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● (1100)

[*English*]

The Chair (Mr. Peter Fonseca (Mississauga East—Cooksville, Lib.)): I call this meeting to order. This is meeting number 77 of the House of Commons Standing Committee on Finance.

At our last meeting, I was unable to be here. I want to thank MP Hallan, our vice-chair, for chairing that meeting. I know it was an in camera meeting. From what I've heard, it was very collaborative, efficient and expedient, so I want to thank all members very much for all that hard work.

It's wonderful, at the start of 2023, to have Governor Macklem and Senior Deputy Governor Rogers joining us.

Pursuant to Standing Order 108(2) and the motion adopted on Monday, November 21, 2022, the committee is meeting, from 11:00 to 12:30, to discuss the Bank of Canada's report on monetary policy. Pursuant to Standing Order 108(2) and the motion adopted on Thursday, February 2, 2023, the committee is meeting with the Department of Finance, from 12:30 to 1:00, to discuss the Select Luxury Items Tax Act and Bill C-19.

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

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

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

For interpretation, those on Zoom have the choice, at the bottom of their screen, of “floor”, “English” or “French”. Those in the room can use the earpiece and select the desired channel.

I remind you that all comments should be addressed through the chair.

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

To commence, we have with us the Governor of the Bank of Canada, Tiff Macklem.

Welcome, Mr. Macklem.

Joining Mr. Macklem is the senior deputy governor, Carolyn Rogers.

Welcome, Ms. Rogers.

Please go ahead with your opening remarks. The members will then look forward to asking you questions.

Mr. Tiff Macklem (Governor, Bank of Canada): Thank you, Mr. Chair.

Good morning, committee members.

I am very pleased to be here with Senior Deputy Governor Carolyn Rogers to discuss our recent policy decision and the monetary policy report.

In January, we raised our policy interest rate by 25 basis points to 4.5%. We also said we expect to hold the policy rate at the current level, while we assess the impact of eight consecutive interest rate increases since March 2022. This is a conditional pause. It's conditional on economic developments evolving broadly in line with our forecast.

Since the last time we were with you, we've seen some evidence that our interest rate increases are starting to slow demand and rebalance our overheated economy. With inflation above 6%, we're still a long way from our 2% target. However, inflation is turning the corner. Monetary policy is working.

[*Translation*]

Before we take your questions, I’ll outline the impact our rate increases have had so far. Then I’ll explain what we expect to see this year. Finally, I will highlight some of the risks we face and how we will respond to ensure that inflation continues to come down and returns to our target.

Inflation in Canada has eased but remains high. Annual consumer price index, CPI, inflation moderated to 6.3% in December from its peak of 8.1% in June. So far, this easing mostly reflects lower prices for energy, particularly for gasoline.

With global supply chains improving and demand slowing here, at home, for big-ticket items that people often buy on credit, price increases for durable goods have also moderated. Prices for food and many services, however, are continuing to rise much too quickly. The Canadian economy remains overheated and clearly in excess demand, and this continues to put upward pressure on many domestic prices.

A broad range of labour market indicators have shown only modest signs of easing. Job vacancies have come down a little but remain elevated, the unemployment rate is near historical lows, and many businesses continue to report labour shortages.

Overall, the restrictive stance of monetary policy is helping to rebalance demand and supply. Household spending is slowing, particularly for goods sensitive to interest rates like housing and furniture. More broadly, consumption growth appears to have weakened considerably in the second half of 2022. Some of this slowdown reflects the waning boost from the reopening of the economy, but higher interest rates have contributed.

● (1105)

[*English*]

We know that it takes time for higher interest rates to work through the economy to slow demand and reduce inflation. That's why monetary policy needs to be forward looking. Guided by what we've seen so far and our outlook for economic growth and inflation, we think it's time to pause interest rate hikes and assess whether monetary policy is restrictive enough to return inflation to the 2% target.

If economic developments are broadly in line with our forecast and inflation comes down as predicted, we shouldn't need to raise interest rates further, but, if evidence begins to accumulate to show that inflation is not declining in line with our forecast, we are prepared to raise our policy rate further.

In our January outlook, we expected economic growth to be close to zero for the first three quarters of the year. With growth and demand stalled, supply will catch up, and the economy will move from excess demand to modest excess supply. This will relieve inflationary pressures.

We expect CPI inflation to fall to around 3% in the middle of this year and reach the 2% target in 2024. We've already seen a momentum shift in goods' prices. For inflation to get back to 2%, the effects of higher interest rates need to work through the economy and restrain spending enough for supply to catch up. The tightness in the labour market needs to ease, wage growth needs to moderate and service price inflation needs to cool. Inflation expectations will also need to come down, and businesses need to return to normal pricing behaviour.

If these things don't happen, inflation will get stuck above our 2% target, and additional monetary tightening will be required.

There are risks around our projection. Global energy prices could jump again, pushing inflation up around the world. Inflation expectations could remain elevated in Canada, or increases in labour costs could persist. Overall, we view the risks around our inflation forecast as balanced, but, with inflation still well above our target, we continue to be more concerned about upside risks.

I want to leave you with a few key messages.

The decline in inflation since the summer is welcome relief for many Canadians who are struggling to keep up with the rising cost of living, but, at more than 6%, inflation remains too high.

To fight inflation, the Bank of Canada responded forcefully, raising our policy interest rate from 0.25% a year ago to 4.5% today. That is working to reduce demand and rebalance the economy. We're still a long way from our inflation target, but recent developments have reinforced our confidence that inflation is coming down. We are committed to getting inflation all the way back to the 2% target so Canadians can once again count on low, stable, predictable inflation and sustainable economic growth.

With that overview, the senior deputy governor and I would be pleased to take your questions. Thank you.

The Chair: Thank you, Governor Macklem, for those opening remarks.

I know that members are eager to ask many questions.

In our first round, each party will have equal time of six minutes.

We're starting with the Conservatives.

MP Hallan, you have six minutes, please.

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

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

Governor, in January's monitoring report, you indicated that upward pressure on prices stems from problems such as labour and difficulty sourcing goods such as building material or food, as you've highlighted today as well.

Would cancelling domestic policies such as the carbon tax, the escalator tax on excise duties and the luxury tax, which all have a negative impact on production, as we know, help to ease those supply issues?

● (1110)

Mr. Tiff Macklem: I guess I could say a few things on supply issues.

Many of the supply issues that have affected particularly goods' prices are global in nature. They have certainly been more intense and more persistent than we had expected, but I am pleased to report that they are working their way out. You can see in the monetary policy report a number of graphs that show shipping costs and delivery times. They are looking, maybe not quite normal yet, but much more normal than they've looked for some time.

The other aspect of that is that we've seen the demand for goods, largely with the increases in interest rates, especially larger goods, things like houses, furniture and appliances, which people often buy on credit.... Those are some of the first places you see higher interest rates feeding through the economy. They've been slowing, so with slower demand and better supply, you have seen goods' prices roll over.

With respect to your specific questions about taxes and carbon taxes, those are built into our projection. Yes, they have effects. Those are built into our projection.

Mr. Jasraj Singh Hallan: Then would you agree that eliminating those domestic policies, like the carbon tax, would help to bring down the inflation?

Mr. Tiff Macklem: The increases in the carbon tax that have been announced are adding about 0.1% to inflation in each year of our forecast.

Mr. Jasraj Singh Hallan: But we know it's still adding to it.

Would you agree that eliminating those domestic policies, including the excise tax, would help you to fight inflation?

Mr. Tiff Macklem: If the carbon tax was not increased, our estimates are that inflation in our forecast would be 0.1% lower in each year of our forecast.

Mr. Jasraj Singh Hallan: It would be lower. Thank you.

Do you still believe, like you've said once before, that inflation in Canada reflects what's happening in Canada today?

Mr. Tiff Macklem: Yes, I think the initial run-up in inflation was mostly driven by global factors. There were much higher energy prices, as I just talked about, global supply chains were really gummed up, and we saw a big surge in demand globally for goods. All that drove goods price inflation up very rapidly.

This time last year, service price inflation was actually was still about 2% in Canada, but over the course of the last year, it rose very quickly. That largely reflected what's happening here in Canada. The economy overheated. Then we got through omicron. Last year at this time we were just coming out of omicron and the economy has never really looked back. Nobody could tell us how many waves of this there were going to be. Fortunately, that was the last major wave. The economy reopened. Businesses were not able to keep up with the demand and you saw domestic prices increase quite rapidly.

Mr. Jasraj Singh Hallan: Just in that line, former Liberal finance minister John Manley recently was on record saying that the Prime Minister's fiscal policy is fuelling inflation rather than resisting it.

Would you agree that continued government spending at its current rate is working contrary to the Bank of Canada's attempts to address inflation?

Mr. Tiff Macklem: Parliamentarians, you have difficult decisions to take. Governments have many priorities. We take government spending as given. When Parliaments pass fiscal plans we build those into our projections. Those are built into the projections we have. We have inflation coming down to around 3% in the middle of this year.

What I will say is we are acutely aware that high inflation is hurting Canadians. Unfortunately, high inflation affects the more vulnerable members of society. They have smaller buffers. Much more of their spending is on necessities. They don't have the ability to cut back.

Mr. Jasraj Singh Hallan: Absolutely. We know that as well.

Would you say that, if spending over the last few years by the government had been lower, interest rates would not have had to be raised to today's levels?

Mr. Tiff Macklem: You can do these counterfactuals. Obviously, the more government spending there is—it depends what the government spending is on—if it's government spending that's adding directly to demand, yes, other things equal, there will be more growth and in an overheated economy that will put more upward pressure on prices.

Mr. Jasraj Singh Hallan: If the Liberal government continues to spend the way it is, going through even its own projections, will interest rates have to go up in your estimation?

● (1115)

Mr. Tiff Macklem: Certainly if demand in the economy continues to run ahead of supply in the economy and inflation does not come down in line with our projection, we've been very clear, that yes, monetary policy would likely need to be more restrictive. In other words, yes, we would have to raise interest rates further to get us [*Inaudible—Editor*].

Mr. Jasraj Singh Hallan: Is there a risk that, at current levels, this is what you'll have to do?

Mr. Tiff Macklem: There are certainly upside risks to our forecast. If those materialize, then yes, we'll have to raise rates further.

Mr. Jasraj Singh Hallan: Are you afraid that's it's because of government spending going up?

The Chair: Thank you, MP Hallan. Time is up.

We're now moving over to the Liberals.

MP Baker, please, for six minutes.

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

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

I just wanted to pick up on what Mr. Hallan was asking. My understanding of what you said in your opening statement, Governor, was that your current projections are for inflation to continue to come down gradually over the course of the next year or so towards your 2% target and you don't foresee at the moment any further interest rate increases.

Did I understand that correctly?

Mr. Tiff Macklem: Yes.

Let me be clear. What we're saying is, we've raised rates rapidly, in fact, historically at a very rapid pace in taking it from a quarter of a per cent to 4.5% in 11 months. We are seeing the effects of monetary policy working, but we know that monetary policy works with a lag. The interest rate increases that we've already brought in will continue to feed through the economy.

Our assessment right now is that it's time to pause and assess whether we've raised interest rates enough. If inflation comes in line with our own forecast, then yes, we've probably done enough. There are certainly upside risks to that forecast. If we need to do more, we will.

Mr. Yvan Baker: Is it fair to say there are upside risks and downside risks to any forecast?

Mr. Tiff Macklem: Yes, there are upside and downside risks.

As we outline in the monetary policy report, we think that the risks around our inflation forecast are reasonably balanced, but I would underline that with inflation still over 6%, we are more concerned about those upside risks.

Canadians have been enduring high inflation for too long. We are acutely aware that their patience is running out. The anxiety of high inflation continues. Inflation has come down from over 8% to a little over 6%. It is really important that Canadians see that inflation keep coming down to restore their confidence that we are going to get back to price stability.

Mr. Yvan Baker: I wanted to ask about the role of the federal government in fighting inflation.

The fiscal plan that the government laid out in the fall economic statement—the last “mini-budget”, if you will—would see a continued reduction of the federal deficit and the debt-to-GDP ratio, which is the ratio of debt to the size of our economy.

At this time, and given these plans that the government has, is the government's fiscal policy—its spending policy, effectively—working in line with the Bank of Canada's plans and efforts to lower inflation?

Mr. Tiff Macklem: As I said, we really leave fiscal policy to governments and parliamentarians. We take it as given and then we do what we need to do.

Through the depths of the pandemic, the government had very expansionary fiscal policy. Monetary policy was also exceptionally expansionary. That was needed. We went through the deepest recession in history. The good news is that we've had the fastest recovery. We now are on the other side of that and we're dealing with the side effects from that.

Getting back to the previous question, we've built in government plans and those are built into our forecast. If there are new fiscal spending plans, we'll have to take those on board. It will depend what the spending is on.

Some spending mostly adds to demand. In an environment where the economy's already overheated, that wouldn't be terribly helpful. Other types of spending add to supply and demand. For example, increased immigration adds new workers to the economy. New workers also have new incomes, so you have new shoppers as well. That's an example of a policy that would increase the sustainable growth rate of the economy without creating a lot more inflationary pressure.

We would certainly be looking at what the spending was on in assessing what we needed to do.

● (1120)

Mr. Yvan Baker: Do you believe that the provinces should follow the government's lead and restrain their spending to help combat inflation?

Mr. Tiff Macklem: As I said, we have a big enough job in monetary policy; we're not here to run fiscal policy.

The one thing I will say there, and this gets back to the previous question, is that we are acutely aware that inflation is particularly hard for low-income Canadians and Canadians on fixed incomes. Governments are concerned about their citizens. Federal and, particularly, provincial governments have been taking measures to try to alleviate the impact of inflation on their citizens.

There, I would suggest that the advice coming out of the IMF is quite good. We know inflation is affecting the most vulnerable members of society. Our job is to get it back down so that that problem gets solved, but through that transition there is a role to help the most vulnerable.

The IMF's advice, which I think is good advice, is to keep those measures targeted and temporary. Keep them targeted on those individuals who really need the help and who are really suffering—lower-income Canadians—and temporary while inflation is high. When inflation comes back down, we don't need those anymore.

The Chair: Thank you, Governor.

Thank you, MP Baker.

Now we go to the Bloc and MP Ste-Marie, please, for six minutes.

[*Translation*]

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

Mr. Macklem and Ms. Rogers, thank you both for being here today. We always appreciate your excellent analysis of the economic situation.

Mr. Macklem, you said that inflation had peaked in June at 8.1% and dropped to 6.3% in December. The monetary policy seems to be working, then. According to your projections or scenario, inflation could fall to 3% in the middle of 2023 and reach the 2% target by the end of the year or in 2024.

You and Mr. Baker spoke a bit about risk assessment and forecasts. If your forecast comes true, it would be the ideal situation, almost idyllic. That's what I would call the best-case scenario.

I'd like to hear your thoughts on the risks that come with other scenarios, which I'll get into.

I'll start with this. What are the recession risks right now?

I would also like you to talk about the possibility of U-shaped inflation. By that I mean inflation that continues to drop but starts to rise again at the end of the year because of a robust labour market and higher-than-expected economic growth internationally. What are the risks of that scenario?

Above all, I would like you to comment on the possibility of inflation holding at 3% or 4% annually, instead of returning to the 2% target, mainly because of the services sector. What are the risks of monetary policy not being able to bring inflation back to the 2% target quickly and inflation staying at 3% or 4%?

In that situation, would you pursue a more restrictive monetary policy at all costs, or would you wait to see how the economy responded in the face of a steady inflation rate of 3% or 4%?

I covered a lot there, so take all the time you need.

Mr. Tiff Macklem: You raised a lot of issues.

I think they underscore how important it is to stay humble when it comes to our forecasts.

You asked about risk, so I'll talk about that.

Yes, there are risks, and what I would say to every Canadian is that our job is to try to manage those risks. We don't know what the future will bring. There are always surprises in store, but we endeavour to manage the risks. That's why we are taking a pause at this time. We've done a lot, so we are using this time to assess whether the measures we've taken are enough. We don't want to do too much because that could slow the economy and cause inflation to drop below the target. At the same time, we need to see this through and do our job. If we only do things halfway, we won't reach the 2% target.

Now I'll come back to the risks, starting with the upside risks. Then, I'll talk about the downside risks.

According to our short-term projections, the greatest inflation risk is tied to higher oil prices, which are determined by world markets. In light of China's sudden reopening of its economy, demand for oil could rise. The price of gasoline could increase here, in Canada, as well. At this point, the price of oil has been relatively steady since we released our last estimates, but we understand that oil prices are highly volatile and can change very quickly.

In addition, we are seeing that inflation related to goods prices, especially durable goods, is beginning to ease, but service price inflation is still high. We are forecasting almost no growth for the first three quarters of this year. If that's the case, we think demand will drop and supply will adjust, creating a more balanced situation. Service price pressures will drop. However, there are risks associated with all of that. We haven't seen this situation yet. There is more uncertainty around service prices, and we know that wages will rise by about 4% to 5%. That isn't consistent with 2% inflation, unless there's a really strong boost in productivity, which we haven't seen in recent years.

During the last period, we saw businesses raise prices, with larger and more frequent increases. Price movement distribution has shifted significantly to the right, and we are already seeing that distribution return to normal. When we talk to people in the business community, they tell us that pricing changes will be closer to normal. We are keeping a close eye on whether businesses return to more normal pricing behaviour.

If wage growth doesn't decrease and if businesses don't return to more normal behaviour, it will definitely be harder to bring down inflation. Through our monetary policy, we would probably have to raise interest rates again.

● (1125)

[*English*]

The Chair: *Merci*, Governor.

[*Translation*]

Mr. Tiff Macklem: Really quickly, I just want to say that a larger than expected global recession is a possibility, and that would create more downward pressure.

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

[*English*]

The Chair: Now we're going to the NDP with MP Blaikie. This will be for six minutes, and to finish off our first round.

MP Blaikie.

Mr. Daniel Blaikie (Elmwood—Transcona, NDP): Welcome back to both of you here at committee.

Earlier you had mentioned that, obviously, oil and gas prices play an important role in determining the overall rate of inflation. You had said, with respect to the carbon tax, that by your calculation it represents about one-tenth of 1% of the current inflation that Canadians are suffering.

I'm curious to know whether you can offer us a similar number for the change in oil and gas prices. We've seen significant price increases. We see record profits for oil and gas companies. What share of inflation is attributable to oil and gas price increases?

● (1130)

Mr. Tiff Macklem: I don't have a precise number, but the global oil price now is pretty similar to what it was a year ago. If you go back over the year, oil prices were much higher. If you go back six months ago, that was a major contributor to the high inflation we had, if you go back to, say, last summer.

Since then, that contribution has been coming down and oil prices today are not that different than what they were a year ago, so that is falling out. That's one of the reasons why goods price inflation is actually the most important reason; why goods price inflation, which was very high, has started to come down.

Mr. Daniel Blaikie: Let's put it another way. We have seen inflation come down from about 8.3% at its peak to around 6% or just above 6% right now.

Mr. Tiff Macklem: That's correct.

Mr. Daniel Blaikie: To what extent do you think the decline in oil and gas prices over the last six months or so.... What portion of that reduction in inflation would come from that?

Mr. Tiff Macklem: It is the biggest contributor. Just to bring it down to the experience that Canadians have, it depends where you are in Canada. If you're in B.C., it's more expensive.

If you filled up your car last summer, it probably cost you more than $2 a litre. I think the Canadian average was around $2.10. Now, I filled up a week ago, and it was $1.55. That has been of some relief to Canadians.

Unfortunately, food price inflation is a different story. Food price inflation is still running at 10% or 11%.

Mr. Daniel Blaikie: If we're comparing orders of magnitude, you could say that a reduction in oil and gas prices has allowed inflation in Canada to come down in the order of about 2%—not 2% less inflation, but 2% overall. When we compare that to the carbon tax, we're talking about an effect on inflation in the order of about one-tenth of one percentage point.

That seems to be a considerable difference in orders of magnitude in terms of the impact of the carbon tax on inflation versus the impact of oil and gas prices in a period when oil and gas companies are making record profits. It seems to me that one is decisively more contributory to inflation than the other. Is that a fair claim?

Mr. Tiff Macklem: Yes, I think your arithmetic is accurate.

Mr. Daniel Blaikie: Thank you very much. I appreciate that.

I am curious to know this. I know that at various times the bank has pronounced on the wage expectations of workers and the effect that you believe that has on inflation. I don't believe there has been a statement—I look forward to being corrected on that if I'm wrong—about price increases by companies over and above their increases in costs, which is why, in a number of sectors, we are seeing record profits. I've talked about oil and gas. I think there are about 15 sectors overall that have seen extraordinary increases in their profits.

Can we expect a statement from you at any time soon about the role those extraordinary price hikes are playing in inflation?

Mr. Tiff Macklem: Well, I can speak to it right now.

What are we seeing? If you look at corporate profits, as you indicated, particularly in the energy sector, with much higher global energy prices over the last year, we have seen higher profits in the energy sector. If you look at it more broadly, and this goes a bit to the previous question, what we have seen is that...and I would say that we have learned something from this. What we saw was that with the economy in excess demand, when there were cost pressures, businesses passed those through very quickly to final consumers, and this unfortunately is a symptom of an overheated economy.

When an economy is overheated, when inflation is high and when people see prices of everything going up, it makes it easier for companies to raise their prices, because people can't tell: Is this a generalized increase or is it just this company raising their price?

What we've seen is that, yes, the distribution of price-setting behaviour of companies changed. Price increases were bigger. They were more frequent.

We are starting to see it normalize, and that process of normalization is one of those key things we're watching to evaluate whether we have raised interest rates enough to get inflation back to target, and if we don't see it continue to normalize, we will need to do more.

● (1135)

Mr. Daniel Blaikie: If you feel that it's warranted to say to workers that they should limit their expectations around what they take in, in exchange for what they offer, doesn't it stand to reason that a similar missive is due to corporate Canada? Say they should be mindful in their price setting that they don't trigger an inflationary spiral, because they also have the ability to impact expectations of inflation in the way that they set their prices?

The Chair: Give a short answer, Governor, please.

Mr. Tiff Macklem: I think that's what I was just saying. Companies need to normalize their pricing behaviour. That's part of getting back to 2% inflation.

Mr. Daniel Blaikie: Thank you.

The Chair: We're moving to the second round, members. MP Hallan is up first, I believe, for five minutes.

Mr. Jasraj Singh Hallan: Thank you, Chair.

Governor, it seems, in some of the things you said, that you're counting on a recession to address inflation, or at least a loss of growth over several quarters. In fact, many economists are also expecting a recession in the next 12 months.

What would that recession look like for Canadians, in your opinion?

Mr. Tiff Macklem: I'll give you an arithmetical answer, and then I'll give you a sense of what it's going to feel like.

Mr. Jasraj Singh Hallan: Please be concise with your evidence.

Mr. Tiff Macklem: Sure. Our own forecast is that growth will be around zero for the first three quarters of the year, and as we get later in the year, we expect to see growth start to resume. What that means is our forecast is around zero. You could get two or three quarters of slightly negative growth or you could get two or three quarters of slightly positive growth. Technically, it could be a mild recession or it could be very weak positive growth.

Either way, it's not going to feel good.

Mr. Jasraj Singh Hallan: When do you expect that?

Mr. Tiff Macklem: We're in the first quarter now. Our own forecasts are that growth will be lower in the fourth quarter than it was in the third. We don't know the last quarter of last year yet. Of the first three quarters, we're in the first quarter.

Mr. Jasraj Singh Hallan: I have to move on.

What if a recession doesn't happen? Can you effectively control inflation while the government keeps spending?

Mr. Tiff Macklem: If the economy doesn't slow down enough for supply to be able to catch up, yes, domestic inflation won't come down in line with our target and we will have to raise interest rates further—

Mr. Jasraj Singh Hallan: If that was the case, would it be better for you if the government capped its spending? Give a quick yes or no.

Mr. Tiff Macklem: I'm going to leave decisions on fiscal policy to governments and parliamentarians.

I will just say that if government spending contributes more to aggregate demand at a time when we're trying to cool the economy, then yes, that wouldn't be helpful.

Mr. Jasraj Singh Hallan: Thank you for that.

If Liberal inflation spending continues, at least at the current levels, and we continue to face labour shortages and a lack of supply, does Canada face the risk of inflation remaining high while growth declines, thereby causing stagflation?

Mr. Tiff Macklem: Yes, as I said, we're going to take whatever governments decide on fiscal policy as given. That's what we've built into our own forecasts.

Right now, our own forecast has inflation. We built in all the spending plans that have been announced. Right now, we have inflation coming down to around 3% in the middle of this year.

Mr. Jasraj Singh Hallan: However, if spending continues, that would have to change.

Mr. Tiff Macklem: If there's new spending that is over and above the spending that we built into our forecast, and particularly if that spending stimulates aggregate demand without augmenting supply, yes, other things equal, the economy would be stronger.

Mr. Jasraj Singh Hallan: Thank you. I don't have too much time left, but I appreciate the answers.

As you indicated before, the government's increase in spending has contributed to inflation. In your words, inflation is “homegrown”.

At any point since June 2020, did you ever warn the Prime Minister, the finance minister, anyone in the PMO or anyone in any finance department that more spending would increase upward pressures on demand and inflation?

Answer yes or no.

Mr. Tiff Macklem: I talk regularly, as required by legislation, to the Minister of Finance—

Mr. Jasraj Singh Hallan: Did you ever warn them?

Mr. Tiff Macklem: —and if she asks me questions, I do my best to give her—

Mr. Jasraj Singh Hallan: Did you ever warn them?

Mr. Tiff Macklem: Those are private conversations.

Mr. Jasraj Singh Hallan: Okay.

Did you, at any point ever warn them about that? That's something that could be made public.

● (1140)

Mr. Tiff Macklem: I largely talk to the minister about monetary policy. If she shares her thinking and she asks me for my opinion, I give it.

Mr. Jasraj Singh Hallan: Were you ever worried about the spending in that time? You can tell me that.

Mr. Tiff Macklem: Certainly, as I've already said, if government spending contributes more than we've built in on more on aggregate demand—

Mr. Jasraj Singh Hallan: Which it did.

Mr. Tiff Macklem: —at a time when we're trying to cool demand to bring it in line with supply, yes, that would be a concern.

Mr. Jasraj Singh Hallan: In July 2020, you told Canadians “If you’ve got a mortgage or if you’re considering making a major purchase, or you’re a business and you’re considering making an investment, you can be confident rates will be low for a long time”.

Interest rates are now at 4.5%, 18 times higher than the 0.25% rate in February last year. You've also admitted that your previous statements that there would be deflation instead of inflation and that inflation would be transitory were a mistake.

Given this record, what assurances can you give Canadians that efforts you and the bank are taking today will work and not make Canadians' finances worse?

The Chair: MP Hallan, we are at time.

Governor, I'll give you 15 seconds, but we have to be pretty strict to get through this round.

Mr. Tiff Macklem: I think the assurance I can give to Canadians is that we have acted forcefully. As soon as we saw the momentum in the economy really picking up and inflation rising, we raised rates forcefully. It's starting to work, and Canadians can be confident. Canadians expect us to get inflation back to 2%, and we're determined to do just that.

The Chair: Thank you.

Now we're over to the Liberals.

MP Sorbara, welcome to the committee.

Mr. Francesco Sorbara (Vaughan—Woodbridge, Lib.): Thank you, Chair.

Welcome, Governor and Deputy Governor.

Governor, in your introductory remarks, you spoke about the imbalance between aggregate supply and aggregate demand. On aggregate supply things, there are things that policy-makers can and should do: encouraging productivity gains in the economy, putting in place policies and increasing the supply of inputs, one of them being labour.

Can you indicate the impact that policies are having on the aggregate supply picture in Canada with regard to labour, namely the implementation of a number of policies, including day care and the Canada child benefit?

Mr. Tiff Macklem: I'm going to go to the senior deputy governor and ask her to take this question. Thank you.

Ms. Carolyn Rogers (Senior Deputy Governor, Bank of Canada): He's worn out.

What we have seen in the labour numbers are some really positive indications that the participation rate of women in the labour force has increased. We think that it is likely attributable, at least in part, to improved child care. We know that child care is a barrier to women's participation in the labour force. It's also probably the case that the more flexible work environment that's coming from two and a bit years of hybrid work is also contributing to women's participation. That policy has helped, and immigration has helped to bring labour supply into the market.

Mr. Francesco Sorbara: Thank you.

On a different tangent, in the monetary policy report we look at the nominal neutral policy interest rate. The last time the assessment was done was in April 2022. The estimated range is currently around 2% to 3%.

When will that reassessment occur, and are there any indications on whether it is still within that 2% to 3% range?

Mr. Tiff Macklem: Once a year, we reassess our assessment of the neutral interest rate. In our next monetary policy report in April, we will be reassessing what our best estimate of the neutral rate is. I would underline that, whatever estimate we land on, there's quite a bit of uncertainty around exactly what the neutral interest rate is. It's not something we can observe directly.

The inflation-targeting framework is designed to deal with those kinds of uncertainties. If our estimate of the neutral rate was too low, that means that our inflation forecast would start to come in off what we think, and then we'd have to adjust to that.

Things like the neutral interest rate are not like a pandemic that just hits you. This thing probably evolves pretty gradually, so we'll start to be able to see some accumulated errors, and we can adjust. That is one of the benefits of the inflation-targeting framework. It addresses the fact that there are these uncertainties that we have to manage.

● (1145)

Mr. Francesco Sorbara: When the Bank of Canada sees the output gap closing, because it is on the positive side, generally in the past we would say that the output gap is on the negative side, and it's very hard to estimate. I'm assuming it's still hard to estimate on the positive side, but in a quarter reference, when do we see that output gap coming into balance?

Mr. Tiff Macklem: Let me answer that in two ways.

First of all, all the indicators suggest that the economy is clearly in excess demand. You referenced that there's a particularly a wide range of labour market indicators that suggest that the economy remains overheated. If our forecast is correct that growth is around zero for the first three quarters of this year, that gap is going to shrink reasonably quickly. It's always a little bit hard to say exactly when it's going to flip from positive to negative, because you get a small positive or small negative, but our own forecast suggests that it would happen some time in the first half of this year.

As I said, I wouldn't get too hung up on exactly when it flips. What you really want to watch for is excess demand really diminishing, because that's what will relieve those domestic inflationary pressures, and that's critical, particularly to get services price inflation down.

The Chair: Thank you, MP Sorbara.

Thank you, Governor.

We're now moving to the Bloc and MP Ste-Marie.

[*Translation*]

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

Mr. Macklem, I want to discuss something else entirely, the assessment of risks at the international level. As we know, the U.S. trade deficit is driving demand for Chinese manufactured goods. Those companies tend to reinvest their massive profits in dollars in the U.S. finance, insurance and real estate industries. Currently, we are seeing the joint development of big tech and Chinese finance. Some see that as a potential dislocation. Accelerating that change seem to be the war in Ukraine and the economic sanctions against Russia, which are resulting in the dislocation of finance.

How do you assess that risk in light of the international economy and the financial and monetary system?

Mr. Tiff Macklem: As you pointed out, there is tremendous uncertainty in the world.

Geopolitically speaking, the tensions between the U.S. and China, in particular, are clearly continuing to mount. In the short term, we are committed to bringing inflation down to target. Yes, there is a risk that a sudden event could affect supply chains. However, I'd like to talk about the longer-term situation, as I did in December, in British Columbia.

Over the past 20 or 30 years, China's entry into the global economy and its growing supply chains have helped lower the inflation rate, especially for traded goods. It is very likely that that will cease in the future. In fact, the opposite could happen, so we could see more pressure on goods prices for quite a while. That's something we have to take into account when setting a target inflation rate.

From time to time, some suggest that, once inflationary pressure has ended, it may be necessary to raise the inflation target. We think that would be a serious mistake for two reasons.

First, when inflation is low, Canadians can count on the fact that the cost of living will not change significantly. If inflation goes up every year, the rise in the cost of living will be greater.

Second, the situations you described could certainly happen in the future, but a higher inflation target would make it harder to respond to those realities.

● (1150)

Mr. Gabriel Ste-Marie: Thank you.

[*English*]

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

We'll now go to MP Blaikie for two and a half minutes.

Mr. Tiff Macklem: It takes me a little longer in French. Give us an extra 30 seconds.

The Chair: Yes, it's a little longer. We allocate for that.

MP Blaikie, go ahead, please.

Mr. Daniel Blaikie: You indicated, before, that you'll be keeping an eye on government spending and assessing how various kinds of spending contribute to aggregate demand.

There are a number of examples I might mention. I'll start with two.

One that might count as an expenditure is the government implementing a low-income CERB repayment amnesty, so that folks under the poverty line don't have to pay back CERB debt they owe. There are a lot of folks asking for this. It's reasonable for government to expect that people below the poverty line don't have the money to pay back that debt, anyway. There's a significant investment of resources, at the moment, in chasing that debt. Writing it off would count as an expenditure. I'm curious to know whether that is an expenditure you would see as one that contributes to aggregate demand. I think there are some very good reasons not to see that kind of expenditure in that light.

A second example I'd like to hear your thoughts on is investment in affordable housing. Obviously, that creates some demand in the construction market. There are finite resources there, although there are a lot of people in the trades who are currently unemployed, as well—supply and demand are not always a match there, even in the present moment. While construction resources contribute to demand in the short term, in the medium term and in the long term, they help augment supply to meet demand in housing. Housing people takes them out of market competition for rental apartments or...prospective home buyers who land in one of those suites.

How would the Bank of Canada interpret a large investment, for instance, in creating more affordable housing units or writing off pandemic debt?

Mr. Tiff Macklem: I'm going to ask the senior deputy governor to take that.

Ms. Carolyn Rogers: Let me start by giving you some ideas about how generally to take on our advice about spending because all members are asking the same question.

We publish a monetary policy report quarterly that tells you all the things we think are affecting inflation, where we think inflation's going to go and how we've arrived at our decision. We've also now started to publish a summary of our deliberations for each decision. If you read the summary of deliberations, you can see exactly what things our governing council discussed as contributing to the path of inflation.

You have a near quarterly update on those things that we think are affecting inflation.

As we've said, our current forecast is based on everything we know, including what we know governments, both federal and provincial, are planning to spend. As those plans change, you'll see us feed those changes into our monetary policy report and into our summary of deliberations.

You always have this opportunity to ask us the question, but you also have a quarterly update on our thinking on this topic.

The Chair: Thank you, Senior Deputy Governor.

Can you close off quickly, please?

Ms. Carolyn Rogers: I would say that the first plan you asked about is an example of a very targeted and temporary measure using the IMF framework.

On the second, the bank has talked for a long time about the need to get to a more balanced housing supply, but we would need to take the details of each spending plan on board and determine what effect they would have.

The Chair: Thank you, MP Blaikie.

Now we'll go to the Conservatives with MP Lawrence, for five minutes.

Mr. Philip Lawrence (Northumberland—Peterborough South, CPC): Thank you for appearing today.

I want to go over your models a little bit. You had mentioned that inflation has been driven, as it usually is, by the fact that demand has outstripped supply.

You had said that you built in the government spending. I assume that you do it based on the government's projection.

In the fall economic statement, they projected 2% in growth. If, in this budget—which is coming up in a couple of weeks—it was more like what this Liberal government has done traditionally, which is a spending increase of 7% to 8%, would that affect your ability to take a pause?

Would that affect inflation? Would that affect your models?

Mr. Tiff Macklem: Just to be clear on what we build in, we do our own forecasts and we build in whatever agreed spending profile the federal and provincial governments have.

We don't use the government's forecast. We do our own forecast.

Their forecasts are more based on—

● (1155)

Mr. Philip Lawrence: I'm sorry, Mr. Macklem, my time is short.

What have you projected for their growth in spending in 2023?

Mr. Tiff Macklem: I don't have the precise number.

Mr. Philip Lawrence: Would you please be able to provide that?

Mr. Tiff Macklem: To get to your question, if the provincial and federal governments spend more than we built in, and particularly if that spending is stimulating aggregate demand at the same time we're trying to cool it, we would likely have more work—

Mr. Philip Lawrence: Mr. Governor, I apologize for breaking in, but my time is limited.

Could you provide us with what you are projecting—what your models are—for spending for the federal government in the next two years?

Mr. Tiff Macklem: I can certainly follow up with the clerk and get you some more precise numbers.

If you look in the monetary policy report, we have a forecast for government spending.

Mr. Philip Lawrence: If you could provide it to me, that would be great.

If, in fact, the projected growth is less than what the growth comes in at, meaning that the growth is higher—sorry, it's less than eloquent—would that affect your models? Would that cause inflation to increase?

Mr. Tiff Macklem: Are you asking if the growth of government spending is higher?

Mr. Philip Lawrence: Yes.

Mr. Tiff Macklem: Yes.

That is something we'll build in. If it's materially higher and it's focused on things that particularly stimulate aggregate demand, yes, that could have an effect on our projection.

Mr. Philip Lawrence: Thank you, Mr. Governor. That's very helpful.

In your last appearance, I believe you gave some numbers with respect to the impact that inflation was having on Canadians and perhaps that's in the model. Could you share that with me?

For example, when inflation's at 6% as opposed to 2%, how much is that costing each Canadian? If you don't have the answer right off the top of your head, I'd be pleased to take it in writing.

Mr. Tiff Macklem: I can certainly follow up with the clerk and send you some representative calculations.

I don't have those in front of me, but I can tell you they haven't changed a great deal. Inflation has come down a little bit since we were here last time—

Mr. Philip Lawrence: If you could table that, Governor, that would be greatly appreciated.

Mr. Tiff Macklem: It's still impacting Canadians in very—

Mr. Philip Lawrence: There's one last thing I want to clarify—and I know my time is probably getting short here, Mr. Chair.

The Chair: You have a minute and a half.

Mr. Philip Lawrence: Thank you.

You did mention in the last exchange, I assume inadvertently, as you did last time.... You sort of miscommunicated a little bit on the carbon tax. The last time you said it was 0.1%—which you talked about—which is the carbon tax increase, whereas if we were to eliminate the carbon tax, the impact is more like a half a point on inflation as opposed to 0.1%. That's significant.

If you were able to bring inflation down, that's a big number. Just by taking the carbon tax off, based on your previous correspondence, that would be half a per cent. Would you agree with me that if we were able to get inflation down by half a point that would have a substantial impact? That would be more Canadians employed. That would be more Canadians who could afford groceries. That would be more Canadians who could afford rent.

Mr. Tiff Macklem: Yes. I will just draw a distinction. As you said, the increases that are agreed with regard to the carbon tax add 0.1% to inflation each year. If the carbon tax were eliminated, inflation, as you said, would be about half a per cent lower for one year. That would only be a one-year effect. You can only eliminate it once. It falls out once, and then the next year it has no effect.

Mr. Philip Lawrence: To reduce inflation by half a point even for one year.... That's a massive impact, right? I think you would be very pleased if we were able to do that.

Mr. Tiff Macklem: It's roughly half a per cent.

The Chair: Thank you, Governor.

Thank you, MP Lawrence.

Now we go over to the Liberals.

MP Chatel, please.

[*Translation*]

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

Thank you for being here today, Mr. Macklem and Ms. Rogers. Welcome to the committee.

As I listen to your comments, I'm really glad to see how sympathetic you are to what Canadians are going through. You want to keep this period as short as possible, you are taking measures and you are commending Canadians for the patience and resilience they have shown. That really struck me, so thank you very much.

I pay a lot of attention to the net debt-to-GDP ratio and how we rank against other countries. Canada has to make massive investments in order to be competitive in the global economy. I'd like you to talk about the U.S. Inflation Reduction Act. The Americans are in the process of making choices to best position their economy for the 21st century.

When a government like the U.S. government makes massive investments to ensure its sectors are well-positioned to compete in the economy of tomorrow, what impact does it have on inflation?

That spending won't drive consumer demand up immediately or directly.

What are your thoughts on that?

● (1200)

Mr. Tiff Macklem: These are not really monetary policy issues, but as you pointed out, the new U.S. law has changed the game with respect to competition.

I know that governments around the world, in Europe and in Canada are watching the impact this change in the United States is having on their country. It may affect how businesses make investments. It may lead them to invest elsewhere. So every country should be monitoring this. We need to see what impact it will have on our country and think about what we need to do.

In Canada, we have a carbon tax in place. We also have

[*English*]

“carbon capture and storage”. There are tax incentives to make that more attractive.

[*Translation*]

Different countries have different strategies, and it's important to look at what's similar or different about them.

Mrs. Sophie Chatel: Thank you very much.

As you said, it's important to be there for the most vulnerable Canadians. For our government, it's really important to be there for Canadians when they need it most. That being said, we also have to make sure that as we help Canadians, we don't leave them worse off due to interest rates.

You talked about funding certain programs. We recently announced investments in the provincial health care systems. I note that this is not something that will help increase demand. That's now well defined.

Is that kind of spending good for our economy, and won't it necessarily lead to inflation?

Mr. Tiff Macklem: You have some tough decisions to make. Health care is a key issue for everyone. Costs are rising, and people are aging. There are demands on health care. The government has many priorities, and it's a balancing act. You'll have to decide what the highest priority is and invest money based on that.

That is your role, and it's a difficult one. We have a difficult role to play as well, and we're focused on ours.

Mrs. Sophie Chatel: Thank you very much.

When you were talking about the International Monetary Fund (IMF) in the recommendations to governments, it was all about being there to help the most vulnerable, but in a targeted and temporary way. The government targeted health care precisely to help the most vulnerable Canadians.

Can you tell us more about that?

[*English*]

The Chair: Give a short answer, please.

[*Translation*]

Mr. Tiff Macklem: I don't have much more to say.

It's important to strike a balance and protect the most vulnerable. Inflation has serious effects on the most vulnerable. It's important to protect them but you don't want to add too much fiscal stimulus, because that would undermine efforts to reduce inflation. The solution is really to reduce inflation.

● (1205)

[*English*]

The Chair: *Merci,* MP Chatel.

Members, Governor, Senior Deputy Governor, you've been very efficient and you've answered many questions so we have enough time for a third round, members, if we stick to time.

The Conservatives start off with MP Morantz.

Mr. Marty Morantz (Charleswood—St. James—Assiniboia—Headingley, CPC): Governor, I want to follow up with you on a series of articles that have been written by Mark Rendell at The Globe and Mail, which I'm sure you're familiar with, where he talks about the fact that traditionally the bank has contributed its earnings to the federal treasury on an annual basis by remitting an amount, and most recently, over the last number of years, it's been about $1 billion a year. You've got this odd situation now where you've got billions of dollars sitting in the settlement accounts and you're now paying your overnight rate of 4.5% to the banks that were only earning 1% on the bonds you purchased from them before. Essentially, the bank, for the first time in its history is now in a loss position. Since we last spoke, you've now gone and made an arrangement with the Minister of Finance that she's going to allow you to keep your retained earnings.

Would you agree that, essentially, this arrangement amounts to Canadian taxpayers bailing out the Bank of Canada because of its quantitative easing program?

Mr. Tiff Macklem: I'm going to say a couple of things. Then I'm going to ask the senior deputy governor to respond to this very important question.

The first thing I want to highlight is that the Bank of Canada does not run monetary policy with a profit motive and whether we make gains or losses has no implications for the operations of the Bank of Canada or for our pursuit of our monetary policy or financial stability goals.

The second point, as you indicated, is that the Minister of Finance has indicated to us that we can, basically, retain future gains to offset the losses. Every major central bank has engaged with QE; we're all faced with a similar situation. In fact, Canada's balance sheet as a portion of GDP is smaller than most. This is a good solution and I'm going to ask the senior deputy governor to say a few words about just the mechanics of it and respond directly to your question.

Ms. Carolyn Rogers: The cash flow, or the mechanics of how this will work, as you describe is an odd situation; it's also a temporary situation. In normal operations in a normal year, the bank would return about a billion dollars to government or to taxpayers, as you've described it, for a brief period of time until we run off the settlement balances. We're already down to about half, so we expect that will continue to go down, but for that brief period of time, we will run a loss and we won't be returning that normal dividend to taxpayers—

Mr. Marty Morantz: I only have a limited amount of time.

Ms. Carolyn Rogers: Go ahead.

Mr. Marty Morantz: How much longer do you think it will take to reduce those balances in the settlement accounts to the point that you'll be in the black?

Ms. Carolyn Rogers: Well, we are about at half of where we were at peak. It depends to a certain degree on the path of interest rates, but—

Mr. Marty Morantz: Thank you.

Governor, earlier you seemed to indicate that you were uncomfortable talking about fiscal policy. You said you were going to leave that to the politicians.

Economists have written about this. There is a nexus between monetary and fiscal policy that can't just be ignored by a governor of a central bank. Economists like Neil Wallace and Thomas Sargent have written about this. I'm sure you're familiar with their writings. In fact, they've said that fiscal backup is necessary for monetary tightening to essentially be effective.

I'm wondering whether you're concerned. Firstly, a budget is coming up. Does it keep you up at night that the government may blow the bank again and increase spending dramatically and throw all your estimates out the window?

Mr. Tiff Macklem: First of all, we're not ignoring fiscal policy. However, fiscal policy is your job; monetary policy is our job. We take into account fiscal decisions and build them into our forecast.

Secondly, with respect to what the government will do...we put out our projection. We built in what they announced. We highlighted a number of risks around our projection. That was not a risk that we highlighted, because we think that governments will—

● (1210)

Mr. Marty Morantz: I guess I'm just wondering—

Mr. Tiff Macklem: I'll put it this way: Everything I've heard from this government is that they do not want to work at cross-purposes with monetary policy. That's certainly in the statements they've made.

Mr. Marty Morantz: We can only hope that's the case.

Thank you.

The Chair: Now we're moving to the Liberals and MP Naqvi, please, for five minutes.

Welcome to the committee.

Mr. Yasir Naqvi (Ottawa Centre, Lib.): Thank you very much, Chair.

Thank you, Governor and Deputy Governor, for being here. Thank you for your stamina to endure all of these questions.

I'm going to put my politician hat on.

Many politicians knock on doors often, as I do in my community. This is top of mind: cost-of-living issues, raises in interest rates. People are regularly talking about these things. The conversation we are having is an important conversation in terms of technical details, but it's really out of grasp for regular Canadians.

I want to ask you very directly, in plain language, when people are asking us the state of affairs when it comes to cost of living, making ends meet, paying for things, mortgage payments, what's the message we can deliver to them that they will understand about the future—about things to come—so that we can reassure them things will maybe get better?

Mr. Tiff Macklem: There are a few key messages.

The first message is that inflation is coming down. It probably peaked last summer. It was over 8% and it's now a little over 6%. It's coming down. We are very aware that 6% is still too high. Six is better than eight, but 6% is still too high. We are acutely aware that Canadians continue to be harmed by high inflation.

The second message is that the Bank of Canada has responded forcefully. We have raised interest rates rapidly. It's working. It is starting to rebalance the economy. Inflation is starting to come down. Over the course of the next number of months, we expect to see inflation come down considerably, so that by around the middle of this year inflation will be around 3%.

The third message is that at the Bank of Canada, we are committed to getting inflation all the way back to 2%, so that Canadians can count on low, stable and predictable inflation in the future.

Mr. Yasir Naqvi: As a quick follow-up, when people hear about a recession, the anxiety level goes up because the past experience around recessions is job losses, etc.

We continue to hear about a mild recession, a soft landing. Again, in plain language, what does that really mean for Canadians?

Mr. Tiff Macklem: You're right. A recession is a.... Economists use it as a technical word, but for most people, it's a much more emotive word. You say “recession” and they think big job losses...very, very painful.

We are expecting growth to be around zero. That does mean that we could have two or three quarters of a small negative growth, so technically economists would call that a recession. It would be a mild recession.

It's not going to feel great, but it's not going to feel like what people think of when you say the word “recession”. We are not expecting large job losses or a very large increase in unemployment. Five per cent unemployment is probably not sustainable. To get the labour market in better balance and get inflation down, the labour market is just too tight. It does need to get better balanced. That does mean that the unemployment is going to go up a bit to get that balance, but this is still going to be a pretty healthy labour market. This is not going to feel like the kinds of recessions that we had in 2008, 1981 or 1991.

Mr. Yasir Naqvi: Thank you.

Chair, I'll be sharing my remaining time with Mr. Baker.

The Chair: MP Baker, you have one minute.

Mr. Yvan Baker: Governor and Deputy Governor, how does our inflation rate compare currently with our comparable colleagues? I'm think of G7 countries like the U.S. and Europe.

Mr. Tiff Macklem: Well, across the G7, I think we have the second lowest. Japan is lower than us. I think we're the next.

But what I'd underline is that it's too high. It's too high pretty much everywhere. It is coming down, but we are acutely aware that we have a long way to go here.

● (1215)

Mr. Yvan Baker: How does our economic growth compare to that of those same countries?

Mr. Tiff Macklem: On both fronts, Canada is doing reasonably well on an international comparison basis. Growth has been reasonably strong in Canada.

If you compare it to other countries one quarter to the next, you're going to see some move ahead, but overall, our economy has performed reasonably well. We've had the strongest recovery on record and, yes, we are dealing with the inflationary consequences of that, but inflation.... It's too high, but it's at the lower end of where most of the countries are, and growth has been in the upper group.

The Chair: Thank you.

Now we'll go to the Bloc and MP Ste-Marie, please, for two and a half minutes.

[*Translation*]

Mr. Gabriel Ste-Marie: I have two questions.

First, Mr. Macklem, when you last appeared before the committee, you explained to us that the competitive system was not working because businesses were passing on the price increases for inputs to their customers.

Can you tell us if anything has changed with respect to the competitive system?

Mr. Tiff Macklem: I gave a speech in Quebec City a few days ago, and I showed them a very nice chart—well, nice for economists, anyway—on the distribution of price changes.

Normally, the curve representing distribution is high and closely centred around 2. Last summer, the curve was lower and wider, meaning that the distribution of price changes was quite dispersed, and it was centred further to the right on the chart.

Right now, the curve lies between its usual position and last summer's. It's moving back over, and that signals a return to normal. We're heading in the right direction but we're still a long way from normal. We're monitoring this very closely.

Mr. Gabriel Ste-Marie: Thank you.

The Central Bank of Australia has announced that it's removing the image of a British monarch from its banknotes.

Are you planning to do the same?

:Mr. Tiff Macklem That's a decision for the Department of Finance to make. We're more concerned about the security of banknotes. It's up to the government to decide who's represented on the bills.

Legally, there's no reason not to continue having the image of the Queen or King on bills.

Mr. Gabriel Ste-Marie: Thank you.

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

Thank you, Mr. Macklem.

[*English*]

Now we'll go over to MP Blaikie for two and a half minutes.

Mr. Daniel Blaikie: Thank you very much.

If the government were to provide a debt amnesty to low-income Canadians who owe for having been ineligible for the CERB payments they received, would the bank interpret that as a fiscal measure contributing to aggregate demand or neutral with respect to aggregate demand?

Mr. Tiff Macklem: We have not analyzed that, so I really can't give you an answer. If that happens, we will analyze it and we'll build in, but I don't know in front of me what the magnitude of that is.

Mr. Daniel Blaikie: Given that the money's been spent, and these are folks who don't have money available to repay, in what way could it contribute to aggregate demand?

Mr. Tiff Macklem: Well, I don't know. I haven't analyzed it and I'm not going to give you an answer on something I haven't analyzed.

Mr. Daniel Blaikie: Earlier you said that the one-time impact of eliminating the carbon tax would be a 0.5% reduction in inflation. Is that a net amount, or do you think that it's possible that eliminating the carbon tax all in one go could also have an upward effect on aggregate demand—

Mr. Tiff Macklem: That is just purely an arithmetic calculation. It's what economists would call "everything else equal". Inflation is at 6.3% now. The arithmetic impact of that would be that it would be 5.8% if you eliminated the carbon tax tomorrow.

Mr. Daniel Blaikie: Okay, and that's without doing any math on the effect of—

Mr. Tiff Macklem: To the extent that that has other effects on the economy then, yes, that would have a second-round effect and you'd have to take that into—

Mr. Daniel Blaikie: Then the maximum—

Mr. Tiff Macklem: Again, we haven't done an analysis of that, so I don't—

Mr. Daniel Blaikie: Fair enough, but if you allowed for the effect of that elimination on aggregate demand, the 0.5% is a maximum possible benefit. It could be lower, depending on how people spend the money that they would—

Mr. Tiff Macklem: It would depend on what happened, yes.

● (1220)

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

With the time I have remaining, I'm curious to know whether the bank has any thoughts on how spending in the housing market, particularly building new housing supply by government, affordable units, would be interpreted by the bank, in terms of its possible contribution to aggregate demand, or not. There's a complicated effect in that it creates demand in some areas over a short period of time, but it also helps alleviate supply problems over longer periods of time.

What are some of the factors that government might consider in order to spend in the right way, from the bank's point of view, and not have a net higher contribution to aggregate demand?

Ms. Carolyn Rogers: I think you've described them well yourself. We're a little bit into speculation mode here with these questions. It's difficult for us to give you precise answers in terms of what the overall effect on inflation would be. As you described, a carefully targeted program that built housing for the most vulnerable Canadians, for people with low incomes, would be an example of a targeted program. Again, without understanding the construct of any program, it's hard for us to give you a precise answer.

What we would say, as I said earlier, is that the bank has long pointed to the imbalances in the housing market as a problem. Adding to the supply of affordable housing, over the long term and again on balance, all things being equal, would be a good thing for the economy.

The Chair: Thank you, MP Blaikie.

Mr. Daniel Blaikie: I would like to make a general and concluding statement, Mr. Chair, that not all spending is equal—

Ms. Carolyn Rogers: Not all spending is equal.

Mr. Daniel Blaikie: —in respect of its impact on the aggregate demand that the bank would be looking to assess post-budget, and in respect of its decisions about whether the interest rate pause would continue or whether further action on interest rates would be warranted.

Ms. Carolyn Rogers: I think that's exactly what the governor said earlier.

The Chair: Thank you, MP Blaikie.

We're moving to the Conservatives and MP Chambers for five minutes.

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

Thank you for joining us again. It's a pleasure to have you back. There are some notable absences at this committee, which we may talk about in the next session.

Governor, you talked about the labour market a little bit. It's very tight. In the last six or seven years the government has added about 12,000 net positions each year, every year. In fact, it has just produced additional human resource plans. I'll give an example. For CRA, there is an additional $400 million to spend on staff in the tightest labour market that we've ever seen. We're trying to build supply to help with inflation, so do you think it's wise that a government is continuing to add people when there's such pressure on the labour market?

Mr. Tiff Macklem: Look, as I've said, governments have difficult spending decisions. They have to set priorities. What we're going to do is to take those into account and then do what we need to do.

The Bank of Canada is set up with operational independence. We have a clear goal and we have the operational independence to pursue that.

The spending plans, the spending the government has done, and its agreed plans are built into our projections. If the government changes those plans, we'll take that into account and do what we need to do.

Mr. Adam Chambers: Fair enough.

On a textbook definition of crowding out, you have almost a million job vacancies in the private sector. That's come down a bit, but those are round numbers. It was a million for a long time.

The government is actually hiring a number of people in a tight labour market. Those jobs, if they were filled in the private sector, would increase output capacity, wouldn't they?

Mr. Tiff Macklem: I'm going to leave fiscal decisions to you.

Whether it's on health, education or the CRA, governments have difficult decisions to make, and that's the role of Parliament.

Mr. Adam Chambers: Fair enough.

Would getting energy resources to tidewater increase supply? Would it help with the output gap issue?

Mr. Tiff Macklem: As new pipeline capacity comes online.... Built into our projection, based on the best available information, we have new pipeline capacity coming online that will get more oil to tidewater. That is something that will contribute to growth. It's built into our projection.

● (1225)

Mr. Adam Chambers: Currently, there are large wage settlement negotiations happening at the federal level. We know the private sector benchmarks a lot from what happens at the federal level with respect to wage settlements.

In your mind, what should people, businesses and the government be planning for in terms of what they think is a reasonable wage settlement offer over the next two to three years?

Ms. Carolyn Rogers: They should be planning for inflation to come back to 2%.

Mr. Adam Chambers: Is that it?

Some wage settlements at the provincial level have been higher, but not as much as some of the asks we're seeing at the federal level. You think it's fair to recommend that people expect inflation to come back down to target within a reasonable amount of time when they are making wage settlements.

Ms. Carolyn Rogers: That's what we're focused on. That's our advice to employers, as we mentioned to Mr. Blaikie earlier.

It's not our role to tell employers what their wage settlements should be. It's not our role to tell employees what wage settlements they should demand. It is our role to tell both employees and employers that we are committed to getting inflation back to 2%, and that you can count on that in settling your wage contracts.

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

The Chair: Thank you, MP Chambers.

We're moving to our last questioner, Liberal MP Baker, for five minutes. That will be the end of this round and this panel.

Go ahead, MP Baker.

Mr. Yvan Baker: Thanks very much, Chair.

Governor, I'll ask for your most concise answers as possible, as I want to leave a minute for my colleague Madame Chatel.

I want to confirm this for folks at home, so that my constituents in Etobicoke Centre or other Canadians who are watching this understand. What I hear you saying, Governor—I'm not trying to put words in your mouth, but I genuinely want to make sure we're very clear with Canadians—is that you've made a projection to the best of your ability of what inflation is going to be. You've taken into account all the various information you take into account to make that projection, including current plans for government spending.

Based on that, you decided to pause interest rate hikes, and you've projected, as you mentioned earlier today, that the inflation rate is heading back very close to target by the end of the year.

Am I adequately summarizing your—

Mr. Tiff Macklem: With one slight precision, I would agree with you.

Our current forecast is that inflation will be around 3% around the middle of the year and get back to the target next year. If economic developments play out as we've projected—in particular, if inflation comes down in line with that projection—yes, we don't think we'll need to raise interest rates further.

There are a number of things that have to happen for that projection to get realized. If inflation gets stuck and doesn't come all the way back to the 2% target, we're fully prepared to increase interest rates further to get it all the way back.

Mr. Yvan Baker: I hear you saying that Canadians should be prepared for the fact that you may have to raise interest rates again, but your current projection is for the rate of inflation to come down to 3% by the end of the year, and back down to the target of 2% that you're targeting and that Canadians are accustomed to next year. You've taken into account the best data you have, including current government spending.

Mr. Tiff Macklem: Yes, that's a good summary.

Mr. Yvan Baker: Thank you.

There is one thing I wanted quickly to ask you about. We talked earlier about the spending the government did during the COVID pandemic. You and I had an exchange about that earlier. Inflation is obviously hurting my constituents. It's hurting all Canadians, but to my mind, if the government hadn't made those investments.... I'm thinking about things like CERB and the wage subsidy. Approximately nine million Canadians, for example, had to take advantage of CERB.

The economic damage from not doing that—from not having programs to support Canadians—would have been devastating to our economy and to Canadians.

Is it fair to say that would have been far more devastating than the inflation we are facing here today?

Mr. Tiff Macklem: It is fair to say that we all faced a completely unprecedented situation. GDP plummeted 15% in a number of months. More than three million Canadians were unemployed and another more than three million were working less than 50% of their normal hours. Inflation actually started to go slightly negative.

There was a real danger that if the governments and the Bank of Canada did not take concerted, bold action, the sharpest recession in history could have become a depression.

Fortunately, the other part of it is that the health response was tremendous. The invention and distribution of vaccines was critical to getting us back to normal. The combination was that we had the fastest recovery on record and we avoided a much worse outcome.

One quick way of looking at it is to look at the projection the Bank of Canada put out in the depths of the recession. In fact, it couldn't really do a projection because there was so much uncertainty. It provided a band and if you look at the actual evolution of the economy relative to that band, it's right at the top end of the band.

Mr. Yvan Baker: Thank you.

● (1230)

The Chair: We'll go over to Madam Chatel.

[*Translation*]

Mrs. Sophie Chatel: First, Mr. Macklem, on behalf of all my colleagues on the committee, I'd like to thank you for being with us today. It's very reassuring to hear you speak to Canadians like this.

Earlier, you said the distribution of businesses' price changes, their price setting behaviour, is normalizing.

Could you send us the chart you spoke of? We'd really appreciate it.

Mr. Tiff Macklem: Of course. The chart is on our website, but I'll send it to the committee.

Mrs. Sophie Chatel: All right, thank you.

Do other countries have different policies?

What policies could be adapted to incentivize businesses to bring their prices back to normal?

Are there any precedents elsewhere?

Mr. Tiff Macklem: As far as monetary policy is concerned, the key to normalizing price distribution is reducing excess demand.

When the economy is in an excess demand situation and consumers start to anticipate that inflation will be high, the price pattern changes and it's easier to raise prices.

However, the competitive system works much better when we have a better balance between supply and demand. It then becomes more difficult for businesses to raise prices because they stand to lose customers and consumers.

That's why we had to raise interest rates, to better balance supply and demand and also reduce anticipation of inflation. The competitive system will work better, and price setting will normalize.

The Bank of Canada's deputy governor Paul Beaudry is giving a speech today in Alberta, and he will further expand on that.

[*English*]

The Chair: Thank you, Governor Macklem and Senior Deputy Governor Rogers.

We thank you for your regular appearances here before the finance committee to update us on monetary policy and how things are going. Members had many questions. We look forward to seeing you here in a number of months.

On behalf of the members, we want to thank you.

Members, we're going to suspend now as we go into our second panel to look at the luxury tax.

● (1230)

_____________________(Pause)_____________________

● (1235)

The Chair: Welcome back, members.

This panel will be on the Select Luxury Items Tax Act and Bill C-19.

From the Department of Finance, we have Mr. Gervais Coulombe, senior director, excise taxation and legislation, sales tax division, tax policy branch; Mr. David Turner, senior adviser, sales tax division; and Mr. Darren D'Sa, tax policy officer, tax policy branch.

Welcome, and I understand the opening statement will be from Mr. Coulombe.

[*Translation*]

Mr. Gervais Coulombe (Senior Director, Excise Taxation and Legislation, Sales Tax Division, Tax Policy Branch, Department of Finance): Thank you, Mr. Chair.

I am pleased to be here with you today to discuss the progress report that was tabled by the Department of Finance on December 2, 2022, which describes efforts by the department to address issues with the implementation of the Select Luxury Items Tax Act—including a summary of discussions and issues raised by impacted sectors.

[*English*]

In budget 2021, the government announced the introduction of a luxury tax on the sale of aircraft and cars with a sales price over $100,000, as well as on boats with a sales price over $250,000. This tax is calculated at the lesser of 20% of the value above the threshold, or 10% of the full value of the luxury car, boat or aircraft. The luxury tax came into effect on September 1, 2022.

This report addresses the following steps leading to the implementation of the luxury tax: the release of a technical backgrounder for public consultations, as of August 2021; the release of draft legislation for public consultations, as of March 2022; feedback received from stakeholders; internal consultations with CRA, CBSA and other governmental departments; linguistic, bijural and legistic review conducted by the Department of Justice; changes made in response to those public consultations; governmental news releases announcing details on the implementation, which were released in July 2022; an order in council made by the Governor in Council to fix the coming-into-force date of the luxury tax, released in August 2022; the release of draft regulations by the Department of Finance; the administration of the luxury tax by CRA and CBSA since its coming into force; additional measures since that coming into force; and, finally, a list of examples of typical stakeholders who met with finance officials over the last two years.

As detailed in this report, the Department of Finance consulted and discussed with sectors, on many different occasions, in an effort to address issues with the implementation of the luxury tax. Now that the luxury tax is in effect, administration and enforcement are ensured by CRA and CBSA. The first reporting period for the luxury tax ended on December 31, 2022. Taxpayers had until January 31 of this year to file their first return with CRA.

● (1240)

[*Translation*]

The department will continue to closely monitor the implementation of the tax.

Finally, as officials of the Department of Finance, we make best efforts to remain open and available to stakeholders, so that we can hear and understand any technical concerns they have with respect to the tax system, all while still ensuring that the government's tax policy goals and objectives are met.

This completes my opening remarks. I'm here with my colleagues to answer any questions that committee members may have.

[*English*]

The Chair: Thank you, Monsieur Coulombe.

We're going to get into the first, and only, round we will have with you and your colleagues, at this time.

Members, I'm looking at the time. Each party will have about five to six minutes.

We're starting with the Conservatives.

Please go ahead, MP Chambers.

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

Just off topic, but since I have the floor, I just note the Deputy Prime Minister has not accepted the invitation to come to committee. The governor has been glad to appear every time he's been invited. The only time the Deputy Prime Minister appears is when there's legislation to pass. If the government would like the legislation with the BIA, which is going to come in a few months, to pass smoothly, I think we should probably work on a better working relationship.

Anyway, let's talk about the luxury tax.

Thank you for appearing.

One of the things we heard from stakeholders was the government had not completed an economic impact analysis of the luxury tax. The Parliamentary Budget Officer indicated, just using vessels as an example, about a $2-billion loss of sales over the next five years for vessels. The aerospace sector industry group, just for business jets alone, believe there will be about 750 job losses as a result of the imposition of the luxury tax.

Does the Department of Finance agree with some of these economic analyses? Will that be part of your final report? I understand this first interim report was a little bit more on the implementation, but are these some factors you will be opining on in the next update?

Mr. Gervais Coulombe: As you correctly pointed out, that report is the first of two. The motion adopted by this committee in October included the presentation of a detailed written economic impact study. That study is being completed by the department as we speak. I understand it will be tabled by March 1 of this year. That will include more details on the economic impacts of the introduction of the luxury tax, but I'm not in a position to speculate on its content at this very moment.

Mr. Adam Chambers: Of course. Fair enough.

I want to note something that would be helpful for the committee, if I could offer some suggestions.

In other jurisdictions that have introduced a luxury tax, some have kept them, some have substantially amended them and some have removed them altogether for various reasons in Europe, and even in the U.S. If there's some discussion in the final report about why some jurisdictions decided to make changes or to abandon them, I think it would be helpful for the committee, and certainly for industry, which, because the government didn't complete its own analysis prior, has been trying to determine what the real impacts are to industry.

It sounds like you have a good open relationship with the various industries. Is that right? Are they sharing their information with you? Are you relying on some of the work they've done to inform the future report?

● (1245)

Mr. Gervais Coulombe: As stated in the report that we tabled in December to that committee, there have been ongoing consultations with the three economical streams, so basically the car, the boat and the aircraft industries. We have received on numerous occasions their feedback, including on some of the analysis you mentioned.

But, again, the economic impact study will be tabled before that committee later this month or by March 1.

Mr. Adam Chambers: Thank you.

So you wouldn't be in a position to say whether you agree with some of the assumptions made by either the Parliamentary Budget Officer or, say, the aerospace sector yet. Is that fair?

Mr. Gervais Coulombe: Given that this economic study will be tabled, it would just not be appropriate for us to start navigating into those issues. The committee would probably appreciate reading the report on the impacts of this first.

Mr. Adam Chambers: Absolutely. Certainly, we look very much forward to that as a way to give us some advice about how we might proceed in the future or how we could adjust perhaps some of the thresholds. I'll note the threshold for airplanes is $100,000. I'm not sure I want to fly in an airplane that costs less than $100,000, and so I would be open to some threshold discussions as well.

I wanted to thank the department for the work so far, which is helpful, but, of course, we're very interested in the economic impact statement. I know you worked with industry on some of the implementation issues, which you identified in the report. For us, the report that comes in March will be, I think, perhaps a richer discussion and have some feedback from the associations, but thank you for your work so far.

Thank you, Mr. Chair.

The Chair: Thank you.

We go over to the Liberals now.

MP Chatel, go ahead for five minutes, please.

[*Translation*]

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

I'd like to thank the witnesses for being with us today.

I have to mention what a great job all of you in the Department of Finance are doing to help Canadians. You make sure that Canada's tax system is fair and balanced, and that it gives the government the revenue stream it needs to make Canadians' hopes and dreams come true. It also keeps them healthy, as we've seen recently. This would not be possible without your hard work. Thank you very much.

I know you held very broad consultations, and I would like to hear your comments about that.

What are the key comments you received?

What challenges did you face?

How did you respond to them?

Mr. Gervais Coulombe: I can start answering the question, and then I will turn to my colleagues.

At the bottom of page 1 and the top of page 2 in the report, you will find the main comments received at our consultations on the technical backgrounder. At that point, no detailed legislative proposals had been released yet.

We received a lot of feedback, particularly from people in the aeronautics industry, who pointed out the absence of a business use test. That was part of the feedback taken into consideration when drafting the legislative proposals released for public comments in March of last year.

We also received feedback on the test for improvements made to goods subject to the luxury tax. People in the industries asked us to make sure that subject vehicles, aircraft and vessels sold below the price threshold will never be subject to the technical improvement tax rule. That was part of the feedback we received during consultations.

Mr. Turner, would you like to add something?

● (1250)

[*English*]

Mr. David Turner (Senior Advisor, Sales Tax Division, Department of Finance): Certainly. One of the other themes during consultation and moving the technical paper into legislation was, not surprisingly, bringing additional detail and specificity to all of the concepts, terms and proposals that were included in the technical paper.

The technical paper, given its nature, was presented at a higher level and intended to solicit expert information from participants in the industry itself, and it was effective in doing that. We received information on just how sales of planes, for example, work and how those will work with the proposed definitions. You saw many refinements made to the definitions themselves.

When the legislation was released in draft form in March of last year, the feedback continued, and there was increased request for specificity. Also, additional circumstances were brought forward, which we could then respond to in a fairly technical manner. This is pretty far down in the weeds, but these were the sorts of refinements that were made.

One example of that was that we received feedback from stakeholders regarding sales, the agreements for which were completed before a certain date, and whether those were receiving the appropriate and fair treatment under the taxation framework, so some modifications were made to those rules, which were reflected in the final legislation that this committee considered and studied last summer.

Mrs. Sophie Chatel: Would you say that the stakeholders were happy with the way you worked with them and your response to their concerns?

[*Translation*]

Mr. Gervais Coulombe: I'd say that the key stakeholders are always pleased when their comments are read and they participate in discussions. Generally speaking, people from industries were pleased to see that some of their concerns had been taken into account in the final legal provisions adopted by Parliament. Of course, not all of their recommendations were taken into account.

Our role is truly to implement government policy. However, the policy clearly stated that a tax would be applied to three types of luxury goods. Many expressed their opposition to a tax of this kind from the outset. It was introduced anyway, but with technical adjustments.

The Chair: Thank you.

Mrs. Sophie Chatel: Thank you very much.

The Chair: Thank you, Mrs. Chatel.

[*English*]

We'll go to MP Ste-Marie, please, for five-plus minutes.

[*Translation*]

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

First I'd like to welcome the three witnesses and thank them for being with us. We are finally able to meet. At the last committee meeting before the holidays, a tragic event prevented us from holding this meeting.

Mr. Coulombe, we recognize that you receive orders from the government, in this case the Minister of Finance. You are told to introduce a tax, and you must do it. That's your role. In previous sessions of Parliament, when this tax was introduced, I was surprised and even shocked to learn that there was no economic impact study to go with the introduction of this new luxury tax.

For example, the folks at the Aerospace Industries Association of Canada have said over and over again that they support the principle behind the tax. That's also my political party's position. However, we must keep perverse and negative effects from harming industry to such an extent that they neutralize the original objective to make the rich pay. I'm thinking in particular of the devastating effect that the aerospace industrial cluster had in Quebec and Canada.

When a policy like this is being rolled out, I find it unacceptable that no impact study has been conducted to assess it. It's even more obvious when we think of the sobering example in the United States. They brought in a similar tax in the early 1990s, but then withdrew it precisely because the impact had not been properly evaluated.

The Parliamentary Budget Officer expects that this tax will cause a shift in buyer behaviour.

Is a change in behaviour like this being considered in the impact study you are currently conducting?

● (1255)

Mr. Gervais Coulombe: Thank you for the question.

Again, it wouldn't be appropriate for me to start discussing the content, assumptions or methodology presented in the economic impact study. I'm sure you understand that the committee's motion was passed on October 22, I believe. So colleagues have been working for several months to complete the study.

Your panel today consists primarily of witnesses who are trained jurists. We truly specialize in drafting legislation. A team at the Department of Finance specifically deals with the economic aspects. You should be able to find the answer to your question in the report to be tabled within two weeks.

Mr. Gabriel Ste-Marie: Actually, I was expecting the team in charge of the economic aspects and carrying out the study to come report to us and tell us how far along they are. We could have discussed it more thoroughly.

The Parliamentary Budget Officer is expecting a change in behaviour. I would simply like your team in charge of the economic aspects to be advised that we—at least that's my position and the position of the majority of my colleagues here, I believe—we expect that change in behaviour as a result of the tax being introduced to be factored into their study. I'd like you to convey that message to them.

With respect to the aerospace sector, HEC Montréal professor Jacques Roy has done an impact study that takes that aspect into account. I want to make sure you tell your economist colleagues to ensure that aspect is taken into account. We need to see what their position is on this.

We're hearing that in the aerospace sector alone, 2,000 jobs are on the line as a result of the tax as it stands. As far as the impact study is concerned, we need to get an idea of how the department's study stacks up on that.

Mr. Gervais Coulombe: The only comment I'd like to add is that, as you mentioned, we were supposed to appear before the committee on December 9. That was postponed because of Mr. Carr's tragic death. So thank you for your comment about the timing perhaps not being ideal, but today is the day we were asked to appear on the first report.

[*English*]

The Chair: You have 30 seconds.

[*Translation*]

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

In closing, I'd like to address you, Mr. Chair, and my esteemed colleagues. I think we are looking forward to the economic impact study being tabled. We look forward to seeing it and analyzing it. I feel we might want to make sure that the people who did the study can appear alongside the Department of Finance team at a future meeting to answer specific technical questions about the assumptions used.

I'd like to thank the three witnesses for being with us today. I also thank them for their work.

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

[*English*]

Now we'll go over to MP Blaikie to finish off this panel.

You have five minutes.

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

I'll start with some honest feedback about the progress report that your department prepared. I have to say I found it disappointing. I think what I had hoped to see in a progress report were some lessons learned from the initial months of implementing the tax. It was very light on that, if there was anything. What it provides is a little bit of history as to how we got to the point of implementing the tax in its current form.

I've heard the answer many times—in terms of the impact of the tax overall, we're to wait for the economic impact study. I am interested to know, given that you've been in the process of implementing the tax now for several months, what you have learned. What kind of friction has there been in the implementation of the tax? What kind of information have you needed from companies, for instance, on the ratio of personal use to business use? What's the reporting regime for that? Is that beginning to come together? I know there were questions before the legislation was passed about what that would look like and how that would be reported. What are the new mechanics that your department has had to adopt to implement the tax as is, and what have you learned in that implementation?

That's what I was expecting to see in the progress report.

● (1300)

Mr. Gervais Coulombe: The luxury tax is to be remitted on a quarterly basis. Ths first quarter effectively covered the September 1 to December 31 period.

When a quarter is completed, taxpayers have until the end of the following month to file the return with the CRA and to remit the luxury tax revenues to the Receiver General for Canada. The reality is that that process was just completed a couple of weeks ago. As a result, the department has not yet received microdata with respect to how much revenue has been collected by the luxury tax. We will start receiving that information in the near future.

When we look at parallel new tax measures that we have implemented over the years, we see that it takes a few months after we start receiving returns to have a broader sense of the situation, the lay of the land.

That said, we have worked extensively with the CRA and with the CBSA to ensure that those two administrative agencies were providing technical assistance to taxpayers. My understanding is that the CRA website, in particular, includes a list of notices intended for the various audiences, those who have to register under the tax. In that sense, the lessons learned...are likely to continue to have a good working relationship—

Mr. Daniel Blaikie: I have a quick follow-up question before we run out of time.

Given the letter of comfort that was issued on November 29, 2022, with respect to sales of subject aircraft or subject vessels entered into before 2022, do you expect, for that first quarter, that there would have been aircraft sold that were covered by an agreement signed in 2022, as opposed to prior to 2022? In that sense, are you expecting any revenue from the luxury tax on aircraft for this quarter, or are you anticipating that the aircraft sold in that period would have been covered by pre-2022 agreements, and therefore not subject to the tax?

Mr. Gervais Coulombe: We booked for 2022-23, the first fiscal year, about $79 million of overall luxury tax. On the subject of aircraft, we're expecting to generate about $5 million of revenue during the initial fiscal year.

I don't have the breakdown as to whether those revenues were expected to come in the first reporting period or the second. The technical adjustments that we made, including through that comfort letter, were in respect of aircraft that we did not consider to be part of the base. In that respect, I don't expect to see a huge impact on the revenue profile.

Again, I'm speculating here. We will see....

Mr. Daniel Blaikie: Indeed, but it is a possibility that the first quarter would return no revenue from the luxury tax in respect of aircraft, given that comfort letter.

Is your projection for the entire 2022-23 fiscal year?

Mr. Gervais Coulombe: The numbers that I provided to you are in line with the fiscal profile we provided to the committee on May 3 of last year with respect to the first fiscal year.

The Chair: Thank you.

We want to thank Department of Finance officials for appearing before us and for your testimony for this study.

Thank you on behalf of the committee.

Members, that concludes our day, so shall we adjourn?

Some hon. members: Agreed.

The Chair: We are adjourned.