

WEEKLY COMMENTARY

How Much Is Defence Spending Really Boosting the Canadian Economy?

By Randall Bartlett, Deputy Chief Economist

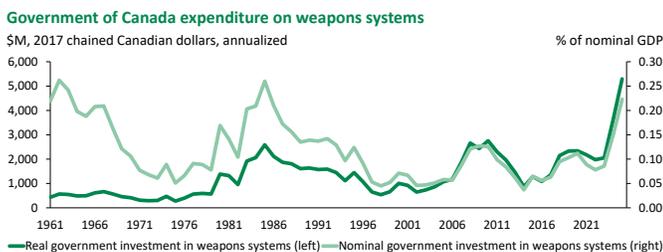
One of the most surprising contributions to the advance in domestic demand in Q4 2025 was the eye-watering increase in government investment in weapons systems. In inflation-adjusted terms, Canadian purchases of weapons jumped more than 800% q/q annualized at the end of the year relative to Q3. That follows a more than 1,300% advance the prior quarter. According to Statistics Canada, the level of real expenditure on weapons systems by Canada in 2025 was nearly double the historic peak reached in 2010 during the War in Afghanistan (graph 1) and was entirely concentrated in the second half of the year. Keep in mind that government investment in weapons systems still comprised only 0.2% of nominal GDP last year, falling short of the early post-WWII period and mid-1980s as a share of total output. But if spending on weapons systems

in 2026 looks anything like it did in the second half of 2025, this year could see the largest share of output going to defence in at least the last 65 years.

Numbers of this magnitude beg the question: what is this money being spent on? The recent GDP data and Statistics Canada’s analysis that came with it don’t give much detail. [According to the statistical agency](#), military weapons systems include “vehicles and other equipment such as warships, submarines, military aircrafts, tanks, missile carriers and launchers.” What they don’t include are single-use weapons (e.g., ammunition, missiles, rockets, bombs) and defence non-residential structures and engineering (e.g., military bases, military airports). Importantly, spending on weapons systems as it’s included in GDP is determined on a quarterly, seasonally adjusted basis. It’s also calculated using [accrual-accounting principles](#), meaning the investment isn’t expensed all at once but rather spread over the useful life of the asset.

Data on weapons systems investment can come from several sources of defence spending information published by the Government of Canada (GoC). These include the [budget](#); [Departmental Plan](#)—what the GoC says it plans to spend over the coming year; [Main Estimates](#)—the initial ask for funding from Parliament for the coming fiscal year; and [Supplementary Estimates \(A, B and C\)](#)—subsequent asks to Parliament for additional funding for the current fiscal year beyond what was in the Main Estimates (graph 2 on page 2).

Graph 1
2025 Was a Standout Year for Weapons Systems Investment in Canada



Statistics Canada and Desjardins Economic Studies

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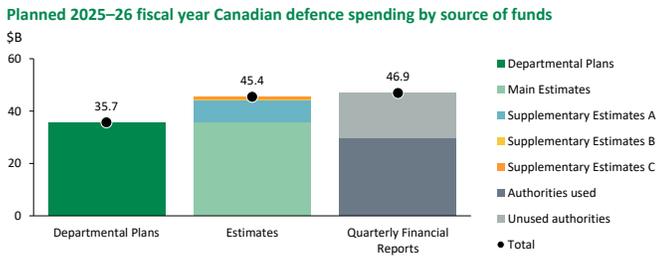
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Graph 2
Planned Defence Spending Has Ramped Up, but Much Is Still Unspent



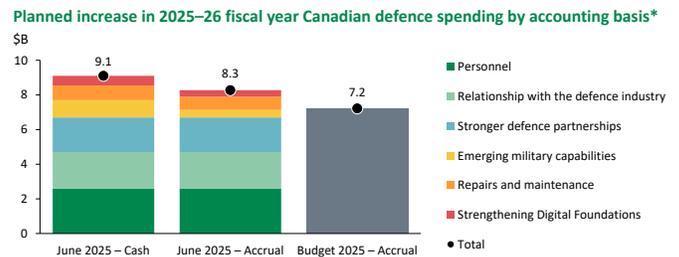
Government of Canada and Desjardins Economic Studies

Notably, all this information is published on an annual, fiscal-year basis and uses expenditure or cash-accounting principles, meaning the money is accounted for when it’s spent as opposed to spread out over the useful life of the asset. This is also how NATO accounts for defence spending to evaluate how close countries are to reaching their commitments. These documents are to be read in conjunction with the Department of National Defence’s (DND’s) [Quarterly Financial Report](#), the latest of which was published for Q4 2025 on the same day that GDP was released. This is also one of the key documents Statistics Canada has pointed to as the source of its data on investment in weapons systems. In contrast to these financial reports, information on federal government finances from the monthly [Fiscal Monitor](#) is published on an accrual basis (subject to some caveats, including those outlined [here](#)).

Putting these pieces together, we believe Statistics Canada may be overestimating the economic impact of the Government of Canada’s expenditure on weapons systems. First, it’s unclear what parts of the federal government’s current defence spending are included under weapons systems for the purposes of calculating GDP and when they were included. For example, [news reports](#) suggest the latest GDP numbers could include Kingfisher search-and-rescue aircraft and Cyclone maritime helicopters. However, these may

not constitute weapons systems as outlined in Statistics Canada’s own definition, or at least might not have met the definition before Q3 2025. Instead, these expenditures could reflect the ramp-up in “defence spending” associated with the transfer of the control and supervision of the Canadian Coast Guard from Fisheries and Oceans Canada to DND on September 2, 2025. (Note that Statistics Canada has privately challenged this assertion since the release of Q4 2025 GDP.) Second, it’s not clear how Statistics Canada is transforming a sharp increase in annual cash spending on defence into quarterly, seasonally adjusted investment on weapons systems on an accrual basis that conforms to the methodology for calculating GDP. [Defence spending forecasts](#) published by the Government of Canada last June illustrate the importance of these accounting differences, with planned new capital spending on defence about a third lower this year on an accrual basis than on a cash basis (graph 3). Indeed, if these new capital assets had been properly accounted for in Q4 2025, one would expect to see corresponding transactions in the Fiscal Monitor, which doesn’t appear to be the case. As such, some of the recent spike in weapons systems investment may be the result of a methodological change as opposed to actual new spending, and this investment could be revised lower in the future.

Graph 3
Defence Spending Is Lower on an Accrual Basis than on a Cash Basis



* Refers to the increase in planned defence spending over the baseline included in the Main Estimates for the 2025–26 fiscal year
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What to Watch For

TUESDAY March 10 - 10:00

February	ann. rate
Consensus	3,870,000
Desjardins	3,885,000
January	3,910,000

WEDNESDAY March 11 - 8:30

February	m/m
Consensus	0.2%
Desjardins	0.2%
January	0.2%

THURSDAY March 12 - 8:30

January	US\$B
Consensus	-67.9
Desjardins	-65.8
December	-70.3

THURSDAY March 12 - 8:30

January	ann. rate
Consensus	1,340,000
Desjardins	1,350,000
December	1,404,000

FRIDAY March 13 - 8:30

January	m/m
Consensus	0.3%
Desjardins	0.2%
December	0.4%

UNITED STATES

*** Due to the federal government shutdown in the United States, there may be some changes to the data release schedule.**

Existing home sales (February) – Existing home sales fell 8.8% in January, the sharpest monthly decline since February 2022. Annualized sales came in at 3,910,000 units, the lowest since September 2024. We expect a further drop in February. That’s the signal we’re getting from another decrease in pending home sales and sharp decline in mortgage applications for home purchases. Because existing home sales data is being released earlier than usual, we still don’t have preliminary regional data.

Consumer price index (February) – After easing in the fall, the consumer price index (CPI) picked up a bit for a couple months, even with the January dip in gasoline prices. We expect a 0.2% uptick in both the all items index and core CPI in February. Energy prices have edged up (and we’re now expecting a much stronger jump in March), and food prices may also have accelerated somewhat more than in January. After four months without much movement, goods prices may also have gained some momentum. Recent increases in the indexes tracking producer and import prices (excluding tariffs) point in that direction. The year-over-year change in the all items index probably held steady at 2.4%, with core inflation remaining stuck at 2.5%.

Trade balance (January) – After narrowing sharply in October, the US trade deficit began to widen again in November and December. Both of those months saw significant decreases in exports paired with even stronger increases in imports. We expect the trade balance improved somewhat in January, as the previous import surges may have given way to a decline. Conditions may have been improved by pricing trends, with the cost of exports rising much more than imports. All things considered, we see the nominal trade deficit coming in at US\$65.8 billion.

Housing starts (January) – Residential construction ended 2025 on a high note, with gains of 3.9% in November and 6.2% in December. At 1,404,000 units, the annualized figure was also the highest since last summer. But severe weather at the end of January probably led to a contraction in housing starts that month. The residential construction sector posted muted gains in employment and hours worked for December and January. But we don’t expect a particularly sharp drop, as new home sales remained fairly strong until December. We think annualized housing starts came to 1,350,000 units in January.

Consumer spending (January) – In December 2025, real consumer spending posted its smallest monthly advance since May. We expect the January reading to be fairly modest as well. New motor vehicle sales fell sharply at the start of 2026. The February decline in retail sales mainly reflects this weaker activity in the automotive sector, but other areas also showed softness. The pullback in food services in particular will weigh on real services consumption. All told, real consumer spending likely remained flat. In current dollars, we forecast a 0.2% increase in nominal consumption. The year-over-year change in total PCE inflation probably fell from 2.9% in December to 2.7% in January. Relatively strong hiring in January, along with increases in both hours worked and wages, likely boosted personal income. However, this may have been limited by changes in healthcare subsidies.

FRIDAY March 13 - 10:00

March	
Consensus	56.3
Desjardins	53.5
February	56.6

University of Michigan consumer sentiment index (March – preliminary) – Consumer confidence showed signs of modest improvement after fading last fall. But we see consumer sentiment weakening in March. The past week’s geopolitical turmoil will likely have a major impact, and US consumers may also see more direct effects in higher gasoline prices. That said, we don’t expect a sharp drop in the University of Michigan consumer sentiment index. The March survey began on February 17, before the military escalation in the Middle East. The major stock indexes have also seen limited losses, and lower mortgage rates may offer relief to some households. The March reading of the TIPP index, which has already been released, showed a mere 1.3-point drop. The University of Michigan index is expected to shed about 3 points. However, the preliminary survey will run for a few more days before ending on March 9. This means that if conditions worsen before then (for example, if gasoline prices spike or the stock market collapses), we could see a much sharper decline.

THURSDAY March 12 - 8:30

January	\$B
Consensus	-1.11
Desjardins	-0.75
December	-1.31

International trade (January) – Canada’s trade deficit likely narrowed in January. A modest appreciation in the Canadian dollar appears to have lifted imports, somewhat tempering the impact of expected export gains. Exports likely advanced on higher crude oil exports. However, due to last year’s US government shutdown, we’re still missing a lot of data that feeds into our trade estimates.

FRIDAY March 13 - 8:30

February	
Consensus	10,000
Desjardins	10,000
January	-24,800

Net change in employment (February) – After a messy January Labour Force Survey showing that 25k jobs were lost, employment is expected to have increased by roughly 10k in February. Despite a return to job growth, the unemployment rate likely rose two ticks to 6.7%, with labour force participation rising once again after bad weather kept job seekers home in January. That said, we have tempered our expectations for rebounds in both employment and labour force participation given that challenging weather conditions continued into February. Overall, while a modest employment gain is anticipated, the underlying signals may remain clouded by temporary distortions.

FRIDAY March 13 - 8:30

Q4 2025	
Consensus	n/a
Desjardins	78.2%
Q3 2025	78.5%

Industrial capacity utilization rate (Q4) – We anticipate that capacity utilization ticked down to 78.2% in Q4 2025, from 78.5% in Q3 2025. We expect this modest fall reflected lower activity in key sectors such as construction and manufacturing. Looking ahead, slower population growth and uncertainty around the Canada-United States-Mexico Agreement (CUSMA) joint review are significant headwinds that could drag down capacity utilization. Note that Statistics Canada has said that Q4 2025 is the final reporting period for the data.

FRIDAY March 13 - 8:30

January	m/m
Consensus	-3.3%
Desjardins	-3.3%
December	0.6%

Manufacturing sales (January) – We anticipate that manufacturing sales decreased by 3.3% m/m in January, in line with Statistics Canada’s flash estimate. Lower sales of transportation equipment and machinery likely contributed to the monthly decline. In real terms, manufacturing sales appear to have fallen by 5.1%, as seasonally adjusted industrial product prices also increased significantly (1.8%).

SUNDAY March 8 - 21:30

February	y/y
Consensus	0.9%
January	0.2%

China: Consumer price index (February) – China’s next CPI release is expected to confirm that inflation remained subdued amid a gradual improvement in domestic demand. But pork prices have picked up, while other non-food items have seen only small gains. The persistent disinflationary environment suggests that CPI will remain under control in the near term, reinforcing our view that a surge in inflation is unlikely. That said, we’ll need to keep an eye on energy costs over the coming months, as 50% of China’s oil supply and 25% of its natural gas arrives via the Strait of Hormuz, which is currently closed due to the conflict in Iran.

OVERSEAS

FRIDAY March 13 - 3:00

January	m/m
Consensus	0.2%
December	0.1%

United Kingdom: Monthly GDP (January) – The UK economy continues to expand, but at a sluggish pace. Monthly GDP growth in December was 0.1%. This was down from 0.2% in November, but still better than October’s 0.1% decline. The signals are fairly good for January, with retail sales rising 1.9% month over month, the strongest gain in nearly a year. PMIs also improved in January. A slight increase in monthly GDP growth for January would result in positive carryover for the first quarter.

Economic Indicators

Week of March 9 to 13, 2026

* Due to the federal government shutdown in the United States, there may be some changes to the data release schedule.

Date	Time	Indicator	Period	Consensus		Previous reading
UNITED STATES						
MONDAY 9	---	---				
TUESDAY 10	10:00	Existing home sales (ann. rate)	Feb.	3,870,000	3,885,000	3,910,000
WEDNESDAY 11	8:30	Consumer price index				
		Total (m/m)	Feb.	0.2%	0.2%	0.2%
		Excluding food and energy (m/m)	Feb.	0.3%	0.2%	0.3%
		Total (y/y)	Feb.	2.5%	2.4%	2.4%
		Excluding food and energy (y/y)	Feb.	2.4%	2.5%	2.5%
	8:30	Speech by Federal Reserve Vice Chair M. Bowman				
	14:00	Federal budget (US\$B)	Feb.	n/a	n/a	-94.6
THURSDAY 12	8:30	Initial unemployment claims	Mar. 2–6	n/a	216,000	213,000
	8:30	Trade balance – Goods and services (US\$B)	Jan.	-67.9	-65.8	-70.3
	8:30	Housing starts (ann. rate)	Jan.	1,340,000	1,350,000	1,404,000
	8:30	Building permits (ann. rate)	Jan.	1,392,000	1,400,000	1,455,000
	11:00	Speech by Federal Reserve Vice Chair M. Bowman				
FRIDAY 13	8:30	Real GDP (ann. rate)	Q4s	1.4%	1.4%	1.4%
	8:30	Durable goods orders (m/m)	Jan.	0.4%	1.9%	-1.4%
	8:30	Personal income (m/m)	Jan.	0.5%	0.4%	0.3%
	8:30	Personal consumption expenditures (m/m)	Jan.	0.3%	0.2%	0.4%
	8:30	Personal consumption expenditures deflator				
		Total (m/m)	Jan.	0.3%	0.2%	0.4%
		Excluding food and energy (m/m)	Jan.	0.4%	0.2%	0.4%
		Total (y/y)	Jan.	2.9%	2.7%	2.9%
		Excluding food and energy (y/y)	Jan.	3.1%	2.9%	3.0%
	10:00	University of Michigan consumer sentiment index – prel.	Mar.	56.3	53.5	56.6
CANADA						
MONDAY 9	---	---				
TUESDAY 10	---	---				
WEDNESDAY 11	---	---				
THURSDAY 12	8:30	International trade (\$B)	Jan.	-1.11	-0.75	-1.31
	8:30	Building permits (m/m)	Jan.	n/a	-4.4%	6.8%
	8:30	Wholesale sales (m/m)	Jan.	-0.6%	-0.6%	2.0%
FRIDAY 13	8:30	Net change in employment	Feb.	10,000	10,000	-24,800
	8:30	Unemployment rate	Feb.	6.6%	6.7%	6.5%
	8:30	Industrial capacity utilization rate	Q4	n/a	78.2%	78.5%
	8:30	Manufacturing sales (m/m)	Jan.	-3.3%	-3.3%	0.6%

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 9 to 13, 2026

Country	Time	Indicator	Period	Consensus		Previous reading		
				m/m (q/q)	y/y	m/m (q/q)	y/y	
OVERSEAS								
SUNDAY 8								
Japan	19:50	Current account (¥B)	Jan.	3,176.3		2,697.1		
China	21:30	Consumer price index	Feb.		0.9%		0.2%	
China	21:30	Producer price index	Feb.		-1.1%		-1.4%	
MONDAY 9								
Japan	1:00	Leading index – preliminary	Jan.	113.0		111.0		
Japan	1:00	Coincident index – preliminary	Jan.	116.9		114.3		
Germany	3:00	Factory orders	Jan.	-4.3%	13.2%	7.8%	13.0%	
Germany	3:00	Industrial production	Jan.	1.0%	-0.8%	-1.9%	-0.6%	
Japan	19:50	Real GDP – final	Q4	0.3%		0.1%		
TUESDAY 10								
Germany	3:00	Trade balance (€B)	Jan.	15.7		17.1		
France	3:45	Trade balance (€M)	Jan.	n/a		-4,843		
France	3:45	Current account (€B)	Jan.	n/a		-0.6		
Japan	19:50	Producer price index	Feb.	0.2%	2.2%	0.2%	2.3%	
WEDNESDAY 11								
Germany	3:00	Consumer price index – final	Feb.	0.2%	1.9%	0.2%	1.9%	
THURSDAY 12								
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FRIDAY 13								
Germany	---	Current account (€B)	Jan.	n/a		16.1		
United Kingdom	3:00	Trade balance (€M)	Jan.	-3,900		-4,340		
United Kingdom	3:00	Construction	Jan.	0.0%	-0.2%	-0.5%	-0.3%	
United Kingdom	3:00	Index of services	Jan.	0.2%		0.3%		
United Kingdom	3:00	Monthly GDP	Jan.	0.2%		0.1%		
United Kingdom	3:00	Industrial production	Jan.	0.3%	0.6%	-0.9%	0.5%	
France	3:45	Consumer price index – final	Feb.	0.7%	1.0%	0.7%	1.0%	
Italy	5:00	Industrial production	Jan.	0.4%	0.8%	-0.4%	3.2%	
Eurozone	6:00	Industrial production	Jan.	0.6%	1.3%	-1.4%	1.2%	

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).