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Chair

Mr. Rob Merrifield

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● (1530)

[*English*]

The Chair (Mr. Rob Merrifield (Yellowhead, CPC)): Now we'll commence.

We want to thank our special witness today. We have the Governor of the Bank of Canada, Mark Carney. We want to thank you for coming and attending our committee meetings. This is the second time. We're here to talk about your monetary policy report of April 2008. We want to thank you very much for taking the time to be here. This is very timely. I know there's a considerable amount of interest in the report, and we're looking forward to the opportunity we have with you for the next couple of hours.

So with that, I'll yield the floor to you and allow you to start with opening comments, and then we'll proceed to questions and answers. The floor is yours, sir.

Mr. Mark Carney (Governor, Bank of Canada): Thank you, Mr. Chair, and thank you, committee members. It's a great pleasure for me to appear today before this committee for the first time as Governor of the Bank of Canada. I'd like to say at the outset that we at the bank appreciate the opportunity to meet with this committee, usually following, as you said, Chair, the release of our monetary policy reports.

These meetings are very important in terms of our accountability to Canadians since they allow us to keep members of Parliament and, through you, all Canadians informed of the bank's views on the economy, the objective of monetary policy, and the actions we take to achieve that objective.

These meetings have also been very valuable for the bank over the years, and Paul Jenkins and I look forward to continuing them during the course of the coming years.

Before we take your questions, I would like to very quickly give you some of the details of our monetary policy report that, as you mentioned, was released last week.

[*Translation*]

Growth in the global economy has weakened since the January Monetary Policy Report Update, reflecting the effects of a sharp slowdown in the U.S. economy and ongoing dislocations in global financial markets. Growth in the Canadian economy has also moderated. Buoyant growth in domestic demand, supported by high employment levels and improved terms of trade, has been substantially offset by a fall in net exports. Both total and core CPI inflation were running at about 1.5% at the end of the first quarter, but the underlying trend of inflation is judged to be about 2%, which is consistent with an economy that is running just above its production capacity.

The U.S. economic slowdown is now projected to be deeper and more protracted than was expected at the time of the January Update. Our latest projection reflects a more pronounced impact on consumer spending from the contraction in the U.S. housing market and from significantly tighter credit conditions.

[*English*]

The deterioration in economic and financial conditions in the United States will have direct consequences for the Canadian economy. First, exports are projected to decline, exerting a significant drag on growth in 2008. Second, turbulence in global financial markets will continue to affect the cost and availability of credit. Third, business and consumer sentiment in Canada are expected to soften somewhat.

Nevertheless, domestic demand is projected to remain strong, supported by firm commodity prices, high employment levels, and the effect of cumulative easing in monetary policy. We project that the Canadian economy will grow by 1.4% this year, 2.4% in 2009, and 3.3% in 2010. The emergence of excess supply in the economy should keep inflation below 2% through 2009. Both core and total inflation are projected to move up to 2% in 2010 as the economy moves back into balance. There are both upside and downside risks to the bank's new projection for inflation, and these risks now appear to be balanced.

In line with this outlook, some further monetary stimulus will likely be required to achieve the inflation target over the medium term. Given the cumulative reduction in the target for the overnight rate of 150 basis points since December, including the 50 basis point reduction announced last week, the timing of any further monetary stimulus will depend on the evolution of the global economy and domestic demand and their impact on inflation in Canada.

Mr. Chair, Paul and I would now be very pleased to answer your questions.

● (1535)

The Chair: Thank you very much. I have no doubt there are going to be lots of them.

And we will start with our first round of seven minutes with Mr. John McCallum. The floor is yours, for seven minutes, sir.

Hon. John McCallum (Markham—Unionville, Lib.): Thank you very much.

Welcome back for your first time as governor.

If I may, I'd like to talk a little bit about the international credit crunch or asset-backed commercial paper problems. First, I'd like to say I think it's good for the country that the Montreal Accord has passed and congratulate you for any role you may have played in that.

I'd also like to focus on hearings we're likely to hold in the future after the budget implementation bill passes. But since you're here, I thought I might start with you, if I may. What we'd like to focus on is what might have been done to make this crisis less severe than it was in Canada and, just as important, what should be done to reduce the likelihood of such a crisis in the future.

Since we are federal in this room—notwithstanding that I'm sure there's a lot of blame to go around—I'd like to start with federal agencies, and in particular OSFI. Some people have told us that the fact that OSFI encouraged banks to offer conditional liquidity facilities for this paper rather than unconditional may well have exacerbated the crisis and was not a good move.

I wonder if you have a view on that.

Mr. Mark Carney: Thank you for the question.

We look forward to the hearings you hold on this issue. And if you would like us to appear, if we can be of any service, obviously we would.

I would say that with respect to ABCP, the non-bank asset-backed commercial paper issue, multiple factors caused the problem. And I would start by underlining the responsibility of all market participants for their actions in creating the problem and being party to the problem.

I would highlight three issues specifically.

First, on disclosure, and this is an issue for the relevant securities commissions, it appears that under the current disclosure requirements, these so-called exempt securities were sold without a full disclosure of the risks that were included, including importantly—which drove the dynamic of this situation and made the Montreal Accord so difficult—the fact that derivative counterparties to the structures, and it's slightly complicated, were senior to the noteholders. And this was a very important factor that drove the negotiating dynamics and did not appear—I won't be conclusive about it—to be adequately disclosed. That's the first issue around disclosure.

The second issue does relate to the liquidity arrangements that were associated with this paper. You made a reference to the fact that there was a so-called general market disruption clause related to most liquidity lines that were there. This issue was flagged by third parties—including twice by the Bank of Canada—and it was ignored, by and large, by noteholders who held the paper and, by and large, by those who structured the paper. And that is an issue I would encourage you to look into.

In terms of OSFI and liquidity, I really think it's best addressed by OSFI. My understanding, though, of the situation—and I know you will speak directly to OSFI about this—is that the bank capital treatment related to these liquidity facilities in Canada was not different from the globally accepted standard. What was different is that a market was allowed to develop that took advantage of one treatment of that capital standard. And that market developed based on ratings, based on structuring advice, based on sales, and based on the willingness—and this goes back to responsibility—of investors to take that paper in the face of warnings to the contrary.

The third issue, which is a broader issue that I think has affected a variety of structured products, is the alignment of incentives between the various principals who structure and sell the products and the end investor. I think whether it's the non-bank asset-backed commercial paper in Canada situation or the subprime mortgage situation in the U.S., one thing that is abundantly clear from these situations is that it is risky to purchase a structured product where there is not clear alignment of the originator or the packager of the original assets and the end investor. So if there's no tail responsibility, whether legal or economic, to the structurer, as an investor one should take a pause and decide whether or not to invest.

● (1540)

Hon. John McCallum: Thank you.

I just have a couple of minutes. So just more generally, as the crisis has unrolled and we've seen a number of bank failures are rescued, could you give us some sense as to...? I know you can't be precise, but are we near the end or at the beginning of the end? In terms of risks, not in Canada but internationally, how much more of this is likely to happen before we're at the end of the tunnel?

Mr. Mark Carney: I tried to say in a speech in Toronto on March 13 that we were at the end of the beginning, because I think we collectively had a much better understanding of the causes of the crisis. One of the issues there, in terms of moving from understanding the causes to resolving them, is disclosure.

I suspect you all have, but I would encourage you to read the report of the Financial Stability Forum adopted by G7 ministers, because at the heart of that and in the annex of that is a very prescriptive, detailed disclosure requirement for financial institutions. Those requirements, and the prospect of implementing those requirements, are going to enhance disclosure. And it's already happening. We're seeing that it will indicate the need, or not, for additional capital, and that is part of what is prompting to get more capital in the system.

I know your time is short, but I have a very quick point. The basic issue here is that the unregulated or the non-bank financial sector is coming, by and large, into the regulated bank sector, and leverage levels in that sector need to go down from where they were before. So it's a combination of assets coming on and a need for capital. That's the process we're working through, which will take time, but at least we're in that process now.

The Chair: Thank you very much.

We'll now move on to Monsieur Crête. The floor is yours.

[*Translation*]

Mr. Paul Crête (Montmagny—L'Islet—Kamouraska—Rivière-du-Loup, BQ): Thank you, Mr. Chairman.

Good morning, gentlemen.

Mr. Carney, I wish to begin by thanking you for having accepted my suggestion of holding a training day and of gathering together the critics from each party as well as the governor of the Bank of Canada. I believe that this event has been set for May 30. This fits into the logic of the new approach that you want to implement, namely greater openness with regard to the various influences. I thank you for that.

In the summary of your April, 2008 Monetary Policy Report, you state the following:

> Given the cumulative reduction of 150 basis points in the target for the overnight rate since December, the timing of any further monetary stimulus will depend on the evolution of the global economy and domestic demand, and their impact on inflation in Canada.

Today, you stated the following to us:

> The deterioration in economic and financial conditions in the United States will have direct consequences for the Canadian economy.

Given the statements made yesterday by President Bush and the rise in the price of gas, could you tell us if, between your tabling of the document and today, you have already predicted that the next step will require yet another significant drop in the rate?

Mr. Mark Carney: I wish to begin by thanking you, sir. I found your suggestion excellent. You talked of openness and it is in this spirit that we will be meeting.

As for our comments contained in the Monetary Policy Report, it is our hope that the shelf life of this document will be longer than just one week. I believe that we have stated clearly in the document that we are now predicting that the slowdown will be deeper and more protracted — and this latter characteristic is also important — than initially expected. However, neither the data nor the recent comments of the American President have changed this opinion.

● (1545)

Mr. Paul Crête: Today, there is much concern on the part of businesses and workers because the slowdown, especially in Quebec and Ontario, is very obvious, very definite. It is occurring at a rather astounding speed. In your view, is there hope that we will be able to round the bend at a speed that will prevent us from skidding out of control? It is not at all clear that what the United States are experiencing is anything different than a real and deep recession.

Do you think it is possible, over a rather lengthy period, to avoid having all of the negative impacts of the American recession cancel out the positive effect of domestic demand here in Canada?

Mr. Mark Carney: I will perhaps begin, and then let Mr. Jenkins take over. Domestic demand in Canada has remained robust. We do face challenges with regard to our exports. Indeed, there would be an absolute reduction in our exports. That is one aspect of the issue.

Furthermore, I would like to stress the fact that we have reacted to this situation. According to the Bank of Canada's predictions, there is now a slowdown in the United States and there is going to be one in 2009. We are reacting now.

Mr. Paul Jenkins (Senior Deputy Governor, Bank of Canada): I might add a few details. In our predictions for the Canadian economy, we underscore two major international factors. There is, first, the weakness of the American economy, as you mentioned, but there is also a positive force. Indeed, the demand for core products is strong. It is the influence of the price of core products on our terms of trade that is supporting this domestic demand. In the predictions that we set out in the report, we talk of the fact that there is a reduction in core products, but that the prices have remained very high. With regard to domestic demand, that is the most important support. We note in our predictions for the years 2008 to 2010 a very important contribution on the part of domestic demand.

Mr. Paul Crête: Will the rising cost of gas, which will have consequences for consumption overall, not have a major impact on demand in Canada? We are going to have to continue buying gas, which will significantly reduce our purchasing power for everything else. Is that an important factor that we will have to pay particular attention to?

Mr. Paul Jenkins: Yes, in the sense that the price of gas is very high. With regard to the growth rate of the all-items CPI, there are several elements that are going down. In our report, we underscore the fact that within the CPI the growth rate in the price of services is of roughly 3%, but that the price of goods has been going down by close to 1.5%. The consumer price index therefore comprises a mix of these trends. Household spending is certainly under pressure because of the price of gas, but this is offset by other factors.

● (1550)

[*English*]

The Chair: Are you finished? Okay. *Merci.* We'll move on now.

Mr. Menzies, go ahead.

Mr. Ted Menzies (Macleod, CPC): Thank you, Mr. Chair.

Thank you to Mr. Carney and Mr. Jenkins for joining us here today.

Pursuing on from what you were talking about, Mr. Jenkins, many industries and many facets of the Canadian economy are changing and adapting. I guess we all are concerned when we see job losses in the manufacturing sector and of course, most recently, huge losses in the auto industry. Certainly we're all concerned about that. When I look at your report, you don't paint too rosy a picture, but you paint a realistic picture of what the outlook is in manufacturing and in all of these sectors.

Mr. Carney, in your recent speech entitled “Implications of Globalization for the Economy and Public Policy”, you actually referred to Roman times. I didn't hear the whole speech, so I'd be interested to see the connection, but I think your reference was that things are changing. We certainly look at losses in the auto industry as an impact on Canadians' lives, but overall, in the last two years, we have a net gain of over three-quarters of a million new jobs, and over 80% of those are full-time jobs.

So can you share with us your thoughts on how Canada is adapting and if we are capable of weathering these economic times?

Mr. Mark Carney: I'd be happy to read out that entire speech for you, Mr. Menzies.

Mr. Ted Menzies: Maybe some other time.

Mr. Mark Carney: In terms of the overall employment issue, you've raised a number of important points. Certainly, first of all, there is a very difficult adjustment going on in the manufacturing sector in Canada. I think this committee is aware of it, and we are certainly aware of it at the Bank of Canada. We are watching it closely.

Canada grew manufacturing jobs in the 1990s. We were unique in the OECD, with the exception of Spain, in doing that. We are now losing manufacturing jobs. I think 16% of manufacturing jobs have gone over the course of the last five years. That's about 360,000 jobs over that period that have disappeared in manufacturing.

As you suggested, though, in the wake of that, the economy has created about 1.5 million jobs in the service sector and about another 300,000 jobs in the other goods-producing sectors, which would include construction, importantly, which is very strong. It also includes the natural resources sector and other sectors like that. So we're seeing strength in our economy, and going back to Mr. Crête's discussion, I would say that the relative importance of domestic demand in the economy is the type of force that continues to support this type of employment—service sector, construction, and obviously the natural resources because of the terms of trade, as referenced by Mr. Jenkins.

The second point I'd make, and then I'll stop and give you back your time, is on the broader forces. One of the points I tried to make in those comments was that the nature of manufacturing is changing, and people are specializing or becoming increasingly specialized within a global supply chain. It's about finding the right point in that global supply chain. That means fewer jobs in Canada but, we would hope, higher-value-added jobs, so that the overall contribution of manufacturing to our economy remains high. That requires linking into those supply chains. It requires training. It requires a global sense from our manufacturing industries, and they're working towards that. There's no question that they're working towards it. That is difficult, but overall, the employment picture is quite healthy.

My last point is that the employment picture being quite healthy—there is a circularity here—is one of the reasons we still see some strong momentum in domestic demand.

Mr. Ted Menzies: Thank you.

Also in that speech you touched on interprovincial trade barriers. That's something I think all governments over the past few years have struggled with, and we've had trouble bringing the provinces onside. Alberta and British Columbia have a landmark agreement, the TILMA, the British Columbia–Alberta Trade, Investment, and Labour Mobility Agreement. I met with Jim Peterson, the former trade minister, who has been tasked with trying to bring a similar agreement between Ontario and Quebec. We see that as an impediment to growing the economy, and we have had witnesses who have also shared that with us.

Can you expand on where you were going with that in your speech?

● (1555)

Mr. Mark Carney: I am entirely in sympathy with the thrust of the question. The TILMA agreement has much to be recommended, and the recent initiative between the provinces of Quebec and Ontario to explore greater openness and flexibility along that provincial boundary is encouraging. At a time of a slowing economy, it may sound a bit odd to say this, but as a general trend, we are in a longer trend of labour scarcity in this country, which is good news for workers and good news for Canadians. It means better jobs—better, higher-value-added jobs. It also means that we need to provide maximum flexibility collectively, all governments, for our citizens to find those jobs where they are or where they choose to live and deploy their talents.

Mr. Paul Jenkins: Could I add one additional comment, tying in with your previous question? One of the advantages of having more flexibility, which you gain by removing these interprovincial trade barriers, is that your economy can respond to economic shocks more quickly, and therefore you can attain and sustain a higher level of employment and growth on an ongoing basis. So from the point of view of these adjustments we're going through in our economy in response to these relative price shocks, removing some of these interprovincial trade barriers, adding more flexibility to your economy, does produce significant benefits.

The Chair: Thank you very much.

We'll now move to Mr. Mulcair.

The floor is yours.

[*Translation*]

Mr. Thomas Mulcair (Outremont, NDP): Thank you, Mr. Chairman.

Welcome, Mr. Carney. Since our entrusting ourselves to you, this is our first opportunity to have an in-depth discussion. I believe that this is the first time that elected representatives are able to state such a thing. We had the opportunity to meet with you previously, and you have our full confidence in your ability to fill this important office. I must tell you that you have been truly deserving of this trust since your arrival.

I would like to deal specifically with the repercussions for consumer loans. In a rather cryptic sentence, that I will read into the record in the English version, because the translation, unfortunately, is not very good, we find the following:

[*English*]

> Banks have shown a willingness to borrow at these higher spreads in order to secure longer-term financing, but have not yet fully passed these increased spreads on to businesses and households. Nevertheless, the absolute cost of borrowing by banks has declined...

I'm on page 19 of the English.

[*Translation*]

Let us take a look at the spread that exists between the official rate and a five-year mortgage loan, which is a concrete standard example that is easy to follow. Ten years ago, in 1998, the bank rate varied between 5.25 and 5.75%. I will use the 5.5 rate of October 1998. There was a difference of 1.25%. Thus, with the rate at 5.5%, you could get a five-year mortgage for 6.75%. That was pretty much average at the time.

Let us now go to December 2006, already some 18 months ago. The rate was then of 4.5%. The difference was of 1.95%, close to 2%. That was quite a hefty increase, but it was still within the range. A little bit later, in April 2007, we were still at 4.5% and then, all of a sudden, the difference moved to 2%, 1.99% to be exact. A 2% difference looked more like some kind of a margin for prudence, rather than for modesty. Today, there is no longer any modesty whatsoever. In September 2007, the rate was of 4.75% and, all of a sudden, there was a difference of 2.44%. In March 2008, in other words last month, the rate was set at 3.75%, but there was a difference of 3.44%. Therefore, even with a 1% drop, we are still sitting at 7.19% for a five-year mortgage.

Those are your numbers.

● (1600)

Mr. Mark Carney: I agree.

Mr. Thomas Mulcair: We trust you. You are using the levers at your disposal to control a very difficult situation, but what can we do to get the banks to bend in this area?

Mr. Mark Carney: Mr. Mulcair, you have focussed on a very important question. Bank costs have increased, but there remains a spread for most banking products, with the exception of mortgages. My numbers are somewhat different, but you are absolutely right.

It is somewhat difficult to explain, but there a few factors at play. First of all, securitized mortgage markets bring about worldwide problems. These markets are not always rational because the majority of Canadian bonds, indeed more than 85% of them, are guaranteed by the Government of Canada. There is nevertheless an increase in the spread. That is the first reason.

The second reason is that there now exists an excess supply of mortgages on large banks' balance sheets. Why? It is possible that the cause of that might be the size of CMHC's bonds programs. That is an important issue and I wish....

Mr. Thomas Mulcair: All of this is very good, but allow me, Mr. Chairman, to ask Mr. Carney to share his numbers with us. He stated that there was a slight difference. I am asking for nothing more, because this is information. It is good, but perhaps the witness could share this with the members of the Committee.

Mr. Mark Carney: Absolutely.

Mr. Thomas Mulcair: Recently, under one of the most delicious headlines that one could imagine, the Globe and Mail, under one subtitle, printed the following: “Deep rate cut tests banks' patience“.

[*English*]

“Deep rate cut tests banks' patience”.

[*Translation*]

Not yours, but that of all of the banks. This attests to the arrogance of the banks, that are registering fabulous profits, in the tens of billions of dollars, and to which the Conservative government granted cuts last fall. The banks are beginning to show a certain impatience. We are counting on you to use the levers at the disposal of the State in the market.

What might we do to reduce the mortgage spread, the difference between the official rate and the five-year rate?

Mr. Mark Carney: First of all, there could be structural aspects within the market, and that is a challenge for the Bank of Canada.

Mr. Thomas Mulcair: It is also a challenge for us as elected representatives.

Mr. Mark Carney: Exactly.

Secondly, we understand this... I will continue in English.

[*English*]

Mr. Thomas Mulcair: Go ahead.

Mr. Mark Carney: We understand this issue of the spreads going up, and in how we calibrate monetary policy we are taking it into account. It's one of many factors. We see the costs of the banks going up, and it's illustrated, as you say, on page 19 of the report in terms of the spreads going up for the banks.

But the absolute costs—and this is the important point—for the banks are going down. With the exception of five-year fixed mortgages—and you're absolutely right to flag it—the absolute costs of borrowing, even in the corporate sector and certainly for any borrowings off prime rate by individual Canadians, are going down as well. To the extent to which they do, we have to calibrate and take this into account.

We have left in the report that there will be some additional pass-through of the bank's increased costs, because their actual costs are going up.

● (1605)

The Chair: Thank you very much, Mr. Mulcair.

Mr. McKay, we're into the second round, of five minutes.

Hon. John McKay (Scarborough—Guildwood, Lib.): Thank you, Governor.

You are asking for a fairly significant change—what appears to be a fairly significant increase in powers—under part 10 of this bill, and I'd like some clarification from you as to some differences in drafting in it.

Proposed paragraph 18(g) in subclause 146(1) of Bill C-50 says you need this "for the purposes of...promoting the stability of the Canadian financial system". Then further on, in clause 147, proposed section 19 says "unusual stress on a financial market or the financial system". Is there a difference between a "financial market" and the "financial system"?

Why is the modifier "Canadian" in front of the initial phrase, "Canadian financial system", and not in the other? This would lead one to conclude that it's not limited to Canadian, that it may well be strains on the international market or international system. I wonder whether you could enlighten the committee as to whether this is a distinction without a difference or is actually of some significance.

The second question, which follows from that, is this. You've put about $10 billion into the system in increased liquidity in the last few months. What is it that this increase in powers enables you to do that you haven't been able to do thus far?

Mr. Mark Carney: I heard three questions in there, and I'll try to answer them quickly.

In terms of the financial market or financial system, the distinction is that a financial system would include financial markets but would also include, importantly, the clearance and payments system and financial institutions, market participants, the system as a whole.

I'm going to defer on the Canadian modifier for a moment. I'm actually not familiar enough with that aspect of the drafting, but the important question you are asking is why we are asking for this and what is a change. I would say a couple of things.

This is practical. What we think we're asking for is a practical change. When the Bank of Canada Act was originally drafted, there was a prescribed list of securities against which we could undertake these open market operations, to use the generic term. The relevance of a number of those securities to the financial markets has decreased over time because of financial innovation, and so, for example, we cannot buy, for the purposes of resale, money market securities longer than 180 days. We cannot buy corporate bonds. There is a host. We cannot buy term asset-backed securities. We cannot buy municipal bonds, or we cannot buy corporate commercial paper. These are big chunks of the financial market, and the issues we are facing right now are issues of provision of liquidity to core bits of the market.

What we're looking for—we have tremendous flexibility in the overnight market in terms of what we can do, and under the current paragraph 18(g.1) we have tremendous flexibility, unlimited flexibility, if we declare "severe and unusual stress" as exists in the existing legislation. What we don't have is the full modern, if you will, flexibility in the intermediate period, which is the situation we're in right now in terms of purchase and resale agreements. We can do it on securities lending, but there are different types. It gets very technical very quickly, and I only have seven minutes.

What we are asking for is one of the first steps that our international peers did following the start of this crisis. They were able to expand the list of securities they went against.

The last point, for absolute clarity, is that we have not pumped $10 billion into the market. It's very important to be clear that we are running term purchase and resale facilities. They mature, and when they mature we have to take a decision about whether to roll them, so on the $4 billion in $2 billion tranches, you see an announcement that says, okay, we're doing another $2 billion. It is rolling the maturing amount that was out there for 28 days, and that's because the situation still remains somewhat strained.

I'll give you time.

● (1610)

The Chair: Thank you very much. You may have another opportunity, because we have the governor here for a considerable amount of time.

Monsieur Laforest, the floor is yours.

[*Translation*]

Mr. Jean-Yves Laforest (Saint-Maurice—Champlain, BQ): Thank you, Mr. Chairman.

Good morning, gentlemen.

My question is one of understanding. The Bank of Canada makes short term predictions, adjustments and monetary policies in accordance with its reading of all of the sectors of the economy. I imagine that you also do this for the medium term and perhaps for the longer term as well.

To what extent do you scrutinize the orientation of the economy overall?

Mr. Mark Carney: We scrutinize it for the medium term and for the longer term. I might begin by mentioning a few points.

For 15 years now, Canada's average annual growth has been of approximately 3.3% in real terms. We are facing a demographic challenge. I believe that the Committee has studied this issue. During this period, Canadian growth has been of 3.3%. Two thirds of this growth were attributable to the increase in job opportunities. The last third was attributable to the rise in productivity. Because of the demographic challenge, we must do the reverse, in other words increase productivity by 2.2 to 3.3% per year. It is quite the challenge.

Mr. Jean-Yves Laforest: Perhaps my question was not very well put. When you make medium or long term predictions, you take into account the state of the economy. I imagine that you also consider the major trends. I am referring here to a very precise element, the environmental trend. More and more, citizens are worried about the future of the planet. We are seeing an increase in greenhouse gas emissions, and this is a concern for people. There is also a will to establish carbon exchanges.

When you make economic predictions and adjust your monetary policy, do you take into account these situations for the medium and long term?

Mr. Paul Jenkins: In a sense, yes. As the governor mentioned, the productivity growth rate and the potential growth rate for the Canadian economy are very important elements with regard to the implementation of the monetary policy. The medium and long term trends impact upon the potential growth rate. This may be because of investments in the environment or other types of investment. This has a direct impact on the implementation of the monetary policy. However, there are timeframes for the enforcement of the monetary policy. If we decide to change the interest rate, the impact upon the economy will be felt after 12 months or two years. That is the most important timeframe for the Bank of Canada. Long term trends impact upon the various factors over this period.

● (1615)

[*English*]

The Chair: Your time will be gone, so we'll now move on to Mr. Del Mastro.

You have five minutes.

Mr. Dean Del Mastro (Peterborough, CPC): Thank you, Mr. Chair.

Thank you, Governor Carney, for appearing here today.

When the finance minister was here I had the opportunity to ask him about his recent meetings with our international partners. I asked him about Canada's position of continuing to run budgetary surpluses and paying down debt. He pointed out, as we know, that we are the only member of the G7 that is currently doing that. I know the position of the Bank of Canada is also very strong; you're reporting total and core inflation at 1.5%.

Can you contrast that to what we're seeing in other economies, like the U.S., and emphasize why that demonstrates the strong position the Bank of Canada is in right now?

Mr. Mark Carney: I'll make a couple of comments on that. Thanks for the question.

First, you are correct, the headline inflation in Canada is 1.5% on total and slightly less on core inflation. In the report—I won't use up all your time going through the details—we have illustrated some adjustments that would suggest that the trend of inflation is closer to 2% right now, because there have been some one-off effects with the GST cut and some things that are happening in the price of automobiles. That is actually our target.

I would stress that—this is my second point—our target, as mandated, is 2% total consumer price inflation. We care as much about inflation being below the target as above the target. That's part of the reason we're reacting when we see some of the softness.

The third point I'd make, though, to answer your international comparison question, is that a number of our peers internationally are seeing much stronger impacts from food price inflation and from commodity inflation, and that is influencing, obviously, their conduct of monetary policy.

I'll leave it at that.

Mr. Dean Del Mastro: Okay.

You're projecting for the Canadian economy 1.4% growth this year, 2.4% growth in 2009, and 3.3% in 2010. How do these compare with projections that the feds might have for the U.S. economy?

Mr. Mark Carney: I can give you what we are projecting—this is probably a little fairer, actually—for the United States, which is 1% in 2008, 1.7% in 2009, and then back to 3.4% in 2010, and with a very different composition. The other point I would make is that whereas in Canada, as we discussed earlier, there's real strength in domestic demand and a drag from the external sector or from the trade sector, in the U.S. there is a material contribution from exports given the past depreciation of the U.S. dollar. There is a fair degree of softness in domestic demand in the United States that can be expected to continue.

Mr. Dean Del Mastro: Just to highlight what you said, there is a saying—I'm sure you're familiar with it, and I certainly heard it when I was at university studying finance and so forth—that when the U.S. gets a cold, Canada or the Canadian economy catches pneumonia. What we're seeing now is that the U.S. economy may well have caught a cold, and it seems that the Canadian economy has a sniffle.

We're going to continue to outperform the U.S. economy, based on your projections, over the next several years. It sounds like Canada is going to continue to be in a very strong position.

Mr. Mark Carney: The Canadian economy has a number of strengths. The U.S. economy is going through a number of challenges. Those challenges will have implications for the Canadian economy, as I indicated in my opening remarks. We're vigilant to those. We are focused, in the end, on achieving our mandated target of 2%. That's how we'll manage the falls.

Mr. Dean Del Mastro: Thank you.

I have nothing further, Mr. Chair.

The Chair: Thank you very much.

We'll now move to Mr. Turner. The floor is yours. You have five minutes.

Hon. Garth Turner (Halton, Lib.): Thank you.

Hi, Governor. I have a question for you that's sort of on the heels of Mr. Del Mastro's question about the economy in general. Is this a good time to buy a house with nothing down?

Mr. Mark Carney: I don't think it's wise for the governor to get into investment advice for Canadians. I would say a general point is that we have some concerns—we referenced this in the report—with the increased prevalence of very long amortization and very high loan-to-value mortgage products, and that development in the market. That's underlined in our report.

● (1620)

Hon. Garth Turner: Could you articulate that a bit more? Some people, maybe myself included, view the 40-year amortization as kind of a Canadian subprime equivalent to the extent that it allows people who wouldn't qualify under normal financing to actually qualify. Of course, as we've seen in the United States, that has had a pretty significant impact. It's not the only thing, but it's one factor.

Does it concern you at all that we may be going down that road?

Mr. Mark Carney: I would say that we are concerned about the development in these innovations and their increasingly widespread application. I wouldn't go as far as the way you've posed the question in terms of making any direct comparison to the situation in the United States.

Really, the CMHC and the mortgage insurers are best placed to speak to this, but our understanding is that the vast majority of people who are taking these longer amortization mortgages qualify under a traditional 25-year amortization mortgage. That said, they add to momentum in the housing market, and if everyone has a 40-year amortization mortgage, then we just have higher house prices and the same affordability.

Hon. Garth Turner: Right, but Governor, is that not happening now? We're seeing an absolute majority now, within the space of two years, since this committee had a look at 40-year amortizations when they first came in through budget 2006. Within that period of time, it has actually become the majority borrowing instrument.

Does this not accelerate asset inflation of the kind that we saw create the problem in the U.S.?

Mr. Mark Carney: We're seeing, as I'm sure you're aware, some moderation in house price increases in Canada. As we've said in our report, we expect further moderation, in part because of the softening. We see the conditions in the housing market as being not comparable to the situation in the United States—vastly different. We can choose our adjective, but they're not comparable in terms of the risk factors.

It is something that we are watching closely and will continue to watch closely, because it's an important segment of the economy.

Hon. Garth Turner: Could you clarify that, Governor, because the Canadian Real Estate Association last week said that resales across Canada are down 13%, down 22% in Toronto, down 35.9% in Calgary. Certainly, the listings are mushrooming. It certainly would appear that we have gone through an asset inflation where real estate prices are about 70% greater than they were eight years ago, somewhat similar to what happened in the run-up in the United States.

What exactly is different?

Mr. Mark Carney: There are a number of differences. One is on a variety of affordability measures. In fact, the IMF's affordability measure showed that Canadian housing is the cheapest, along with Austria, in a 20-odd country comparator of all the major economies. That's one example.

Secondly, the debt service ratio of Canadians is still very achievable, or very modest, at around 7.5% to 8% relative to historic averages.

Another difference is that the level of unoccupied housing is still low, with the odd market exception, but it is still low and below historic averages, and certainly below any other period when we've seen things come off.

The fourth thing that is different, because the original question mentioned the subprime situation in the United States, is that the structure of our housing finance is entirely different from the structure in the United States. The implications of any adjustment in house pricing, up or down, for our financial institutions, our financial system, and then reverberating more broadly back in the economy, is not possible in our system of the U.S. magnitude.

The Chair: Thank you very much.

Mr. Dykstra, five minutes.

Mr. Rick Dykstra (St. Catharines, CPC): Yes, through you to the governor, I was kind of intrigued by three things, actually. I'll try to get them all out here so my five minutes gets used as well as possible.

One of the things you mentioned at the outset was the continued growth of the Canadian economy. While there's a bit of a slowdown here in 2008, it's 2.4% in 2009 and 3.3% in 2010. I wonder if you would very briefly elaborate on what you think the foundation of that growth will be built on.

● (1625)

Mr. Paul Jenkins: That's a very good question. It comes back to a theme we were talking about earlier. The domestic demand that we're seeing in the Canadian economy is going to be the main driver, if you like, as we look out over this three-year period.

As to the growth rates that you were quoting, if you look at the contribution that we're anticipating from what we call domestic demands of consumption, housing investment, those are going to be the main sources of growth. In fact, what we call net exports, which is the balance between what we export and what we import, is going to be a drag on the Canadian economy. That largely reflects the weakness in the United States, a reduction in exports this year because of that weakness. So we have this negative development U. S., but we have this strength of domestic demand, the domestic demand component being the strongest.

Mr. Rick Dykstra: Thank you.

The other question I had relates, Mark, a little bit to the comment you made around the concern we have of inflation being higher than 2% but the justified, or just as valued, concern of it being lower than 2%. Could you expand on that a little bit? I think it's a pretty important point for us to understand, especially right now.

Mr. Mark Carney: Thank you for asking that. It is quite important.

We have a clear mandate. I think one of the strengths of our system is that Paul Jenkins, I myself, and the Governor in Council have a very clear mandate in terms of inflation. It is total consumer price inflation, it's 2% per annum, and we're measured against that mandate. I'm pleased to say—I had nothing to with this—my predecessors hit that mandate bang on over 15 years—2.0% average inflation over that period.

The advantage of it being symmetric is, first, its clarity; people can understand it. You can write a contract, whether it's a wage contract, a business contract, whether you're buying a financial asset or other, you can count on 2%. It's not as if we're aiming for 2% but we'd really like to get down to 1%. We'll be absolutely clear, we plan to get 2%.

The second thing is that in extreme situations—and many of us will remember the deflation scare of a few years ago—it's the absence of that symmetry that can create a self-fulfilling prophecy or self-fulfilling activity. It fortunately did not happen. It was a strong action by some foreign central banks to avoid that, but it runs a greater risk. However, if it's absolutely clear what you're shooting for, people take action over the whole course of their time, not when things drift farther and farther away from the target.

Mr. Rick Dykstra: Mr. Turner has his pet hobby horse of the housing industry; mine is the Canadian penny. I'd be interested in hearing your comments on whether you think we should keep it or not, based on the revenue it produces.

But before you get to the most important penny question, you made a half-point reduction in the Bank of Canada rate—a significant cut. For us and the folks watching, I wonder if you could give a very brief overview as to why you believe it was the right thing to do at this time.

Mr. Mark Carney: You don't really want me to answer that penny question. It's not our domain—it's that of the government and the minister—but our research indicates that we would not expect an inflationary or dis-inflationary effect from the elimination of the penny. So rounding up or rounding down will have no impact. It's not going to affect the 2% target.

On the 50 basis point adjustment we made last week, given the amount of time I would say a couple of things.There have been two major shocks to the global economy that have implications for Canada, and my colleague referenced them earlier. There has been the slowdown in the United States and turbulence in the financial markets. When we acted on March 4, we highlighted the downside risks that importantly included those two shocks.

With further information and developments, when we took our decision and published this associated report, we incorporated those shocks fully into our base case projection. So the projection you see and the numbers we quote are balanced.The risks are on the upside, the risks are on the downside, as opposed to a projection where there are a lot of downside risks—which is where we would have been in March.

So that's an important thing to understand. We've incorporated things. We've had time to work it through. We've calibrated accordingly. As we say, further stimulus will depend on the evolution of the global economy and domestic demand.

● (1630)

The Chair: Thank you very much.

There are lots of pets around the table. We'll see if Mr. Pacetti has one.

You have five minutes.

Mr. Massimo Pacetti (Saint-Léonard—Saint-Michel, Lib.): Thank you, Mr. Chairman.

Thank you for appearing, Mr. Governor.

I want to try to focus on the growth of the GDP and the fact that you revised your number down to 1.4%. What was your previous number?

Mr. Mark Carney: It was 1.8%.

Mr. Massimo Pacetti: Was that forecast in January?

Mr. Mark Carney: Yes.

Mr. Massimo Pacetti: So in the span of four months you revised your number from 1.8% to 1.4%. In its budget documents, the present Conservative government has forecast 1.7%. Now it's down to 1.4% in a matter of two months. What are the chances that GDP growth will go from 1.4% to 1%?

Mr. Mark Carney: As I said in response to the previous question, this is our base case projection. The risks are balanced around it. I wouldn't want to ascribe a probability to that. This is our mean projection.

Mr. Massimo Pacetti: So this could change in the next three months—let's say in your next update in July or August.

Mr. Mark Carney: Absolutely. I expect that the projection will change in the next three months. We'll get additional information, and things will happen. We're talking about balanced risk for inflation ultimately. I understand why you're focusing on growth, but balanced risk means—

Mr. Massimo Pacetti: I'll tell you where I'm going with this. I think you'll understand this, being a former deputy minister in the finance department.

The budget document says that the budget surplus will be $2.3 billion this year. In that same budget document, a 1% decrease in GDP will result in a $3.3 billion reduction in the surplus. So if the GDP is even reduced by 0.7%, based on the government documents, the government will be in a deficit position. So we're very close to that.

Do we need to wait the whole year, or should we be worried about a certain recession crisis? Is something looming over the horizon that you're not telling us about?

Mr. Mark Carney: I'm sure my former colleagues from the Department of Finance would be happy to answer this question more fully. But I'll make the important point that for government revenues, nominal GDP is very important. Nominal GDP is not CPI plus real growth; it's the GDP deflator plus real growth.

Paul will find the page, but in this document we have the evolution of the GDP deflator or the chain-link price, which is running higher because of firm commodity prices and stronger terms of trade than might have been predicted. So when you look at those sensitivities, look at the real growth and the deflator.

Mr. Massimo Pacetti: I understand it's not black and white. The 1% will affect the budget by only $1.8 billion. I think there's enough room in the budget document to address both points. I'm particularly talking about the growth in real GDP, which worries me. In a two months, we've gone from 1.7% down to 1.4%. I think that's a worry. Because our economy is linked to the U.S. economy, we're seeing stagflation. We're seeing certain items going up and jobs being lost. The reserve has a policy of reducing interest rates while trying to maintain inflation at a certain level. This would probably require them to raise interest rates, so there seems to be a conflict.

There are a lot of issues to be addressed. It's not simply black and white. But at what point are we going to really be affected by the U. S. economy over the next couple of months? I'm worried about the next three to four months.

● (1635)

Mr. Mark Carney: I underline that we think we are being affected by the U.S. economy. That's why we have taken the decisions we have. We have incorporated the most likely effects into our projection, which you're referencing. That projection is a balanced projection, which means that there are risks on the upside —growth could be stronger—as well as on the downside.

The Chair: Mr. Wallace.

Mr. Mike Wallace (Burlington, CPC): Thank you, Mr. Chair

Thank you for joining us today. It's always a pleasure to see you, and we appreciate your coming back. My understanding is that we'll see you—what?—every six months? Is that how it works? Is it a biannual report that you'll be giving to us?

Mr. Mark Carney: Yes, this is a natural time to come. I'll also come as otherwise requested.

Mr. Mike Wallace: Otherwise requested, thank you.

I have a constituent whose name is Mr. Frank Gue. He won't mind my saying his name, I don't think. Often he sends me discussions, his views on financial matters in this country. Just recently he sent me a letter on the issue of liquidity and the bank's position in terms of its assets compared with what it's lending out. In his view, the banks should be required to hold more capital compared with the percentage that they're lending out. I'm not sure if he's accurate or not. He says that they now run 7% to 10% of current bank assets in the ratio to what they have out in the marketplace. He thinks it should be up around 20%.

I'm interested to see if you have any comment on that.

Mr. Mark Carney: Thank you for the question.

Bank balance sheets, central bank balance sheets, are becoming matters of interest. It's an unusual time and we're having to deploy them in different ways. When you think about what we lend out as the Bank of Canada, the liability side of our balance sheet, the vast majority of our liabilities are bank notes that are around the country. The vast majority of our assets are Government of Canada bonds.

We have been providing some additional liquidity to the market. There's a real add-up problem here—we do some things overnight and then we do it again the next day and you don't add the two together. It's a portion of things being rolled over. Then there's the headline-grabbing $4 billion worth of term purchase and resale. In those cases, first, there's an agreement with a creditworthy institution. More important, though, we're taking assets in and applying what's called a haircut to those assets that reflect the volatility or price of those assets and the term over which we are “lending”—it's a purchase and resale agreement. So we're protected. If the counterparty were to go away, we'd have the asset. We'd realize the asset. So there's capital, if you will, in that haircut process.

That's how I would respond to your constituent.

Mr. Mike Wallace: Did you want to add something?

Mr. Mark Carney: Did you mean the Bank of Canada or chartered banks should be holding 20%?

Mr. Mike Wallace: He was talking about chartered banks.

Mr. Mark Carney: That's a different question. I apologize.

Mr. Mike Wallace: Yes.

I don't know whether you want to comment on their asset base.

Mr. Mark Carney: I think the point we would make on Canadian chartered banks is that they are well capitalized. They have higher capital ratios. They're at 9% plus, or above, in terms of capital to total assets on a risk-weighted basis. They're very well capitalized versus internationally.

The issue during this slowing period in the Canadian economy is the extent to which they are going to extend their balance sheets. So we would expect some reduction in those capital ratios. As the asset side of their balance sheets goes up, they continue to lend out into the market. There is an important issue we discussed earlier on price of credit; this is an issue of availability of credit.

Just to hammer the point, to then go the banks and say, “No, you should hold 20% capital against your assets,” what that would do is restrict credit for Canadians, Canadian business.

● (1640)

Mr. Mike Wallace: I'll make sure he gets that answer.

I have only one other question. I have your monetary policy report that you sent out this week. Then, yesterday, we had the Government of Newfoundland talk about the position they're in, in terms of—

The Chair: Very quickly.

Mr. Mike Wallace: I'm sorry.

My point is that different parts of the country are performing at different levels in the economy—let's put it that way. In your thinking or your planning on a national monetary policy, can you take that into account or not? I'm interested in how you'd deal with those issues.

Mr. Mark Carney: It's absolutely an important question. We certainly look at different regions, different sectors, how they're performing, but we have to manage monetary policy for Canada as a whole. The national aggregates, how the economy is performing, and inflation are a national phenomenon. So absolutely, in the end, for decisions, we look at monetary policy for Canada.

The Chair: Thank you very much.

Monsieur Mulcair, the floor is your.

[*Translation*]

Mr. Thomas Mulcair: Mr. Chairman, I would like to come back to a question we talked about a little earlier: non-bank asset-backed commercial paper.

Governor, this drama took on a human face when our Committee met with a couple, the Miles family. What was involved were the retirement savings of this couple, and they were not even aware of the risks they were taking. It is not the bank that sold the couple this product directly, but a wholesaler.

During your last appearance before the Committee, you stated that there will always be a corporate or commercial law lawyer to build a new investment vehicle. But as long as a mechanism based upon our intrinsic values, and not on the value of goods, is not put in place, there will always be someone to fall through the cracks.

Apart from appealing to our values, what might we do, concretely, to help the Miles family or others, so that in the future this type of vehicle is not constructed and sold to individuals?

The banks should keep their eyes wide open, and they have a lot of lawyers at their disposal. I am a lawyer and I do not want to take work away from the legal profession. However, is there anything concrete to be done in a case such of this for individual investors?

Mr. Mark Carney: That is a very important question that touches upon the responsibilities that now fall to the provincial securities commissions. Certain securities are exempt. The transparency rules that apply to these securities are not as strict. The criteria that must be fulfilled in order to purchase an exempted security are very low. We have just talked about transparency with Mr. McCallum. In our view, it is important to have in place principles of transparency, but, there again, this is a matter for the securities commissions.

Mr. Thomas Mulcair: Even if, when we talk about sustainable development, we spontaneously think of the environment, part of your discourse and of your responsibility also involves sustainable development that can be maintained over the long term. You talked earlier about changes in the labour market. You stated that we were losing a tremendous number of jobs in the manufacturing sector and that we were creating other jobs, in the services sector in particular. It is true, and much has been said about this during our question period here today. If we look at job statistics without doing any processing work whatsoever, that is the case.

Along the Laurentian Autoroute, at Boisbriand, the GM plant provided $28 or $32 an hour jobs and, most importantly, pensions. This image is striking because today there is a shopping mall where the plant used to be. Of course, a job in clothing retail at $10 or $12 an hour is a job nevertheless. One can simply consider the number of jobs, but what about sustainable economic development? In the first case, the salary is sufficient to raise a family on, and, long term, there is no need to provide for the retirement of that worker. However, those people who earn minimum wage have difficulty making ends meet and, in the long term, they will be much more dependent upon the State than they are today. This situation affects a lot of people.

Is this part of your reflection and analysis?

● (1645)

Mr. Mark Carney: It is an aspect of our reflection. You have outlined a very difficult specific case but, according to statistics, the new jobs that are being created will, on average, be better paid than those that have been lost in Canada. Of course, there will always be difficult cases such as the one you have just mentioned.

Mr. Thomas Mulcair: Mr. Chairman, might I ask Mr. Carney to provide us with statistics showing that the jobs in the services sector that are replacing those in the manufacturing sector are better paid? I am most interested in the numbers.

Mr. Mark Carney: [Editor's Note: Inaudible] the services sector, but in general, yes.

[*English*]

The Chair: That's no problem. If you could give that to the clerk, we'll distribute it to all the committee.

Mr. Mark Carney: Absolutely.

The Chair: That is the way we would do it. Thank you very much.

Mr. McCallum, the floor is yours.

Hon. John McCallum: How much time do I have?

The Chair: You have five minutes.

Hon. John McCallum: Thank you.

I'd like to pursue the line of questioning from my colleague Mr. Pacetti. I may have missed it, but I didn't see any nominal GDP forecast or GDP deflator forecast. Do you have that?

Mr. Mark Carney: No, you did not miss it. We do not, Mr. McCallum.

Hon. John McCallum: As I'm sure you will recognize, if we knew the nominal GDP forecast, as you said yourself, nominal GDP is the main thing driving tax revenues and therefore the likelihood of going into deficit, but you won't help us on the subject of the GDP deflator.

Perhaps I could ask you an indirect question. As I understand it, the GDP is the price of goods we produce versus the consumer price inflation, the price of goods we consume, so if energy prices and prices of things that we export go up, the GDP deflator, other things being equal, will be relatively high. What I do notice, though, is that you are forecasting declines in energy prices. That would certainly contribute to a lower GDP deflator, other things being equal, would it not? Would there not therefore be a greater likelihood of a deficit?

Mr. Mark Carney: There are two points. One is that we're not forecasting, but rather assuming, the futures curve that was there at the time for energy prices, which is about a 10% decline, as you note, over the course of the projection period. As well, we do make a forecast for non-energy commodities, which over the projection period is about a 15% gradual decline from the levels going in.

All other things being equal, those factors would lower the rate of growth of the GDP deflator.

Hon. John McCallum: Okay, it's not a forecast but your projection, but given the significant position of energy and the huge increases in energy prices, would that not have a fairly substantial slowing impact on GDP inflation relative to 2007, when we saw the huge spike up in energy costs?

Mr. Paul Jenkins: Let's go back to the basic question. The original question was around the sensitivity analysis that was presented in the budget documents. That sensitivity analysis is in terms of nominal GDP growth, and the question that was asked was in terms of our real growth and whether it could be 1% lower.

As the governor indicated, we view our projection of real GDP growth rate as being balanced, with both downside and upside risks. So the simple point is that you have to look at nominal GDP growth from the point of view of the implication for revenues.

● (1650)

Hon. John McCallum: Yes, but that's not what I'm asking you. I understand that. I'm trying to infer from what you are saying the likelihood of the GDP price deflator going up quickly or slowly. My point is that if we shift from a 2007 huge jump in energy prices to being very flat or falling, then that should lead to a decline in GDP price inflation.

Mr. Mark Carney: Yes, but first of all, we're giving it over that two-year horizon, so we're not giving a point estimate for the fiscal year that you're referring to. Secondly, energy prices and commodity prices, as everyone's aware, have rallied very strongly in the first quarter of this year, so we're talking about off those levels, where we set the projection, and this document.

Hon. John McCallum: My final question is still on commodity prices but specifically on food prices. There's been a lot of talk about food prices globally and in Canada. Traditionally food and energy prices have had a major bearing on Canadian inflation over the past years, and there's also of course a big concern in terms of poverty and even starvation around the world.

Do you have any comment on how you see food prices evolving?

Mr. Mark Carney: I'd make a couple of comments.

Canada is in a relatively unique position at the moment with this issue in that there are certainly individual items that have moved but food price inflation as a whole has been very muted in Canada. That's a product of a couple of things, we think. First, there's a surplus of meat in North America, so meat prices have gone down. Secondly, there has been some exchange rate pass-through from the past appreciation of the Canadian dollar affecting particularly meat prices, fish prices, fruit and vegetable prices in Canada. Thirdly, we have seen increased competitive pressure in the food retailing sector. Some of the big box retailers have moved in. Margins have gone down, and that process has gone through.

So in Canada to this point we have not seen those issues, but we certainly are attentive to what's going on globally, and attentive as well to the implications for inflation and expectations.

The Chair: Thank you very much.

I know, Mr. McCallum, you wanted to leave some time for Mr. Pacetti, but you just gobbled his time, and we'll now move to Mr. Crête.

Hon. John McCallum: I was just following up on this.

The Chair: Okay.

[*Translation*]

Mr. Paul Crête: Thank you, Mr. Chairman.

Do you have statistics for the inflation rate in Western Canada, Quebec, Ontario and the Maritimes? Could you provide us with data that would give us an order of magnitude?

Mr. Paul Jenkins: Yes, there is a difference. If I remember correctly, the rate of increase for the CPI in Western Canada was of between 3 and 3.5%, because of the robust housing price increase, which is included in the CPI. In Ontario and Quebec, the CPI rate of increase — I could get my hands on the exact numbers and prepare a graph — would be closer to 1.5%.

Mr. Paul Crête: If I understand correctly, if we were today to establish an interest rate solely for the Quebec and Ontario economies, it would be different from that for the West.

Would you agree with me?

Mr. Mark Carney: Yes, if it were possible.

Mr. Paul Crête: It is a little bit like the situation between the United States and Canada. You set a rate for the whole of Canada, but it does justice to neither Western Canada, nor Quebec, nor Ontario, nor even the Maritimes, because it is an average for the country.

What tools should we have at our disposal in order to temper this effect? Indeed, for Quebec and Ontario, because of the economic slowdown, we would like to see interest rates as low as possible so as to boost economic recovery, whereas in the West, inflation leads us to another conclusion.

What tools should we have at our disposal in order to change this relationship?

● (1655)

Mr. Mark Carney: We are managing Canada's monetary policy. I understand your argument, but it further underscores the importance of having a Canadian economy that is sufficiently flexible for there to be movements of goods, services and people within our country.

Mr. Paul Crête: Pushed to the extreme, that would give us Dutch disease and what happened in the Netherlands. The fact that there is oil in the West, and therefore very strong development, has led to there being a two-tier economy. This was not the idea, but it is what has happened.

Would you agree that in Canada we have the equivalent of a two-tier economy?

Mr. Paul Jenkins: First of all, do not forget that Ontario and Quebec represent, roughly speaking, 60% of the Canadian economy. With regard to our monetary policy, with a lower inflation rate in Ontario and Quebec, the weighting of the activity in these two provinces is very important. It is the average that exists within the economy that matters. If we based the interest rate solely on the situation that exists out West, it would be higher.

Mr. Paul Crête: The rate is lower in the United States. In Canada, it seems that we want to take it into account. But do we do so voluntarily, solely with a view to aligning ourselves on the American rate, or is it simply a consequence of our inflation control aims in Canada?

Mr. Paul Jenkins: It is a consequence of the inflation rate here, in Canada.

Mr. Paul Crête: The rate does not take into account...

Mr. Mark Carney: We take into account the overall situation in the United States, but the key interest rate in Canada is sometimes 200 base points higher, and at other times, 200 base points lower than that of the United States.

[*English*]

The Chair: Your time has gone. Thank you very much.

We'll now move to Mr. Del Mastro. You have five minutes.

Mr. Dean Del Mastro: Thank you, Mr. Chair.

Governor Carney, I just want to highlight a couple of things.

You mentioned that domestic demand is quite robust in the country. Back in 2006 when we brought forward our first budget, which included a reduction in the GST of 1%, there were a number of individuals who came forward and called that a stimulus at a time when the economy in Canada was in fact overstimulated.

We've now moved forward. We've brought in additional tax reductions. In fact, we've reduced taxes in every way the government collects taxes. But we see that the stimulus is in fact creating a very robust domestic economy.

Can you comment on that and on how it's actually also reducing inflation—perhaps below its real or longer-term level—but it has reduced consumer prices, and so forth?

Mr. Mark Carney: Sure. To pick up on the second point, just for clarity, the reduction in the GST has taken about 0.5% off the inflation rate. What we've done in this document, because that effect will fall out a year after the reduction, obviously, is adjust the figures for that.

I'd like to underline again, talking about 2% trend inflation at the moment in Canada, that we've also made a judgment in terms of what's happening with automobile prices, which we think are down quite sharply because of a one-time, but important, level adjustment resulting probably from the dollar achieving around parity. So there are those two aspects.

In terms of government fiscal policy, our job at the bank is to take fiscal policy as given and then manage monetary policy accordingly. Obviously we were aware of the steps the government took in the fall and in the most recent budget, and their potential impact on domestic demand—and inflation, for that matter. We've adjusted policy and put that into the mix, if you will, with all of the other factors and have calibrated policy appropriately, we believe.

● (1700)

Mr. Dean Del Mastro: That's great.

I'm going to paraphrase a little bit of what you said for all the folks in Peterborough. Essentially, the reductions in taxes that we've seen are creating a more robust domestic demand and, at the same time, are keeping prices down for Canadians. I think that's a fairly accurate paraphrase of what you said.

Now, there seems to me to be a tremendous opportunity. I think Canadians, with our economy, are very guilty of being very north-south focused. The parliamentary secretary to finance mentioned interprovincial trade barriers, and I think there's a tremendous opportunity. We know, for example, the Alberta energy industry currently supports about half a million jobs in Canada, about 85,000 of which are in Ontario. There's an opportunity to grow that if we can bring down interprovincial trade barriers and begin to look a little more east-west, and if we begin to operate more nationally and focus on building that domestic trade.

I don't know if the bank would have any numbers on this at all, but what is the drag on the Canadian economy currently placed by various interprovincial trade barriers, non-recognition of trade, and the various patchwork systems of taxation? How much would it benefit to move to a harmonized sales tax, a standardized recognition of trade, and to bring down these trade barriers? What's the potential for Canada?

Mr. Mark Carney: It's a very important question. I'd have to say, though, up front, in terms of estimating the potential costs of that and having the Bank of Canada imprimatur on it, we do not have that level of estimate.

On harmonizing the taxes, there are potentially some advantages in terms of avoiding double taxation around investment and enhancing investment at a time when we do need capital equipment to address some of the issues that were raised in the manufacturing sector, in response to past appreciation of the Canadian dollar.

The Chair: Thank you very much.

Mr. McKay now, five minutes.

Hon. John McKay: Thank you, Chair.

I expect that exchange between you and Mr. McCallum will be on the evening news. That stuff about deflators was just riveting stuff.

Some hon. members: Oh, oh!

A witness: Don't we copyright these things?

Hon. John McKay: Yes. I expect the novel will be coming out any time.

Going back to the issue that I was on, about this expansion of your authorities, some might call it a power grab, but I wouldn't want to characterize it that way. On the first point, with respect to the inconsistencies and the language—unless there's a good reason why there are distinctions to be made between the Canadian financial system and the Canadian market, etc.—I take your point that the market is within the financial system, but it seems to me the first rule of good drafting is consistency in language. So I'd like to hear why the language is what the language is, from whoever looks at these things.

Actually, I'm more concerned about the overall issue here, which is essentially that you get to decide whether there is or isn't a financial crisis; you get to decide what's going to be on the list and what's going to be off the list; then you publish a list in seven days and then you can go off and buy anything, and there's essentially no oversight. There's no parliamentary oversight to that. Certainly the government can't tell the governor what to do with respect to what the instruments are. You said in your initial response to me that would include, potentially, the purchase of asset-backed commercial paper. Almost the entire financial community didn't understand what it was they were buying there.

What assurances can you give Canadians that in fact this expansion of powers doesn't, in effect, suck the Bank of Canada into the very crisis that you're trying to avoid? It seems to me that the Bank of Canada is where you want the buck to stop, for want of a better phrase.

● (1705)

Mr. Mark Carney: Those are important questions.

I go back to a couple of things. First, clarity about pre-existing and existing legislation—proposed subparagraph 18(g)(ii), a situation of “severe and unusual stress”, which is an existing power of the Bank of Canada, passed in 1998 or 1999. That is a power that exists, and it is a power that has never been used, but it is a power that could be used in very unusual situations. One could think of situations in Japan in 1990, as an example.

It is not a power we've used, but it is a power we have.

Hon. John McKay: Why do you need something, then?

Mr. Mark Carney: Because the issue we're trying to address is not for situations of severe and unusual stress; i.e., zero interest rate policy, deflation risk, and a financial system that's totally frozen. We're trying to address issues in the middle area, where there are liquidity issues in the financial system. We want to be effective in getting liquidity to the parts of the financial system that need it.

Hon. John McKay: Then why do you phrase the section in terms of an unusual or severe financial stress if in fact for severe purposes you apparently have all the authorities you need? Obviously for normal circumstances you have all the authorities you need. You seem to have difficulty in that in-between section.

Mr. Mark Carney: We're not looking for powers. These are not facilities. We're doing term.... I'll bring it down to the concrete right now. We are undertaking term purchase and resale operations at this moment. We announced it yesterday. We are limited in the type of securities against which we can do those operations. When they're purchased—cash for assets—we take a haircut on those assets and protect the Bank of Canada. They are big haircuts, and it's relatively short term.

But we are not able to go across the full range of fixed-income securities, bond securities. That is very unusual for a central bank. It's an accident of history, of drafting, if you will, and we're trying to get the practical aspect fixed.

Now, what we could do today is take treasury bills, of which we have a large number on our balance sheet, and give those to the financial institution. We could take anything from that financial institution today. So we could effectively do the same thing. It is slightly less useful, but it is economically the same. It's slightly less useful for the financial system to have more treasury bills in a number of these situations than to have cash, but economically it's exactly the same in terms of the Bank of Canada.

The Chair: Your time is gone.

Hon. John McKay: Just let me finish.

The Chair: I'm sorry, I did let you finish.

Mr. Wallace, you have five minutes now.

Mr. Mike Wallace: Thank you for the time.

Maybe you can get back on the list, John, and get your question answered.

I have a couple of things. When I think of the Bank of Canada, and when most people on my street think about it, they think about the inflation rate and what you're doing to keep interest rates at such a level—moving them up and down—to control inflation. It's as simple as that. That's how they view it.

We've been talking about immigration at this committee, as part of the budget bill, and the issues in terms of labour shortages that may be coming to Canada in the future. Could you give me your view on the labour situation in Canada, short term or long term, and what that could do in terms of the cost of doing business, which then turns into the cost of the product, which then drives numbers up, which would reflect in the rate you would charge banks to loan money?

We're naturally concerned about the lack of replacement labour we're going to have and that we have to use the immigration system to find that replacement labour. I'm not sure if that will drive the price of labour up in the short term and long term. How big is that in the long view, and does that play a role in your thinking at the bank?

● (1710)

Mr. Mark Carney: It's a good question. I've said I'm not commenting on the specific legislation you referred to, but I'll just take it first from a medium-term perspective and reference something I tried to say earlier, which is that the contribution of labour supply—people working, but also hours worked—has been the dominant contributor to real GDP growth over the course of this decade.

We are in a situation, as I think everyone knows, in which the participation rate in our economy is at an historic high, unemployment is very near a 33-year low, and we also have demographic factors that are starting to impact. And as I said earlier, in order to maintain what has been the average growth rate—a little north of 3%—real growth rate over the course of the 15-year expansion we're in, productivity growth is going to have to accelerate markedly, because that labour supply is going to go from contributing about 1.6% a year, which has been the average, to about 1% by 2010. Our estimate, I believe, is 0.8% by 2015. So for 0.8% to contribute to 3%, you see where productivity has to shoot up.

Whether we can materially alter that profile is one of the questions. It will be difficult, but the factors that would change that profile would include encouraging and incentivizing older Canadians to work longer, continuing to enhance flexibility within the economy so people can move to jobs, and recognizing their training so that people remain able to move to jobs. Immigration has a potential role to play there as well. There are a variety of factors that have an impact on what is an important medium-term shift in labour supply in this economy.

Mr. Mike Wallace: My next question is unrelated. I know you haven't had the job for very long, but you have for a little while. To be frank with you, I'm not familiar with how the central bank systems work in other countries, particularly the other countries of the G7, to which we belong.

I heard some comments you made about how, because of the way the legislation is written, there is less flexibility in some of your opportunities, from your perspective. Are there other jurisdictions in which the central bank act, or whatever they call it, or their system is doing things we should be doing here? Do you ever get an opportunity to make recommendations to us on legislative changes you would like to see in the banking system for the central bank?

Mr. Mark Carney: I would say—and I will go back to this issue—that this is the issue: our ability to conduct purchase and resale agreements. I know it sounds very dry and arcane, but we have less flexibility to provide liquidity in the system, at times of some stress but not extreme stress, than the ECB does or the Federal Reserve does in the provision of these types of operations.

I want to underscore a couple of things about these operations. First, as we've discussed—but I really think it needs to be emphasized—we take haircuts, so we give out less than the value, and that's to protect our balance sheet. Second, the way we conduct these is through auctions, so there is price discovery. It's competitive. People have to bid. Why is that valuable? First, we get the best price, obviously; but second, we learn a lot from these auctions in terms of what the conditions are.

As I think everybody around this table and in the financial markets is aware, some unusual things have been happening since August in the money markets and the term money markets. It's one thing to provide liquidity, but we also have to start isolating these problems and making sure they can be addressed better.

So if we are restricted, as we are today in terms of the range of debt instruments against which we can conduct these operations, we're restricted in terms of the amount of information we can glean and how effective we can be in addressing these problems.

To go back to where we started, with Mr. Mulcair on the cost to banks, these problems are raising the cost of funds for banks, and they're ultimately going to raise the cost of borrowing for Canadians.

● (1715)

The Chair: Okay. Time has gone.

I'm just going to remind the committee that we have four motions at the end of this committee.

Mr. Pacetti has a couple of quick questions, so Mr. Pacetti, the floor is yours.

Mr. Massimo Pacetti: I just want to quickly put this on the record, because there was a lot of talk about nominal and real GDP. The budget document says the impact of a one-year, one-percentage-point decrease in real GDP on federal revenues and expenses on the budgetary balance is $3.3 billion, and the present government is forecasting at $2.3 billion, so a 1% decrease in real GDP, according to the government document, would put the government into a deficit position. I just want to be on the record with that.

However, that is not my question. My question, just quickly, Mr. Carney, is this. The tendency or the trend for the Bank of Canada has been to lower interest rates by one-quarter point. The last couple of changes or decreases have been at a half, and one was at three-quarters, if I'm not mistaken.

Mr. Mark Carney: It was a half point and a half point.

Mr. Massimo Pacetti: It was a half point and a half point. Is that going to affect the market at all in terms of outlook? Are they going to be expecting all future increases or decreases at half percentage points? What is your outlook on that?

Mr. Mark Carney: It's a good question. The market should have no reason to make that inference that the size of change of interest rates by the bank would necessarily move from 25 to 50 basis points. We made adjustments there. As I said earlier, there were two major shocks to the global economy, which have implications for the Canadian economy. We have adjusted policy in the face of those shocks, front-loaded to extend that adjustment.

Mr. Massimo Pacetti: I'm worried only because we are tied to the U.S. and the U.S. has been doing it in big chunks as well, and I feel we're going to be forced to do whatever the Americans are doing. I just want to make sure that's not what is happening. If you can also —

Mr. Mark Carney: I'd like to respond to that.

Mr. Massimo Pacetti: Yes, I want you to respond also to my previous question, which we didn't have a chance to get to, but in the States, because of the lower rates, will that actually increase inflation, and will that further affect the recession they're in, or supposed recession? How is that going to affect them and, in turn, us?

Mr. Mark Carney: I'm not going to presume to give advice to the Federal Reserve or any other central bank. They certainly are focused on inflation and in fact have enhanced their accountability on that over the past year in terms of specific targets for individual members.

I want to underline a point, though. Over the course of time, Canadian rates have been 200 basis points higher, they have been 200 basis points lower than the U.S. rates, and they have been the same. During this cycle the U.S. has moved from 5.25% to today, to 2%, and the Bank of Canada has moved from 4.5% to today, to 3%. It matters what's happening in the U.S. economy. It matters what's happening in the global economy. We set interest rates in Canada for Canadian conditions and Canadian inflation.

Mr. Massimo Pacetti: I have just a quick question.

The Chair: Quickly.

Mr. Massimo Pacetti: On one of the questions you were replying to for Mr. McCallum when you were talking about the asset-backed instruments, I think you said some of the instruments were not properly labelled when they finally got to the retailer. I just want you to clarify that. I don't know if I fully understood what you were saying, but basically because the instruments were packaged and set up differently, retailers had a harder time either understanding or even taking action against whoever they were to take action against.

The Chair: Give a very quick answer. Go ahead.

Mr. Mark Carney: A very quick answer is that a vast majority of these non-bank asset-backed commercial paper programs had a very high degree of synthetic assets, which had a very large degree of embedded leverage that was not clear to investors and that created an effective subordination of those investors to the providers of that leverage. That's not clear, but that's the reality.

That's quick.

The Chair: Thank you very much. You have handled yourself extremely well. Thank you for your first visit to our committee as the Governor of the Bank of Canada. You give us a great amount of confidence in the job you are doing, and if you can keep inflation at 2%, as your predecessor has, that's a marvellous thing to achieve.

I want to thank you, on behalf of the committee, for coming to spend this amount of time with us today.

Mr. Mike Wallace: Mr. Chair, as a point of order...it's not a point of order, but the governor mentioned that there are some legislative things they'd like to see happen. Is there a way that we can request them to provide this committee with the wording or the changes they would like to see, which could be debated sometime? He comes to tell us about it, and then we don't talk to him again for another year, and then he comes back and says the same thing. There might be an opportunity for us to look at what those issues are—

● (1720)

Mr. Mark Carney: As a point of clarification, certainly I welcome the offer, but the proposed changes in Bill C-50 are the alpha and omega of our—

A voice: We'll do that for you.

Mr. Mike Wallace: I didn't know that. Thank you very much.

The Chair: Thank you very much, and thank you for coming in.

Now we will suspend for just one minute, and then we'll move on to our motions.

Thank you.

● (1720)

(Pause)

● (1720)

The Chair: All right, we're back in session.

We have before us four quick motions. We want to start with the budget.

We had entertained a motion to accept the budget for the witnesses coming forward on Bill C-50.

Mr. Mike Wallace: So moved.

The Chair: Mr. Wallace moves the motion. Is there any discussion? I see none.

(Motion agreed to [See *Minutes of Proceedings*])

The Chair: We have another motion.

We have two representatives from the British Parliament—one from the House of Lords, and one a member of Parliament—who would like to talk to members of the committee. They're requesting a small group to sit down and talk to them, so we invited a member from each party, whoever can make it. We just have to move a motion to get that organized. It would be up in the parliamentary restaurant.

Mr. Paul Crête: I move it.

The Chair: Mr. Crête moves.

(Motion agreed to [See *Minutes of Proceedings*])

The Chair: We'll now move on. I'm just going to make one notification. We're planning to go clause-by-clause on Bill C-305 on Monday. It shouldn't take very long. We'll take a quick look at it, and we have until Wednesday to report it back to the House. I believe it's Mr. Watson's private member's bill, just to let the committee know.

Mr. Massimo Pacetti: Are we having witnesses? No? Okay.

The Chair: We're just going to go clause-by-clause. I believe the committee has already examined it. Fair enough?

Mr. Massimo Pacetti: Yes, but for the record, Mr. Chairman, I think you should follow my advice. When we address these bills that we've looked at in the past, I think we could have disposed of it when there was a time, but—

The Chair: Mr. Pacetti, we don't have time for you to blow your own horn.

Some hon. members: Oh, oh!

The Chair: We will now move on to Mr. Turner. Did you have a motion you wanted to bring forward?

Hon. Garth Turner: Thank you, Chairman.

The motion is as was presented to members of this committee a couple of weeks ago. I'd like to have a look at what has happened in the American real estate market and pose the question of whether we stand in any danger of having that happen here in Canada, particularly because it was this committee that had hearings two years ago into changes that were proposed in budget 2006, which actually passed, which changed the mortgage market in Canada. It allowed the creation of 40-year mortgages, which many people believe have had a pretty substantial impact on the real estate market.

I'd like us to be able to have a look now, two years later, at the impact of that in the marketplace—positive or negative—and also have a look at what happened in the U.S. housing market and see if there's any concern that this may happen here. The Governor of the Bank of Canada expressed concern today. He said they're watching the changes to the amortization, and I think that's a very astute comment of his. I'd like to make sure that we as a committee are having a look here in the interest of our voters, citizens, and homeowners, that we're making sure we are protecting them as well as we possibly can.

That is the intent of my motion.

The Chair: Thank you. I think we all have it.

Is there any discussion on this?

Mr. Mike Wallace: I have an amendment.

● (1725)

The Chair: Okay, we'll entertain your amendment.

Mr. Mike Wallace: In the first sentence, after the words “the finance committee”, it says, “investigate the potential of a U.S.-style real estate decline taking place in Canada, the resultant impact on homeowners and those dependent on the...”. So I'm deleting from “investigate” to “on the” and substituting “study the state of the Canadian” and then, “housing market”. So the first sentence would read: “That the finance committee study the state of the Canadian housing market...” and the rest of it would stay the same.

My reason for the amendment, for me to be able to support the motion, is twofold. One, my interpretation of what the Governor of the Bank of Canada said today is that there is a substantial difference between the U.S. housing market system and the Canadian market system. I think the way it's worded is a little alarmist, and I don't think it's done on purpose. Even last night there was a show on one of the major networks about the U.S. market and housing in Arizona and what's happening there. People are losing their homes and walking away.

I don't think they're the same issues, based on the system we have here as opposed to what they have there. I don't mind Mr. Turner's approach of studying the Canadian housing market system. He did reference that there are some changes, and those changes are in the second part, which I'm not touching. To improve the wording of the motion, I think “studying the state of the Canadian housing market” without the “U.S.-style real estate decline”.... I think those are assumptions that are being made that don't necessarily reflect what may or may not be happening, and that's why I'm moving that amendment.

The Chair: Let's get this clear for the committee: you're asking for the first line to be amended to say “the finance committee study the state of the housing market”.

Mr. Mike Wallace: It would say “the Canadian housing market”.

The Chair: It would be “the Canadian housing market”, and the second line is the same.

Mr. Mike Wallace: The second line is the same.

The Chair: Are we clear on that?

Hon. Garth Turner: Mr. Chairman, I have no problem with that. I think that maintains the intent of it.

The Chair: Fair enough.

(Amendment agreed to)

The Chair: Go ahead, Mr. Del Mastro.

Mr. Dean Del Mastro: Thank you, Mr. Chair.

Mr. Chair, I have grave concerns about this motion. We just heard from the Governor of the Bank of Canada that the fundamentals of the Canadian housing market are dramatically different from those of the United States. We also heard that the growth in the Canadian economy is going to be based on a number of sectors, certainly the service sector. Another one he mentioned was construction.

One of the things that greatly impact the Canadian economy is confidence, and I think this motion has real potential for damaging consumer confidence. It has the potential of damaging Canadians who own homes, people who may well be leveraged fairly highly, as Mr. Turner has indicated. I think that we run the real risk of creating headlines that run completely amok with the reality of housing in Canada, and I think it's dangerous.

I understand that Mr. Turner has his views on this. My views are completely opposite. In fact, if you look at the history of Canadian real estate, his views on this are not valid.

We have a number of studies proposed before this committee right now; I don't believe this is a good one. I don't see that it serves anyone, and ultimately isn't that the question we should be asking ourselves—what is the benefit of this study? I don't see one.

I would encourage members to vote against this motion. Let's continue on with what we've been doing, and let's not do anything that would unduly harm Canadians by damaging confidence, thereby creating unemployment in sectors like construction.

The Chair: I will remind the committee that I won't go beyond the clock in respecting the committee's time unless we have unanimous consent, so you're going to have to draw the debate to a conclusion. I'll do that as soon as you have exhausted your debate, but you have opportunity to debate.

Go ahead, Mr. McKay.

Hon. John McKay: I appreciate that Mr. Turner is not modest about his abilities or his talents, but even Mr. Turner, I think, would be very impressed with himself if in fact a study by the finance committee could destabilize the Canadian housing market.

All I really want to know is, if we vote in favour of Mr. Turner's motion, do we all get free books from Garth?

● (1730)

The Chair: Go ahead, Mr. Jean.

Mr. Brian Jean (Fort McMurray—Athabasca, CPC): Thank you, Mr. Chair.

I know it sounds like a great study. I'm actually interested in it, being a visitor here. I'm from northern Alberta, one of the busiest places in all of Canada, and one that has a problem with housing markets. Certainly if there's an influx in the economy, or a change, it's going to change.

Why not get the Library of Parliament, which has the resources, to provide a report to the committee, to do such a study—which seems to make sense in parallel to the other studies you're doing—and have them report back to this committee by way of that? Then if you want to go further on the study, do so. The Library of Parliament has all the resources to cut to the chase on this issue very quickly.

The Chair: Go ahead, Mr. Menzies.

Mr. Ted Menzies: I think that's an excellent idea, especially considering how much we have on our plate right now, and I know Mr. Mulcair has another suggestion of something else coming up.

I can't help but echo Mr. Del Mastro's concerns. Any potential for us to undermine the confidence in the housing industry concerns me greatly. I think it would be a better use of this committee's time to ask the Library of Parliament to do that.

The Chair: I will let the committee know the priorities. We have a study on taxation, we have asset-backed commercial paper, and then we also have the penny study. This would come after that, so we have a few agendas ahead of time.

Go ahead, Mr. Crête.

[*Translation*]

Mr. Paul Crête: I simply wish to repeat that I will be voting in favour of the motion, amended or not. We did however state that we would give priority to commercial paper. First of all, there is Bill C-50, then commercial paper, which is an absolute priority. After that, there could possibly be other issues to study.

[*English*]

The Chair: That's after the penny one.

Are we ready for a vote? If we're not ready for a vote.... I will not go beyond the time, and the time is done, so we either vote now or....

(Motion as amended agreed to [See *Minutes of Proceedings*])

The Chair: With that, the meeting is adjourned.

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