HOUSE OF COMMONS
CHAMBRE DES COMMUNES
CANADA

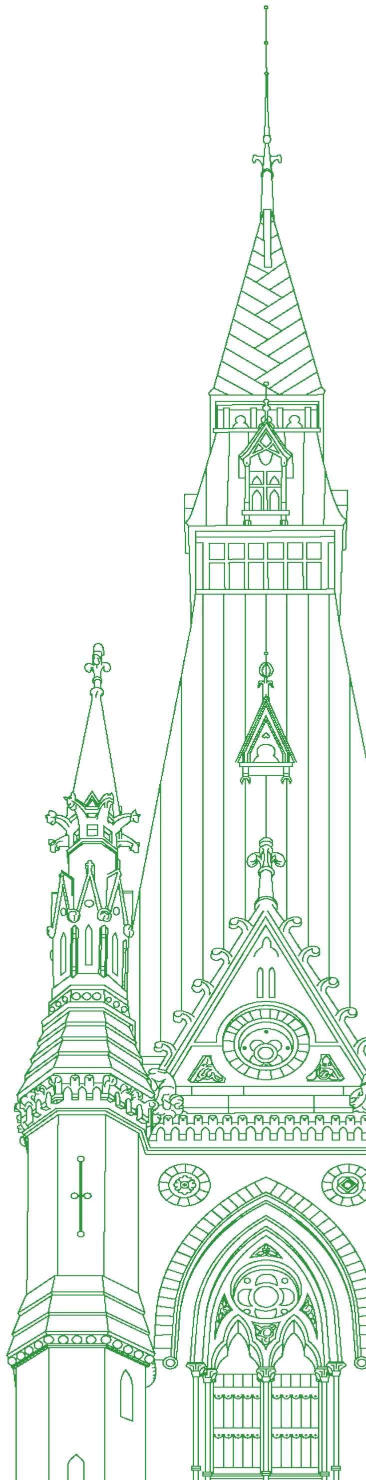
45th PARLIAMENT, 1st SESSION

# Standing Committee on Finance

EVIDENCE

**NUMBER 037**

Monday, May 4, 2026



Chair: Karina Gould

# Standing Committee on Finance

**Monday, May 4, 2026**

● (1535)

[*English*]

**The Chair (Hon. Karina Gould (Burlington, Lib.)):** I call this meeting to order.

Welcome to meeting number 37 of the House of Commons Standing Committee on Finance.

I would like to take a quick minute to introduce two of our new colleagues, MP Danielle Martin and MP Steeve Lavoie.

[*Translation*]

We appreciate your joining us today.

[*English*]

I'm looking forward to having you here.

Pursuant to Standing Order 108(2), the committee commenced its study of the report of the Bank of Canada on monetary policy.

I would like to welcome back our witnesses, Tiff Macklem, Governor of the Bank of Canada, and Carolyn Rogers, senior deputy governor for the Bank of Canada.

You will have five minutes for your opening remarks. It's over to you, and welcome back to committee.

**Tiff Macklem (Governor, Bank of Canada):** Good afternoon to everyone on the committee.

I'm very pleased to be here with the senior deputy governor to discuss our monetary policy report as well as last week's interest rate decision. Last Wednesday, the governing council maintained the policy rate at two and a quarter per cent, and we really have three main messages.

First, Canada is being buffeted by global events and geopolitical uncertainties, but our economy is growing, and it's expected to continue to grow.

Second, after more than a year and a half with inflation close to the 2% target, higher global energy prices are pushing inflation up. The surge in gasoline prices combined with still-elevated food price inflation are squeezing more Canadians.

Third, monetary policy is focused on ensuring that the jump in energy prices does not turn into persistent inflation. We are helping the economy to adjust to global headwinds while keeping inflation low and stable over time.

Let me expand on the economic outlook, the risks and the implications for monetary policy.

[*Translation*]

Since our last forecast in January, the war in the Middle East has sent global energy prices sharply higher. It has increased financial market volatility and disrupted shipping for fertilizer and other commodities.

This has lowered the outlook for global growth while boosting inflation. In Canada, growth looks to have resumed after contracting at the end of 2025. Consumer and government spending are contributing to growth, while US tariffs and trade uncertainty are weighing on exports and business investment.

The labour market is soft, with the unemployment rate remaining in the 6.5% to 7% range. This rate reflects both weak hiring and fewer job seekers. In our forecast, the Bank of Canada projects the economy will grow 1.2% in 2026, 1.6% in 2027 and 1.7% in 2028. The growth will track the gradual recovery of growth in exports and business investment.

Before the outbreak of the war, we expected inflation to stay close to the 2% target, but sharply higher gasoline prices are now pushing up inflation. Consumer price index inflation rose from 1.8% in February to 2.4% in March. So far, there is little evidence that higher oil prices have fed through to other goods and services prices more broadly. However, it is too early to tell whether these impacts will materialize. We will be watching this closely. Based on recent market expectations for oil prices, inflation should reach around 3% in April and ease back to target by early next year.

● (1540)

[*English*]

The Bank of Canada is committed to keeping inflation close to the 2% target over time. The monetary policy needed to achieve this will depend importantly on what happens with the Canada-U.S.-Mexico agreement on trade, the conflict in the Middle East, and the impacts of U.S. tariffs and energy prices on our economy. The governing council agreed to look through the war's immediate impact on inflation but, if energy prices stay high, we will not let their effects become persistent inflation.

Our baseline forecast assumes that oil prices will come down and that U.S. tariffs will remain at current levels. If this holds true and the economy evolves broadly in line with the base case, changes in the policy rate can be expected to be small; however, uncertainty is unusually elevated, and there are many possible outcomes. Monetary policy may need to be nimble.

If the United States imposes significant new trade restrictions on Canada, we may need to cut the policy rate further to support economic growth. Alternatively, if oil prices continue to increase, and particularly if they remain elevated, the risk that higher energy prices become ongoing generalized inflation increases. If this starts to happen, there may be a need for consecutive increases in the policy rate.

Of course, these are not the only possible outcomes. As the outlook evolves, we stand ready to respond as needed.

With that, Chair, we'd be pleased to take the committee's questions.

**The Chair:** That's great. Thank you so much, Mr. Macklem, for those opening comments. I think you highlighted very well the uncertainty that the world, including Canada, is facing. We appreciate your being here today to have this conversation.

We will begin now with Mr. Hallan for six minutes.

**Jasraj Hallan (Calgary East, CPC):** Thanks, Chair.

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

Governor, in November, the last time you were here, you compared cost of living and productivity as the same things. Since your last visit here in November, have you seen any meaningful change in productivity or cost of living?

**Tiff Macklem:** We have revised our outlook for productivity growth upward a bit, going forward, relative to what we had the last time we were here.

There are a few things going on. One is that the economy is working through an adjustment to higher U.S. tariffs, and that will temporarily depress productivity growth. Then it comes back.

The new element is that AI is increasingly being deployed by Canadian companies. Our assessment is that this will boost productivity growth going forward, so it will be a little bit higher.

Certainly, affordability remains a big challenge for Canadians, and the war in Iran, which has raised gas prices for Canadians, is going to make that tougher.

**Jasraj Hallan:** When it comes to housing, which direction do you see affordability going?

**Tiff Macklem:** Is that the near term or the longer term? In the longer term, I think there is capacity for affordability to improve.

The housing market is fairly weak. Prices have been going sideways or down and incomes are coming up. Over time, that should improve affordability, if this continues, but it's not going to change overnight.

This problem has built up over a decade, and it's going to take some years before it improves meaningfully for Canadians.

● (1545)

**Jasraj Hallan:** Canadians are still paying higher housing costs, grocery costs and fuel costs. We know that. Are you seeing any of that pressure going away, given the current...? Is there anything you're seeing from policy? Do you think any of those things are going to change meaningfully anytime soon?

**Tiff Macklem:** Let me say a couple of words about affordability.

As I mentioned, the war in Iran has caused global oil prices to go sharply higher. They have continued to go up since we published our monetary policy report. In Canada, the most direct impact is that it's pushing our gasoline prices up. We've all filled up our cars and we've seen the prices. That's impacting every Canadian and, particularly for lower-income Canadians, that's a big deal.

I can't predict what's going to happen with the war in Iran, but the market expectations are that oil prices will be coming down. We'll see what happens, but certainly it will help if that happens.

We can't control that. What we can control is the use of monetary policy so that higher energy prices don't spread to other goods and services prices and become generalized ongoing inflation.

That is our commitment. We will bring inflation back to 2% and keep it close over time.

**Jasraj Hallan:** Would you agree that affordability isn't the best it's been in a decade?

**Tiff Macklem:** Affordability has been affected by two things. Coming out of the pandemic, there was a burst of inflation. We got inflation back down, but price levels remained higher, and that really highlights the long tail that high inflation has.

The other part of it is incomes. If you want to improve affordability.... We're not going to lower all prices. That would really weaken the economy. No one would like that.

We're going to keep inflation low and stable. If you want to improve affordability, you really need to grow incomes, and that comes down to growing productivity and getting the economy working.

**Jasraj Hallan:** Just one more time, with just a yes or no, do you think affordability today is the best it's been in a decade?

**Tiff Macklem:** I think there's an affordability challenge in this country, but I'm not going to put a time frame on it of five years or 10 years. There's a clear affordability challenge in this country. There's no question of that.

**Jasraj Hallan:** Governor, table 2 in your report shows that real GDP growth is being fuelled by government spending or government growth. Business investment and exports are remaining weak.

Is this an indication of the private sector being weak? Does it show that there's a weak economy?

**Tiff Macklem:** The biggest contributor to growth is household spending, consumption. You're right; government spending is up, particularly at the provincial level. You're seeing big provincial infrastructure projects. Spending is also up at the federal level. A lot of that is new defence spending. That is contributing more to growth in the economy.

Here's the table. If you look at the precise numbers for 2026, you see that government is contributing 0.7 percentage points to growth. Consumption is at 0.8—

**Jasraj Hallan:** Would you agree that those things are being fuelled by debt, though?

**Tiff Macklem:** Well, you saw the spring economic update. There is a deficit, yes. Part of it is being paid for by debt, but the bulk of it is not.

**The Chair:** Thank you, Mr. Hallan. That concludes your time.

We'll continue now with Mr. Leitão for six minutes, please.

[*Translation*]

**Carlos Leitão (Marc-Aurèle-Fortin, Lib.):** Thank you, Madam Chair.

Good afternoon, governor and senior deputy governor. Thank you both for being here.

I want to get back to monetary policy, which is the subject at hand. You have the report and you decided not to change the policy rate. You stated that there are risks on both sides and that you are going to monitor the situation closely.

Do you think the risks you identified are symmetrical? Is any one risk greater than the other risks?

● (1550)

**Tiff Macklem:** Frankly, it’s a bit hard to say. The greatest risks right now, especially with respect to the Canada-U.S.-Mexico agreement, trade and the war in Iran are not economic risks as such, but rather, they are geopolitical risks. It's hard for us to assess the probability of what will happen exactly. Ultimately, monetary policy will reflect events as they unfold.

As I said, if the United States imposes new restrictions on trade with Canada, that could make our economy weaker and exert downward inflationary pressure. Should that happen, we may need to bring down our policy rate. however, if oil prices go up, and most importantly, stay high, there is a strong probability that inflation will become more persistent. If that happens, there may be a need for consecutive increases in the policy rate.

As you mentioned, we are monitoring the situation closely and stand ready to respond as needed.

**Carlos Leitão:** Thank you.

Correct me if you don't share my point of view. There's uncertainty around our relations with our neighbour the United States and around U.S. tariffs, which are becoming increasingly unpredictable. A revised structure for calculating tariffs on goods containing steel and aluminum came into effect on 6 April.

I have the following impression, and I'd like to hear your perspective: Until recently, most Canadian businesses, with the exception of the auto sector, appeared to have navigated this situation successfully, but now, the risks are much higher. Uncertainty and our unpredictable neighbour in particular mean that there's actually a very significant risk that businesses will be forced to shut down. Indeed, several large furniture businesses in Quebec recently ceased operations.

Would you say that the risks of the trade war getting worse are significantly higher now than a few months ago?

**Tiff Macklem:** The risks have been high for the past few months. As you noted, trade policies with the United States are somewhat unpredictable.

We have an agreement with the United States. If nothing happens, this agreement will stay in place, and we'll see what happens when we the time comes. I do agree that with the Canada-U.S.-Mexico agreement, or CUSMA, up for review this summer, the United States will issue all kinds of threats and there will be a great deal of talk. We'll see what will happen. There are several possibilities. I would agree that there is uncertainty weighing on all businesses, not just those that are already impacted by U.S. tariffs.

Nevertheless, I would like to address two issues. What we're seeing is that businesses are somewhat resilient. Our latest business survey shows increased uncertainty, and it will probably remain high.

However, businesses expect to continue. They need to move forward with plans. We have seen that most businesses intend to boost their investments and are planning for that. It's not going to be a significant increase, but nevertheless, they are adapting and adjusting.

● (1555)

**The Chair:** hank you, Mr. Leitão. Your time is up.

You have the floor for six minutes, Mr. Garon.

**Jean-Denis Garon (Mirabel, BQ):** Thank you, Madam Chair.

Welcome to the committee, governor and senior deputy governor.

Not so long ago, Canada was probably the least exposed country to U.S. tariffs because of CUSMA. The government used to say, and rightly so, that 85% of Canadian exports were protected under CUSMA.

However, the method for computing tariffs changed on 6 April. In a recent note, Mouvement Desjardins assessed that a quarter of exports in central Canada, meaning Quebec and Ontario, could be subject to 25% tariffs.

Right now, that is a clear violation of the spirit of CUSMA. In the monetary policy report, you state that Canada's exposure to tariffs was around 5%, so it has gone down a bit.

Did you take April's executive order into consideration? I'd also like to know whether the Bank of Canada has evaluated the volume of Canadian exports that now face a 25% tariff.

**Tiff Macklem:** We're monitoring exports closely. As you noted, we estimate that average tariffs for Canadian exports are about 5%. It was slightly higher in the last report, but it has improved slightly.

**Jean-Denis Garon:** Do the figures in this report include the 6 April executive order?

**Tiff Macklem:** What do you mean by “executive order”?

**Jean-Denis Garon:** I'm referring to the executive order where Donald Trump imposed a flat 25% tariff on products containing more than 15% steel or aluminum by weight.

**Tiff Macklem:** Yes, everything is captured in the report, including copper and the auto sector.

A look at exports in sectors that have been highly affected by U.S. tariffs shows that exports have declined significantly.

**Jean-Denis Garon:** Beyond the average rate, do you know what percentage of exports are now subject to the 25% tariff?

**Tiff Macklem:** I don't have the figures with me.

The vast majority of Canadian exports are not subject to tariffs. With the exception of sectors that have been heavily impacted, CUSMA continues to apply to other sectors, and this is very important. More than 90% of Canadian exports continue to attract no tariff, but I don't have the exact figure.

**Jean-Denis Garon:** I understand that Quebec and Ontario have been hit harder. Is that correct?

**Tiff Macklem:** Yes. It's clear that Ontario and Quebec have been hit harder than the other provinces because the softwood lumber, auto, steel and aluminum sectors are key sectors in these provinces.

**Jean-Denis Garon:** In the monetary policy report, you obviously mention the rise in oil prices, which, at the very least, affect regions differently.

First, Canada is a net oil exporter, so obviously, oil-exporting regions are benefitting from this increase, and that is to be expected.

Second, because oil is an input, there is a short-term productivity shock. This is also reflected in the price at the pump, and therefore on household expenditures.

Does the Bank of Canada feel that some regions benefit from Canada's reliance on oil—which is used as an input and in passenger transport—and that others are paying the price?

**Tiff Macklem:** That is always the case. When oil prices go up or down, this has an impact on sectors of our economy. This is nothing new, it has always been like that.

The Bank of Canada can't target one sector or one province, because we only have a single rate of interest for the entire country. However, it's very important for us to understand what is happening in every region and every sector, and that's why we have regional offices throughout the country.

**Jean-Denis Garon:** For instance, when you try to understand short or long-term impacts of the rise in oil prices on economic growth, what are the major regions of Canada that are gaining something, and which regions are paying more?

● (1600)

**Tiff Macklem:** When oil prices are higher, the major oil-producing provinces, including Alberta and some Atlantic provinces, gain more.

The reverse happens when prices go down.

**Jean-Denis Garon:** We're constantly wondering whether Canada should produce more oil or turn to other types of energy where possible.

Do you think that in the long term, reducing our dependency on oil in production processes and transport would mean that this sort of imbalance between Canadian regions, which has asymmetrical impacts when oil prices go up, would be mitigated?

**Tiff Macklem:** Energy policies are really not in the Bank of Canada's purview, but…

**Jean-Denis Garon:** You do take them into consideration.

**Tiff Macklem:** … there are several advantages to having more diverse and greener sources of energy.

**Jean-Denis Garon:** That means you do take them into consideration. I'm not asking you to make a decision.

In any case, my time is up. The Chair is giving me a stern look, so we'll come back to this when I have another turn. Thank you.

**The Chair:** Thank you, Mr. Garon.

You have the floor for five minutes, Mr. Lefebvre.

**Eric Lefebvre (Richmond—Arthabaska, CPC):** Thank you, Madam Chair.

Governor and senior deputy governor, thank you for joining us today.

Governor, right from the outset, you told us about inflation, which can range from 1.8% to 2.4%. You spoke about the increase in gasoline prices and the cost of food. You also said that this inflation should not be left to become persistent.

Do you feel that the pressure related to the cost of living in 2026 is higher than it was in 2015?

**Tiff Macklem:** Yes, probably.

**Eric Lefebvre:** In the report, you speak about uncertainty around CUSMA. You noted that if nothing happens, the agreement will remain in place.

If there are no negotiations, do you think that the current agreement will be extended and there will be no change?

**Tiff Macklem:** If there are no negotiations, nothing will change and the agreement will continue to be in effect. It does not expire in summer. I'm not sure of the exact date, but I believe the agreement will continue to be in effect until 2030.

The agreement will be reviewed this summer, not abandoned.

**Eric Lefebvre:** Do you think the U.S. will comply with the agreement until it expires?

**Tiff Macklem:** We have to work with the impacts on the ground, and so we'll see. If nothing changes, the agreement will remain in effect.

**Eric Lefebvre:** Earlier, you spoke about the link between artificial intelligence and productivity. You spoke about productivity at length during our last meeting. Canada is lagging far behind some of the other major countries in the world.

If you were to sound the alarm about the impacts of artificial intelligence on productivity, what would it be?

**Tiff Macklem:** You're talking about a red flag: would you like to stop something?

**Eric Lefebvre:** No, but do you have any concerns about artificial intelligence in relation to productivity?

**Tiff Macklem:** Artificial intelligence is a transformational technology that can have significant impacts, not just on one sector but on all sectors, businesses and individuals. It can boost economic productivity. More production means higher salaries and more money in the economy. However, this requires adjustments: some jobs will likely be lost, and some tasks may be taken over by artificial intelligence.

The challenge is to identify the benefits while managing costs. There are all kinds of assumptions. Some people think that the adjustment will not be very pronounced and that the benefits will be greater, while others think the opposite and feel that many tasks and jobs will be automated through artificial intelligence.

● (1605)

**Eric Lefebvre:** Do you think we need to speed things up in matters of artificial intelligence, particularly when it comes to regulations in order to set out clear guardrails around the technology? That's one of the concerns expressed by Yoshua Bengio, a leading global expert, who told us about the need to set out clear guardrails around artificial intelligence just over five years ago.

**Tiff Macklem:** Yes, there are risks, including cyber threats, as we are now seeing in the news. For example, the new Mythos technology is much more capable of finding and exploiting vulnerabilities. Furthermore, one need not be an expert, and anyone who can use the artificial intelligence can exploit the vulnerability.

Indeed, the technology should be put in place responsibly. We're probably lucky that folks at Anthropic were here to meet with the government.

**The Chair:** Thank you, Mr. Macklem. We have to pause there.

Thank you, Mr. Lefebvre.

[*English*]

We're going to continue now with Mr. MacDonald for five minutes.

**Kent MacDonald (Cardigan, Lib.):** Thank you, Madam Chair, and thank you to the witnesses for appearing here today.

I want to speak a little bit about Atlantic Canada because that's the region I represent.

Our region is tightly tied to exports of seafood and agricultural products. With the recent pressures and global uncertainty, certainly the trade disruptions with the U.S., tariff pressures and different unrelated global pressures around the world, are there policies that governments—I'm thinking of provincial governments and the federal government overlapping with those policies—can implement in Atlantic Canada that will make our region more resilient?

We feel those pressures of high oil prices and we feel those pressures of global uncertainty, I think, sooner than other regions of the country.

**Carolyn Rogers (Senior Deputy Governor, Bank of Canada):** Your question is whether there are specific policies.

**Kent MacDonald:** Exactly, yes.

**Carolyn Rogers:** I think the one we've already talked a little bit about is diversifying sources of revenue. Atlantic Canada has, as you pointed out, a fairly large export sector. Businesses in Atlantic Canada right now are looking for other markets for the same products or adjusting their products so that they can avoid some of the tariffs, and that type of thing. Certainly that diversification approach would help.

The other thing that provinces are working on right now is reducing interprovincial trade barriers. Certainly we would encourage a continued focus on that. In that area, some federal policies affected interprovincial trade and those have largely been removed. Now the focus is really on barriers in between provinces. There, the focus has been primarily on goods trade. We think the next phase should really look at making sure that labour can also move freely across borders.

Really, you're looking for ways to reduce the costs for businesses to do business with each other across borders.

**Kent MacDonald:** Would you agree that government investing in large projects like Wind West off Nova Scotia will bring more stability to the Atlantic economy?

**Carolyn Rogers:** It's difficult for us to comment on any one project. I think we would say that in general, projects that are bringing those objectives forward—diversifying trade and revenues, reducing barriers to internal trade, increasing supply and adding productive supply to the economy—are good projects.

**Kent MacDonald:** I'd like to dig a little deeper into what you would use as criteria for slowing down inflation and increasing interest rates. Obviously, you're watching temporary oil price spikes and trying to make an informed decision. Higher interest rates cost small businesses a lot of money too. Is there a balance there? Obviously there is, but I would caution against increasing interest rates too quickly.

● (1610)

**Tiff Macklem:** As you mentioned, the increase in inflation that we're seeing now is not being driven by an overheating economy and shortages of labour. It's being driven very clearly by the war in Iran, which has sharply increased oil prices. That's showing up at the pump.

We've indicated that we will look through the immediate impacts of higher oil prices on inflation. There's nothing we can do about that directly. The only way that gets resolved is if the source of the problem gets resolved, and that's certainly beyond our control. We will look through the initial impacts. As I said, we've held our policy rate unchanged in the last two decisions, even as the war had started. What we're focused on, though, and what we don't want to see, particularly if the price goes higher and stays high, is that there's a risk that those higher energy prices start to feed into other goods and services, and those feed into yet more goods and services. Pretty soon, a one-off increase in the price level starts to become ongoing increases in the price level, or generalized inflation.

Yes, I understand that higher interest rates are not going to be great for most Canadians, certainly if you have a mortgage or if you're renewing your mortgage, or if you're a small business or big business and you're borrowing, but the alternative is to let inflation get out of control and become entrenched. That hurts everybody even more. The interest rates are the instrument we have to control inflation.

**The Chair:** Thank you, Mr. Macklem. We have to pause there.

Thank you, Mr. MacDonald.

[*Translation*]

We're going to continue with Mr. Garon for two and a half minutes.

**Jean-Denis Garon:** Thank you, Madam Chair.

Mr. Macklem, your report illustrates the fact that when it comes to growth, we were somewhat saved by the growth in domestic demand, which was very strong. I'm referring specifically to consumer and government spending, and to investment to a lesser extent. We therefore had the equivalent of stimulus measures in the last budget.

We know that government spending is high, but clearly, we have issues with investment, which is weaker than we would like it to be.

As such, all is well in the short term, because we have growth. However, I'd like you tell us about projections for potential gross domestic product over a longer horizon. I'd like to know how we compare with other countries, and whether you expect a possible investment lag could hurt Canada's economy and ultimately, our standard of living in the medium-term.

**Tiff Macklem:** The short answer is that investment spending is headed in the right direction to increase potential, but, as you said, it will take time. Investment is projected to increase with the influx of new capital, but that will take several years.

As I mentioned at the beginning, we revised our projections for the future. Three major factors have affected the potential in this revision

First, the population growth rate is slowing down, meaning fewer new workers and consumers are joining the economy. That lowers the growth outlook.

Second, the economy is adapting to a fundamental change in our trade relations with the United States. Businesses are adjusting. In the short term, finding new markets is costly, but in the long term, it's good for productivity and resilience. As such, in the short term, finding new markets lowers productivity, but productivity goes up in the long term.

The third factor is the increase in the number of businesses using artificial intelligence, which is expected to boost productivity. Productivity is likely to be stronger—

**The Chair:** Thank you, Mr. Macklem.

That was a short round of questions. I'm sorry.

[*English*]

We're going to continue now with Ms. Cobena for five minutes.

**Sandra Cobena (Newmarket—Aurora, CPC):** Mr. Macklem, you stated in your opening remarks that you're working to make sure that increased energy prices don't lead to persistent inflation. On that basis, would you agree that the increase in the cost of fuel does lead to inflation?

● (1615)

**Tiff Macklem:** I'll ask Ms. Rogers to respond.

**Carolyn Rogers:** It has an immediate effect on prices, which has an immediate effect on inflation.

The distinction we would draw is that in the short term, it's going to raise the price of fuel, and fuel is one of the items that feeds into the CPI. What the governor was talking about, which we are going to watch for, is whether over time, if fuel stays high.... As we talked about earlier, fuel is an input to other products, so if that increase in fuel price starts to feed into the price of other products, which then feeds into the price of other products and starts to feed into inflation expectations, that's what we mean by persistent inflation.

**Sandra Cobena:** On that train of thought then, the layers of taxes we put on fuel would also then impact the cost of fuel and therefore increase inflation.

**Carolyn Rogers:** We've had a number of examples recently of what a change in tax does to inflation. It has a one-time sort of step increase in the price. It doesn't affect that ongoing, persistent inflation that we're describing. It changes the price once. After a year, that price change would fall out of the rate of inflation.

It does have the one-time effect, but just like a one-time effect caused by a shock in the price, it's something that we would look through when we think about generalized or persistent inflation.

**Sandra Cobena:** Yes, I can understand that, but once the price or the cost of everything goes up, then that cost base will continue to stay up, even if the calculation of inflation is adjusted going forward.

Of course, I'm asking because of the current times that we're living in. I think approximately 43% of Canadians are just $200 away from not being able to meet their financial obligations. When the cost of fuel is so high, when there are layers of taxes that add to that cost and when the government is seeing this windfall of revenue, would you say then that removing those taxes and reducing the cost of fuel would actually help?

**Carolyn Rogers:** It would help. From the perspective of inflation, it would have a one-time adjustment downward. If you think of the GST holiday, for example, it adjusts the price level down temporarily. That effect falls out of the CPI after one year.

**Sandra Cobena:** If I may change the topic a little bit, I noticed that the GDP forecast that you have, particularly for next year, 2027, and the forecast that is included in the spring economic statement, are different. Your expectation is for the GDP to be about 13% lower. Could you explain to us what the difference is there?

**Tiff Macklem:** Different forecasters are always going to come up with slightly different forecasts. The forecast using the spring economic statement was based on the average of private sector forecasters. That was done, I think, in March. We put out our forecast last week, so we're working with slightly different information. If you compare them, we have slightly stronger growth this year than the average of the private sectors.

You're right, in the outer years, ours is a little lower than the private sector. I think, though, that the picture is not that different, whether you use their forecast or ours. We've got modest growth this year, picking up gradually over the projection. The private sector has it picking up a little bit more than we do.

**Sandra Cobena:** The reason I ask, of course, is that the difference ends up being fed into the deficit. If there is a difference of three basis points, a 16% difference, then it leads, roughly speaking, to $2 billion of a deficit difference.

● (1620)

**The Chair:** Thank you, Ms. Cobena. That concludes your time.

[*Translation*]

Mr. Lavoie, you have five minutes.

**Steeve Lavoie (Beauport—Limoilou, Lib.):** Thank you, Madam Chair.

Mr. Macklem and Ms. Rogers, thank you for being here. I'm honoured to have the opportunity to speak with you today. I have a lot of questions and a very short time, and so I'll try to move quickly.

You spoke about the Canada-U.S.-Mexico agreement earlier. I want to spend a moment on CUSMA. I'm fortunate to sit on the Standing Committee on International Trade and last fall, we had a study on CUSMA and made some recommendations. So far, so good.

My question is on potential impacts. The business representatives who appeared before the committee were unanimous that CUSMA must be preserved. The people who came from the United States also said that CUSMA must be preserved. What would be the short or medium-term impacts, if tomorrow morning, our neighbour to the south ripped up the agreement and withdrew from CUSMA, which they can still to do? Have you looked at various scenarios? There may be impacts on businesses in the very short term and others in the medium-term. Have you prepared a scenario for this issue?

**Tiff Macklem:** Yes, we have released a number of scenarios. We looked at various scenario assumptions as soon as the U.S. threats began. We have published these assumptions, and I've spoken about them in a few speeches.

At the moment, most trade is still governed by CUSMA and is therefore not subject to customs tariffs. Yes, things are quite serious for some sectors that have been hit hard. For example, if the United States imposed a 10% universal tariff on all Canadian goods, this would have a huge impact on our economy and the likelihood of a recession would be very strong. We have already published these scenarios.

**Steeve Lavoie:** Thank you very much.

You spoke about artificial intelligence, or IA earlier. It was very interesting. You tied AI to productivity, but we're starting to see a lot of layoffs associated with AI. It's happening in the United States and it's also becoming increasingly common in Canada.

Where I come from, people are talking about some catastrophic scenarios concerning the unemployment rate because tens of thousands of people could lose their jobs because of AI.

Productivity will certainly go up, but the unemployment rate could soar substantially for quite a long period because people will have to reskill over time, and new trades are going to come up. We know that adjustments will be made, but it could take a long time. The downturn could be swift and prolonged.

Is this something that you also have on your radar?

**Tiff Macklem:** We're monitoring that closely. There are a number of different scenarios on the impacts of artificial intelligence, which is the latest in a long line of new technology, such as electricity, computers and many other types of major transformative innovations. History has shown that certain jobs were lost and some trades were replaced, but new jobs also emerged. New businesses were created with the arrival of computers. Computers were transformative, but unemployment rates didn't go up significantly.

It's a big question. Will artificial intelligence mirror other groundbreaking technologies in history or is something going to be different this time? Yes, it's quite possible.

**Steeve Lavoie:** This time the difference is the speed.

**Tiff Macklem:** It's the speed.

**Steeve Lavoie:** The adoption of computers, which are a good example, was slow, while artificial intelligence is advancing at a very fast pace.

**Tiff Macklem:** There are two reasons that may account for the difference. There is the pace, as you have said, and it's also possible that many new trades can be taken over by artificial intelligence. So far, we have not seen a significant increase in unemployment because of AI, including in the United States, which is far ahead of us. Some trades have indeed been impacted, but there is also a new type of demand, far more investment and new jobs.

It's something that needs to be monitored closely. We don't know what will happen.

● (1625)

**The Chair:** Thank you, Mr. Macklem and Mr. Lavoie.

[*English*]

We will continue now with Mr. Kelly for five minutes, please.

**Pat Kelly (Calgary Crowfoot, CPC):** Thank you.

Senior Deputy Governor, it's coming up on two years, I think, that you declared the “break glass” emergency on Canadian productivity. I note in this report that fixed business investment projection, as its contribution for GDP growth, was 0.0% in 2025 and just one-tenth of one per cent in 2026.

Has the glass been broken? Do we see public policy behaviour that would be consistent with dealing with a “break glass” emergency on productivity?

**Carolyn Rogers:** There are a number of things that affect productivity. Investment is definitely one of them. It's a difficult time to measure investment, given the amount of uncertainty Canadian businesses are facing. As the governor said, however, I think we have seen progress in investment. We do expect that as the economy restructures, business investment will pick up, so that is one thing.

The other thing that affects productivity is the structure of the labour market. We have seen investment in training. There were investments last week in improving training to better fit the types of jobs that we need as the economy restructures.

Then, the governor talked a little bit about the effects of AI on the third element, which is TFP. That is how labour and capital investment work together.

**Pat Kelly:** Is there any evidence that there is a significant uptick, especially in comparison to other investment jurisdictions, in intellectual property?

**Carolyn Rogers:** You gave the numbers, so I think you've answered your question.

**Pat Kelly:** Okay. Well, I was taking it from your report. The total is 0.0%, but I'm asking about intellectual property, for example. I'm asking you if you—

**Carolyn Rogers:** Are you asking specifically about intellectual property?

**Pat Kelly:** Yes. The 0.0% number, I'm sure, is for all of business activity, but do you have a breakdown? Are we doing better on intellectual property?

**Carolyn Rogers:** Off the top of my head, I don't—

**Pat Kelly:** Okay.

Governor, at the November meeting here, you said that the productivity crisis and the affordability crisis are one and the same. Increasingly, Canadians are struggling to afford housing, food and fuel. The only thing that is going bring us out of this is a significant increase in productivity, which will lead to greater wages.

Do you agree with what you said in November? Do you have anything further to add to that?

**Tiff Macklem:** I agree with what I said in November, yes.

Really, the point I was trying to make then was that, when you look at affordability, yes, you need to look at prices and at the cost of things, but you also need to look at revenue. Our affordability crisis really reflects two elements. Certainly, coming out of COVID, many prices were boosted. Inflation came down, but those prices have remained high, and that has affected affordability.

**Pat Kelly:** Wages haven't caught up.

**Tiff Macklem:** Well, over time, actually, wages have caught up, but that took some time. If you really want to improve affordability, however, you need to grow your revenue. If you have more income, everything becomes more affordable.

**Pat Kelly:** Since you were here in November, we have studied the indebtedness of Canadians. I note also, in your report, that the two main drivers of GDP growth right now are consumption and government. Both of those baskets, I guess, are fuelled by debt. Consumers, we are told, are increasingly in debt; they are going deeper into debt. They are struggling because their incomes are not keeping up with their ability to service debt.

Are you concerned about the indebtedness of Canadians, as well as the indebtedness of government?

**Tiff Macklem:** Well, I am concerned about the indebtedness of Canadians. When you talk about Canadians, there are many different experiences. Certainly, some Canadians have gotten more into debt, but actually, if you look on average at Canadian debt, household debt levels have been relatively stable now for a number of years and are even down. They were rising for many years. We highlighted this as a vulnerability. They went down during COVID. They've not been trending up. In fact, if anything, they've been trending down.

There are some different ways to measure it. I won't get into the technicalities, but—

**The Chair:** Thank you, Mr. Macklem.

**Tiff Macklem:** —overall, Canadian households have not been getting into more debt, and the savings rate is higher than it was before COVID.

● (1630)

**The Chair:** Thank you.

We will continue now with Dr. Martin for five minutes, please.

[*Translation*]

**Danielle Martin (University—Rosedale, Lib.):** Thank you, Madam Chair.

I wish to thank the witnesses.

Mr. Macklem, your report is very compelling and well written, so congratulations for that.

[*English*]

I have three questions, if time permits.

The first relates to this ongoing conversation we're having about affordability being inversely related to prices and directly correlated to wages and that these things are inextricably intertwined. You've said, and I think we all know, that the best way to ensure that wages grow is to grow our productivity, which is obviously a major policy focus of this government. The kinds of infrastructure investments and attempts to attract capital investment to grow productivity in the country are the underlying assumption in that approach.

What are the major policy levers either in your control or in the control of government to ensure that productivity growth leads to wage growth?

**Tiff Macklem:** I'll take the first one.

First of all, the short answer to that is that no levers are in the purview of the Bank of Canada, so your next question is, why do we even talk about productivity? The reason we talk about productivity is that it's a key determinant in how fast the economy can grow without building inflationary pressure. We spend a lot of time trying to understand what's driving productivity and where it's likely to go, because that determines how much the economy can grow without inflation. In this report, as we outlined, we revised our outlook for potential output, and a key element of that is productivity. It's not the only thing; it depends on other things like the growth of your labour force.

You know, key levers is a huge topic, but we've been talking about these things for a long time, particularly in the break glass speech that the senior deputy governor gave. If you look historically at what drives productivity, investment is key. Obviously, if workers have better equipment and better technologies, they're more productive.

**Danielle Martin:** I'm interested, to pull on that a little bit more, not in what drives productivity growth but what ensures that productivity growth is then shared, such that wages grow and therefore affordability is improved.

**Carolyn Rogers:** This is exactly why the governor connected these two concepts. If you think of it at a business level rather than at an economy level, if a business is more productive and it can produce more of whatever it sells without its cost growing, then it can share that revenue. Ideally, some of that revenue gets shared with the employees. If, on the other hand, every unit they produce costs them more money, they're more likely to raise prices, and they're less likely to share their revenue.

What you want, at the economy level, is the same thing you want at a business level. You want an economy to be able to produce more with every hour of labour that it uses as an input. Then you want that revenue, that extra revenue, to be shared and not passed on as price increases. We worry about wage increases, and I think people got frustrated with us when inflation was going up and we were worried about wages going up, but wages are an input. If you're a business, paycheques are part of what it costs you to produce your product, but if your productivity is increasing, then you don't have that same pressure to increase prices.

**Danielle Martin:** Thank you.

In my riding, as I'm sure is the case in everyone's riding, the cost of food is a major concern. We've heard you speak about the links between the prices of fuel and other goods and perhaps someday even services in the economy. Can you talk to me a little bit about food and what is driving...? I see in chart 19 optimistic hopes that CPI for food will start to decline. What are some of the inputs into that that we should be aware of as a committee?

• (1635)

**Carolyn Rogers:** Food is always one of the more volatile parts of CPI, and there are a few reasons for that. It's affected by a lot of things. It's affected by energy costs. It is one of the things we're worried about right now as we watch the price of energy go up. As the governor said, we're looking for it spreading into other things. Some of the food that we consume here in Canada needs to be imported, so transportation costs, exchange rates and that kind of thing affect it. Some of it is affected by global commodity prices. In the last year, we've seen things like chocolate, coffee and beef that are all affected by global commodity prices.

**The Chair:** My apologies, Ms. Rogers, as we're going to have to end the conversation there.

Thank you, Dr. Martin.

[*Translation*]

Mr. Garon, you now have the floor for two and a half minutes.

**Jean-Denis Garon:** Mr. Macklem, I'm going to ask you a political question, but I think you're going to answer this one. We'll try to make an exception.

I'd like to know whether you have any concerns about the independence of the U.S. central bank. A nomination is going to be made, and Senate hearings will take place. I'd like to know how a monetary policy that would be less independent from the United States executive or legislative branches would impact your work.

**Tiff Macklem:** That's a good question.

First, we have to ask why the independence of central banks is important, and the reason is simple. History has shown us that central banks that have operational monetary policy independence are more effective in stabilizing and keeping inflation low and stable.

In the United States, the president issued multiple threats about the federal reserve. So far, and particularly under Mr. Powell's tenure as chair, I think the reserve has made decisions based on facts and analyses and not on political factors.

Kevin Walsh is probably going to be the next chair of the federal reserve. I know him, and we worked together during the 2008 financial crisis. He answered several questions during his confirmation hearing, and I believe the same culture and approach will continue.

I recall making a few remarks on this issue because the U.S. federal reserve is the biggest central bank in the world. It's lack of independence would affect us all.

**Jean-Denis Garon:** Thank you.

**The Chair:** Thank you, Mr. Garon.

[*English*]

We'll continue with Mr. McLean for five minutes.

**Greg McLean (Calgary Centre, CPC):** Thank you.

Governor and Deputy Governor, welcome, first of all.

I'm going to ask some questions about the balance sheet and its effect on our monetary policy going forward.

This year, your accumulated deficiency is about $8.5 billion—down from about $8.7 billion—but you still have an operating loss and are losing money as a corporate entity. This is going to continue. It has accumulated since COVID, since the quantitative easing, wherein you're buying at low interest rates and having to sell at high interest rates, which means that you're losing money on every sale. That indicates it's about $8 billion for you, but there's another $19 billion in deficiency with the guarantees from the federal government. Therefore, combined, are we talking about a much larger number than is on your balance sheet? Your derivative arrangement with the federal government is $19 billion. When is that going to appear as part of the federal government's actual debt?

**Carolyn Rogers:** There are several questions there. I'll start with a correction. We're actually in a positive net-income situation now.

**Greg McLean:** That's net income because you're re-marking two of your accounts to market, both your BIS account and your—

**Carolyn Rogers:** No, this is just a straight revenue cost. In Q3 of last year, we were into—

**Greg McLean:** Okay. I'm only reading your financial statements.

**Carolyn Rogers:** That's in answer to your first question.

The second question was about the indemnity. That is basically a market instrument that adjusts according to the value of the investments on the balance sheet. It doesn't turn into a loss unless we actually sell those investments. It's marked to market quarterly when we publish our financial statements.

Then, as to your third question, our financial statements roll up into the government's every year.

• (1640)

**Greg McLean:** You've reduced your balance sheet significantly—

**Carolyn Rogers:** Yes.

**Greg McLean:** —since that point in time, and you're saying that in regard to your deficiency, the government has guaranteed you.... You're not recognizing it for some reason. At one point in time it was much higher. I noticed that. It was around $28 billion.

**Carolyn Rogers:** Our financial position rolls up into the government's financial statements at the end of every year, so—

**Greg McLean:** On your balance sheet there is an asset, a derivative instrument with the Government of Canada, for $19 billion that it owes you as your asset as well as, cumulatively, your $8-billion loss, or $8.5 billion.

**Carolyn Rogers:** Correct.

**Greg McLean:** At what point in time did you realize the actual derivative instrument here?

**Carolyn Rogers:** It is only if we sell the instrument, only if we sell the investments.

**Tiff Macklem:** It's been coming down. It was higher.

**Greg McLean:** I do notice that.

**Tiff Macklem:** It's been coming down as bonds mature and roll off.

**Greg McLean:** But most of the derivative has not rolled off—

**Tiff Macklem:** A good part of it has.

**Greg McLean:** —from 2018 to 2019.

**Tiff Macklem:** There are certainly some longer-term bonds that will take some time to roll off, so you're going to see that on our balance sheet. I expect you're going to see that for quite a long time. It fluctuates a bit with the market, but it is gradually coming down.

**Greg McLean:** Prior to quantitative easing during the pandemic, you used to dividend the federal government. About a billion dollars a year, give or take, went toward consolidated revenue, which is now $8.5 billion in arrears. It's going to be some time before it comes off, and it doesn't look like you're getting anywhere near positive cash flow at any point in time soon.

The issue is that in the budget the government actually says it is going to stop collecting $19.3 million over two years from remittances to the consolidated revenue fund. Do you know what that's about?

**Carolyn Rogers:** Collecting....

**Greg McLean:** The government is saying that there is $19.3 million it is not going to collect from the Bank of Canada anymore from remittances.

**Carolyn Rogers:** We were recently given some additional mandates, and the way the government characterized how those would be funded in the budget was through not collecting remittances. That might have been what you're referring to.

**Greg McLean:** All right.

Governor, I noticed here in your annual statement that you think you're at a normal balance sheet now and that you're managing it in a normal fashion, as in you don't have to buy and you don't have to sell Government of Canada securities, yet it says very clearly here that you're going to start quantitative easing again in 2027.

**Tiff Macklem:** No, we're not. We haven't done—

**Greg McLean:** Let me quote—

**Tiff Macklem:** We haven't done quantitative easing since the depths of the—

**Greg McLean:** —“Purchases of [Government of Canada] bonds for balance sheet management will likely not start until 2027.”

**Carolyn Rogers:** We do a certain amount of buying and selling regularly. That's not quantitative easing; that's just managing our balance sheet, so—

**The Chair:** That concludes the time for this round. We are going to continue now—

**Tiff Macklem:** Our balance sheet grows as our liabilities grow and our assets also grow. That is routine.

**The Chair:** I'm sorry, Governor, we are going to continue now with Mr. Sawatzky.

**Jake Sawatzky (New Westminster—Burnaby—Maillardville, Lib.):** Thank you, Chair.

Maybe you wanted to just continue your train of thought from the previous question and finish that thought.

**Tiff Macklem:** Thank you.

I was going to say, yes, in the big picture, during COVID, the economy was down 15%. We had record levels of unemployment. We were in deflation. It was a very dire situation. We used a policy we have never used before, an emergency policy, quantitative easing, and together with other policies the economy recovered. Did it all work perfectly? No, it didn't, but it did get us out of a very deep hole. We were one of the first countries to end quantitative easing. We haven't done quantitative easing in three or four years now. After quantitative easing, we did quantitative tightening. We rolled off our balance sheet and we brought it back to more normal levels.

Now, we are basically back into a more normal balance sheet and we are doing normal operations. People still hold our bank notes—cash. They are in circulation, and as the economy grows, people need more cash. That's a liability to the Bank of Canada. We hold assets to match our assets and liabilities. As such, yes, we have restarted buying small amounts of government debt as the asset to match our liability. That's how central banks work. That's how it worked before COVID, and those are routine operations.

● (1645)

**Jake Sawatzky:** I'll just start by saying thank you so much for coming, Governor, and Senior Deputy Governor. It's truly an honour to speak with you again.

We've talked about disruptions to the oil market, and we haven't touched on the fertilizer market. I'm curious about how that will affect food prices here in Canada. Is that something you could speak to?

**Carolyn Rogers:** This goes back to the question we were talking about earlier. It's a key input to food prices. It has a longer lag time to show up in food prices. It's usually about a year out, because it affects the crop.

I was actually out west about a month ago talking to farmers, and what I heard mostly was that, because the crop last year was quite good, farmers had pre-purchased a lot of their fertilizer for this year—but not all farmers and probably not in all cases—so that will buffer them a bit from the current spike in fertilizer prices, but certainly just as with energy, if the price stays up for a long time, that is a key input into food prices. Then you have to think of food as more of a global commodity too, so even if our Canadian farmers are buffeted from the fertilizer price this year, it will affect global food prices, we expect.

**Jake Sawatzky:** Thank you.

We've also talked about, of course, the price spikes in oil around the globe. People are seeing that at the pump. What are some of the cascading effects if the ongoing closure of the Strait of Hormuz continues? What is the future?

**Carolyn Rogers:** Well, oil is a key input to many goods. Right now it's affecting the price at the pump. It's affecting things that have a very direct effect—transportation and airfares. You're seeing surcharges over time. That could start to spread. Oil is also an input into some goods and products—plastics, for example—packaging and that kind of thing.

We're also hearing—and this is not something that is likely to affect Canada immediately or directly, but for us it becomes a price issue—that, for some jurisdictions, it becomes an availability issue, so there will be rationing. There's rationing in some jurisdictions already.

**Jake Sawatzky:** I'm sorry. I have about 40 seconds left here.

What factors are most important when you're determining your next steps on interest rates?

**Tiff Macklem:** We're trying to balance two risks, really. I just emphasize that there's no risk-free path for the policy rate. We held the policy rate, and we indicated that we're willing to look through the immediate impacts. That was the right thing to do today—or last week, technically. If we raise rates, and energy prices come down as the market impacts, by the time those higher rates started to affect the economy we wouldn't need them, and we would wish we hadn't raised them—

**The Chair:** I apologize, Mr. Macklem. We're going to have to carry that on for—

**Tiff Macklem:** I'll just quickly give the other side of it.

**The Chair:** We'll get to you afterwards, but just to keep the meeting moving along—

**Tiff Macklem:** The other side of it is that, if we're too slow, that also creates a problem.

**The Chair:** Mr. Hallan, you're up for five minutes.

**Jasraj Hallan:** Thank you.

We've seen an alarming rate of delinquencies, or concern about delinquencies, going up. Can you give us a bit of information about what you're seeing in delinquencies?

**Carolyn Rogers:** Are you talking about loans and mortgages?

**Jasraj Hallan:** I'm talking about mortgage delinquencies.

**Carolyn Rogers:** I think that, overall, delinquencies have stayed at a pretty historically low level. Where we see delinquencies is actually not so much in the mortgage market; they are in the non-mortgage market, so consumer loans. Those have gone up. A lot of focus has been on mortgage holders because they were affected by interest rate increases, but where we have seen more concerning trend lines on delinquencies is in non-mortgage debt.

**Jasraj Hallan:** Do you mean credit card debt and other things?

● (1650)

**Carolyn Rogers:** Yes, I mean car loans and non-mortgage credit, consumer credit.

**Jasraj Hallan:** What are you seeing an increase in when it comes to non-mortgage loans or debt? As one of my colleagues mentioned, we did a study here on household debt, which is the highest of all of the G7 countries right now. There is a lot of concern about how a lot more people are now putting more necessities on credit cards—like food, clothing and just the basics. Are you seeing an uptick in the kind of debt people are accumulating? What are the products they're buying?

**Carolyn Rogers:** I don't have that kind of data with me today, but what I would say—and the governor mentioned this earlier—is that you always have to look at the different segments of the economy. In total, household debt has improved, but there are segments of the economy that are certainly, I think, feeling more pressure as a result of the affordability challenges, and are more likely to be putting necessities on credit.

**Jasraj Hallan:** With mortgage arrears and delinquencies, are you seeing a different category of, maybe, the house itself or the value of the house? Is there a difference you're seeing in who's being more delinquent?

**Carolyn Rogers:** I don't know about the value of the house but, certainly, we are able to look at delinquencies at a regional level. In areas where you see employment affected more, you're more likely to see delinquencies.

**Jasraj Hallan:** Have you done any analysis on whether, if the interest rate does go up, that is going to affect delinquencies?

**Carolyn Rogers:** We would call that a stress test; we don't have a specific stress test.

Typically, when you see interest rates go up, you can see that show up. Usually, there's a lag, but it does show up in delinquencies over time.

Even when interest rates were up at the peak, we did see some increase in delinquencies, but in aggregate, they stayed within historical ranges.

**Jasraj Hallan:** We know that the debt interest costs, according to the recent spring update, are going to go up by 50% by 2030. They're going to from $50 billion per year up to $80 billion per year. If the interest rates have to be raised because of persistent inflation, what is that going to do to debt interest costs?

**Tiff Macklem:** It depends a little bit on why interest rates have to go up. If the economy is stronger, there's more revenue, people are spending more and that's building inflationary pressures, and the government will be getting more revenue, yes, it will also have higher interest rate costs.

The more worrisome scenario is one where the economy is weaker but inflation is stronger. Then it's tougher on Canadians and it's tougher on governments.

**Jasraj Hallan:** Pat's going to take over.

**Pat Kelly:** I can finish out the segment here.

When you say that the savings rates are higher, how is that distributed? For consumer debt, we were told by both of the credit rating agencies in Canada that the number of debtors is not rising, but the amount of indebtedness among existing borrowers is. The people who are in debt are getting deeper in debt across the income spectrum.

Is it a case of the very wealthiest being able to save and everybody else going deeper into debt?

**The Chair:** Unfortunately, that's the time for this round. We'll have to conclude there.

We'll move on to Mr. Turnbull for five minutes.

**Ryan Turnbull (Whitby, Lib.):** It's great to have you both back again. It's always great to have you. I always find the conversation so productive and thorough.

Governor, you said, “there is little evidence that higher oil prices have fed through to other goods and services...more broadly”. I'm quoting from a CBC article, but you also said that today.

What signs should we be looking for as to whether that spike in oil prices is taking broader hold? Can you enlighten us on what we should be looking for as signs and indicators of that?

● (1655)

**Tiff Macklem:** The first point is that it's early days. We actually wouldn't expect to see much broadening this early into the oil price shock. We have measures of core inflation that take out volatile components. The two we've been focusing on are the median and the trim mean. When there's a big change in oil prices or gasoline prices, they get pulled out. If you saw core inflation start to go up, even when it's pulling out the direct effects of higher oil prices, that would be a sign of spreading. That would be one thing we'd look at.

Another thing we can look is at the distribution of price changes. In the monetary policy report, there's a chart of the percentage of components of the CPI that are rising faster than 3%. It has shown recently that it has actually been coming down. It's a little bit higher than historically, largely because food price inflation is high and there are a lot of food components in the CPI, but it has been coming down.

If you started to see that going up, that would suggest that not only are your oil prices going up but a lot of other prices are going up, too. That would be another kind of thing we would look at.

Another thing we look at closely is expectations about future inflation. Right now, people have filled up their gas tanks and they've gone to the grocery store, so they know that inflation has gone up recently. Their perception of inflation and their short-term inflation expectations have gone up, but they remain confident that inflation will come back down. If we started to see some erosion of that confidence and if those longer-term expectations were going up, that would be a real sign of worry that inflation was getting entrenched and that people were starting to believe inflation was going to stay.

There's no single thing that we focus on. We look at a range of indicators, but if we start to see it spreading or if we start to see the persistence going up, we will be starting to think about the need to raise interest rates.

**Carolyn Rogers:** Charts 6, 7 and 8 are the ones you'll probably see show up in future MPRs.

**Ryan Turnbull:** Thank you for that explanation; I think it is helpful to understand.

What would you say is the time frame? You said we wouldn't expect to see it this early, but when would we expect to see it? Would it be by end of summer, perhaps?

**Tiff Macklem:** I wish I could put it on a calendar for you, but it's really not about time; it's about conditions. It's going to depend a lot on what actually happens with global oil prices. It's going to depend on whether companies absorb those prices or pass them through.

There's not a set timeline. It's more a matter of the conditions.

**Ryan Turnbull:** That's helpful.

Also on page 25 of your recent monetary policy report, you wrote, “Investment growth is expected to strengthen”. Could you possibly explain why you see that strengthening?

**Tiff Macklem:** There are a few reasons.

We do a business outlook survey, which surveys 100 businesses across the country each quarter. We also do a more frequent business pulse survey, which is a digital survey that captures more small and medium-sized companies. After the initial increase in tariffs by the United States and the extreme unpredictability of U.S. policy, we saw investment intentions really fall off. Businesses were understandably nervous about making big investment decisions if they didn't know how much access they would have to the U.S. market.

More recently, I wouldn't say the uncertainty has gone down a lot, but perhaps businesses are getting used to it. I think businesses are recognizing that our relationship with the United States has fundamentally changed. Let's hope we get a new agreement and that it's better than where we are now, but we're not going back to where we were before, so they have to get on with business. You see that in their investment intentions. They're starting to realize, “Okay, we have to get on with business. We have to invest. If we don't invest, we're out of business.”

**The Chair:** Thank you, Mr. Macklem.

We're going to continue now with Monsieur Garon.

[*Translation*]

You have the floor for two and a half minutes, Mr. Garon.

**Jean-Denis Garon:** Thank you, Madam Chair.

Mr. Macklem, correct me if I'm wrong, but generally speaking, when it comes to exports, Canada's manufacturing sector prefers having a weaker exchange rate. It's good for export.

I'm on page 19 of the report, where it refers to price increases, but there are also significant increases in natural resource exports. Several sections of the report refer to gold, for example. We also know that our oil exports, among others have gone up.

At a time of uncertainty where many people would like to buy gold, for example, and we're exporting a lot of it, do all of these resource exports have any impact on the exchange rate, which could ultimately have a negative impact on Canada's manufacturing sector and on our manufacturing exports?

● (1700)

**Tiff Macklem:** In Canada, we have a flexible exchange rate. That's a very important aspect of our monetary policy framework. If we didn't have a flexible exchange rate, we would have the same monetary policy as the United States. As such, we allow the exchange rate to fluctuate with the market, which is a deep market with a lot of liquidity.

**Jean-Denis Garon:** When we export a lot of resources, that has an impact on the increase on the value of the Canadian dollar. Does that have an impact on Canada's manufacturing exports?

**Tiff Macklem:** The exchange rate has an impact on our exports as well as on our imports. With a weaker dollar, exports are more competitive, but imports are more expensive.

**Jean-Denis Garon:** When we're exporting a significant amount of gold, oil and other resources and faced with the current situation, is there a pressing need to increase our productivity?

Does that compound the challenges related to long-term productivity for businesses in the manufacturing sector?

**Tiff Macklem:** In a more complex world where there are more shocks, particularly supply shocks, the best thing we can do is to boost our productivity. This will enhance our quality of life and strengthen our resilience and ability to respond to shocks.

**Jean-Denis Garon:** Thank you.

**The Chair:** Thank you, Mr. Garon.

[*English*]

We'll continue with Mr. Kelly for five minutes.

**Pat Kelly:** Perhaps now we'll be able to get to the answer.

Just to restate the question as succinctly as possible, we had testimony at this committee that Canadians who are in debt are getting deeper into debt and that they are coping with their debts by exhausting their savings, refinancing their loans and cutting back on other necessities. This was alarming information, and quite troubling. It came from Equifax and TransUnion, and a variety of other witnesses have confirmed this.

If consumption is the main driver of GDP growth and if we already have the most indebted consumers in the G7, is this a concern for future GDP?

**Tiff Macklem:** Canada has had a high level of household indebtedness for a number of years now, and that is a vulnerability for the economy. Certainly, if interest rates go up, it means consumption is more sensitive to increases in interest rates. Obviously, that's something we would take account of, but it is a vulnerability.

Having said that, during COVID, household indebtedness went down quite a bit. Before that, it was on a clear upward trend. It went down during COVID, and if you look at the six years since then, you'll see that it's been fairly stable since then.

As you said, though, this trend isn't equally shared across individuals. We do see evidence consistent with what you said, that people who are in debt have been getting more into debt. It's very concentrated in certain individuals.

Yes, they're in a difficult situation, but it's not the case that households overall are coming into—

**Pat Kelly:** Thank you for the detailed answer, but my time is very limited. I want to share it with Mr. McLean, so I'll let him go ahead.

**Greg McLean:** Thank you, and thank you, Governor.

I saw a quote this weekend that Bank of Canada Governor Tiff Macklem has warned about Canada's huge household debt problem. Some economists believe this is a bigger problem than government debt, which is also skyrocketing, as you know.

On the expectation of interest rates, you've held at 2.25%, yet the spread has gone up by 50 basis points in the last two months.

What's the likelihood that you're going to be able to market debt at the current rates in the foreseeable future, or are we going to face an increase in our interest rates across the board in Canada?

● (1705)

**Tiff Macklem:** Which spread are you referring to?

**Greg McLean:** You can do the five-year or the 10-year rates. I'm talking about the spread of the policy rates.

**Tiff Macklem:** Are you referring to the term premium?

**Greg McLean:** No, it's the spread. Either spread has advanced 50 points.

**Tiff Macklem:** Issues of fiscal policy are really for the government—

**Greg McLean:** This is not fiscal. This is monetary.

**Tiff Macklem:** We do run the bond auctions for the Government of Canada, and I can assure you that they're very well covered. I don't want to minimize our problems in Canada, but when you look around the world, you see that we're in a relatively good place compared to many countries. Our deficit-to-GDP ratio is relatively low compared to many other countries. We have energy. We have fertilizer.

When international investors are looking at where they're going to put their money, Canada is looking pretty good.

**Greg McLean:** Thank you.

That's the metric you'll land on, I guess—the deficit-to-GDP ratio—and you'll just include the federal government's portion of that alone, I suppose, when you measure that.

**Tiff Macklem:** You'd want to look at it on a consolidated basis by country.

**Greg McLean:** With inflation, the broad-based producer price indexes in Canada look like they're going to go up significantly in the near future. That is an indication that interest rates are going to rise.

Do you have any planning about what your balance sheet is going to look like when those interest rates do go up? Once we start having to raise interest rates in Canada, it will affect the whole of the economy.

**Tiff Macklem:** Our balance sheet is not something.... We run monetary policy to keep inflation low and stable; we don't run monetary policy to maximize the profitability of our balance sheet. The balance sheet is an outcome, but it's not something that we're targeting.

**Greg McLean:** Thank you, but there's going to be a serious impact on your balance sheet if you raise interest rates.

**The Chair:** That concludes the time.

Thank you, Mr. McLean.

We'll continue now with Mr. Turnbull for five minutes.

**Ryan Turnbull:** Thank you.

Governor, given your response to my last question, I noticed that investment growth is expected to strengthen. You were explaining why. You were talking about your business outlook survey. I think you do two surveys. I also noticed that it referred to targeted federal government programs as providing some support.

I wonder which programs were being referred to here. Specifically, when you were last here, I asked about the productivity superdeductions, which are a number of different immediate expensing and accelerated cost allowances that allow businesses to receive greater deductions for investing in themselves. Are those the ones being referred to, or are there some other federal government programs?

**Tiff Macklem:** We've built everything that federal and provincial governments have announced in their budgets into our projections to the best of our abilities. These are macromodels. We don't have separate sectors. What you see there is the roll-up of federal-provincial investment plans.

**Ryan Turnbull:** Okay, that's great. They are making some headway in terms of increasing investor confidence despite all of the volatility and uncertainty that we're experiencing.

**Tiff Macklem:** It's a projection. We don't know the future.

**Ryan Turnbull:** I know, and neither do I.

**Tiff Macklem:** The impact of those on the projection is, near term, not a huge impact, because it takes time for the investment to cumulate. As you get towards the end of the projection, they start to have a bigger impact. That's one of the reasons that you see, in the projection, growth at 1.2% this year. I think it's going to 1.6%, 1.7% or 1.8%. That's one reason it's gradually going up. It's not the only reason, but it is one reason.

**Ryan Turnbull:** I noticed that consumption expands modestly, which is also on that same page, as one of the outcomes or part of the forecast. I know that consumption patterns are really important. Gas prices have eroded purchasing power. There are targeted supports that the federal government has offered such as the groceries and essentials benefit and temporary suspension of the fuel excise tax.

I'm trying to balance...how the government's fiscal policy can counterbalance some of these trends we're seeing throughout the economy, where consumer purchasing power is down and being eroded by oil price shocks that are affecting consumers at the pump. Are those temporary measures going to get us through and counterbalance some of the erosion of consumer purchasing power?

● (1710)

**Tiff Macklem:** You're talking about the excise gas levy.

**Ryan Turnbull:** Yes.

**Tiff Macklem:** It's not really our job to comment on specific fiscal measures.

It will provide some offset, so inflation will be a little bit lower, for the temporary period that it is applied, than it otherwise would have been. It's about 0.2%, I think, on inflation that the suspension of the gas levy is taking off. Yes, that will help consumers digest the shock a bit.

As the IMF has stressed, it is important that these measures be targeted and temporary. You want to target them to the people who need help the most. Ultimately, we need to let the price system work. You don't want to leave them on any longer than you have to.

**Ryan Turnbull:** Thank you.

I was hoping you were going to say that. I was going to ask you about the IMF, but I want to share my time with my colleague Mr. Sawatzky.

**The Chair:** You have 45 seconds.

**Jake Sawatzky:** I'll try to keep it brief.

Governor, you said that you were encouraged by the federal government's efforts to diversify. That's been a significant focus, with 20 new economic and security partnerships. How do you assess the impact of Canada's trade diversification on global shocks and inflation volatility?

**Tiff Macklem:** I probably have about 20 seconds.

We've talked for some time about the benefits of diversifying our trade. Our trade is very concentrated with the United States. Over history, when there has been a problem with it, it has really affected us.

We're dealing with a problem right now. It's not the first one. We've had these problems before. We haven't actually succeeded in diversifying our trade more. There's never been a better time to do it than now.

**The Chair:** That concludes the time for this round.

Thank you, Governor and Mr. Sawatzky.

We will continue now with Ms. Cobena for five minutes.

**Sandra Cobena:** Thank you, Madam Chair.

Just to wrap up that thought of ours, Deputy Governor Rogers, you mentioned that higher fuel prices as an input mechanism lead to an immediate one-time impact on inflation. Along that train of thought, would you then agree that removing all three federal gas taxes would provide immediate relief from inflation for Canadians at the pump?

**Carolyn Rogers:** I think the governor just answered that question. We talked about the measure the government recently announced on the excise tax. Our estimate is it will take about 0.2% off inflation for the time it's in place.

**Sandra Cobena:** So the answer is yes.

**Carolyn Rogers:** Yes.

**Sandra Cobena:** Moving on from that, I have a question for the governor.

Mr. Macklem, we know that the government's sovereign wealth fund was not included in the debt projections in the spring economic update, despite the announcement by the Prime Minister that it would be funded by $25 billion of debt.

I'm just wondering if you were consulted on the wealth fund.

**Tiff Macklem:** No. I'm not usually consulted on the government's fiscal measures.

**Sandra Cobena:** Well, this is $25 billion of additional debt coming onto the books, and the people who would fund that were not consulted.

**Tiff Macklem:** As to “funded”, we don't “fund” the government. We would issue the debt, but it's going to be the investors, the buyers of the debt, who would fund it, not us.

**Sandra Cobena:** We're trying to get an understanding of whether this $25 billion—which is a big number—is going to be funded through printing money, issuing bonds or however else.

**Tiff Macklem:** It's not going to be funded through printing money. That much I'm very confident about.

**Sandra Cobena:** So it's going to be by bonds, then?

**Tiff Macklem:** I have not seen the plans on the funding of it either. I have not spoken to the government about it yet.

**Sandra Cobena:** More generally speaking, then, for $25 billion of debt at the current rate, could you give us a rough estimate of how much that would cost in interest?

● (1715)

**Tiff Macklem:** I don't have the number in front of me. It's going to depend on whether you go short term, longer term—

**Sandra Cobena:** Yes, that's right. I understand. It depends on the term, but do you have just a rough range of what that cost will be?

**Tiff Macklem:** I don't have that number in front of me. If you want some calculations, we can do some for you, but I actually think—

**Sandra Cobena:** Yes. Do you mind submitting that to the—

**Tiff Macklem:** It's really a question for the government. The government has announced the plan. The government's going to need a funding plan to go with that. It's really a question for them.

**Sandra Cobena:** Could you submit your rough calculations, though, to the committee?

**Tiff Macklem:** I think you should ask the Department of Finance for those calculations.

**Sandra Cobena:** We know that inflation on essentials such as food is rapidly spiralling out of control. We saw in March alone that food inflation was 4.4%, nearly double the headline inflation of 2.4%. Grocery prices have increased 22%. I now hear all the time from people of all backgrounds in my riding that they dread taking a trip to the grocery store.

How does the cost of food factor into your decision to increase or maintain interest rates?

**Tiff Macklem:** First of all, I just want to underline the challenge of food price inflation. Food prices went up a lot in 2022-23. Food price inflation actually did come back down, but the prices didn't come down. When you go to the store, you pay prices, and that's what people are feeling. In the last number of months, you've seen a resurgence of food inflation. It has been running around 4% now for a number of months. As the senior deputy governor mentioned, we had been hopeful that a number of the global factors that had boosted it were starting to fade and that you would see it come back down. However, now with the war in Iran, there's a new set of factors. You have higher energy prices. You have potentially higher fertilizer prices. So it's difficult to say with confidence that food price inflation is going to come down quickly. That is affecting every Canadian.

These factors—the war in Iran, higher global fertilizer prices—are not things we can control. The only thing we can do is to make sure that if food prices are higher, some other prices have to be going up less, so that overall inflation is 2% and the whole basket of people's goods isn't all going up faster. But, yes, I understand—

**The Chair:** Thank you, Mr. Macklem.

**Tiff Macklem:** —particularly for lower-income Canadians, it's a big part of their basket.

**The Chair:** We're going to have to leave it there.

We'll continue now with Mr. Leitão.

**Carlos Leitão:** Thank you. I don't have any questions.

Briefly, I want to thank you and to note that the bank has appointed two new deputy governors, which I think will make a difference.

[*Translation*]

On top of that, they're both francophone. I believe Nicolas Vincent and Marc André Gosselin will be an excellent addition to the Bank of Canada. I would therefore like to commend and say kudos to the bank. That is all I had to say, and I just wanted to put that on record.

The floor is back to you, Madam Chair.

**The Chair:** Thank you, Mr. Leitão.

[*English*]

My colleagues have kindly let me take some time to ask questions, so I will do that.

I also want to begin with gratitude. In your opening remarks and throughout this conversation, you've spoken about the many challenges that our country is facing that are, quite simply, beyond our control. I recognize that for many people in leadership positions right now, we're facing a lot of challenges, and so I thank you for the work you're doing to try to balance them for Canadians.

I want to expand a little bit on the question by my colleague, Mr. Turnbull. Mr. McLean and I were actually at the IMF and the World Bank a couple of weeks ago for their spring meetings, and one of the things they talked about that is really important right now—and you mentioned it—is for governments to respond with short-term and targeted measures, as opposed to long-term structural changes. I'm wondering why this, from the bank's perspective, is important and how this impacts the decisions you might be making when it comes to interest rates.

● (1720)

**Tiff Macklem:** I think prices send important signals in your economy, and you want people to invest and to take decisions. You want to let the price system work. There are situations where, on a temporary basis, governments need to intervene to relieve extreme hardship, but these measures can be very expensive for governments and can destroy the economy. From a fiscal perspective, the cost simply may not be worth the benefit. Ultimately, they're not going to promote the efficiency and strong functioning you need for your economy.

Yes, the IMF's advice is that when you're in a moment of intense pressure, governments may need to step in; but generally, markets are sending signals and you don't want to short-circuit those.

**The Chair:** Please go ahead.

**Carolyn Rogers:** It comes back to questions Mr. Kelly and Mr. Hallan were asking too. What we're facing right now doesn't affect every part of the economy the same. As the governor said, for people in low-income brackets, the price of food and the price of transportation—if you're commuting to work—are really difficult or impossible to avoid. There aren't substitutes for them.

If you support people in those situations, you are not necessarily stoking demand, whereas if you have a broad measure, you are short-circuiting the price signals. Those types of targeted measures that help people in those categories—people who are putting groceries on their credit card—are really important.

**The Chair:** Thank you very much for that.

Briefly in my last minute here, I want to touch on two things you've mentioned throughout the meeting today, particularly some of the strengths that we have in Canada right now. We talked about energy and fertilizer particularly. We don't know how long the conflict in Iran is going to carry on and the impact it's going to have. I'm wondering if you can just touch on why that's important for us in Canada in this moment and then also on some of the regional differences that we're experiencing.

Here, I'd mention that one of your other considerations is the review of CUSMA. I come from southern Ontario. I can see steel mills to the west and the Ford auto plant to the east. When it comes to how tariffs are impacting my region, it's very different from other regions. I'm just wondering if you can talk a little bit about how the regional differences impact your thinking and what Canada's strengths are.

Actually, I'm sorry, your time is up.

**Voices:** Oh, oh!

**The Chair:** I spoke too long. Maybe I'll talk to you afterwards. I don't usually get to ask questions.

I will allow Monsieur Garon to conclude for two and a half minutes.

[*Translation*]

**Jean-Denis Garon:** Thank you, Madam Chair.

Mr. Macklem, I'd like us to talk about competition. We know that there is a lack of competition in some sectors in Canada. This committee and the Standing Committee on Agriculture and Agri-Food have released some reports on that.

For instance, we often suspect that a reduction in the number of grocery companies, supermarkets and so forth could play a part in food prices.

When prices of inputs, such as oil go up, at some point, which could be in the medium term, businesses will end up passing on these increases to consumers. I'd like to know whether its easier for a business to pass on the higher costs of inputs to consumers if there's less competition. Ultimately, if we had more competition and less market power in some sectors in Canada, would that make the work of the Bank of Canada to control inflation easier? I'd also like to know what the most problematic markets are.

**Tiff Macklem:** Competition can really affect prices. Competition is probably not very cyclical and so it's not clear that it will have a big impact on changes in prices, but nevertheless, it's possible. I think the most important thing is that it affects our productivity and our revenues.

Getting back to the issue of affordability, more competition means more revenue, and that will make things more affordable. We have seen that Canadian sectors that have strong exports invest more and are more productive. They probably face more international competition compared to companies with a solely domestic market.

My answer is therefore yes, I think there's that aspect of competition.

● (1725)

**Jean-Denis Garon:** Okay.

I have 30 seconds left and you can use them to answer the Chair's question if you wish.

[*English*]

**Tiff Macklem:** On the regional aspects and our strengths, I'm probably going to run out of time, so let me focus on a positive note. Let's talk about a few strengths.

We talked about some of them. I think we have a very well-educated labour force in this country. We have among the highest rates of post-secondary education in the world. That is a real strength of the country.

The other thing I would say is that international investors are looking to diversify their investments. A lot of money has been flowing into the United States. International investors are looking to diversify. Canada looks pretty good, when they're looking at us with the rule of law, a well-diversified economy, natural resources, a solid manufacturing sector and a vibrant services sector.

One thing we haven't talked about is that when we travel and hear from international investors, we hear that the length of time for regulatory approvals is long. That can be a barrier to international investment. These regulatory approvals are there for good reasons; they're well-intended. Nonetheless, where we can streamline them and make them more predictable, I think we could benefit more from our relatively good international standing in terms of international investment.

**The Chair:** That's great.

Thank you very much, Mr. Macklem.

[*Translation*]

Mr. Garon, thank you for sharing the rest of your time. I really appreciate your gesture.

[*English*]

On behalf of the committee, I would like to thank Governor Macklem and Senior Deputy Governor Rogers for their time today.

We look forward to seeing you again in the fall, I'm sure. Thank you very much.

If the committee agrees, we shall adjourn.

**Some hon. members:** Agreed.

**The Chair:** We shall adjourn.