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—
Chair

The Honourable Wayne Easter

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• (1530)

[English]

The Chair (Hon. Wayne Easter (Malpeque, Lib.)): We'll call the meeting to order. Pursuant to Standing Order 108(2), today we are studying the economic and fiscal outlook.

We're privileged to have representatives from the parliamentary budget office and the parliamentary budget officer himself, Mr. J-D Fréchette.

J-D, I'll ask you to introduce the group who are with you. You have quite a group of people to be able to answer any questions, I assume. I understand that you have opening remarks.

This meeting has been called to look at the economic and fiscal outlook. Before we start, I'll ask committee members to hold off on any questions for the parliamentary budget officer on the legislation proposed in the budget. We'll get into that issue in full detail another time. I expect that the parliamentary budget officer and his people will be here for that then, so if we could stick to the economic and fiscal outlook today per the agenda, I think that would be beneficial. I believe that's where the people from the PBO are at as well.

Mr. Fréchette, the floor is yours. Could you introduce your people as well, please?

[Translation]

Mr. Jean-Denis Fréchette (Parliamentary Budget Officer, Library of Parliament): Thank you, Mr. Chair.

Ladies and gentlemen of the committee, thank you for the invitation to appear and discuss our April 2017 economic and fiscal outlook. Today I am joined by Mostafa Askari, the assistant parliamentary budget officer, as well as Jason Jacques, Chris Matier, Tim Scholz and Trevor Shaw. They will be pleased to answer any questions you have regarding our outlook or other PBO analysis.

[English]

With regard to the economic outlook, on balance our outlook for real GDP growth in Canada is essentially unchanged from October. Although the Canadian economy outperformed our forecast in the second half of 2016 and the first quarter of the year, we expect growth in consumer spending to moderate and residential investment to decline in the second half of 2017 and through 2018. We project real GDP to grow on average at 2% annually from 2017 to 2021.

Our projection for the growth in nominal GDP, which is the broadest single measure of the tax base, is on average 4.1% annually

over 2017 to 2021, the same as in our October outlook. Adjusted for historical revisions, the level of nominal GDP is on average \$10 billion higher per year over the period of 2017 to 2021. This is due to stronger than anticipated nominal GDP growth in the second half of 2016. We have also revised upward our outlook for long-term interest rates, reflecting higher than anticipated long-term rates in the United States.

With regard to the fiscal outlook, based on financial data through the first 10 months of 2016-17, we expect the budgetary deficit to be \$20.7 billion, or 1% of GDP, in 2016-17. This is \$1.6 billion lower than we projected in October. For fiscal years 2017-18 to 2021-22, we are projecting budgetary deficits that are \$2.2 billion larger on average compared to our October outlook. This is primarily due to higher spending resulting from new policy decisions and higher long-term interest rates.

• (1535)

[Translation]

In budget 2016, the government committed to reducing the federal debt-to-GDP ratio to a lower lever over a five-year period ending in 2020-21. This translates into a fiscal target of 31% or lower for the federal debt-to-GDP ratio in 2020-21. Under current tax and spending plans, we project that the federal debt-to-GDP ratio will be 29.6% in 2020-21, which is 1.4 percentage GDP points lower than the government's target.

Given the possible scenarios surrounding our economic outlook, and on a status quo basis, it is unlikely that the budget will be balanced, or in a surplus position, over the medium term. However, it is likely that the federal debt-to-GDP ratio will fall below its current level of 31% over the period from 2017-18 to 2021-22. We estimate that there is, approximately, a 67% chance that the federal debt-to-GDP ratio will be below its targeted level in 2020-21.

[English]

With regard to budget 2017, our report also identifies some key issues for parliamentarians.

On the economic fiscal outlook, the PBO projects budgetary deficits that are \$5.9 billion lower, on average, than budget 2017 does for 2016-17 to 2021-22. This reflects the government's \$3 billion annual risk adjustment and PBO's stronger economic outlook. The PBO believes that the government's outlook for the budgetary balance is overly prudent over the period 2017-21. This results from the use of an outdated economic outlook that goes back to December and from incorporating a risk adjustment.

On federal infrastructure spending, the data indicate that federal spending on infrastructure has lagged the timing set out in budget 2016. We expect that roughly half of the \$4 billion in infrastructure funding in 2016-17 will be spent as planned in budget 2016. The PBO expects that spending will pick up in 2017-18 to above the level projected in budget 2016, resulting in overall infrastructure spending of \$10.1 billion over two years, which is close to 90% of the originally projected levels.

[Translation]

As to operating expenses, budget 2017 provides for 1% in annual growth over the medium term. Yet collective agreements promise annual wage growth exceeding this amount. Parliamentarians may therefore wish to seek further detail on the government's strategy to manage operating expenses.

[English]

My colleagues and I would be happy to answer any questions you may have regarding the economic and fiscal outlook.

Thank you, Mr. Chair.

The Chair: Thank you, J-D.

Turning to the seven-minute rounds, we have Mr. Fergus.

[Translation]

Mr. Greg Fergus (Hull—Aylmer, Lib.): Thank you, Mr. Chair.

Thank you very much, Mr. Fréchette. We are pleased to have you with us. I have long admired your work and the work of your predecessor. I find your work to be very well structured.

My question pertains to your methodology in making forecasts about economic performance and government operations.

Can you explain your methodology to us? As I understand it, you use the same figures provided by the Department of Finance. Is that correct?

Mr. Jean-Denis Fréchette: I will quickly clarify something and then ask Mr. Matier to provide a more detailed explanation.

We have our own model. The Department of Finance, for its part, relies on private sector projections. In my remarks, I noted that there was a delay with respect to the 2017 budget because the department once again used the December 2016 projections. That gives you an idea of the distinctions that the Office of the PBO is able to make in its projections. We do regular updates, using our own model.

• (1540)

[English]

Christopher, do you want to add to this?

[Translation]

Mr. Chris Matier (Senior Director, Economic and Fiscal Analysis and Forecasting, Office of the Parliamentary Budget Officer, Library of Parliament): Thank you, Jean-Denis.

[English]

As Jean-Denis said, we use our own macroeconomic model to put together our economic outlook. It's a model that shares some similarities with macro models at the Bank of Canada and at the Department of Finance. However, our outlook is entirely an independent outlook. These are our views and they differ most of the time from private sector outlooks and from other organizations. We produce an internally consistent medium-term economic outlook, and that contrasts with a simple survey of private sector forecasters where it's difficult to control for consistency and the exit and entry of forecasters from the survey.

[Translation]

Mr. Greg Fergus: In this regard, Mr. Fréchette and Mr. Matier, how accurate have your economic growth and budget forecasts been in recent years?

[English]

Mr. Jean-Denis Fréchette: Chris.

Mr. Chris Matier: We haven't compiled a detailed review of our forecasting accuracy or the forecasting bias over the almost 10 years that we've been doing this. It's still a very small sample to look at. We do compare our projections to, and did so in this report, the average accuracy of private sector forecasters over the past 20 years. We've tried to situate our outlook within that range of accuracy.

A more recent example may be more helpful. Last year, after budget 2016, in our economic and fiscal outlook we identified that the government's outlook, based on the private sector's outlook at that time, and the risk adjustment it made to it were excessively pessimistic. Although it's only one data point, if we look back now at that forecasting record for 2016 and at the level of the Canadian economy, we see that it's much closer now to what we were saying it would be relative to the risk adjustment made to the private sector outlook. That's just one example. I'll admit that is a very cherry-picked example. I think as time goes by and we have more observations, we'll conduct a more thorough review of our forecast accuracy and make comparisons.

The Chair: One thing you can be assured of is that as members of Parliament, we never pick cherry-pick examples. You can be assured of that.

Voices: Oh, oh!

The Chair: Mr. Fergus.

Mr. Greg Fergus: We're straightforward all the time. Thanks, Wayne.

Again, the question would be, are we still in that situation? The provisions, as I read through your report, seem to be slightly more optimistic than those provided by the Department of Finance. Could you explain what is different about your methodology in greater detail, as to why you would have a more optimistic view of economic growth performance and a lower debt-to-GDP ratio than provided by the Department of Finance?

Mr. Mostafa Askari (Assistant Parliamentary Budget Officer, Office of the Parliamentary Budget Officer, Library of Parliament): As J-D mentioned in his opening remarks, there is one difference between ours and the Department of Finance's. Although their budget was introduced in late March, the government decided to use a private sector survey that was done in December. The survey was almost three months old. That was the basis of the budget. Since December there have been positive developments as far as economic activity is concerned, and we use the most recent data. That's really the starting point of the difference between our projection and the Department of Finance's projection. Over the five-year period, in fact, our average growth projection is very similar to the budget's, but it's the first year that really makes a huge difference in terms of the starting level.

• (1545)

Mr. Greg Fergus: It seems that between 2018 and 2021 those numbers are quite similar. Yet, as you say, the first two years are different. If you had run the Department of Finance numbers again using a more recent set of figures, taking into account the greater than expected economic growth at the beginning of the year, would you be coming to similar numbers over the short term?

Mr. Mostafa Askari: Sorry, you said the Department of Finance's numbers?

Mr. Greg Fergus: [*Inaudible—Editor*]

Mr. Mostafa Askari: No, obviously. They use a different survey with different numbers. The projected growth in that survey was much weaker for the first year specifically. As a result, that starting point is very important, especially for the fiscal forecast. It raises the level of GDP, which will have an impact on the fiscal revenues throughout the forecast, which might lead to a lower debt-to-GDP ratio than the Department of Finance is projecting, as you mentioned.

The Chair: Thank you, Mr. Fergus.

I believe Mr. Fréchette wanted to add one further comment.

[*Translation*]

Mr. Jean-Denis Fréchette: I will be brief.

That is a very good question. It pertains not so much to the accuracy of the data from one source or the other as to how we can compare those data. This is a very important part of our mandate. It has been part of the discussion over the years about the role of the PBO, which is to provide Parliament with different data from what the department provides. I am not saying that their data is not good, but rather that parliamentarians must be given the tools to compare the data from the department or other sources with data specifically prepared for Parliament.

[*English*]

The Chair: Thank you both.

Mr. Deltell, for seven minutes.

Mr. Gérard Deltell (Louis-Saint-Laurent, CPC): Thank you, Mr. Chair.

[*Translation*]

Welcome to the House of Commons, Mr. Fréchette and welcome to your senior advisors.

We are very pleased to have you here. The institution of the PBO plays a fundamental role for us. It is a precious gem that we must protect and enhance even further.

We are very proud to say that it is our political party that was so bold as to create this institution, something that bears mentioning. I say “bold” because the role of the PBO is to analyze the actions of the government in power.

In a previous life and in another legislative assembly, the National Assembly, my colleagues from the second opposition party and I suggested that the position of parliamentary budget officer be created, based on the experience of the House of Commons. My departmental colleagues said at the time that they did not want anyone looking at their work. That is exactly what your role is, and you do it very well. We want to preserve this institution.

There is something that is really bothering us. Two weeks ago, the Minister of Finance introduced the omnibus bill, Bill C-44, which includes division 7 of part 4. I would point out in passing that the government had promised not to introduce omnibus bills.

[*English*]

The Chair: We're going to stick to the economic and fiscal update. I think we need to. We'll have other opportunities to deal with Bill C-44. In fairness to the PBO and their people, that is the issue we invited them here to speak to today. They will be invited again at a later date, when you can make all of those points in probably greater detail.

Mr. Gérard Deltell: I'm sorry, Mr. Chair, but I totally disagree with your point of view. First of all, we're talking here about the independence of the PBO. That's exactly what we're talking about. If you want to control what questions we can ask, I will lose my independence.

I'm sorry, but as a member of Parliament I decide what I have to ask. Let the people decide at the end of the day if I'm doing my job well, as you did so well for so many years as a member of—

The Chair: I'm trying to keep us on track with what the PBO at this stage was invited here to do. I said in the beginning that they were invited to speak on the economic and fiscal update. You also said in your introduction how important a role they play, and I agree with that, but I do think we have to stick to the topic they were invited here to address. They will be invited again to deal with Bill C-44 and the line of questioning you're trying to go down.

For us to do our job as a finance committee, that's the ruling I need to make. I'm going to stick to questions on the economic and fiscal update at this point in time.

Mr. Dan Albas (Central Okanagan—Similkameen—Nicola, CPC): Mr. Chair, can I just seek some clarification here? If there were a substantive motion before us, everyone in this room would expect you to be able to arbitrate the business of the committee. But this is the one chance when a member of Parliament actually has five minutes to be able to represent their views and questions directly to people who are in the know. That is very important. For you to be dismissing a certain line of questioning when the member is one who arbitrates that is contrary to our representative process.

Mr. Chair, if it were in regard to a standard motion, I would understand and respect your ruling. This is not conducive to proper procedure when we're studying or discussing the parliamentary budget office.

• (1550)

The Chair: In fairness to the witnesses, they were invited here on the economic and fiscal update. As I said in the beginning, there will be other opportunities. We have the budget implementation act. This issue was debated somewhat in the House. It may eventually get to this committee for further discussion. I don't know, given what's happening in the House...or if we want to do a prestudy.

In any event, the issue for today's agenda is the economic and fiscal outlook, and that's what I'm sticking to. If you want to challenge the chair then you can do that.

Mr. Dan Albas: This is censorship, Mr. Chair.

Mr. Gérard Deltell: Mr. Chair, I totally disagree with your decision, but you're the chair, so I have the obligation to follow your ruling and I will. I totally disagree and am very upset at what I'm looking at now. As a parliamentarian for nearly 10 years, this is the first time that a chair has asked me not to ask that kind of question, but I will follow your rulings.

The Chair: Okay. Thank you.

[Translation]

Mr. Gérard Deltell: Mr. Fréchette, you have presented your April 2017 economic and fiscal outlook. If Bill C-44 unfortunately passes, would it be possible for you to present a similar outlook in a future Parliament?

Specifically, section 79.14(1) of the bill provides that:

Before each fiscal year, the Parliamentary Budget Officer shall prepare an annual work plan [...]

Further on, section 79.14(2) of the bill stipulates that:

The annual work plan is subject to the approval of the Speaker of Senate and the Speaker of the House of Commons [...]

Moreover, you have stated, loosely translated, that:

I am more apprehensive about the Speaker of the Senate than the Speaker of the House of Commons [...]. The Speaker of the Senate is appointed by the Prime Minister's Office, while the Speaker of the House of Commons is elected by his peers.

So could a document such as the one we are examining today still be prepared, despite the affront contained in Bill C-44?

Mr. Greg Fergus: Mr. Chair, I would like to raise a point of order.
[English]

The Chair: Go ahead, Greg.

[Translation]

Mr. Greg Fergus: You just indicated—

[English]

The Chair: Sorry. I was in a separate conversation, but I am ruling that question out of order.

[Translation]

Mr. Greg Fergus: I think it is an indirect question.

[English]

The Chair: If you want to come back, we'll not take the time away from you, Mr. Deltell, but I'm asking committee members to stick to the economic and fiscal outlook, and I just would point out —

Mr. Gérard Deltell: Mr. Chair, if you didn't have the chance to listen to my question, you missed something good, because I was asking questions based on that, and on some other issues.

May I ask Monsieur Fréchette to answer my question, because I think—

The Chair: Go ahead.

Mr. Gérard Deltell: —he paid attention to what I asked.

The Chair: Rephrase your question if you could, please, Mr. Deltell.

[Translation]

Mr. Gérard Deltell: Okay.

What are your thoughts on my question, Mr. Fréchette?

Mr. Jean-Denis Fréchette: Thank you for the question.

We produce this report twice a year for this committee, pursuant to one of the motions it adopted. Our role is of course to serve committees and parliamentarians. If the motion is still in effect in the next session of Parliament, we will certainly respond to this kind of request from the committee.

To answer your question, I would say that this kind of study could be conducted at the request of committees in the coming months, even in view of a potential reform.

That said, I will pick up on something you said. The public service does indeed keep a closer eye on this kind of report. The previous question from the government MP was a good one and I answered it by saying that it is very important to a committee such as this one that the PBO and his team are still able to prepare economic outlooks.

Thank you, Mr. Chair.

Mr. Gérard Deltell: Mr. Chair, I should mention that Mr. Fréchette's statement, which I read rather quickly, is from an interview he gave the daily, *Le Devoir*.

It is nonetheless very worrisome, Mr. Chair. The independence of the PBO will indeed be undermined if Bill C-44 is passed.

What other concern do you have about this kind of—

• (1555)

[English]

The Chair: We're not going to Bill C-44.

Mr. Albas questioned whether or not this was based on a motion. I'm going to read a motion that was passed at this committee. It was a motion by Ms. O'Connell on February 4, 2016. The following was agreed:

That, consistent with the Parliamentary Budget Office (PBO) mandate to provide independent analysis about the state of Canada's finances and trends in the national economy (as outlined in section 79.2 of the Parliament of Canada Act), the PBO provide an economic and fiscal outlook to the Committee the fourth week of October and April of every calendar year, and be available to appear before the Committee to discuss its findings shortly thereafter.

We're holding this committee meeting today pursuant to that motion. As I said earlier, Bill C-44 will come up at a proper time when you'll have all the opportunity in the world to raise your questions related to Bill C-44. We're not here for that purpose today. So let's get back to the economic and fiscal outlook.

[Translation]

Mr. Gérard Deltell: That is precisely what we are concerned about, Mr. Chair. The document we are studying today is based on the motion we had introduced, the purpose of which is to analyze the Government of Canada's economic and financial outlook. That is part of the PBO's mandate.

If, unfortunately, we have to provide our questions in advance or, worse still, we are told we cannot ask questions on certain topics, this would undermine parliamentarians' freedom of expression, Mr. Chair. As a member of Parliament, I cannot accept that.

It will ultimately be for the public to judge whether we have done a good job. It is not up to some speaker to judge. Unfortunately, that is what Bill C-44 is designed to do by giving the Speaker of the House of Commons and the Speaker of the Senate the power to approve or reject the PBO's work plan. Yet this is the very essence of our role as parliamentarians, and of the PBO's role. The position of PBO was created to be protected from any kind of political pressure.

I very proudly recall that it was our political party that created this position. I am also very proud to recall that, as a member of a provincial legislative assembly, the National Assembly, I suggested that it establish this kind of position. I am especially proud to see that our parliamentary committee has the privilege of welcoming the PBO, and I will certainly not stop myself from asking questions when the PBO is before us.

[English]

The Chair: I said I'd give you a little more time because I took part of your time. Do you have any questions on the economic and fiscal update that the parliamentary office has compiled and on the remarks the PBO made in his opening statement? Are there any questions—

Mr. Gérard Deltell: My main question—

The Chair: Is it related to the issues that are before this committee today?

Mr. Gérard Deltell: My main question will be, can the PBO assure us that he will always be independent and free to write, speak, explain, and address issues while you will have the control of the Speaker of the House and the Speaker of the Senate?

The Chair: If you want to answer that question, Mr. Fréchette, you can. If you don't want to answer now and leave it to a later date, we'll go on to Mr. Dusseault.

[Translation]

Mr. Jean-Denis Fréchette: Thank you, Mr. Chair. I never refuse to answer parliamentarians' questions.

Next Wednesday, in six days, I will publish a discussion paper with information for parliamentarians and their staff, specifically about the reform proposed in Bill C-44. This paper pertains not so much to the potential impact of this bill on the operations of the PBO, but rather to the potential impact on parliamentarians. I invite you all to pay close attention to that.

I will now answer your question about the independence of our office.

In the interview reported in the article you mentioned, I also said I am pleased that the independence of the PBO is recognized. We are certainly removed from the Library of Parliament. We will have our own budget, which is an aspect of independence. As to being completely independent, that is another matter. Thanks to the debate that we and other parties have raised, however, I believe this bill will be improved.

[English]

The Chair: Thank you for that response, Mr. Fréchette. We look forward to that document coming out on Wednesday.

Mr. Dusseault, you have seven minutes.

[Translation]

Mr. Pierre-Luc Dusseault (Sherbrooke, NDP): Thank you, Mr. Chair.

Mr. Fréchette, thank you for your testimony today. Like my colleagues, I am looking forward to seeing the document that will be published soon.

When I read your economic outlook, I was especially interested in infrastructure spending. You note that not even half of the money earmarked for infrastructure has been spent, although spending will pick up significantly over the coming year.

The government keeps saying that investments in infrastructure will lead to growth and keep the economy going. Has the fact that not even half of the funding has been spent had an impact on Canada's economic growth?

● (1600)

Mr. Jean-Denis Fréchette: Thank you for your question.

For the first period, 2016-17, that is, it is true that the government has not spent half the funding set aside for infrastructure. It has carried the remaining amount forward.

That said, this kind of delay is not unusual in view of the infrastructure investments that are earmarked for the provinces and municipalities. You come from a riding that includes the large municipality of Sherbrooke, and you know very well that it can be difficult at times. This somewhat delayed economic growth in the past year. Since these investments have been delayed, the growth can be expected in the next two years. Growth in GDP and delaying this infrastructure spending does of course have an impact on government expenditures and on the deficit itself. That is why the deficit is a bit higher than expected, although just slightly so in relation to what we projected in October.

Mr. Pierre-Luc Dusseault: I will talk about something that is not addressed in the report, namely, inclusive growth. This is an expression we use often. We want growth to benefit everyone and to reduce economic inequality in our country.

In your next reports, would it be possible for you to assess inclusive growth, that is, whether growth is benefiting everyone, not just a few people, at the end of the year? Can you include that in your economic outlooks?

Mr. Jean-Denis Fréchette: Thank you for the question.

That is not part of our forecasts. We have noticed, however, with regard to infrastructure spending—and this is getting away from social inclusion—that the goal in the first two years was to generate economic growth. My colleague Jason Jacques might wish to add something in this regard. In the medium term, by 2020, the objective is to boost productivity and efficiency. For the time being, there is no indication that infrastructure spending will generate that kind of productivity in the medium term.

That does not answer your question entirely, but increasing productivity and efficiency can have an indirect impact on social inclusion. We do not include it in our calculations, however.

Mr. Pierre-Luc Dusseault: My next question is on another topic.

Your outlooks indicate that the exchange rate and the price of oil are very stable. In recent years, however, these figures have fluctuated a great deal. Since the exchange rate and the price of oil are interrelated, when the price of oil fluctuates, so too does the rate of exchange.

I am wondering why therefore, in the current context, you have forecast nearly perfect stability in the exchange rate and price of oil.

Mr. Jean-Denis Fréchette: Thank you for your question.

I will ask Mr. Scholz to answer.

[English]

Mr. Tim Scholz (Economic Advisor, Analyst, Office of the Parliamentary Budget Officer, Library of Parliament): The two are related. In our macroeconomic model, the oil prices have an important effect on determining the exchange rate. The way we project oil prices is through futures prices. Right now the futures indicate that oil prices are going to be relatively flat across the projection horizon, which also contributes to the fact that our exchange rate forecast for the Canadian dollar is relatively flat at around 76¢ U.S.

The other force, I think, that's acting a bit in the short term is the interest rate differential between Canada and the U.S., which is

supposed to be slightly higher on the U.S. side compared to October. That has minor impacts, but really when you see a flat exchange rate, it's due to the flat commodity price outlook.

• (1605)

[Translation]

Mr. Pierre-Luc Dusseault: I was a bit surprised by some other figures. They are related to the exchange rate and price of oil. I believe these figures are from the Bank of Canada's April 2017 Monetary Policy Report. Consumption is expected to drop by 0.1%, in almost every year until 2019. A significant drop is also expected in net exports from 2016 to 2019.

How can you explain this expected drop in consumption and exports when the exchange rate is favourable for our companies in relation to the American market?

[English]

Mr. Chris Matier: Relative to the Bank of Canada outlook, we basically see a larger adjustment in terms of the slowdown in household spending. We also see a steeper decline in residential construction activity. We have about a 10% decline in that activity from its peak level. What offsets that and brings our overall outlooks into line is, as you identified, on the export side. We actually have a stronger export performance and stronger business investment too, but we basically just have a difference in view of the rebalancing in the economy.

The Chair: Last question, Pierre-Luc.

[Translation]

Mr. Pierre-Luc Dusseault: I would like to briefly discuss the fact that, in 2017, the departmental plans do not always match the budget statement.

To what extent will your economic outlooks change if the departmental plans and the main estimates are completed after budget 2017 and if they match? Will that improve your economic outlook?

Mr. Jean-Denis Fréchette: That's an excellent question. It's the topic of an internal debate, in particular with my colleague here. We're talking about an alignment of the departmental plans, the departmental main estimates and the federal budget. This alignment will certainly improve the type of reports we can provide to the parliamentarians.

I think this issue is still part of the procedural reform in the House of Commons. That said, the alignment of the different budget documents isn't the only issue. The various departments must also be able to do the right things at the right time. That's one of the comments being made regarding this reform.

It's a matter of delaying the main estimates by two or three months. However, based on the analyses carried out in past years, we realized that 65% of the measures had been included in the supplementary estimates (A) in May. This means that 35% of the measures hadn't been aligned. If all the main estimates are delayed until May, but this discrepancy remains, the issue will stay more or less the same.

That said, the alignment could result in some improvements. However, it would take a full cycle to see them.

Mr. Pierre-Luc Dusseault: Thank you.

[English]

The Chair: Thank you both.

Ms. O'Connell, for the last of the seven-minute rounds, the floor is yours.

Ms. Jennifer O'Connell (Pickering—Uxbridge, Lib.): Thank you, Mr. Chair.

Thank you all for being here.

I want to start with a question concerning the estimated federal debt as a percentage of GDP. It sounds like the finance department sees a decline in the deficit from 2021-22 to 2055-56. Help me if I'm misunderstanding this, but there seems to be a difference of opinion or in the modelling results between 2021-22 to 2035-36 based on these charts. I'm just curious because it sounds like the Department of Finance thinks that ratio will increase in that period but the PBO report seems to indicate that it will continue to decline from 2021 to 2056. Am I understanding this graph properly? It just seems to stand out to me that there's a difference in those years or a difference in the modelling. I'm going from the Library of Parliament's briefing note, but it's a figure and it pulls out these years.

I'm just looking for clarification as to what's so different in 2036.

•(1610)

Mr. Mostafa Askari: These are two separate reports completely. Every year we do what we call a fiscal sustainability report, which essentially is a kind of scenario in which we put together what happens in the very long run in terms of government spending, revenue, and then, based on projected demographic changes, we estimate the debt and the debt-to-GDP ratio over the very long term.

The Department of Finance also does a similar thing now, as they provided recently, but it's a completely different thing from what we are presenting right now. What we are presenting right now is a medium term economic and fiscal projection. This is what we are projecting is going to happen, whereas the fiscal sustainability report is more a scenario based on demographic changes and whether the government's fiscal situation will be sustainable over the very long term. Those are based on certain assumptions.

We would be happy to talk about the different aspects of that report, but these are two completely different things.

Ms. Jennifer O'Connell: Okay. Thank you. That explanation helps with the graph.

You somewhat answered the next question I have, which Mr. Dusseault also raised. Some of the justifications for the estimated contributions to growth are things like consumption and housing, but

this committee has recently studied and been concerned about increased household debt, for example, which includes housing and other consumption. If I heard your answer to that question correctly, your assumptions about continued growth are not based on consumption and continuing increases in housing, which is something we are somewhat concerned about, but, in fact, that you expect exports to fill the gap.

Am I understanding that correctly? If you could elaborate, that would be helpful.

Mr. Tim Scholz: Yes, that sounds about right. By the second half of 2017, we expect consumer spending to moderate and residential investment to contract as well into 2018, but this will be offset somewhat by a sharp pickup in business investment as well as a pickup in net exports.

Ms. Jennifer O'Connell: Okay. Thank you.

Again, to follow up on what my colleague asked, I'm wondering if the PBO has considered breaking down some of this analysis either regionally or demographically because, certainly, when we look at housing, we know there are certain regions where a drop or decline might have greater impact.

Are you able to break it down, or is your mandate and your modelling specifically to look at the big picture? Are you able to provide some of the kinds of regional and demographic breakdowns that would maybe help us in terms of policy considerations?

Mr. Mostafa Askari: This report that we do twice a year is at a very high level, macro level, so we normally do not get into regional issues or sectors, or those kinds of breakdowns.

We have done in the past, for example, a labour market analysis that looked at trends in different regions or different sectors. We have done a study recently on household debt. Those things happen, but they are not part of this process; it's different. We'll also do it sometimes in response to a request by a member of Parliament. Or if there's an issue that we think is important for parliamentarians to be aware of, we will do a study and provide it to them.

Ms. Jennifer O'Connell: Thank you.

Do I have time...?

The Chair: Yes.

Ms. Jennifer O'Connell: Your models are somewhat different from the Department of Finance's. Indeed, in this budget we had our first gender lens looking at the budget. Does your model take into account gender? I know you're looking at the overall macroeconomics, but do you provide any sort of lens in these models that deal with policy, or is it strictly based on the financial or economic modelling of GDP, growth, all of these things, and you don't take into account policy?

I remember when we had discussions previously in which we talked about things like the Canada child benefit, for example, and how some of that led to that consumption pricing. Do your models take this into account, or are they strictly at that high level? Again, using the CCB, you can see where it might have impacts on some of these models. I'm just curious, if you could elaborate on any of—

• (1615)

Mr. Jean-Denis Fréchette: It's an excellent question. In the GBA analysis, it's not the model itself as much as the analysis. Mostafa mentioned, for example, the labour market. We did include some elements of gender-based analysis in that, because we don't have a choice now; we really have to include that. It's the same thing with the CCB, the Canada child benefit program. That was included in the analysis, and we made some references to younger families, single mothers, and so on. In the analysis we do.

In terms of this kind of purely economic fiscal outlook, it's a little more difficult. We have the same situation with infrastructure. We had questions on infrastructure from a committee in the other place that raised the same issue, and that will probably raise it again this week because we're supposed to appear there to discuss the infrastructure program. They do have the same question. We try to include that in our analysis. It's not always easy.

I don't want to comment on the budget itself, but the budget was not a totally perfectly GBA analysis.

Ms. Jennifer O'Connell: Thank you so much.

The Chair: Thank you both.

Going to five-minute rounds, Mr. Albas, the floor is yours.

Mr. Dan Albas: Thank you, Mr. Chair.

I'm just going to register my concern with the process today. My comments were actually going to be solely on the report, but the moment we start arbitrating and not giving the same level of deference to members' questions as we do to a motion or a bill in the House of Commons, and where you have proactively, without another member of Parliament's raising a point of order about relevance.... To me, we're masters of our own proceedings in this place.

If someone is going a little too far or is being aggressive with a witness, I would expect you, Mr. Chair, or perhaps other members of the committee to call that person out through a point of order. But to dismiss the attempt or desire of another member of Parliament to be able to ask questions on a wide range of issues when we have experts such as these, I think is not a process that is positive for our Parliament. I would just hope that my comments would be taken with some weight simply because they are done with respect.

To the parliamentary budget office, thank you for being here today. I would first like to follow up some of the points I asked in October last year. You may remember that I was asking about the ability of your office to give regional breakdowns by demographics. Obviously one of the concerns we have in this country is our aging demographics and its pull on economic growth, just due to our labour issues and our ability to fund important government programs. Has there been any update? If I am correct, there was a lack of information that would allow that kind of analysis.

Could someone comment, please?

Mr. Chris Matier: Fortunately, Statistics Canada published earlier last year some more detailed fiscal data sorted by province and territory. We've been taking a close look at that, as well as on the economic side, and developed some methodologies and frameworks we can use to extend our fiscal sustainability reporting to the provincial and territorial level. We'll be able to look at the impacts of the varying demographics across Canada and isolate the potential pressures on spending, revenues, and economic growth.

Mr. Dan Albas: Thank you.

I do apologize, Mr. Chair, because my question is really regarding the fiscal sustainability report that the parliamentary budget officer does, which is outside of the scope of the motion today. So I do appreciate your latitude, because there is a public interest, I think, in continuing to ask these questions.

The next question is in regard to the Canada child benefit. Obviously provinces have different demographics. They also have different levels of spending programs. In Quebec there is subsidized day care that's widely available. Has there been any modelling to see how the CCB operates by region?

Again, if someone will not be not paying for child care through a private system but will instead be in a publicly subsidized one, there will be a change in behaviour in how those monies are received and used.

• (1620)

Mr. Jean-Denis Fréchette: Jason.

Mr. Jason Jacques (Director, Economic and Fiscal Analysis, Office of the Parliamentary Budget Officer, Library of Parliament): We published a report in September 2016 on precisely this issue with respect to the new Canada child benefit. Within that report there were some additional details, although less so on the regional side, for specific demographic groups and how they would be specifically impacted, especially in terms of after-tax income and disposal income, by the program.

Mr. Dan Albas: Okay.

Oh, and I'm sorry, Mr. Chair, it was another report by the parliamentary budget officer—

The Chair: It was on the economy and the fiscal and financial situation, so you can go ahead.

Mr. Dan Albas: I do appreciate the great latitude you're giving me to have another discussion outside of the topic here today.

In here it talks about net exports having a slight uptick in 2016 and maintaining some growth. Obviously this modelling hasn't taken into account things like softwood lumber. Do you foresee our net exports downgrading as a result? In my area, almost all of the large private employers are mills that sell wood primarily to the United States. There are various different types of wood, from your basic formation to high value-added wood.

Has there been any conversation about what the impacts of the increase in tariffs will be?

Mr. Mostafa Askari: Not specifically on softwood lumber or a specific trade measure, but what we have done, underlying this projection...because there are always questions now about the impact of the U.S. Obviously there are ideas that the U.S. government will introduce stimulus measures that will boost their growth. So that would have a positive impact on the Canadian economy. If they grow faster, we'll see the benefits of that. Based on the estimates from the IMF and the Bank of Canada, there will be an impact of about 0.5% on U.S. GDP as a result of potential fiscal and stimulus measures to tax cuts and infrastructure spending in the United States.

Now, that would have a positive impact on Canada. About 40% of that will be translated into Canadian growth. At the same time, however, we are seeing all these trade issues that are coming up. There's a possibility that there will be a negative impact from trade measures or the trade discussions on different things like softwood lumber and other sectors. We assume, in our projection, that those possibilities, those changes on trade, will offset the positive growth that will come from the stimulus measures in the U.S. That's a simple assumption that we have made. It covers all these different things. We haven't done it specifically for softwood lumber or any other sector.

The Chair: Thank you to both of you.

Before I turn to Mr. Sorbara, on the question of the United States, your report was tabled on April 28. You do say in the report that there's insufficient information to determine the precise impact of the new U.S. administration's policies on the Canadian economy, and then I think you basically say it will be neutral in its impact.

I listened to President Trump's speech on Saturday night. I've been in Washington a few times. You haven't looked specifically at any of the areas like softwood lumber, dairy, and energy that he's talking about at all, right? I can understand that. That's not a criticism. It wasn't on the agenda six weeks ago, other than softwood lumber.

So you're taking the position in the paper, or basically saying, at least at this stage in your economic viewpoint going forward, that it will be neutral in its impact. What might happen on our side is that we might get a benefit from what happens on their side of the border.

Mr. Mostafa Askari: Yes, that's correct. There are some positives and some negatives, and we have assumed that the overall impact would be neutral for Canada.

• (1625)

The Chair: I expect that's a road we're going to be going down some more.

Mr. Sorbara, you have five minutes.

Mr. Francesco Sorbara (Vaughan—Woodbridge, Lib.): Thank you, Mr. Chair, and welcome to everyone this afternoon. It's great to be back here for the start of the next couple of weeks.

First, I wanted to say a quick thank you. Being economic forecasters, there are a lot of inputs. You put data in and you then get data out. There is a lot of variability in some of those data inputs, which can change week to week. Where we saw a run-up in U. S. yields, there's been a rundown in U.S. yields just as quickly. Where we thought oil prices, based on WTI in U. S. dollars, would go up a little bit, they've come back down, obviously due to supply and demand balances, and not any sort of commodity funds moving the market or anything like that.

I read your forecast in the April 2017 "Economic and Fiscal Outlook" and wonder if you can identify two or three of your biggest risks to the forecast that you've provided us.

Mr. Chris Matier: In our outlook this time, to take into account the uncertainty around the economic outlook, we have provided a fan chart. Basically, this is a range of possible outcomes that have varying degrees of likelihood. The idea here is to stress that we're moving beyond just looking at one scenario and that there's a probability of other scenarios. Within that fan chart, we think about our risks on the upside and on the downside.

On the upside, we think that our most important risk is that we would have stronger household spending. Currently, we are projecting a pullback in spending by households over the medium term. It has surprised us for awhile that consumer spending has held up quite strongly and that growth has increased. We think that it's possible that, even though household debt levels stay really high, households become less prudent, let's say. That's our upside risk.

On the downside, we think that the most important risk is continued weakness in business investment. When we look in our outlook, we think that the conditions on the financial side and the economic side in terms of confidence, interest rates, and borrowing rates should result in business investment picking up quite strongly. Our downside risk, whether because of increased uncertainty or lack of business confidence, is that we don't get that pickup.

Those are the two main risks that we've identified, but we wanted to stress that there is a lot of uncertainty and that's why we put together these fan charts.

Mr. Francesco Sorbara: Thank you.

I do wish to note from your April 2017 “Economic and Fiscal Outlook”, if I can just quote it here, that the “PBO believes that the Government’s outlook for the budgetary balance over 2017-18 to 2021-22 is overly prudent.” I welcome those comments from your side and that you’ve acknowledged on page 2 the investments that we’re making in Canadians. In terms of running a moderate deficit, as I would call it, especially on a debt-to-GDP basis or a budgetary-balance basis, we’re investing in things like the indexation of the Canada child benefit and higher transfers to governments to fund investments in infrastructure and health care. I know you’ve commented on higher interest rates, which have somewhat reversed themselves lately and so forth, so I do wish to acknowledge that.

I wanted to get your take on the importance of maintaining a fiscal anchor from a projection basis, this being the debt-to-GDP ratio, which the PBO has forecasted.

Mr. Mostafa Askari: The government mentioned in budget 2016 that there is an anchor and that the anchor is the debt-to-GDP ratio. The government also mentioned that the budget would eventually be balanced, but no time frame for that was identified.

I think in any kind of planning, having some kind of a general target to achieve would be a good thing to have, as it would provide discipline for whoever is doing the planning. In this case, if we consider the debt-to-GDP ratio as a target of the government, we have identified in our estimates that based on our calculations and our own projection, it’s very likely that the government will achieve that target, that debt-to-GDP ratio. By 2021 it will be lower than the current actual debt-to-GDP ratio. But the deficit will remain as far as we are concerned and based on the government’s own fiscal projection. By 2021, we’ll still have a deficit.

• (1630)

The Chair: Thank you, both. You’re a little over time.

Mr. Liepert.

Mr. Ron Liepert (Calgary Signal Hill, CPC): It’s a general question. Has the PBO ever felt less confident in making economic projections?

Mr. Mostafa Askari: I guess people say that forecasting is a humbling business and there are only two kinds of forecasts, those that are either wrong or lucky. There was a question about accuracy, and I think this is always an issue for economic and fiscal forecasters, and any forecaster, in terms of how far you go and whether you’re confident or not. We are confident in what we are doing. We have a framework. We have a model and we use the most recent information, and we do our best with our experience and our judgment to do the forecast. The outcome depends on many different things.

Mr. Ron Liepert: You mentioned earlier—and here I use my own words, not yours—that the finance department was using somewhat outdated numbers to base its projections on and that you are using some different, more up-to-date numbers. I believe I’m right that I just read recently that U.S. first quarter growth was significantly less than the fourth quarter growth.

Mr. Mostafa Askari: You’re correct.

Mr. Ron Liepert: What was that attributable to and do you see that having any kind of impact on us?

Mr. Tim Scholz: Certainly it was lower than many expectations, including our forecast. The primary driver of that was a big pullback in consumer spending, which had been quite strong up until then. I think it’s too early to call it a turning point. One thing I was reading today is that there seems to be a big discrepancy between the surveys of consumer confidence and where consumer spending is expected to be and where it actually comes out. One thing to note about the U.S. GDP, especially in the first quarters, is that there have been some big revisions, notably in those first quarters. And this is something their statistics office has flagged, so I think we’ll probably want to wait and see for a couple of months as the revisions come in.

Mr. Ron Liepert: Yes.

Mr. Tim Scholz: But continued consumer spending growth at that level—it was close to flat—would be problematic for sure.

Mr. Ron Liepert: Because if I heard you correctly earlier, strong consumer spending is largely attributable to our economic growth projections. Is that right?

Mr. Tim Scholz: Yes.

Mr. Ron Liepert: So, if we run into the same bump the U.S. has run into, all of this could be out the window.

Mr. Tim Scholz: Yes. I think consumer spending is roughly 60% of the economy, so a sustained pullback would be....

Mr. Ron Liepert: I wanted to get clarification on a number that was mentioned by Mr. Fréchette. I believe you mentioned an increase in growth of \$10 billion. Is that correct?

Mr. Jean-Denis Fréchette: In real GDP?

Mr. Ron Liepert: Yes, I think so. In nominal GDP?

Just for my purpose, how does growth of \$10 billion...? To me it seems like we’re going into debt by \$20 billion or \$30 billion to grow by \$10 billion. That doesn’t sound like a very good business decision to me. Can you clarify that?

Mr. Mostafa Askari: I think the \$10 billion was the increase in the level of nominal GDP relative to the projection we had in the fall. That was just comparing—

• (1635)

Mr. Ron Liepert: I’ve got you.

Mr. Mostafa Askari: —our current projection with the projection at that time. It wasn’t just the growth. The GDP will continue to grow over the five years.

Mr. Ron Liepert: Okay.

I have one final question, and it relates to infrastructure. I continue to have trouble identifying infrastructure projects in my part of the country. You mentioned in your opening remarks that about half of last year's allocation is going to make it out the door within the budget year.

Secondly, I believe you said you were confident that the majority of the two-year allocation would make it out the door. What gives you the confidence?

Mr. Jean-Denis Fréchette: The confidence, I'll—

Mr. Ron Liepert: First of all, explain, if you could, what you found as to why it wasn't out the door more quickly, and then answer the question.

Mr. Jean-Denis Fréchette: Thank you.

In the first year of the infrastructure program, only half found its way in terms of spending. There were multiple reasons for that. One was the problem of allocating the money to the provinces and negotiating all of the.... That was one of the situations, and now the money seems to be flowing more rapidly.

Some of the money will flow next year, and next year, in 2017-18, or the upcoming year, 90% of the \$10 billion will be spent as a result of these accelerated negotiations or agreements between the federal government and the provinces.

It's not only a matter of the agreements. The agreements were signed, but allocating the money within provinces was a problem. There was also a seasonal factor. As you know, some parts of the country do not have a lot of infrastructure work during the winter, for example.

So that was the reason.

We have indicators of that because we monitor for the Senate's national finance committee the expenditures of all the infrastructure programs, and we report on it, which is what I alluded to earlier. We will appear before it again on Wednesday. We appear every three to four months before that committee and monitor the money that is flowing, according to the numbers that we have from Infrastructure Canada and other departments.

Do you want to add something, Jason?

The Chair: Mr. Shaw, do you want to respond? We're over time but that's okay. We'll go down this path.

Mr. Jason Jacques: I'll just add very quickly that some of the best data we have access to comes from provincial budgets. That provides the best go-forward look regarding how much infrastructure spending will actually occur, because, of course, the federal government is transferring the money to provincial governments, and then in turn, down to municipalities, with respect to the spending.

We perform detailed tracking of all the provincial budgets. It's a painstaking and occasionally thankless task. But for 2016-17, comparing what provincial governments indicated prior to the federal budget 2016 and the new infrastructure announcement and where they actually ended up, we can see that there's no net increase

in spending for the current year overall, but in 2017-18 there's actually a fairly substantial increase.

Mr. Ron Liepert: Okay, but are provincial budgets based...? Have they received the money, or are they preparing their budgets and just anticipating that they're going to receive the money?

Mr. Jason Jacques: That's a great question. It's in anticipation. That's why the provincial data is so critical, because it's actually their planned spending...the people on the ground across the country who are responsible for delivering these projects.

One of the key weaknesses in the federal data, of course, is that it's backwards-looking. It very much reports on the cash flows, and as has been pointed out to this committee and others in the past, those cash flows can occur, of course, after the projects have been undertaken, whereas with the provincial budgets, there is very good clarity regarding when the people who are actually delivering those projects think the activity will occur.

Mr. Jean-Denis Fréchette: As with some municipalities, as well.

The Chair: Did you want in, Mr. Shaw?

Okay.

Just for some clarity then, are you making a presentation to the Senate finance committee or banking committee on Wednesday?

• (1640)

Mr. Jean-Denis Fréchette: National finance.

The Chair: National finance. And are you able, in that documentation, to state where infrastructure money has been spent, as well as where it's projected to be spent across the country?

Mr. Jean-Denis Fréchette: Where, as in locations, municipalities?

The Chair: Yes, whatever infrastructure programs have been undertaken or proposed, I guess.

Mr. Jean-Denis Fréchette: Yes, we do, and we identify those that are like the green infrastructure, and so on, with great difficulty sometimes, to be honest.

The Chair: Okay.

We'll not have too much difficulty getting a copy of the Senate minutes.

Mr. Falcon Ouellette.

Mr. Robert-Falcon Ouellette (Winnipeg Centre, Lib.): Thank you very much, Mr. Chair.

Thank you very much for coming here. I really appreciate the work you do. Even though you might believe it's painstaking and thankless, I think we all thank you for that work you do.

I want to discuss the information that you provided in your documentation here. We provided you direction in a motion that was adopted on February 4, 2016. Essentially, it's a very wide range of things: provide an economic fiscal outlook to the committee on the fourth week of October and April of every calendar year, and be available to appear before the committee to discuss your findings shortly thereafter.

I was wondering if you could discuss what and why you choose the information that goes into this document, because I would like to ask more of a question about why certain information is not in this. For instance, you talk about infrastructure and oil, but not so much about housing, indigenous issues, and other groups that make up the national economy.

Could you talk about the evolution of this document and if there is a possibility in the future that, instead of having a very narrow viewpoint, we could have a larger viewpoint that would allow other committees, for instance, the human resources committee and others, such as the Indigenous and Northern Affairs Canada committee, a greater or better tool to guide their work.

Mr. Jean-Denis Fréchette: There is probably no limit to including all these topics. There is probably a limitation in terms of resources and time. Already, you've raised the issue of infrastructure. Of course, two years ago in the EFO, there was no infrastructure program, or not as detailed as this one. We are adding to the EFO year after year. Eventually, as I said, it's going to be a matter of resources and whether we can add all these topics you mentioned. We will have to look at it.

Mr. Robert-Falcon Ouellette: I asked because I think one of the issues is that if no one shines a light on it, it's very hard to understand what's going on. For instance, we're spending billions on indigenous issues and social housing, and how effective are those expenditures and what benefit do they have on the economy? What's the unemployment rate on reserves? A lot of these things no one really tracks very well.

Mr. Mostafa Askari: I think these are very important issues you are mentioning, and those things can be done separately from what we are doing here. I say this again because this is an overall look at the economy, how it is working, and how this is going to impact the fiscal situation and the bottom line, the balance of the federal government.

That's why it's an important issue that I'm sure the committee wants to know. Those other issues are also important, but those can be done in separate studies, and we certainly would be happy to consider requests from the committee on any of those issues, and we would do our best based on the resources we have to provide the answers to and analysis of those issues.

Mr. Robert-Falcon Ouellette: You mentioned, though, that you spent a considerable amount of time in a painstaking and thankless task of going through provincial budgets. There is another order of government, which is the nation-to-nation relationship with indigenous peoples, where we spend billions and billions and billions of dollars.

As an indigenous person, I would like to know the impact of those funds we're spending, not just simply isolated from the larger national picture, but the overall impacts. What are the productivity levels? How do they impact the economy? What are the unemployment levels? What are the education levels that come out of it?

Unfortunately, it doesn't seem.... Once in a while we get the Auditor General to delve into a few of these questions, but no one seems to do it on a continuing basis, and since there's really no independent parliamentary officer looking at it, it's very hard

sometimes for parliamentarians or even people in the department to understand what's occurring, or even to have a juxtaposition of those different viewpoints on what's important and what's not.

Mr. Jean-Denis Fréchette: We certainly do it. As I said, it's a matter of having the proper resources. I'll give you an example. We did a study last year on spending on education in first nations. That was independent, as Mostafa said. We're working right now on the water supply in first nation reserves.

We do these reports on an individual basis as stand-alone reports that are not necessarily linked to this, but it is part of the infrastructure program, as you know. That's what we do every time we have requests—the education one was based on a request. We will look at the requests and certainly pay attention to them and establish a timeline plus a methodology.

Can we meet all the requests that we receive? I can tell you, no, we cannot—not at the moment.

• (1645)

Mr. Robert-Falcon Ouellette: I wish you could meet everyone's requests.

Mr. Jean-Denis Fréchette: It's up to you and your government to provide triple—

Some hon. members: Oh, oh!

Mr. Jean-Denis Fréchette: —or even multiply our current budget by 10, and believe me—

Mr. Robert-Falcon Ouellette: The way things usually evolve, this report probably started as a very small report but has grown over time, with people asking for more and more things to be included. But I still believe that because it comes twice a year, it could be an important tool for various other committees and other parliamentarians to use—not only behind closed doors but also in front of the cameras—to hold government to account. As well, it's useful in enabling various departments to ask themselves what they're actually doing, and then to have to defend their figures against what you might have interpreted from the facts and figures.

That's just my vantage point, because I appreciate the work and would like to see more of it.

The Chair: Thank you both.

Mr. Dusseault, you're down to three minutes, and then we would go back to Mr. Grewal for five minutes.

[Translation]

Mr. Pierre-Luc Dusseault: Thank you, Mr. Chair.

I'll stay on this topic.

Do you think you have the necessary capacities to produce these types of economic outlook reports? What else would you need to improve your reports?

Mr. Jean-Denis Fréchette: I think the reports are already excellent. You're talking about this report. I think we regularly improve it, just like we improve our macroeconomic model. Like anything else, we can improve it over time.

What else would we need? As I was saying, we've been receiving a number of very interesting requests that we can't necessarily respond to. Are we making the most of our model, for example? Maybe we are, given our capacities.

Remember we have an analysis capacity of about 15 person-years, which isn't much to produce over 30 reports a year. We've rarely said no to projects, but some have been delayed over the long term. Also, not only do we need to develop a methodology for these projects, we also need a great deal of information and economic data, which sometimes takes time to collect. For example, the House of Commons Standing Committee on Health is conducting an extremely thorough analysis to develop a national pharmacare program. Two person-years are dedicated full-time to this analysis. The work will take a few months. We'll likely be able to share our results in the fall.

So, we don't always have the capacity, because we lack some resources. Regarding the level of accuracy of this type of report, I think we've been improving it over time.

Mr. Pierre-Luc Dusseault: I don't have much time left, so I'll ask you one last question regarding the public debt charges.

Several tables presented in the appendices, toward the bottom, refer to public debt charges. The figures are provided in billions of dollars. In the outlooks, the number goes from 25.6 for 2015-16 to 36.5 for 2021-22. That's a \$10-billion increase in public debt charges, even though the public debt is decreasing in relation to the percentage of the GDP.

How can you explain that, over the same period, the public debt charges will increase by \$10 billion, according to your forecasts?

[English]

The Chair: Mr. Shaw, finally the floor is yours.

Mr. Trevor Shaw (Economic Advisor, Analyst, Office of the Parliamentary Budget Officer, Library of Parliament): This is broadly a function of our outlook on interest rates. As compared to October, our medium-term projection for both long interest rates—the 10-year government bond—and the 90-day T-bill rates has increased. This has led to a higher projection for public debt charges as well.

I might add that we've also refined slightly our modelling approach for public debt charges. We've added additional detail around pension liabilities and other non-market debt of that sort. It's primarily a function of our higher interest rate outlook over our forecast.

•(1650)

The Chair: Does that clarify it for you, Pierre?

Mr. Pierre-Luc Dusseault: Yes.

The Chair: Okay.

Mr. Grewal.

Mr. Raj Grewal (Brampton East, Lib.): Thank you, Mr. Chair.

Thank you to all of our witnesses for attending today.

A lot of the conversation focused on housing. I want to get your comments on the recent changes that the Province of Ontario has made, and the impact these might have on your outlooks.

Mr. Tim Scholz: We didn't explicitly take into account those changes.

Mr. Raj Grewal: I know, because they were announced after your report.

Mr. Tim Scholz: It would have been a pretty tight timeline.

Mr. Raj Grewal: I want to know what your comments on the changes would be.

Mr. Tim Scholz: I think our outlook on housing has been fairly consistent for the last couple of years, in that we expect a correction in residential investment, and we expect it to fall more towards levels that are in line with historical norms.

On the other hand, it's very difficult to imagine the exact timing or catalyst for this correction, although we expect it to take place over the medium term. For macroprudential measures, such as those introduced in Ontario, one way of interpreting them would be that if they had an impact on the housing market, it might bring residential investment towards its historical share more quickly than we have forecast. It's very difficult, using our model without the microdata on housing, to determine the precise impact of those measures.

Mr. Raj Grewal: On your overall growth numbers, I guess Ontario's intention is to cool down the market, and you guys are already forecasting a correction in the housing market. The question is just where that number ends up in terms of your overall growth numbers.

Let's say something substantial happens. Could it really have an impact? From last year to this year, there was a 30% growth in Toronto real estate prices. Let's say on the flip side of the argument that it's a 30% decline. How would that affect the GDP number?

Mr. Tim Scholz: I think there are probably two key channels we would focus on.

One is household consumption and the effects on wealth. In our model, households consume out of their labour income as well as their non-labour income, and increases in housing prices can feed through to wealth, which can support consumption. So a decline in housing prices could result in a decline in household consumption.

The other effect would potential be on residential investment as well. A sharp decline in housing prices could result in less investment.

Between the two, it's about two-thirds of the economy, so 30% would be fairly sizeable. It's hard to speculate.

Mr. Raj Grewal: I totally agree that it's hard to speculate, but it seems like such an important metric in your overall forecast. That's why I thought there would almost be a separate chapter on housing and what impact that would have.

Mr. Chris Matier: We didn't provide that in this document, but I believe in December of last year we provided another document that gave more detail exactly on our views on the residential housing market. We highlighted at the time that we do have a very significant adjustment going on—an even bigger decline than the Bank of Canada is calling for. We also have a deceleration in housing prices adjusted for inflation, so we're not seeing, again, these 10% year-over-year gains anymore. They are basically levelling off at zero. Again, these are in terms of inflation-adjusted gains.

Mr. Raj Grewal: Would it not be prudent to update that document given recent changes in activity?

Mr. Chris Matier: It has been updated. Our outlook has been updated, and it underlies what's shown in here. We didn't provide additional detail. I think that would be—

Mr. Raj Grewal: That would be in the document.

Mr. Chris Matier: Yes. I would just say that we already have what I would consider probably as a very, I don't want to say, pessimistic or negative view, but one in which we see a very substantial decline in activity in that sector—probably much more than private sector forecasters or the Bank of Canada is looking at.

Mr. Raj Grewal: Okay. That's actually very interesting. You have already anticipated a very pessimistic view compared to, let's say, the big banks and the lenders out there.

Mr. Chris Matier: Yes. Again, at this time what we're looking at in terms of the share of the economy, as Tim was mentioning, is that the housing sector is at its historic peak, its highest level. We think there will be declines in activity and that the sector will move to something that's more, let's say, in line with those kinds of fundamentals than what we've seen prior to the run-up.

We do have interest rates rising over the medium term, but let's say if there were a larger than expected decline either on the price side or activity side, you wouldn't expect to see the Bank of Canada raising interest rates over that period. There would be monetary policy response, and probably a fiscal policy response as well.

• (1655)

The Chair: I just have a couple of questions, and if anybody has a supplementary question, we do have a little time.

In your paper on page 28, does that projection of the cost of personnel include the increased salary settlements based on the collective bargaining agreements that have been reached, and is that figure higher than what the government tabled in its budget?

Mr. Jason Jacques: The figure does incorporate the collective agreements that have been signed. As the starting point for our forecast for direct program expenses, and particularly for operating expenses, we start with the baseline produced within the government's budget, which incorporates the collective agreements and compensation.

We then make several minor adjustments to it—I would characterize them as minor, at least—on the basis of our own views with respect to interest rates as well as current analysis of some of the transfer payments that are made to third parties, for example for infrastructure spending.

The Chair: That was a question I had too. He answered that.

The other one was on page 18 on EI, employment insurance and how it's going to balance itself out over time. The EI premium rate is currently \$1.63 and I know it was reduced under both the previous government and the government before that over the years. Do you know what the high on the premium rate was? As we look at some of the things happening, especially in the lumber industry, this may become an issue.

Premiums are now at \$1.63 and are predicted to be \$1.65 in 2018. What was its high some time ago? Does anybody know?

I could have looked it up myself.

Mr. Mostafa Askari: I'm sorry, I'm not sure, but I remember it was something around \$1.90 at one point, but I may not be 100% correct there.

The Chair: Okay. I was just wondering, because it's supposed to balance itself out over a seven-year period. I think that is good information that you have in the report.

Does anybody else have one quick question they want to raise?

Pierre.

[*Translation*]

Mr. Pierre-Luc Dusseault: Thank you, Mr. Chair.

I have a quick question regarding the new practice seen in recent budgets, which consists of forecasting spending until 2028, in some cases. Do you have an opinion on it? Does it help you establish your economic and fiscal outlooks? What do you think of this new practice, which consists of spreading out spending over 10 years or two election cycles?

Mr. Jean-Denis Fréchette: As we said earlier, our forecasts cover two parliamentary cycles, which provides a little more information. Recently, the federal government did something more significant. It looked at its financial viability over the long term, and not only at its spending and so on. It presented an overview of the fixed spending over a very long period.

I don't really have an opinion on the other part of your question.

[*English*]

Do you want to add something to that?

[*Translation*]

Mr. Mostafa Askari: Only the infrastructure spending has been forecasted until 2028. The government has a long-term plan for infrastructure. As a result, this information had to be provided.

• (1700)

Mr. Pierre-Luc Dusseault: Budget 2017 also contains a housing item, for which spending is forecasted until 2028.

Mr. Jean-Denis Fréchette: Exactly.

[English]

The Chair: Thank you all for your presentations. Everybody got on the record for at least a moment with the witnesses, and no doubt, as mentioned in the earlier discussion, we will see you at some point on Bill C-44 on the proposed changes to the parliamentary budget office, and we look forward to your presentation to the Senate on Wednesday. I'm kind of interested in that myself.

The meeting will be suspended for a few minutes, and then we'll go to committee business.

• (1700)

(Pause)

• (1705)

The Chair: We'll come to order and reconvene on committee business. We're in public for a bit.

Just to give people an indication of what we have to try to deal with, we need to decide on how we're going to handle the budget implementation act. Do we start do to a prestudy? We've got until.... We really think it pretty well has to be wrapped up, as we have to do clause-by-clause sometime around May 29 if it's going to get through the system, so we need to talk about that.

Also, there may be one or two motions that people want to lift off the table. There are several on deck.

We also have to talk about the budget for the pre-budget consultations in the fall. That will have to be in camera, because we're going to talk about the locations and the amount of monies that we can take forward to the Liaison Committee to request for a budget.

We can start with Bill C-44, the budget implementation act. As I indicated in the initial discussion, if we're going to get it debated and through this committee, we need to be looking at clause-by-clause sometime around May 29. Last year, for the one in the spring of 2016, we did prestudy meetings with Department of Finance officials. We had four meetings on it. One was with the Minister of Finance, two of those meetings were outside of our regular sitting days, and then we had one meeting on clause-by-clause. I do know from what I'm hearing—and I'm imagining that others are hearing the same—that we have quite a number of people who want to be here, with everything from the Canadian Vinters Association to you name it....

What's the discussion on this? Where do we want to go? I have Pierre first, and then Gérard.

Go ahead, Mr. Dusseault.

[Translation]

Mr. Pierre-Luc Dusseault: Mr. Chair, I think it's too early to discuss this, since the bill hasn't passed at second reading in the House of Commons. It hasn't been referred to us for study yet. Although we can predict the result of the vote, I think it's a little early to discuss this subject. I would wait until the bill has been passed at second reading, so that we don't work for nothing.

I don't see any urgency to establish a specific time frame to study the bill. You mentioned May 29, but that date seems to have been chosen randomly. I don't understand why you chose it. We need to decide how much time we'll spend discussing the bill. That said, it's

too early to discuss it. We don't even know the result of the vote at second reading.

That's my recommendation, Mr. Chair.

• (1710)

[English]

The Chair: What I was saying about May 29, in looking at the parliamentary calendar and backing up what we would have to do in the House in terms of third reading and this going to the Senate, is that it's about the last day we could look at. What we did previously, and what under the previous government they did as well, was a prestudy, but that's up to the committee to decide.

We have Mr. Deltell and then Mr. Fergus. There's no motion on the floor.

We're just having a discussion here, Pierre, in terms of how we try to move ahead.

Mr. Deltell.

[Translation]

Mr. Gérard Deltell: Mr. Chair, my colleague from Sherbrooke is partly right. We don't know the result of the vote. We can assume the result. However, we don't know when the vote will take place. We can't predict that. It's likely a bit hasty. I understand we should start looking at a game plan. However, I think it's somewhat early to establish what exactly we'll be doing, and with who, when and how we'll be doing it.

That said, clearly such a large bill, which covers seven completely different sectors, will require many meetings and witnesses. Obviously, I can immediately assure you that our friend Mr. Fréchette will be on our list. However, how many other groups will be affected? The bill covers seven different sectors that should receive a proper assessment. For that to happen, we need to schedule days and meeting days. At this time, we can't determine when the process will take place, but we can expect it to last many weeks because the bill is quite large. If we want to carry out serious, thorough, professional and relevant work on behalf of Canadian taxpayers, we need to take the necessary time.

[English]

The Chair: Mr. Fergus.

[Translation]

Mr. Greg Fergus: For the reasons mentioned by my honourable colleagues, I think this study will be quite broad. We need to acknowledge that the committee must schedule time to study the bill clause by clause, without setting specific dates.

I imagine that, like me, my colleagues want to return as early as possible to their constituency to be closer to their constituents. However, we have duties to fulfill here. We may need to sit in July, or even later in the summer. That's why I think it would be good to look right now at the possibility of launching a pre-study. That way, we can plan our meetings better for the next two or three months.

[English]

The Chair: Mr. Liepert, then Mr. Dusseault.

Mr. Ron Liepert: First of all, doing a prestudy on bills is not an uncommon thing. We did it last year, and we've done it on several bills, so with respect to Mr. Dusseault, I would definitely want to have us start a prestudy as quickly as we can. There is no sense in kidding ourselves: we know that the government's going to make sure this bill gets to committee. It's the budget for crying out loud.

If I looked at the calendar correctly, I don't think we've got anything on next week. Let's take finance department officials, for example. If they come before this committee next week or after the bill has passed second reading, it isn't going to change anything. Their answers are going to be the same. I don't know why we don't get under way next week with a prestudy of this bill. Let's start off with finance officials, and try even to get the minister here next week if his schedule accommodates it. Then give us some time to have several witnesses come before the committee that are significantly impacted by this legislation. We mentioned the budget officer. I would like to get going on a prestudy as quickly as we can.

• (1715)

The Chair: Mr. Dusseault, then Mr. Albas.

[Translation]

Mr. Pierre-Luc Dusseault: Mr. Chair, I want to clarify a point. We seem to give ourselves random deadlines that come from nowhere. It's a budget bill, but there's no indication that the bill must be passed before we leave in June. We're talking about a massive 300-page bill. We must do things correctly. I don't know why we give ourselves random deadlines, such as the summer.

Mr. Chair, I want to know where the legislation or our rules of procedure indicate a deadline for passing a bill. I simply want to know where the idea that a bill must be passed by a given date comes from.

[English]

The Chair: Pierre, maybe that's directed at me and what I said. From my experience here and from looking at our agenda, I think Mr. Liepert said it correctly, that the key document of the government is the budget, and the government is going to want that to be adopted. Whether it's amended or whatever, that's to be seen. One of our problems in looking at our agenda from now until whenever we adjourn in June is that we only have so much time as a committee. People are asking for or suggesting that there be quite a number of witnesses. I expect that's true.

From my own point of view, and coming back to Mr. Liepert's point, if you can do a bit of a prestudy you would get some of the work done prior to the bill's hitting here. I doubt if the minister would come until the bill passes the House, but you could have departmental officials appear. While that would take a considerable amount of time given the number of clauses in that bill and the various areas those officials are responsible for, you would get some of the work done before the bill gets to committee. That's all we're suggesting, but it's up to the committee at the end of the day on how we proceed. We're going to have to do that work at some point in time.

Mr. Albas, then Mr. Fergus and Mr. Dusseault.

Mr. Dan Albas: Thank you, Mr. Chair.

I certainly appreciate that the budget implementation act is a major legislative cornerstone of the government's agenda and that it needs to be studied.

My hope is that if we do a prestudy we first of all get the word out as soon as possible that we are going to be doing this, so that people who are interested, groups that have issues.... I've heard a number of concerns back in my riding; however, I think we need to let people know we're going to do this.

Also, I think we want to also make sure that we don't end up in a pre-budget consultation state where we have so many stakeholders and such limited time that we don't get to ask as many questions. There is so much to study in this bill.

My suggestion, though, would be—and I'm glad to hear you confirm this or at least add it to your thinking—that the minister probably wouldn't want to come until after second reading. The reason is that I think it's better for us to have enough testimony on it that when we ask questions of the minister, having seen the facts and some of the responses, we can be prepared.

I would almost suggest that we save the finance officials, even the Minister of Finance, for sometime closer to the end, because I think there are a number of concerns.

I have just one question to you, Mr. Chair. Do you foresee that this bill is going to be studied in sections by different committees, or are we going to be doing the whole process here? Maybe you could update the committee on that end of it. I'd appreciate any thoughts you might have.

The Chair: I don't think it's really up to me to say. I think the total bill will come to this committee because it's all related to the committee.

Mr. Deltell mentioned seven areas. I had four. I think there is the PBO, the Canada Pension Plan Investment Board, the innovation hub, and then there are a whole lot of other things related to budget areas. That's what I have.

With regard to witnesses, I would suggest that we try to block those witnesses who are related—say, the parliamentary budget officer aspect that's in this bill. We should try not to mix the PBO with the CPP Investment Board. We should try, in that hearing—or one or two, whatever it might be—to have the witnesses basically on the same subject, and then there would be the whole general area. That would be my suggestion, but it's up to the committee.

Mr. Fergus.

• (1720)

Mr. Greg Fergus: Actually, it seems that the conversation is going in a way that I totally agree with. I am in agreement with my colleagues Mr. Liepert and Mr. Albas. It seems that we're moving towards a consensus on where we should go, so I'm with my colleagues.

The Chair: Mr. Dusseault, then Ms. O'Connell, and then Mr. Liepert.

[*Translation*]

Mr. Pierre-Luc Dusseault: Mr. Chair, in response to your comments, I want to remind the committee members that we don't serve the government and we don't work for the government. Our committee studies bills and other issues extensively, to ensure that the government is held accountable for its actions.

I want to remind the committee members that it's not necessarily appropriate to set random deadlines for completing studies. This doesn't allow our committee to fulfill its role. We'll need to analyze the bill clause by clause and ask questions regarding each clause to make sure we're doing the right thing and we're not making potentially costly errors. In some previous instances, these types of errors were identified after a bill was passed. We must take our work seriously.

We aren't here to serve the government and we don't need to adhere to the government's deadlines.

[*English*]

The Chair: Thank you, Pierre.

Ms. O'Connell.

Ms. Jennifer O'Connell: Thank you, Mr. Chair.

I agree with Mr. Liepert. I think last year's process worked well in finding that balance between starting the prestudy and actually getting the bill. The rationale for that, as Ron pointed out, is that there is certain witness testimony that we know we're going to have. We know we're going to have officials. We know we're going to have the minister. As to how that timing sorts out, the subcommittee can certainly look at it as well.

I think the risk we run into is that if we don't start on some of that work, knowing that the bill will get to us and looking at the calendar, it could mean extended sittings and cramming lots of witnesses in at once. I think we can all agree that's not always the most productive, although we have done it when we've had to. If we can start with some of this prestudy work, it would probably allow us to get better testimony and for all of us to be better prepared for the bill without having to sit all hours of the evening to get through it, given our calendar.

I do not think this is a repeat of the pre-budget hearings, to Mr. Albas' point, but I do think we can really focus and figure out how

best to schedule this. Thinking about it now, it does allow us that opportunity as well for us to put out notice to the witnesses who might want to appear. Then we can determine whether to break it down into four areas or more, whatever the case may be, and we can start planning that now.

As Ron also pointed out, we have the time available in the calendar. We should put it to good use and get started, because it is quite comprehensive. We saw that last year. This is a bill that will require a lot of our time and work, and I think we should get started as soon as we can.

The Chair: Mr. Liepert again.

Mr. Ron Liepert: To conclude, if I could, I feel there is consensus around the table that we get moving on it quickly. I would ask that you, Mr. Chair, convene a subcommittee meeting as quickly as you can this week to try to get things in order for next week, as quickly as possible.

The Chair: Are we okay with that? Could we go this far?

We'll convene a subcommittee as... We'll have to look at tomorrow's schedule, but I think it would be possible, with next week open on Monday, to at least hear from officials, to get a start. Then sometime next week we need to get word out that people who are interested in being witnesses need to talk to the various parties, and we need to get those lists together. We'll see if there's time tomorrow to hold a steering committee meeting, but I would say that at this stage, the clerk could be thinking of departmental witnesses.

Is that agreed?

Some hon. members: Agreed.

The Chair: Can we go in camera for a minute to look at some of these figures relative to...? We'll have a committee meeting to deal with the motions following the presentation by the revenue minister.

What are you laughing at, Dan?

• (1725)

Mr. Dan Albas: I don't know—can we, may we?

The Chair: Okay. We'll suspend and go in camera.

[*Proceedings continue in camera*]

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