HOUSE OF COMMONS
CHAMBRE DES COMMUNES
CANADA

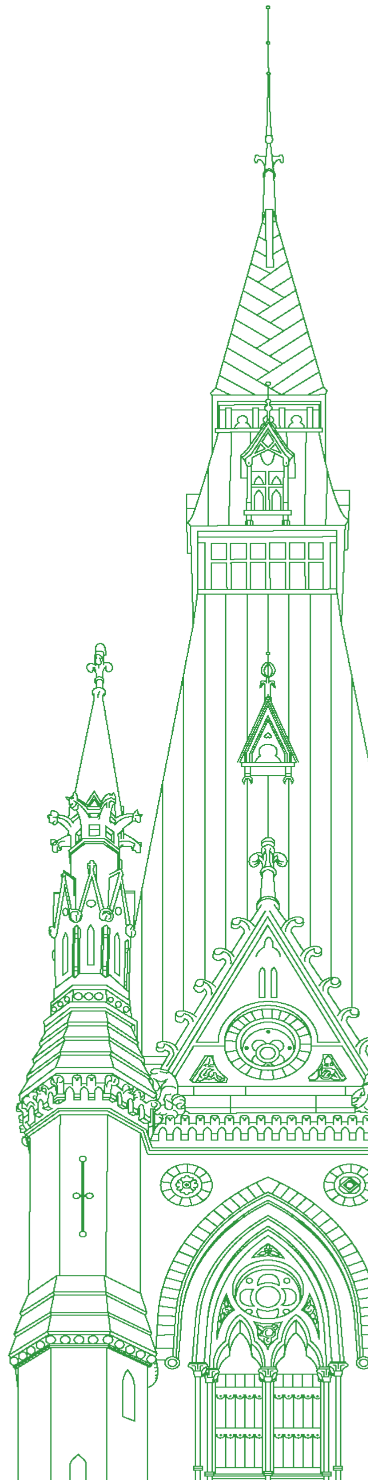
44th PARLIAMENT, 1st SESSION

Standing Committee on Finance

EVIDENCE

NUMBER 112

Monday, October 30, 2023



Chair: Mr. Peter Fonseca

Standing Committee on Finance

Monday, October 30, 2023

● (1530)

[*English*]

The Chair (Mr. Peter Fonseca (Mississauga East—Cooksville, Lib.)): I call this meeting to order.

Welcome to meeting number 112 of the House of Commons Standing Committee on Finance.

Pursuant to Standing Order 108(2) and the motions adopted by the committee on Thursday, September 21, 2023, as well as Monday, November 21, 2022, the committee is meeting to discuss the report of the Bank of Canada on monetary policy and resuming its study of policy decisions and market forces that have led to increases in the cost of buying or renting a home in Canada.

Today's meeting is taking place in a hybrid format pursuant to the Standing Orders. Members are attending in person in the room and remotely by using the Zoom application.

I would like to make a few comments for the benefit of witnesses and members.

Please wait until I recognize you by name before speaking. For those participating by video conference, click on the microphone icon to activate your mike, and please mute yourself when you are not speaking.

For interpretation for those on Zoom, you have the choice at the bottom of your screen of either floor, English or French. For those in the room, you can use the earpiece and select the desired channel.

Although this room is equipped with powerful audio systems, feedback events occur. These can be extremely harmful to interpreters and cause serious injuries. The most common cause of sound feedback is an earpiece worn too close to the microphone. We therefore ask all participants to exercise a high degree of caution when handling the earpieces, especially when your microphone or your neighbour's microphone is turned on.

In order to prevent incidents and safeguard the hearing health of the interpreters, I invite participants to ensure they speak into the microphone into which their headset is plugged in and to avoid manipulating the earbuds by placing them on the table, away from the microphone, when they are not in use.

I will remind you that all comments should be addressed through the chair. For members in the room, if you wish to speak, please raise your hand. For members on Zoom, please use the “raise hand” function. The clerk and I will manage the speaking order as best we can, and we appreciate your patience and understanding in this regard.

With us today, we have, from the Bank of Canada, the governor.

Welcome, Governor Tiff Macklem.

Joining the governor is Senior Deputy Governor Carolyn Rogers.

You now have an opportunity to address us with some opening remarks before we get to the members' questions. We'll go for about an hour and 20 minutes, and then we will have a health break as we transition into that last hour.

Mr. Tiff Macklem (Governor, Bank of Canada): Thank you and good afternoon. I'm very pleased to be here with Senior Deputy Governor Carolyn Rogers to discuss our recent monetary policy report and our decision last week.

Last week, we maintained our policy interest rate at 5%. We held our policy rate steady because monetary policy is working to cool the economy and relieve price pressures, and we want to give it time to do its job, but further easing in inflation is likely to be slow and inflationary risks have increased.

Before I take your questions, let me give you some of the economic and financial context for that decision.

[*Translation*]

Since the last time we were here with you, the Canadian economy has slowed, and the available data suggest demand and supply are now approaching balance.

We're now seeing clearer evidence that higher interest rates are moderating spending and relieving price pressures. The economy has entered a period of weaker growth, with growth averaging about 1% over the last year. It is forecast to remain below 1% until late 2024 and rise to 2.5% in 2025.

The economy is expected to move into excess supply this year and growth should remain weak for the next few quarters. Consequently, inflation should continue to ease gradually and return to our 2% target in 2025. However, higher energy prices and persistence in underlying inflation could slow progress.

The effects of higher interest rates on inflation are most evident in the prices of durable goods, like furniture and appliances that people often buy on credit. These effects have also spread to many semi-durable goods, such as clothing and footwear, as well as many services excluding shelter.

Inflation in these categories is now running generally at or below 2%. Price increases for groceries, while still elevated at almost 6%, have also eased and are expected to moderate further.

A number of factors are getting in the way of low inflation. For example, higher global energy prices are increasing prices at the pump. And that is pushing inflation, as measured by the consumer price index, the CPI, back up.

Structural supply shortages in our housing market are boosting prices for shelter. In addition, near-term inflation expectations and wage growth remain elevated, and corporate pricing behaviour is normalizing only slowly.

● (1535)

[*English*]

Since we're going to be discussing housing in more depth today, let me provide some additional detail now. The rise in interest rates has cooled demand for housing. Since February 2022, housing resales have declined by 33% and house prices are down about 10%. But shelter price inflation has picked up and is running above 6%. Structural pressures in the housing market are slowing the return of inflation to target. Shelter price inflation has become more broad-based, with rent and other accommodation expenses increasing, in addition to the ongoing rise in mortgage interest costs, which is related to our own policy rate increases. We look forward to discussing these housing dynamics with you in more depth.

The combined effect of all these pressures on inflation is that we now expect inflation to be about 3.5% through to the middle of next year. As excess supply in the economy increases, inflation should ease in 2024 and reach 2% in 2025.

Overall, inflationary risks have increased since July. The forecast we released last week has inflation on a higher path than we expected last summer. In addition, rising global tensions, particularly the war in Israel and Gaza, have increased the risk that energy prices could move higher and supply chains could be disrupted again, pushing inflation up around the world.

With clearer evidence that monetary policy is working, my colleagues and I on the bank's governing council judged last week that we could be patient and hold the policy rate at 5%. However, to be confident that our policy rate is high enough to get inflation back to 2%, we need to see more easing in our measures of core inflation. We will continue to assess whether monetary policy is sufficiently restrictive to restore price stability and we will monitor risks closely.

Our decision last week reflected our best efforts to balance the risks of over- and under-tightening. We don't want to cool the economy more than necessary, but we don't want Canadians to have to continue to live with elevated inflation either, and we cannot let high inflation become entrenched in the economy. If inflationary pressures persist, we are prepared to raise our policy rate further to restore price stability.

In summary, we've made a lot of progress in reducing inflation, but we're not there yet, and we need to stay the course. When price stability is restored, the economy will work better for everyone.

With that, the senior deputy governor and I will be very pleased to take your questions.

Thank you.

The Chair: Thank you, Governor and senior deputy governor.

We will get right into questions. In our first round, each party will have up to six minutes to ask questions.

MP Hallan, you have six minutes, please.

Mr. Jasraj Singh Hallan (Calgary Forest Lawn, CPC): Thanks, Chair.

Chair, can my time be paused? I want to put a motion on notice.

The Chair: All right. We've paused the time.

Mr. Jasraj Singh Hallan: Colleagues, the finance minister has appeared exactly zero times to this committee on a motion I passed last November for her to appear at this committee quarterly until inflation comes down to the target rate.

Given that, I want to give this notice of motion:

> That the committee report to the House its censure of the Deputy Prime Minister and Minister of Finance for ignoring the committee’s requests for her to appear on the cost-of-living crisis.

Thank you, Chair.

● (1540)

The Chair: Thank you, MP Hallan.

Mr. Jasraj Singh Hallan: Before I get started with my questions, Governor, I'd like to make a request to you to please table to the committee the number of mortgages that will be rolling over from October of this year until the end of 2025, broken down by month.

Can I get a confirmation on that, please?

Mr. Tiff Macklem: I don't have that number in front of me.

Mr. Jasraj Singh Hallan: Can you table it to the committee?

Mr. Tiff Macklem: We do know the number of mortgages at federally regulated financial institutions. We could provide that information to the committee. That would be the majority—

Mr. Jasraj Singh Hallan: It would be broken down by month, the ones that are rolling over.

Mr. Tiff Macklem: We'll do our best to get the information you're asking for.

Mr. Jasraj Singh Hallan: Okay.

Governor, you said last week at your presser that “government spending will be adding to demand more than [to] supply [in] growing and in an environment where [we are] trying to moderate spending and get inflation down, that's not helpful”. Would it be easier if government didn't add any new spending in the fall economic statement or next year's budget? Would that be helpful?

Mr. Tiff Macklem: Let me make some general comments here on fiscal policy.

Any standard economic textbook will tell you that if you cut government spending, that will tend to slow growth, raise the unemployment rate and reduce inflation. Similarly, if you increase taxes, it would do the same thing.

Mr. Jasraj Singh Hallan: Then in the context of your own words about government spending—these were your words—would it be helpful if....

Let me ask you this: Why is it not helpful to you?

Mr. Tiff Macklem: It would be helpful if monetary policy and fiscal policy were rowing in the same direction.

Mr. Jasraj Singh Hallan: Are they rowing in opposite directions right now?

Mr. Tiff Macklem: If you look at what we've seen over the last year—there are different ways to measure it—one way to do this would be—

Mr. Jasraj Singh Hallan: Are they rowing in opposite directions? Just give a yes or no.

Mr. Tiff Macklem: Over the last year, no. Over the next year, certainly if the spending plans of all levels of government were to be realized, government spending, by our estimates, will be growing faster than supply. In that sense—

Mr. Jasraj Singh Hallan: So they're rowing in opposite directions.

Mr. Tiff Macklem: —that would not be helpful in getting inflation down to target.

Mr. Jasraj Singh Hallan: Are they rowing in opposite directions, yes or no?

Mr. Tiff Macklem: Yes.

Mr. Jasraj Singh Hallan: Okay.

David Dodge, your predecessor, recently said that the federal government is running a very expansionist policy, an increase in the budget balance, that adds to inflationary pressures and forces the bank to run a tighter policy. The PBO has also recently projected that the deficit will be $6 billion higher than the government told Canadians in their budget.

Given that the government grew its spending by 11.5% in the last fiscal year, are you concerned about the trend in the growth in government spending? Is that not helpful either?

Mr. Tiff Macklem: What I indicated and what we have in our monetary policy report are the spending plans of the government, and what I just indicated is that if you take all of those plans and you add them up, by our estimates, they're growing at 2.5%. The potential output growth, the supply side of the economy, is growing at 2%, so that is growing faster—

Mr. Jasraj Singh Hallan: I just want to confirm. Is the $6 billion—

Ms. Julie Dzerowicz (Davenport, Lib.): Mr. Chair, I have a point of order.

The Chair: There's a point of order.

Ms. Julie Dzerowicz: Can we please allow our guest to respond fully to the question? He's trying to answer the question and he's being interrupted.

Mr. Jasraj Singh Hallan: Chair, I have a limited amount of time. We've already heard some of the testimony—

The Chair: We don't want crosstalk, MP Hallan. We don't want you talking over the witness. Allow the witness to finish his answer to your question, please.

Mr. Jasraj Singh Hallan: Okay.

Governor, with regard to the $6-billion increase in deficit that the PBO told us about, is that included in your bank's projection?

Mr. Tiff Macklem: I don't have the PBO report in front of me, but in our projections, we take the federal budget and the budgets of all the provinces and we put all that together and make a best estimate of fiscal plans. Those are built into our projections—

Mr. Jasraj Singh Hallan: Exactly, so we know that the budget is already $6 billion over—

Ms. Julie Dzerowicz: I have a point of order, Mr. Chair.

The Chair: Go ahead, MP Dzerowicz.

Ms. Julie Dzerowicz: I'm very sorry, but the governor was not able to answer the last question or this question. Nobody who is listening would be able to understand the response.

The Chair: MP Hallan, please, let's have no crosstalk. Let's allow the governor to finish his answer to your question.

Mr. Jasraj Singh Hallan: I'm trying to get him to the point.

The Chair: He's trying to finish his answers to your questions.

Go ahead, MP Hallan.

● (1545)

Mr. Jasraj Singh Hallan: We know that $6 billion is what they're already over. Is that helpful for you in your projections in bringing down interest rates?

Mr. Tiff Macklem: Look, I—

Mr. Jasraj Singh Hallan: Yes or no?

Mr. Tiff Macklem: I am not going to get into the details of fiscal policy, okay? The government—

Mr. Jasraj Singh Hallan: With all due respect, you did comment on fiscal policy—

Mr. Tiff Macklem: That was because you asked me to.

Mr. Jasraj Singh Hallan: You did comment on government spending last week.

Mr. Tiff Macklem: I'm not going to comment on specific fiscal plans, specific spending plans. What I have said—and I've been very clear—is that if you take all of the spending plans of government for the next year, they imply growth and spending of 2.5%—

Mr. Jasraj Singh Hallan: Fair enough. We've heard that for the third time.

The Chair: MP Hallan, please allow the governor to finish his answers to your questions—

Mr. Jasraj Singh Hallan: Definitely—

Hon. Andrew Scheer (Regina—Qu'Appelle, CPC): Mr. Chair, on a point of order, my understanding is that at these committees, because we have such limited time, the witnesses are encouraged to use a similar length of time in responding to the question as it takes to pose the question.

Mr. Hallan is asking yes-or-no questions. I think it's fair, if my colleague is trying to focus in on getting an actual—

The Chair: That is not correct, MP Scheer. What you're saying is not correct. The governor should have an opportunity to answer the question.

Mr. Tiff Macklem: I'm not going to have yes-or-no answers when you get down to specific questions of fiscal policy.

Mr. Jasraj Singh Hallan: Okay, but with all due respect, you said that you did your projections based on current government projections.

Mr. Tiff Macklem: Correct.

Mr. Jasraj Singh Hallan: We know that it's already $6 billion over, according to the PBO. Is that helpful in your bringing down the interest rate, yes or no?

Mr. Tiff Macklem: I think I've answered that question. I can't really add any more than what I've already said.

The Chair: Thank you.

That's your time, MP Hallan. Now we go to MP Dzerowicz, please—

Mr. Philip Lawrence (Northumberland—Peterborough South, CPC): I have a point of order.

The Chair: —for six minutes.

Mr. Philip Lawrence: On a point of order, Mr. Chair, I was timing the whole thing and I had a full other minute left.

The Chair: No, no. We have it here—6:08.

Mr. Philip Lawrence: You weren't stopping for the points of order.

The Chair: No. That was the time.

Mr. Philip Lawrence: Mr. Chair, there's another minute. Let's replay the tape.

The Chair: The chair has said that this was the time.

Now we have MP Dzerowicz.

Mr. Philip Lawrence: I challenge the chair.

The Chair: There's a challenge to the ruling of the chair.

(Ruling of the chair sustained: yeas 7; nays 4)

The Chair: Thank you. It's sustained.

Now we go to MP Dzerowicz for six minutes, please.

Ms. Julie Dzerowicz: Thank you so much, Mr. Chair.

I want to thank the governor and the deputy governor for being with us today.

Thanks to both of you for your extraordinary work, particularly during these very unprecedented and very difficult times.

I want to start off by just getting you to clarify very quickly, Governor. You had indicated in a question to my colleague across the way.... You said something along the lines that all levels of government spending plans could result in fiscal policy being out of touch with monetary policy.

Did I hear you correctly, and can you clarify that you're speaking of more than just the federal government spending? If you could clarify that for us, that would be great.

Mr. Tiff Macklem: I am talking about all levels of government, both federal and provincial. I don't think I used the words “out of touch”.

Ms. Julie Dzerowicz: Okay. Thank you for that.

We had a peak of inflation a little while back at 8.1%, and today the inflation rate is 3.8%. No one would say that our inflation rate isn't too high. It is, but can you tell us to what you can attribute this improvement in the situation around inflation, please?

Mr. Tiff Macklem: I think there are two sets of factors.

Part of it is global. One of the reasons that inflation went so high was that, globally, demand for goods ran way ahead of the ability of the economies to supply them, so you saw a big run-up in prices of goods globally. Then, of course, Russia's attack of Ukraine drove energy prices and agricultural prices a lot higher.

The global supply chain issues that were clogging up the system have largely been resolved. Of course, Russia's invasion continues, and we now have a new conflict in the Middle East that is creating uncertainty, but energy prices have come down from their peak at the start of the war. Agricultural prices have come down. Those things have relieved inflationary pressures globally.

The other part, though, is more domestic, and that's really where monetary policy works and matters. When the economy reopened, what happened was that demand recovered much more quickly than supply could recover, and that resulted in demand running ahead of supply. The economy was very overheated, and that created domestic inflationary pressures.

We responded forcefully. We raised interest rates faster than we've ever raised them. What we see now is that those higher interest rates are working through the economy. Growth in the economy has cooled. The economy was very overheated. Most indicators suggest that it is now close to balanced. That is relieving those inflationary pressures. You have seen inflation, for both those global and domestic reasons, come down considerably.

We think growth is going to be weak for the next few quarters, and what that means is we think there's more inflation relief in the pipeline, and that's something we're certainly looking for.

● (1550)

Ms. Julie Dzerowicz: I think all Canadians would agree that we're all looking for that as well.

Very quickly, because I have another couple of questions for you, Governor, how would you compare Canada's current economic situation to that of our peer countries in the G7?

Mr. Tiff Macklem: There are many dimensions to compare. In all our countries, we all went through COVID at virtually the same time. Every country plunged into recession. Every country has come out of that. We all experienced much higher inflation and then inflation coming down in all our countries.

If you look at Canada's comparative recovery, you see that the Canadian economy has recovered quite well. It hasn't recovered quite as strongly as the U.S. economy by some measures—certainly not by GDP. On the employment front, we've actually had a very strong recovery.

Our recovery has been stronger than that of some of our European neighbours. Inflation in Canada didn't go as high as it did in Europe, not even quite as high as it did in the United States. Inflation has come down in all our countries, and it's now not that different across most advanced countries.

Ms. Julie Dzerowicz: Thank you for that.

There is a belief, at least when I talk to the constituents in my riding of Davenport, that if you increase rates, that actually leads to more inflation. How would you respond to Davenport residents who might be saying that?

Mr. Tiff Macklem: Your Davenport residents are right that when we raise interest rates, it increases the cost of borrowing. For many households, if they have a mortgage, particularly if it has been at a variable rate or has been reset recently, they have seen a substantial increase in the cost of carrying their mortgage. There is that direct affect, and that's something we take into account, and we build that into our analysis.

However, higher borrowing cost slows spending on a wide range of goods and services. It slows the housing market. It slows the spending on durable goods, and we've seen that start to spread to services. You can see very clearly—and in fact we document this in the "Monetary Policy Report"— that the areas where higher interest rates are biting the most are the precise areas where inflation is coming down the most. If you look at many durable goods like furniture and household appliances, those prices have actually been declining.

For many semidurables like clothing and footwear, inflation has come down considerably, and many services, excluding shelter, which is a separate topic, have come down. All those categories have inflation now at or below 2%.

You can see that higher interest rates are working to relieve price pressures. We have some way to go, as you suggested, but yes, if interest rates had not increased, inflation would be higher.

The Chair: Thank you, Governor.

Thank you, MP Dzerowicz.

Ms. Julie Dzerowicz: Thank you so much.

The Chair: Now we will go to MP Ste-Marie, please.

Hon. Andrew Scheer: I am just going to raise my point of order, Mr. Chair.

The Chair: You have a point of order, MP Scheer.

Hon. Andrew Scheer: In my previous point of order, I reminded the chair that there had been a rule adopted: the length of time for answers should be commensurate with the length of time it took to ask the question. You said that I was wrong. I just want to draw to your attention a motion that was adopted on Thursday, December 16, that includes paragraph e):

> That during questioning of witnesses at all future hearings, the Chair of the committee apply the following rule: that the time to respond to each question not exceed the time taken to ask it, unless with the permission of the member who has the floor....

That motion was adopted.

I just wanted to remind you for future meetings.

● (1555)

The Chair: Thank you for that, MP Scheer.

MP Scheer, I know you're not a regular to this committee and I don't know how many times you've been at this committee, but members are fully aware that we've allowed for questions and answers in a very respectful way. I've also allowed members to go beyond their allocated time for questions, depending on when the question was asked and when it was answered. If someone had asked a question and they got to about five minutes and 50 seconds, within that six-minute segment, I would allow the answer to be had, and maybe it would go to 6:30, as the last one did.

That's how we've conducted our work here with the support of the members. This is how we've done all our meetings here, MP Scheer, but I'm at the will of the members to continue to conduct our meetings the way we have been. Be it the Conservatives, the Bloc, the NDP or the Liberals, I think everybody has enjoyed or liked the way we have been conducting those meetings.

Now we go on to MP Ste-Marie, please.

[*Translation*]

Mr. Gabriel Ste-Marie (Joliette, BQ): Thank you, Mr. Chair.

First, I'd like to welcome the Governor of the Bank of Canada, Mr. Macklem, and Ms. Rogers, the bank's senior deputy governor. I want to thank them for appearing so frequently before the committee to answer our questions. Thanks to them as well for delivering a large portion of their statement in French. I thank them for that, as always.

For starters, I want to go back to the questions that my two colleagues previously raised regarding your October 25 statement suggesting that federal government spending is fuelling inflation.

Is that in fact what you're saying? Would you please tell us, considering the answers you've already given, whether that's currently the case?

Mr. Tiff Macklem: The rate of growth in government spending is currently below 2%. The potential growth rate of supply in the economy is approximately 2%. If growth in government spending remains below that rate, it won't significantly contribute to inflation.

What I'm saying is that, upon examining the plans of the federal and provincial governments for the 2024 year, we estimate that the rate of growth in budget spending will be approximately 2.5%, which is greater than our forecasted growth rate of potential output.

If all those plans come to fruition, budgetary spending could grow faster than supply, and that wouldn't help moderate inflation.

Mr. Gabriel Ste-Marie: That's very clear. Thank you very much.

If that scenario materialized and government spending exceeded forecasts by half a percentage point to 2.5% instead of 2%, would that have a significant impact on the economy as a whole?

Mr. Tiff Macklem: You're right: half a point is not much, but it nevertheless presents a risk. That figure could rise, especially if governments spend more. At some point, it could become difficult to moderate inflation.

Mr. Gabriel Ste-Marie: Thank you very much.

Moving on to another topic, I'm referring to an article that was published in the Journal de Montréal three days ago, reporting comments made in an interview that you gave to the CBC. I'm going to discuss that article briefly and then ask you my questions.

The article is entitled, "Bank of Canada pondering no future prime rate hikes". The first sentence in the article reads as follows: "The Governor of the Bank of Canada believes no further prime rate hikes will be needed to curb inflation across the country."

Then it cites your remarks, which were translated. What we understand from this is that the rate could remain at its present level for some time. The Bank of Canada might consider lowering the prime rate only if, and I'm quoting your translated remarks, "we see clear evidence that inflation is heading toward the bank's 2% target." So it won't be before then. However, you say it may no longer be necessary to raise rates.

Do the content of the article and the remarks reported in it reflect your thinking? Would you care to add any comment?

● (1600)

Mr. Tiff Macklem: I'll add one point to your summary.

In one of the scenarios considered, once we've raised interest rates high enough that we can anticipate a decline in core inflation, then we can be sure we've done enough. However, as noted in our report and in all my comments, risks of inflationary pressures remain.

In the other scenario, the inflation rate remains too high and we see no decline in core inflation. If that materializes, we're ready to raise interest rates further in order to lower inflation to the 2% target.

Our conclusion from last week is that we're seeing encouraging signs that our measures are working, that we've been patient, but, if any risk of inflation arises, we'll be prepared to raise interest rates.

Mr. Gabriel Ste-Marie: Thank you once again for your answer.

I have a final, very brief question for you.

Five days ago, an article entitled, "Governor of Bank of Canada lectures provincial premiers," was published in Le Devoir, referring to premiers who had written to ask you not to raise interest rates.

Your answer to them was that care should be taken not to compromise the bank's independence.

Would you please comment on that risk and the importance of maintaining the bank's independence?

Mr. Tiff Macklem: As you just mentioned, six or seven weeks ago, I received a number of letters from several premiers who wanted to influence my decision. I told them that we were quite content to hear the premiers tell us about the impact that inflation and rising interest rates were having in their province and how those developments affected their fellow citizens.

However, I also told them that it wasn't helpful for them to give us instructions on how to handle interest rates because that might create the impression that monetary policy isn't independent of government. But I think everyone agrees on the futility of such instructions.

The independence of the central bank is important if we want to maintain price accessibility.

Mr. Gabriel Ste-Marie: Thank you very much.

The Chair: Thank you, Mr. Ste-Marie.

[*English*]

Now we go to MP Blaikie, please.

Mr. Daniel Blaikie (Elmwood—Transcona, NDP): Thank you very much.

Thank you, Governor, for attending here today.

Maybe I'll start by asking how elastic or inelastic you think demand for housing is for any particular Canadian. Regardless of what happens to price, even if it goes through the roof, it's fair to say that Canadians still need and want a roof over their head, regardless of price. Is that a fair assessment?

Mr. Tiff Macklem: Well, people obviously need shelter, but if they can't afford it, they can't buy it.

Mr. Daniel Blaikie: Indeed, but the need doesn't go away. Would you say that in this present moment, we're experiencing a serious supply shortage in the Canadian housing market?

Mr. Tiff Macklem: We've seen a building supply shortage for at least a decade now. The supply of housing is not keeping up with the growth in demand. That is creating a more acute problem.

● (1605)

Mr. Daniel Blaikie: Would you say that since interest rates have gone up, housing starts are lower and we're seeing less new housing stock being added in a higher interest rate environment?

Mr. Tiff Macklem: Higher interest rates have dampened demand for housing. In fact, the housing market was very overheated. Housing prices were rising extremely rapidly when we had very low interest rates. As we've raised them, housing prices have actually come down. However, higher interest rates means the carrying cost of a mortgage is higher, so affordability has not improved.

Mr. Daniel Blaikie: We've heard around this table from experts in the financial industry and the housing industry that the housing crisis won't be solved without some significant level of government investment and contribution. Are you inclined to agree with that assessment?

Mr. Tiff Macklem: I will say that we've had a building supply issue in housing for a decade now. Speaking on behalf of certainly the senior deputy governor and myself, we are pleased to see that governments on all levels are more focused on this issue. I don't think this is something that any one level of government is going to be able to solve by itself. It's going to take all levels of government putting their heads together. Ultimately, it's the private sector that will build most of these houses or apartment buildings. They certainly need to be at the table as well.

Mr. Daniel Blaikie: I guess my question for you is this. When you talk about the forecast of a 2.5% spending increase across government, from the point of view of understanding inflation, from the point of view of understanding how we can get our housing market to the place where prices are coming down for Canadians and they're having access to more affordable housing, does it not make sense to discriminate between spending in general and spending on building new units? Whether those are affordable units or social housing units or whether it's financing that facilitates market housing, is that not a categorically different kind of spend than general increases in spending with respect to the current inflationary environment that we're living in right now?

Mr. Tiff Macklem: You're certainly right that when you look at government spending and you want to map that from government spending to the implications for inflation, the amount matters, but also what the spending is matters. Different types of spending have different multipliers. Some spending is much more related to demand. Other spending is adding to supply. The more that the spending is adding to supply and not demand, the more it will actually help moderate inflation, so yes, I think to the extent that government spending is augmenting the supply, it will be better for inflation than if it's purely increasing demand.

There are a lot of things you can do on housing. Some of them may go more toward stimulating demand and others may go more toward stimulating supply.

Mr. Daniel Blaikie: Where there's more of a direct line between government expenditure and the creation of a unit, as opposed to government putting money out in the economy that could be used to bid up the price of existing housing stock, you would tend to look at that as less likely to cause inflation, and maybe it could even have a salutary effect and help bring inflation down if there were more supply in the housing market. Is that a fair interpretation?

Mr. Tiff Macklem: It's a good summary.

Mr. Daniel Blaikie: Okay. I think it's important, because some of your comments are taken to reflect on fiscal policy, despite your best efforts. I think it's important for Canadians to understand that there are types of government investment that can actually contribute to reducing inflation while solving some important problems, and that not all government spending is equal in that regard.

That matters a lot for conversations here on Parliament Hill about how much government should be investing in housing. That's particularly in the case of, I would argue—I'm not expecting you to have an opinion on this as a matter of fiscal policy, so these are my views—social and affordable housing, where government investment tends to be more directly tied to the creation of new units, than some of the financing facilities that government sometimes puts out for private developers and other things, which do ultimately issue in certain kinds of housing that are often at the higher end of the housing spectrum and don't really help on the affordability measure.

Is it not the case that the cost of housing is one of the biggest current drivers of the inflationary arc?

● (1610)

Mr. Tiff Macklem: It is an important driver of inflation and, as I indicated, the ongoing price increases are one of the things that are making it difficult to get inflation down.

The Chair: Thank you.

Thank you, MP Blaikie.

Members and witnesses, we're moving into our second round.

I have MP Chambers for five minutes, please.

Mr. Adam Chambers (Simcoe North, CPC): Thank you, Mr. Chair.

Welcome back, Governor and Senior Deputy Governor. Thank you for being here.

I'm just curious. There's a lag to monetary policy that I think you've talked about before. Is there a lag to fiscal policy?

Mr. Tiff Macklem: There are lags to fiscal policy. Again, it depends a lot on what it is. If you give a fiscal transfer directly to households, the lag probably won't be very long. If you embark on, say, an infrastructure spending program, the lag is probably going to be a lot longer.

The difference between monetary and fiscal policy is that in monetary policy we really have one target and one instrument. We raise and lower interest rates. We have reasonably good estimates of lags. Yes, there is always uncertainty about those lags. In fiscal policy, there are many different instruments.

Mr. Adam Chambers: Thank you.

In the bank's analysis, have you looked at or considered.... I know you said that this year spending was below 2% or at 2%, but in the year prior, spending was up 25% versus pre-COVID levels on our run rate. Has the bank considered that in its analysis of whether fiscal policy is expansionary or not?

Mr. Tiff Macklem: Yes.

We've been through a massive economic cycle of a huge collapse in the economy and a very rapid rebound. There were forceful fiscal actions taken in the depths of the pandemic. Those certainly were key to a very rapid recovery, along with very stimulative monetary policy. That is something we've looked at.

We've also looked at.... As we've discussed previously with this committee, we were surprised by how much and how fast inflation went up. We've looked at those forecast errors to try to understand that and avoid making those mistakes again.

Mr. Adam Chambers: Thank you.

Do you mind sharing with the committee the analysis you've done about showing spending by all levels of government? Could you table that with the committee—the bank's analysis? Is that something you would provide to the committee?

Mr. Tiff Macklem: Well, it's really all in the public domain. We publish our forecast every quarter. We come and we justify that to this committee every quarter. As governments have been announcing their fiscal plans, we've been building those into our forecasts each time.

Mr. Adam Chambers: Okay.

I'll change the subject for a minute. I think back to our first interaction at the committee. One of the objectives of quantitative easing, as I understand it, was to help maintain a low interest rate—i.e., if the bank had not purchased government debt, upward pressure would have been put on interest rates. Is that about right?

Mr. Tiff Macklem: Yes. Interest rates go up further as the term stretches.

Mr. Adam Chambers: Thank you.

This year, the federal government is borrowing $421 billion in the open market, and the bank is not purchasing that debt. Is it safe to say that this is a contributing factor to the rise in rates that we've seen most recently, even when the bank has not increased the policy rate?

Mr. Tiff Macklem: Well, government borrowing, actually, in public markets has gone down. During the COVID-19 crisis, they had very large borrowing needs. As they reduced their spending, their borrowing needs have come down substantially.

I guess I would add that you have to compare Canada to other countries. Canada's deficit-to-GDP ratio is the lowest in the G7. Canada's borrowing needs are a lot lower than those of many other countries—

Mr. Adam Chambers: Governor, I have to break in here.

I quote from last week's press conference: "...the U.S. deficit means...a lot more bonds being issued...[meaning] increased supply has to be absorbed, [and that] push[es] prices up a bit."

The U.S. is borrowing $2 trillion this year. Canada is borrowing $421 billion. That's a record, and no one is talking about that having been a contributing factor to interest rates.

Ms. Rogers, could you mention whether you believe government borrowing is a factor in causing interest rates to go up?

Ms. Carolyn Rogers (Senior Deputy Governor, Bank of Canada): Well, as we said in the press conference last week, there are a number of things. You're talking about just a sharp rise in the long-term yields on bonds.

As we said in the press conference last week, there are a number of things that are contributing to that. The term stretcher.... We talked about, as you said.... I think the quote you just gave was mine. I think the other thing I said is that we're not seeing that same increase in Canada. We haven't had the same effect of the long-term—

● (1615)

Mr. Adam Chambers: With respect, the five-year rate moved up a bunch of basis points without the policy rate moving.

Ms. Carolyn Rogers: Yes, and there are a number of things contributing to that—

Mr. Adam Chambers: Including government borrowing—

Ms. Carolyn Rogers: Sure.

The Chair: That's the time. Thank you, MP Chambers.

Now we go to MP Thompson.

Ms. Joanne Thompson (St. John's East, Lib.): Thank you, Mr. Chair.

Thank you both for coming.

It's a wonderful opportunity to be able to break through so many of the narratives that we hear and to have your perspective on inflation and many of the things that government can do and is doing to help move forward.

I want to reference something that MP Blaikie spoke about, which is the link to supply and inflation, specifically around programs like the $10-a-day child care, which really helped move people into the workforce—women in particular—and also the work that government is doing to address the climate crisis.

Is that helping to move us to the levels of inflation that we want to see? Is it part of the supply portion of the supply-and-demand equation?

Ms. Carolyn Rogers: Those are two very different things you raised there, so maybe I'll deal with them separately.

The day care programs did help to significantly increase the proportion of women, and young women, in the workforce at a time when we had a really tight labour market. I would characterize that as something—to the governor's earlier description—that added to supply. In a very tight labour market, it did help the supply of labour.

The measures to address climate risk are a good example of something with a very long lag, as the governor described earlier. The effects of climate risk are more indirect.

You can have an extreme climate event. For example, with the forest fires we experienced this summer, our estimate is that they took about a half a point off of GDP for the second quarter. Longer-term programs that mitigate those risks will hopefully, over time, to the degree that they can, reduce the number of extreme climate events. That would be helpful.

That is a very good example of something with a very long lag and something that might, in the near term, add to demand more than it would add to supply.

Ms. Joanne Thompson: Thank you.

To either one of you, could you speak to the resilience of the Canadian labour force and why you wouldn't qualify this period as a period of stagflation?

Mr. Tiff Macklem: Well, stagflation is a very provocative word.

I grew up in the 1970s, and the big problem was stagflation. What that looked like was double-digit inflation and double-digit unemployment.

Inflation is still too high. At 3% or 4%, inflation is too high.

I know you're all hearing from your constituents. They're having trouble keeping up. Affordability is a real issue, and we need to get inflation down. Prices are going up too quickly. However, it's not double-digit inflation. It's not even 8% inflation. We've brought it down considerably since then.

The unemployment rate remains pretty low by historical standards. It has gone up a bit, from about 5% to about 5.5%, but by historical standards, it's pretty low.

What we're seeing now is not what I would call stagflation. It is true that in our outlook that we put out last week, we did revise up our near-term outlook for inflation and we did revise down our near-term outlook for growth. That is an indication that this is proving to be a little more difficult than we had hoped, but I would stress that it is working. As higher interest rates feed through the economy, we do expect inflation to come back down and growth to resume, and Canadians won't have to live with the ongoing anxiety of inflation.

The Chair: You have about 40 seconds.

Ms. Joanne Thompson: If I could just jump in, the extenuating circumstances—the price of oil, the geopolitical realities and the tragedy we're seeing in the Middle East—are impacting inflation as well. We set the targets, but we have these other extenuating circumstances that are impacting the work within government in terms of budget and policy.

● (1620)

Mr. Tiff Macklem: Yes. You know, Canada has a very open economy. We're a trading nation. We export. A lot of our income comes from selling things to other countries. We import a lot of goods as well. When you operate in the world, global factors will impinge on your economy.

Yes, when global oil prices go up, we see higher prices at the pump. Canadians are seeing that. We're also an oil exporter, so our energy companies are getting more revenue when oil prices go up. You have to factor in all these effects.

Ms. Joanne Thompson: Thank you.

The Chair: Thank you, MP Thompson and Governor.

Now we'll go to MP Ste-Marie.

[*Translation*]

Mr. Gabriel Ste-Marie: Thank you, Mr. Chair.

Governor, I want to tell you about an analysis recently conducted by an economist, Mohamed A. El-Erian, of the global economy and the American economy in particular. I would like to hear your comments on the Canadian economy more specifically.

Mr. El-Erian writes that there's a consensus among economists, or at least a prevailing view, that we're headed for a soft landing. In his opinion, however, there's still a a risk that it will turn into a crash landing in the next few weeks. The main and immediate risk, he says, is the recent spike in global borrowing costs, which in turn results from decisions by the U.S. Federal Reserve and other central banks, such as the Bank of Canada, to maintain elevated rates for an extended period of time in order to counter inflation.

Would you care to comment on that analysis?

Mr. Tiff Macklem: Since we began raising interest rates, many economists have told us we would cause a recession, but what we have now isn't a recession. We're going through a period of low growth, of course, but that's necessary in order to relieve inflationary pressures.

As you said, long-term interest rates have risen sharply in recent months, especially in the United States. As the deputy governor just mentioned, the situation can be explained as the result of a number of factors. However, it's hard to say right now exactly which ones are most significant.

In the forecasts we released last week, we included a rise in long-term interest rates. So that's included in our forecasts. There's a risk that these increases may be significant. If that occurs, and especially if it reflects increases in the yield curve, that would further reduce the growth rate of the global economy. We would of course be affected here in Canada because we have a very open economy.

So that's a risk that we have to monitor closely.

Mr. Gabriel Ste-Marie: Thank you very much.

[*English*]

The Chair: *Merci*, MP Ste-Marie.

MP Blaikie, please go ahead.

Mr. Daniel Blaikie: Thank you.

As part of our pre-budget consultations, we've been hearing from a number of economists with different points of view. One thing we heard recently was that over the last couple of years, corporate profits were up in absolute terms, but they were also up significantly as a share of GDP.

Is that consistent with the Bank of Canada's analysis?

Ms. Carolyn Rogers: I don't have at the tip of my fingers any analysis on profits as a percentage of GDP, but we have done some work on this. In fact, one of our colleagues, Deputy Governor Nicolas Vincent, recently gave a speech on the topic of corporate profits.

In an environment where demand is running ahead of supply, it becomes easier for businesses to raise prices. People get discouraged with inflation. They stop shopping around. In that environment, if there is excess demand and people are less inclined to shop around, it's easier for businesses to raise prices. That is exactly what business has been telling us they're doing. In our business outlook survey, they've been telling us that they are raising their prices more often, and by more than they have in the past. That has tapered off a bit recently. Businesses are telling us now that as the economy gets back into balance and demand and supply are running closer, they have reduced both the rate and the amount at which they are increasing prices.

We have a ways to go yet. They are still above where they were prepandemic. That is something we'll be watching. In our press releases and many of the governor's comments, we always tell you the things we're looking at to know when core inflation is back where we need it to be to get headline inflation down. Corporate pricing behaviour is one of the things we're watching closely.

● (1625)

Mr. Daniel Blaikie: Thank you very much.

The Chair: You have about a half a minute or a little more.

Mr. Daniel Blaikie: What I'll say to that is that, for your ordinary Canadian, one of the things that really make you feel like the system is stacked against you is that you get gouged by corporations in a difficult economic time. They raise their prices, which causes the inflation rate to rise, and then the answer is to raise interest rates. The people who were getting squeezed by outsized corporate profits before end up getting squeezed on their mortgages and on other products that they use financing to obtain.

It's kind of a double whammy for the Canadians who are caught in the middle of these forces that are a lot larger than they are. Getting gouged by corporations on the one hand and then having the monetary policy remedy be higher interest rates gets the Canadians again. The corporations that have these large holdings can actually earn more on those holdings by doing less, just by sitting on the money or purchasing bonds or whatever else, because interest rates are higher. It does seem like a system that's designed to help the rich get richer and have everybody else pay for it.

The Chair: Thank you.

There's no time for an answer to that. It might be in the next round.

Mr. Tiff Macklem: I'll just say that competition's a great thing.

The Chair: Thank you, Governor and MP Blaikie.

Go ahead, MP Morantz, please.

Mr. Marty Morantz (Charleswood—St. James—Assiniboia—Headingley, CPC): Thank you, Mr. Chair.

Governor, I had occasion to look at the housing affordability index that your bank publishes. It was interesting. In 2015, at the tail end of Mr. Harper's administration, the index was at 32%. Today, under this Liberal administration, it's at 51%. It certainly highlights the problem, which is that we are in a housing crisis.

One thing that you said last week that I thought was interesting—and it might have been Deputy Governor Rogers who was talking about it—is that there is normally and historically a correlation between interest rates and housing prices. For example, if interest rates go up, housing prices come down somewhat; if interest rates come down, housing prices go up somewhat.

You said something interesting that I want to get clarification on. You said that the reason housing prices are not declining as expected is because of the structural shortage of housing supply.

I'm wondering if you could comment specifically on what you meant by that. Be brief, if you could, because my time is limited.

Mr. Tiff Macklem: I think the senior deputy governor made those comments.

Ms. Carolyn Rogers: What we mean by a structural supply problem is that demand has run well ahead of the supply of housing and continues to. As the governor said earlier, that's a problem that has been around for at least a decade. I think it was exacerbated through the COVID crisis when we were all spending more time in our houses and wanting more house or to relocate, so we saw a really extreme run-up in prices.

Mr. Marty Morantz: To be clear, though, there are a number of factors that can go into a structural shortage of housing supply. One of those factors would be high interest rates, right?

Ms. Carolyn Rogers: That would be one, yes. Others would be zoning problems, labour shortages, supply costs, etc.

Mr. Marty Morantz: Thank you for that.

One of the things, though, that I want to home in on with you when it comes to this correlation is that you did say that you would expect housing prices to decline if interest rates went up, but that isn't happening, and it's because of the structural supply issue.

I'm curious about your thoughts as to what will happen to housing prices as you start to lower rates, given the inelasticity of supply, the structural problem in getting housing built in this country. What do you think will happen?

Ms. Carolyn Rogers: All things being equal, I think that we might see a bit of an uptick in housing demand again.

As the governor said, we're really pleased to see the coordinated effort across multiple levels of government to try to address some of the supply issues. Again, it's more than interest rates that will need to change to solve the housing shortage.

● (1630)

Mr. Tiff Macklem: I have to add that we know what happened when we did lower rates to emergency low levels during the pandemic: Housing prices went up 50% in two years. Part of that was that everybody was at home all day and wanted a bigger house. However, partly it was that interest rates were at emergency low levels and that the cost of financing was low.

We don't predict every asset price or every price in the economy, but yes, what that points out is that we had a supply problem at low interest rates and that we have a supply problem at high interest rates.

Obviously, interest rates have a big impact on the housing sector—it's very interest-sensitive—but we're not going to solve the housing shortage with interest rates.

Mr. Marty Morantz: I'm going to ask you this question.

It's not really an esoteric discussion. You probably saw the headline in the National Post today: “'Payment shock' coming for most Canadians with mortgages, RBC says”. It continues, “By 2026, when $400-billion worth of mortgages are set to renew, increase in monthly payments could be as high as 48%”. The article goes on to say that by 2025, “credit losses will inevitably rise”. This is affecting real people in real time.

One of the things I want to ask you is this: Let's say that you determine that market factors are sufficient to start bringing rates down at some point. Would you wait until a monetary policy report, a quarterly report, was coming out, or would you act earlier, as soon as that information came to your attention?

Mr. Tiff Macklem: Normally, unless there's a very immediate emergency, we act on our fixed action dates, which are eight times per year. Four of those times we have a monetary policy report.

We've demonstrated consistently that we can change interest rates at meetings without a monetary policy report, so yes.

Mr. Marty Morantz: That's great to know.

I have one last question in the 20 seconds I have left. Last week we had Robert Asselin here. He said something very interesting. He said that economic growth is very weak, at below 1%, and that low growth in a high-interest-rate environment will make social programs unsustainable.

Do you think he has a good point there?

Mr. Tiff Macklem: Lower growth and higher interest rates will certainly have an impact on the government's budget. I don't think fiscal policy in Canada is in a situation that makes social programs unsustainable. However, I do think protecting our very good fiscal position is important. It's important for social programs. It's important for the prosperity of the country.

The Chair: Thank you.

Thank you, MP Morantz.

Members, these mikes are very sensitive, so let's be careful not to touch them with anything, because doing that does affect the interpreters.

We will now go over to MP Baker for five minutes. Go ahead, please.

Mr. Yvan Baker (Etobicoke Centre, Lib.): Thanks very much, Mr. Chair.

Governor Macklem and Senior Deputy Governor Rogers, thank you for being back here at the finance committee.

As I told you when we spoke just before the committee began, I represent a community called Etobicoke Centre, which is a suburban community on the western side of the city of Toronto.

This summer in particular I spent a lot of time knocking on doors and talking to folks in the community. I asked them how I can help and what their challenges are. One of the things I heard from them a lot was that a lot of them have mortgages. Some of the folks have variable-rate mortgages, and their rates have gone up. Some of them have fixed-rate mortgages that are coming up for renewal.

The question I got a lot from folks was, “When are my interest rates going to come down?”

That's my question to you on behalf of my constituents. What would you tell my constituents about when interest rates will come down?

Ms. Carolyn Rogers: I think your constituents are a lot like most Canadians. That's a question on the minds of many Canadians, particularly Canadians who are carrying mortgages, so about 35% or 38% of Canadians.

The short answer is that we need inflation to come down, and then we will be able to bring interest rates down. We have, in our forecast, outlined when we think inflation will come back to the target level.

As the governor was just saying, monetary policy is forward-looking, so we don't need to wait until inflation's all the way back to 2%. If we get signs that let us know we can be confident that inflation is coming down and that it will remain down, we will start thinking about lowering interest rates. We're just not there yet.

The governing council has not started talking about when we will reduce interest rates. We don't want to put false precision on it either. We would love to give Canadians an exact date. We would love to be surprised and to find out that we were too pessimistic and that we will be able to bring rates down sooner. We look forward as much as other Canadians do to getting interest rates back to a more neutral level. Right now our priority is to get inflation down.

● (1635)

Mr. Yvan Baker: I appreciate that.

I have a couple questions left and only about two and a half minutes, so I'll ask you to be as concise as you possibly can.

More or less, in your forecast, when do you expect inflation to come down to normal levels so that interest rates can start coming down?

Ms. Carolyn Rogers: We have inflation coming basically back to target towards the end of 2025. As I said, the monetary policy is forward-looking, so we don't need inflation to come all the way back to the target level. However, we need to be confident that it's on its way to being sustainably back to its target.

Mr. Yvan Baker: I appreciate that. That's helpful, I think, to my constituents. It gives them a sense of what you're looking at and what you are forecasting.

One debate that rages here in Parliament, which a lot of my constituents ask me about, frankly, is about what caused prices to go up so high. Why are prices so high?

Could you speak to what has caused prices over the last couple of years or so to rise so much?

Mr. Tiff Macklem: Look, you don't get to 8% inflation because one thing went wrong. It's a combination. My response to an earlier question reflected both global factors and domestic factors.

There are two things that really stand out. One is that almost every country around the world saw a big surge of inflation coming out of COVID. Every major advanced country did and certainly every G7 country did. That really reflected the fact that in all of our countries, as we got vaccines and came out of COVID, demand recovered much more rapidly than supply.

When demand runs well ahead of supply, two things happen. You can't get the things you want to buy, and that's what Canadians saw. You want to buy something, but it's not available, so you're put on a long waiting list. When that happens, pretty soon businesses start raising prices. We saw this surge of inflation around the world. As I said, that affected global prices, which spilled into Canada, and similar things were also happening here in Canada that reflected the prices that were more determined in Canada.

Central banks around the world have raised rates rapidly to slow demand and let supply catch up, and it's working. It's not working as quickly or as painlessly as everybody would like, but it is working. Inflation has come down quite a bit. We think there are further declines in the pipeline.

Mr. Yvan Baker: I appreciate that.

Could you quickly list some of those key global factors that have driven prices to go so high over the last couple of years?

Mr. Tiff Macklem: I would say that there are two main global factors. The first thing is that during COVID, we couldn't buy many of the services we wanted. We couldn't go to a restaurant, we couldn't go on a holiday and we couldn't go to the gym. People tended to substitute goods for services. If you couldn't go to the gym, you bought home exercise equipment, but of course, that had to be manufactured and it had to be shipped. All of a sudden, the pressure on the whole goods sector was very high. At the same time that manufacturing operations and transportation were struggling, people were getting COVID, there were lockdowns, there were restrictions and work was not as efficient as normal. They were having trouble creating the supply, and demand was running well ahead.

The second big global factor was, of course, Russia's unprovoked invasion of Ukraine. Russia is a major oil exporter and natural gas exporter. It had a very big effect on global energy prices. It particularly affected Europe. We were somewhat insulated in North America, because our natural gas prices were not nearly as affected as Europe's were. Of course, Ukraine and Russia, to some extent, are also major wheat exporters. You saw a big surge in wheat prices.

If you look at what happened, the inflation experience started with more global factors. Those happened, and then we had more domestic factors. Our economy was overheated as people basically wanted to buy more stuff than the economy could produce.

Mr. Yvan Baker: Thank you.

The Chair: Thank you, MP Baker and Governor.

We don't have time for everybody here to do a whole round. What we'll do here on this committee is split the time up evenly. It will be three minutes for each of the parties before we go into our health break. Then we'll come back, and we thank the governor for the time, to spend an hour on the housing study that we're doing. The focus will be on housing.

With that, I will go to MP Hallan for three minutes, please.

● (1640)

Mr. Jasraj Singh Hallan: Thanks, Chair.

Governor, you, your predecessor David Dodge, and even the current finance minister, Chrystia Freeland have all said in your own ways that government spending increases demand above supply. In other words, it fuels inflation.

Since March of last year, you've had to raise the rates 10 times, from 0.25% to the 5% we see today. That's an 1,800% increase. The IMF has also warned that Canada's most at risk in the G7 for a mortgage default crisis. I want to know if that's something you're concerned about, as well as the default crisis.

Mr. Tiff Macklem: Our biggest concern—and we've been very clear on this—is that inflation is too high. Our biggest concern is that Canadians are struggling with affordability. It is creating anxiety. How are they going to pay their mortgage? How are they going to put food on the table? You've seen big increases in demand at food banks. It has to stop.

Mr. Jasraj Singh Hallan: It does, absolutely.

Mr. Tiff Macklem: The way to do that is to get inflation down. That's our beacon and that's been our focus. All of our actions have been taken towards that goal.

With respect to financial stability issues, we are fortunate in this country. We have a strong, well-regulated banking sector—

Mr. Jasraj Singh Hallan: I have just three minutes. I appreciate the answer and I agree with you that inflation needs to come down.

According to what you said about government spending adding more demand, in this environment where spending needs to be moderated and inflation needs to come down, what the government spending is doing is not helpful to you. What would be helpful to you, looking at the government today, in order for us to avoid this mortgage default crisis?

Mr. Tiff Macklem: Governors don't usually give the government advice on what to do with fiscal policy—

Mr. Jasraj Singh Hallan: You did say that government spending is not helpful to you, so in that context—

Mr. Tiff Macklem: For all levels of government, looking forward, and given that inflation continues to be above its target, I think more focus by governments on the inflationary consequences of their spending decisions would be helpful, and more focus on government policies that add to supply and not only to demand would be helpful.

Mr. Jasraj Singh Hallan: That would help us avoid the mortgage default crisis.

Mr. Tiff Macklem: That would help us get inflation down, and when inflation comes down, interest rates can come down—

Mr. Jasraj Singh Hallan: The risks come down.

Mr. Tiff Macklem: —and that will help relieve some of the risks there as well.

Mr. Jasraj Singh Hallan: Thank you.

The Chair: Thank you, MP Hallan.

Now we come to MP Weiler.

Mr. Patrick Weiler (West Vancouver—Sunshine Coast—Sea to Sky Country, Lib.): Thank you, Mr. Chair.

Thank you, Mr. Macklem and Ms. Rogers, for being here today and for answering questions.

You mentioned that in the monetary policy reports, the outlook for consumer price index inflation through to the end of 2024 has been revised up and that about half of this revision reflects the assumption of higher oil prices. I wonder if you can explain to this committee what type of an impact you would see happening if we reduced our reliance on fossil fuels and the impact that would have on inflation.

Mr. Tiff Macklem: That is a really complicated question, and I wish I could give you a satisfactory answer.

All I can tell you is that we are starting to examine the macroeconomic implications of climate change. We have done a fair amount of work looking at the financial stability risks posed by climate change. That work is well advanced, and we're now trying to build economic models to start to get a sense of the consequences. It is a very complicated question.

Also, different countries have taken very different policy responses, and those also have different implications for the economy. I'm afraid to say.... We're looking at this and many others are looking at this, and I can't give you an answer at this point.

● (1645)

Mr. Patrick Weiler: Thank you.

Mr. Blaikie had a few questions on this point earlier: In your testimony last week, in the press conference for the updated monetary policy report, you mentioned that corporate pricing is not normal right now and you mentioned some of the factors that are leading to that in an inflationary environment. I wonder if you could put a measure on what type of a contribution you see this abnormal corporate pricing behaviour having on inflation in Canada right now.

Mr. Tiff Macklem: I don't think we can put a number on it, but what we can say with some confidence is that when inflation was low and stable.... We have had big shocks to input prices and we've had big fluctuations in energy prices in the last 25 years, and what we saw when those things happened was that businesses were pretty cautious about passing on the higher energy price into the prices they charged, not for gasoline, but for other goods and services. When we would ask them about that, they'd say “Oh, yeah, we can't just pass these on or we're going to lose customers, and we don't want to lose customers.”

When inflation went way up lately, though, what we started to hear from businesses was, “Oh, it's much easier to pass on these price increases.” That's exactly what you see in the data. When input prices went up—the cost of energy, for example—those increases were passed through much more quickly into the final prices of goods. Households are bearing the full inflationary impact much more quickly. That's what we can see pretty clearly in the data.

The Chair: Thank you, MP Weiler.

MP Ste-Marie is next, please.

[*Translation*]

Mr. Gabriel Ste-Marie: Thank you, Mr. Chair.

Governor, we know that HSBC Bank Canada wants to sell its assets in a number of territories, including Canada. Thus far, the Royal Bank of Canada appears to have expressed an interest.

Is the Office of the Superintendent of Financial Institutions, or OSFI, really the only institution evaluating that? Has the Bank of Canada also evaluated the impact that potential transaction would have on the Canadian economy?

Mr. Tiff Macklem: The Bank of Canada doesn't evaluate those transactions. That's really up to OSFI, as you say, and the Competition Bureau.

Mr. Gabriel Ste-Marie: All right. Thank you.

Now moving on to another topic, with regard to the need for developing countries to adopt more resilient infrastructure in order to mitigate and adapt to climate change, Joseph Stiglitz, the American economist, suggested quite an original approach a few days ago. I'd like to hear your thoughts on the subject.

The International Monetary Fund, the IMF, issues special drawing rights. It's mainly the rich countries that have them and use them. According to Mr. Stiglitz, if I'm accurately summarizing his comments, those countries don't really need them. He therefore suggests that developing countries be allowed to use the rights as grants or low- or no-interest loans for climate investment purposes. Rich countries would have to agree to the idea.

Do you have an opinion on the subject? Do you think it's a promising potential solution for developing countries?

Mr. Tiff Macklem: That really has nothing to do with monetary policy, and I don't have an opinion on it. You should put the question to the IMF.

Mr. Gabriel Ste-Marie: All right. I was wondering if the Bank of Canada was looking into it since it touches on certain monetary aspects. So I'll ask a third question.

I want to go back to the article by Mohamed El-Erian.

According to him, “the global economy and key financial markets like the one for benchmark U.S. government bonds now lack key top-down anchors such as growth momentum, confidence in policymaking signals, and stabilizing financial flows.”

Are we seeing this in the Canadian economy as well? What are your comments?

● (1650)

Mr. Tiff Macklem: Would you please repeat the question? I didn't really understand it.

Mr. Gabriel Ste-Marie: Of course.

According to Mr. El-Erian, “the global economy and key financial markets like the one for benchmark U.S. government bonds now lack key top-down anchors such as growth momentum, confidence in policymaking signals, and stabilizing financial flows.”

Mr. Tiff Macklem: Canada's fiscal situation enjoys a major advantage over that of other G7 countries. Germany and Canada are the only ones with an AAA credit rating, and we must protect that. It's an advantage for Canada in that it lowers long-term interest rates for governments, businesses and households. It also encourages investment, and that's good for our potential GDP growth rate.

Some countries elsewhere in the world clearly face bigger problems. Sovereign debt attracts a certain degree of international risk.

Mr. Gabriel Ste-Marie: Thank you.

[*English*]

The Chair: Thank you, MP Ste-Marie.

This will be our final questioner until we go for our health break, and then we'll be back.

We'll have MP Blaikie now for three minutes.

Mr. Daniel Blaikie: Thank you, Mr. Chair.

I just want to return to our earlier conversation—I know you were beginning an answer there—and lay out the problem again, which is that as Canadians have been gouged considerably, I think, in certain industries for things they can't do without, the answer has been to raise interest rates in order to combat inflation.

You can see how Canadians feel caught between two impossible situations, so I am wondering where the role is for considerations about equity and fairness in setting monetary policy. We have seen some other central banks given mandates to consider things like housing prices in how they set their rates and to consider things like climate goals in how they set their rates.

Granted, I would accept the claim that it's not currently part of your mandate to care about these issues of equity and fairness, but I would say that it should be, and I think a lot of Canadians would probably feel that there should be a role for that in it. How do you imagine either mandates of central banks or other tools in order to bring some of that question of equity and fairness into rate decisions at the Bank of Canada?

Mr. Tiff Macklem: With respect to our mandate, we've already got a big job, and that is to control inflation, and I think having a mandate that makes it clear that the job of the central bank is price stability is very helpful.

Those issues that you raised are important issues, but they are properly the issues of elected governments and, ultimately, Parliament. In most democracies, the central bank is charged with controlling inflation and is given the operational independence to use its interest rate to do that. That's a pretty extraordinary thing, and that should be the limit to the job of the central bank.

That doesn't mean we don't care about equity. In fact, one of our deputy governors, Sharon Kozicki, recently gave a speech in which she outlined that with the availability of more detailed datasets, we can now do a better job of seeing the impact of our policies on different segments of society.

At the end of the day, we have one objective and one instrument. We don't have different interest rates for different people or different sectors—

Mr. Daniel Blaikie: I do hear that.

Mr. Tiff Macklem: —so we can't target, but it is important that we understand it.

Mr. Daniel Blaikie: I wonder if I could just follow up on that, Governor.

Mr. Tiff Macklem: Yes.

Mr. Daniel Blaikie: When we talk about resource projects now, we talk a lot about social licence. Are you not concerned that there will develop a social licence problem for important institutions that have their hand on important levers of the economy if economic correction seems to be coming always on the back of working-class and middle-class Canadians, particularly when the problems have been caused in large part by corporate players and wealthy individuals that have their hands on some important economic levers, which is access to capital?

● (1655)

Mr. Tiff Macklem: Well, I'll say two things.

One is that competition is a good thing. I wasn't being glib about that earlier.

If you look at the Canadian economy, one of the things we know is that export-oriented firms tend to have higher productivity than more domestic companies. That suggests—that looks like—competition, and the Competition Bureau has actually recently done a fairly broad study, and I think there's some useful analysis there.

The other thing is that competition results in stronger productivity growth. Stronger productivity growth pays higher wages. Higher productivity growth sustains a rising standard of living, and it would be great to have higher productivity growth in Canada. That makes everything easier.

Coming back to monetary policy and your comments around the most vulnerable and about inequality, I'll say two things.

First of all, it is the most vulnerable members of society who are suffering the most from high inflation. They are feeling the brunt of affordability more than everybody else. They can't just move downmarket. They're already at the bottom of the market. Much of their spending is already on necessities. You can't cut back on that. That's why it is so important that we get inflation down. Inflation is a tax that disproportionately affects the most vulnerable members of society.

The Chair: Thank you.

Thank you, MP Blaikie.

We're going to suspend now for about 10 minutes for a health break, and then we will be back with the governor and senior deputy governor for another hour.

● (1655)

_____________________(Pause)_____________________

● (1705)

The Chair: Members, witnesses, we're going to get going again. We're back.

This is quite a marathon session here. We thank the governor and the senior deputy governor for the two and a half hours.

This part of the meeting is focusing on housing, although it can go wherever it may go.

We're starting with the first round, which is six minutes per party.

MP Lawrence, you're up for six minutes.

Mr. Philip Lawrence: Thank you, Mr. Chair.

Thank you, Mr. Macklem and Ms. Rogers, for coming here.

For whatever criticisms you may face, I don't think a failure to communicate can be one of them. Thank you for being here.

My questions are going to focus around the carbon tax, and then hopefully, if I have time, productivity.

We've known each other for a while now, Governor Macklem. We had an exchange back in the spring of 2022. I asked you about the inflationary impact of the carbon tax. I have seen it misquoted by both politicians and reporters. I want to clear this up.

What you wrote, and I'll just read it here for the ease of everyone, is that "According to the Bank's calculations, if the charge were to be removed from the three main fuel components of the consumer price index (gasoline, natural gas and fuel oil) it would reduce the inflation rate by 0.4 percentage points."

What's been quoted throughout, by politicians and journalists as well, is actually the increase that you said, which would be 0.1%, or 0.15%, which I've seen as well.

We've already had one increase. If I can add 0.4% to the 0.1% or 0.15% that I've also seen quoted, that would be 50 or 55 basis points.

Am I understanding you correctly in that?

● (1710)

Mr. Tiff Macklem: Yes, that's pretty good. I'll give you the updated numbers.

There are really two separate questions.

The carbon tax is going up over time. One question is how much the increases in the carbon tax are adding to inflation each year. That number is about 0.15 percentage points of inflation. That's the direct impact on those three components.

Mr. Philip Lawrence: Perfect. Thank you.

Mr. Tiff Macklem: The second question you asked me was what the effect on inflation would be if the carbon tax were eliminated. That would create a one-time drop in inflation of 0.6 percentage points. That would last for one year. Since you can only eliminate it once, the next year it would have no effect on inflation.

Mr. Philip Lawrence: For sure. Hopefully, next year inflation won't be as big a concern as it is this year.

Just to reiterate what you said there, it would be 60 basis points or 0.6%. Currently, the inflation rate is at 3.8%, so that equates to almost 15%, if I can do the math quickly.

Mr. Tiff Macklem: It would be 3.2%.

Mr. Philip Lawrence: That would be a sizable drop in inflation. It would make your job.... To quote you, “it would be helpful”. Would that be correct?

Mr. Tiff Macklem: It's only going to affect inflation for one year.

Mr. Philip Lawrence: As you said, Mr. Macklem, and as you forecast, inflation, according to your predictions, won't be as big an issue as it will be in the year right now. If we can get a year's relief out of it, it means Canadians who will be able to keep their houses, Canadians who will be able to enter the mortgage market, Canadians who will be able to feed themselves, because of a 10% reduction in inflation.

Isn't that so, Mr. Macklem?

Mr. Tiff Macklem: It will be down 0.6%.

Mr. Philip Lawrence: Thank you very much. I appreciate that.

The other issue I want to talk a little bit about is the carbon tax and the impact it has with respect to productivity, and productivity in general.

Of course, inflation occurs—as you mentioned, and as basic first-year economics textbooks say—when demand and supply get out of equilibrium. The conversation has focused almost completely around the demand side. I realize that demand is what you're there to control to reduce inflation, but supply also plays a big role as well.

As you said in your report, Canada's productivity has flatlined over the last eight years, and that's in contrast with the U.S., which has actually seen a pretty strong growth with respect to productivity. Are you concerned, to the extent that you can say—and I realize it might be limited—about Canada's productivity issues and the impact that they could have on supply?

Mr. Tiff Macklem: We are concerned about Canada's productivity issues.

This is not an issue of the last quarter, the last year or even the last few years. It's a 20-year issue.

Canada's productivity growth has underperformed for about the last 20 years. If you look at how Canada has grown, you will see that this country has actually done a very good job of growing by adding workers. We have very high rates of labour force participation and we have much higher female labour participation in Canada than in the United States. We have a good immigration system. Companies are good at hiring workers and integrating them into the workforce. That has really been the key to our growth.

What has been disappointing is that we've been much less successful in growing output or productivity per worker. Why that really matters is because higher productivity pays for higher wages; it's the source of sustained increases in our standard of living.

It is a concern to us, but we don't really have any levers that affect productivity growth. We influence demand.

Mr. Philip Lawrence: Continuing on with respect to the inflationary impact of the carbon tax, it's my belief, Governor Macklem, that any type of encumbrance that we put on productivity we must try to avoid.

The carbon tax adds another encumbrance in the fact that businesses specifically don't get any rebates, unlike individuals. This is going to make us less and less productive. It's a terrible tax because of what it does to the most vulnerable in our communities, but it's also a terrible tax from an economic perspective in that it is driving down our productivity when we can least afford our productivity to be driven down.

● (1715)

Mr. Tiff Macklem: We've only analyzed the direct effects of the carbon tax on inflation.

The Chair: Thank you, MP Lawrence.

MP Dzerowicz is next, please.

Ms. Julie Dzerowicz: Thank you so much, Mr. Chair.

Thank you, Governor Macklem, for being here and for all of your patience.

I'm going to be asking you a question around the comments you made about the fact that core inflation has proven to be quite stubborn. I'm going to then talk about some of the underlying structural issues, and then tie it to something that we're hearing on housing.

One of the things I've been grappling with is that when I talk to Davenport residents, they'll say to me, “Julie, everything's so high.” I'll say to them that we've put in a national child care program and that we are putting in aggressive climate action but are providing the climate incentive. We have the Canada child benefit. We have the old age security increase. We lowered taxes several years ago. We've put in an extraordinary amount of support for our middle class and our working class, and I haven't mentioned the Canada workers benefit, but we've increased that a number of times, and they're all geared to inflation.

You would almost think that they should be okay. We know that food prices have gone up more than inflation. We know that energy prices have gone up and have now come back down again, and then we've been talking about housing.

One of the other things that we're hearing about in our housing study is that there are issues.... At the provincial level in Ontario, if someone moves out of their apartment, the average vacancy rate increase that goes in is around 29%.

I guess my question to you is this: Would that be an example of a structural issue that would cause our core inflation rate to continue to be stubborn? That would be a structural issue at the provincial level that needs to be corrected.

Ms. Carolyn Rogers: There are a couple of parts to your question, MP Dzerowicz.

I would start by saying that we talked earlier about the structural shortage of supply in housing. I think that's probably the number one thing that's contributing to keeping shelter costs generally high, and rent in particular.

I think the situation that you describe, though, is.... When—

Ms. Julie Dzerowicz: It's rent control for vacancies. If that's not in effect, would it be a structural issue?

Ms. Carolyn Rogers: To the extent that there is more demand for rental properties than there is supply, it's contributing to the increase in prices.

I think that what you're describing there, though, with that significant increase.... Where there is rent control, the opportunity that the landlord has to increase rent comes when an apartment or a rental property turns over. Then you often see a bit of a catch-up or a big jump in the price. However, again, the solution to that is to increase supply.

Ms. Julie Dzerowicz: I would say it's to increase supply, but I'd also say that there are rent controls in a number of other provinces. I think that helps to keep rent increases to around 3%, 4% or even 5%—not 29%, which is the average you're seeing in Ontario in terms of the rate increase on vacancy. It's what we are hearing at the housing committee.

Can you comment, Governor, on the fiscal positions of the provinces and territories relative to the federal government?

Mr. Tiff Macklem: No, I'm not going to comment on the fiscal positions of every province.

Ms. Julie Dzerowicz: That's no problem. I just thought you might have a response on that.

My next question is on shelter price inflation.

On page 21 of the “Monetary Policy Report”, you indicate that “shelter price inflation is expected to slow down from its current pace.”

Can you speak to how and why you believe this?

Mr. Tiff Macklem: What we indicated in the “Monetary Policy Report” is that given that the issue is largely supply and the problem has been building up for at least a decade, it's not going to....

We're very pleased to see all levels of government working with industry to tackle this problem, but even in the best-case scenario, it's not going to get solved quickly. The government definitely needs to work on solving it, but it's a pressure we're going to have to live with for some time. We said it's one of the things standing in the way of getting inflation down. It's slowing the decline of inflation. However, when we look at everything else, we can see clear evidence that our interest rates are cooling inflation.

As has come out in previous questions, there are lags in the effects of monetary policy. As people renew their mortgages, these higher interest rates feed through the economy. We think there's more in the pipeline. It will ultimately bring inflation down, even if it's taking a little longer than we'd hoped.

● (1720)

Ms. Julie Dzerowicz: You're saying it will ultimately reduce shelter price inflation, as well, just to finish the—

Mr. Tiff Macklem: No. I mean, we don't try to control the prices of every different piece. It's bringing overall inflation down—

Ms. Julie Dzerowicz: To be clear, I don't understand your comment around shelter price inflation being expected to slow.

Mr. Jasraj Singh Hallan: I have a point of order, Mr. Chair. The member should let the governor answer.

Mr. Tiff Macklem: What we said is that shelter price inflation will likely make a larger contribution to overall inflation for some time, until that supply issue gets resolved.

Ms. Julie Dzerowicz: Thank you so much.

The Chair: Thank you, MP Dzerowicz.

Now it's over to MP Ste-Marie.

[*Translation*]

Mr. Gabriel Ste-Marie: Thank you, Mr. Chair.

Governor and Senior Deputy Governor Rogers, with regard to housing, is Canada in the midst of a real estate bubble?

Mr. Tiff Macklem: We've seen sharply rising pressure on the housing market in recent years. House prices in Canada have increased 50% on average. Interest rate increases have restored more equilibrium to the housing market, and rising interest rates have quickly put a damper on housing demand.

We have a large country, comprising many housing markets, given our various cities. Every city is in a somewhat different situation, but the market, on the whole, is more balanced today than it was. However, housing affordability remains a problem.

Mr. Gabriel Ste-Marie: How does the Canadian housing market compare to those of other western countries?

Mr. Tiff Macklem: The technical data are provided in box 2 of the Monetary Policy Report. There you'll see that many countries experienced significant shelter market fluctuations during the pandemic. That's not really surprising since everyone in every country stayed home. Interest rates were reduced to exceptionally low levels in all the industrialized countries.

The housing market is very local. It isn't an international market, and prices may vary greatly from country to country. Consequently, the situation varies somewhat in each country.

As regards the impact this situation has on inflation, I should note that the method that organizations responsible for establishing statistics use to quantify inflation in the housing sector varies from country to country. There are at least three separate approaches. That implies that there are differences in the way housing data are incorporated in inflation statistics.

● (1725)

Mr. Gabriel Ste-Marie: I see. Thank you.

In response to questions a little earlier, you discussed the inflation crisis of the 1970s and 1980s, which resulted in double-digit inflation and interest rates and very high mortgage rates for house buyers.

Consider the Canadian housing market and real estate as a whole, do you think it was easier to buy a house then than it is today, or is it the reverse? How do you explain the difference?

Mr. Tiff Macklem: I don't have the affordability statistics for the 1960s and current years with me. However, I can say that, during the 1970s, after 10 years of very high and volatile inflation, the solution was to raise interest rates to more than 20%. That measure triggered a housing affordability crisis. The cost of a mortgage shot straight up.

Raising interest rates sharply and trying to solve the inflation problem before it gets too serious are precisely what we're trying to avoid. I know that high interest rates cause problems for many people. However, interest rates are increased sharply to prevent inflation from taking root in the economy, as was the case in the 1970s.

If that reoccurs, we'll have to raise rates again to address inflation, and that's exactly what we want to avoid.

Mr. Gabriel Ste-Marie: Thank you very much.

The Chair: Thank you, Mr. Ste-Marie.

[*English*]

MP Blaikie is next.

Mr. Daniel Blaikie: Thank you very much.

After-tax corporate profits as a share of GDP in the year 2000 were less than 10% of GDP. In 2018, they were in the vicinity of 15%, and they're about 20% today, postpandemic. I appreciate and take you at your word that you weren't being glib when you talked about competition as being one of the answers to that for Canadians. When I look at passenger transportation in Canada and at the oil and gas sector, the telecom sector, the grocery sector and the financial sector, I see that none of these Canadian sectors are known for an abundance of competitors, but what they are known for is being high-entrance-cost industries.

Given that Canadians don't actually have a lot of options when it comes to this, what are some other ways we might look to provide relief to Canadians for the very real and substantial part of inflation they're experiencing that is attributable to outsized corporate profits? While I think competition, if it existed, might help, it really doesn't help in some key industries that set prices for things Canadians can't do without.

Mr. Tiff Macklem: The Bank of Canada has one tool to control inflation.

We've talked about the effects of different types of policies on both demand and supply. Those are decisions of elected governments. We're going to take those into account. The more supply is growing, the less we need to cool demand to reduce inflationary pressures.

Government spending also contributes to demand. If it grows faster than supply, it will make it more difficult to get supply and demand into balance and reduce inflationary pressures.

Those are all your decisions. We're going to take those policy decisions as they're given, and we're going to use the tool we have to fulfill our mandate for Canadians.

● (1730)

Mr. Daniel Blaikie: If you look at the 20-year period, roughly, from the turn of the century until now.... I talked about the increasing share of GDP that corporate profits represent, but business investment in Canada has gone down from 6% to 3%. Over that same rough timeline, you've seen the corporate tax rate go down from 28% to 15%, which I think suggests that there's certainly, in the Canadian context, no correlation between lower corporate taxes and higher business investment. In fact, if there is a correlation, it's inverse. We've seen similar stagnation or a reduction of productivity in Canada compared to our competitors over that same period of time.

When we talk about the need to see more business investment to raise productivity as another way of helping Canadians combat the adverse effects of inflation, is it not fair to say that corporate tax reductions have not helped in that regard over the last 20 years?

Mr. Tiff Macklem: I'm going to leave tax questions to the Minister of Finance and the Department of Finance.

Mr. Daniel Blaikie: Fair enough.

Here's the thing. We touched a bit on the RBC-HSBC merger, and I appreciate.... I think you said to my colleague that you hadn't done an analysis of that transaction, which is fair enough. I appreciate that's not the role of the Bank of Canada. However, I wonder, based on the general principle that you enunciated earlier—which is that competition is a great thing—whether you may have some impressions about having one less financial player in what is already a very small field, the Canadian financial industry. What would it likely mean for Canadian consumers, particularly when the financial institution getting eaten up in this case is one of the ones offering lower mortgage rates than RBC?

Mr. Tiff Macklem: I don't think you'll be surprised, but I'm not going to comment on any individual financial transaction between two private sector companies.

Mr. Daniel Blaikie: When it comes to the housing market—we'll circle back to that—what has to happen in your mind in order to have...? What actions need to be taken, either in the private sector or by the government, in order to start to see a depreciation in the cost of existing housing stock, or at least to see housing stop being one of the major drivers of inflation in Canada today?

Mr. Tiff Macklem: I don't think we can really add much more than we've already said. We're not the experts in housing. We don't do housing policy. Housing is an important part of the economy, but it's only part of the economy. We have to consider the whole economy.

I think what we can say with some confidence, based on what we've seen over the last decade, is that the fundamental issue is supply. What we've seen over the last decade is.... At first, we used a series of—I say “we”, but this is largely OSFI and, to some extent, the Department of Finance, the federal system—macroprudential measures to reinforce the stability of the system. Those mostly dented demand. When they were brought into place...for example, they lowered the maximum amortization and put in better stress tests. At OSFI, the senior deputy governor was directly involved in some of these in her previous role. Those measures dented demand, and they would bring the market into better balance temporarily, but because supply wasn't growing quickly enough, demand would eventually come back and we'd be in a similar situation.

You've seen us raise interest rates very forcefully. That's had a very direct effect on the housing market. It's very interest-sensitive. The market has cooled and housing prices have come down about 10%, but that's just affecting demand. It's not addressing the fundamental supply issues. The clear message from the experience of the last decade is that we're not going to solve this problem by addressing demand; we have to focus on supply.

● (1735)

The Chair: Thank you.

Thank you, MP Blaikie.

We're in our second round, members and witnesses. MP Scheer, you have five minutes.

Hon. Andrew Scheer: Thank you very much.

I just want to clarify some terms. Obviously, inflation is a massive issue for Canadians, and the interest rates that are rising to fight it. When we talk about monetary policy and fiscal policy, just so I'm clear and everyone watching is clear, monetary policy, that's you. That's the Bank of Canada. You have tools at your disposal. You have interest rates. You have quantitative easing and tightening. That's your department, I guess.

Mr. Tiff Macklem: Right.

Hon. Andrew Scheer: Okay.

Fiscal policy would be the government. That would be the government's spending decisions, taxation, borrowing and all those types of things. That's fiscal policy.

When you say that you control the monetary policy, and one of your primary objectives as the Bank of Canada.... This is from your website: “We influence the supply of money circulating in the economy, using our monetary policy framework to keep inflation low and stable.” That's your main goal. It's to hit that target on inflation.

While you're using your tools, raising interest rates and tightening up the money supply, now you're saying that the fiscal policy—the government's policy, its spending policy—is not being helpful. Did I understand that correctly?

Mr. Tiff Macklem: What I said was that over the past year, government spending at all levels, federal and provincial, looks, by our estimates, to have grown at less than 2%. It has not been getting in the way of getting inflation down.

Looking forward, our estimate is that it will grow slightly faster than supply. Against that background, yes, it could begin to make it harder to get inflation down.

Hon. Andrew Scheer: Then it's going to “undo”.

I take your point about how the past is the past. We're here to advise the government. We're here to provide submissions for the fall economic statement and the budget. Going forward, increases in spending will make your job more difficult and will undo some of the work you've done with interest rates.

Mr. Tiff Macklem: It will definitely make it more difficult to get inflation down if all that spending is spent.

Hon. Andrew Scheer: Thank you very much for that clarification.

If you got to the target rate sooner—if you were able to get inflation down, what with these interest rate hikes that are affecting all Canadians with any kind of debt, mortgage or line of credit—would you be in a position where you could start to consider lowering interest rates?

Mr. Tiff Macklem: Yes. The sooner we see clear evidence that inflation is headed back towards the 2% target, the sooner we can start discussing reducing interest rates. We don't need to wait until it's back to 2%, but we need to wait until we're clearly on a path to 2%.

Hon. Andrew Scheer: Can you just remind the committee of what your target is?

Mr. Tiff Macklem: It's 2%.

Hon. Andrew Scheer: Okay.

You've already acknowledged that the carbon tax would be 0.6% off inflation, did you say?

Mr. Tiff Macklem: For one year.

Hon. Andrew Scheer: But it is important to remember that inflation is cumulative. It's not like you remove the carbon tax and inflation automatically pops up the year after that.

Mr. Tiff Macklem: Well, prices are cumulative. Inflation is the rate of change of prices.

Hon. Andrew Scheer: Sorry. Yes. So the prices would—

Mr. Tiff Macklem: It falls back after a year.

Hon. Andrew Scheer: Right. I just think that's an important clarification.

Do you have a target for government growth, in terms of being helpful? You said the projected rate of government spending increases is unhelpful. Do you have a recommendation to the committee on where government spending growth should be in order to be more helpful?

Mr. Tiff Macklem: Let me just be very clear. We have a big job. You have a big job. In fact, your job is a lot bigger than our job. You have a lot of priorities—health care, education, security and protecting the most vulnerable. Fiscal decisions are the decisions of the government and Parliament.

In terms of—

Hon. Andrew Scheer: If I may, I'm very short on time. I'm not asking you to tell us where to spend or how to spend, but just if you have a target growth rate.

Mr. Tiff Macklem: Right. I think there are a few things you can look at, but—

Hon. Andrew Scheer: I'm just looking for a ballpark number here.

The Chair: Please allow the governor to answer.

Mr. Tiff Macklem: If you're looking at the direct contribution of government spending on goods and services, we think that potentially the economy is growing at about 2%. If spending is growing 2% or less, it's not adding undue inflationary pressures.

● (1740)

Hon. Andrew Scheer: How much time do I have, Mr. Chair?

The Chair: You have about 10 seconds.

Hon. Andrew Scheer: I'll cede my time.

The Chair: Thank you.

Next we have PS Bendayan.

Ms. Rachel Bendayan (Outremont, Lib.): Thank you, Mr. Chair.

Thank you, Governor, for being with us today.

I'll pick up where Mr. Scheer left off.

You were just saying that spending below 2% would not add undue inflationary pressures. Governor, I believe you said something very similar last week at the press conference: “If you look at government spending over the last year, it was below 2%, so it doesn't look like it's been adding undue inflationary pressures over the last year or so.”

I understand you continue to hold that position.

Mr. Tiff Macklem: Yes, the story hasn't changed.

Ms. Rachel Bendayan: Governor, over the course of your testimony today, you also mentioned that not all spending is equal. Some spending could be inflationary, but you pointed out that some spending is not, particularly with respect to housing.

Ms. Rogers, you mentioned this as well. You stated, “We're really pleased to see the degree of focus that governments are putting on this issue right now. That'll help”, and you continued, Ms. Rogers.

I wonder, Governor, whether you can help Canadians unpack that.

Why is it that not all spending is equal? Can you explain how spending, particularly on housing supply, would be helpful in bringing down inflation?

Mr. Tiff Macklem: Why are the impacts of different types of spending different? Again, this is probably better directed at the Department of Finance. We do the best job we can in trying to look at the broad elements of federal and provincial budgets, and to build in the effects of different types of spending.

I'll give you examples.

If you're making an investment in a large infrastructure project that's going to be built over many years, the consequences of that spending are going to be spread out over a long time. You have to look at the profile of when it is. You also have to look at what it is, exactly. If the government builds a new building, it's all getting spent. The direct spending impact is bigger.

If you cut taxes, it will leave more money in the pockets of households, but they're not going to spend it all. They're going to save some of it. Some of it gets spent, some of it will add to demand and some of it will go into savings.

You mentioned, to use an example that was raised, the government's subsidizing of day care. That's having both demand and supply effects. It's making it easier for women with young children—for men with young children, too, but it's largely affecting women—to enter the workforce. That's increasing the supply of workers. Of course, new workers have new incomes. They're going to spend that money, so that's also adding to demand. These are examples of how different policies can have different effects.

When you get to housing, let's say a government gives people money to make it easier to buy a house. Of course, that's going to stimulate the demand for housing. It's not going to create more houses. In the current context, where the problem is supply, that would probably make the situation worse. However, the measures that improve the supply of housing will bring demand and supply into better balance.

Some of these measures are budgetary, but some of them are not budgetary. It's how approvals are done. It's how provinces, municipalities and the federal government are working together. It's not all budgetary items.

Ms. Rachel Bendayan: Mr. Chair, do I have time for one more question?

The Chair: You have 40 seconds.

Ms. Rachel Bendayan: Governor, one of the bank's main roles is ensuring the economic and financial welfare of Canada. I wonder whether you could speak to the importance of keeping Canada's pension plan intact.

I understand the CPP represents over $409 billion of Canadian-owned assets. In your view, is this important in order to keep Canada's sound and efficient financial system intact?

● (1745)

Mr. Tiff Macklem: Again, we really don't do pension policy.

I will say that Canada's pension system is admired around the world and it is a great benefit to Canadians, but I don't have any view on the various policy proposals that are under consideration or are being proposed.

The Chair: Thank you, and thank you, PS Bendayan.

Now we go to MP Ste-Marie, please.

[*Translation*]

Mr. Gabriel Ste-Marie: Thank you, Mr. Chair

As regards the housing market, we've often discussed supply problems, such as the need to build more housing units more quickly. That can obviously be evened out.

I'd like to hear you comment on one demand problem: strong population growth. Statistics Canada has issued an update of those figures.

Have you analyzed the impact that demand has on the housing market, more specifically the portion of demand caused by population growth?

Mr. Tiff Macklem: Yes, we've analyzed the effects of immigration on the economy, which are numerous.

In the housing sector, if there are more people in Canada, we obviously need more houses. Furthermore, permanent residents are part of the sharp increase in immigration, but many temporary residents are too. There's also a sharp increase in the number of foreign students, who are mainly in the rental market. This has an impact on the market for houses and the rental market. If there are more people in Canada, demand will rise.

There's another effect. More people mean more workers. We conduct regular surveys of businesses, and there was a major labour shortage last year, although we've seen a strong reversal of that shortage more recently.

Many indicators show that the housing market is still tight, but much less so than previously. I think the sharp increase in labour is associated with immigration and greater participation by the Canadians who are already here.

That's what has helped cool the overheating in the labour sector.

Mr. Gabriel Ste-Marie: Thank you, Mr. Macklem.

The Chair: Thank you, Mr. Ste-Marie.

[*English*]

Now we will go to MP Blaikie.

Mr. Daniel Blaikie: Thank you, Mr. Chair.

Jim Stanford, at the Centre for Future Work, has said that since 2019 the amount of corporate profit built into each dollar of real output produced in the economy has gone up by 50%. That's another metric we might use to assess the extent to which corporate profits are driving Canadian inflation.

For the carbon tax, you have a number. If you get rid of the carbon tax, you get a 0.6% drop in inflation for one year. Have you calculated what the impact on inflation would be if corporate pricing behaviour were to change such that we had unit profit costs that were back down to prepandemic levels instead of the 50% higher level that we're currently at?

Mr. Tiff Macklem: I don't have a number for you. It's a much more difficult thing to calculate. The carbon tax is a very specific tax. We can see exactly the things it's applied to and we can back out the number. That number that we back out is only the direct effect. The secondary effects are probably pretty small, so it's a reasonable approximation, but—

Mr. Daniel Blaikie: Is an assessment of that effect on inflation of unit profit costs something that the bank could undertake to study and report on?

● (1750)

Mr. Tiff Macklem: We have studied.... As the senior deputy governor indicated, our colleague actually gave a full speech on this issue. As I said, what we can see is that it's more about the speed at which higher input costs get passed through—

Mr. Daniel Blaikie: Is it not true that if it were just passing on higher input costs, profit wouldn't go up? Doesn't profit only go up if you have price increases that exceed the additional input costs?

Mr. Tiff Macklem: That is correct.

I think, though, that when we're looking at the profit share in the economy, we see a long secular trend over many years. We've seen a rising share. The return to capital over time has tended to go up, and the return to labour has tended to go down. That's a long secular issue. That's not something that's just happened in the last year.

Mr. Daniel Blaikie: It's not secular in respect of fiscal policy, though, which has offered a declining corporate tax rate in a climate of declining business investment. Maybe we're just talking at cross-purposes in terms of how we deploy the word “secular” here. It's not like that was just not happening, because there weren't ardent believers in certain fiscal policies that have created the context.

Mr. Tiff Macklem: I'm not saying it's secular in the sense that it came from outer space. Secular is maybe a trend over many, many years.

Mr. Daniel Blaikie: Indeed.

The Chair: Thank you, Mr. Macklem.

Thank you, MP Blaikie.

We'll now go to MP Chambers, please.

Mr. Adam Chambers: Thank you, Mr. Chair.

Senior deputy governor, I want to clarify something, because we had a bit of a back-and-forth before, in my last round. I think I heard you agree that it's possible that the market is demanding a higher interest rate in order to absorb the record amount of all government debt.

I'll note that most of the debt being rolled over this year by the federal government is debt it incurred during COVID, and it negligently borrowed at the short end of the curve.

Isn't it possible, or would you agree, that the market is actually demanding a higher interest rate because it has to absorb that amount of borrowing?

Ms. Carolyn Rogers: Whenever there is more debt being issued, there is more competition, so prices will go up.

Mr. Adam Chambers: Thank you very much.

Governor, you mentioned in the press conference last week that the path to a soft landing is now narrower.

My sense of it is that the risk now is greater that we will have some kind of economic event or economic uncertainty that in normal times would demand a lowering of the interest rate. It now looks like that may happen in 2025. However, if we can't get inflation down before that happens and if we don't have some kind of reason to lower the rate before 2025, before inflation comes down, we're not actually going to be able to lower the policy rate in order to deal with that economic shock.

Is that accurate?

Mr. Tiff Macklem: As long as inflation is well above the target, it will certainly be harder.

Mr. Adam Chambers: You're saying that if high inflation stays around until 2025, it will prevent the bank from acting to support the economy if we don't have inflation under control.

Mr. Tiff Macklem: It will make it harder. It depends, obviously, on the size of the shock. If it's a big enough shock, the downward pressure on inflation caused as a result could cause us to reconsider our rates, but yes, I largely agree that when you're starting from a position when inflation is above target—and it's been there for two years—you have less scope to lower interest rates and stimulate growth.

Mr. Adam Chambers: It underscores the importance of governments at all levels taking all the necessary steps they have in their tool box in order to lower inflation to basically make that narrow path as wide as possible in order for the bank to be able to act if it needs to act.

Is that fair?

Mr. Tiff Macklem: I think that's fair.

Mr. Adam Chambers: When the premiers were writing you letters, were you just screaming inside, wanting to write back two words, "Stop spending"?

Mr. Tiff Macklem: With respect to the letters, I know you're all hearing from your constituents. I know the premiers are hearing from their constituents. This is putting more focus on inflation. It's putting more focus on interest rates, and that's a good thing.

As I've said already, it would be helpful if governments at all levels were considering the inflationary consequences of their spending decisions when they take those decisions.

● (1755)

Mr. Adam Chambers: I think we're going to find that StatsCan will report the new poverty line statistics early next year, I think in January or February. The number of households or individuals who will now fall below the poverty line because inflation is going to be quite high.... I suspect, as you said before, that inflation hurts the vulnerable the most, so it's important to know that if we don't get this right, it's the vulnerable people who will suffer most.

Is that correct?

Mr. Tiff Macklem: I agree.

Mr. Adam Chambers: I read with great interest that the bank has picked up Nick Leswick from the finance department. He's no stranger to this committee; I know he'll do a great job for you and I'm glad to see him go to the bank.

Thank you for coming today. Thank you for being transparent and available to answer questions. I think that improves the confidence that Canadians have in the institution.

Thank you, Mr. Chair.

The Chair: Thank you, MP Chambers.

Our final questioner will be MP Baker for the last five minutes.

Mr. Yvan Baker: Thanks very much, Mr. Chair.

Again, Governor and Senior Deputy Governor, thank you for being here today with us.

In my earlier questioning I asked you about the causes of prices going up, the causes of inflation. I want to recap some of what you said and then I have a few questions.

When you talked about the primary cause of inflation, I noted three things. You talked about some of the supply chain bottlenecks during the COVID crisis, which didn't allow supply to keep up with demand. You spoke about Russia's invasion of Ukraine and the resulting impact on energy prices and food prices globally, but you also talked about demand here in Canada domestically bouncing back more quickly than expected post-COVID.

Is that a good summary of the three most important factors that have driven prices to go up over the last several years?

Mr. Tiff Macklem: Yes.

Mr. Yvan Baker: Thank you.

You said during your testimony here today that inflation is a global phenomenon, and we've just talked about some of those global factors, but it has also infected countries around the world, including our G7 counterparts like the U.S. and the European countries.

Is that correct?

Mr. Tiff Macklem: Yes.

Mr. Yvan Baker: As prices have risen, the Government of Canada has taken certain initiatives to help folks with this problem of rising prices. Part of those are around doing what government can to address the underlying causes.

To the extent we can, we're showing tremendous support for the Ukrainian people in their fight in the war. We've tried to take the steps we can to unwind some of the supply chain bottlenecks, because the government can do that, but we also, perhaps more notably, have provided supports to people, especially the most vulnerable people in our society, with programs to help them with the cost of living, with things like the ones we talked about today, such as child care or dental care or a grocery rebate or things like that.

Notwithstanding that, what I've heard you say today is that up until today, government spending has not contributed to inflation. Is that correct?

Mr. Tiff Macklem: What I said is that if you look at government spending over the last year, it has not been getting in the way of getting inflation down.

Mr. Yvan Baker: Thank you.

Inflation is caused by global forces and domestic forces. It is affecting countries around the world, so the cost-of-living challenges that Canadians feel are being felt to a great degree, if not to a greater degree, in other countries, and government spending over the last year has not contributed to inflation. That's what I'm hearing.

So far, is that correct?

Mr. Tiff Macklem: That's a good summary.

Mr. Yvan Baker: Thank you.

One of the questions you were asked by a colleague here at the committee was about the impact of eliminating the price on pollution or the carbon tax, and I think you estimated that there would be a one-time benefit of 0.6% on prices.

Is that correct?

Mr. Tiff Macklem: There'd be a one-time reduction.

Mr. Yvan Baker: It would be a one-time reduction of 0.6% in prices. Thank you.

Could you speak to what the costs, economic or otherwise, could be of not acting on climate change?

Mr. Tiff Macklem: Climate change is not in the Bank of Canada's mandate. Climate change is already a force, and it's only going to become a bigger force on the economy.

Our mandate is to control inflation, and in order to do that we're going to have to understand the effects of climate change. There are two kinds of effects. There are the physical effects. I think those are what people are seeing—the experiences, whether forest fires or floods or extreme storms. Those are disrupting people's lives. They're disrupting economic activity, and we need to understand how that affects the economy.

Then there's the transition. We're going to transition to net-zero emissions. That's going to affect almost every sector of the Canadian economy. You're going to have to see large investments in more renewable types of energy. That's a big transition that's going to have a variety of effects. It's going to add new costs and it's going to create new opportunities, so again we need to understand how those things are going to affect the economy and what the implications are for inflation. We're really just at the very beginning of that, but climate change policy is very much in the hands of governments, which is where it should be.

● (1800)

Mr. Yvan Baker: Chair, how much time do I have?

The Chair: You have about enough time for one question.

Mr. Yvan Baker: Earlier, the senior deputy governor alluded to the fact that the forest fires caused a 0.5% reduction in GDP in the last quarter. Did I get that correct?

Ms. Carolyn Rogers: That was in the second quarter. Yes.

Mr. Yvan Baker: It was in the second quarter.

We understand, of course, that as the climate changes, it increases the likelihood and intensity of some of these extreme climate events like forest fires.

To me, this gives us an indication of the degree of magnitude of economic impact that we are going to be facing and the consequences we'll face if we don't act on climate change.

I want to thank you for your presence here today.

The Chair: Thank you.

Thank you, MP Baker.

MP Blaikie, do you have your hand up?

Mr. Daniel Blaikie: Yes. I have just a quick question.

I wonder if the governor might follow up in writing just to say whether the 0.6% reduction in inflation assumes no corresponding price increase.

The Chair: I have another hand up.

Listen, we have to end this meeting. We've reached finish line of this very fine session here—

Mr. Tiff Macklem: There are no other secondary effects. It is just a pure, direct calculation.

The Chair: MP Hallan—

Mr. Jasraj Singh Hallan: I just wanted to see if the committee could get an update on the report that was supposed to be tabled about the motion passed last week, minus the support from Liberals, that wanted the Minister of Finance to reject the HSBC-RBC report. Do you have a date for when that would be tabled in the House?

The Chair: I'm slotted for tabling it tomorrow, I think. Yes, it's tomorrow.

Mr. Jasraj Singh Hallan: Thank you.

The Chair: You're welcome.

Mr. Philip Lawrence: On a point of order, have they scheduled Chrystia Freeland?

The Chair: We want to really—

Mr. Philip Lawrence: On a point of order, have they scheduled Minister Freeland? Maybe Yvan would like to answer that.

Mr. Yvan Baker: That is not a point of order.

The Chair: No, it's not.

Listen, what we want to do is thank the governor and the senior deputy governor for being here for this marathon session—it has been over two and a half hours—and for answering many of the members' questions on monetary policy as well as our housing study.

We thank you. We truly appreciate it.

On that, members, we are adjourned.