Transcript of panel discussion with
Tiff Macklem, Governor
(Canadian Federation of
Independent Business (CFIB))
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via webinar

Transcription des discussions d'un panel avec
Tiff Macklem, gouverneur
(Fédération canadienne de
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par webinaire

Ms. Pohlmann: Please join me in welcoming Bank of Canada Governor Tiff Macklem, and we're going to turn it over to you for some opening remarks.

Mr. Macklem: Well, thank you, Corinne, and good afternoon, everybody. It is a real pleasure to be here with the opportunity to talk to you from coast to coast to coast. We've got a lot to talk about. I'm looking forward to talking about the Canadian economy and particularly about our decision yesterday and how we're responding to high inflation here in Canada.

I am really looking forward to our chat. I'm really looking forward to getting your perspectives on what you're dealing with in the Canadian economy. Small business is such a vital part of our economy.

Yesterday, we raised the policy interest rate by 100 basis points, one percentage point. An increase of this magnitude at one meeting is very unusual, and it reflects the very unusual economic circumstances we're in. Inflation is nearly eight percent, and that's a level that has not been seen in nearly 40 years.

I want to explain why we made this decision, and there are three main considerations.

First, inflation is too high, and more people are getting more worried that high inflation is here to say. We cannot let that happen. Restoring price stability—low, stable and predictable inflation—is paramount.

Second, the Canadian economy is overheated. There are shortages of workers and of many goods and services, and I'm sure you're seeing that in your businesses. Demand needs to slow so supply can catch up and these price pressures ease back.

And third, our goal is to get inflation back to its two percent target with a soft landing for the economy. To accomplish that, we are increasing our policy rate quickly to prevent high inflation from becoming entrenched. If it does, it's going to be more difficult, more painful for the economy and for Canadians to get inflation back down.

With these important considerations in mind, the Governing Council decided to frontload the path to higher interest rates. It was our fourth consecutive interest rate increase since March.

On sait que les taux d'intérêt plus élevés vont ajouter aux difficultés déjà causées par la forte inflation, mais les tensions à court terme liées aux taux d'intérêts élevés vont faire baisser l'inflation à long terme. On va donc pouvoir laisser cette période difficile derrière nous et revenir à la normale. En ce moment, les choses ne sont pas normales. Après 30 ans d'inflation basse et stable, bien des Canadiens subissent pour la première fois une forte inflation et l'incertitude qui l'accompagne. Plus de la moitié des composantes de l'IPC affichent une hausse supérieure à 5 pour cent. Une inflation aussi élevée érode le pouvoir d'achat de tout le monde.

Les niveaux de l'inflation sont les mêmes au Canada que dans la plupart des pays. La guerre en Ukraine et les problèmes d'approvisionnement persistent à alimenter l'inflation au Canada et ailleurs, et ce qui a commencé comme une inflation mondiale causée par les prix élevés de l'énergie et des biens est en train de se généraliser au Canada.

Inflation is broadening in Canada because the economy is in excess demand. There aren't enough goods and services to meet the demand we're seeing as people enjoy a fully reopened economy. Employers can't find enough workers and they're increasing wages to attract and retain staff. With households spending robustly, businesses are passing on higher input and labour costs by raising prices.

Higher interest rates will help slow demand and allow supply time to catch up. We expect consumer spending to moderate as pent-up demand from pandemic restrictions eases and the cost of borrowing increases. Housing market activity is already cooling rapidly from unsustainably high levels during the pandemic, and slower global growth will reduce demand for our exports.

Taking all this into account, we're forecasting annual growth in economic activity will be around three and a half percent this year, about one and three-quarters percent next year and two and a half percent in 2024.

As global bottlenecks gradually resolve and tighter monetary policy works its way through the economy, inflation will start to come down. While we may see a few more months with CPI inflation around eight percent, we expect it to decline later this year, ease to about three percent by the end of next year and return to the two percent target by the end of 2024. This is the soft landing we're projecting.

Interest rate increases can cool demand and inflation without choking off growth or causing a surge in unemployment. Some sectors will be more affected by interest rate increases than others. But the very tight labour market means there's room to reduce the number of job vacancies without having a big impact on overall employment. And with the prices of many of the commodities we export expected to remain elevated, the global forces slowing growth will not affect Canada as much as many other countries.

But this path to a soft landing has narrowed because elevated inflation is proving more persistent. And this requires stronger action now so consumers and businesses can be confident that inflation will return to the 2 percent target.

Our decision yesterday takes the policy interest rate to 2.5 percent. That puts it in the long-run neutral range that neither stimulates nor restricts growth. We estimate that range to between 2 and 3 percent.

We continue to expect that interest rates will need to rise further to cool demand and achieve the inflation target. How high our policy rate needs to go will depend on the evolution of the economy and inflation. By frontloading interest rate increases, we're trying to avoid the need for even higher interest rates down the road. Frontloaded tightening cycles tend to be followed by softer landings.

This argues for getting our policy rate quickly to the top end or slightly above the neutral range.

Before we have our chat, I will say a few more words about the Governing Council's discussions as we took the decision that we took yesterday.

On a parlé des événements majeurs dans le monde qui font monter l'inflation et nuisent à la croissance. Pensons à la guerre en Ukraine et aux restrictions sévères en Chine liées à la pandémie. On a aussi noté que la résolution des problèmes mondiaux d'approvisionnement reste difficile à prédire. On a discuté du dynamisme de la demande intérieure qui devient un moteur plus important de l'inflation au Canada. Plusieurs indicateurs du marché du travail font penser que l'économie surchauffe, comme le taux de chômage qui n'a jamais été aussi bas, les pénuries de main-d'œuvre généralisées, et la croissance plus élevée des salaires.

We also reviewed measures of inflation expectations at some length. The prevailing view in consumer and business surveys is that the Bank of Canada will ultimately control inflation. At the same time, these surveys clearly suggest inflation expectations have moved up and are becoming more dispersed, with more respondents now seeing inflation or high inflation persisting.

Market-based measures of inflation expectations over the next two years, as well as the projections of professional forecasters, have also risen, though they remain consistent with the 2 percent inflation target over the longer term. While the Governing Council was reassured that the inflation target remains credible overall, we recognize this credibility is being tested.

Demand in the economy is running ahead of supply. Inflation is high, and uncertainty about future inflation has increased.

All of that led us to the decision we took yesterday to accelerate the path to higher interest rates. We did not take this decision lightly.

We are acutely aware that higher interest rates will affect Canadians who are already feeling the pain of high inflation. It can seem counterintuitive to add to the interest costs Canadians and Canadian businesses face in order to combat the cost of inflation. But it's by increasing the cost of borrowing that we will moderate spending and return inflation to target.

We need to get price changes back to normal. This matters because it gives Canadians, it gives businesses predictability to plan their spending and investment decisions, to budget and to live their lives and take decisions without having to worry about what prices are going to be next week, next month or next year.

The best way to protect people from high inflation is to eliminate it. That's our job, and we're determined to do it. The Governing Council is resolute in its commitment to price stability.

With that, let me stop here and let's open it up for your questions, and looking forward to a good discussion.

Ms. Jones: Well, thanks so much. That was a terrific overview and introduction for our audience, and I'm going to call on my co-hosts here for our chat. Corinne is going to join us, and Simone is going to join us.

Maybe I'll kick it off, Governor, with a question. To follow up on what you just said about price stability and the importance of price stability and needing to get price changes back to normal, what are the risks of inflation running so much higher than it has in decades and maybe what lessons can we take from that or what lessons are you taking, if any, from the 1970s, which is the last time this happened?

Mr. Macklem: Well, there are two parts to that question, so let me take them in turn.

You know, what are the risks? Well, there are a few risks and I'll talk about them, but the one that is really keeping us up at night, the one that is the most worrisome, is the risk that businesses, households begin to believe that the high inflation we have now is here to stay. If that happens, if high inflation becomes entrenched, it'll be much more difficult to get inflation back down. And that's the lesson from history.

One way this can materialize is if what economists call a wage-price spiral emerges. Businesses, they're having trouble attracting workers, they're having trouble keeping workers, so they start raising wages and they've got strong demand for their products, so they pass those higher wages on to higher prices. Households then face higher inflation. Workers want higher wages to compensate them for higher inflation. Firms offer those higher wages. That gets higher inflation and you can see this creates a self-perpetuating cycle. And if that happens, inflation expectations become unmoored.

And the lesson from history is that it's very difficult to re-anchor them, and that really feeds into the decision we took yesterday.

We did take a big step yesterday. Increasing the policy rate by 100 basis points in one meeting is very unusual.

We did that to frontload the path to higher interest rates. We did that to really guard against this risk that higher inflation could become entrenched. We really want to get a soft landing for the economy with inflation coming back to target, and the best way to get that soft landing is to try to get ahead of this, cool demand and keep inflation expectations well anchored.

There are certainly some other risks. The global economy is slowing. If it slows more than we expect, Canada's a very open economy, we will be affected.

You know, on the other side, households have actually got a lot of extra savings, we estimate between 200 to 300 billion dollars in extra savings because a lot of the things they wanted to buy they couldn't, a lot of the services in particular, a lot of what your businesses produce, consumers couldn't get and so they ended up saving a lot of extra money. Whether they use that to pay down debt or spend it remains to be seen.

So, there are certainly a number of risks. We're going to take our decisions one at a time going forward based on the best available information at the time.

Let me come back to your question about the 1970s, and it does relate to the first part of my answer, the risk of this wage-price spiral, because that's what happened in the seventies.

There are some similarities today to the 1970s, but I would stress that there are some important differences. So, what are the similarities?

Well, the first similarity is that in the 1970s, like today, the initial boost in inflation came from a big increase in the price of oil. We had the oil embargo in the 1970s, oil prices went way up. You know, this time we've had a very rapid recovery. We've got Russia's attack of Ukraine, sharply higher oil prices. That's affecting all your members. It's feeding through to shipping costs, transportation costs. That's showing up in the prices of many goods.

The other thing that's similar today than in the seventies, it's this big oil price shock hit at a time when the economy was in excess demand. The economy was already overheated. What is different, though, is that in the 1970s, the economy had been overheated for several years. Really, starting in the late sixties, the economy was running very hot. It had been running very hot for several years before the big oil price shock hit.

We're in a pretty different situation. We've just had the deepest, sharpest recession in history. The economy has had a very sharp rebound, the fastest recovery on record, and in the last number of months we have moved into excess demand. As the economy has reopened, the productive capacity of the economy has been unable to keep up with the demands of households who are enjoying a fully reopened economy, and that has clearly moved us into excess demand. But that excess demand is really quite recent—very different from the seventies.

The other thing that's very different from the seventies, in the seventies the monetary policy response was very gradual. And as I've already stressed, we have raised rates quickly now starting in March by 225 basis points. We took a big step yesterday.

As I said before, we're doing this to get ahead of this, to frontload our response, keep inflation expectations well anchored, cool demand, give supply some time to catch up and take the steam out of inflation.

And the final thing I would say that is quite different from the 1970s is, in the 1970s monetary policy was somewhat adrift. At the start of the seventies, Canada, the U.S., most countries abandoned the Bretton Woods system of fixed exchange rates. That was the monetary anchor, but it wasn't replaced with a new anchor.

Monetary policy was adrift. It responded slowly. Inflation expectations ratcheted up. There was a wage-price spiral and the result is we had very high inflation for a decade. It took, unfortunately, a very sharp recession in the early eighties to bring it back down.

This time, we've had a well-understood monetary policy framework of inflation targeting, for 30 years now. And Canadians and businesses understand that framework. That's why they were expecting us to take a big step yesterday. Everybody could inflation was too high. They know our job is to get it back down. People were expecting a big step, and the step we took was a bit bigger than most people expected, but even that, I think, was digested. While people were a bit surprised, I think when they reflected on it, they said, "Yeah, you know, inflation is near eight percent. This is warranted".

So, there are some similarities between the seventies, but there are some important differences, and those give us much more confidence that we can get inflation down in the next couple of years.

***Ms. Pohlmann*:** Small businesses, many of them do not have excess savings, as you know. So, what advice do you have for smaller businesses to help them manage through such a high period of inflation?

***Mr. Macklem*:** Well, Corinne, I'm not going to presume to give businesses advice on how to run their businesses. Look, you know your business. You know your customers, you know your employees, you know your operations much better than I do.

We are very aware that it's been a very tough two and a half years. Every business has been constantly facing changing conditions, economies closing, reopening, closing, reopening. You've faced many supply disruptions. When demand has rebounded quickly, it's been hard to hire all the workers you need to meet that demand.

I will say we have been very impressed with the resilience, the nimbleness, the innovation we've seen in the business sector in Canada, and that has a lot to do with why we've seen such a strong recovery in the Canadian economy.

The one bit of advice I would give is that we've been very clear that we are resolute in our commitment to get inflation back down. The economy does not work well when inflation is high. Businesses don't have predictability. We need to get back to a situation where things are more normal and you can count on more normal price changes.

And my one bit of advice is, the high inflation we see today is not here to stay. So, when you're entering into longer-term contracts, don't expect that inflation is going to stay where it is now. You should expect that it's going to come down.

So, where those are price contracts or wage prices, you should be expecting that inflation is going to come down. It is going to take some time for higher interest rates to work through the economy, but over the next two years we are confident inflation is going to come down back to our two percent target.

***Ms. Pohlmann*:** Thank you.

I think some of that you spoke to in the Monetary Policy Report yesterday, that you see inflation coming down by, was it 2024, if I think I read that correctly?

***Mr. Macklem*:** Yes. You know, just to give you a little more colour on that, inflation is high sevens. It's probably going to go a little over eight. We have the next CPI next week.

We know oil prices were very high in June, so I wouldn't be surprised to see it move up.

It is going to come down as we move into the second half of the year, but I'll be blunt. We've seen a big burst in inflation the first half of the year, and that's going to be in those year-over-year numbers for a while, so it's going to come down pretty gradually. As we get into next year, we'll start to see it come down a little faster. We think it will be about three percent by the end of next year and two percent in 2024.

***M. Gaudreault* :** Merci, Corinne.

Alors, Monsieur le gouverneur, je vais vous la poser, celle-là, en français. À la FCEI, on crée des sondages auxquels nos membres participent en grand nombre. Ça nous permet de publier de la recherche et des données exclusives qui offrent une perspective sur ce qui se passe pour les petites et moyennes entreprises au Canada. On sait que vous et vos collègues à la Banque consultez la recherche qui est publiée par la FCEI. Alors, j'avais le goût de vous demander à quel point c'est important pour vous d'avoir les perspectives des petites et moyennes entreprises dans le cadre de votre travail et comment vous utilisez ces données-là de la FCEI dans le cadre de votre travail lorsque vous prenez des décisions de politique monétaire.

***M. Macklem* :** Merci pour la question, Simon.

Comprendre les décisions des entreprises et les consommateurs dans l'économie, c'est toujours important pour nous. On a toutes sortes de statistiques, mais pour vraiment comprendre les enjeux et comprendre les décisions, ça c'est ce qui fait rouler l'économie. Donc, c'est toujours important. Surtout dans cette période de pandémie c'est encore plus important du fait que les conditions changent très vite, et donc, les perspectives peuvent changer vite et on reçoit les données officielles avec un certain retard. Donc, c'est très utile d'avoir ces sondages. On suit de près votre sondage Barometer Survey. C'est très utile.

On a, nous-mêmes, un sondage des entreprises que nous trouvons très utile. On regarde des petites entreprises, des moyennes entreprises et les plus grandes entreprises. La valeur ajoutée de votre sondage c'est que vous avez beaucoup plus d'entreprises petites et moyennes, et pour nous, c'est de temps en temps difficile d'accéder ces entreprises. Elles sont petites. Elles n'ont pas beaucoup de ressources, à part nos sondages, nos questions. Elles sont très occupées. Donc, votre analyse est très utile.

Une chose qu'on regarde de près c'est est-ce qu'il y a une grande différence entre ce qui se passe pour les petites et les moyennes entreprises et dans l'économie en général. Ce qu'on voit maintenant, par exemple, c'est que les tendances sont très similaires, mais probablement du fait que beaucoup des petites et moyennes entreprises sont dans le secteur du service, tourisme, par exemple, les restaurants, vous étiez plus affectés par la pandémie et la reprise n'est pas autant avancée que l'économie au total.

De plus, comme Corinne et Laura savent bien, moi et mes collègues parlons avec la direction du CFIB de temps en temps, et j'ai été frappé que c'est la première fois que le gouverneur parle directement aux membres de CFIB. C'est une bonne initiative. Donc, merci de m'inviter.

***Ms. Jones*:** Well, thank you. We're very happy to have you. And it is a first, actually, to have the Governor of the Bank of Canada speak directly to our members. And I think it's really valuable to get that intelligence. One of the things that our members take the time and care and consideration to do is fill out our many surveys, and Simon and his team work hard to make sure that that is distributed widely and that it is available to — certainly available to you as well.

I think we're going to shift now to some of the audience questions. They're coming in fast and furious. We have 40 in the queue right now, with many of them upvoted. And I'm going to try and weave some of them together as well, and then I'll ask each of my colleagues to do the same.

I think, you know, there are a number of questions. I'm going to take Boyce. Boyce's question is kind of right up at the top. And I think there are a number of questions that relate to this theme of the fear that the interest rate hikes and the focus on inflation will push the economy into a recession. And you talked about trying to engineer a soft landing and the window for that narrowing. I know you can appreciate that, given what small businesses have just been through, the thought of more economic challenges and pain is, you know, is, to put it probably mildly, is exhausting and very worrying and something that would be keeping many of our small business owners up at night. And so I wonder if you can reflect on that a little bit.

Boyce asks are there any other mechanisms which would be employed to combat inflation that doesn't put Canadian families under further pressure. And I know it's really tough for people in your position to — and I know this is one of the lessons from the '70s was that — the governor or the head of the — in the US, the Federal Reserve, there was a lot of comment afterwards when he wrote his book about how painful that was to make some of those decisions that he knew would be putting people into a recession.

And I just wonder if you could reflect or — on any of — pick up a theme from any of that question, because there were a number of them coming in around the question of the trade-off between recession and controlling inflation.

***Mr. Macklem*:** Well, I know there's a lot of talk about a recession. So let me go at this fairly directly.

First of all, our own outlook, as I mentioned in my introductory comments, is that we are going to see a material slowing of the economy. We're forecasting three and a half per cent growth this year. We've seen a very strong bounce-back of the economy. So first quarter grew about three per cent. We expect the second quarter — and that was with, you know, that was with the Omicron variant in January, you'll remember. I'm sure your members have not forgotten. We expect four per cent growth in the second quarter. The third quarter, we expect it will slow to about two per cent. And if you look at it year-over-year, we've got three and a half per cent for the whole of this year, down to one and three-quarters per cent next year. So that is a material slowing. And you know, I expect your members will feel that slowing. But one and three-quarters growth is positive growth. The economy is still growing. That's the soft landing. It's not a recession.

There is a lot of commentary out there that central banks are going to have a very hard time getting inflation down without a recession. When you look at history, it hasn't happened very often.

Let me make two comments there. First of all, there's a lot about the last two and a half years that have never happened in history. We've never had a recession this sharp. We've never had a recovery this fast. We've never had vaccines developed so quickly. We've never seen businesses be so nimble and resilient. And that's a big reason why we've — every time we get one of these waves, the economic impact has been a lot less because of the resilience of business and households. So there is a lot in the last two and a half hears that we've never seen in history.

The other thing I would stress is that in raising interest rates, you know, the economy overall is in excess demand. It's overheated. And you can see this particularly in the labour market. I'm sure many of your members have had difficulty hiring workers. There is a record number of job vacancies out there. What that suggests is there's a lot of room to reduce the number of job vacancies, so moderate demand, reduce the number of job vacancies in the economy without creating a big increase in unemployment.

And the other thing I would stress, one thing that is quite different in Canada compared to many of our trading partners, is that we export oil; we export wheat; we export potash. So many of the commodities that the prices are very high, we export them. Now, that is obviously translating into high prices for consumers. It's raising the input costs of many of your businesses. But it is bringing more income into the country. And I expect some of your businesses are benefiting from this, these high commodity prices. That's one thing that is different in Canada, so whereas for many countries it's taken a lot of income out of their country and slowing their economy more, it's actually supporting our economy.

So it's a bit of a long answer, but we do think there are good reasons to believe why we can get to a soft landing.

Now, I don't want to pretend there are no risks about that. And a lot of what your businesses need to do is you need to be prepared for more than one outcome. The path to that soft landing is narrowing. And that's because inflation is higher; it is broader; and it is more persistent. That's an important reason why we front-loaded our interest rate response. We think that's the best way to maximize the likelihood of a soft landing. But there are risks around that, and I talked about the one that has us most worried, and that is the risk that people/businesses start to believe that high inflation is here to stay.

***Ms. Jones*:** Corinne, did you want to jump in?

***Ms. Pohlmann*:** Sure. I was going to sort of move on to I think a series of questions that came in and so all those comments sort of alluded to the fact that, for example, from Nasser and from Douglas, they're asking a little bit more about we kind of could have seen this coming, given how COVID hit and all the stimulus spending that happened and so forth. So, there's been a number of question around why was this not thought about last year already, why did we wait so long to start increasing the interest rates. So why did we wait until this point to actually start doing it? And now we have to — I think there's a feeling that because we waited, it had to be a big jump and at once, which makes it harder. So I don't know how you would respond to that, but there's a number of questions that kind of allude to that idea, about why did we not start this.

***Mr. Macklem*:** Look, it's a fair question. Here's the way I would put it - throughout this pandemic there's been one curve ball after another. And I know every one of your businesses have been dealing with that. I know this word gets overused, but so much of what's happened in the last couple of years has been unprecedented. There's been very little that's been normal.

Our decisions have always been grounded in our best judgments at the time based on the best available information. And they've really always reflected our mandate, which is to control inflation.

A little over two years ago, the economy was in an extremely deep hole. Inflation was slightly negative, and the worry was that we could have deflation. And deflation is very damaging, because what happens is when there's deflation, people start to wait. So, prices are falling. And so people say, "Well, I'm not going to buy now; I'm going to wait until prices are even lower." And then of course that weakens the economy even further.

So, we did take very bold action to put a floor under this very deep recession and support recovery. As the recovery gained traction, we did start to dial it back. One of our instruments, known as quantitative easing, we started. As the economy gained traction, we tapered or reduced the amount of quantitative easing we were doing, and we stopped quantitative easing last October. And in terms of interest rates, in January, we removed our exceptional guidance and we signalled to Canadians that they should expect a rising path for interest rates. And in March, as already mentioned, we raised the interest rate, and since then, we've raised it 225 basis points.

Looking back, if a year ago we knew everything that we knew today, yes, we probably would have started raising interest rates earlier. But we didn't. And a year ago, there was still a lot of excess capacity in the economy. Unemployment a year ago last summer was seven and a half per cent. Your businesses were still dealing with the virus, with different waves of public health restrictions that are needed to keep us healthy. You'll remember that in January we had the first big wave of Omicron and we had a new round of shutdowns. So when we made those judgments at the time, our view was that the economy needed that support to get us to the recovery. Since then, the economy has recovered very quickly.

But the other thing I would underline, and in fact in our monetary policy report, we go at some length to try to look back on our forecast errors. We have made forecast errors. It's been a very volatile economy. We've made forecast errors.

When we look back on those forecast errors, about two thirds of our inflation forecast errors reflect international factors, the biggest one being higher oil prices, the other one being something you're all dealing with, which is these gummed-up global supply chains that are making it very hard to get the things—the intermediate inputs that businesses need. That accounts for about two thirds of the surprise.

The other, about a quarter reflects the faster recovery and the faster bounce back and the buildup of excess demand or this overheated economy. That's the part that we have more influence over. That's the part that we're really focused on. That has emerged in the last number of months, and that's why we have raised rates quickly in response to that, and we're trying to get ahead of it.

***Ms. Jones*:** Simon, are there questions in French that you might want to take?

***M. Gaudreault* :** Oui, merci.

Le gouverneur vient juste de répondre à une des questions en résumé qu'on pourrait dire que beaucoup de monde se posaient : qu'est-ce qui génère l'inflation, parce que vous avez mentionné que ça vient du côté de la demande mais aussi qu'il y a la question de ce qui se passe à l'international. Si on regarde parmi les autres grandes composantes aussi, si je fais le calcul, vous avez parlé de deux tiers, un quart. Alors, il reste quand même un petit quelque chose. Mais certains membres aussi se posaient la question sur les dépenses gouvernementales durant la pandémie, est-ce que ça pouvait avoir joué aussi un rôle dans l'accroissement de l'inflation? Alors, est-ce que vous avez quelque chose à ajouter de ce côté-là?

***M. Macklem* :** Juste pour préciser, c'est difficile de séparer de manière très précise exactement ce qui a causé les erreurs de nos prévisions de l'inflation. Donc, oui, c'est à peu près deux tiers pour les facteurs internationaux et un quart pour... Oui, ce n'est pas 100 pour cent, mais c'est difficile d'expliquer 100 pour cent. Donc, c'est notre meilleure estimation.

On regarde le stimulus. Il y a la détente monétaire, il y a des actions budgétaires. Ces actions, comme je viens de mentionner, on avait une crise, la récession la plus sévère dans l'histoire, et des mesures exceptionnelles ont été prises, et je pense qu'on peut être content que ça a bien marché. On a la reprise la plus forte de l'histoire. Maintenant, nous sommes de l'autre côté de ça, et, avec la réouverture de l'économie très vite, la demande a dépassé la capacité de produire dans l'économie, et c'est le temps de réduire la détente monétaire et même commencer d'avoir une politique monétaire restrictive.

Nous à la Banque, nous prenons les actions des gouvernements, les gouvernements provinciaux et fédéral. Ce n'est pas nos décisions, ce sont des décisions pour les gouvernements, pour les parlementaires. Nous prenons ces décisions en compte et nous prenons nos décisions pour réussir notre mandat.

***M. Gaudreault*:** Merci.

***Ms. Jones*:** Merci. I'm going to take a question now that got the most upvotes — everybody was saying, please, put this question. And I'm going to try to weave in a few others that had a similar question.

So, the question is from Fatima, and it is: to what degree to you think big inflation was caused by excess and irresponsible stimulus? Other people were asking similar questions about, going forward, if the Bank of Canada's raising interest rates while the government might be responding to demands for more stimulus in order to help people cope with the increased interest rates. How do those factors play?

And I'm going to pull in just one other thread from this, which is a question we got before the webinar started that Mike asked, which was basically how does the Bank of Canada work, and that might be helpful to clarify — what's your job and who sets your mandate, because sometimes there's a little bit of a lack of clarity between monetary policy and interest rates and the kind of things you worry about and fiscal policy and the kind of things that governments worry about. And there are a number of questions that sort of touch on that a little bit. So that might be a good place to start and then get into the question of what happens if the government is stimulating things, or maybe they've stimulated things too much, or how that plays with monetary policy.

***Mr. Macklem*:** Thank you for the question. And yes, I think you're exactly right. I think the place to start is how does monetary policy work and then where does our mandate come from.

So, the Bank of Canada is a Crown corporation, so that means it is owned by the government. But it's set up with a very special legislation that gives it operational independence. And what does operational independence mean? It means the Bank of Canada and the government every five years agree on the mandate of monetary policy, the objective. And I'll come back to that in a second. And then once that objective is agreed, the Bank of Canada is independent from the government, and we take our decisions, we take our actions guided by our mandate independently of the Government of Canada or any government.

Our mandate is determined jointly by the Bank of Canada and the government. And there's a very good reason for that. That gives the Bank of Canada's mandate legitimacy. We live in a democracy. Ultimately, the mandate should reflect the democratic will of Canadians. And so once every five years, the mandate is set.

For 30 years now, our mandate has been to achieve a two per cent inflation target. Our mandate is price stability. And, what does price stability mean? It means that inflation is so low that people don't really need to worry about it. And we've defined that as a two per cent inflation target.

Inflation, of course, is not going to be, as everybody's well aware, it's not going to be two per cent. I mean, every day there are shocks to the economy. There are changes in prices in the economy, in the global economy. They will impact inflation. But the idea is that, yes, it's going to fluctuate, but our job is to make sure it comes back to two per cent so that when businesses, when households are planning, they can be confident that inflation is going to average two per cent. It's going to come back to two per cent. So that's the mandate, and that's the relationship with the government.

The way monetary policy decisions are taken, there is what's called a Governing Council, which is six people. I chair the Governing Council as Governor. There's a Senior Deputy Governor, Carolyn Rogers, and four Deputy Governors. And together, we deliberate and we take the decisions and then we announce them on these pre-set announcement dates, yesterday being one. And we announce them and then we explain them, and we're accountable to Canadians for those decisions.

So, coming back to your previous question, I think I more or less answered it. So, as I said in French to Simon, two and a half years ago, the economy had the deepest recession in history. The economy was in a very deep hole. And as I explained, the real risk was deflation. It was really important that the government and the Bank of Canada come in and put a floor under this crisis, support businesses, support households, help people get through this. And you know, to be honest, it's worked. We've had the fastest recovery we've ever had on record.

Now we're on the other side of that. And we're experiencing the problems associated with a global pandemic where everything shut down, everything's reopened at once. There's huge demand for goods around the world because people substituted out of services that they couldn't buy during the pandemic because things were closed into goods. For example, you can't go to your local gym. So, what do you do? You buy home fitness equipment. Well, that has to be manufactured. It has to be shipped.

Now, the goods, as things have reopened, we're now seeing a big surge in demand for services, and businesses are having a hard time keeping up with that demand. That's all creating inflationary pressures. And what that is a clear signal is we've got to slow demand. We've got to cool it down so that the supply can catch up. And what's the supply? That's businesses investing. That's businesses finding the workers they need. As immigration comes back up in Canada, that should get easier. As people move around in the country, that will get easier. And then these global supply chain bottlenecks, they need some time to work themselves out so businesses can get the inputs they need. As that happens, as that supply catches up, that'll take the steam out of these inflationary pressures and we will get back to a more normal situation. Where we are now is not normal. We've got to get back to normal.

Ms. Jones**:** And I think the question is — this is outside your control— how do you think about what's going on on the fiscal side in terms of how additional stimulus on the fiscal side can increase demand, which is kind of what you're trying to moderate against. So, all of those things, it's a very complicated picture from the point of view of both the intersection between monetary and fiscal policy.

Mr. Macklem**:** Yes, I mean, we have a very narrow, well-defined mandate. Our job is to control inflation, and we're determined to do it. Governments have a much broader mandate, and they've got economic priorities; they've got social priorities, health, education, security — they've got to balance all those things. And those are decisions for governments and ultimately Parliament to take.

And some of the things governments do, yes, some of their spending, that creates stimulus, that creates demand in the economy, and that's something we have to take into account. Other things they do actually help supply. If they make investment more attractive — a good example would be making child care more available. That makes it easier particularly for women to work. That adds labour supply and workers to the economy. So, some of the things governments do stimulate demand. Other things can help supply.

We look at those things and we factor those into our outlook for inflation. And then, to go back to where I started, we have the operational independence. We take our decisions independently on interest rates, on our tools to pursue our mandate.

***Ms. Jones*:** Thank you, I think that's helpful.

And this is my least favourite part of the webinar, because this is when we start skating towards the end. I'm going to ask you one final quick question, and that is if there's one takeaway that you would like this group, this audience to hear from you, one thing you'd like them to have in their minds after this webinar, what would that be?

***Mr. Macklem*:** I'm going to cheat and give you two, because it's my last chance.

And the first one I've already said, and that is the high inflation that we have today is not normal. It's not here to stay. We are resolute in our commitment to bring inflation down. We are taking action and we will continue to take action to bring inflation back down. So as a business, don't plan on the current rate of inflation staying. Don't build that into longer term contracts. Don't build that into wage contracts. It is going to take some time, but you can be confident that inflation will come down.

The second one is I just want to assure everybody that we understand that businesses, households, they're facing higher costs for groceries, for fuel, for gasoline, for many items. For businesses, many of your input costs have gone up. And it can seem counterintuitive that raising borrowing costs, raising interest rates is going to help you. We're raising our borrowing costs when you're already facing higher other costs. But that's the way monetary policy works. By raising borrowing costs, we will slow spending, give supply some time to catch up, and that's what's going to take the steam out of inflation.

So, there is a sense in which there's some short-run pain for long-run gain. And the long-run gain is we get back to more normal price changes—low, stable, predictable inflation—and so that you don't have to worry about what everything's going to cost next week, next month, next year. You can plan your businesses a lot better.

***Ms. Jones*:** Well, thank you very much. I think that's a great place — so two takeaways: high inflation not here to stay, and short-term pain but long-term gain. I think that's terrific.

I want to say a big thank you to you, Governor, for coming to talk to this audience. Again, it's a first. One of the things the pandemic has left us with is tools like Zoom—much more people use them, and it makes this possible. So, I suppose that's a silver lining. But I'm getting many thanks coming in through the chat that I'm seeing for the webinar, so I think there's a big appreciation.

And I know that you look carefully at our data. I want to say a big thank you to our members for filling out the surveys and giving you the grassroots intelligence about what's going on in small business, because as we make the point often, it's not always the same as what's going on in other parts of the economy. So certainly, no excess savings in the small business sector right now. There's a lot of excess debt there.

But I want to say a big thank you. Big thank you to Corinne and Simon for co-hosting with me.