HOUSE OF COMMONS
CHAMBRE DES COMMUNES
CANADA

44th PARLIAMENT, 1st SESSION

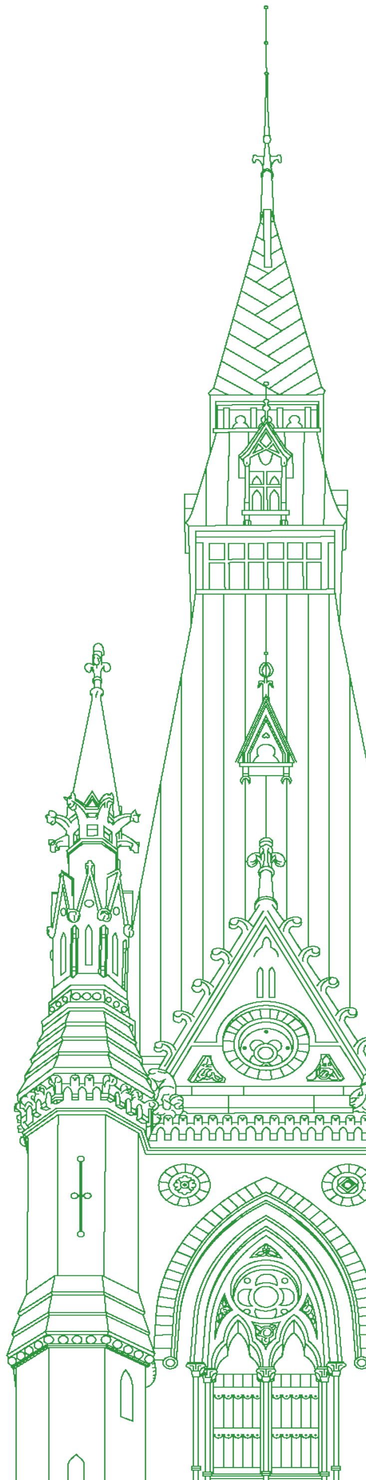
Standing Committee on Finance

EVIDENCE

NUMBER 124

PUBLIC PART ONLY - PARTIE PUBLIQUE SEULEMENT

Thursday, February 1, 2024



Chair: Mr. Peter Fonseca

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Thursday, February 1, 2024

● (1130)

[*English*]

The Chair (Mr. Peter Fonseca (Mississauga East—Cooksville, Lib.)): It's great to see everybody in a good mood here for 2024. I call this meeting to order and welcome the governor and the senior deputy governor.

We're resuming meeting number 124 of the House of Commons Standing Committee on Finance. Pursuant to Standing Order 108(2) and the motion adopted by the committee on Tuesday, January 30, 2024, the committee is meeting to discuss the report of the Bank of Canada on monetary policy.

Today's meeting is taking place in a hybrid format, pursuant to Standing Order 15.1. Members are attending in person in the room and remotely using the Zoom application. For all of those who are attending in person or virtually, we have gone through the health and safety remarks.

We now welcome Governor Tiff Macklem and Senior Deputy Governor Carolyn Rogers for their opening remarks, following which we will have members' questions.

Welcome.

Mr. Tiff Macklem (Governor, Bank of Canada): Thank you and good morning.

I'm very pleased to be here with Senior Deputy Governor Carolyn Rogers to discuss the monetary policy report we published last week, as well as the decision we took. Last week, we maintained our policy interest rate at 5%. We are also continuing our policy of quantitative tightening.

Our message is twofold.

First, monetary policy is working to relieve price pressures, and we need to stay the course. Inflation is coming down as higher interest rates restrain demand in the economy. However, inflation is still too high, and underlying inflationary pressures persist. We need to give these higher interest rates time to do their work.

Second, with overall demand in the economy no longer running ahead of supply, our governing council's discussion of monetary policy is shifting from whether our policy rate is restrictive enough to restore price stability to how long it needs to stay at the current level.

Let me give you some economic context for these considerations and talk about the implications for monetary policy.

Economic growth stalled in the middle of 2023. For many Canadians, the combination of higher prices and higher interests rates has been difficult. Past interest rate increases have helped the economy rebalance, and this is relieving price pressures. Lower energy prices and improvements in global supply chains have also helped to bring inflation down. Growth is expected to remain flat in the near term.

With weak demand in the economy, upward pressure on prices should continue to moderate, and inflation is expected to ease further. The share of CPI components that are rising faster than 3% has declined substantially and should continue to normalize. However, tightness in some parts of the economy is continuing to hold inflation up. The most prominent of these is housing. Inflation in shelter services remains high, close to 7%, because of rising mortgage interests costs, higher rents and other housing costs. While food prices are not increasing as fast as they were, food price inflation is still about 5%. Finally, inflation in services excluding shelter has improved, but there are signs that price pressures remain.

All this push-and-pull on inflation means that further declines in inflation will likely be gradual and uneven. That suggests that the path back to 2% inflation will be slow, and risks remain.

[*Translation*]

Overall, our outlook for both growth and inflation is largely unchanged from October. Growth is expected to be modest in 2024. It will be weak before picking up around the middle of the year and rising to about 2.5% in 2025.

With downward and upward forces largely offsetting in the near term, CPI inflation is expected to remain close to 3% over the first half of 2024. It's then expected to ease to about 2.5% by year end and return to target in 2025.

Let me give you a sense of the governing council's monetary policy deliberations.

At the time of our decision last week, there was a clear consensus to maintain the policy interest rate at 5%. We also discussed where we see the economy and inflation going and what that could mean for monetary policy going forward.

One thing is clear. The council's discussions are shifting from whether the rates are restrictive enough to how long to maintain them at their current level.

If new developments push inflation higher, we may still need to raise rates. However, if the economy evolves broadly in line with last week's projection, future discussions will be about how long the policy interest rate must remain at 5%.

The governing council is concerned about the persistence of strong underlying inflation. We want to see inflationary pressures continue to ease and clear downward momentum in underlying inflation.

● (1135)

[*English*]

We also discussed the risks to the economy and inflation. We're trying to balance the risks of over- and under-tightening. We don't want to cool the economy more than necessary, but we don't want Canadians to have to continue to live with elevated inflation, either. We remain focused on a number of indicators of underlying inflationary pressures, and we need to see further and sustained easing of core inflation. With the economy now looking to be in modest excess supply, demand pressures have abated and corporate pricing behaviour has continued to normalize. At the same time, measures of near-term inflation expectations and wage growth suggest that underlying inflationary pressures remain.

Let me conclude. We've come a long way from the inflation peak in 2022. Monetary policy is working and we need to continue to let it work. We remain resolute in our commitment to return inflation to the 2% target.

With that summary, Mr. Chair, we would be pleased to take your questions.

The Chair: Thank you, Governor, for your opening remarks. Thank you for coming before the finance committee. It's the first time in 2024, and I know the members have many questions.

Members, I know there are certain subjects you want to get into with the governor. They may need more fulsome answer time, so I will be quite lenient in terms of timing, in order to provide the ability for the governor to answer and for the members to pose their questions.

With that, we're going to MP Hallan as our first questioner.

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

Thank you once again, Governor and Deputy Governor, for being here. Unlike the finance minister, you're making yourselves accessible to this committee.

Governor, my question is this. A few short months ago in this committee, you said the government's fiscal policy and your monetary policy were rowing in opposite directions. Was that still a factor when you made your decision last week to hold rates?

Mr. Tiff Macklem: With respect to fiscal policy, we take in the budget plans of all levels of government. We build those into our forecasts. You can see those in our monetary policy report. Therefore, yes, we factored in government spending plans. This is contributing to growth in the economy, which is something we factored into our decision.

Mr. Jasraj Singh Hallan: Thank you.

More specifically—because I'm very interested in those factors you talked about—was it new expenditures and just the level of growth, or was it cumulative of everything from before? What were some of those specific factors you looked at?

Mr. Tiff Macklem: Well, let me talk about what we see.

Let me back up for a second. As I've said many times, fiscal policy decisions are not the purview of the Bank of Canada—

Mr. Jasraj Singh Hallan: That's fair.

Mr. Tiff Macklem: They're made by parliamentarians.

What we do is take the spending plans this government has given and build those into our outlook.

If you look at spending in 2023 for all levels of government, real government spending on goods and services grew at about 2%, which is roughly in line with the growth potential, most of which is population growth.

If you look ahead to the next year, based on published plans, we estimate that government spending will be growing at around two and a quarter per cent. Therefore, it will still be roughly in line with potential. It will be a little on the high side—

Mr. Jasraj Singh Hallan: I'm sorry, but I have limited time. I appreciate the explanation.

Those are obviously pressures on you or a part of the bigger picture when you look at lowering rates or keeping them the same. If those same pressures of, as you said, fiscal and monetary policy working against each other right now were eased by having a lower deficit in terms of spending by the government, would that factor into lowering the rates?

Mr. Tiff Macklem: I was actually getting to the “go forward” strategy. With government spending estimated to be growing by around two and a quarter per cent, it's a little above potential. We built that into our forecast. You can see how inflation comes down gradually in our forecast.

That being said, it's already at the upper end of potential. Therefore, if governments were to add more spending, it could start to get in the way of getting inflation back down, and that would not be helpful.

● (1140)

Mr. Jasraj Singh Hallan: Definitely.

Just recently in The Globe and Mail, there was a report about expenditures. We know that in the fall economic statement, growth was already at 3.2%, according to the government. We also know that from April to November last year, there was an increase from the previous year of almost $15 billion in expenditures or deficit. Is that being considered as well? If those pressures were not as high as they are, would it help lower the ceiling you're talking about when you're looking at those pressures that are pushing up inflation?

Mr. Tiff Macklem: Yes, anything that has been announced by the government and that has been through the House will be built into our projections.

Mr. Jasraj Singh Hallan: However, the actual expenditures are increasing. Would you have to re-forecast?

Mr. Tiff Macklem: When we get the national accounts data, we do update our forecast. Therefore, when we get Q4 data, we will be updating our forecast.

Mr. Jasraj Singh Hallan: Specifically in the report, it's clear that shelter inflation or shelter costs are keeping the CPI high. That has the most growth inside of inflation. What specifically is driving that?

Mr. Tiff Macklem: Do you want to say a few words about that?

Ms. Carolyn Rogers (Senior Deputy Governor, Bank of Canada): Sure.

There are a number of things inside of shelter inflation. Obviously, mortgage insurance cost is part of what's keeping overall shelter inflation up. Normally, as you would have seen in past tightening cycles, as interest rates go up, there is a decline in house prices. However, because we have a chronic structural shortage of housing in Canada, we haven't seen that sort of offset or adjustment. Therefore, housing prices are still part of the overall higher shelter contribution to inflation.

Rents have also risen quite a bit recently, and that's—

Mr. Jasraj Singh Hallan: Is that because of the demand?

Ms. Carolyn Rogers: Sure. Prices go up when there's more demand than supply, and right now there is more demand than supply for rental housing in Canada—

Mr. Jasraj Singh Hallan: I'm sorry to cut you off, but I believe I have only a few seconds left.

I want to move on to another topic. In your press release, you talked about how there is high inflation. It's been high for more than two years now. We know that the economy is stagnant. It's going to stay that way for almost a year, even according to the government's own projections. We also see unemployment ticking up. Is that a stagflation risk? Is that something you're worried about?

Mr. Tiff Macklem: I wouldn't call it stagflation.

Growth is weak. In fact, we actually need this period of weak growth to let supply catch up—

Mr. Jasraj Singh Hallan: I'm sorry. Let me clarify that. If that trend continues—if unemployment continues to rise and everything else remains the same—is there a fear of some form of stagflation? That is literally the definition of stagflation.

Mr. Tiff Macklem: Stagflation is a period of high inflation—

Mr. Jasraj Singh Hallan: —which we have—

Mr. Tiff Macklem: —and high unemployment. We don't have high unemployment. Yes, unemployment has come up, but it was extremely low. It's back to more normal levels.

Mr. Jasraj Singh Hallan: It is ticking up now.

Mr. Tiff Macklem: It is ticking up, and I expect it will go up a bit more.

Mr. Jasraj Singh Hallan: I'm saying this because a chief economist—

The Chair: That is the time. We went over time.

It's over to MP Baker now.

Mr. Yvan Baker (Etobicoke Centre, Lib.): Thank you for being here again at the finance committee, Governor and Senior Deputy Governor.

I'd like to start along the same lines, Governor, as what you were discussing with my colleague about government spending plans and their impact on inflation.

The government presented the fall economic statement. It's the mini budget, if you will, of the government presented every fall. You said the FES is “not adding new or additional inflationary pressures over the next couple of years, which is the critical period over which we will be looking to reduce inflation and get it back to the target”.

Can you expand on that? I want to make sure the folks at home are very clear. Is the latest fall economic statement, which is the latest spending plan of the government, adding undue inflationary pressures to the Canadian economy?

Mr. Tiff Macklem: What I was referring to in that quote was relative to the track the government laid out previously. The fall economic statement didn't add material new spending that would add new inflationary pressures. We built the previous budget, as well as the fall economic statement, into our projection.

As I mentioned in a previous answer, for next year, that gives you a growth in government spending at all levels—obviously, the provinces are a big part of this—of roughly two and a quarter per cent.

● (1145)

Mr. Yvan Baker: Am I hearing you say that, if growth and spending are around two to two and a quarter per cent—you referenced this in your earlier response—that's a level at which government spending is not unduly contributing to inflation?

Mr. Tiff Macklem: If it's in the range of 2%.... The economy is growing at roughly 2%. The population growth is at roughly 2%. It's growing in line with the size of the economy. In that sense, it's not helping to get rid of inflation, but it's not contributing new inflationary pressures.

As I underlined, two and a quarter per cent is at the upper end of that. If there are new spending initiatives, either federally or provincially, they could start to make it more difficult to get inflation down. They could start adding new inflationary pressures.

Mr. Yvan Baker: You mentioned a moment ago that, when you looked at government spending plans in the fall economic statement or the government's budget, you saw government spending growing at 2%—if I understood you correctly—this year and two and a quarter per cent next year—

Mr. Tiff Macklem: Just to correct, we don't actually have all the data for last year yet. It's roughly 2% last year and two and a quarter per cent this year.

Mr. Yvan Baker: Forgive me. Thank you. It was 2% last year and two and a quarter per cent this year.

The data you have says that government spending grew at 2% last year and is planned to grow at two and a quarter per cent this coming year. What I'm hearing you say is that, as long as spending growth is close to that 2% target—and you've called a growth of two and a quarter per cent close to the upper range of that—it's growing more or less in line with population growth, so it's not unduly contributing further to inflation.

Is that a fair characterization of what you're saying?

Mr. Tiff Macklem: Yes.

Mr. Yvan Baker: Thank you for that, Governor.

What I'd like to do is ask you something my constituents ask me all the time. I promised several of them that I would ask you the next time you came to the finance committee.

What many of them are struggling with is their mortgage costs. Many of those who already have mortgages have been renewing their mortgages at much higher rates than they did in the past. Some of them are approaching the point where they have to renew their mortgages and are very concerned about their ability to service those mortgages, get approved for those mortgages and frankly keep their homes, in many cases.

The question I get asked all the time, Governor, is this: When will interest rates come down? I know you can't give us a specific date, but what would you say to my constituents who are watching at home and asking, “When is the Governor of the Bank of Canada going to bring rates down?”

Mr. Tiff Macklem: Well, the first thing I'd like to say to all Canadians is that we know that Canadians want to see inflation come down. They're tired of seeing prices go up so quickly, and we know that they'd like to see interest rates come down. So would we.

When we have more assurance that those inflation pressures are easing and that inflation is clearly headed back to 2%, we can have that discussion about cutting interest rates. However, right now, monetary policy is working, and we need to let it keep working.

If I can just expand a little bit.... When I was here last October, I got a very similar question. What's happened since October? Well, since October, the data we've seen with the economy, what we've heard from households and what we've heard from businesses in Canada have made us more confident that interest rates are now high enough to get inflation back to our 2% target.

That doesn't mean that.... You know, if new things happen, we may still have to raise interest rates. However, what it does mean is that if you take all of the data we have and if you take our outlook, it's suggesting that interest rates are high enough to get us back to the inflation target.

Your question is about when we can cut them. We can't put it on a calendar. We need to see how inflation evolves. We've seen this push-and-pull in inflation. We've talked about housing. That's boosting inflationary pressures. More broadly, we are seeing inflationary pressures come out. We need to see how that evolves, and when we see those easing further, when we see sustained downward momentum in underlying inflation, we can have that discussion.

I hope that comes sooner rather than later, but we're going to have to see how inflation evolves.

● (1150)

The Chair: Thank you.

Thank you, MP Baker.

Now we'll go to MP Ste-Marie, please.

[*Translation*]

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

Thank you for joining us, Ms. Rogers and Mr. Macklem.

My opening remarks may be a bit long.

Like you, we see the need to keep inflation within a range of 1% to 3% to bring inflation down to the 2% target, and the fact that this creates inequalities.

Your restrictive monetary policy is having a negative impact on the housing sector.

Ms. Rogers, you referred to the chronic housing shortage at this time.

For example, over the past year, in Quebec, housing starts have fallen by 60%.

I wanted to ask about the tool used to establish the policy interest rate. The policy interest rate is a bazooka that strongly affects the economy as a whole and that can have unwanted effects, particularly in the housing sector. I'm thinking in particular of tenants. When a building owner renews a lease at a higher rate, the owner's choices for production and development aren't directly affected. Given the competitive nature of the housing sector, the bill is passed on to the end consumer, the tenant. This may not be the person placing the most inflationary pressure on the economy. Obviously, as politicians, we're all very concerned about these effects.

I would like to ask you about the policy interest rate, your main tool. This tool was introduced by the central banks as soon as they were created.

What other tools do you have for implementing a restrictive anti-inflation monetary policy that wouldn't have such a wide range or negative impact?

How much have you studied this issue?

How much of your current research focuses on various other tools?

What measures taken in other parts of the world could help us implement an effective anti-inflation policy and continue to support housing construction?

Mr. Tiff Macklem: The short answer is that the policy interest rate is our main monetary policy tool. We call it a blunt instrument. It affects everything. We can't target sectors. This makes the monetary policy more difficult, but also explains its effectiveness to some extent. We can't avoid raising interest rates. It affects the whole economy, everyone and every business. It has a predictable effect on demand and inflation.

The other tools are here in your hands. The government can take targeted measures, such as taxes, subsidies and budget measures for different sectors. At the Bank of Canada, we're happy to see all levels of government—municipal, provincial and federal—working together more closely to use different tools to ease the housing shortage. This will take time. Our high interest rates have reduced demand. However, since supply is still lacking, the sector continues to struggle. Alongside the supply aspect, measures can be taken by the various levels of government.

● (1155)

Mr. Gabriel Ste-Marie: Thank you.

When I see the inflation rate of around 3%, which is above the 2% target and not ideal, when the main impact of the policy interest rate hike is a 60% drop in housing starts, and when there's a housing shortage and a great deal of homelessness, I start wondering things as an elected official. For the overall well-being of the economy, perhaps it would have been better to slow down the fight against inflation, if these issues are interconnected, and to support housing construction.

Just to clarify, you're concerned about inflation, and not the housing shortage. Politicians must take care of the shortage. Is that right?

Mr. Tiff Macklem: We're concerned about the housing shortage. We need to understand the shortage. However, we don't have the tools to solve it.

I want to point out that high interest rates affect the housing sector. However, the impact is greater on the demand side than on the supply side. Yes, supply is affected. If you speak to developers, they'll tell you that. That said, when we look at the sector as a whole, the impact on demand is much greater than the impact on supply. In addition, in recent years, demand has been much greater than supply. Rising interest rates have reduced demand. The market is more balanced. However, since supply has been insufficient for a long time, there's still a shortage.

Mr. Gabriel Ste-Marie: Thank you.

I'll have more questions during my next rounds.

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

[*English*]

MP Blaikie, go ahead, please.

Mr. Daniel Blaikie (Elmwood—Transcona, NDP): I want to pick up pretty much where that conversation left off.

I do think it's important to say that when we talk about balancing supply and demand in the housing market, while demand on paper has gone down, there aren't fewer people in Canada who need a place to live. I mean, demand for housing is completely inelastic. There's just as much demand for housing as there ever was. There are just more people living on the street who aren't bidding on houses because it's completely outside their financial possibility.

I think it is important for us to recall, as policy-makers, that the demand for housing is in fact equal to the number of people who live in Canada. The question of how many people are bidding on houses matters, and I'm not saying that isn't an important metric, but when we bring those two things into alignment, so that there's roughly a good number of people bidding on houses for the amount of supply, it doesn't mean that demand has gone down. It means that people are just displaced out of the market, and they're the people we're seeing living in encampments in our cities, on the streets and everywhere else. I think it's important for us just to bear in mind that we're not really talking about a balancing of demand and supply. We're talking about demand segments disappearing off the ledger and living on the streets.

One of the things that I think Canadians have really been challenged with when it comes to housing, if we think about the time before interest rates went up.... On low interest rates, certainly there is a school of thought that would say low interest rates were raising the sticker prices of houses and, in that sense, contributing to housing inflation. Since interest rates went up, people have really been feeling the pinch, because even though the sticker price may be coming down, their ongoing operating costs of owning a home and servicing the mortgage have also been important drivers of inflation.

Now, as we talk about a period on the horizon when interest rates will go down—albeit we're not sure when that's coming, exactly—are you concerned that it means housing will continue to drive inflation? As people can borrow more money with the same income, we'll go back to the race that was on before interest rates went up, where sticker prices are quickly escalating and also driving people out of the housing market.

Mr. Tiff Macklem: I think you've described, actually, the difficulty in the housing market quite well.

Exactly as you described, when interest rates were very low, demand for housing was very strong. We saw a large appreciation of house prices. As you're well aware, house prices through COVID went up more than 50% over two years. That wasn't all interest rates. Part of it was that people wanted more space during COVID, but interest rates were certainly a part of that.

That actually pushed up shelter price inflation. Shelter price inflation has actually been quite high for several years. What's changed with the increase in interest rates is the composition. It was largely because the house prices were going up a lot before, and mortgage interest costs were very low. Now, mortgage interest cost is high, but house prices are not going up very much. They came down a little bit and they've kind of stabilized. They're going up slowly.

I think also, to get back to Mr. Ste-Marie's question, what this highlights is that you're not going to solve housing with low interest rates and you're not going to solve it with high interest rates. We've tried both, and we've had high shelter price inflation. It comes back to this: The durable solution is to increase the supply, and that includes both the supply of homes and the supply of purpose-built rental.

● (1200)

Mr. Daniel Blaikie: Do you think it's something government should be contemplating? Of course, if you have any suggestions, we're very happy to hear them, but even in a general sense, if government has a sense that at some point interest rates are going to begin to come down, is there a set of policy tools? Is there a difference in terms of what policy tools might help with that rapid sticker price inflation in housing versus the inflation we've seen over the last number of years when interest rates have been higher?

Is there a different kind of tool box the government should be looking to as they prepare for a potential change in direction at the bank? Are there tools that make more sense now, given the nature of the problem we're facing around renewals versus "How do I get enough to bid on a new home?"

Mr. Tiff Macklem: Well, we're not experts in housing policy, but I think the message is that policies that are focused on supply are going to help fix the situation. Policies that are focused more on demand are simply going to make the situation worse, because prices will just start going up, making houses less affordable. It's really very much policies that are focused on supply, and that does require an unusual level of co-operation among the municipal, provincial and federal governments, because the instruments on supply are spread out across different levels of government.

Mr. Daniel Blaikie: So, a first-time homebuyer's savings account or something like that would be an example of a demand-side measure, whereas recapitalizing the co-investment fund, which has been important to be able to build various kinds of non-market housing across the country, would be an example of a supply-side measure. Is that fair?

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

Mr. Daniel Blaikie: Okay. Thank you very much.

I don't know how much time I have.

The Chair: We're at six minutes. We're finished with this round.

Thank you, MP Blaikie.

Mr. Daniel Blaikie: Okay. I had a feeling we were.

The Chair: That's very good. You were right on time.

We are moving into the second round. It's less time.

It's five minutes for MP Lawrence, please, with the governor.

Mr. Philip Lawrence (Northumberland—Peterborough South, CPC): Thank you very much.

Once again, thank you, Governor Macklem, for coming here. I think it's a credit to you and to your institution that you're as present as you are.

My questions will start with GDP and GDP per capita.

To my mind, it's almost getting to the point of a myth of a soft landing. Although our GDP as a whole, as an aggregate, doesn't look terrible, our GDP per capita does. In Q3 of 2022, it was -1%. In Q4 of 2022, it was -3.3%. In Q1 of 2023, it was -0.6%, while in Q2 of 2023.... While our GDP as an aggregate has shown modest growth, our GDP per capita—which I believe is a better, more accurate measure of how Canadians are actually dealing with the economy—is showing that we are in a very difficult time. To quote the leader of the NDP, it's bad; it's very bad.

What are your comments on that statement? Do you agree?

Mr. Tiff Macklem: Well, there's no question that we have seen weakness in consumption. On a per household, per capita basis, we've actually seen declines in the level of consumption. At an aggregate level, that's being offset because there are more people in the economy, so on average aggregate-level growth has been roughly flat.

However, I agree that it is difficult for Canadians. They're feeling the effects of higher prices. They're feeling the effects of higher interest rates, and we can see how that's affecting their spending. It's particularly affecting their spending on durable goods. They've been cutting back on services. They've been cutting back on non-durables. That's showing up in the weakness in per capita consumption.

● (1205)

Mr. Philip Lawrence: This is all in the context of the last 10 years. In the United States, the GDP per capita has grown by 47%; in Canada, it has grown by 4.7%. We are in one of the worst economic times since the Great Depression.

I know you've spoken eloquently about this, but the impact, particularly on the vulnerable, of keeping interest rates high and driving per capita GDP even further into the basement has real-life consequences. We see two million people per month going to food banks. I know that you know this, but I think it bears repeating—the pain that's being inflicted on Canadians right now because of the high interest rates and this government's reckless fiscal policy.

Mr. Tiff Macklem: Look, nothing worries us more. We know that inflation is affecting the most vulnerable Canadians the worst. Food price inflation is high. You can't really economize on your purchase of necessities. They're necessities. So, yes, this is hurting. The best way to solve that problem is to get inflation down. We've made a lot of progress. We need to finish the job.

Mr. Philip Lawrence: I just want to clarify the discussion you had with my colleagues MP Baker and MP Hallan.

I think you used the threshold of a spending growth rate of two and a quarter per cent. Anything above that in the upcoming budget will be unhelpful for your fight against inflation. Is that correct?

Mr. Tiff Macklem: If real government spending at all levels of government is growing materially above 2%, that will make it more difficult to get inflation back to 2%.

Mr. Philip Lawrence: Then I want to return to a conversation that we've had at numerous meetings with respect to the carbon tax. I want to thank you for your candour at the last meeting, saying that the carbon tax was adding 0.6%.

There's been a little bit of a mischaracterization, I think, of some of your comments once again, Governor Macklem, when you said that it's a one-time or one-off impact, when the reality is that, as will happen on April 1, the carbon tax will increase. It's scheduled to increase all the way up to 2030. Presumably, if in our Parliament we axe the tax, not only would that eliminate it one time, but there is also the upcoming increase, which is scheduled to be in the range of 23%. I think you've said at other committee meetings that it would be about 0.1% at every increase.

Could you confirm that if we eliminated the tax—and, of course, presumably, the increases to that tax—we would have an ongoing impact that would reduce inflation?

Mr. Tiff Macklem: Yes, I think you summarized the numbers.

As you said, there are planned increases in the carbon tax going forward. The direct impact of that on the three fuel components.... It would have an impact of about 0.15% each year on the CPI going forward. If you eliminate the tax, you'll get a one-time 0.6% decrease in inflation. The next year, it will go back to where it was, because you can only eliminate it once.

However, yes, I see your point. You're also eliminating the future increases.

The Chair: Thank you, MP Lawrence.

We'll now go to MP Dzerowicz, who is coming to us virtually.

Ms. Julie Dzerowicz (Davenport, Lib.): Thank you so much, Governor and Senior Deputy Governor, for joining us today.

I'm going to start off very quickly on the fall economic statement. We included some new fiscal guardrails. I believe you were quoted as saying they were "helpful" from the perspective of monetary policy. Can you elaborate on this?

● (1210)

Mr. Tiff Macklem: Yes. I think what is helpful about your new fiscal guardrails is that they assign a number and a date. What that does is provide some limits on how much spending can increase going forward. In that respect, I think they are helpful. The—

Ms. Julie Dzerowicz: Governor, I'm sorry to interrupt.

I should have clarified this. I think one of our key new commitments is our goal of keeping deficits below 1% of GDP, beginning in 2026-27. That's just for the public to be reminded.

Mr. Tiff Macklem: That's exactly what I was talking about.

What's important about that is that you have a goal—less than 1%—and you also have a date on it, so that going forward, in order to respect that target, you won't be able to increase spending substantially.

Ms. Julie Dzerowicz: Thank you.

My next question is around wages and productivity. It's a question I often ask you.

Wages, as we know, have been going up. Wages going up, as you indicated, is not a problem if productivity also increases. I believe what's happening, however, is that wages have been going up—which I've been happy to see, because I think they've been stagnating for too long—but, as you've been articulating, productivity has not been going up.

How is it that productivity can be increased without increasing business investment, which interest rates are trying to discourage right now? Hopefully, you have an answer to this. I'm not sure whether you have policy prescriptives, but could you answer this question? How can productivity be improved if monetary policy is trying to discourage business investment?

Mr. Tiff Macklem: I'm going to ask the senior deputy governor to talk about productivity.

Ms. Carolyn Rogers: Thanks for that question.

The reason we closely watch the relationship between wages and productivity is that, if wages continue above productivity for a while, what eventually happens is that companies feel the pressure to build those higher wages into their prices, so you can get what we call a wage-price spiral. What we have seen more recently is.... We think most of the wage pickup we're seeing right now is really a catch-up. People have seen their cost of living go up and they are asking for higher wages. That's completely reasonable. However, as you point out, if wages run at a pace above productivity for a while, we worry.

What can be done? I don't know that we're necessarily discouraging business investment. Business investment that goes into increased productivity will always, over the long term, help the economy grow without producing inflation. Businesses can make capital investment, invest in their employees and provide training. There are other ways to increase productivity. You can remove trade barriers. There's more than one way to make the economy more productive than business investment.

Ms. Julie Dzerowicz: Thank you. That's very helpful.

Now I want to go back to housing, since it's top of mind for all of us, and rightfully so. If you ask any resident of any of our ridings, they will indicate that it is the top issue for them, in addition to other affordability-type costs.

Senior Deputy Governor, I think you were talking earlier about how there needs to be an increase in the supply of housing. I think both you and the governor indicated that.

We've been doing a study around inflation and housing. We've also heard of other things that have really contributed to the housing issue we have now. There's the lack of vacancy rent controls, long wait times for approvals and funding at all levels of government, and dysfunctional landlord and tenant boards.

I wonder whether you would agree that in addition to the fact that we need to be building more supply, there are other issues that need to be worked on at all three levels that would be helpful in addressing the housing needs that we have now.

● (1215)

Ms. Carolyn Rogers: That's exactly the point the governor made a few minutes ago. The one thing about housing is that the type of increase in supply that we need is going to require co-operation across all levels of government, because the levers exist at different levels of government. These are not areas of policy that are our expertise, but we would certainly very much like to see the supply issues addressed, and any effort across those multiple levels of government is welcome.

Ms. Julie Dzerowicz: Thank you so much.

The Chair: Thank you, MP Dzerowicz.

MP Ste-Marie.

[*Translation*]

Mr. Gabriel Ste-Marie: Thank you.

I'll ask my two questions together, since we have two and a half minutes of speaking time.

Mr. Macklem, in your opening remarks, you spoke about the resilience of supply chains. I would now like to hear your opinion and analysis regarding the incidents in the Red Sea involving commercial ships and the drought in Panama, which is limiting the number of passages through the canal. How will this affect potential inflation in Canada, and how is the Bank of Canada taking this into account?

In your report, you said that the risk premium associated with the price of oil has fallen, since the market considers it less likely that the war in Israel and Gaza will negatively affect global oil supply. I would like more information on this matter.

Mr. Tiff Macklem: At the end of our monetary policy report, we pointed out that certain risks surround our forecasts. Some of these risks are upward, while others are downward. The upward risks certainly include the war between Israel and Hamas, the attacks on ships in the Red Sea and the lower water levels in the Panama Canal.

So far, we haven't seen a major impact from these incidents. However, if they continue and escalate, and if other countries start to take part in the war, the price of oil could rise sharply. This would have a quick and direct impact on inflation. Transportation costs will also be affected. If there are further issues with supply chains in the Red Sea or the Panama Canal, transportation costs could rise. This could affect the price of a number of goods. There is indeed a risk. So far, we haven't seen much.

Regarding the second part of your question, since the start of the conflict in Israel and Gaza, the price of oil has fallen by around $10. It has remained fairly stable in recent weeks. When we revised our forecasts, our hypothetical oil price was $10 lower than our October forecasts. This factor lowers inflation somewhat in our forecasts.

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

[*English*]

MP Blaikie.

Mr. Daniel Blaikie: Thank you very much.

I know that in an earlier comment you were saying that you would like to be in a position to bring down interest rates. Again, I think that a potential lowering at some point on the horizon raises a question. I know the bank has an inflation target, but is there something that you consider to be an ideal interest rate?

As you think about this moving forward, we know that there are a lot of reasons why we've experienced inflation. Some of them are under government's control; others aren't. We know that difficult economic times are possible, if not likely, in the years and decades to come.

One of the tools the bank is sometimes using in times of slower economic activity has been to reduce rates in order to stimulate economic activity. At what point do you get concerned that it's not a tool in the tool box if interest rates are too low? Do you have an idea of where you want to land in terms of an interest rate in the short or the medium term?

● (1220)

Mr. Tiff Macklem: I'm not sure I fully understood your question, so you'll have to stop me if I didn't.

Look, we don't have a target for the interest rate. We have a target for inflation. The ideal interest rate is the one that gets us to 2% inflation. What that's going to be, though.... Because the interest rate is the instrument, what interest rate is going to get us to low, stable inflation is going to depend on what happens in the economy.

We do very much worry about the risks on both sides. Inflation has been too high. We've taken forceful action. We've raised our interest rates. We are committed to getting inflation all the way back to 2%. We want to make sure that we do enough. We don't want to drop rates prematurely, realize that we're not going to get back to 2% inflation, and then have to raise them again in the future. On the other hand, we don't want to leave them high for so long that the economy cools a lot more than it needs to. In that case, inflation would probably fall below our target.

It is a difficult judgment. We spend a lot of our time discussing whether we are doing too much or too little, or how much more we have to do. That is really the centre of our deliberations.

Mr. Daniel Blaikie: If I'm hearing your answer right, does that mean the bank wouldn't really consider a lowering of the interest rate until you feel there is a risk of deflationary pressure? If inflation returns to target and is forecast to be on target for the foreseeable future, would you entertain a lowering of the interest rate? Does that begin to take into consideration factors outside of the simple rate of inflation?

Mr. Tiff Macklem: As inflation moves towards the target, we shouldn't need interest rates to be as restrictive as they are, because they will have done their work and we're getting there.

In terms of how we think about it, as I've stressed a number of times, there are lags in the effects of monetary policy. What we do now affects the economy over the next year and a half. We don't want to wait until inflation is all the way back to 2% before we start cutting interest rates, because if we did that, we would overshoot. We'd go below 2% inflation. We'd cool the economy more than we have to.

Yes, you do want to start lowering interest rates before you're all the way back, but you don't want to lower them until you're convinced and you're assured that you're really on a path to get there. That's where we are right now. We're looking for that assurance. It's working. We don't think we need to raise rates further, but we need to let it work until we see that assurance.

The Chair: Thank you, Governor.

Thank you, MP Blaikie.

MP Morantz, go ahead, please.

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

Thank you, Governor and Deputy Governor. We always appreciate your being here and how transparent the bank is with Canadians during these difficult times.

I went back and had a look at the January 2023 monetary policy report. In there, you said, “CPI inflation is forecast to decline...and to reach the 2% target in 2024”. Today, you're saying that's not the case.

I'm wondering if I could get your thoughts on why that projection changed over the last year and also tie it in with this idea of government spending being at the upper bound, because just three months after that monetary policy report, the government tabled a budget that had $63 billion in additional spending, and then in the fall economic statement another $20 billion. I'd like your thoughts on whether those budgets interfered with the projection you made in January 2023.

Mr. Tiff Macklem: There are a couple of points. If you go back to the start of last year, we were forecasting that inflation would be around 3% last summer and then from there, it would gradually go back down. On the first part, actually, that projection proved to be pretty accurate. Inflation was 2.8% in June.

What's happened since then? It's a combination of a lot of things. The first thing is that oil prices went back up. That was the main factor that put inflation from 2.8% back up to 4%. The second thing we've seen is that there has been more persistence in core, underlying inflation. Core inflation has been running at around 3.5% for six months to a year now—

● (1225)

Mr. Marty Morantz: Because I have such limited time.... I apologize, Governor.

To be more specific, was the increased government spending in the budget and the fall economic statement last year a factor in inflation not meeting the projection you set?

Mr. Tiff Macklem: If you look at government spending at all levels in 2023, it roughly grew at about 2%. It's not helping to relieve inflationary pressures, but it's growing roughly in line with the economy's potential population growth. It's not adding new ones.

Mr. Marty Morantz: That's fair enough.

During the press conference last week, you said government spending is at the upper bound of what's manageable. You said, “If governments were to add more spending on top of what they already planned...it certainly could start getting in the way”.

You stand by that statement today, I presume.

Mr. Tiff Macklem: Yes.

Mr. Marty Morantz: The government is going to table a budget in a couple of months. If you see large spending increases, will that make your job more difficult?

Mr. Tiff Macklem: If there are large spending increases, yes, that could start to get in the way of getting inflation back down to target in the timeline we've laid out. Not all spending has the same effects on inflation, so we'd have to look at exactly what the spending is. Spending that really stimulates demand at a time when we're trying to let supply catch up with demand and relieve inflationary pressures would be particularly problematic.

Mr. Marty Morantz: I want to ask you the corollary of that. Let's say some miracle happened and this government decided to become fiscally responsible, brought in a plan to bring the budget back into balance and actually got its spending under control in the upcoming budget so that, in fact, spending increases were not in the upper bound, but maybe in the middle bound or the lower bound, as you might define that.

Would that make your job easier?

Mr. Tiff Macklem: If government spending turns out to be slower than we expected, yes, there will be fewer demand pressures from the government. That means the economy growth will probably be lower, the unemployment rate will be a bit higher and inflation will come down a bit sooner.

Mr. Marty Morantz: Those are my questions, Mr. Chair.

The Chair: Thank you, MP Morantz.

Now we're going to hear from MP Thompson, please.

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

Thank you for being here today.

I wanted to ask a question on climate change. I come from the east coast. Clearly, sea levels, rising temperatures and extreme weather events are very significant in my area of the country, and we've certainly seen that across the country.

When we speak about the increased costs for Canadians, like food and shelter, do we not also need to include the impact of climate change? One example of that is carbon pricing, which is really intended to help combat our net emissions and bring us to the intended targets.

An analysis from Stats Canada published last November linked droughts, heat waves, flooding and heavy rainfall to increased food prices for meat, fruit, vegetables, sugar and coffee. In June, an economist from RBC reported that while food price inflation was expected to slow, a return to prepandemic levels was unlikely due to extreme weather events. There was the link between weather and food costs, given that extreme weather events are predicted to be more frequent.

Are the costs of climate change included in your analysis of risks to the inflation outlook?

Mr. Tiff Macklem: It's a difficult question to answer.

Let me back up to the first part. I would agree—we're already seeing it—that the more climate events we have.... One of the places where those will show up most directly is in food prices. We've seen more volatility in food prices and more variability in harvest depending on what the weather is in different parts of the world. That is causing more volatility in food prices. That's probably not going away.

We do not have climate effects built into our main models at the moment. We have done some work. The senior deputy governor is closer to this, looking at the potential financial stability implications of climate change if there is a big repricing of assets and how that would affect the financial system.

We are now starting to work on building climate change into our main macro models so we can start to evaluate those types of questions. I have to say, this is a large undertaking. We are putting our heads together with other major central banks on how to do this. In a world where there is potential for more supply disruption, this is something we'll need to understand.

Monetary policy has neither the mandate nor the tools to address climate change, but this is going to be a major force in the economy, so we're going to have to understand what that means for the economy and for inflation.

● (1230)

Ms. Joanne Thompson: Thank you.

I want to go back to an earlier question on the soft landing. Do you feel that the actions you've taken at the Bank of Canada on the economy have led to a soft landing and avoided a recession?

Mr. Tiff Macklem: So far, we've avoided a recession.

I will say that growth has been weak, but we needed that weak growth to let supply catch up with demand. We're very aware that it doesn't feel very good. As one of the previous members indicated, on a per capita basis, consumption is actually down. Canadians are really feeling this.

All I can say is that letting supply catch up with demand is relieving price pressures. That has brought inflation a long way down.

Ms. Joanne Thompson: Thank you.

On the same point, if you look at how far we've come since the COVID-19 pandemic, do you feel that we've indeed reached that soft landing?

Mr. Tiff Macklem: So far, yes, we have not had a recession. We don't think we need a recession. Our own forecast doesn't have a recession. It has what many people would call a “soft landing”. Certainly, we hope to see that we don't have a recession. As we get to later next year, we expect to see growth picking up.

The Chair: Thank you, MP Thompson.

Governor and members, we are moving into our third round. I'm looking at the time. We have just enough. We're going to have to hold a little tighter now to the timing.

We're starting with the Conservatives and MP Scheer.

You have five minutes.

Hon. Andrew Scheer (Regina—Qu'Appelle, CPC): Thanks very much for coming.

In the previous few years, the Bank of Canada purchased hundreds of billions of dollars' worth of government bonds at what were then low interest rates. Now, interest rates have gone up. In your previous appearance before the committee, we talked about how that would put the Bank of Canada itself in a deficit position, since it has to pay out more in interest than it receives on those bonds as the interest rates go up.

Can you update the committee about the budgetary position of the Bank of Canada in terms of a surplus or deficit based on those bond holdings?

Mr. Tiff Macklem: Yes. I think the senior deputy governor has the numbers in front of her, so I'll turn to her.

Ms. Carolyn Rogers: Are you looking for bottom-line losses? Is that what you're asking?

Hon. Andrew Scheer: How much are taxpayers on the hook for over the losses at the Bank of Canada?

Ms. Carolyn Rogers: Our losses or profits always roll up into the government's overall financial situation. Our losses are very much contingent on the path for interest rates, as you know.

We are estimating probably somewhere in the range of ultimately $6 billion at the end. As I said, it's very much contingent on interest rates.

We now have legislation that's been passed that lets us retain our earnings. Normally, at the end of every year, we remit whatever our earnings have been to the government. Once the assets that you describe roll off our balance sheets, we will be back in positive earnings, and that will fill that overall loss. Then we'll be back to remitting to government.

We expect to be back in a positive situation in about two years, and then we will continue remitting to government.

● (1235)

Hon. Andrew Scheer: Just to clarify, you said it was a $6-billion loss.

Ms. Carolyn Rogers: That's in total.

Hon. Andrew Scheer: That's in total, so the Bank of Canada is losing $6 billion. You talked about taking advantage of the new legislation that allows you to retain earnings, but that still has the effect that the bank will not be remitting dividends, for lack of a better word, to the government, so there is still a cost to the taxpayer.

Ms. Carolyn Rogers: Yes, there is, on a temporary basis. Prior to the quantitative easing, we would turn about $2-billion surplus over to the government per year, and we will get back there eventually, but there is a temporary period of time in which we have losses that will roll up. We expect to be back to remitting to the government in a positive situation.

Hon. Andrew Scheer: If you normally remitted about $2 billion per year and you're going to lose $6 billion this year, that's an $8-billion swing.

Ms. Carolyn Rogers: That is a total, but sure, yes.

Hon. Andrew Scheer: If interest rates stay high, that could keep the bank in a deficit position for longer.

Ms. Carolyn Rogers: As I said, the loss is always an estimate because it's based on the yield on our bond portfolios, so it's sensitive to interest rates.

Hon. Andrew Scheer: That portfolio is government bonds.

Ms. Carolyn Rogers: Yes.

Hon. Andrew Scheer: It's not much of a portfolio in the traditional sense; it's just one type of holding.

Ms. Carolyn Rogers: It's one issuer, yes.

Hon. Andrew Scheer: If interest rates go up, do you have a contingency plan? Have you done any estimations, if you do have to raise interest rates, of what that might do to your bond holdings and the deficit position?

Ms. Carolyn Rogers: We run a sensitivity analysis regularly. Our finance team is quite separate from our policy-setting team. Like any other organization, we'll run a sensitivity analysis on our portfolio.

Hon. Andrew Scheer: Thanks very much for that explanation.

Mr. Macklem, you've talked before about government economic policy or fiscal policy, as I think you call it, being at cross purposes to monetary policy. We saw in the last few months of the year, as the year closed out, that the government's deficits over the last couple of years have been much higher than was originally anticipated. If that happens again, what impact will that have on your ability to lower interest rates in the short or medium term?

Mr. Tiff Macklem: I can't really add much to what I've already said. We've built the government's spending plans into our forecast. If governments of all levels—federal, provincial, municipal—add a lot more spending relative to what we've built in, then yes, that is going to make it harder to get inflation back down.

The Chair: Now we go to MP Weiler, please.

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

I want to thank the governor and deputy governor for appearing at committee again.

I want to pick up on a line of questioning from Mr. Morantz earlier. You made the point that not all government spending is considered to have the same impact on inflation. I wonder if you could comment on government spending that might actually speed up the supply of housing, whether through direct investment in non-market housing or investment in programs that work with municipalities to allow them to speed up the permitting, zoning and delivery of housing, and whether that would be inflationary or disinflationary.

Mr. Tiff Macklem: We're not housing policy experts. I can't really add much more to what I said before. Policies—and you mentioned a couple—on things that improve supply will be particularly helpful in the current situation. Yes, I think to some extent those would provide for speeding up of permitting, taking some of the uncertainty out of the process and making it more predictable.

The other thing we've seen, if you look at the actual construction of houses, is that the time to completion has been going up. That's partly regulatory and partly industry practices. If we can get the time to completion to go down, shorten the time between a permit and a start, and then shorten the time to completion, we can get more houses through the pipeline.

I'm going to leave it to experts on housing policy to figure out what is the most effective way to do that.

● (1240)

Mr. Patrick Weiler: Thank you.

I was wondering if you might be able to share the numbers with this committee, the overall inflation numbers if you remove the inflation we're seeing in shelter costs right now. Could you just comment on that? You spoke to the supply shortage right now, and the limited impact of raising interest rates on being able to address that.

How does that factor into your decision-making on monetary policy going forward?

Mr. Tiff Macklem: If you just want a number, if you take CPI excluding shelter, it's going up, at 2.4%. You can see that shelter is making a big contribution. Currently, inflation is 3.4%. It's making sizable contribution.

In terms of our policy, though, I would emphasize a couple of things.

First of all, Canadians are paying shelter costs. They are real costs. I don't need to tell you. You're even more aware than I am. It's really having an effect on Canadians. You can't just ignore them. This is really affecting Canadians.

The second thing is that even if you strip out shelter costs and you look at the rest of inflation, shelter is not the only source of underlying inflationary pressures. That is one way to look at it. The number I gave you is for shelter. It's the biggest thing that's contributing on the upside. There are also some things that are unusually weak on the downside.

If you use a more systematic approach to strip out the unusual ups and the unusual downs, inflation looks to be at about 3.5%. If you look at our core measures, CPI-trim and CPI-median are 3.6% and 3.7%; CPI excluding food and energy, which is a very simple way to strip out some of the big movers, is 3.4%. That's telling you the centre of the distribution is still above 3%.

Another way to look at that is to look at the number of components of the CPI that are rising faster than 3%. That's still over 50%. More than 50% of the basket is still rising. Normally, that number is quite a bit lower.

Shelter costs are an important factor, but they're not the only factor.

Mr. Patrick Weiler: Governor, yesterday Statistics Canada released a flash estimate that showed that real GDP increased 1.2% annualized in December, which does suggest some strong momentum heading into this year.

Can you comment on those figures and the overall resilience of the Canadian economy?

Mr. Tiff Macklem: I'm always hesitant to react to one number, because in economies you have to look at a lot of numbers to put it all together.

In our monetary policy report, which we published before that number came out, we expected Q4 GDP to be roughly zero growth. That number by itself would suggest that November was 0.2% and the flash for December...which Statistics Canada would caution you is a flash estimate. It's not a hard number. They have more data coming in.

If you take those at face value, it would suggest something bigger and probably stronger than zero for the fourth quarter. I still think the fourth quarter is going to be a fairly weak number, certainly well below potential output growth.

The Chair: Thank you, MP Weiler.

MP Ste-Marie.

[*Translation*]

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

At the start of the year, you carried out major liquidity injection and reverse repo operations. How much did these operations amount to and how many days did they last?

It's a standard but rarely used tool. When was the last time it was used? In your opinion, why wasn't the market interest rate at the estimated level? What happened? Has the situation been resolved?

You can answer my questions in the two minutes that I have left.

● (1245)

Mr. Tiff Macklem: Okay.

Your question is complicated, but I'll do my best to answer it in French.

Mr. Gabriel Ste-Marie: You can respond in English.

Mr. Tiff Macklem: No. We have two official languages in this country, so I should respond in French.

In January, for two days, I believe, we carried out overnight reverse repo operations. The amount wasn't exactly the same each time, but it was around $5 billion. These are daylight loans, so after one day, the amount is repaid. We can't accumulate the $5 billion. The last day of the operation was January 23, I believe. We haven't done the operation for about a week.

I want to focus on some aspects of these overnight reverse repo operations. These operations are routine and standard. They aren't a sign of financial stability issues. This doesn't mean that there are issues in the system. Certain market frictions exist to ensure that money goes exactly where it's needed in the economy. From time to time, we need to carry out this type of operation.

We do this because, when we make a monetary policy decision, we decide on the overnight policy interest rate target. We decided that we want an overnight policy interest rate of 5%.

Recently, there has been some upward pressure. The overnight rate is higher than our 5% target. We don't want interest rates to rise more than we had anticipated in the monetary policy.

These operations are symmetrical. From time to time, the rate is below our target. We carry out reverse repo operations, meaning that we use deposits, not loans, to withdraw and increase the system's liquidity.

I think that I answered your question.

Mr. Gabriel Ste-Marie: It isn't much—

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

Mr. Blaikie, you have the floor.

[*English*]

Mr. Daniel Blaikie: I have two questions. I hope you may be able to answer the first in a follow-up to the committee. I doubt you'll have the answer today. I hope to get your comment on the second today.

Here's the first. New Democrats support carbon pricing in some way, shape or form. We don't always agree with the government on exactly how it's doing it. However, we have proposed to remove the GST on home heating.

You've been able to calculate what the one-time effect on inflation would be of removing the carbon tax. I'm wondering if you might be able to calculate what the one-time effect of removing the GST on home heating would be. We'd prefer that option because it applies to all Canadians, including those who use renewable energy to heat their home with hydroelectricity, for example.

We prefer that approach because it applies to all parts of the country. As you know, the federal carbon price applies only to some parts of the country and not others, like British Columbia, for example. Eliminating the carbon tax on home heating doesn't do anything for Canadians living in provinces with their own carbon tax regimes, so that's why we prefer the GST approach.

I would be very curious to get the bank's opinion on what the inflationary effect of removing the GST on all forms of home heating would in fact be, and then we could have a bit of a comparison with that approach.

To Mr. Lawrence's point, because the GST is applied to the carbon tax, it would also have a mitigating effect on the carbon price increases going forward, although it wouldn't completely eliminate them.

If you could return to the committee in writing on that point, it would be very much appreciated.

The second question has to do with the climate change discussion that was had earlier. Canada is notoriously behind some of our trading partners, particularly in Europe—and, arguably, the Americans—on having a taxonomy for classifying various kinds of green investment and having a requirement for publicly disclosed corporate transition plans.

I wonder if you could speak to the utility of having those publicly disclosed plans required of Canadian companies and having a clear, established taxonomy for the bank to be able to do the work you were talking about in trying to better incorporate climate effects into your own forecasting.

● (1250)

Mr. Tiff Macklem: Well, climate policy and taxonomy are in the realm of elected officials.

As a general comment, I think disclosure and agreeing upon rules of the road in taxonomy—so people can agree on what this is relative to that—are useful bits of infrastructure that would allow people to make more informed investment decisions.

I think those things would generally be helpful, yes.

The Chair: Thank you, MP Blaikie.

Now we're going to MP Chambers.

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

Welcome back to the committee. It's always nice to have you here.

I think we've exhausted the spending discussion, but there are two ways government can affect demand. One is through spending, and we've gone there. The other is through population growth. We haven't talked about that, but I note it's becoming more of a theme in the monetary policy reports. The last couple have definitely singled out population growth.

Would you say that population growth is significantly adding to demand and making your job difficult?

Mr. Tiff Macklem: I'll make two points.

Undoubtedly, population growth is significantly adding to demand. It's also significantly adding to supply.

I'll start with supply. You can see this very clearly in the labour market with a large number of newcomers. That has helped ease the pressures in our labour market. Our labour market was very overheated. It's now in much better balance. In fact, I think this was in a previous monetary policy report. We had a chart that linked those: The sectors where there has been the most immigration are also the sectors where we've seen the most rapid rebalancing of the labour market. There's clearly a link there.

Equally, there's clearly a link on the demand side. What our analysis tends to indicate is that, for consumption more broadly—not shelter, which is separate—the economy has done a pretty good job of absorbing that demand. There's enough flexibility in supply that the.... Obviously, if you have more people, you have more consumers and shoppers, but there's been enough flexibility in supply to accommodate that. It hasn't had material inflationary consequences.

Shelter is a different story, and we already talked about that. We've had a long period in Canada during which the demand for shelter has been growing faster than the supply. The acceleration of immigration—both permanent and non-permanent residents—has further increased the demand. Supply was already not keeping up, so there hasn't been the flexibility on supply. It is boosting shelter costs, and that's showing up in inflation.

Mr. Adam Chambers: I appreciate that. Thank you very much.

Population growth and government spending, I note, aren't appearing as risks to your projections. I think Canadians are curious as to whether policy-makers are thinking about these things. I'll explore this with you at another date.

Is the senior advisory committee functioning well? There's not a lot of transparency. The bank is not talking about these items in public. Have you been able to raise these items behind closed doors, appropriately, to flag vulnerabilities for the government?

Mr. Tiff Macklem: We have.

The senior advisory committee, for those who don't happen to know what that is, is a committee of the—

Mr. Adam Chambers: Let's assume they know. I don't have a lot of time.

Mr. Tiff Macklem: Yes, we have been discussing these issues. From time to time, we invite CMHC to participate in the discussions, given that they are the principal Crown corporation responsible in the housing domain. Yes, those discussions are happening.

I'm not going to speak for the government, but you saw the cap on students last week, so I think there is a level of awareness.

● (1255)

Mr. Adam Chambers: Thank you very much.

Before I turn it back over to you with a last question, I'll apologize on behalf of all of Parliament for not listening to you two years ago when you came here and said, half-jokingly, to stop spending. I think that was very forward-looking of you. However, we didn't deliver. Parliament increased spending by over 25% versus pre-COVID levels, and we haven't done our job. We haven't done our job on spending, and we haven't done our job on population growth.

Here is my last question in the last 30 seconds. There's an election coming up. It could be in a couple of months; it could be in two years. It's very rare for a politician to resist the temptation to buy votes. It's also rare for voters not to want to take that. What advice would you have for those seeking to buy votes in the next election?

Mr. Tiff Macklem: Well, the one thing I never do is give political advice, so I'm not going to break that rule now.

Mr. Adam Chambers: It's going to affect inflation. Is that right?

Mr. Tiff Macklem: I'm sorry. I don't give political advice.

The Chair: Thank you, MP Chambers.

That is a good rule.

We are moving on to our last questioner, and that's going to be MP Baker.

Mr. Yvan Baker: Thank you, Mr. Chair.

Thank you, again, Governor and Senior Deputy Governor, for being here.

I have a few questions, so I hope we can get them all in.

I'd like to come back to something that one of the other members raised. I just want to ask you for clarification, Governor. My understanding is that overnight repo operations are normal functions of monetary policy. I want to ask you to confirm whether that's correct. Can you just briefly explain how your international counterparts, like the Fed in the U.S. or the European Central Bank, use this tool of monetary policy?

Mr. Tiff Macklem: You're right. Overnight repos are a standard part of our operating framework. We haven't used them for some time. Really, the pandemic interrupted that because there were a number of extraordinary tools used. However, now things are getting more back to normal, so you're seeing us use this tool again.

As you suggested, we are seeing some tightness in overnight markets. There's probably more than one reason for that. One factor, which I think is a more global factor—we have been talking to other central banks, and they are seeing similar types of pressures—is that, as you're well aware, bond rates went up quite a bit in the last couple of years. More recently, they've started to come down as market participants expect that the central banks are winning the fight against inflation, so they're expecting that we will lower interest rates. That is spurring increased demand for those bonds because they want to buy them before interest rates come down further.

That has to be funded. Some of that funding is in the overnight market, so it's creating some upward pressure. As I responded to the previous question, we have been using overnight repos to keep the actual overnight rate in the market very close to our target overnight rate, which is the rate that we decide on when we make monetary policy decisions. Really, this is simply about implementing the monetary policy that's intended.

Mr. Yvan Baker: Thank you very much.

Ms. Carolyn Rogers: I'll just follow up on your question.

I was on a call with our colleagues from other central banks on Monday of this week, and I was actually at the Fed on Tuesday. What is happening in Canada is happening in other central banks. They're also using their equivalent of the tool in the overnight rate for largely the same reasons the governor described.

Mr. Yvan Baker: That was very helpful. Thank you, both, for that.

I have about two minutes left, if I'm not mistaken.

There's been a lot of discussion here about what's contributing to inflation, the cause of inflation. A number of members have asked questions or suggested that it's the government's fault and that the decisions that the government has made have unduly contributed to inflation. We've had a discussion about the government spending. Earlier in my questioning, Governor, you answered the question about the fact that if we're close to that 2% growth in spending, we're not unduly contributing to inflation.

I want to ask you the question that a lot of my constituents also ask me: What is causing inflation? The last time you were here, I asked you about that. We talked about things like global supply shocks. We talked about the war in Ukraine and its impact on energy prices and food prices. For the sake of my constituents, but also for clarification here among the MPs, could you explain what the major reasons are for high inflation, not just in Canada but in many countries around the world?

● (1300)

Mr. Tiff Macklem: I could go on for a long time, but I know I don't have a lot of time, so I'm going to keep this brief. The big burst of inflation we saw in 2022—up to 8%—started largely as a result of global factors. The global demand for goods was very strong. People couldn't get the services because of COVID. They couldn't go to the gym, so they bought gym equipment. All of those goods had to be produced and shipped. At the same time that the supply chain was still really gummed up because of COVID, Russia's unprovoked attack on Ukraine further increased oil prices and food prices. In the beginning, it was largely because of global factors. Those have actually come down significantly.

The second factor was that as the economy reopened from COVID—and this wasn't unique to Canadians—people everywhere wanted to catch up on all the things they had missed out on. They wanted to go to restaurants. They wanted to take holidays. Companies simply could not keep up with demand. They couldn't hire people fast enough, so we got a big burst of more domestically created inflation.

Now the inflation is more domestic and less global. We've raised rates forcefully. Doing that has slowed the economy and—to come back to where I started—it's working. Demand has slowed and supply has caught up. That has increased our confidence that we've raised rates enough to get us back to 2% inflation. Once we get more assurance that we're on that path back to 2% inflation, we can start thinking about cutting interest rates, but we're not there yet.

Mr. Yvan Baker: Thank you very much.

The Chair: Thank you for that. It paints a great picture.

Thank you, MP Baker.

Thank you, Governor Macklem and Senior Deputy Governor Rogers, for answering the many questions on monetary policy and smartly not answering some of the other questions that were not directed at monetary policy. We really appreciate your coming here at the start of the year. We're all hoping for a much better 2024 than 2023. I know Canadians are waiting to hear your next report to address inflation as well as interest rates. Thank you.

This meeting is adjourned.