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**2026**

# **SPRING ECONOMIC UPDATE**

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## **Analysis & Overview**

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Prepared by Sussex

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## SUMMARY

Exactly one year ago today, Prime Minister Mark Carney and his Liberal government were elected with a mandate shaped by global uncertainty and domestic expectation. Since that time, the Prime Minister has pursued an agenda aimed at reorienting the Canadian economy for success in a more volatile world, repositioning Canadian “middle-power” leadership on the global stage, and redefining what progressive governance looks like under sustained economic and geopolitical pressure. Central to the government's approach has been the government's thesis that prosperity, security, and sovereignty are now inseparable policy objectives.

Today's Spring Economic Update (SEU), tabled in the House of Commons by the Minister of Finance, the Honourable François-Philippe Champagne, reflects these priorities with a deliberate focus on economic resilience and strategic advantage in three distinct areas:

- **Canada Strong Fund** – announced just prior to the SEU, the establishment of a sovereign wealth fund to catalyze investment in Canadian projects and companies.
- **Team Canada Strong** – recognizing the need to dramatically scale-up Canada's skilled workforce to build the projects, infrastructure and communities we need.
- **Stronger, Safer Communities** – focused primarily on housing, community safety and community infrastructure.

Consistent with the Prime Minister's recent public remarks, the Update emphasizes competitiveness, supply chain security, and the importance of targeted, outcome-driven investment over broad-based or unfocused spending. The underlying message is one of discipline and intent: as Canada navigates what the Prime Minister calls “a profound rupture” in the economy and in our relationship with the United States, government action should catalyze private capital, strengthen domestic capacity, and deliver measurable returns that Canadians can see and experience in their own communities.

The SEU is also framed as a bridge, both substantively and politically, between the government's first year in office and the development of Budget 2026 which will be

released in the fall. Much of the Update summarizes projects, investments and commitments that have already been announced, or which stemmed substantively from Budget 2025.

The SEU does provide clarity and signals with respect to some specific programs and forward-looking commitments. In that respect, the SEU functions more as a strategic waypoint than a fiscal pivot, reserving major funding decisions and trade-offs for Budget 2026.

Further, the SEU serves as a communications tool in which to situate priorities and deliverables (many of which have already been announced – for example, the Defense Industrial Strategy) in the context of a forward-looking agenda.

Finally, the SEU is presented against an evolving international backdrop, very much including heightened geopolitical volatility and energy market disruption, which remain relevant risk factors even for comparatively insulated economies like Canada.

What follows is a summary of the key **new** measures and signals contained in the SEU, and how they collectively advance the government's broader economic agenda. We have tailored this summary to focus on the areas of greatest interest to our Sussex clients, and our team of senior consultants is ready and eager to dive into the details with you.

## **THE DEFICIT**

The Spring Economic Update (SEU) projects a deficit \$11 billion lower in 2025-26 than was forecast in Budget 2025. Starting in 2028-29, the entirety of the deficit will be attributable to capital investments, implying that none of the government's deficit will be tied to operational expenditures from that year onward.

While the government emphasizes discipline and leverage, early commentary has raised questions about fiscal headroom, execution risk, and the pace at which proposed investments can realistically translate into near-term economic gains—particularly in housing and labour-intensive sectors.

## **CLEAN ECONOMY (RC)**

### **Electricity Strategy**

On the forthcoming electricity strategy, the SEU indicates the government will soon release a discussion paper seeking input on how it can work with provinces and territories, Indigenous partners, and other stakeholders to strengthen efforts to connect, modernise, and expand the grid.

### **Nuclear Strategy**

There is no substantive update. The SEU reiterates that the government will release a Nuclear Energy Strategy in the near- to medium-term to provide a clear and coordinated federal perspective on the sector's future development.

### **Sustainable Finance Conference: Taxonomy & Sustainable Finance**

The SEU proposes to support the Canadian Climate Institute in hosting a Sustainable Finance conference in the coming year. The event will bring together domestic and international stakeholders to advance progress on the Canadian taxonomy and discuss sustainable investment opportunities in Canada.

The SEU also reaffirms the government's commitment to mobilising public and private capital in support of the transition to net-zero. To help credibly identify "green" and "transition" activities in priority economic sectors, the government is supporting the arm's-length development of made-in-Canada sustainable investment guidelines (a taxonomy).

### **International Climate Finance**

The SEU sets a goal for Canada to deliver over \$13 billion in climate-related support to developing countries over the next five years. To this end, it announces:

- \$3.0 billion over five years on a cash basis, starting in 2026-27, to Global Affairs Canada, and \$167.9 million over five years on a cash basis, starting in 2026-27, to Environment and Climate Change Canada to continue delivering climate-related supports to vulnerable countries; and

- \$2.0 billion in paid-in capital for FinDev Canada, plus \$732 million over three years on a cash basis, starting in 2028-29, to expand FinDev Canada's concessional finance facility.

These measures are intended to mobilise private capital at scale into climate-related businesses and projects in emerging markets and developing economies, including mobilising over \$3 in private capital for every \$1 of public investment through FinDev's concessional finance facility.

## **AI / DATA CENTRES**

The SEU reiterates that a National AI Strategy is forthcoming and outlines the six key pillars that will inform it:

1. Protecting Canadians and Safeguarding our Democracy
2. Empowering Canadians
3. Powering AI Adoption for Shared Prosperity
4. Building the Canadian Sovereign AI Foundation
5. Scaling Canadian Champions
6. Building Trusted Partnerships and Global Alliances

A clear focus of this strategy is ensuring the government takes the right steps to secure the buy-in and trust of Canadians.

## **COMPETITIVENESS & TAX MEASURES**

### **Competition Plan**

The SEU announces the government's intent to launch a Whole-of-Government Competition Plan to ensure that competition is prioritized across federal policy. The plan will focus on removing inefficient government policies that impede competition through regulation, procurement, and industrial support. The Minister of Finance and National Revenue will provide further information on this initiative in the coming months.

## **Buy Canadian Policy**

The SEU updates the impact of measures already unveiled under this policy and announces that the government will launch a new Small and Medium Business Procurement Program later this spring. By modernizing digital tools and reducing barriers, the program aims to make it easier for Canadian firms to compete for and win federal procurements.

There are no announcements regarding a domestic content requirement or adder to the Clean Technology and Clean Electricity ITCs (the consultation for which ended in March of this year).

## **Tax Measures**

The CRA will prioritize advance income tax ruling requests tied to large-scale, nation-building projects—including housing, infrastructure, and other projects of national importance—as well as investments that boost productivity and strengthen critical sectors, such as clean economy initiatives and projects eligible for clean economy investment tax credits.

The CCUS Investment Tax Credit is expanded to include enhanced oil recovery (EOR), fulfilling a commitment under the Canada–Alberta MOU. Credit rates are set at 30% for direct air capture equipment, 25% for other capture equipment, and 18.75% for transportation and storage or use equipment, reflecting the additional revenue associated with EOR.

CCUS projects performing EOR must permanently store captured CO<sub>2</sub>. EOR becomes an eligible use as of the Spring Economic Update 2026, subject to jurisdictional designation by the Minister of the Environment.

## **MAJOR PROJECTS & ENERGY**

### **Canada Strong Fund (CSF)**

Building on the Prime Minister's announcement yesterday, the SEU provides further signals on how the CSF will be administered:

- The CSF will take only minority stakes alongside private capital;
- The federal government will consult on the design of the financial product that will enable Canadians to invest savings in the CSF; and
- The government will establish a dedicated Canada Strong Fund Transition Office to lead targeted engagement with market participants and regulators and to rapidly finalize the Fund. Further details will be provided in the coming months.

It is clear that the Major Projects Office (MPO) is intended to play a role in identifying projects of interest within the CSF's mandate.

The SEU also commits the government to a review of the mandates of all existing federal financing vehicles (Crown corporations) to root out duplication and ensure complementarity across the federal ecosystem.

### **Major Projects Office**

The SEU provides no substantive updates or new funding commitments with respect to the work of the MPO. Instead, it summarizes what the government considers key proof-points of progress to date, for example the recent ground-breaking for the Contrecoeur Container Terminal Project following a \$1.16 billion financing commitment from the Canada Infrastructure Bank.

### **LNG**

The SEU supports investment in lower-emissions LNG through targeted tax measures. Budget 2025 proposed reinstating accelerated capital cost allowances for eligible LNG equipment and related buildings, but only for low-carbon facilities; the SEU now provides implementation details for this measure. It also clarifies that facilities with an expected emissions intensity above 0.20 tCO<sub>2</sub>e/tLNG would not be eligible.

## **HOUSING & INFRASTRUCTURE**

Building on the government's suite of new infrastructure programs aimed at accelerating homebuilding, including the Build Communities Strong Fund, the SEU provides further signals and investments on housing enablement, alongside a significant push to grow the skilled workforce.

## **Standards & Approvals**

The SEU allocates \$41.9 million over five years, starting this fiscal year, to the National Research Council, the Standards Council of Canada, and ISED to work with provinces and territories to modernize National Model Codes, reduce regulatory friction, and improve consistency in code interpretation. This includes eliminating duplicative inspections, enabling performance-based pathways for modular and panelized construction, accelerating approvals for prefab products, expanding code flexibility (including for engineered wood), strengthening analysis of affordability impacts from code changes, and modernizing housing data collection and sharing.

The SEU also signals changes to mortgage policy. The government will explore modernization of mortgage products in line with G7 best practices, launch a 30-day consultation on expanding mortgage insurance flexibilities, streamline building rules to support factory-built and modular housing, and deliver \$7 billion in low-cost CMHC loans to advance construction of up to 16,500 new rental homes.

To address skilled-labour shortages, the SEU's *Team Canada Strong* commits to recruiting, training, and hiring 80,000 to 100,000 new Red Seal tradespeople by 2031, supported by more than \$6 billion in Recruit-Train-Hire programming over the next five years.

## **DEFENCE**

### **Defence Investment Agency**

The SEU commits \$103.8 million over five years, and \$22.3 million ongoing thereafter, to establish and operate the Defence Investment Agency (DIA) as a stand-alone entity, and signals the government's intent to introduce legislation to finalise its establishment.

## **CONCLUSION**

With a majority government secured through recent by-elections, Prime Minister Carney faces few external political obstacles to implementing the agenda outlined in today's SEU. The legislative pathway is clear, the policy architecture is there, and the fiscal

framework leaves room for the government to act on its priorities. The constraints are no longer about whether the government can pass its agenda, but whether it can execute it in a way that meets the high expectations of Canadians.

Standing up the Canada Strong Fund, scaling Team Canada Strong to deliver tens of thousands of new skilled tradespeople, operationalizing the Defence Investment Agency, launching a Financial Crimes Agency, advancing major projects through the MPO, and translating frameworks like the Climate Competitiveness Strategy and forthcoming National AI Strategy into tangible outcomes will require sustained delivery capacity across departments, agencies, and federal-provincial-Indigenous partnerships at a time when government seeks to shrink headcount by 15%.

The test in the months ahead will therefore be one of execution. Can the government move from announcement to implementation at the speed its agenda requires? Can it translate strategic intent into measurable results that Canadians can see and feel in their communities? Can it maintain coherence across an unusually broad portfolio of nation-building commitments while managing the geopolitical and economic volatility that continues to define the global context?

## **HAPPY TO HELP**

For Sussex clients, this creates both opportunity and urgency. Engaging early and substantively with government as it operationalizes these commitments will be critical. Our team is ready to help you navigate what comes next.

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