

CANADA FEDERAL BUDGET 2025: A STEP IN THE RIGHT DIRECTION

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KEY SUMMARY POINTS

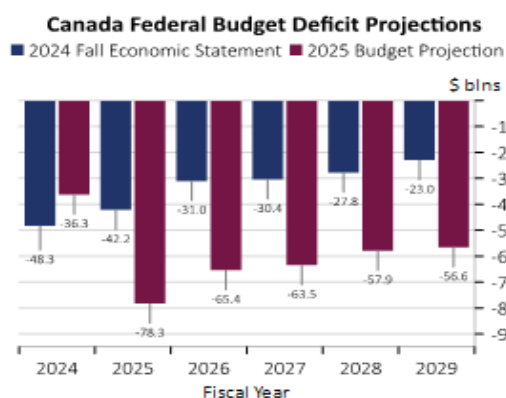
- The Carney government pivots from short-term stimulus to long-term growth, emphasizing infrastructure, productivity, and business investment.
- Higher, new spending focuses on strengthening national defense, housing, and business incentives, balanced in part by cuts to public service costs.
- Infrastructure, clean energy, and manufacturing are poised to benefit as policy focuses on stronger supply-side growth.
- Success hinges on achieving favorable U.S. trade outcomes while executing major infrastructure projects.

Canada Federal Budget 2025: A Step In The Right Direction

The Carney government’s first federal budget, tabled yesterday afternoon, was broadly in line with expectations projecting a \$78.3 billion deficit for FY 2025-26 (Exhibit 1). At 2.5% of GDP, the deficit is the largest since the mid-1990s outside of the pandemic and great recession (Exhibit 2).

The budget is a step in the right direction and signals a clear pivot toward improving the supply side of the economy through investment-led growth, rather than the prior government’s focus on supporting demand over the short-term through social programs. That said, success will hinge on the government’s ability to execute its ambitious infrastructure plans and ability to meaningfully shore-in private sector investment whilst navigating ongoing trade negotiations with the U.S.

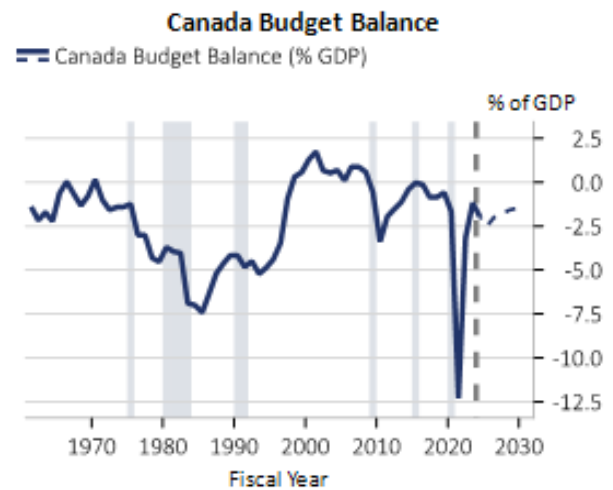
Exhibit 1



Source: Government of Canada, Macrobond
As of November 4, 2025



Exhibit 2



Source: Government of Canada, Statistics Canada, Macrobond
As of November 4, 2025



The Government’s New Priorities

Most of the increase in the deficit is due to higher spending, which amounts to \$140.9 billion in new spending over the five-year projection period.

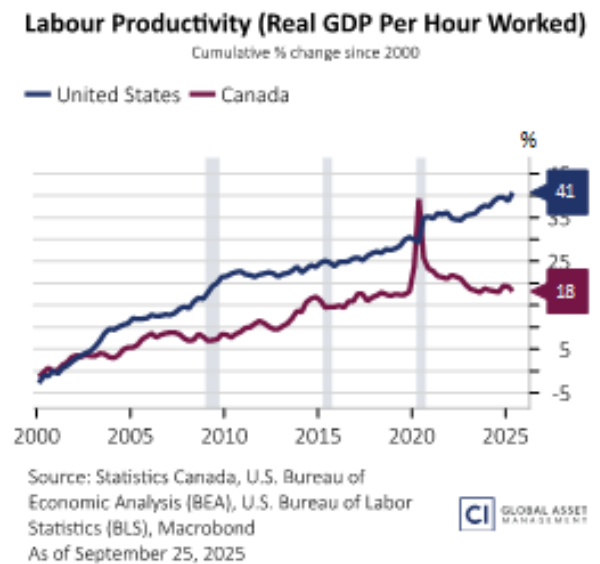
This additional spending is expected to be offset by savings of \$51.2 billion as the government reduces operational costs through a Comprehensive Expenditure Review and reduction in the public service amounting to 40,000 positions.

Four Main Categories of New Spending

- *Protecting Canada’s Sovereignty and Security:* The spending here is largely allocated toward defence and meeting Canada’s NATO commitments. The total expenditure is estimated at \$62.9 billion over the next five years.
- *Empowering Canadians:* This includes the already-implemented tax cut to the lowest income tax bracket, the new Build Canada Homes program, the removal of the GST for first-time homebuyers, as well as the cancellation of the carbon tax. All measures total to \$48.1 billion in spending.

- *Shifting reliance to resilience:* These provisions provide targeted support to sectors that have been impacted by U.S. tariffs such as agriculture and forestry while also implementing a new Trade Infrastructure Strategy to support diversification of Canada’s exports by creating a Trade Diversification Corridors Fund and Arctic Infrastructure Fund. All measures total \$16.5bn in spending over the next five years.
- *Building a stronger Canadian economy:* Finally, and importantly, the spending here includes the creation of the Major Projects Office and tax incentives to support businesses such as the productivity super-deduction. These measures amount to \$13.3 billion.

Exhibit 4



Assessing the Economic Impact

While this federal budget will certainly be a net positive for the Canadian economy, the boost to growth may take time to materialize, given the inherent lags in using infrastructure investment as a source of growth.

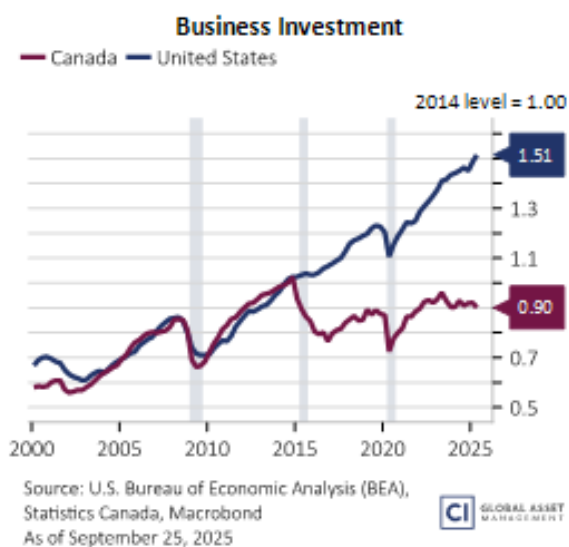
That said, this is an approach we have long hoped for. Canadian business investment has lagged that of the U.S. for the past decade contributing to weaker productivity (Exhibit 3/4). Economic growth has instead relied heavily on government support and strong population gains rather than genuine productivity improvements.

As outlined above, the government’s priorities intend to catalyze business investment and attract foreign capital. If successfully executed these measures could boost productivity over the medium term and enhance Canada’s long-term growth prospects.

The ultimate outcome, however, hinges on two key factors:

- First, is the result of the ongoing trade negotiations with the U.S. A positive resolution would meaningfully reduce uncertainty and encourage businesses that have moved to the sidelines in recent months to invest.
- Second, is the government’s ability to execute the ambitious goals outlined in the budget, including whether the proposed tax provisions are sufficient to incentivize both domestic and foreign businesses to invest meaningfully.

Exhibit 3



While the Productivity Super-Deduction is encouraging as it allows for immediate expensing of capital investment, the measure falls short of fully matching similar incentives in the One Big Beautiful Bill south of the border. Indeed, it is narrower in its scope and sunsets in 2030.

What’s next?

As is standard practice, the budget will now be debated in the House of Commons, where amendments may be proposed. The debate will take place over four days, concluding on November 17, as the House will be on break next week for Remembrance Day.


We have already seen one Conservative MP cross the floor to join the Liberal caucus, bringing the government just two seats shy of the 172 votes they need to pass the budget – a margin that could prove sufficient if, as indicated, the NDP abstains from voting.

Bottom line

The 2025 Federal Budget sets the stage for a medium- to long-term shift in Canada's economic growth potential, with an emphasis on supply-side growth, infrastructure investment, and business incentives.

Focus for investors should centre on sectors benefitting from pro-growth measures, including infrastructure, critical minerals, and clean energy. New tax incentives that attempt to catalyze private sector investment could also drive growth in manufacturing and technology.

Trade negotiations with the U.S. remains a key risk in the near term. However, should these uncertainties dissipate, and policy execution proceed as planned, the potential for long-term productivity growth could be substantial, creating a more favorable economic environment for investors over the medium term.



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