WEEKLY COMMENTARY

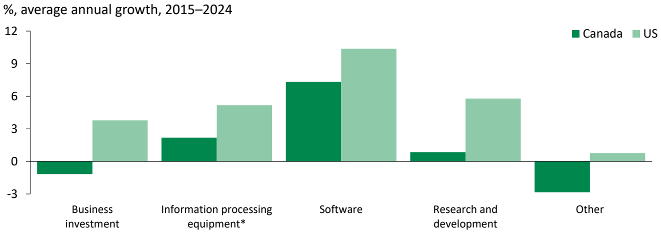
When It Comes to Investing in Innovation, It’s Government if Necessary but Not Necessarily Government

By Randall Bartlett, Deputy Chief Economist

Against the backdrop of trade war volatility, discussions among Canadian economists have continued to revolve around a familiar issue: chronic underinvestment has, in large part, led to the productivity crisis the country finds itself in today. There hasn’t been enough investment in machinery and equipment, research and development (R&D) or software. Investment in non-residential structures fell when oil prices tanked in 2014 and has remained subdued ever since, despite record levels of crude production. Canada’s underperformance in business investment has been particularly striking relative to the United States (graph 1) but has lagged far behind many other advanced economies as well.

Graph 1
US Business Investment Has Been Concentrated in Innovation

Real business investment by expenditure category
%, average annual growth, 2015–2024

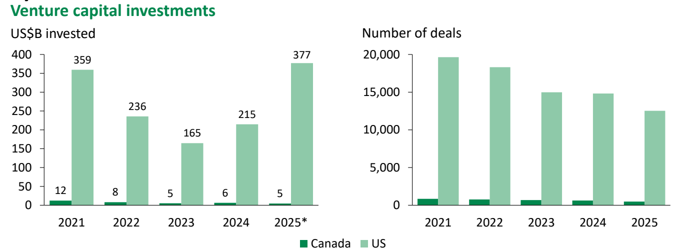


* For Canada, this includes computers and computer peripheral equipment; communications and audio and video equipment; and other electrical and electronic machinery and equipment.
Bureau of Economic Analysis, Statistics Canada and Desjardins Economic Studies

So what can be done to close this investment gap? Lack of access to financing has been an ongoing issue. For instance, most small- and medium-sized enterprises (SMEs) fund investment by drawing on personal savings. Friends and family also crack the top three sources of funding, and bank loans are near the top of the list as well. However, venture capital (VC) and angel investing are much less widely used. The scale of VC investment in Canada pales in comparison to the United States (graph 2), even after adjusting for differences in population and economic size.

Graph 2
The Volume and Size of Venture Capital Deals in Canada Is Dwarfed by the US

Venture capital investments



* Annualized value based on data through the first half of 2025.
Canadian Venture Capital and Private Equity Association (CVCA) and Desjardins Economic Studies

CONTENTS

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Government can play a role in closing this funding gap. Until recently, the federal government had what was known as the Strategic Innovation Fund (SIF). The SIF was intended to support investment in Canadian R&D, accelerate the growth and expansion of innovative businesses, attract and retain large-scale investments to Canada, and advance collaboration between academia and industry. As of mid-February 2025, the SIF had funded 143 projects to the tune of $10.4B. However, the SIF was recently replaced by the Strategic Response Fund, which focuses on "ensuring companies in key sectors do not just survive the immediate trade pressures but pivot to grow in the face of them"—an important objective given the current circumstances but one that is very different from the mandate of the SIF. One is reactive, the other proactive.

The new focus on defence spending also has the potential to improve business investment in Canada through government procurement. The Defense Advanced Research Projects Agency (DARPA) in the United States is a well-known example of how government support for R&D can catalyze innovation. In Israel, roughly two-thirds of startups are in cybersecurity. If procurement is done wisely, Canada can leverage the substantial planned increase in domestic defence spending to support an innovation ecosystem at home.

Governments can do more to boost investment by just getting out of the way. Reducing the number and complexity of regulations would help, in addition to improving the transparency and certainty of regulatory processes. The push to lower interprovincial trade barriers is a good example. Changes to the approval process for "nation-building projects" is a step in the right direction as well but should apply to all projects, not just those handpicked by Cabinet. Making the tax code simpler, more neutral and more certain could also go a long way to supporting business investment and reducing the tax burden on companies without materially impacting government revenues. Rolling back the increase in the capital gains inclusion rate was the right decision in this regard. Now comprehensive tax reform should be near the top of the federal government's agenda.

Finally, it's important to recognize that innovation and productivity are not the same thing. Innovations that are widely adopted can improve productivity. And that investment is more likely to happen when innovations are cheap and of obvious and immediate benefit to businesses. For example, the Global Innovation Index 2025 determined that while Canada ranks highly in terms of inputs to innovation, it has had less success in turning these into productivity growth and other outputs (World Intellectual Property Organization, 2025). A recent C.D. Howe Institute study also found that despite Canada being a global leader in artificial intelligence (AI) research, it is a global laggard in adoption. This needs to change, and governments can foster that change through tax credits, expanded training, and by ensuring academic funding is tied to applied research.

In these troubled times, government has an important role to play in encouraging business investment and improving productivity. But we can't tax and spend our way to prosperity. Sometimes government also needs to get out of the way. To paraphrase former Canadian Prime Minister William Lyon Mackenzie King, the country's guiding philosophy on encouraging investment in innovation should be "government if necessary but not necessarily government."

What to Watch For

UNITED STATES

*** Due to the federal government shutdown in the United States, some indicators may not be released as scheduled.**

WEDNESDAY October 15 - 8:30

September	**m/m**
Consensus	0.4%
Desjardins	0.4%
August	**0.4%**

Consumer price index (September) – Inflation, along with monthly employment figures, is the most closely watched indicator in financial markets because it plays a key role in shaping the Federal Reserve's decisions. Unfortunately, it looks like the consumer price index (CPI) report for September won't be released on Wednesday as originally scheduled. That said, when it does become available, we expect it to show a 0.4% increase in headline inflation, matching August's figure. Energy likely contributed more, as seasonal adjustments amplified the modest rise in gasoline prices. The direct impact of tariffs still seems modest, but we're anticipating sharp increases in food prices and in the cost of goods excluding food and energy, as was the case in the previous month. It'll be interesting to see whether the new tariffs introduced in August, especially the end of the exemption on small packages, had a greater impact. We still believe the tariffs will start to bite a little harder in the coming months. Meanwhile, we're forecasting a 0.2% increase in services excluding energy, compared to August's 0.3%. Overall, we see both the all items index and core CPI, which strips out food and energy, climbing by 0.4%. The year-over-year change in the all items index should inch up from 2.9% to 3.1%, with core inflation holding steady at 3.1%.

THURSDAY October 16 - 8:30

September	**m/m**
Consensus	0.4%
Desjardins	0.5%
August	**0.6%**

Retail sales (September) – We don't expect September's retail sales data to be published this week. But our forecast nevertheless anticipates a fairly solid increase in sales. A small uptick in new car purchases is a positive factor. Gas station sales likely got a lift from gasoline prices that came in slightly higher after seasonal adjustments. Good weather and a lack of hurricanes this September should be positive factors for other retail categories. Preliminary data from the Federal Reserve Bank of Chicago, as well as data on card transactions, also look promising. That said, we need to keep our eye on the effects of the new tariffs, especially the end of the small package exemption, which may have reduced purchase volumes but increased their value. The net impact is hard to assess, and we likely won't have new data on consumer prices to help us see the effects of price changes. All in all, we expect a 0.5% increase in both total nominal sales and sales excluding motor vehicles and gasoline.

FRIDAY October 17 - 8:30

September	**ann. rate**
Consensus	1,320,000
Desjardins	1,320,000
August	**1,307,000**

Housing starts (September) – As expected, housing starts fell sharply in August. In fact, the 8.5% drop was the worst since March. All told, housing starts have plummeted 13.7% since the end of 2024. But it wouldn't be surprising if, after the steep drop-off in August, housing starts recovered somewhat in September. Good weather and a lack of hurricanes this year may have been positive factors. The 20.5% spike in new home sales is also encouraging but was likely offset by a slowdown in building permits in this segment. Because of the government shutdown, we don't have recent data on hours worked in residential construction, but the ADP Research survey on private-sector employment points to a net decline in construction jobs in general. All things considered, we expect housing starts edged up slightly to 1,320,000 units. But it would be surprising if this indicator were published as planned.

FRIDAY October 17 - 9:15	
September	**m/m**
Consensus	0.0%
Desjardins	0.2%
August	**0.1%**

Industrial production (September) – Although the Federal Reserve is unaffected by the shutdown and August's industrial production results will probably be published as planned, making a forecast in this area is especially challenging. That's because several data sources used to fine-tune projections, like hours worked in manufacturing, haven't been published for September. We can nevertheless expect modest growth similar to the 0.1% uptick seen in August. Additional tariff increases in August and September probably drove up costs for US businesses. In addition, the ADP Research survey on private-sector employment suggested some jobs were lost in manufacturing and the broader economy (although some gains were made in natural resources). In contrast, the component of the ISM Manufacturing index that tracks current production improved in August and was back above 50. Another favourable factor, especially for seasonally adjusted indicators, is the fact that for once no hurricanes made landfall in the United States in September. That said, we expect total industrial production to rise 0.2% and manufacturing to edge up 0.1%.

CANADA

THURSDAY October 16 - 8:15	
September	**ann. rate**
Consensus	255,000
Desjardins	270,000
August	**245,800**

Housing starts (September) – We expect housing starts rose to about 269k (saar) in September, reflecting a modest uptick after a pullback in August. An increase in purpose-built rentals likely supported gains in the month.

WEDNESDAY October 15 - 5:00	
September	**m/m**
Consensus	n/a
Desjardins	0.8%
August	**1.1%**

Existing home sales (September) – Seasonally adjusted monthly sales growth likely advanced at a healthy pace at the national level in September. The Toronto Regional Real Estate Board reported that seasonally adjusted sales were up 2% month over month in September. Other local real estate boards reported more divergent trends—Calgary fell drastically, down 14% from a year ago while home sales in Quebec rose 11% y/y. Meanwhile, sales in the Greater Vancouver area rose 1.2% y/y.

OVERSEAS

TUESDAY October 14 - 21:30	
September	**y/y**
Consensus	-0.2%
August	**-0.4%**

China: Consumer price index (September) – China is struggling to break free of deflationary pressures. The year-over-year change in the country's consumer price index (CPI) slid back into negative territory in August (-0.4%). Core inflation, which excludes food and energy, nevertheless climbed 0.9%. Price weakness remains concentrated in the food categories (-4.3%). This situation reflects the ongoing fragility of domestic demand. On top of that, retail sales and industrial production fell short of expectations in August. Given these conditions, we could see a sharper slowdown in China's economy than initially anticipated.

THURSDAY October 16 - 2:00	
August	**m/m**
Consensus	0.1%
July	**0.0%**

United Kingdom: Monthly GDP (August) – The UK's economy stalled in July, suggesting real GDP growth slowed in the third quarter after reaching 0.3% in the second. But we're seeing more promising signals for August. Retail sales gained another 0.5%, suggesting relatively buoyant consumer spending. The composite PMI for the United Kingdom also improved in August (only to deteriorate in September), reaching a 12-month high. Modest monthly GDP growth would help consolidate more robust gains in quarterly GDP.

Economic Indicators

Week of October 13 to 17, 2025

Date	Time	Indicator	Period	Consensus	Desjardins	Previous reading
UNITED STATES						
* Due to the federal government shutdown in the United States, some indicators may not be released as scheduled.						
MONDAY 13	---	Bond markets closed (Columbus Day)				
	12:55	Speech by Federal Reserve Bank of Philadelphia President A. Paulson				
TUESDAY 14	12:20	Speech by Federal Reserve Chair J. Powell				
WEDNESDAY 15	8:30	Consumer price index				
		Total (m/m)	Sep.	0.4%	0.4%	0.4%
		Excluding food and energy (m/m)	Sep.	0.3%	0.4%	0.3%
		Total (y/y)	Sep.	3.1%	3.1%	2.9%
		Excluding food and energy (y/y)	Sep.	3.1%	3.1%	3.1%
	8:30	Empire State Manufacturing Index	Oct.	0.0	2.0	-8.7
	14:00	Release of the Beige Book				
THURSDAY 16	8:30	Initial unemployment claims	Oct. 6–10	229,000	n/a	n/a
	8:30	Philadelphia Fed index	Oct.	9.0	2.0	23.2
	8:30	Producer price index				
		Total (m/m)	Sep.	0.3%	0.4%	-0.1%
		Excluding food and energy (m/m)	Sep.	0.2%	0.3%	-0.1%
	8:30	Retail sales				
		Total (m/m)	Sep.	0.4%	0.5%	0.6%
		Excluding automobiles (m/m)	Sep.	0.3%	0.5%	0.7%
	10:00	Business inventories (m/m)	Aug.	0.1%	0.0%	0.2%
	16:15	Speech by Federal Reserve Governor S. Miran				
FRIDAY 17	8:30	Housing starts (ann. rate)	Sep.	1,320,000	1,320,000	1,307,000
	8:30	Building permits (ann. rate)	Sep.	1,347,000	1,330,000	1,330,000
	8:30	Export prices (m/m)	Sep.	0.0%	0.3%	0.3%
	8:30	Import prices (m/m)	Sep.	0.1%	0.3%	0.3%
	9:15	Industrial production (m/m)	Sep.	0.0%	0.2%	0.1%
	9:15	Production capacity utilization rate	Sep.	77.3%	77.4%	77.4%
CANADA						
MONDAY 13	---	Markets closed (Thanksgiving Day)				
TUESDAY 14	8:30	Building permits (m/m)	Aug.	n/a	n/a	-0.1%
	12:10	Speech by Bank of Canada Senior Deputy Governor C. Rogers				
WEDNESDAY 15	5:00	Existing home sales (m/m)	Sep.	n/a	0.8%	1.1%
	8:30	Wholesale sales (m/m)	Aug.	-1.3%	n/a	1.2%
	8:30	Manufacturing sales (m/m)	Aug.	-1.5%	n/a	2.5%
THURSDAY 16	8:15	Housing starts (ann. rate)	Sep.	255,000	270,000	245,800
FRIDAY 17	8:30	International securities transactions ($B)	Aug.	n/a	n/a	26.69

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 October 13 to 17, 2025

Country	Time	Indicator	Period	Consensus m/m (q/q)	Consensus y/y	Previous reading m/m (q/q)	Previous reading y/y
OVERSEAS							
DURING THE WEEK							
China	---	Trade balance (US$B)	Sep.	98.20		102.33	
MONDAY 13							
Germany	---	Current account (€B)	Aug.	n/a		14.8	
TUESDAY 14							
United Kingdom	2:00	ILO unemployment rate	Aug.	4.7%		4.7%	
Germany	2:00	Consumer price index – final	Sep.	0.2%	2.4%	0.2%	2.4%
Germany	5:00	ZEW Current Conditions Survey	Oct.	-73.8		-76.4	
Germany	5:00	ZEW Expectations Survey	Oct.	41.6		37.3	
China	21:30	Consumer price index	Sep.		-0.2%		-0.4%
China	21:30	Producer price index	Sep.		-2.3%		-2.9%
WEDNESDAY 15							
Japan	0:30	Industrial production – final	Aug.	n/a	n/a	-1.2%	-1.3%
France	2:45	Consumer price index – final	Sep.	-1.0%	1.2%	-1.0%	1.2%
Eurozone	5:00	Industrial production	Aug.	-1.8%	-0.2%	0.3%	1.8%
THURSDAY 16							
Japan	0:30	Tertiary Industry Activity Index	Aug.	-0.2%		0.5%	
United Kingdom	2:00	Trade balance (£M)	Aug.	-5,000		-5,260	
United Kingdom	2:00	Construction	Aug.	-0.2%	1.5%	0.2%	2.4%
United Kingdom	2:00	Index of services	Aug.	0.1%		0.1%	
United Kingdom	2:00	Monthly GDP	Aug.	0.1%		0.0%	
United Kingdom	2:00	Industrial production	Aug.	0.2%	-0.7%	-0.9%	0.1%
Italy	4:00	Consumer price index – final	Sep.	-0.2%	1.6%	-0.2%	1.6%
Eurozone	5:00	Trade balance (€B)	Aug.	n/a		5.3	
Italy	5:00	Trade balance (€M)	Aug.	n/a		7,908	
FRIDAY 17							
Eurozone	5:00	Consumer price index – final	Sep.	0.1%	2.2%	0.1%	2.2%

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).