasting a 0.3% gain in real consumer spending. Given that the PCE deflator probably rose 0.2% month over month, nominal consumption likely increased 0.5% in February. PCE inflation likely dropped from 2.5% to 2.4% year over year, while the core deflator, which strips out food and energy, was probably flat at 2.6%.

**FRIDAY March 28 - 8:30**

<b>January</b>	<b>m/m</b>
Consensus	0.3%
Desjardins	0.3%
<b>December</b>	<b>0.2%</b>

**MONDAY March 24 - 5:00**

<b>March</b>	
Consensus	50.7
<b>February</b>	<b>50.2</b>

**WEDNESDAY March 26 - 3:00**

<b>February</b>	<b>y/y</b>
Consensus	2.9%
<b>January</b>	<b>3.0%</b>

## CANADA

**Real GDP by industry (January)** – We anticipate that monthly real GDP by industry grew by 0.3% m/m in January, in line with Statistics Canada’s flash estimate. Manufacturing sales, wholesale trade and resource extraction probably grew as production increased in response to trade uncertainty and tariffs, likely offsetting the drop in [retail sales](#) in the month. The January [Labour Force Survey](#) showed strong job gains, providing further tailwind. Looking ahead to the February 2025 real GDP release, we expect Statistics Canada’s flash estimate will show growth of 0.2% m/m.


## OVERSEAS


**Eurozone: PMI index (March, preliminary)** – The Eurozone Composite PMI was flat in February at 50.2. However, under the hood, we notice two distinct trends. The manufacturing index is rising but remains below the 50-point mark that indicates a contraction in activity. Meanwhile, the services index has now been falling for three months in a row. This is consistent with the modest growth in eurozone real GDP that we expect in the first quarter. However, we’ll have to keep an eye on manufacturing sector tailwinds given the number of announcements we’ve seen about Europe’s plans to boost its defence spending. While this reindustrialization is likely to gradually boost growth in the medium term, Europe’s desire to rearm could also have a short-term impact. Any frontloading of activity before new US tariffs are announced in April could also drive manufacturing in the immediate term.

**United Kingdom: Consumer price index (February)** – Headline inflation in the UK has risen in recent months. The year-over-year change in the consumer price index had fallen to just 1.7% in September, but hit 3.0% in January, its highest level since March 2024. Core inflation, which strips out food, energy, alcohol and tobacco products, came in at 3.7% in January, up from 3.2% in December. This week, when deciding to keep its key rates unchanged, the Bank of England didn’t appear especially concerned about rising inflation, but did indicate that it will be keeping a close eye on price growth.

# Economic Indicators

## Week of March 24 to 28, 2025

Date	Time	Indicator	Period	Consensus		Previous reading
<b>UNITED STATES</b>						
<b>MONDAY 24</b>	13:45	Speech by Federal Reserve Bank of Atlanta President R. Bostic				
	15:10	Speech by Federal Reserve Vice Chair M. Barr				
<b>TUESDAY 25</b>	8:40	Speech by Federal Reserve Governor A. Kugler				
	9:00	S&P/Case-Shiller home price index (y/y)	Jan.	n/a	4.80%	4.48%
	9:05	Speech by Federal Reserve Bank of New York President J. Williams				
	10:00	Consumer confidence	Mar.	94.0	94.0	98.3
	10:00	New home sales (ann. rate)	Feb.	679,000	670,000	657,000
<b>WEDNESDAY 26</b>	8:30	Durable goods orders (m/m)	Feb.	-0.1%	-0.1%	3.2%
	10:00	Speech by Federal Reserve Bank of Minneapolis President N. Kashkari				
	13:10	Speech by Federal Reserve Bank of St. Louis President A. Musalem				
<b>THURSDAY 27</b>	8:30	Initial unemployment claims	Mar. 17–21	225,000	225,000	223,000
	8:30	Real GDP (ann. rate)	Q4t	2.4%	2.3%	2.3%
	8:30	Goods trade balance – preliminary (US\$B)	Feb.	-134.8	-120.4	-153.3
	8:30	Retail inventories (m/m)	Feb.	n/a	n/a	-0.1%
	8:30	Wholesale inventories – preliminary (m/m)	Feb.	n/a	n/a	0.8%
	10:00	Pending home sales (m/m)	Feb.	1.3%	n/a	-4.6%
	16:30	Speech by Federal Reserve Bank of Richmond President T. Barkin				
<b>FRIDAY 28</b>	8:30	Personal income (m/m)	Feb.	0.4%	0.4%	0.9%
	8:30	Personal consumption expenditures (m/m)	Feb.	0.5%	0.5%	-0.2%
	8:30	Personal consumption expenditures deflator				
		Total (m/m)	Feb.	0.3%	0.2%	0.3%
		Excluding food and energy (m/m)	Feb.	0.3%	0.2%	0.3%
		Total (y/y)	Feb.	2.5%	2.4%	2.5%
		Excluding food and energy (y/y)	Feb.	2.7%	2.6%	2.6%
	10:00	University of Michigan consumer sentiment index – final	Mar.	57.9	57.9	57.9
	12:15	Speech by Federal Reserve Vice Chair M. Barr				
15:30	Speech by Federal Reserve Bank of Atlanta President R. Bostic					
<b>CANADA</b>						
<b>MONDAY 24</b>	---	---				
<b>TUESDAY 25</b>	---	---				
<b>WEDNESDAY 26</b>	13:30	Release of the Bank of Canada Summary of Deliberations				
<b>THURSDAY 27</b>	---	---				
<b>FRIDAY 28</b>	8:30	Real GDP by industry (m/m)	Jan.	0.3%	0.3%	0.2%

**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 24 to 28, 2025

Country	Time	Indicator	Period	Consensus		Previous reading		
				m/m (q/q)	y/y	m/m (q/q)	y/y	
<b>OVERSEAS</b>								
<b>MONDAY 24</b>								
France	4:15	Composite PMI – preliminary	Mar.	46.1		45.1		
France	4:15	Manufacturing PMI – preliminary	Mar.	46.1		45.8		
France	4:15	Services PMI – preliminary	Mar.	46.2		45.3		
Germany	4:30	Composite PMI – preliminary	Mar.	51.1		50.4		
Germany	4:30	Manufacturing PMI – preliminary	Mar.	47.0		46.5		
Germany	4:30	Services PMI – preliminary	Mar.	52.0		51.1		
Eurozone	5:00	Composite PMI – preliminary	Mar.	50.7		50.2		
Eurozone	5:00	Manufacturing PMI – preliminary	Mar.	48.2		47.6		
Eurozone	5:00	Services PMI – preliminary	Mar.	51.1		50.6		
United Kingdom	5:30	Composite PMI – preliminary	Mar.	50.5		50.5		
United Kingdom	5:30	Manufacturing PMI – preliminary	Mar.	47.2		46.9		
United Kingdom	5:30	Services PMI – preliminary	Mar.	51.0		51.0		
<b>TUESDAY 25</b>								
Germany	5:00	ifo Business Climate Index	Mar.	86.8		85.2		
Germany	5:00	ifo Current Assessment Index	Mar.	85.6		85.0		
Germany	5:00	ifo Expectations Index	Mar.	87.9		85.4		
<b>WEDNESDAY 26</b>								
United Kingdom	3:00	Consumer price index	Feb.	0.5%	2.9%	-0.1%	3.0%	
France	3:45	Consumer confidence	Mar.	94		93		
<b>THURSDAY 27</b>								
Eurozone	5:00	M3 money supply	Feb.		3.8%		3.6%	
Norway	5:00	Bank of Norway meeting	Mar.	4.50%		4.50%		
Mexico	15:00	Bank of Mexico meeting	Mar.	9.00%		9.50%		
Japan	19:30	Tokyo Consumer Price Index	Mar.		2.8%		2.8%	
<b>FRIDAY 28</b>								
United Kingdom	3:00	Trade balance (£M)	Jan.	-3,000		-2,816		
United Kingdom	3:00	Current account (£B)	Q4	-24.5		-18.1		
United Kingdom	3:00	Real GDP – final	Q4	0.1%	1.4%	0.1%	1.4%	
United Kingdom	3:00	Retail sales	Feb.	-0.4%	0.6%	1.7%	1.0%	
Germany	3:00	Consumer confidence	Apr.	-22.3		-24.7		
France	3:45	Personal consumption expenditures	Feb.	0.4%	0.4%	-0.5%	0.4%	
France	3:45	Consumer price index – preliminary	Mar.	0.4%	1.0%	0.0%	0.8%	
Italy	5:00	Consumer confidence	Mar.	98.8		98.8		
Italy	5:00	Economic confidence	Mar.	n/a		94.8		
Eurozone	6:00	Consumer confidence – final	Mar.	n/a		-14.5		
Eurozone	6:00	Industrial confidence	Mar.	-10.6		-11.4		
Eurozone	6:00	Services confidence	Mar.	6.6		6.2		
Eurozone	6:00	Economic confidence	Mar.	96.9		96.3		

**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).