

PBO Assessment

Spring Economic Update: Government's Major Capital Priorities

PBO has prepared a series of notes assessing the Spring Economic Update 2026, tabled on April 28, 2026, in respect of Budget 2025 tabled on November 4, 2025. The objective of these notes is to support Parliamentary scrutiny of public finances. The notes review key elements of the budget cycle through time, notably the economic and fiscal track, fiscal anchors and fiscal sustainability, major government priorities guiding the capital investment strategy, and new spending measures announced since Budget 2025.

Key Findings

The Spring Economic Update (SEU) provided directional, rather than detailed, updates on key strategic capital priorities introduced in Budget 2025 - namely infrastructure and major projects; productivity and competitiveness; housing; and defence and security.

The SEU introduced new strategic priorities to advance capital formation goals identified in Budget 2025 — including the Canada Strong Fund of \$25 billion and Team Canada Strong, positioned to mitigate labour supply constraints.

Regarding housing, affordability and support for the housing supply remain central in the 2026 SEU, but no specific targets for the pace of homebuilding are provided. This is notable in the context of housing starts and population growth losing momentum since Budget 2025.

The longer-term defence spending path to 5% of GDP by 2035 remains unspecified following the SEU; the PBO estimates meeting this commitment would require core defence cash spending to reach \$159 billion in 2035–36 alone, adding \$63 billion to the federal deficit in that year, which would increase the debt-to-GDP ratio by 6.3 percentage points.

Capital Investment Priorities

Context

In Budget 2025, the government announced that it would enable \$1 trillion in investment over the period 2025–26 to 2029–30. Of this objective, government documents indicate that \$285 billion will take the form of planned federal spending to support third-party investment, while the remaining investment is assumed to result from cost-sharing arrangements, notably with provincial governments, and the generation of related private sector investment.

Budget 2025 identified large-scale capital investment priorities across four areas: infrastructure and major projects; productivity and competitiveness; housing; and defence and security. The focus of this note is to follow progress on these identified government priorities across the budget cycle, more so than provide point-in-time analysis. The following summarizes the PBO's assessment of each investment area based on the Spring Economic Update (SEU).

Assessment

Five months into the implementation period, the SEU reiterated major capital commitments, although delivery risks have begun to emerge.

Infrastructure and Major Projects

Budget 2025 committed \$115 billion over five years to federal infrastructure, to be delivered in part through the Major Projects Office (MPO)—a new federal single-window coordination body mandated to fast-track approvals for nationally significant projects within a maximum of two years.

The SEU noted that the MPO currently oversees 15 referred projects representing \$125 billion in capital investments and is developing six transformative strategies. Of the projects, two are in active construction, and the two largest projects—LNG Canada Phase 2 (approximately \$33 billion) and Ksi Lisims LNG (approximately \$30 billion)—have not reached final investment decision.

- The MPO has not yet published progress reports or approval-timeline scorecards assessing performance against its two-year mandate.

Productivity and Competitiveness

Budget 2025 committed \$110 billion over five years to a suite of structural measures, including tax credits and direct support for innovation and emerging technologies.

Budget 2025 actions to lift productivity growth aim to support higher wages, stronger private sector investment, and greater resilience to future economic shocks. These include the Productivity Super-Deduction, legislated through Bill C-15, as well as the One Canadian Economy Act, which addresses longstanding internal trade barriers.

The SEU 2026 announced more refined forward intentions to increase competition in the telecommunications and financial sectors as well as a separate objective to reduce barriers to competition caused by government policies.

- As the Budget 2025 measures have not yet been fully implemented, it is not yet possible to assess their impact on productivity.
- In terms of tracking progress against these objectives, Statistics Canada reports that Canada's labour productivity growth has been essentially flat on average, over the period from 2022 to 2025, well below its historical average growth rate of 1.2% over 1982 to 2019. Specific metrics will be informative going forward to assess progress or setbacks since November 2025, regarding productivity and competitiveness. Related indicators include business investment, innovation, intellectual property formation and entrepreneurship.

Housing

Budget 2025 reiterated the government's objective of doubling the pace of homebuilding over the next decade to restore affordability. This was supported by the launch of Build Canada Homes (BCH), a new federal agency intended to serve as the single window for federal support for non-market housing projects. Now currently operating as a Special Operating Agency (SOA) within Housing, Infrastructure and Communities Canada, BCH is intended to evolve into an arm's-length entity following the adoption of Bill C-20.

- Budget 2025 allocated \$13 billion in cash expenditures to BCH, of which \$11.6 billion represented new funding. Over the same horizon, total federal housing program spending was projected to decline by 56%. The 2026 SEU does not provide additional funding for BCH but includes \$2.6 billion in additional spending to support housing affordability from 2025–26 to 2030–31.
- Of note regarding housing in the 2026 SEU - while affordability and support for the housing supply were prominently profiled, no specific targets or metrics for the pace of homebuilding were provided.

- Since Budget 2025, housing starts in Canada have continued to lose momentum. While total starts in 2025 were elevated earlier in the year by strong rental construction, the six-month trend in housing starts has been declining since September 2025. The PBO estimates that BCH could add approximately 26,000 units over five years, which would be insufficient to achieve the previously targeted pace of homebuilding.

Defence

Budget 2025 announced approximately \$82 billion in defence funding over five years to support Canada's commitment—made in June 2025—to reach 5% of GDP by 2035, comprising 3.5% in core defence spending and up to 1.5% in ancillary expenditures.

- Positively, NATO confirmed that Canada reached the 2% benchmark in 2025–26. However, the longer-term spending path remains unspecified: no year-by-year profile has been published, and core defence spending at 3.5% of GDP could reach \$159 billion by 2035.
- The SEU introduced targeted measures which provide greater detail on the specifics and direction of overall spending goals. These include support to Ukraine, additional funding for the Defence Investment Agency, and workforce development initiatives. The medium-term spending profile in the SEU does not differ significantly from the overall track established in Budget 2025.
- The PBO estimates that meeting the 5% commitment would require core defence cash spending to reach \$159 billion in 2035–36, increasing the deficit by \$63 billion and the debt-to-GDP ratio by 6.3 percentage points.

General Considerations Respecting the Government's Capital Priorities

The following considerations apply to the combined capital project objectives:

- U.S. tariffs have introduced a persistent negative income shock and considerable uncertainty to trade-exposed sectors, which may suppress the private co-investment on which the strategy depends.
- Since November 2025, employment in the construction sector has increased modestly on a seasonally adjusted basis, with hours worked outpacing employment growth, which could be seen as a pick-up in aggregate construction activity. This will be a key metric to monitor going forward, as a tangible indicator

of progress by the government toward its objective of enabling \$1 trillion in national investment.

- The SEU introduced the Team Canada Strong initiative, targeting 80,000 to 100,000 Red Seal skilled trade workers by 2030–31. Given Canada’s stable and ageing national population projections, this will be a key success factor to ensure that financial investments of Budget 2025 and the SEU translate to successful projects, capital formation and economic growth.
- Finally, delivering the scale of investment envisaged in Budget 2025 requires both timely project execution and strong domestic economic spillovers. Canada’s historical record on major infrastructure delivery has been mixed with long project lags. Defence procurement carries a particular import-leakage risk, given Canada’s historically low domestic content in major military acquisitions.

