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Chair: Mr. Peter Fonseca

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● (1105)

[*English*]

The Chair (Mr. Peter Fonseca (Mississauga East—Cooksville, Lib.)): I call this meeting to order. Welcome to meeting number 81 of the House of Commons Standing Committee on Finance.

Pursuant to Standing Order 108(2) and the motion adopted on Wednesday, January 12, 2022, the committee is meeting to discuss inflation in the current Canadian economy.

Today's meeting is taking place in a hybrid format pursuant to the House order of June 23, 2022. Members are attending in person in the room and remotely using the Zoom application.

I'd like to make a few comments for the benefit of the 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. 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 audio. For those in the room, you can use the earpiece and select the desired channel.

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.

I'd now like to welcome our witnesses.

With us here today from BMO Capital Markets, we have Michael Gregory, who is managing director, deputy chief economist and head of U.S. economics.

From Desjardins Group, we have Jimmy Jean, vice-president, strategist and chief economist.

From the National Bank of Canada, we have Stéfane Marion, chief economist and strategist.

Thank you for joining us today, witnesses.

We are going to provide you now with an opportunity for opening remarks for up to five minutes. We will start with Mr. Gregory from BMO Capital Markets, please, for five minutes.

Mr. Michael Gregory (Managing Director, Deputy Chief Economist and Head of U.S. Economics, BMO Capital Markets): Thank you, Mr. Chair and honourable members, for the invitation to appear before you as part of your study on inflation.

My name is Michael Gregory, and I'm the deputy chief economist at the Bank of Montreal. I will focus my opening comments on the Canadian economy and touch a bit on the U.S. inflation situation.

The bottom line is that Canadian inflation is coming down after peaking at 8.1%—

Mr. Marty Morantz (Charleswood—St. James—Assiniboia—Headingley, CPC): On a point of order, Chair, it's difficult for our members to see the witness speak, because this monitor is not on. Could we pause for a moment until that's rectified?

The Chair: We are having some technical difficulties with that monitor, so we'll pause briefly to see if they can get it working, and then we'll get going again.

We're back, and it looks like the technical challenges have been fixed.

Mr. Gregory, the floor is yours.

Mr. Michael Gregory: Thank you, Chair.

Canadian inflation is coming down after peaking at 8.1% last June, the highest rate in four decades. Data released this week showed the annual change in the CPI at 5.2% for February, and more progress looms. Some of this will be due to base effects. In the wake of Russia's invasion of Ukraine, last spring it exhibited the biggest three-month surge in prices in 40 years, at 11.6% annualized, and this won't be repeated this spring. Indeed, the latest three-month trend is running under 2% annualized.

However, the latest figures are being flattered by lower energy prices. Looking at underlying or core inflation, whether measured by the CPI-median, the CPI-trim or the CPI excluding food and energy, the yearly changes are all tucked just under 5%, and importantly, the latest three-month annualized changes are running in the 3% range. The latter are much closer to the 2% target, but further progress is still required.

Fundamentally, inflation continues to run at an above-target pace, and it accelerated in the first place because of an imbalance between demand and supply in the domestic and global economies.

After the onset of the pandemic, the demand for commodities and commodity prices was initially depressed, but it eventually recovered, in some cases quite sharply. This trend was exacerbated by Russia's invasion of Ukraine. It also didn't help that extreme weather and disease were impacting global agricultural supply.

There was a surge in the demand for goods, partly because you couldn't spend on services owing to restrictions. The strong demand butted against global supply chains that were still reeling from the pandemic, resulting in shortages and distribution backlogs. This caused many goods prices to spike.

Then, as the Canadian economy reopened, there was a surge in the demand for services, but many service providers were constrained by lack of labour. This caused some services' prices to spike, with the resulting increased demand for workers applying upward pressure on wages amid the lowest unemployment rate in half a century. Overall, Canadian demand was so strong that businesses were able to pass their higher labour and other input costs on to their customers.

Facing these mounting inflation pressures, the Bank of Canada began tightening monetary policy a year ago to dampen demand in the economy so that supply could catch up, and it's catching up.

After eight consecutive rate hikes and a cumulative 425 basis points of tightening, the Bank of Canada paused earlier this month. Monetary policy works with a lag, and the bank was keen not to weaken demand more than is necessary to restore price stability. We expect the pause will continue for the rest of this year.

Nevertheless, there's a significant chance that the Canadian economy will still see a downturn under the weight of monetary tightening, given near record-high household debt burdens. However, we judge any downturn will be mild, given the support provided by $350 billion of excess savings amassed by households, lingering pent-up demand, particularly for services, and a sturdy labour market. As for inflation, we expect the annual changes to be in the 3% range by the end of this year, down from around 5% currently, and well on track for 2%.

Finally, with President Biden visiting Ottawa today, it's worth mentioning how America's fight against inflation compares. The annual change in the U.S. CPI was 6% in February, down from its 9.1% peak last year. U.S. core inflation was 5.5%, but the three-month trend is proving to be more stubborn than Canada's, and is still running in the 5% range. Definitional differences account for some of this, but demand south of the border is proving to be more resilient in the face of Federal Reserve tightening. As such, yesterday, the Fed raised policy rates another 25 basis points, and we expect one more rate hike this spring. Given what will be 500 basis points of cumulative tightening, and the recent headwinds coming from banking sector stress, the U.S. economy is more likely to suffer a mild downturn this year, which will weigh on the Canadian outlook. We also expect U.S. inflation readings in the 3% range by year end, as in Canada.

That concludes my comments. Thank you. I would be pleased to discuss this further in the Q and A.

● (1110)

The Chair: Thank you, Mr. Gregory.

Now we'll move to the Desjardins Group, and we have Jimmy Jean for five minutes, please.

[*Translation*]

Mr. Jimmy Jean (Vice-President, Strategist and Chief Economist, Desjardins Group): Thank you very much. It's my turn to thank you for the invitation.

I'll begin with the global economy. In early 2023, the story was resilience. We were definitely expecting a slowdown in the pace, but the data we were receiving, particularly in January and February, showed us that the slowdown is less pronounced than we thought. We have nevertheless observed signs of improvement from the earliest days of the new year, particularly in the services sector. We were surprised by the strength of the labour markets, particularly in January and February. This was true in both the United States and Canada. However, we continue to expect a slowdown and the start of a recession this year.

In the United States, the housing sector was hard hit by interest rate hikes. For example, there was a 58% drop from the peak in new purchase offers. We are also beginning to see signs of weakness in demand for construction workers, particularly for residential construction. This indicates a potential risk of job losses, which would be added to those currently being lost in the technological and financial sectors.

Of course, the current turbulence in the world of banking will at the very least cause some permanent damage. Some American financial institutions were already tightening credit conditions. This trend will likely continue. There is little doubt that these dynamics will slow investment and job creation. It's still too early to determine the scale of the slowdown, but we can say with somewhat more certainty that the gentle slowdown the U.S. Federal Reserve was hoping to orchestrate is going to be quite a challenge.

Here in Canada, we haven't had much unexpected good news. It's not that we haven't had any, but the record wasn't as clear cut. Apart from the upswing in job creation, economic growth surprised economists by stagnating in the fourth quarter of 2022. Inflation and the real estate market have moved apace, generally downward. Consumption by Canadian households had highs and lows. For example, in the third quarter of 2022, the province of Ontario experienced its sharpest drop in consumption since 1992, apart from during the pandemic.

Still, the more recent indicators show some gains in Canada, influenced among other things by motor vehicle shipments as supply chains improve. However, this will likely be temporary, and several surveys have confirmed that Canadians' interest in major purchases is at a particularly low level.

As mortgage borrowers renew their contracts at higher interest rates, the additional hit on their disposable income will require them to cut back on their spending and draw upon their savings, at least for those who were able to set money aside during the pandemic, which is certainly not the case for all households. Others will want to repay their debts. In short, discretionary consumption will be affected.

That will also be the case for income in some households. For example, people with jobs in sectors that are vulnerable to the real estate correction and interest rates may experience financial problems. The current increase in household and business insolvencies will also likely continue.

The problems currently affecting banks outside Canada could be an additional factor that could lead financial institutions, including here in Canada, to exercise greater caution, which would of course be reflected in increased credit, and business credit in particular, which has been fairly resilient so far.

According to the information we currently have, even if the Bank of Canada has likely completed its interest rate hike cycle, it may well maintain a high level until the end of the year. This, combined with quantitative belt-tightening, which we believe is more serious here in Canada than in the United States, creates conditions that would keep Canada in a recession for the next few quarters and cause the unemployment rate to start rising.

We are expecting Canada's unemployment rate to reach 6.9% by year-end, and it was 5% in February. The labour shortage should mitigate the impact of the decline in aggregate demand on unemployment. That's why we are expecting this recession to be narrow in scope, historically speaking. Nevertheless, it's important to acknowledge that at the moment, global financial events are showing a balance of risks that is trending downward.

● (1115)

Even though the Canadian banking system is built on rather solid foundations, the 2008-09 financial crisis reminds us that Canada is not fully immunized against the kinds of indirect economic impacts that generally arise in episodes like these.

As for inflation, it should continue to moderate. We don't think that it will reach the 2% target until next year, particularly because of the persistent issues with housing, food, and certain services. The year-end inflation range, which we expect to be 2% to 2.5%, should give the Bank of Canada a sufficiently high comfort level for it to begin gradually making its monetary policy more flexible, and putting an end to quantitative tightening.

In our baseline scenario, this monetary easing, to which the U.S. Federal Reserve will also have to contribute in 2024, and the component that would begin to pave the way for an economic recovery—

The Chair: Thank you, Mr. Jean.

● (1120)

[*English*]

We have just gone a little over time. We are going to now move to the National Bank of Canada. I have Stéfane Marion. Just before you commence, Mr. Marion, I would like to ask Michael Gregory to move the boom on his mike a little higher.

In terms of the pace of your speaking, gentlemen, please don't go so fast, because we have interpreters, and they're trying to keep up. It's difficult work for them, so please speak clearly and at a reasonable pace.

We have Mr. Marion for five minutes, please.

You may need to unplug and replug your headset.

Can you hear us, M. Marion?

[*Technical difficulty—Editor*]

Monsieur Marion, we have only certain approved headsets here for Parliament. We will give you a call. Just stand by, and you will be getting a call from our technical department.

Members and witnesses, we're going to start into our first round of questions. If we do get Mr. Marion back on, we will interrupt at one point and allow him to make some remarks and then get back into questions.

We'll start with the first round right now. We have the Conservatives, with Mr. Morantz, for six minutes, please.

Mr. Marty Morantz: Thank you, Mr. Chair.

It's very nice to have our esteemed witnesses with us today.

I want to start with the elephant in the room, which has to do with what's been going on in the banking sector, mainly in the United States, the catalyst of which was what happened with the Silicon Valley Bank.

Since this is a public meeting, I was wondering if you could give some reassurance to those who may be watching that Canadian banks are not at risk, and that the Canadian banking system will remain on solid ground despite what's going on internationally. Any one of you could take that.

Mr. Jimmy Jean: I can start.

I think that, in what we're observing, it's important to realize that what we're seeing in the United States really starts with very idiosyncratic factors and conditions affecting specific banks. We're talking about a banking system with 7,000 banks. It's not the same type of management that we have here, in a system that has seven major banks or financial institutions.

There were regulatory gaps that were obviously the effect of very fast-rising interest rates and some troubles in managing that risk in certain banks' balance sheets, obviously combined with an electronic bank run, which goes much faster, as we've discovered, than those long wait lines. All those factors, I think, combine to produce what we're seeing. Then there's the confidence aspect, which produces fragilities elsewhere.

In the case of Canada, our system has been, I think, consistently demonstrated to be resilient. That was the case even in 2008-09, which was orders of magnitude more complicated and featured credit issues and toxic assets, and our financial system ended up being quite resilient. We ended up importing the negative effects on our economy, but our banks were sound. If anything, they have been reinforced by very tight and sound regulation since then.

I'm not concerned that we might see something like this in Canada; however, what's going on certainly means that credit is going to be slowing down further. It was already slowing down in the U.S. It's going to slow further. We might see that as well in Canada as we see a bit of prudence on the part of certain financial institutions, so it reinforces the idea that we are going to see a recession as a result.

● (1125)

Mr. Marty Morantz: Thank you for that.

Last fall there was an article in The Economist, assessing housing risk. It ranked Canada as number one in terms of housing risk. The Netherlands was second. The United States was seventh, and Italy was seventeenth.

The article said that bringing this altogether, all the ingredients for a deep housing slump are in place. This time, though, it's likely to be led not by America but by Canada, the Netherlands, Australia and New Zealand. Economists at the Royal Bank expect the country's volume of sales to plummet by more than 40% in 2022-23, exceeding the 38% drop in 2008-09. That article was published in October last year.

Can you comment on whether or not you agree with that assessment, and whether six months later we're seeing that prediction in reality?

Any one of you can take it.

Mr. Jimmy Jean: There's no question that the Canadian housing market is correcting. We're seeing on a nationwide basis more than double-digit declines from the peaks we had, but a couple of things are interesting.

Number one is that even though home sales are falling, suggesting that the demand for homes themselves has fallen in the wake of higher interest rates, the availability of homes is also falling commensurately. There's not a lot of forced selling out there. There are not a lot of people stretched beyond their means. I think, because of that, this isn't a 2008-09 situation. Canadian financial institutions are very prudent lenders. Canadian households tend to be very prudent borrowers, which was not the case in the United States, as you know, during the great recession and the global financial crisis that preceded it.

I think, yes, we're getting a correction. It's going to be a drag on economic activity. It will likely contribute to the risk of a downturn, but I think it is manageable and containable, so I'm not at all worried that this is going to spark an even larger problem in the economy.

Mr. Marty Morantz: Thank you.

The Chair: Thank you, Mr. Morantz.

Mr. Jimmy Jean: Maybe if I can add to that—

The Chair: Monsieur Jean, we're done with the time right now for Mr. Morantz.

Before we go to our next questioner, who is Liberal MP, Mr. Baker, we're going to try again with Mr. Marion, to see if it works this time and if we have those technical challenges fixed.

Mr. Stéfane Marion (Chief Economist and Strategist, National Bank of Canada): Can you hear me now?

The Chair: We can hear you. You have five minutes for your opening remarks.

Mr. Stéfane Marion: I didn't hear you.

The Chair: Raise your mike a bit. You have five minutes.

I don't know why you can't hear us.

Mr. Stéfane Marion: I can hear you. There's a—

[*Translation*]

Mr. Simon-Pierre Savard-Tremblay (Saint-Hyacinthe—Bagot, BQ): Mr. Chair, I have a point of order.

It's impossible to understand the interpretation because of the sound quality.

[*English*]

The Chair: You have five minutes now, Monsieur Marion.

Mr. Stéfane Marion: I apologize.

[*Translation*]

I hope you can hear me clearly.

I'm here to present some facts that will be complementary to the presentations from my two colleagues.

[*English*]

As you well know, hindsight is 20/20 vision, and inflation is a lagging indicator that reflects the previous mix of fiscal and monetary policies. That said, far be it from me to lecture on how best to navigate a pandemic environment in the context of a dysfunctional global supply chain and acute geopolitical stress.

The Chair: Monsieur Marion, it may be the speed that you're going at—

[*Translation*]

Mr. Simon-Pierre Savard-Tremblay: No, Mr. Chair, the interpreter is signalling that the sound quality is poor.

[*English*]

The Chair: The interpreter is still having challenges with the sound quality.

● (1130)

Mr. Stéfane Marion: I could just make myself available for questions, if you want.

The Chair: Okay. I think they can hear the sound. Can you push your boom mike out a little, away from your mouth?

Mr. Stéfane Marion: How is that?

The Chair: Okay. Also, in terms of the pace of your speaking, please slow it down a little, and that will also help the interpreters.

Mr. Stéfane Marion: Sure.

The Chair: Maybe we could try again. Let's see how things go, and we'll see if this works or not. Go ahead.

[*Translation*]

Mr. Stéfane Marion: So the good news is that following the adjustments made by fiscal and monetary authorities over the past year, inflation is coming down. I fully expect it to return this summer to the 1% to 3% range set by the National Bank of Canada.

[*English*]

In the longer term, however, I remain convinced that the main challenge to keeping inflation at an acceptable level is to tackle the poor productivity performance of our economy.

[*Translation*]

Canada is simply lagging behind in terms of growth and capital stock—

Mr. Simon-Pierre Savard-Tremblay: Mr. Chair, I have a point of order.

The interpreters are reporting once again that they can't do their work.

[*English*]

Mr. Greg McLean (Calgary Centre, CPC): Tell him to speak in French, because the English interpretation is fine.

The Chair: Maybe we'll try this. Monsieur Marion, please speak just in French. That may be a little easier on the interpreters, and it may work.

[*Translation*]

Mr. Stéfane Marion: I'm going to talk about the five charts that I distributed, if you have received them.

[*English*]

Can you confirm that you have those charts?

The Chair: Yes, everybody has received the slides.

[*Translation*]

Mr. Stéfane Marion: First, the recession during the pandemic was unprecedented because the household support measures more than offset job losses, making disposable income grow at a frantic pace in both Canada and the United States. It was an unprecedented environment, combined with a highly flexible monetary policy.

The context was one in which the economy's production capacity was rising much faster than its supply capacity, the end result of which was that inflation ended up at 8%.

[*English*]

Are we still good?

The Chair: I believe we're okay. Please continue.

[*Translation*]

Mr. Stéfane Marion: After peaking at 8%, inflation is dropping and currently sits at 5.2%. Canada is one of the few countries where monetary policy can have an impact on inflation because mortgage rate hikes are reflected in inflation. If mortgage rate increases are excluded, inflation is now at 4.8%. I fully expect it to drop to 3% this summer.

I'm going to address the issue of house prices right now. In response to the earlier question, house prices during the pandemic in the United States increased by 45%, compared to 40% in Canada. With the interest rate hikes in Canada over the past few quarters, housing prices have been dropping—

[*English*]

The Chair: Monsieur Marion, the sound is still not of good enough quality that we can continue.

Mr. Stéfane Marion: Okay. I apologize for that.

I'll be here for questions, if possible.

[*Translation*]

The Chair: Okay. Thank you.

[*English*]

We will get back to questions.

We'll go to the Liberals and Mr. Baker for six minutes, please.

Mr. Yvan Baker (Etobicoke Centre, Lib.): Thank you very much.

[*Translation*]

I'd like to thank all the witnesses.

[*English*]

Mr. Gregory, I want to start by asking if you could comment on the issue of the resilience of our banking sector here in Canada. I think many Canadians are seeing news about the volatility in the banks globally, and stories surrounding Credit Suisse or Silicon Valley Bank in particular. I think many Canadians, including many people in my community in Etobicoke Centre, are concerned about or questioning whether the banking system here in Canada is stable.

Could you speak to the resiliency and strength of our banks and financial institutions here in Canada?

● (1135)

Mr. Michael Gregory: There's no question that what's happening south of the border is a major source of uncertainty. It's not just the institutions that get mentioned a lot—the couple that collapsed a couple of weeks ago. This has rippled through the entire mid-range banking segment, the smaller and regional banks that are all experiencing some degree of liquidity pressures and the exiting of deposits, which will affect the supply of credit in the U.S. economy from this particular segment. To quickly put that into perspective, more than two-thirds of the credit that goes into commercial real estate in the United States comes through smaller banks, not the top 25. So there's going to be some shakeup from this further.

The important thing to keep in mind, though, is that north of the border, Canadian banks are considered by organizations such as the World Economic Forum to be among the safest and soundest in the world. Canadian banks are very well capitalized. For any kind of metrics that they're supposed to have, they're running at or above whatever domestic or international standards are required. They're well regulated and, importantly, well run.

It's true that in a global issue it's going to affect everybody, but even as we saw in the global financial crisis, credit continued to flow in the Canadian economy. I think that is an important testament to the resilience of the Canadian banking sector.

Mr. Yvan Baker: Thank you very much for that.

[*Translation*]

Mr. Jean, did you want to add anything on this topic?

Many of my fellow citizens have been asking questions about the resilience of our banking system for a variety of reasons, including reports on what happened with Credit Suisse Group AG and Silicon Valley Bank in the United States.

Could you comment on the resilience and stability of the financial banking system here in Canada?

Mr. Jimmy Jean: As I mentioned earlier, our banking ecosystem is not the same as in the United States. We have strict regulation, which was further strengthened after 2008 and 2009. It's important to remember that in the United States, measures to reduce regulation were introduced under the previous U.S. administration . That was also part of the equation. The structure of our financial institutions is not as focused on certain markets, more specifically in this instance, the technology market. The deposit diversification and matching aspect is not seen in Canada. Basically, it's a problem of matching. The important aspect underpinning all of this is of course capitalization.

Debt is high in industry and the housing sector, but on the other hand, our banking system is more solid than elsewhere. We aren't worried about what is happening and we're not afraid of scenarios like this playing out in Canada. That doesn't mean that there won't be economic events like those in 2008 and 2009. While our banks held up, we nevertheless felt the impact, although indirect, of what was happening around the world.

As for the strengths of Canadian banks and financial institutions in general, including the Desjardins Group, we have no qualms.

[*English*]

Mr. Yvan Baker: Thank you very much.

Mr. Gregory, in your opening presentation you spoke about what contributed to inflation in Canada and around the world, but particularly in Canada and the United States. Could you recap for us what some of those factors are? In particular, what caused the spike in inflation?

If we have time—I have about a minute and a half left—I have a follow-up as well.

Mr. Michael Gregory: Sure. Clearly, it was an imbalance between demand and supply. We can go back to hundreds of years of economic research and economic theory that talk about how when demand is greater than supply, you end up with upward pressure on prices. That was the case in broader commodity prices as we recovered from the initial onset of the pandemic, and then afterwards we ended up with Russia's invasion of Ukraine. That part of the world is a major producer of virtually every major commodity, so that further worsened that problem.

We had the situation with the pandemic, and we had limited spending on services. Therefore, there was a lot of spending on goods. People were buying things for their home instead of going on vacations. That further snarled global supply chains. Finally, as we reopened our economy, there was a lot of pent-up demand for going to restaurants, going on vacations and getting haircuts. All of a sudden, we ended up with a tremendous amount of pressure. At the same time, many service providers were having a difficult time filling the jobs. I was out early after the reopening. Restaurants would be closed a couple of days a week because they couldn't get enough staff to open up every day.

All that contributed to this upward pressure on prices. Fortunately, a lot of those pressures are now starting to turn the other way, so the inflation prospects are pretty favourable.

● (1140)

Mr. Yvan Baker: Thank you very much.

The Chair: Thank you.

Staff members, before we go to the Bloc and Monsieur Savard-Tremblay, we will try one more time with Mr. Marion. He has turned off his screen, and....

He's not there now. Okay, so we're not going to try with Monsieur Marion. I guess when it rains, it pours.

Monsieur Marion will be able to send in his opening remarks to the members and the analysts for our report. As well, members will have the opportunity to send questions, if they would like, to Monsieur Marion and get his responses back in writing. They can also be submitted to the analysts for the report.

Madame Chatel, is that on this? Go ahead.

[*Translation*]

Mrs. Sophie Chatel (Pontiac, Lib.): Thank you, Mr. Chair.

It would be useful if Mr. Marion could answer all the questions we asked Mr. Gregory and Mr. Jean. I would therefore suggest that Mr. Marion respond in writing to the questions the committee members asked today.

[*English*]

The Chair: Once we get him, yes, we'll ask him if he would be able to do that for us.

Clerk, could we send him the questions that have been asked?

Okay, so that will happen.

Yes, Mr. Fast.

Hon. Ed Fast (Abbotsford, CPC): I have a similar concern. I'm here to ask Mr. Marion questions. I'd like to have our analysts or whoever's responsible for getting Mr. Marion online to keep trying. We have a total of two hours. If we could get him back online, I'd really appreciate it. I have questions specifically for him.

The Chair: Yes, Mr. Fast. Thanks for that. We have been trying.

We asked Mr. Marion to stop his video feed. We thought maybe that would provide clearer audio, so that the interpreters could do their job. However, we do not have him on screen right now.

I guess we will keep trying, Clerk, and see what can be done.

We stopped the time during this conversation. We will now go to the Bloc and Monsieur Savard-Tremblay, please, for six minutes.

[*Translation*]

Mr. Simon-Pierre Savard-Tremblay: Thank you, Mr. Chair.

Greetings to everyone. I'm pleased to be here on behalf of my colleague from Joliette.

Mr. Chair, please tell Mr. Marion that there was nothing personal and that I had not intended to have him leave the meeting, far from it. Please pass on my best wishes to him.

Mr. Jean, as you did not have time to finish your address, I'd like to give you the opportunity to do so now.

Mr. Jimmy Jean: I had almost finished my address.

I'll conclude by saying that the lower rates we are expecting in 2024 will be the foundation for the economic recovery we are anticipating.

It will not necessarily be a very robust recovery, because we are expecting central banks to be cautious and not lower rates very quickly; in particular, they will not lower them to the baseline levels we were seeing in the last cycle. It will be a normalization of interest rates tied to inflation as it returns to its targets, which should lead to a recovery in the economy and the real estate market.

Mr. Simon-Pierre Savard-Tremblay: We are only a few days away from the next federal budget. Most of the political parties have been voicing their expectations.

You've addressed various subjects, but do you have any examples of public policies that Ottawa could include in the budget that would be beneficial in the current difficult circumstances, and that would not necessarily cause a rise in inflation?

Mr. Jimmy Jean: What makes the situation tricky at the moment is that the inflation rate is still very high. It's headed in right direction now, but it is still much higher than we would like. It will therefore be important to be cautious in making policy decisions to avoid putting the Bank of Canada in a very difficult position.

As for support measures for the most vulnerable households, what was done, particularly in 2022, was the right thing to do. The provinces also followed the federal lead. It was important for people who were having the most trouble putting food on the table and paying the rent. As the situation is beyond their control, it's important for the government to give them back the profits from inflation, which definitely increased nominal GDP, among other things. So the idea of giving that back to give them some breathing space was a good one.

Now there's a reason why these measures were ad hoc: they are expensive and they affect the budgetary balance, which will likely benefit from much less revenue over the next year, in view of the recession we are expecting and lower inflation. A word of caution is in order, however. We are not encouraging the government to make a habit of measures like these. They need to remain ad hoc if there is to be a degree of credibility.

Nevertheless, for all the measures whose goal is to deal with the urgent housing shortage, combined with a high level of immigration and rising immigration targets, our estimate is that there has to be a 50% increase in housing starts, beyond our baseline target, to prevent immigration from having a negative impact on affordability. We are nowhere near that yet. In fact, what our baseline scenario projects is fewer housing starts, which has already been happening for some time. It's therefore urgent to adopt policies that would finally get things moving in terms of housing development, particularly for affordable housing.

It's also important to react to the United States Inflation Reduction Act of 2022. It's going to be extremely important, because it's like a magnet that will attract investment in everything related to the climate transition. We have interests to protect in this regard. We have very promising developments under way whose future might become uncertain because of the Inflation Reduction Act. These are things that need to be factored into the long-term perspective.

● (1145)

Mr. Simon-Pierre Savard-Tremblay: I am the member for Saint-Hyacinthe—Bagot, and Saint-Hyacinthe often has the lowest vacancy rate in Quebec. So when you were talking about housing, it caught my attention for two reasons.

I normally sit on the Standing Committee on International Trade, where we studied the Inflation Reduction Act, which does indeed present major dangers. We might well need serious diplomatic efforts to at least extend some of the more protectionist provisions to all of North America.

President Biden has, among other things, been talking about investment tax credits and people are banking on the clean energy transition as a way to combat inflation. Should we be doing the same?

Mr. Jimmy Jean: I wouldn't say that it's necessary for us to copy every measure. It's important to keep in mind that the United States' and Canada's economies have very little in common, particularly in terms of production capacity. There may be situations in the United States where some clusters reach a critical mass that can generate economies of scale and efficiency. In such a context, it's very difficult to be competitive by copying what's being done in the United States.

I believe instead that we should bank on certain areas in Canada where we have comparative advantages, and there are some. For example, the quality and expertise of our labour force, critical and strategic minerals, and facilities for producing and recycling electric vehicle batteries. Demand for batteries is going to greatly exceed supply…

The Chair: Thank you, Mr. Jean.

Thank you, Mr. Savard-Tremblay.

[*English*]

Members, before I turn to Mr. Blaikie, I will let you know that we are not going to be able to get Monsieur Marion on with us today. We will ask Monsieur Marion for his opening remarks. As well, we will send him your questions so that he can provide some answers.

Mr. Blaikie, you have six minutes, please.

● (1150)

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

Mr. Gregory, I want to circle back to a comment you made previously. You said that, for the most part, Canadian mortgage holders aren't stretched beyond their means. I want to test that claim against some of the reporting out that some of the major banks have done recently about their mortgage book.

We know that variable-rate mortgages represent a significant percentage of mortgages held in Canada. About three-quarters of those are on fixed monthly payments. A majority of those now have reached their trigger point, where none of the agreed-upon monthly payment is going to the principal; it is all going to interest. In fact, in some cases now, we're seeing negative amortization by banks, effectively extending the amortization period by adding on the amount of the interest that's not covered by the monthly payment to the principal amount.

It seems to me that this is a significant point of stress within the mortgage system. It hasn't come due yet, because there isn't an obligation to renew the terms of the monthly payment, if it's on a five-year term, until the end of that term, but I do think this is a point of concern. I have a few questions in this regard.

First, I would ask you if you're confident that Canadian banks are acting within their established regulatory authority in engaging in this practice of negative amortization. What is the extent to which this is a creative solution by banks? Even just last year, there were very few of these mortgages that had reached their trigger point. Is this an established practice that's just seeing a lot of activity because of the current economic conditions?

Second, do you think any further policy intervention or actions are required in the private banking sector, or are there public policy actions that you think would help to address this growing concern within the Canadian mortgage market?

Finally, I am curious to know what the analysis is over the next five years or so and what the expectations of banks are. Are these folks that the banks anticipate will likely default when their variable-term mortgage comes up for renewal? What would have to change between now and then in order to ensure that banks aren't simply delaying defaults by engaging in this practice rather than stopping them altogether?

Mr. Michael Gregory: I have a couple of comments.

First, on my initial reference to households not being stretched, that was a comparison to, say, U.S. households during the global financial crisis in the great recession and that situation.

There's no question that as these mortgages are reset and renewed, it will potentially add to more headwinds on the economy. In fact, that is probably one of the key reasons the Bank of Canada paused its rate hikes, realizing that there will be a period here when many Canadian households will face higher mortgage interest payments as their mortgages are renewed or their rates are reset. They will have to adjust accordingly in terms of their spending patterns.

The key thing to keep in mind as well is that for many years now, the financial systems in originating mortgages.... The government agencies have been insuring them with this notion that there was a stress test, and in some cases a pretty onerous stress test at that. It should be the case that many of these households are now going to face higher mortgage interest payments.

In fact, that scenario has already been played out: Do they have the financial resources to take care of that? Will they have to make adjustments? Will Canadians potentially start eating out a little less, or maybe not go to the theatre as much, or whatever the case may be? The answer is yes. Then again, that is precisely what the mechanism is here: In terms of trying to slow the economy down, to broadly reduce demand, it is to have that happen.

As my colleague Mr. Jean mentioned, the interest rate channel works very effectively in slowing down the Canadian economy for that particular reason.

• (1155)

Mr. Daniel Blaikie: Just so we have a clear answer on this point, are you confident that banks are acting within their current regulatory authority to engage in the practice of negative amortization that they're using to keep these mortgage holders in their homes?

Mr. Michael Gregory: That's not really my area of expertise. I can't really comment on that, unfortunately.

[*Translation*]

Mr. Daniel Blaikie: Mr. Jean, I have 30 seconds left. Could you tell us what you think about this?

Mr. Jimmy Jean: Can we really fix what's been done? It will be difficult.

The reason that the United States is less exposed to what we are experiencing at the moment in terms of renewals, is that it's possible there to get long-term mortgages. We don't have that here, and mortgages are generally for a five-year period.

We need to try to generate market conditions that would allow for 10-, 15- or even 30-year mortgages. This has been discussed in the past, but we are now experiencing the effects of not having a well enough developed market in mortgage maturity.

It could have prevented several of the problems we are now experiencing.

The Chair: Thank you, Mr. Blaikie.

[*English*]

Members and witnesses, we're moving to our second round of questions.

We will start with the Conservatives.

Welcome to our committee, MP Gray. You have five minutes, please.

Mrs. Tracy Gray (Kelowna—Lake Country, CPC): Thank you, Mr. Chair, and thank you to the witnesses for being here today.

My first questions are for Mr. Gregory at BMO.

During your opening address, you talked about “record-high household debt burdens”. We know that CIBC has said that one in five of the mortgages they have in their portfolio are in a position where the borrower's monthly payment is not high enough to even cover the interest portion of their loan. Do you happen to know if you're seeing similar numbers at BMO?

Mr. Michael Gregory: I'm not familiar with those figures at either institution—or my own, quite frankly.

Mrs. Tracy Gray: Thank you.

You also talked about increasing interest rates and about how this slows the economy down efficiently and effectively. You made reference to how households might make different buying decisions and what they might do.

You know, at the same time, part of this is that as people are renewing their mortgages, their mortgage payments are higher. With the increase of interest rates, is it not true that in fact the banks themselves are the recipients of increased revenue based on the increase of interest rates?

Mr. Michael Gregory: Again, how banks generate their revenues is not my area of expertise. Obviously, Canadian households are going to be stressed to some degree as they make these choices, but the thing I will come back to is the fact that we've tested this. This is why we have a stress test. This is why we have one of the safest and soundest financial systems in the world. It's because we take account of these potential problems, and now higher interest rates are going to come home to roost.

I think, for the bulk of mortgages, there will be some adjustments that will have to be made, but those adjustments are all doable. That's the important thing.

Mrs. Tracy Gray: Thank you.

As a senior economist with BMO, do you advise the senior leadership team and the board of directors on economic issues? Do you advise them and give them your thoughts on ways in which the financial institution might want to look at risk mitigation and help with the direction as to the decisions of BMO?

Mr. Michael Gregory: I personally do not do that. It's possible that the chief economist, Mr. Douglas Porter, may in fact be involved in more of those, but we provide information through the reports that we publish, which are available publicly. I meet regularly with various people throughout our institution, as well as our clients, to give them our opinions and our insights and hopefully have them all make better decisions.

Mrs. Tracy Gray: Okay.

Are you concerned that defaults will go up?

• (1200)

Mr. Michael Gregory: I'm always concerned when the economy looks like it may be headed to a downturn. You know, there is always some fallout from that. There always is when there's a downturn. The good news is that the downturn is going to be mild by historical standards.

To put that in a bit of context, we officially are looking for negative growth in the second and third quarters of this year, but a peak to trough of just about two- to three-tenths in terms of net decline in GDP. While that may barely satisfy the technical definition of a recession, it is not going to generate the kind of strain on creditworthiness that more typical downturns tend to generate.

Mrs. Tracy Gray: Okay. Thank you.

When you said the word “fallout”, does that mean people losing their homes? Is that what you meant by fallout? Do you believe that more people will be vulnerable to losing their homes?

Mr. Michael Gregory: No. By fallout, I mean implications for credit deterioration and creditworthiness—the whole gambit of all the borrowers in the Canadian economy, both consumers and businesses.

Mrs. Tracy Gray: Does that include foreclosures as well?

You're talking about people's credit history being potentially harmed. You're not saying that you're expecting insolvencies to go up. Is that what you're saying, that it would be more just affecting their credit history?

Mr. Michael Gregory: What I'm saying is that we are going to have a kind of weakness in the economy that should have a minimal impact, because it's not going to be a typical recession; it's going to be a very mild one. There's a tremendous amount of support for households in terms of $350 billion of accumulated excess savings. U.S. consumers have started to tap that, but Canadian consumers have not. We are of a more conservative bent, I suspect, and that has us stashing it away, potentially for a rainy day, so I think the—

The Chair: Thank you, Mr. Gregory, and thank you, MP Gray.

Now we'll move to the Liberals for five minutes.

MP Chatel, go ahead, please.

[*Translation*]

Mrs. Sophie Chatel: Thank you very much, Mr. Chair.

I'll start by thanking all the witnesses for being here with us.

Mr. Jean, you mentioned the United States' Inflation Reduction Act earlier. I appreciated your comments on the opportunity Canada now has to invest in the transition to a clean economy. I believe that this economic change in direction is something we need to buy into, given the importance of our trade with the United States. It's a wonderful opportunity for Canadian businesses.

You really piqued my curiosity when you said that we couldn't imitate the United States and that we should instead recognize and rely on Canada's strengths. In connection with this, you mentioned critical minerals and our skilled labour force, which is one of the best educated of all the G20 countries.

Could you tell us more about this, Mr. Jean?

Mr. Jimmy Jean: Of course.

In terms of the energy transition, we have advantages in energy production. Quebec's hydroelectricity is one such example, and its costs are relatively low. This gives us a natural advantage and makes us a credible player in terms of clean energy. However, we mustn't rest on our laurels, because the rapid drop in the cost of solar and wind energy will make it increasingly difficult for the hydroelectricity sector to remain competitive. We need to dramatically increase our production of clean energy—wind and solar energy in particular—not only in Quebec, but across Canada. That's just one example.

There is also a supply chain for solar and wind energy production equipment to be used in the energy transition and the development of the electricity network.

Similarly, the United States is historically much more productive, and capable of generating productivity gains and economies of scale, even without government assistance. Added to that is serious government assistance in the form of tax credits. It would be very difficult for Canada to compete unless the government responds, and unless we target sectors where we have comparative advantages.

One such advantage is in battery recycling. Demand for electric vehicle batteries will largely exceed production capacity. That will create a huge demand for recycled batteries, which could become an advantage for Canada if it positions itself as a hub in this area. This would perhaps be an intelligent way of responding to the challenges of the Inflation Reduction Act and also a means of entering into the North American value chains that will be generated.

● (1205)

Mrs. Sophie Chatel: Thank you very much.

I think that our government's recent announcement of the major investments from Volkswagen here in Canada, and in Bécancour for EV batteries, are an indication that we're on the right track.

Mr. Jean, you were speaking earlier about a possible recession. That, of course, worries many Canadians. But if we introduce the right policies, Canada will be on track to become a leader in tomorrow's economy.

Can you talk to us about your economic predictions beyond 2023? Are we going to get through this?

We were talking about resilience earlier.

The Chair: Thank you, Ms. Chatel.

[*English*]

We have come to the end of our time.

[*Translation*]

Mr. Jimmy Jean: May I answer the question?

[*English*]

The Chair: I know it goes very quickly, so maybe the next chance....

We're moving over to the Bloc and Monsieur Savard-Tremblay, please, for two and a half minutes.

[*Translation*]

Mr. Simon-Pierre Savard-Tremblay: Thank you, Mr. Chair.

Mr. Jean, in connection with real estate, you mentioned the importance of more housing starts. Can you tell us more about how this relates to inflation?

Mr. Jimmy Jean: Of course.

As I was mentioning earlier, we have estimated that housing starts need to be increased by 50%, immediately. Between 300,000 and 350,000 housing starts per year are required to be able to fill the needs associated with demographic demand.

As was pointed out earlier, we have a very restricted housing market. There isn't any surplus supply at the moment. What we have in fact is a shortage.

Everywhere, in all the major cities, there's a desperate shortage of housing. Demographic growth from immigration and the resulting establishment of households, have made the situation worse. The need to build more houses is not just essential, but critical.

At the end of the line, without enough effort to do that, the affordability problem, which would not arise in the medium term in more dynamic economies, is likely to continue, and it will diminish our ability to attract the talent we need. In the end, it's a cost of living issue.

That's why we believe it's an urgent concern, particularly for affordable housing. I also think that the time has come to think about our commitment to ownership. There are several models around the world in which people are tenants, without losing their ability to save for the future. It's cultural of course, but there comes a point at which, as a society matures, it becomes important to make decisions and find ways to look beyond the traditional models.

Mr. Simon-Pierre Savard-Tremblay: I'm told that I have 10 seconds left. I will accordingly use them to thank you. We can continue our discussion in the next round.

● (1210)

The Chair: Thank you, Mr. Savard-Tremblay,

[*English*]

Now we are going to the NDP and Mr. Blaikie for two and a half minutes.

[*Translation*]

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

When we talk about affordable housing, it's important for us to know that in the 30 years prior to 1995, Canada, working with the provinces, built between 15,000 and 20,000 affordable housing units per year. Over the past 30 years, the federal government has hardly built any.

We need approximately 500,000 affordable housing units. If we were to build 15,000 to 20,000 per year for 30 years, that would give us approximately 500,000 affordable housing units.

Given that the market was used to build housing over the past 30 years, I wonder if it's even possible to deal with the affordable housing shortage with only market-based solutions.

Do you believe instead that we need a public investment program to build affordable housing outside of the traditional market?

Mr. Jimmy Jean: I believe that there will have to be more partnerships between various levels of government and the private sector. If we expect the private sector to build that many units on its own, it's likely to be difficult.

We see problems in terms of financing arrangements, particularly in Quebec. We think that effort is needed to develop more housing units, in co-operatives, for example. The co-operative model, which is not often used here but is widespread elsewhere, provides more affordable solutions. More units are needed for students and seniors, in addition to intergenerational models, in short everything that the current demographics require.

But beyond all that, discussion is impossible unless the labour issue is addressed. The construction industry is very labour intensive. About 20% of construction workers are aged 55 and over. It's a very physically demanding field.

At the moment, we need to ask whether there is really a very clear strategy for ensuring that the immigrants we welcome have skills suited to our needs, particularly in construction.

The Chair: Thank you, Mr. Jean.

[*English*]

Thank you, Mr. Blaikie.

Now we're moving to the Conservatives for five minutes, please.

Mr. McLean, welcome back to our committee.

Mr. Greg McLean: Thank you.

Thank you to all the people.

Mr. Marion, I'm sorry that you're not able.... I've always found your comments very astute, so I'm sorry you weren't able to be heard here today.

Let me ask a question of Mr. Gregory right away, following up on my colleagues' questions.

Mr. Gregory, interest rates are going up. House prices are down an average of 14%. This is a double-edged sword for Canadian house owners. When you talk about $350 billion in excess savings, can you tell us how much of that is tied up in houses?

Mr. Michael Gregory: It's unclear where the bulk of those funds is sitting. I suspect that as these excess savings are being accumulated, some of them end up becoming permanent savings, that is, not available to be spent on a ready basis, either invested in financial markets or in housing. However, it's not clear how much of that is actually—

Mr. Greg McLean: You are right. A good portion is in houses. Your $350 billion.... Where does that number come from as far as date goes? Is it prior to the 14% devaluation in housing in Canada, or after?

Mr. Michael Gregory: The way that amount of $350 billion is calculated is that before the pandemic, Canadians were saving roughly 2.5% of their income. The moment we hit the pandemic, the savings rate went well above that.

● (1215)

Mr. Greg McLean: Mr. Gregory, I'm asking you a direct question. Is your number, $350 billion, before the 14% housing slide or after?

Mr. Michael Gregory: These are as of the fourth quarter of 2022.

Mr. Greg McLean: It's as of the fourth quarter of 2022—the $350 million. Thank you.

Mr. Gregory, in Alberta, people have walk-away mortgages, unlike in most other provinces. If that option was available in every other province in Canada.... How much of a hit to the balance sheet of the banks would be taken because of the downturn in housing markets, if Canadians walked away from mortgages they were underwater on?

Mr. Michael Gregory: I'm not that familiar with that particular aspect of the mortgage market. Therefore, I can't really comment on that.

Mr. Greg McLean: Okay, let me ask another question from your comments.

You spoke about a 2% last-quarter inflation rate in Canada versus 5% in the United States. Is this a blind spot, or is this a pretense that inflation is much higher in the United States than it is in Canada?

Mr. Michael Gregory: The 2% was in reference to headline inflation over the last three months. If you want to really compare apples to apples, you're looking at around a 3% pace in Canada for core inflation, versus around 5% in the U.S.

There's definitely more stubbornness on U.S. inflation. That is reflective of—

Mr. Greg McLean: Thank you. That's exactly what I'm asking here. Is it a difference in calculation, or is it a difference in the effects felt by citizens in each country?

Mr. Michael Gregory: It's partly a definition. However, you also have more rapid wage inflation in the United States, and U.S. households have actually begun to tap their accumulated excess savings. They're continuing to spend in the face of higher inflation, which is not the case for Canadian households. Hence, our inflation seems to be cooling off more quickly.

Mr. Greg McLean: Would the Inflation Reduction Act—pardon me, the "inflation exacerbation act"—of $360 billion U.S. be having an effect on inflation in the United States, and can we expect the same if we have another $50-billion deficit budget here next week in Canada?

Mr. Michael Gregory: The Inflation Reduction Act—and, to your point, the name is a bit of a misnomer—over time does contribute to deficit reduction, and from that perspective it could be disinflationary. Part of the Inflation Reduction Act deals with keeping health care affordable, which, of course, helps keep inflation down, particularly health care costs. The other part of that, of course, is supports for the transition to clean energy—

Mr. Greg McLean: Excuse me, Mr. Gregory. I'm asking a direct question: Can we expect the same inflation in Canada if we commit to spending tens of billions of dollars in this budget that's coming up next week?

Mr. Michael Gregory: That's a hypothetical question. I really can't comment on that.

Mr. Greg McLean: Well, it ties into the whole nature of the fact that, if the government is spending money, we're going to have to raise interest rates to keep inflation down. Do you agree?

Mr. Michael Gregory: It depends on what it's being spent on. Any money that's spent on improving the capital stock and improving productivity actually helps the inflation dynamics over the long haul. As my colleague, Mr. Jean, said, it depends on what policies are currently being practised.

The Chair: Thank you.

Thank you, Mr. McLean.

Now we'll go over to the Liberals.

Mr. MacDonald, you have five minutes, please.

Mr. Heath MacDonald (Malpeque, Lib.): Thank you, Mr. Chair, and thank you to the guests here today.

I'll jump on the interest rate issue, and maybe this will go back to Mr. Gregory.

While they're paused, we know that homeowners are feeling the pinch, but we're not witnessing a high number of mortgage borrowers in arrears. How would you characterize the stability of the housing market?

Mr. Michael Gregory: Obviously, the market is weakening off. Prices are falling. Activity is falling, and that will likely continue. However, again, we're not seeing a lot of "For Sale" signs. Listings are falling alongside a lower demand for homes. It's almost like a balanced situation as we move to lower, more affordable prices.

Mr. Heath MacDonald: Mr. Gregory, would you suggest that the targeted spends by the federal government throughout COVID-19 and thereafter are playing a specific role in our ability to recover more quickly than most other G7 countries?

● (1220)

Mr. Michael Gregory: When you look at the global picture and at the extent to which governments around the world provided support for their economies, Canada and the United States, for example, were near the top of that support, which I suspect helped in how quickly we recovered. Of course, restrictions in Canada were a bit longer lasting than those in a lot of other jurisdictions, so we may not have seen that yet in the numbers.

Mr. Heath MacDonald: Thank you.

Now that the housing sector is starting to correct itself, we're starting to see investors trying to move away from market investments in housing, like rent. If yes, what does this do to the local economies or to the residential aspect of housing?

Mr. Michael Gregory: Part of the reason we ended up with such a frothy housing market was that we were getting an increasing role of investors—not people who were making homeowner-occupied purchases but people who were doing that as an investment, either to sell it down the road or to rent it out, or whatever the case might be. Usually the arithmetic of that decision depends on how much it costs to borrow the money and what the prospects are for potential capital gains. Well, as we know, home prices have been falling, so that particular aspect of it has been moving in the wrong direction. Also, of course, borrowing costs have gone up quite significantly.

I think, not surprisingly, the housing market has cooled off in large part, or at least in significant part, due to investor demand for housing cooling off.

Mr. Heath MacDonald: Larger companies are deferring payments and redemptions or limiting withdrawals on the market side, which, as you just indicated, could have a strong possibility of affecting our local economies and possibly helping our housing market at the residential level.

In that scenario, do you feel that more people now are starting to invest in decarbonizing, in companies that are looking at decarbonizing?

Mr. Michael Gregory: Honestly, when individuals are making their investments and are looking at opportunities down the road, clearly anything, I think, in the sphere of taking advantage of this transition we are going to make to zero carbon, zero neutral, neutral carbon, is going to be.... A lot of the activity...a lot of the resources in the economy are being diverted over time.

You just have to look at what's happening in the mutual fund or ETF industry, where funds are being traded [*Technical difficulty—Editor*] where investors can take advantage of that, and they are.

Mr. Heath MacDonald: Quickly, green bonds issued.... There's been a majority made by corporations but, cumulatively, by financial corporations to date. It seems to be that there's some confusion on the green projects that are being evaluated by investors because of that scenario.

I'm just wondering if there's anything the banks can do to correct that, because investors do not necessarily know which are the green projects, to some extent. The banks are coming in second, but as a lead in the financing on the whole project.

The Chair: Mr. MacDonald, we're at the end of the time there, so they might have to come back to that question and answer it at a later stage.

We are entering the third round, members. Mr. Fast is up right now, for five minutes.

Welcome back, Mr. Fast.

Hon. Ed Fast: Thank you. It's great to be back with this committee.

I'm so glad to see that Mr. Marion is back online. My questions will be focused on him.

I'm so glad, Mr. Marion—

The Chair: Just before you commence, Mr. Fast, we do have Mr. Marion listening, but still, with the sound, the interpreters, it's not possible to have Mr. Marion.

Hon. Ed Fast: Really?

The Chair: However, you can pose the questions, and Mr. Marion can then send the answers back in writing to this committee, as we've asked.

We apologize, Mr. Marion. We're experiencing some significant technical challenges, and it is just not working with interpretation.

Mr. Fast.

Mr. Stéfane Marion: Okay, so you can't hear me.

The Chair: Yes.

Mr. Fast.

Hon. Ed Fast: Is it very clear that Mr. Marion cannot speak to us? He does have a headset.

● (1225)

The Chair: No.

Mr. Stéfane Marion: I can speak.

The Chair: Interpretation is not getting clear sound. That's my understanding. Interpretation is not getting clear sound, for whatever reason.

Hon. Ed Fast: I'm hearing him right now.

The Chair: Interpretation, Mr. Fast.... It's not the members. Interpretation is not getting clear sound, and they're not able to do their job, so we cannot continue with Mr. Marion.

We apologize for the technical challenges. Mr. Marion, what we would like is that you send in the opening remarks that you have for us, and the clerk will distribute to you all of the questions that have been asked here. You have an opportunity, then, to give responses back for our report, for the analysts, so that they are able to do their job.

Mr. Fast, please.

Hon. Ed Fast: I will address my question to Mr. Marion, because I was very pleased to see that after we had a discussion about the various impacts that affect inflation in Canada, such as the war in Ukraine.... We talked about supply-chain constraints. We talked about excess savings, about the Inflation Reduction Act.

Mr. Chair, I was glad to hear that Mr. Marion actually got to the nub of the issue, which is something that we actually have control over in Canada: our productivity.

I'm going to ask Mr. Gregory this: What impact does our lagging productivity in Canada have on our ability to address inflation on the supply side?

Mr. Michael Gregory: When you look at our poor productivity performance, it's also sort of matched with whatever kind of wage inflation we're seeing. At the end of the day, what drives the inflation process is not any particular pace of wage inflation but the extent to which it's above and beyond the pace of productivity. It's what economists refer to as unit labour cost. To the extent that we have poor productivity performance, that sort of contributes more to an inflationary dynamic with respect to wage gains.

Another aspect of that is the competitiveness. The more productive we are as a society.... Not only does it help to dampen inflation pressures over time, but it also makes us more [*Technical difficulty—Editor*]

Hon. Ed Fast: Now Mr. Gregory is gone, Mr. Chair.

The Chair: Mr. Gregory, are you there? Can you hear us?

Mr. Marty Morantz: I have a point of order, Mr. Chair. Technical difficulties are encumbering the committee's ability to do its work today.

My understanding is that all witnesses are supposed to be tested in advance of the meeting to ensure that they are able to respond to questions. I'm wondering how it's possible, then, that Mr. Marion is unable to participate in this meeting. Who's responsible for letting that happen?

The Chair: That's a great question.

We did test with Mr. Marion. We were having challenges right up to the time that we started the meeting. We were hoping that they would be rectified. As we can see, they were not. We've heard from interpreters that they cannot get the sound to be able to do their job in a safe way and to be able to do their job effectively by getting all of the interpretation correct, so the decision was made, as is our protocol, to not have Mr. Marion.

We apologize for the technical challenges. However, we do the testing beforehand, Mr. Morantz, and we try to do the best we can with the witness. Sometimes it's the Internet; sometimes it's just computers.

I understand—and I'll just share this with members—that Mr. Marion's computer was going through an update. Right before, it just started an update. That happens. It's happened to some of the members here, and those are the things that take place.

We don't have full control over technology, and sometimes it does let us down. However, I have to say—I've stopped the time—that in many of the meetings we've had here in our committee, in all committees and throughout the House of Commons, with the ability to use Internet and the technology that we have before us, we've been able to bring in amazing witnesses from right across the country and right around the world. At our last meeting, we had witnesses from Paris, France and from Stockholm here with us.

That's where we are right now, Mr. Morantz. I'm going to go back to Mr. Fast.

We stopped the time. You still have two-plus minutes.

Mrs. Sophie Chatel: On a point of order, I just want to say that I have great empathy for the extraordinary work of our translators, but I have also great empathy for Mr. Marion in coming to our committee and having great things to share with us. This committee is undertaking a very difficult study on inflation, a matter that Canadians care greatly about.

I understand both sides, and my heart goes to both.

Mr. Marion, on behalf of the committee, I would like to say how sorry we all are to not be able to hear you. Please be certain that your comments in writing will be part of our report. If there's anything else we can do to have Monsieur Marion back....

Thank you.

● (1230)

Hon. Ed Fast: On that same point of order, I think what Ms. Chatel has suggested implicitly is that we have Mr. Marion back. I spent some time reviewing each of our witnesses' comments on the economy and on inflation, and I wanted to focus my questions...to direct them to Mr. Marion. He's not able to respond.

I would really appreciate it if the committee could call him back, whether in person or with proper translation confirmed.

The Chair: Thank you, Mr. Fast, Ms. Chatel and Mr. Morantz.

I think you speak for all of the members here. We would love to hear from Mr. Marion virtually, but even better, we may have an opportunity, if Mr. Marion's schedule allows, to have him come back in person and be here before our committee at a future meeting on inflation. That may be something that is possible, but in the meantime, what we're trying to do is allow Mr. Marion to send in his opening remarks, as well as have an opportunity to answer, in writing, many of the questions that have been posed here during today's meeting.

I think those were good comments from all the members. Like I said, we want this to work as well as possible for the witnesses, for the members and for everybody, really—technicians, interpreters, the clerk, the analysts.

Right now, Mr. Fast, you are at three minutes. You have a couple more minutes to ask questions, please.

Mr. Marty Morantz: I have another point of order. I'm sorry, Mr. Chair.

I think Mr. Gregory dropped off. Am I correct?

The Chair: I do not see him on the screen right now. We're holding on the time.

Mr. Marty Morantz: My question is this: Are efforts being made to re-establish contact with him? Has anyone reached out to him to find out what's happened?

The Chair: We will check on that right now.

We have been calling, and we're seeing.... His Internet has stopped working, Mr. Morantz.

Like I said, we have a lot of technical challenges going on today. I don't know what is happening, but the Internet is not working for Mr. Gregory.

We have Monsieur Jimmy Jean, and we have two minutes for Mr. Fast before we move to the next questioner.

Mr. Fast.

Hon. Ed Fast: All right, two minutes to Jimmy Jean.

Mr. Jean, would you agree that Canada's productivity is lagging?

Mr. Jimmy Jean: Certainly. I think, having worked on this topic for a good part of my career, there are many reasons that productivity has been identified to be lagging versus the United States. I think the chief reason is our lack of dynamism on the innovation front in terms of our track record in being able to commercialize new innovations and make them viable businesses. That's where the U.S. has done so much better a job than we have. For sure, it has a deeper venture capital system and very vibrant universities—and so do we—but that's the key issue.

Hon. Ed Fast: I would love to hear your comment on the impact that declining private investment would have on our productivity and on our competitiveness.

Mr. Jimmy Jean: Right. That was actually my second point on business investment.

For a good number of years, we have had our business investment relying heavily on investment in the commodity space. That has served us well in terms of generating growth, but we have seen a lack of investment in information and communication technologies.

It was quite stunning when the pandemic hit and you looked at how the U.S. responded. All of a sudden, people needed to work from home. Businesses had to invest massively in their capabilities on that front, and you have seen that pick up in the information and communication technology investment. We haven't seen that quite to the same extent here in Canada.

Moreover, we're in a phase, obviously, with the aging of the population, where businesses need to gain resilience against that demographic shift. One of those ways is automation. We are not seeing the same level of dynamism on this front in Canada as we are seeing in the U.S. That's a key factor that will allow companies in Canada not just to stay alive but to compete, because, all of a sudden, if you have companies in the U.S. that are fully automated and are able to produce at much cheaper costs, they are going to come after our market share. That's also an issue that we haven't seen much traction on in Canada, and that is a worry for us.

● (1235)

The Chair: Thank you, Mr. Fast.

Now we're moving to the Liberals. I have Mr. Sorbara for five minutes, please.

I understand that it is from Mr. Gregory's side. It's a firewall issue that has gone up on his computer from his side, and that's what has blocked Mr. Gregory.

Mr. Stéfane Marion: I'm sorry. I think my sound is back.

The Chair: Yes, Mr. Marion.

Mr. Sorbara, you have five minutes, please.

Mr. Francesco Sorbara (Vaughan—Woodbridge, Lib.): Mr. Chair, just for clarification, can we ask Mr. Marion questions now?

The Chair: No, because interpretation is not working.

Mr. Francesco Sorbara: Thank you for that clarification, Mr. Chair.

I'm going to ask it this way. Mr. Marion, just do thumbs-up or thumbs-down on your answer, okay?

The first question is this: With regard to what's happened in the United States with regard to the banking sector and the Federal Reserve's again being the backstop to the banking sector, are we concerned at all about the amount of credit origination—which we know fuels much of the economy—that has been impacted?

You can just go yes or no.

[*Translation*]

Mr. Stéfane Marion: Yes.

[*English*]

Mr. Francesco Sorbara: Thank you.

This question is for Mr. Jean.

[*Translation*]

I apologize, I don't speak French very well.

[*English*]

With regard to inflation here in Canada, inflation is usually divided into goods inflation and services inflation. Are we seeing a deceleration in inflation on both the goods side and the services side?

Mr. Jimmy Jean: We're seeing it mostly on the goods side, and especially on the energy side, I would say. Energy is the main contributor to the disinflation so far. When you look at food, obviously it's pretty sticky. When you look at one measure of core inflation, which is inflation excluding food and energy, it hasn't moved that much. It's stopped accelerating since last summer, but it hasn't moved that much lower.

So yes, I would say it's in goods. That's related to what we're seeing internationally in terms of the easing of supply chains. In particular, central banks will be focusing on services, excluding shelter, which, as Mr. Gregory mentioned, is seeing the effect of higher mortgage interest costs. We expect that to continue. The contribution of shelter will be very sticky, and certainly higher than what we had seen prior to the pandemic.

That means the Bank of Canada will need to see services inflation slow down quite significantly if it hopes to bring inflation down to 2%. That will likely be the tricky part. We expect 2% to 2.5% at the end of this year. That's going to be the low-hanging fruit. Going the full way to 2% will be more difficult because of those factors of stickiness.

Mr. Francesco Sorbara: I have one more question. It's more on the philosophical side. It was referenced by Mr. Gregory, I believe, with regard to the cost of money.

I fundamentally believe in this. From 2008-09, and the great financial recession or great financial crisis that the world went through, up until now, would it be fair to state—there was a great documentary on this last Sunday night on PBS—that the age of easy money is now over?

Mr. Marion, can you give a thumbs-up or a thumbs-down?

You gave a thumbs-up, Mr. Marion. Thank you for agreeing to that.

Monsieur Jean, would you also agree that the age of easy money is now over?

● (1240)

Mr. Jimmy Jean: Yes. I agree. This is exactly why we're seeing some banks struggle. We have a whole ecosystem, a global financial market ecosystem, including here in Canada, that's been structured around the idea of low interest rates forever. Now that paradigm is changing, and we're seeing the ramifications.

Given the inflation scare and the long-term pressure that there's going to be on inflation from various structural sources, it's going to be very difficult for central banks to bring financing conditions back to where they were.

Mr. Francesco Sorbara: I would add that the idea that you do not hear at all bandied out about is modern monetary theory. I have my graduate degree in economics and studied monetary theory. You don't hear anything about MMT anymore—

A voice: Thank God.

Mr. Francesco Sorbara: —thank God, exactly—because it was an idea that came about because the rates and money were at too-low levels, I would say, for a long time. Now that the age of easy money.... As Warren Buffett would say, when the tide goes out, you see who's not wearing shorts, if I can use that term.

I thank the economists for agreeing on that statement.

The Chair: You have one minute left.

Mr. Yvan Baker: I'll take the rest of the time, if I may, Chair.

The Chair: Yes.

Mr. Yvan Baker: Thank you.

[*Translation*]

I'm back to you, Mr. Jean.

I'd like to return to a subject we discussed earlier.

Although Canada's GDP has been reflecting a slowdown in economic activity since late 2022, the labour market continues to be resilient and spending by Canadians remains high.

What impact will this slowdown have on our economy?

Mr. Jimmy Jean: Past outcomes also have to be taken into consideration. In connection with what you said about consumers, Canada experienced shrinking domestic demand in the third quarter.

As I mentioned, Ontario recorded its biggest drop in real consumption since 1992, apart from during the pandemic. The slowdown in economic activity does have an impact.

We also know that monetary policy covers a lengthy and variable period of time. This means that we have not yet felt the full impact of the first interest rate hike, which was in March 2022.

We'll feel it more in the second half of the year, particularly because of the 75 to 100 basis point increases that were introduced later.

The effects of the slowdown will continue to be felt. I don't think that the labour market resilience or decreased consumption that we have observed are really providing us with useful information at this point.

In Quebec, the average monthly payment on a mortgage loan for the purchase of a first property has risen from $1,350 to $2,550 because of interest rate hikes. It has become extremely prohibitive.

Some people work in trades that are sensitive to the slowdown; they will feel the effects, not only on their interest payments, but on their income and employment prospects.

The Chair: Thank you Mr. Jean and Mr. Baker.

[*English*]

Just before we go to the Bloc and Monsieur Savard-Tremblay, I have another little update. The entire BMO Capital Markets has some firewall issue, and the whole department is down. Just be aware of that.

I just want to say that the clerk and his team do an incredible job in terms of inviting the witnesses we put forward to them. That being said, when we have invited these witnesses, over the last while we have given them the option to appear virtually. With the members' indulgence, I can ask the clerk to emphasize that it would be better to have them here in person. We will do everything we can to bring them here in person.

We're grateful for the witnesses who have come before us today virtually. We can see, when we do have technical challenges, that members really want to hear witnesses' testimony for our report.

We will do that going forward. We'll maintain the practice of emphasizing that we would like to have people here in person. Nothing beats having people in person. I think all members would agree with that.

Okay. That's great.

We're going now to the Bloc for two and a half minutes, with Mr. Savard-Tremblay.

Go ahead, please.

● (1245)

[*Translation*]

Mr. Simon-Pierre Savard-Tremblay: Mr. Jean, could you briefly answer with one wink for yes and two winks for no.?I'm joking. Use words, not winks.

You said earlier that you expected a moderate recession. You were talking about Canada, but what are your forecasts for Quebec specifically? What do you see in your crystal ball? Which sectors are at greatest risk?

Mr. Jimmy Jean: In fact, according to our baseline forecast and the latest published forecasts, we are expecting a mild temporary recession. What's happening in banking, particularly in the United States, and its ramifications on the economy, may in fact lead to a moderate recession, in other words, a typical recession.

As to your question about Quebec specifically, there is negative growth of 0.2%, hence a 0.2% drop in real GDP growth. For Canada as a whole, the increase is 0.6%. Quebec accordingly does not have any less exposure to current risks. There was a strong correction in the real estate and other markets, in terms of housing starts, and we are expecting that to continue.

Consumers have been showing a great deal of caution. Not only have plans to make major purchases been put on hold, but they are at a record low. Household confidence has not yet returned.

What's keeping the Quebec economy afloat is the labour market. That's what has been preventing a disaster for the time being. Once again, some time-lag effects may have an impact on labour market resilience.

The good news is that there is a labour shortage. Many companies may find themselves in a better position to retain workers or to go looking for more talent. That should mitigate the increase in the unemployment rate that we are expecting. That's why we anticipate that it will be slight and temporary, but don't think it will be entirely avoidable, in Quebec or elsewhere.

Mr. Simon-Pierre Savard-Tremblay: Okay.

Thank you, Mr. Jean.

The Chair: Thank you, gentlemen.

[*English*]

Now we go to Mr. Blaikie for the NDP for two and a half minutes.

Mr. Daniel Blaikie: Thank you.

Monsieur Jean, following up on that theme of recession, I'm wondering how recession-ready you believe Canada is.

We know that automatic stabilizers can help a lot in the case of a recession, particularly when we start to see higher levels of unemployment. We know that the government recently took the employment insurance system out at the knees when it ended the temporary pandemic measures in September without replacing them with a proposal for modernizing EI systems. We hear that a recession is coming. We know EI's not ready. We don't have a timeline on when the government is going to replace it.

I'm just wondering, in respect of EI or other measures that you think would help mitigate the negative consequences of a recession, how recession-ready Canada is. What are some of the things the federal government could be looking to do to better prepare the country for a recession?

Mr. Jimmy Jean: There's the question of mitigation. Do we really want to mitigate or prevent a recession? I think that's a fair question to be asking.

I actually happen to believe that a recession is necessary to rebalance the economy. As Mr. Gregory mentioned, the fundamental problem is that demand and supply are not in balance. A recession is typically the only solution that we know works to get those parameters into balance.

For sure, we don't like the idea that—

Mr. Daniel Blaikie: I'm sorry, but I'm just going to interject.

I think that's easy for a lot of folks around this table to say, but for the people who are going to bear the brunt of that in terms of their household finances and their children's future and all of what that means for individual Canadian households, as a policy-maker in Ottawa I feel an obligation to try to understand how we might mitigate those very real and negative consequences for Canadian households. Even if we experience recession and that may help better align supply and demand, we want to do so in a way that maximizes the number of Canadian households that come out the other side solvent and ready to take advantage of the post-recession opportunities. I'm wondering if you might be able to speak a bit to what things we can do in order to encourage that outcome.

● (1250)

The Chair: Could you do so with a very short answer, please?

Mr. Jimmy Jean: I would say that certainly improvements in the EI system to make it broad and inclusive in line with the ideas that were put forward during the pandemic would be one way. We don't have the same type of job market that we used to. We have a lot of gig workers and things like that, and we have to make sure they are included.

That being said, we also have realities coming out of the pandemic, in terms of our debt and in terms of our deficits, so we have to be mindful of that. We saw what happened in the U.K. We certainly wouldn't want something like that to happen here.

As I said, I think structural conditions make it such that we can avoid a very bad recession, largely because of our tight labour market and aging population.

The Chair: Thank you.

Thank you, Mr. Blaikie.

Now we go to Mr. Morantz for five minutes.

Go ahead, please.

Mr. Marty Morantz: Thank you, Mr. Chair.

I want to speak to Mr. Marion.

Are you still there, Mr. Marion? I see that your screen is blacked out.

The Chair: You could pose questions to Mr. Marion.

Mr. Marty Morantz: There you are. Thank you.

A great thing about this situation is that I get to talk, and for me as a politician, that's never really been a problem. I'll just pose my questions to you. I apologize again for this, but perhaps you would be so kind as to respond to them in writing and send them to the clerk of the committee. Just give a thumbs-up if that's all right with you, Mr. Marion.

All right. First, I want to touch on the link between fiscal and monetary policy and interest rates, because I see this as a continuum. There are many historical examples, but I think back to what happened in the Republic of Myanmar after World War I, when they had hyperinflation, essentially because of loose monetary policies.

In Canada we saw the Bank of Canada embark on a historic program of quantitative easing and acquiring bonds in an attempt to keep interest rates low. We saw the Government of Canada spend over $500 billion in deficit over two years. I had a chance to question Tiff Macklem in committee a couple of months ago, and he confirmed that if government spending had been less, inflation would have been less.

Now, the reason this is important is that when inflation takes hold, central banks really don't have a lot of options in terms of how they can get it under control. They can increase interest rates and try to sell off some of the bonds they acquired—what they call quantitative tightening—in an effort to reduce the money supply they spiked through their easing program. I'm just wondering if you could respond in writing as to whether you generally agree with that analysis. That's my first question for you.

My second question for you is this: When there's daylight between the overnight bank rates in the United States and in Canada, what effect does that have on the Canadian dollar? My understanding is that when the overnight rate in the United States is higher, the return on bonds is higher. You'll see capital migrate to where it can get the best return, which means that would reduce demand for the Canadian dollar and likely weaken the Canadian dollar.

Now, there's only a quarter of a point spread right now, but I'm concerned that if Mr. Powell decides to continue to increase interest rates in the United States—and we heard that demand is a bit more stubborn in the United States than in Canada, so he has not taken that off the table and we're in a pause situation right now—at what point would daylight between the two overnight bank rates cause a fleeing of capital from the Canadian dollar to the U.S. dollar? That's my second question.

My third question has to do with foreclosures, because we really haven't been able to get a straight answer on this, and we have, really, the perfect storm. We have negative amortizations. I've never heard that term before. People are making their payments, yet the amount they owe is going up every month. We have housing prices that spiked and then dropped dramatically. We have, from all indications, an impending recession. Some think it might be mild, but there will certainly be a slowdown in the economy. I'm wondering if you could maybe provide your opinion as to whether you think this will cause a spike in foreclosures, if more Canadians could be losing their homes because of this, and what the impact of this might be on their personal finances.

Is that five minutes?

The Chair: You're at three minutes and 37 seconds.

Mr. Marty Morantz: That's only three minutes and 37 seconds. Well, that's all I have to ask. Those are my three questions.

Again, would it be okay, Mr. Marion, if you could respond to those three things in writing?

● (1255)

Mr. Stéfane Marion: Of course, I can do that.

Mr. Marty Morantz: Okay. Thank you very much.

The Chair: Thank you, Mr. Marion.

We have a witness: Monsieur Jimmy Jean.

Mr. Marty Morantz: Oh, I'm sorry, Mr. Jean. Since I have another minute or so, can you answer all three of those in 60 seconds?

Some hon. members: Oh, oh!

Mr. Marty Morantz: Pick one.

Mr. Jimmy Jean: I can comment on Canadian versus U.S. interest rates.

First of all, it's not unusual or unexpected, because markets are quite positioned for that. We've seen the Canadian dollar weaken, but not directly as a result of the policy differential. As I said, it's not unusual. You see that in every cycle. When we're at the end of the cycle, interest rates are higher in the U.S. than they are in Canada. Right now, the Canadian dollar is weak and the U.S. dollar is strengthening because of risk aversion. We've also seen that during the pandemic.

The second thing is that our household debt realities in Canada are very different from those in the United States, as we discussed earlier. Because of that, the Bank of Canada cannot.... Each 25-basis-point hike bites more in Canada than it does in the United States.

The third point I would signal is this: Regarding the quantitative tightening the Bank of Canada operates right now, our research demonstrates that it's more biting in Canada than what the U.S. is experiencing, this year, for technical reasons related to the debt ceiling. In other words, even if rates are constant, another way the Bank of Canada enacts tight monetary policy is through quantitative tightening. That hasn't stopped.

For all these reasons, the dosage of tightening we're currently seeing in Canada is appropriate, I think. The Bank of Canada need not worry overly about what the Canadian dollar does in the very short term.

The Chair: Thank you, Mr. Jean and Mr. Morantz. You got a lot out of that minute.

We'll now go to the Liberals and MP Chatel for five minutes.

[*Translation*]

Mrs. Sophie Chatel: Thank you very much, Mr. Chair.

Once again, I'd like to thank Mr. Jean for being here. We are extremely lucky to have him here, despite the technical difficulties.

Mr. Jean, I've been truly impressed by your testimony so far. I'd like to go back to where we were earlier. You mentioned that the recession should be mild and temporary, which is reassuring.

What can we expect in 2024, during the anticipated recovery?

Mr. Jimmy Jean: In Canada, the recovery should be approximately 0.9%, and 1.4% in the United States. This year in Canada, the recovery stands at 0.6%. The economic recovery will therefore be speeding up.

These figures show that the situation is not the same as what happened in the past, with rebounds of 3%, 4%, or even higher. The reason for this is that interest rates are high. In the current scenario, the interest rate environment is not helpful.

Given that the central banks got burned by what they experienced and that there is going to be a lot of volatility and uncertainty with respect to inflation, we think that interest rates will converge towards a neutral point. That's going to stop hurting the economy, but it won't stimulate it. That's why the recovery is rather slow. Inflation, which has reached the target, is no longer converging below the target, and this could justify more significant rate cuts. We don't see that in our scenario, for the reasons mentioned earlier.

The good news for the labour market is that is that the unemployment rate peaked at 6.9%. From now on, there should be a gradual decrease in the unemployment rate and an increase in income that should give households some breathing space.

Once inflation has slowed, real rates will finally be able to grow. It will mean that the situation is positive at last, after two years of negative real rates. That should boost spending and generate an increase in real estate activity.

Mrs. Sophie Chatel: Thank you, Mr. Jean.

Mr. Gregory, in his earlier answer to my Conservative colleague's question, said that strategic spending on Canada's growth potential is a measure that would combat long-term inflation and enable us to stimulate the economy and increase both income and the GDP.

Could you tell us more about that, Mr. Jean?

● (1300)

Mr. Jimmy Jean: He was reporting on investments. There's a great deal of talk about infrastructure, for example, including transportation infrastructure. It has been shown that measures like these have led to positive repercussions and elasticity on production and economic potential. There were also gains in the efficiency of investment in information technology and communications. As I was saying before, there is more and more investment today in automation technology, and in repatriating foreign production to become more resilient with respect to regional policies. All of that is part of the equation that makes our economy more productive. There is also climate transition investment, although this will not necessarily strengthen productivity. Indeed, when compared to the counterfactual scenario in which we would do nothing, the economy will be more stable if there are fewer climate shocks in future.

From the productivity standpoint, all these factors matter. But I agree with Mr. Gregory when he says that the sorts of policies that need to be introduced right now have changed. We're no longer talking about handing out cheques and income support because we've seen the effects of doing that. They are not the only things affecting inflation, but they are a part of it. There's a lot riding on capital and investment now. It will be an economic cycle based on increased investment and international competition for investment, including in the technology sector.

That's what we need to focus on if we are to simultaneously increase our productivity and develop a more resilient economy.

Mrs. Sophie Chatel: Thank you very much.

These are all fascinating points. Could you send them to us in writing? It is indeed essential to make strategic investments in order to position Canada's economy in a way that will make it truly competitive in the global market as the economic recovery begins.

Thank you, Mr. Jean.

The Chair: Thank you, Mrs. Chatel.

[*English*]

That is our time. We want to thank our witnesses.

We want to thank Monsieur Jimmy Jean for doing the heavy lifting. I know you had to do a lot of it here today, and thank you to your Internet for working so well.

Mr. Marion, we—

Mr. Jimmy Jean: I had all the trouble in the world getting it fixed during the presetting, so....

The Chair: There are some things we have no control over.

Mr. Marion, thank you very much for still participating with us in terms of listening in and then providing your remarks and your answers to the many questions that have been posed.

We lost Mr. Gregory, also, to Internet connection and firewall, I guess, at the bank, or something that went up, and their Internet is down. They say that when it rains, it pours.

We want to thank our witnesses for their testimony and for participating in this study on inflation in Canada's current economy.

I also want to thank, of course, the clerk, who reaches out to everybody, and the technicians and the analysts. They do an amazing job here, I can tell all the members, in terms of the lengths they go to, to bring in witnesses and get them here before us. We love to see witnesses when they're in person, but we have them here today, some virtually, and we will look to bring some back for future meetings.

Thank you very much, everybody.

This adjourns our meeting.