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Chair

The Honourable Wayne Easter

Standing Committee on Finance

Tuesday, October 30, 2018

● (1530)

[*English*]

The Chair (Hon. Wayne Easter (Malpeque, Lib.)): We'll call the meeting to order and welcome the governor and the senior deputy governor of the Bank of Canada.

Before we get to the Bank of Canada testimony, we have hopefully very quick committee business to deal with.

I believe you have a motion, Mr. Sorbara.

Mr. Francesco Sorbara (Vaughan—Woodbridge, Lib.): Yes, Mr. Chair.

Everyone should have a copy of the motion that was done in the subcommittee.

The Chair: We need a motion to accept the committee report.

The subcommittee met on Monday, October 29. Members have a copy of the motion that was agreed to, which outlines the procedure and how we'll handle Bill C-86. I don't think there are any additions to it. Point 2 indicated that, in relation to the pre-budget consultations, the proposed travel to San Francisco and Houston, Texas, scheduled for the fall, be postponed until a later date. Third, the order of reference to commence the study of Bill C-82 would be dealt with in early 2019.

That's the motion, and members of all parties were there.

Is there agreement on the committee report?

Some hon. members: Agreed.

The Chair: Go ahead, Mr. Sorbara.

Mr. Francesco Sorbara: I'd like to put forward another motion as well, please.

The Chair: Let's hear it.

Mr. Francesco Sorbara: Can I get the clerks to distribute the motion?

Would you like me to read the whole thing?

The Chair: You'd better.

Mr. Francesco Sorbara: Okay. I move:

> That:
>
> (a) the Chair of the Committee write, as promptly as possible, to the Chairs of the following standing committees to invite them to study the subject matter of the following provisions of Bill C-86, An Act to implement certain provisions of the budget tabled in Parliament on February 27, 2018, and other measures: (i) the Standing Committee on Environment and Sustainable Development, Part 1, divisions 13, 18 (1) (8) (9) and 19 of the Bill; Part 2, divisions 41, 44, 45, and 53 of the Bill; Part 4, division 5, clauses 176 to 178; (ii) the Standing Committee on Justice, Part 4, division 20 of the Bill; (iii) the Standing Committee on Transport, Infrastructure and Communities, Part 4, divisions 22 and 23 of the Bill; and
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> (b) for the standing committees listed in (a), (i) recommendations, including any suggested amendments, be submitted in both official languages, in relation to the provisions considered by them, in a letter to the Chair of the Standing Committee on Finance, in both official languages, no later than 4:00 p.m. on Tuesday, November 13, 2018; (ii) any amendments suggested pursuant to paragraph (b)(i) shall be deemed to be proposed during the clause-by-clause consideration of Bill C-86, and further provided that the members of the Standing Committee on Finance may propose amendments notwithstanding the recommendations received pursuant to paragraph (b)(i); (iii) if a standing committee listed in (a) chooses not to consider the subject matter of the provisions, it advise the Chair of the Standing Committee on Finance by letter, in both official languages, no later than 4:00 p.m. on Thursday, November 1, 2018.

● (1535)

The Chair: That's the day after tomorrow.

It is so moved. Is there any discussion?

(Motion agreed to)

The Chair: Thank you all. Just a warning, we may have to meet tomorrow evening starting about 5:30 or so to clean up the money laundering tariffs and financing report. We're trying to work it out with Dan Albas from the Conservatives so he can be here.

With that, thank you for your indulgence, Governor. The floor is yours.

Mr. Stephen S. Poloz (Governor, Bank of Canada): Thank you, Chair.

Good afternoon, Mr. Chairman and committee members. Senior deputy governor Wilkins and I are pleased to be with you today to discuss the bank's monetary policy report.

[*Translation*]

Last April, we talked about the considerable economic progress that we had seen. We explained that, after a lacklustre start to 2018, growth would rebound in the second quarter, coming in at around 2% for the rest of the year. We also said that inflation would stay somewhat above our 2% target this year, boosted by temporary factors whose impact would unwind over time, returning inflation to target in 2019.

Six months later, we have seen some very positive developments. The Canadian economy is doing very well and continues to operate near its capacity. Growth is relatively broad-based across sectors and regions. It is also more balanced, as the composition of demand shifts towards business investments and exports and away from consumption and housing.

[*English*]

The economy will grow at a rate slightly above its potential over our projection horizon, supported by both foreign and domestic demand and favourable financial conditions. Meanwhile, inflation is close to target after running a little higher than we expected in July and August, which was due in large part to changes in the way that Statistics Canada measures airfares. While there could be further volatility in inflation in the coming months, our core measures remain firmly around 2%.

Of course, the outlook remains subject to important risks and uncertainties. Please let me highlight two issues: trade and household indebtedness.

In April, we said that the most significant risk to our inflation outlook was the prospect of a large shift toward protectionist trade policies around the globe. We also reminded members that our forecast included the negative effect of increased uncertainty on the export and investment plans of companies. Naturally, we spent a considerable amount of time ahead of last week's interest rate decision discussing the implications of the recent U.S.-Mexico-Canada trade agreement. The USMCA is good news, because it will reduce a considerable source of uncertainty that has been holding back business investment.

We know from our latest business outlook survey, which was completed before the agreement was reached, that investment plans were already quite positive, as firms look to take advantage of a strong U.S. economy. Given the agreement, we reversed some of the markdown of our investment outlook. To be prudent, we did not remove all of it, for two reasons. First, we want to see how firms actually adjust their investment plans. Second, we know that competitiveness challenges are also weighing on investment.

Protectionist trade actions, particularly those involving the U.S. and China, were also top of mind for us, as they are already affecting the global outlook. We've incorporated in our forecast the expected effects of the tariffs imposed to date, as well as the dampening effects on confidence from threats of additional measures. All told, we estimate that this will amount to a drag on the global economy of 0.3% by the end of 2020. That is a big cost. It adds up to more than $200 billion U.S.

The U.S.-China trade issue represents a two-sided risk for Canadian monetary policy. The U.S. and China could find a path to ease or resolve this trade conflict, which would be positive for global trade and investment and for Canada. Or, the conflict could worsen, jeopardizing key global value chains. This would surely reduce long-term growth and prosperity globally, albeit with uncertain implications for inflation. For more information on the potential impact of U.S.-China trade tensions, I refer you to box 1 in our MPR.

As for household indebtedness, we've also been assessing how people are adapting to both higher interest rates and the changes to the B-20 mortgage underwriting guidelines implemented earlier this year. Box 4 in the MPR goes into some detail on the impact of these policy changes on mortgage lending.

Overall, the data tells us that households are adjusting their budgets largely as expected. We understand this can be quite difficult, particularly for those who are highly indebted. At the same time, employment and incomes continue to grow, which can help cushion that adjustment process. Further, the quality of new debt is improving and housing activity is moderating to a more sustainable level. All of this is making the economy more resilient and reducing the chances of painful outcomes for many people further down the road.

The rule changes also appear to have taken the wind out of the sails of speculators in some markets, reducing the pressure on housing affordability. While financial system vulnerabilities remain elevated, the fact that they have stabilized and edged down in a number of respects is positive.

Let me conclude by pointing out that even with last week's increase in the policy rate to 1.75%, monetary policy remains stimulative. In fact, the policy rate today is still negative in real terms —that is, once you adjust for inflation. Our estimate of the neutral rate is in a range: currently 2.5% to 3.5%. The policy rate will need to rise to neutral to achieve our inflation target.

That said, the appropriate pace of increases will depend on our assessment at each fixed announcement date of how the outlook for inflation and the related risks are evolving. In particular, we will continue to take into account how the economy is adjusting to higher interest rates, given the elevated level of household debt, and whether strong consumer confidence builds on solid job and income growth and leads to greater-than-expected consumption. We'll also pay close attention to global trade policy developments and their implications for the inflation outlook. Again, this risk is two-sided.

● (1540)

With that, Mr. Chairman, Senior Deputy Governor Wilkins and I would be happy to answer your questions.

The Chair: Thank you, Governor.

I'll just make one point, and then we'll go to Kim.

I come from a time when I was paying an interest rate to the bank of 23.5%, so it was substantially higher at that time, and it wasn't a pleasant time for farmers or house owners.

Ms. Rudd, you have seven minutes.

Ms. Kim Rudd (Northumberland—Peterborough South, Lib.): Thank you, Chair.

Thank you, both, for coming and joining us today.

Governor Poloz, I remember when you were at the B7 finance summit in Quebec City. You talked to us a lot about “home” or “neutral”. You mentioned it today again in your remarks. You characterized this “neutral” or “home” as between 2.5% and 3.5%. I wonder if you can go into a bit more detail about why you see that range as being the number for Canada's interest rate currently.

Mr. Stephen S. Poloz: This is research that is actually quite global in nature. In fact, our counterparts at the Federal Reserve in the United States also believe that their neutral range is the same—2.5% to 3.5%. This is a number that is ground out of the global saving-investment balance, and the use of funds and the provision of funds in financial markets.

There are several approaches that we take to estimate this number, and they give us a range of outcomes, so there's not a knife-edge point for them. It is the rate at which we believe monetary policy would no longer be stimulating and would not play a contractionary role, so it's a balancing number. It's the sort of thing that also can change through time depending on conditions such as headwinds and the economic outlook. If household debt is weighing on the economy, possibly it would be at the lower end of that range. If it isn't, it could be further up. It depends on other factors as well.

Perhaps that's enough background for you. We think it's somewhere in that range, but we won't really know until we get closer to it.

● (1545)

Ms. Kim Rudd: Right. Stay tuned, as they say.

I was reading an article in the Financial Post last week—actually, maybe it was this week. Kevin Carmichael wrote it, and he noted that in the recent policy communications of the Bank of Canada, the term “gradual” has been dropped. I see Ms. Wilkins nodding her head.

Prior to it being dropped, it had been used in the previous three consecutive policy statements. When referring to rate increases, is it, as the article suggests, because we can expect more frequent interest rate hikes? I'm asking you because articles suggest lots of things.

Mr. Stephen S. Poloz: Why don't you take this?

Ms. Carolyn A. Wilkins (Senior Deputy Governor, Bank of Canada): You're absolutely right. We had been using that word, and the reason we decided to use different words was to make clear a couple of things. One was that it wasn't meant as a single word code for “every other meeting”. In fact, given where we are in the cycle, while we know the direction of interest rates, the pace really does need to be determined by what's happening in the data and our assessment of a couple of factors that we did highlight in our press release related to how households are adjusting to interest rate increases, as well as how trade developments are evolving—not just in Canada, but in particular between the U.S. and China.

We felt that explaining the main factors that would underlie our assessment would make clear to people—which we believe is extremely important—that a decision is taken at every meeting based on our assessment of what we need to do to meet our inflation target in a way that balances all the risks out there. We don't wait until every other meeting.

It's interesting; words that you use that work well a couple of times eventually become code, and people read that one word and forget to read the rest of the things that we carefully say to impart a lot more information. In fact, what I thought was positive about the last week in the coverage was the fact that people were doing exactly that—looking at the full range of information that we were giving about the forecast.

Ms. Kim Rudd: You mentioned the USMCA and the consideration you had. That is part of the consideration around the decision to increase the rates. As you know, the government is in discussions and has just signed the CPTPP. Other trade agreements are on the horizon. Can you talk about Canada as a global player in trade and how you see that affecting some of the decisions you're making?

Mr. Stephen S. Poloz: Certainly, the Canadian economy cannot sustain itself without a great deal of foreign trade. It's a question of scale. You need to have a certain amount of scale in the production in order to get the efficiency that makes you competitive in the international markets.

NAFTA, as we used to call it—now the USMCA—was a very important building block for our economy. The uncertainty about its future was causing firms to delay or in fact move investment decisions, often to the United States. Even though NAFTA never ceased to exist, and the USMCA now has been initialled or is ready for ratification, the fact of the matter is that over the last almost two years, we have already lost out because of the uncertainty it's raised.

What we were heartened by was that in our survey of companies, they were still prepared to invest, because they were operating at capacity and they needed to expand in some way. The fact that now we have that uncertainty at least partially lifted augurs well for the outlook in terms of investment and therefore presumably our capacity in job growth, productivity, and wage growth. All those things are connected down the chain. Obviously, other agreements are not really a substitute but a complement for USMCA, because they open up access in other places.

All those things I think are positive in a world where trade has become the way to do business. Tariffs are not that high in many of these cases, so they're not impediments to trade, but anything you do to make it more efficient just goes directly into that engine, which gives us growth.

● (1550)

The Chair: Thank you, all.

We'll turn to Mr. Richards for seven minutes.

Mr. Blake Richards (Banff—Airdrie, CPC): Thanks, Mr. Chair.

I appreciate your being here and giving us your update today.

I want to touch on one of the items you mentioned in your opening comments in regard to consumer debt. You mentioned specifically the B-20 mortgage guidelines. I want to touch on those a little bit. You mentioned a couple of things. You felt it had some impact on consumer debt, but you also indicated that it had some impact on housing prices in some markets. I want to touch on both of those items a little bit further.

First, in terms of the consumer debt itself, have you looked at or studied or factored in the idea of consumer debt as a whole? In other words, you're saying that you're seeing some impact on people in terms of the mortgages. Obviously, we've heard anecdotally that maybe as much as 20% of buyers are finding it more difficult, maybe even impossible, to get into the market. Obviously, when we're talking about people getting CMHC-insured mortgages, that is something people can understand, but when we're talking about people who are putting that 20% down payment or more, and are therefore not having the mortgage insurance, are we then instead, by having the stress test....?

Have you done any studies on whether what's happening is that instead of a mortgage, they're just taking on other types of debt, maybe buying a car or whatever? Instead of actually reducing the amount of debt, are we just changing it to a different type of debt? When you're talking about a car or something like that, it's certainly not, in most cases, as good an investment as a home, for example.

I'm just curious to know whether you have looked at that and whether there's just been a shift in the type of debt rather than a complete lowering of it.

Ms. Carolyn A. Wilkins: Sure. I'll get started. There's a lot in that question.

If we just start with the debt part, it's a very important question how that's evolving, because, as we said, it represents a vulnerability to the Canadian economy that we need to keep in mind. What we've seen in the actual numbers is that the debt-to-disposable income ratio, which is one of our flagship indicators, is not the only one. In fact, that stabilized and started to edge down, so credit growth and total credit growth have dropped by a lot. The growth rates have dropped by a lot, mostly because of mortgage credit, but not entirely. That's a big ship to try to turn around. It will take a while for that to come down, and it requires income growth.

I think more important is really what's going on under the hood there. It's related to the quality of new mortgage lending. There's some very interesting work that's in our monetary policy report, in one of the boxes, and in a couple of weeks we'll have a more complete study that just looks at the quality of the new mortgages that are being underwritten, after not only the most recent B-20 guidelines but the ones before, as you said, that apply to high-ratio mortgages. What we're seeing in the numbers is that the mortgages that are going to highly indebted individuals have dropped by a lot. They've dropped across the board, but mostly for those who have loan-to-income ratio of 450% and above.

Yes, that means it is more difficult for some to get into the market. You used the 20% number. There are others out there. We're seeing estimates that are very close to what we had expected. At the same time, it means that the mortgages that are being written are more likely to stand the test of time and serve those people well, because if you buy a house and later it's too difficult to handle because interest rates increase, that's an issue. Also, if you buy a house and the price of it, your equity, is at risk because house prices, at the time, were rising in the double digits in some jurisdictions and they have slowed a lot, again what that means is that the housing market is operating at a lower but more sustainable pace.

We understand it's a very difficult transition for many people—we know that—but at the same time it does set the economy on a more solid footing going forward. That means that people's jobs and people's incomes are more likely to be less volatile.

● (1555)

Mr. Blake Richards: Thank you.

In terms of this B-20 test, though, I think it also applies when someone is renewing a mortgage, and I guess we probably haven't had much opportunity to see the impacts there yet. Certainly, we can tie people into situations where they're actually going to have to pay a greater rate for their mortgage, because what happens of course is that if they're not able to qualify under that new test, they can't move to a different lender. They can stay at the lender they're at, but have we looked at whether that's actually driven up the rates of the renewals? Obviously, if a lender knows they have that person captive now, because they're not able to move, they're probably not going to offer them the same kind of rate as they might if they were competing. Has that driven up those rates?

We're not talking about discouraging people from getting into debt they can't afford at that point. What we're talking about is someone who has put down a significant amount in a down payment and is now stuck with one lender and it's driving up the rate, therefore costing them more money, but not really having an impact on debt, of course.

Have we seen whether there's been any impact in that regard?

Ms. Carolyn A. Wilkins: It's difficult for us to determine any other rate than the overnight rate that works through the transition mechanism, but the point you're making is that, because people might be trapped in a sense with the lender, they may get a less favourable rate than if they could switch. There are a number of mechanisms that even existing lenders can use to ease the transition, including changing the adjustment period. According to the work we've done, there will still be people who, at the time of renewal—say, in 2019 if you had a five-year fixed mortgage in 2014—in fact won't see a very large increase in their debt service ratio. Some will, if they're already highly indebted.

From an overall macroeconomic point of view, we know that it's a difficult transition, but we take that differential impact into account—depending on how indebted you are, when you had your mortgage and when you need to renew your mortgage—when we make our decisions for interest rates. We don't just look at the average when it comes to what banks actually do. That's a question for the design of the policy, which is not our responsibility.

Mr. Blake Richards: Can I ask, then, on that question—

The Chair: I'm sorry, Blake, we're at.... Go ahead, a quick supplementary.

Mr. Blake Richards: It's a really brief one.

I understand that you're saying it's not something you would look at. Might it be something that would be worthwhile for us to look at? Would you say that it would be a question worth our consideration?

Mr. Stephen S. Poloz: It may be a question to put to the banks or the financial institutions more generally, I should say. I haven't been picking up complaints of that sort. I think any bank would realize that if they were treating a customer as trapped it would instantly be known. I don't think it's a great strategy for any bank to follow.

In any case, it's pretty hard for us to track those kinds of details.

The Chair: Thank you.

Mr. Julian, you have seven minutes.

Mr. Peter Julian (New Westminster—Burnaby, NDP): Thank you, Mr. Chair.

Thanks for being here.

I want to have you address the issue of regional variations. You mentioned in the monetary policy report a pronounced decline in house prices in certain regions.

I, of course, represent a riding in the Lower Mainland of British Columbia. Rising interest rates have provoked a lot of hardship. These are people who have a high debt ratio; there is no doubt. That's because wages have basically stagnated. We've seen a marked increase in the housing market and the price of housing.

The net impact has been.... Certainly in my area, from New Westminster and Burnaby into Vancouver, about 20,000 housing units are empty. They're being bought by speculators or offshore money. Because of higher interest rates, they are no longer available for folks who have an average salary.

Could you speak to that regional variation? I understand the overall national perspective, but in some regions of this country that increase in interest rates has a more pronounced impact than in others, because of the fact that housing prices are so high to begin with.

● (1600)

Mr. Stephen S. Poloz: There's no question that affordability varies a great deal across the regions. Therefore, we get really high mortgage debt in places where houses are more expensive, especially Vancouver, but Toronto was following in Vancouver's footsteps two years ago.

At that time, we had a very strong speculative element running through both markets: bidding wars, prices rising, multiple people bidding on a thing and the price going up enormously.

The presumption was, “I can still do this because I know I'll get the mortgage.” This was one of the symptoms of a period when interest rates had been very low for a very long time. People come to count on that. Throughout that period, there were of course other changes in policies: not just the interest rates, the B-20 guideline, but also some special taxes implemented in your own area, as well as in Toronto.

Disentangling what was responsible for what is basically not really possible. We think we have a handle on how much of an effect interest rates are having. Yes, they have a bigger impact on highly indebted households. You're absolutely right, and that's what Carolyn was speaking to.

In fairness, the stress test was designed to help people understand and test themselves as to whether they could cope with what seemed like a reasonable fluctuation in interest rates, of around 200 basis points. We've now done 125 basis points since the bottom. I would think that most people who went through that stress test would be saying, “I'm glad I can pass that test now that interest rates are rising.”

We were talking about it as a good personal practice long before the rules went into place. It was obvious to everyone that interest rates had been very low and would not sustainably stay there.

Mr. Peter Julian: Thank you for that.

I'd like to address the issue that you mention in the monetary policy report around wage gains. On page 14, you mention that wage gains remained moderate.

When we look at wages for regular folks, generally speaking they have stagnated. What is your impression of the last few years in terms of.... When we take out the wealthiest of Canadians, what overall wage rates...? How have they performed or evolved over the last few years? What do you project, moving forward?

Ms. Carolyn A. Wilkins: Wage increases, overall, have been very modest over the last few years, and even over the last year, as we were hearing more and more from the companies that we speak to about labour shortages. We still see wage growth in the 2.3% range, which is actually quite modest for this point in a cycle, and that might be representative of many people. It's an average, so some have seen none, but others have seen a lot more.

You have to ask yourself what's happening. Why is that? Almost every country that has an advanced economy is asking itself the same question. There's no silver bullet. Clearly, the puzzle isn't as big as it might seem, because in fact wage growth before was quite a lot stronger. If you actually look at a graph of wage growth in Canada, it has picked up quite a lot over the last couple of years, but it still remains slow.

There are a couple of things going on here. More recently, wage growth may not have been that strong, because productivity growth wasn't that strong. If you're a company wondering if you can afford to pay your workers any more than you do now, even though you're short of workers, it's difficult to do that if you don't have the productivity to go with it.

Another reason is that maybe on the workers' side there are a lot of workers in the gig economy, the informal economy, and in that economy it's harder to bargain for your wage. There may be a little bit less power for people to actually get stronger wages.

When we talk to businesses.... In our forecast—you asked about that—we expect wage growth to strengthen and overall income growth—which includes not only your wage but how many hours you're working—to strengthen as well, to the 3% to 4% range. That corresponds with what companies are telling us. They say they're expecting to have to pay more to get the workers they need, and that's not just in the highest-paying jobs. That's across the board.

● (1605)

The Chair: Mr. Sorbara, go ahead.

Mr. Francesco Sorbara: Thank you, Mr. Chair.

Welcome, Governor and Senior Deputy Governor.

The Bank of Canada has long spoken about a hand-off from housing and consumption as principal drivers of economic growth in Canada to business investments and exports. Could you comment on how, with regard to the monetary policy report, business investments and exports are performing within the Canadian context?

Mr. Stephen S. Poloz: Yes, it's true. We've talked about this for a long time, because it was one of the characteristics of a return home that we felt was central.

During the post-crisis period, with really low interest rates, quite naturally it was housing and consumption that did most of the growing, and businesses demonstrated a reluctance to invest, given the uncertainty about the economic outlook.

We always believed that getting the economy back to a balance point would mean that consumers would take a less active role in the growth picture. They would become contributors but smaller contributors, and businesses would be doing more of the heavy lifting. That transition appears to be under way.

We think it was interrupted by the uncertainty surrounding NAFTA, so we had a double hit there, because we were approaching capacity just when firms should have been beginning to invest. We had the U.S. election and all the uncertainty about NAFTA, so the investment sort of stopped there. Some firms were desperate to invest, and they did, but many postponed those decisions, and that did two things. It meant that we had less investment than we had hoped, and we had less exports than we had hoped, because they were operating at full tilt and couldn't expand to take advantage of growing demand.

Now that the uncertainty is out of the way, we're watching carefully to see how firms respond, and we expect that to happen. Already we have that shift in the numbers. As we already mentioned, the housing sector has slowed, as expected, and consumption almost always goes along with that. It's not a slowdown, but it's slower than what it was.

Mr. Francesco Sorbara: The first derivative....

Mr. Stephen S. Poloz: Yes.

Mr. Francesco Sorbara: On page nine of the monetary policy report, you talk about “weaker terms of trade”. In the past, we did have a terms of trade shock to the Canadian economy, but now you're talking about “weaker terms of trade”, which I read to mean that the price we are receiving for some of our Canadian resources—principally, Western Canada Select oil from the province of Alberta—is not where it should be at.

I'd like to get some colour on how important it is that we have diversification in markets for our resources. There are some transitory factors impacting WCS in terms of maintenance shut-downs and so forth, but in terms of diversifying our resources to different markets, how important is that to making the terms of trade actually a positive thing for our economy?

Mr. Stephen S. Poloz: It plays a role, but to put numbers beside that wouldn't be an easy thing. Diversifying our markets is not the base issue. The base issue that we're talking about here is that a number of our commodities.... As you mentioned, WCS is obviously trading at a very low level right now, but so are a number of other exports, mostly metals. We connect this to the uncertainty about the future outlook for China in particular, given the trade actions that have been taken between China and the United States. Trade is slowing, and there are now expectations that the Chinese economy will slow significantly. That usually brings with it lower commodity prices across the board, and that appears to be happening at least at an early stage now.

That is the reason why in this forecast our terms of trade are lower. WCS is an element of our terms of trade, of course, but it's not the only one.

● (1610)

Mr. Francesco Sorbara: We've seen and heard about some estimates of the discount costing, on a gross basis, $15 billion to $17 billion in lost revenues, whether it's from the banks downtown....

I would like to follow up. From reading the monetary policy report, we are obviously going through a very strong period of growth in the Canadian economy and in the global economy. A lot of good things are happening. The immigration of highly skilled workers to Canada is very strong. We have the labour demographic issue, obviously, which we talked about extensively.

I'm going to ask a very simple question. What keeps you up at night, Governor?

Mr. Stephen S. Poloz: It's a popular question. I'd like to give a different answer each time to keep people interested.

I think trade actions.... And I call them “actions" with purpose; they're much more than trade tensions. When concrete actions have been taken, we're shooting with live ammo. It is having effects on economies—not just China and the United States, but other bystanders are being affected. So much of the economic growth we've enjoyed over the last 20 or 25 years has been the result of trade integration. That greatly concerns me.

Cyber risk is the other thing that keeps me awake at night. It's a non-economic answer, but that is the thing where every morning you're thankful you didn't get a phone call during the night.

Mr. Francesco Sorbara: Of course.

On the trade front, obviously with the application of CETA and with the CPTPP now receiving royal assent, even a free trade agreement with Israel and with other countries.... That is something near and dear to my heart as an economist, that free trade integration continues. The lack of disruption to the supply chains.... Now that the USMCA deal is done—not ratified, but completed—I think it has removed a great deal of uncertainty.

My last comment, if I have more time, is with regard to labour in Canada. I represent York region. The biggest complaint I hear from businesses is a shortage of workers. A Bloomberg story said that Canada is enjoying a boom of people coming to our country, but it still seems not to be enough. Do you have any advice on how to help fill those vacancies?

Mr. Stephen S. Poloz: This is a matter of getting the right match. Canada is a big place. Other countries, such as Germany, seem to do a better job, but it's usually because most jobs are within a two-hour commute, and we don't have that situation here.

Skills mismatching is often portrayed as gigantic, that the job growth is in the digital economy space and the job losses are in manufacturing, let's say. In fact, there are many vacant jobs in the manufacturing space and many vacant jobs in home building, construction, renovation, maintenance, all those jobs, which are not a large skills gap away from manufacturing skill sets.

I have to believe that geography is playing some role, but it may just be that the business of moving is not as easy, especially when one spouse still has a good job and the other spouse is looking for a job. It could be hard for a family to move.

Those aren't monetary policies, but perhaps some things could be invented.

● (1615)

The Chair: Thank you.

Before I go to Mr. Anderson, I will say that we just did pre-budget consultations. One thing we heard about everywhere was investment capital and the inability of Canada to attract investment capital in the same light as on the American side of the border. It seemed to be due to accelerated depreciation more than anything else, but we heard that a lot.

Have you looked at that in any sense?

Mr. Stephen S. Poloz: We have not analyzed that particular thing in any detail. We do have in our forecast a factor taken into account because of the differential between those two tax treatments in Canada and the U.S. It is one of the reasons why our investment profile in our forecast is less than it would be according to our normal modelling.

Of course, that is supported by conversations that we, too, have with the companies in the context of our business outlook survey. It seems to be top of mind at this stage. There are lots of other competitiveness challenges that also come into the conversation, but that does seem to be top of mind.

The Chair: Okay. Thank you.

Mr. Anderson, we'll go to five-minute rounds.

Mr. David Anderson (Cypress Hills—Grasslands, CPC): Thank you, Mr. Chair.

Thank you for being here today.

I come from a ways away from here. I was reminded of that on the weekend when I was at a community supper and a gentleman came up to me and asked if I could ask somebody about the mortgage stress test. He's a realtor, and from his perspective the mortgage stress test was applied as a cudgel to the Vancouver and Toronto markets. He said, “It's killing us out here. It's wrecking our economy. It's costing jobs. The construction industry is slowing down. The real estate market is slowing down. It's actually damaging our communities. Can you get somebody to give me an answer to that?”

I guess I have the opportunity this afternoon to ask you about the negative impacts of the mortgage stress test on local markets that aren't in the Vancouver and Toronto areas.

The Chair: In fairness to the governor, David, that would be in the regional Saskatchewan economy, wouldn't it?

Mr. David Anderson: It was, yes.

Mr. Stephen S. Poloz: The fact is that, as we said, when B-20 was put in place, we put in our monetary policy report estimates on how much of an effect that would have. It's not zero. It would have a slowdown effect in the housing market, because of course it acts very similarly to an interest rate hike in the system.

The fact is that interests rates have been extraordinarily low. The biggest risk we face in the financial system is that household debt is not able to cope with a more normal level of interest rates. That test was designed to help both lenders and borrowers figure out if they were capable of sustaining the mortgage they were thinking of taking on through an interest rate cycle of approximately 200 basis points.

I think that applies whether you are in Saskatchewan or in a market like Vancouver, where there were speculative juices flowing, or in Toronto, or in Atlantic Canada. It doesn't matter where you live; you're going to need to be able to withstand an interest rate cycle, because the economy is normalizing.

The quality of debt is what was at issue. If people can afford it today but can't afford it 100 basis points from now, then we're not doing them any favours.

Mr. David Anderson: In some of those other markets, increasing supply would have been as effective as hitting the demand side of it, I think.

I don't have much time here, so I want to ask you a second question—

Mr. Stephen S. Poloz: I'm sorry. I must disagree with that, because we were not at any point trying to stop prices from rising by doing this. We were trying to improve the quality of household debt. Other policies were put in place to try to control house price rises. Supply would have affected that, but it would not have changed the affordability.

Mr. David Anderson: Okay.

So if one out of five prospective buyers who currently can afford their preferred purchase failed the stress test, what's the consequence for them? I heard a little earlier that they have one lender to deal with. They can't make their payments and they failed the stress test. What's the consequence of that?

Mr. Stephen S. Poloz: If they failed the stress test, it means they would have problems over the next two, three or four years. If they managed to get that mortgage, they would have trouble affording it as interest rates rose, which we all know is—

● (1620)

Mr. David Anderson: I asked about people currently carrying mortgages, not new ones.

The Chair: Governor, you can answer, and then Mr. Anderson will have time.... We're flexible on time if there needs to be a supplementary question.

Go ahead, Governor.

Mr. David Anderson: I was asking about renewals, not new ones.

Mr. Stephen S. Poloz: They don't need to take the stress test again, unless they're changing lenders. If they're renewing their mortgage, there's no stress test.

Mr. David Anderson: Bankers aren't stupid on that one. If they're seeing that being applied in other places, they're going to apply it there as well.

Mr. Stephen S. Poloz: As I answered before, I think bankers are smart enough to know that if they were somehow charging people more in that instance, everybody would hear about it. That would not be a good business practice.

Mr. David Anderson: I don't think that's enough to get them to change their ways.

I want to ask you one other question. It's about the challenges over NAFTA. Some of the initial rhetoric was around cheap steel coming through Canada. That was one of the reasons that were given for the imposition of the tariffs. I think our ambassador was very optimistic last week in saying that he expects that those will be taken away very quickly.

It was interesting. Ambassador Craft's response was that this is not something against Canada; it's just protecting North America from other countries that would be passing raw materials through here. What has changed in that situation to make us think that the tariffs will be coming down? Those countries are still passing that material through.

When we're talking to businesses, we're hearing that those tariffs are killing manufacturers, especially small and medium-sized manufacturers. With the tax reductions in the States, and with the increased payroll tax and all kinds of things, our businesses are not quite as optimistic as you've been today in your presentation about the economy.

Is there a way of dealing with that steel passing through here that won't interfere with international trade and our economy?

Mr. Stephen S. Poloz: That is a very complicated question. That's why you would get more than one answer from different people. I won't give you some bottom-line judgment on that, but I'll try to explain it.

When we have a tariff—say, the United States puts on tariffs and then Canada puts on a countervailing tariff—what that does is raise the price on both sides of the border. One of the effects of that is that it creates a level playing field for an exporter. That's the reason it's put in place. The other part of it is that it raises the price for everyone. There are second-round effects that could be the most important ones for some of the people you speak to.

This is the most important and most unfortunate part of a trade action or trade war: that everybody ends up paying far more for everything. It is counterproductive. War of all types is counter-productive.

The Chair: We'll have to end it there.

Thank you all.

Mr. Fergus, you have five minutes.

[*Translation*]

Mr. Greg Fergus (Hull—Aylmer, Lib.): Governor and Senior Deputy Governor, thank you very much for your presentation and for your “Monetary Policy Report”.

I have read it. The document is always easy to read and understand, but I know that a lot of research and effort was needed in order to produce the report.

My questions are going to be about household debt in terms of interest rates and mortgage rates.

On page 18 of your Monetary Policy Report, you say: “The ratio of household debt to income has levelled off and is anticipated to edge down.” That is very desirable.

What will be the impact of interest rates on Canada's economic growth if, as anticipated, we continue to see a slight increase in the Bank of Canada's key interest rate?

Ms. Carolyn A. Wilkins: According to the projections we established in the Monetary Policy Report, the rise in interest rates matches what we mentioned in our media releases. When we make projections, we take that into consideration.

Given the increase in interest rates, we expect the growth of credit to be slower than it has been for several years. That is a good thing. In addition, because the economy is continuing to grow, people's disposable income should increase, at least on average, if not for each individual. The economy has sources of growth that are well distributed through sectors and, we hope, through regions. That situation will benefit all Canadians everywhere in the country.

The level of indebtedness will remain quite high. It will be a long time before we will be able to see it go down. We will also have to contend with a vulnerable financial system. Given our forecasts and our view of the situation, we are very aware of the need to properly assess the speed at which we should be increasing interest rates, specifically because of people's indebtedness.

We have no desire to increase interest rates too quickly. That is clear. At the same time, we must not forget that, if we do not increase interest rates at an appropriate speed, we are only pushing the problem back until later, because there will be imbalances, such as increased prices, in the real estate market. The governor has just said that we are seeing much less real estate speculation than previously. We will choose an appropriate pace and there will be a contribution from the residential construction industry, where there is much less activity than previously.

Once again, it is not a bad thing to have other sources of growth, like investments, which will increase the economy's capacity for growth in a sustainable way.

● (1625)

Mr. Greg Fergus: I cannot find the information and I am not sure of the figures. You mentioned that the level of indebtedness is a certain percentage of household income. Is it 160% or 183%?

Ms. Carolyn A. Wilkins: I think it is around 170%, or a little less.

Mr. Greg Fergus: Okay.

The target range that you mentioned goes from 2.5% to 3.5%. According to your models, what are your estimates?

Will that have the effect of slowing down Canada's growth rate, because of a possible slowdown, or a greater slowdown, in the real estate market?

Ms. Carolyn A. Wilkins: It is true that we have already increased interest rates. We have increased them five times since July 2017. Given that the economy takes some time to react, it will take time before interest rates have an effect on the economy. It is true that the effects of the movements in the real estate market and the growth rate are less than they would have been had we not increased interest rates. That is how monetary policy works.

We do not do this because we do not like growth as such, we do it to avoid causing an increase in inflation and creating instability, not only in the real estate market, but also in the incomes of Canadians and in the labour market.

[*English*]

The Chair: Thank you.

Mr. Poilievre, go ahead.

Hon. Pierre Poilievre (Carleton, CPC): Thank you.

Which measurement of inflation are you most relying on right now to make your interest rate decisions?

Mr. Stephen S. Poloz: We have three measures of core inflation, and they use various techniques to remove the noise from the regular headline inflation rate, but the official target is for the headline inflation rate.

Hon. Pierre Poilievre: That's the CPI.

Mr. Stephen S. Poloz: The CPI is the one, but of course, often we have these big fluctuations that we need to explain and then say that we're going to see through that fluctuation. It would be like the tail wagging the dog to respond to each fluctuation.

Hon. Pierre Poilievre: What effect does the moderation or even decline in housing prices have on the reported CPI numbers?

Mr. Stephen S. Poloz: It's very modest. In the CPI, the residential costs have rent and all sorts of blended stuff in there, and it's a very slow process.

● (1630)

Hon. Pierre Poilievre: Right.

Is there any relationship between government bond yields and mortgage lending rates?

Mr. Stephen S. Poloz: There is, absolutely. In particular, the five-year maturity of government bond yield is used as a reference, of course, for the banks to fund themselves for five-year money, and that, therefore, is a cost to them. How much they need to, in effect, pay for a GIC for five years in order to get the money in the door so they can lend it out for five years is closely related to that competition by the government bond yield.

As a consequence, when bond yields rise globally, even if interest rates are being held constant here, there is a tendency for our bond yields to also rise partway. When it happens, 50% or 60% of the rise of U.S. rates gets passed through to here. You can have mortgage rates rising at the five-year maturity even though Canadian interest rates and principal are being left unchanged.

Hon. Pierre Poilievre: How much do a country's own bond yields affect the mortgage rate?

Mr. Stephen S. Poloz: They both affect it. If U.S. rates were unchanged and we raised our interest rate—as we did last week—and if part of that feeds through to longer-term interest rates, that will be immediately fed back into the cost of funding for the banks, as I've just described. That channel works, but the other channel also happens to work, so it's a blend.

Hon. Pierre Poilievre: But if, for example, the government bond yields in a given country, country A, went up but they did not go up in countries B, C, D and E, would mortgage lending rates typically still go up in country A?

Mr. Stephen S. Poloz: Yes, but the experiment you're describing is a little bit artificial because it's a global bond market. If it did happen the way you described it, it would normally be because inflation in country A went up and therefore all of its bond yields went up, and that would for sure pass right through to mortgages. But if it's just a risk premium or just a more general move in rates, it would be rare for Canada's rates to go up all by themselves in the way you described, for those reasons.

Hon. Pierre Poilievre: That's the price of credit. Now, turning to demand for credit, as governments issue more bonds, they're obviously vacuuming up more of the credit that's available. Can that competition for credit increase consumer rates?

Mr. Stephen S. Poloz: It could, and certainly I could create a model in which to do an experiment like that. When we talk about government crowding out private spending, it usually has that mechanism.

Hon. Pierre Poilievre: Right.

Mr. Stephen S. Poloz: But in a market such as the one I've described, mostly the farther out those yields go, the more they are driven by global bond markets. That's a massive market compared to our own domestic market, so it's really a harder tack to isolate.

Hon. Pierre Poilievre: Shifting back to household debt, what changes do you expect in the debt service ratio over the next one, two, three, four and five years?

Mr. Stephen S. Poloz: That's the debt service ratio for households.

We did some nice charts on this, not in this MPR but in the previous one, back in July. We did an experiment on the various segments of the household sector, depending on how much debt they were carrying relative to their income, in each category. We sliced up the data very finely. We simulated a 100-basis point and a 200-basis point renewal cycle through that structure.

There's a lot of complexity to it. If you got your mortgage back in 2014, chances are you're renewing in 2019, or it's 2015 and 2020—about half of the people would pick a five-year in that case. We simulated it in that way. Debt service ratios, or actually mortgage payments as a share of gross income, went up by one or two or three percentage points. In the worst case, they went up by as much as approximately five percentage points. In a very highly indebted household sector, the biggest effect we could find was five.

● (1635)

Hon. Pierre Poilievre: How does that translate into dollars for the average family?

Mr. Stephen S. Poloz: I don't have an answer in terms of dollars. I'm sorry. I think of it in percentages. Say the average on that is two to three percentage points, and that would be out of gross income, as Carolyn has mentioned, it's a significant effect.

Hon. Pierre Poilievre: That's out of gross income.

Mr. Stephen S. Poloz: That's out of gross income. It's a significant effect, but in the background over those five years, wages have been growing 2% or 2.5% per year. That's one thing. Not everybody's wage has gone up, I understand that, but they have been rising on average, so that helps the transition.

At the point of renewal, the financial institution normally would present a bit of optionality around the renewal, perhaps lengthening term by a year or two to keep payments from going up as much, those kinds of things. That's often what we observe in those renewal cycles, some flexibility.

The Chair: Thank you all.

We'll go to Mr. McLeod, then Mr. Julian and then Mr. Fragiskatos.

Mr. McLeod.

Mr. Michael McLeod (Northwest Territories, Lib.): Thank you, Mr. Chair.

I hope Pierre didn't use up all my time.

The Chair: He went over by a minute and a half. That's pretty good for him.

Voices: Oh, oh!

Mr. Michael McLeod: I want to thank both of the presenters here today. I also want to say thank you for coming to the north and giving the message of a brighter economy. I think it was well received by the people in the audience. I was certainly happy to see that it countered the Conference Board of Canada's opinion.

I think in the north, calculations or issues that are factored into the economy are a little different. I always claim that we have to deal with the transportation infrastructure issue before we can lower costs to make it more attractive. We also have to deal with outstanding land claims and self-government negotiations, which would bring greater certainty and bring indigenous governments as full partners to the table.

I know it's not part of your policy report, but I think if it was exclusively on the north, they would certainly be factors. Maybe you want to say something on it. I did see a couple of concerns that were raised in your report that stood out. The two that you raised were labour shortages and transportation bottlenecks. These are both issues that we recognize very clearly in the Northwest Territories.

In Yellowknife, which is our capital, the employment rate is nearly 80%, which is 19% higher than any other community outside of the city. We have made quite a bit of progress in addressing the northern infrastructure gap, but it's still pretty significant. I want to know, if you could tell me, of the two, what do you believe is more of a hindrance to Canada's economic growth potential?

Mr. Stephen S. Poloz: I guess I have a certain amount of optimism that the labour shortages are more solvable with smart policies. I feel that infrastructure will be a continuing demand through the piece. We're going to need to think in positive terms about infrastructure all the time, because we're always going to have a shortfall or a deficit in infrastructure.

On the labour shortages, considering that there are over 500,000 vacant jobs in Canada, quite evidently people are still looking for work. This suggests to me that there is something pretty cool that we could do there. It requires some ingenuity, I guess, around labour market policies. It's beyond our mandate, but I feel that there is more ground and more low-hanging fruit there than there is in the infrastructure or the bottleneck side. In infrastructure we're just going to have to keep building it, building it and building it.

Mr. Michael McLeod: Thank you.

On the issue of overnight rates, I want your views on how younger Canadians are reacting to the recent increases. People who were borrowing post-2009 have only known the economy at historically low rates. Our chair gave us an example. Do you believe that this generation is adequately aware of the unique position that we have been in for over a decade? Will they be prepared for the return of a normal rate of 3% or more?

● (1640)

Mr. Stephen S. Poloz: I share your concern. I will speak for myself, but in our communications last week we sought to put more emphasis on the notion that someday we're going to be back at neutral and that neutral is 2.5% to 3.5%, so that people will begin to digest that as an approaching fact. Of course, the pace is something that we have described before. It's unknown at this stage.

I have children who are adults, and I think they don't understand this, because they've never experienced the kinds of interest rates that you and I have in our lifetime. I hope they never do, because that was all about our inflation history and we worked very hard to fix it.

It was painful to fix. During the 1980s, when I was at the Bank of Canada as a young researcher, you could feel that. It was a very painful experience. That was when I bought my first house, and rates were 12% or 13%.

That goes into the rear-view mirror, and now you want people to understand that 3% would be just a normal thing, given the low inflation environment that we've established.

It shouldn't feel difficult. It shouldn't be a hard thing for people to service their debt at those kinds of interest rates. If, however, people have overextended themselves, given the low interest rates, we then have a transition issue. That is why we're putting so much emphasis on this and analyzing it so carefully and choosing our pace while we gather the data as we go through. We appreciate how difficult this is and how the economy will react.

I assure you it's top of mind—we're not losing sight of it—and I fully sympathize. We're going to be very careful about it.

The Chair: Thank you all.

Mr. Julian is next, and then we go back to Mr. Fragiskatos.

Mr. Peter Julian: Thanks, Mr. Chair.

I want to come back to the issue of the neutral rate, 2.5% to 3.5%. We are experiencing, as we're all aware, the highest rate of family debt in the OECD. Even though it has levelled off, it is still astoundingly high. I'm wondering what the impacts are.

I understand that you can't give us a schedule, but if the objective ultimately is that neutral rate of 2.5% to 3.5%, what, given the rate of family or household indebtedness, is the impact of rising to that neutral rate ultimately?

Ms. Carolyn A. Wilkins: It is very difficult for the people who are highly indebted—there's no doubt about that—and the adjustment is difficult. When we look at the impact, we look at those individuals but also at the rest of individuals. In Canada, there is a large proportion of people who have no debt or very little debt—debt that is more manageable.

In some of our material, you can see the proportions. That highly indebted group is about 18% of those who hold mortgages. Then many people—30% of people—don't have any mortgage. We are really careful to think about how people are adjusting by looking at different vintages of individual mortgages, and we also build that into our forecasting models so that we can get a better idea—not just talk about it but in fact take it into account in our decisions.

When we do that, in what we've seen so far it has been difficult, but we can see that overall, households are adjusting, the economy is doing well and businesses are getting their investment plans in place. We think that incomes will grow over the period in which interest rates are rising, and that if there is ever a time to get back to normal, as the governor was putting it, it would be during this period.

● (1645)

Mr. Peter Julian: I live in a modest, post-war home. It was one of the dozens, hundreds, thousands that were built in New Westminster after the Second World War. At the time, I took out a modest mortgage. Now, today, when I look at my son, my nieces, my nephew, there is absolutely no way they could ever afford that—a modest bungalow. The housing prices in the Lower Mainland have reached that stage where there is simply no way for an individual on a regular income to ever anticipate having a family home, potentially a condo apartment, but in terms of a single-family home, it's impossible.

I'm wondering, when you talk about the higher rate of the 18% of those who are over-indebted, is it not also a generational thing? What we see is younger Canadians who have to take on phenomenal debt loads if they hope to have a family home. Older Canadians, generally, with a lot of exceptions, are doing better because the value of their homes or their investments have risen over the past few decades.

Mr. Stephen S. Poloz: I'll take a shot at that.

I totally understand. We have some world-class, vibrant, global cities in Canada. Compared to other world-class, vibrant cities, they're still not very expensive. I think this is something we have to reconcile. How do people of the second generation in Paris or London afford to live there? Because they certainly aren't buying houses of the sort you're describing. People adapt and they live differently. In the case we have here, we have a big country and people move somewhere else. In a digital economy, they can be in all kinds of different places and be very productive.

We don't know how all this is going to turn out. People of our age have a culture where we buy our house and we have our mortgage and we pay it off. Someday you're debt-free. Other people in other societies choose to rent their entire lives. We say, “Well, it's too bad they're not owning a home,” but they may rent exactly the same place that whole time. If you have a large debt and you're just servicing that debt your whole life and you never actually own the place, you're just paying rent to someone else. You're paying rent to a bank instead of to someone who owns the apartment.

Many of these models may look the same, but the finances are just different. We have a very innovative financial sector that I think can manage it for people. I don't like to pre-judge it as a problem, per se. The best contribution we can make to affordability is to keep inflation under control. Part of that is getting interest rates back to normal so that we don't have 20% or 30% price hikes in a market like Vancouver, which was for sure destroying affordability.

The Chair: We're way over.

Mr. Peter Julian: I just want to come back to the generational issue. Perhaps you could address that in terms of the higher level of debt. Do you find a generational difference among younger Canadians as opposed to older Canadians?

Mr. Stephen S. Poloz: Yes.

The Chair: You squeezed it in, Peter.

Go ahead.

Mr. Stephen S. Poloz: Yes, at least in certain areas of the country.... In others, it looks just like when I was young, I find. In these cities that have become, in fact, global cities, they are just going to be much more expensive to live in, just because of what they are. It's the critical mass that builds and builds, and the rent curve, as we call it in economics, gets deeper in the middle. In those cities, it costs a great deal to live there.

The Chair: Okay. Thank you. We're well over time.

We'll go to the other Peter, Mr. Fragiskatos. Then we will have time for one question with the Conservatives and then back for the last question to Mr. Sorbara.

Go ahead, Peter.

Mr. Peter Fragiskatos (London North Centre, Lib.): Thank you, Mr. Chair.

Thank you for being here.

Governor, you know London, Ontario, very well because you studied at Western University. That's where I'm from. That's the city I have the honour of representing in the House of Commons. As I think you know, London sustained itself for many years. Its economy was based on manufacturing, and that has changed now. When 2008 hit, many of our factories left. We are trying to transition and are doing well in that regard. There's a thriving technology sector that's come to our city. Our downtown is quite vibrant in that regard. There are many tech-based companies there. Even where manufacturing exists—and it certainly does—it's taking on a more advanced form.

I ask this question because I know you spoke in late September in Moncton on the issue of technological advances and disruptive technologies and what that poses for economies. I'm obviously interested in this from London's perspective, but for the country as a whole.

I'll quote from your speech, from the conclusion. You said, "technological advances represent opportunities to be seized, not a force to be resisted." You continue by saying, "we know that in the long term, these advances will create more jobs than are lost, and create enough income to ensure that those who are affected can adapt and access new opportunities."

I wonder if you can delve into that and expand upon that a little more.

● (1650)

Mr. Stephen S. Poloz: Yes, we have roughly 200 years' worth of economic history and technological change throughout that period that we can study in detail. Throughout that history, there has never been a technological change that has not created more jobs than it has destroyed. The term "creative destruction" that Schumpeter developed is very apt. When there is technological change, somebody's job is eliminated.

We take cases like the driverless vehicle that is going to eliminate truck drivers' jobs. It's going to reduce the number of truck drivers' jobs; that's true—gradually, of course, because it's expensive to buy those trucks—but it's going to create jobs for all those people writing the software and building the trucks, and of course, monitoring the traffic and all those kinds of things. That's an example I use.

Most of us think of growth as a bit like yeast, it's everywhere and it grows incrementally, but in the real world, growth is like mushrooms, they pop up here and there. The person who thinks of that mushroom makes out like a bandit because they have the new idea, and the destruction is around that mushroom.

What I was alluding to at the end is that the yield from that technological change is sufficient that we can always fund safety nets to help those who are left behind, and second, that as the income and the entire economy goes up, all those regular jobs such as building houses and maintaining them, etc., are also increased. Those are not giant leaps in skill sets away from the jobs that have been eliminated by this process.

We shouldn't be pessimistic about it. That was my main message.

Mr. Peter Fragiskatos: Sure, and I certainly agree. I'm glad our government has invested in retraining, for example, and made that a priority, but obviously there will be more to do.

I ask the question, not only because of my interest in it, but I think this is really a matter of concern for a lot of Canadians, especially young people, but in particular their parents, who are saying the pace of technological change is proceeding so quickly and are wondering what this poses for future generations. I'm glad you've shed some light on it.

Growth in the OECD is expected to remain relatively robust, but it will decrease according to the composite indicators that have been put forward. What does that mean for Canada, and for our monetary policy?

Mr. Stephen S. Poloz: We expect growth at the global level to moderate from what it is doing at the moment, and that's primarily because the United States has had this big bulge in growth, and quite naturally, it's at its capacity so it has to moderate.

Second, because of the trade actions that have been put in place, we're having these spillover effects, hopefully temporarily, but in any case, even if those trade actions go away, we will still be left with a moderation in global growth. We have that built into our forecast.

Canada continues to do well under that. We're just settling in at our potential growth rate and unemployment at a 40-year low and inflation on target. Right now, things are okay. We still have some rebalancing to do, but all the motion is there.

● (1655)

Mr. Peter Fragiskatos: Thank you very much.

The Chair: Thank you, both.

We have time for one question from Mr. Poilievre.

Hon. Pierre Poilievre: You mentioned the ratio of income to debt service would increase by as much as 3% or 4% of gross income. When do you expect that increase will have been fully realized?

Mr. Stephen S. Poloz: It begins immediately for people who have floating rate mortgages, and then there are people who have two-, three- and four-year mortgages, so as we go through that, about half the people, thereabouts, have five-year mortgages. For them, it depends on when they started their mortgage. If they got it last year, they get to wait four years. If they got it four years ago, they're getting a renewal now. It's a very complex question, but given that the rate rises have already taken place, it takes pretty well two years for the peak effect to happen. Somewhere in 2020 we would have digested most of the effect.

As that process unfolds, we'll be able to monitor it in a dynamic sense. Our models are predicting all along the way...and I think as I've mentioned before, given our research on these segments of mortgage holders, our model is now about 50% more sensitive to interest rate movements than it was in the past. It is quite a big change, so we've already built it in to the numbers that you see for our forecast. We'll continue to monitor that quarter by quarter to make sure it's tracking as expected. So far it is, so we feel we have a reasonable understanding of it.

The Chair: Thank you.

Before I go to the last question from Francesco, on page 7 of your monetary policy report, where you deal with trade concerns weighing on non-energy commodity prices, you talk a fair bit about the energy sector. You make this statement:

> The effect on the price differential is being amplified by a faster expansion of oil sands production than of transportation capacity.

How serious is it that we have no access to market, other than basically rail, for some of that oil sands production?

From where I sit, there's a law of diminishing returns in terms of the railway capacity to haul other commodities when oil is taking up that capacity. We have to move potash, coal, all kinds of grains and oilseeds. There is an increasing problem as more oil, bitumen or whatever ends up on rail.

Do you have any thoughts on that?

Ms. Carolyn A. Wilkins: Clearly the transportation issues are what is driving the difference between the price of WTI and WCS. How serious is it? If you happen to be one of those companies that has the marginal barrel of oil that needs to be shipped by rail, you're getting paid a lot less for it. Also, you may be displacing some agricultural product. As we know when we talk to companies—and you know it too—they also have to wait and maybe have stockpiles of their product to ship as well.

About 93% of the oil is actually shipped by pipeline, so it covers a smaller proportion of the oil than one might imagine. As well, within that, some of the returns—the costs that are being paid for the rail—are actually accruing to Canadian railway companies, so not all of that is lost.

A cost that's outside how much I get paid today and how much I could get paid if the price were higher is really what it does to investment in the sector, where a price at that level may make it so that there's no business case to create further capacity. Certainly in our outlook, as you can see from one of the charts, investment in the energy sector is rather flat and slightly declining over the projection horizon because of that.

● (1700)

The Chair: You have the very last quick question, Mr. Sorbara.

Mr. Francesco Sorbara: Thank you, Mr. Chair.

The Bank of Canada has raised rates five times in the last year and a half or so, and you're about 75 basis points from hitting the lower bound of your neutral policy rate. Obviously the rise in rates connected with the bond market and so forth impacts interest-sensitive sectors within the economy. My estimate is that inflationary expectations are quite well contained now.

As my colleague mentioned, you have removed the word “gradual”. Some economists have said it means nothing. Others have said it means something. I think it means, Governor, that you don't like to give forward guidance in terms of data points, data plots or anything like that, like the Fed does.

Can you comment on the interconnectedness, and how we can avoid going too fast in raising rates and doing damage to interest-sensitive sectors, while still keeping inflationary expectations well contained?

Mr. Stephen S. Poloz: Our situation, as I mentioned a moment ago, is that the economy is approximately at its capacity. It is also growing at its capacity rate. Inflation is on target, and unemployment is at a 40-year low. We have all the readings we're looking for, except that interest rates are still extraordinarily low by historical standards and certainly relative to our notion of neutral.

But you're right that getting from here to neutral—as we've said many times today—is a process in which we need to evaluate continuously how the effects are playing out. It's certainly not going to be a rapid process. It's a process, though, and we wanted to make sure we weren't locked into a perception that we would move every second meeting. That's what the market said that “gradual” meant.

We thought that it might mean that, but it could easily not mean that, so we needed to clarify. We defined the pace more carefully, so that people would understand what we would be looking at. The most important thing is how households are responding. That's the most interest sensitive part of the economy, given the level of debt. We will be analyzing that in every which way, and in much detail. At each time, we will be offering more and more insight into how people are responding.

Of course, if we move too quickly, the economy will slow below its potential growth rate and that will put downward pressure on the future outlook for inflation. That's not what we want. That would mean “slow down”. That's what that would tell us. But if the economy continues to perk along at this stage and is adding to excess demand, then we would become concerned about inflation pressures down the road. We're at that point where we need to balance the risk of going too quickly against the risk of going too slowly, and there are a number of unknowns in that grey zone in the middle. We will be monitoring each of those carefully and forming our judgments at each meeting.

The Chair: With that, thank you for your presentation and answering our questions, Governor and Deputy Governor.

We will suspend for about five minutes to bring up the witnesses from the Office of the Parliamentary Budget Officer.

● (1700)

(Pause)

● (1710)

The Chair: We can reconvene.

We have, from the Office of the Parliamentary Budget Officer, the Parliamentary Budget Officer, Yves Giroux. This is his first time before this particular committee. Welcome, Yves.

With you, we have the senior director, economic and fiscal analysis, Mr. Matier, and Mr. Shaw, director, fiscal analysis.

Just to explain, bells will ring at a not too distant time and members will have to leave to vote. There will be a 30-minute bell. Hopefully, if we get permission from all parties, we will stay here until about eight minutes before the vote. Then we will come back following the vote and finish our questioning for a period of time.

I know that at seven o'clock tonight, there are also briefings on the budget implementation act, and there's a vote on the NATO Parliamentary Association that people will want to vote on, at 6:30, so we can rotate in and out of that. It's a little complicated tonight.

Welcome, Mr. Giroux. The floor is yours.

Mr. Yves Giroux (Parliamentary Budget Officer, Office of the Parliamentary Budget Officer): Thank you.

Good afternoon, Mr. Chair, vice-chairs and members of the committee.

I would like to thank you for the invitation to appear before you today to discuss our October 2018 economic and fiscal outlook, which we published last week, exactly a week ago.

Consistent with the PBO's legislated mandate, my office produces an independent economic and fiscal outlook and today, as you mentioned, I am joined by Chris Matier and Trevor Shaw. The three of us will be happy to respond to your questions.

[*Translation*]

I would first like to start with the economic outlooks.

Canadian economic performance remains solid. Fuelled by strong export growth, the Canadian economy continued to operate above our estimates of its potential output in the first quarter of the year.

We expect growth to slow as the economy comes to rely less on consumer spending and housing, and more on business investment and exports. We project real GDP growth to decrease from 2.1% in 2018 to 1.8% in 2019 and then to 1.5% annually through 2023.

We continue to monitor macroeconomic developments and risks to our outlook. In our October report, we highlight recent tariff changes, Canada's investment climate and household financial vulnerability.

We judge that the risks surrounding our economic outlook are broadly balanced. In terms of downside risks, we continue to believe that the most important risk is weaker export performance. On the upside, the most important risk is stronger household spending.

[*English*]

Regarding the fiscal outlook, our fiscal outlook takes into account recent policy changes in Canada and abroad. The report highlights the revenue implications of recent Canadian tariffs and U.S. corporate tax changes. Furthermore, based on some preliminary assumptions, our fiscal outlook reflects the recent change in the government's discount rate methodology used to measure its long-term liabilities.

For the current fiscal year, 2018-19, we project that the federal budgetary deficit will be $19.4 billion, which amounts to 0.9% of the Canadian economy. Over the medium term we project the budgetary balance to reach a deficit of $9.4 billion, or 0.4% of GDP, as revenues outpace growth in the economy and the government's operating expenses remain restrained. In addition, we project that federal debt will decline to 30.3% of GDP in 2021, which is 1.5 percentage points below the government's official debt anchor.

Given the possible scenarios surrounding our economic outlook, and without further policy actions, it is unlikely that the budget will be balanced or in a surplus position over the medium term. However, we estimate that it is likely the government will meet its debt anchor commitment of bringing the debt-to-GDP ratio below 31.8%.

My colleagues and I would be pleased to respond to any questions you may have, and I am sure you have a few regarding our economic and fiscal outlook or other PBO analyses.

Thank you, Mr. Chair.

● (1715)

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

We'll go to five-minute rounds, given that we're going to be tight on time.

Mr. Fragiskatos.

Mr. Peter Fragiskatos: Thank you, Mr. Chair.

Thank you, Mr. Giroux, for being here.

I was very interested in the report that you recently released. You say that U.S. tax cuts will not have a material impact on Canada's investment climate. I wonder if you could expand on that point.

Tell us how you arrived at that conclusion, specifically, because it differs from accounts that we have heard at this committee in our pre-budget consultations, both here in Ottawa.... I certainly did the eastern Canada trip and I know my colleagues did western Canada. I can't speak for western Canada, but I know this was a common theme, the concern about the U.S. tax cuts that Mr. Trump introduced a number of months ago, and what that means for investment in Canada.

Mr. Yves Giroux: The first point I'd make is that the U.S. has reduced its tax rates, but they are bringing them into line with Canada's. Over the last several years the U.S. tax rates for corporate income tax were significantly above Canadian tax rates.

Also, the U.S. tax cuts are temporary in nature. They will be phased out over a five-year period, and that, to an economist, doesn't have the same impact as permanent tax cuts. Businesses know that there are incentives to shift income and some investments in the U.S. when the tax rates are being lowered. When it's temporary, however, it doesn't have the same powerful incentive.

I'd also add that marginal effective tax rates are one element in businesses' decisions to make investments, one of many factors. One can think of the availability of labour, the quality of the labour force, their prospects for profits, obviously, also the macroeconomic environment, as well as trade certainty or uncertainty. These are a few of the many factors, including tax rates, in firms' decisions.

Given all this, we looked at the evidence. Was there evidence suggesting that there was a reduction in investment in the Canadian economy? We looked at foreign direct investment in the first half of this year and found that foreign direct investment in Canada has remained roughly at the same level as the average of the last couple of years. Furthermore, business sentiment is still positive in Canada despite the small difference in tax rates.

One also has to put the tax cuts in their broader macroeconomic perspective. Canada has a deficit of less than 1% of GDP, while the U.S. has a deficit of more than 3.5% of GDP. The debt-to-GDP ratio in the U.S. is rising and is slated to hit 100% over the next five years, while the Canadian debt-to-GDP ratio is going down. All that points to further increases in tax rates in the U.S. or a reduction in expenditures, because eventually something has to give.

Finally, if you'll allow me to go back to the testimony that this committee has heard, my bet would be that you heard testimony from business owners or business councils or the Canadian Council of Chief Executives. Business owners are representatives of business owners, and I would say they probably have a vested interest in arguing for lower tax rates.

Mr. Peter Fragiskatos: I appreciate your objectivity, then, Mr. Giroux.

I see that I have about a minute left, so I will put to you the following question. The TD Bank a number of months ago issued an opinion saying that if we were to follow the U.S. in significantly cutting our corporate tax rate, doing so would jeopardize debt levels in the future and that they expect the U.S. will run into debt problems as a result of the measure introduced by the administration.

Would you expect the same sort of danger to result here in Canada, if we significantly cut corporate taxes? Could doing so impact our debt levels in a very drastic way?

● (1720)

Mr. Yves Giroux: To answer that question, I would probably go back to the fiscal sustainability report that I published last month, in which we looked at the federal finances over the next 75 years. I will spare you all the details, but the conclusion of the report is that if we maintain current policies over the next 75 years—and this is a projection, so it's purely an exercise—we show that there is fiscal flexibility of about $29 billion at the federal level. If the government, then, were to reduce tax rates for businesses, there would still be sustainability over the long term in the absence of any other policy action or any economic shock over the next 75 years.

That being said, we know that things will not remain static over 75 years. This is just for illustrative purposes, to indicate which governments or jurisdictions have fiscal problems and which don't have fiscal pressures.

The Chair: Mr. Richards.

Mr. Blake Richards: Thanks, Mr. Chair.

I appreciate your being here.

I want to ask you a little bit about an issue relating to the so-called dividends that the Canada Mortgage and Housing Corporation is paying out to government revenues—almost $6 billion over the last couple of years. What that essentially is telling us is that we're seeing homeowners paying far bigger premiums than necessary and are seeing $6 billion flowing to government. It's almost like a taxation, I suppose, in a way.

What I wanted to ask you about, though, taking a look at that almost $6 billion—$5.7 billion, anyway—is what that money would look like in the hands of taxpayers. What would it look like circulating in the economy rather than in the hands of the government?

I'm just curious as to your thoughts and your opinion on that.

Mr. Yves Giroux: Certainly, reducing the revenues of a Crown corporation such as CMHC and making sure that this reduced revenue is returned back into the hands of those who pay premiums would be akin to a tax cut.

What would the impact of that be? Returning, let's say, $5 billion to households, businesses or a combination of both would provide stimulus to the economy. I haven't quantified that, obviously, but that's something we can probably relatively easily calculate and determine.

Mr. Blake Richards: You're obviously saying it would provide some stimulus to the economy. It likely would also increase tax revenue, I suppose, as a result. Would it not?

Mr. Yves Giroux: Yes, probably.

Mr. Blake Richards: All right.

Let me ask about some of the differences we're seeing in the tax rates for businesses and corporations here in Canada as compared to the United States. Your report said that we receive about $500 million less in tax revenue on average as a result of some companies shifting their investments out of Canada and into the United States. Do you see that continuing to grow? What kind of impact do you think that is going to have on the economy?

Mr. Yves Giroux: We believe that there will be some profit shifting, and the amount that you mentioned is in our report. That amounts to about 1% of corporate income tax revenues, overall, in one year, as a result of some profit shifting, as you indicated. That's based on the current policy regime in the United States. If this policy regime in the States were to be made permanent, which we have not assumed, it would probably increase the profit shifting out of Canada and into the U.S. if businesses believed that this was to be permanent.

It's hard to quantify it exactly, but it certainly would increase the shifting away from Canada and into the U.S.

● (1725)

Mr. Blake Richards: When you talk about this kind of situation, obviously, larger corporations generally tend to have a bit more of an ability to take advantage of those kinds of opportunities, to shift the profits or whatever, to move their operations across borders and things like that. Small businesses are obviously not in a position to be able to do that, at least not often. It's certainly not as easy for them to be able to do that.

When you get that kind of a gap in tax rates and things like that, would you say that those kinds of policy differences would be something that would have a disproportionate impact on small businesses?

Mr. Yves Giroux: It's quite clear that mom-and-pop shops will have absolutely no capacity to shift their taxable income from one country to the other. The type of profit shifting that we are anticipating as a result of the U.S. tax cuts will be done in vast majority by multinationals that have operations in both countries. Even small and medium-sized businesses that have operations solely in Canada will have no opportunity to shift taxable income to the U. S.

To your question, do I expect this profit shifting to disproportionately benefit multinationals or that, on the opposite side, small businesses will not be benefiting from that? Yes, it is clearly the case, I believe.

The Chair: Thank you. We're out of time.

Mr. Julian.

Mr. Peter Julian: Thank you very much.

Mr. Giroux, you and you office and your predecessor are heroes, I think, to many Canadians, particularly because of the fight the PBO has waged to get the information from the Canada Revenue Agency. It allows us to get a good estimate of the tax gap in Canada—the money that's lost to overseas tax havens, the money that's lost to tax loopholes. The PBO waged a five-year fight to finally get that money. The previous government wouldn't permit it. The current government wouldn't permit it. Thankfully, the PBO finally said, “We'll take you to court unless you give that information.”

At the time, your predecessor, Mr. Fréchette said the time that it would take to actually produce a tax gap report depends on the quality of the information we receive. This report would be vital, I think, for the next federal election, when Canadians get a chance to look at the fiscal platforms of each of the parties. He said that if the Canada Revenue Agency gives us a paper version of files in boxes, it's going to take a lot longer than if there's a transfer of legitimate electronic information.

I think Canadians would be interested in knowing what quality of information you have received from the Canada Revenue Agency, and what you think in terms of a timeline to produce this important report. I think a lot of Canadians are waiting for it and want to know how much the federal government loses to wealthy tax dodgers and tax havens overseas.

Mr. Yves Giroux: That's an interesting question, given the fight that my predecessor entered into with CRA.

On the quality of data, my office received a first batch in February, and contrary to what people were fearing, we didn't receive boxes and boxes of paper documents. We received USB keys that were secure and protected despite not containing confidential taxpayer data. It was very secure and there was quite a bit of information.

We looked at what we received and determined that we need some more refined information and data from CRA. We have made the request and we have received, so far, very good co-operation from CRA on getting the information that we think will be useful in determining the tax gap.

There are discussions under way still with CRA, because I don't know that it has all the information that Canadians would expect it to have on international tax evasion, and on those who are more likely to get into these arrangements. That's why we are in ongoing discussions with CRA to determine what it is that it has, and what it is that we can get from CRA. It's not by lack of co-operation from officials. It's more out of determining what it is that CRA does indeed have. That's for quality.

Regarding timelines, we expect to be in a position to have an estimate of the tax gap in the spring of 2019, because on purpose it spans a three-month time horizon. If I were a betting man, I would probably go for the latter part of spring as opposed to the earlier part of spring. That is because trying to put a number on the international tax gap is eminently difficult.

It's trying to nail Jell-O to a wall, as somebody explained to me. It's trying to get information on the one hand on the taxes that Canada collects with respect to international income and international activities, but what is difficult is trying to get information on the taxable income. What part is declared and what part is not declared. The part that is not declared, under the radar, is very difficult to identify and estimate. This is not only in Canada, but other countries have faced the same challenges.

● (1730)

Mr. Peter Julian: Do you have everything you need, subject to those negotiations and discussions, to move forward?

Mr. Yves Giroux: Assuming we get what we can get from CRA, and what we expect to get from CRA, it looks like we will get all that is feasible for CRA to give us, but I'll get back to you on that once we have finalized the discussions with CRA.

[*Translation*]

Mr. Peter Julian: Here is my last question; it is about family debt.

We talked to Bank of Canada officials about this. Family debt really is at an incredible level. It is difficult to see how families will be able to ease that burden.

Are you concerned by the burden of debt that ordinary families have been carrying for a number of years?

Mr. Yves Giroux: Yes.

Moreover, when one of the committee members asked the governor what keeps him awake at night, I wondered what my own answer would be. I sleep well at night, but one of the things that concerns me is the level of household debt.

The rate of indebtedness has reached a very, very high level, despite the fact that interest rates are low. That continues to be a concern for me, because interest rates will be going up, even if they are forecast to do so only slightly. The governor mentioned it earlier. The interest rate is supposed to stabilize around 3%, which will mean servicing the debt will cost more. As a result, the part of disposable household income that is used to pay back the debt will go from about 14% to almost 16%.

That may seem like a small increase, but, for a middle class household, it can easily mean an average of $1,200, $1,500 or $2,000 per year, which is not a negligible amount. As you know, families just starting the first phase of family life take out large mortgages and car loans. For them, the increase I have just mentioned will be bigger.

So, yes, it does concern me.

[*English*]

The Chair: Okay, we'll have to go to Mr. Fergus.

Before we do, we're soon going to have to cut the mustard here and go to vote. Where there was one vote, there are now four, so we have to figure out what we do following this round of questions and whether we come back. There's a NATO meeting that I know people want to vote at, at 6:30, and there's a BIA briefing at seven o'clock for all parties and senators.

People need to think about what they want to do, whether we cut it here or come back and go to four more questions.

We'll go to you, Mr. Fergus.

[*Translation*]

Mr. Greg Fergus: Thank you very much, Mr. Chair.

Welcome, Mr. Giroux. Thank you for your report.

I would like to continue along the same lines as Mr. Julian and talk about Canadians' household debt. You said that the thing that keeps you awake at night is not so much the debt as our ability to repay it.

When I was young, my parents had to contend with interest rates of 12% or 13%. When I bought my first house, the five-year rate on my first mortgage was about 8%. Now the rates are around 3%. That is unheard of.

How able are Canadian households to pay back their debts? The Bank of Canada indicates that the key rate should range from 2.5% to 3.5%, but, if the part of household income that goes to paying back the debt exceeds 16%, it would be the straw that breaks the camel's back, don't you think?

● (1735)

Mr. Yves Giroux: To answer that question, we have to look at the economic situation of the households in its entirety. Over the years, interest rates have dropped markedly. The government mentioned it, as you did. I lived through it too, not when I bought my house, but a lot earlier. Interest rates were high.

The drop in interest rates has improved access to property. The price of houses then started to go up. When interest rates go down, house prices go up. So is access to property better now than it was 20 years ago? It is difficult to answer that question with absolute certainty.

We are seeing some effects today: interest rates are low, but household debt levels are high. When I entered the labour market, it was very difficult to find a job. Now, my 19-year-old daughter drops off a resumé or two and gets a job immediately. Access to property is a little difficult because of the high prices, the level of household debt is high, but the labour market is very solid.

As every good economist could say, you have to look at both sides. Even though household debt is a particular concern, especially at the start of a period of increasing interest rates, the labour market is very solid. That makes me optimistic as to the capacity of the households to pay back their debts, if interest rates increase as we expect. As economists, we also know that we are often wrong.

The concern would be if interest rates continue to increase and exceed the rates we are expecting in the medium term. The problems for households could then be excess debt and the inability to pay it off.

Mr. Greg Fergus: Your predecessors have all sounded the alarm about the level of indebtedness of Canadian families. They have said that the rates of indebtedness was not going to go down. According to your report, the rate is reaching a plateau and it will slow down and stabilize at 177%.

Could you explain why you have come to the conclusion that the rate is about to level off? Are there indicators that tell you that Canadians are paying off their debts more seriously than in the past?

[*English*]

Mr. Chris Matier (Senior Director, Economic and Fiscal Analysis, Office of the Parliamentary Budget Officer): Two factors inform our outlook for the household debt to income ratio being relatively stable over the projection. We see the increase in interest rates that is going to help slow borrowing, but we also see the moderation in economic growth, so income growth will be slowing. It's really these two factors, as well as a slower growth rate of real housing prices.

The Chair: I'm sorry, Greg, but we're done.

Are there any burning questions for the Parliamentary Budget Officer that we have to come back to? Now that there are four votes, I would estimate that we won't be back here until probably 6:30 at that.

Go ahead, Peter.

Mr. Peter Julian: I'd like to suggest that we have the Parliamentary Budget Officer back another time. There are lots of questions we can ask. He and his office are a great help to Canadians, but I'm not sure keeping him waiting for 45 minutes is particularly nice or polite on an evening like tonight.

The Chair: I think that's a very good suggestion. We will leave it at that.

You didn't get a very rough time, as the new Parliamentary Budget Officer, Mr. Giroux. That's a good way to start.

We will be meeting tomorrow evening to finish up our study on money laundering.

The meeting is adjourned.

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