

Clerk of the Privy Council and  
Secretary to the Cabinet



Greffier du Conseil privé et  
Secrétaire du Cabinet

Ottawa, Canada  
K1A 0A3

November 24, 2023

PROTECTED B

MEMORANDUM FOR THE PRIME MINISTER

c.c.: John Hannaford, Nathalie G. Drouin

**Briefing on Affordability**

(Information)

- On November 27, 2023, from 2:30pm to 3:15pm, you are scheduled to have a meeting to discuss affordability issues. Your office and Privy Council Office (PCO) officials will join the meeting. There will be two parts to the discussion.
  - The first part of the meeting will examine how the macroeconomic context and inflation have evolved since August 2023. The deck, developed jointly by your office and PCO officials, is attached at **Tab A**.
  - The second part of the meeting will cover the progress on improving groceries affordability since August 2023, including submissions from major grocers on measures to stabilize prices, ongoing consumer advocacy work through Innovation, Science and Economic Development Canada (ISED), and the state of play on the Grocery Sector Code of Conduct. A background document is attached at **Tab B**.

s.19(1)



Mollie Johnson

Attachments

Tab 1 – Affordability Update

Tab 2 – Affordability: Grocery Update

Bourély/Kim/Brunelle-Côté/Johnson

2023-LSMP-00158

# Affordability Update

Sean Mullin, Special Advisor in Economic Affairs  
Office of the Prime Minister

With support from  
Liaison Secretariat for Macroeconomic Policy

November 2023



## **CONTEXT: Canada's economy has slowed but is expected to avoid a recession. Interest rates may have peaked.**

### **Economic activity has slowed:**

- Real GDP remained essentially unchanged in the second quarter of 2023 and advanced data suggest real GDP again stayed flat in the third quarter of 2023.
- Going forward, the FES projects growth of 1.1% for 2023 as a whole and only 0.4% in 2024, before rebounding to 2.2% in 2025.

### **Employment remains resilient:**

- The unemployment rate stood at 5.7% in October, up from 5.0% in April, and back around pre-pandemic levels.
- While the labour market is easing, growth in average hourly wages remains high at 4.8%.

### **Inflation:**

- CPI inflation slowed to 3.1% year-over-year in October, down from 3.8% in September and the peak of 8.1% reached in mid-2022.
- While prices for gasoline and groceries have eased, shelter cost inflation remains elevated due to higher mortgage costs and rents.

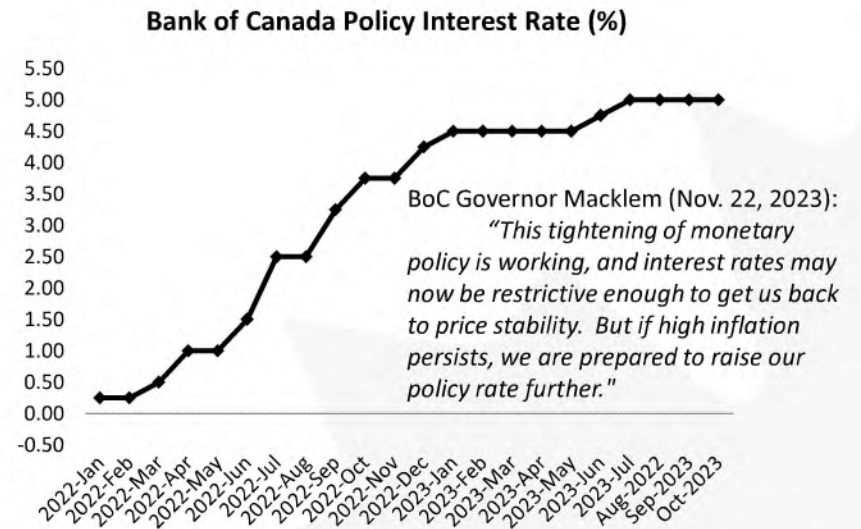
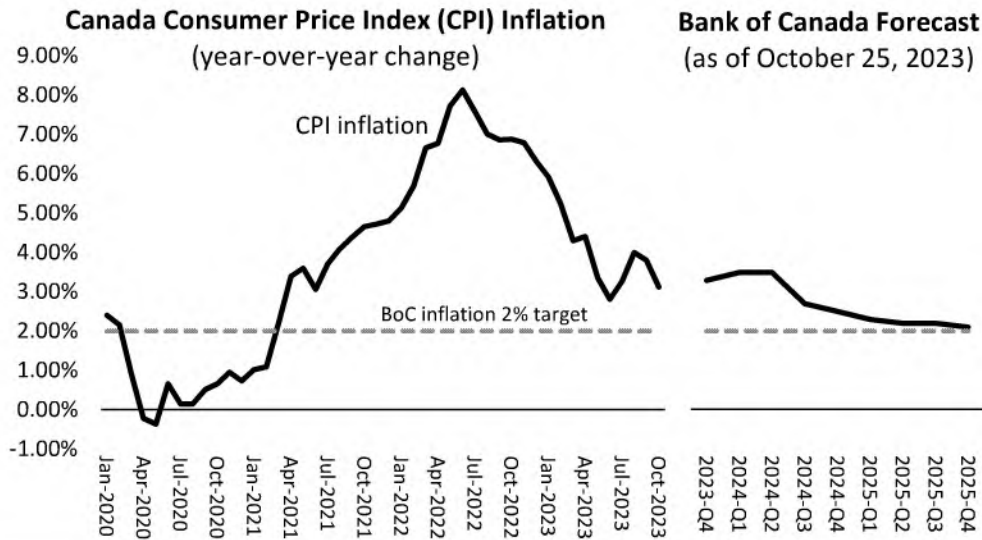
### **Interest rates may have peaked:**

- Higher interest rates first led to significant declines in residential construction and are now increasingly slowing consumer spending and business investment.
- In line with recent comments from Bank of Canada Governor Macklem, financial markets are mostly expecting the BoC to maintain the policy rate at 5.00% in the coming months, before limited cuts over the course of 2024.

# Inflation has been trending down from its summer 2022 peak, as higher interest rates have slowed demand

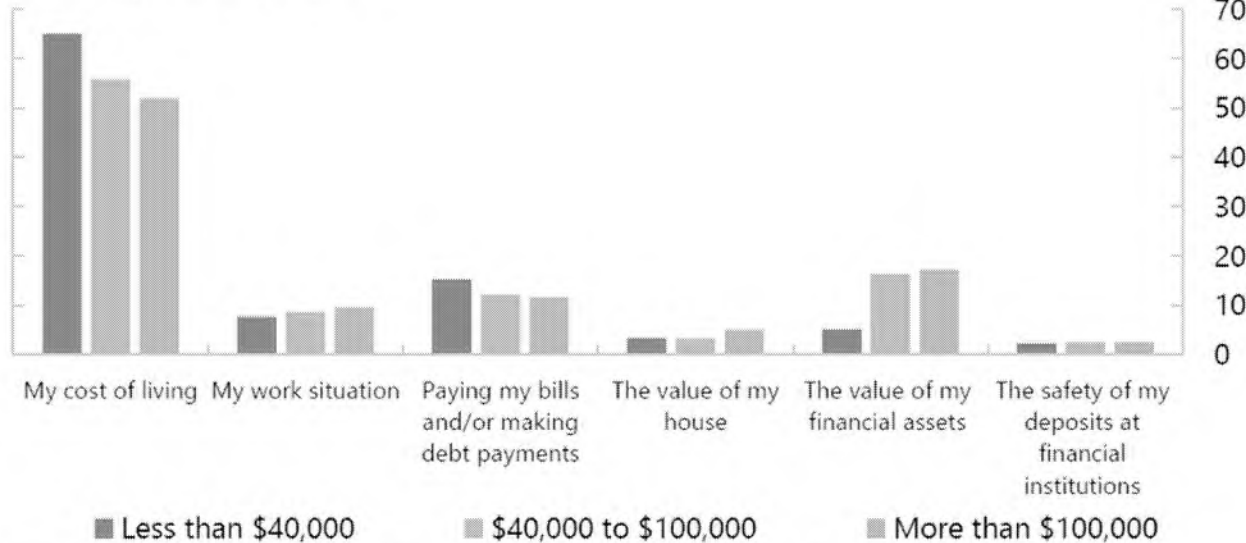
- Year-over-year inflation surged to 8.1% in June 2022 before coming down to 3.1% in October 2023.
- However, the Bank of Canada only project getting inflation back to the 2% target at the end of 2025.
- The road to 2% could be choppy. The year-over-year rate could shoot up in December due to base-year effects related to volatile gasoline prices.

- To fight inflation, the Bank of Canada increased its policy rate to 5.00%, the highest it has been seen 2001.
- This is leading to higher borrowing costs for households and businesses.
- Interest rates may have peaked but financial markets are only expecting limited declines in 2024.



# According to the Bank of Canada surveys, the cost of living is the top concern for Canadians

Thinking about your financial situation, are you concerned about any of these factors?  
 (Select the most important factor)  
 Share of responses by income



Note: Data are from the Canadian Survey of Consumer Expectations and are the share of respondents who selected each factor, calculated using weighted counts of responses in 2023Q2 and 2023Q3.

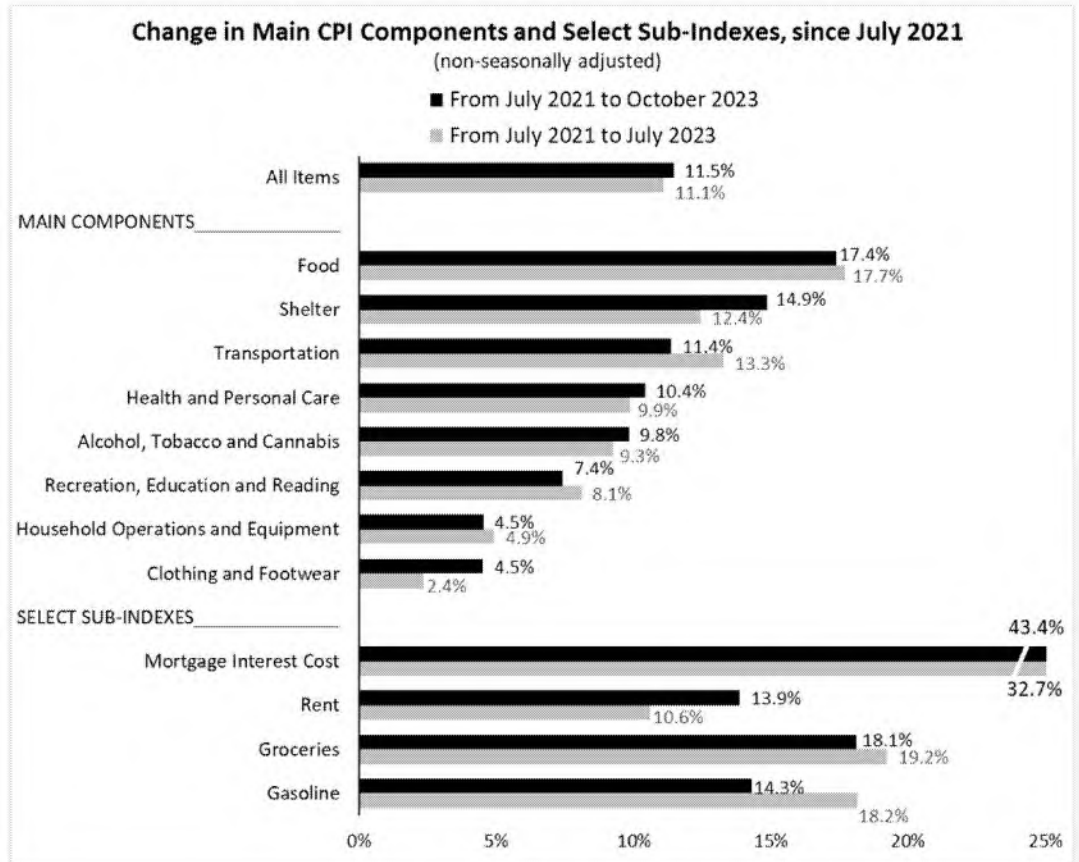
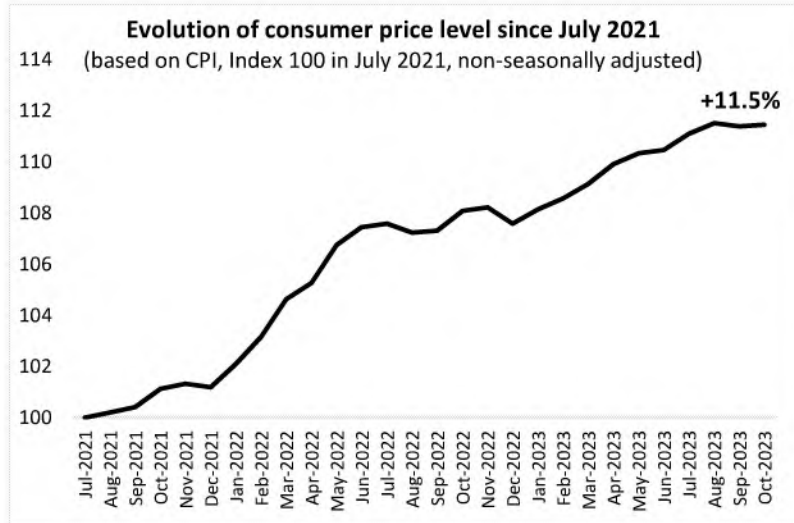
Source: Bank of Canada  
 Last observation: 2023Q3

BoC Governor remarks (Nov. 22, 2023):

- “Right now, consumer confidence is at a recessionary low—as low as it was during the global financial crisis in 2008–09. This is despite the fact that the job market is stronger today and the unemployment rate is lower than it has been for most of the last 40 years.”
- “Why is public sentiment so low? There’s probably more than one reason... But one factor is clearly our responsibility — inflation. People are angry about high inflation.”
- “The rising cost of living is making life harder for everyone, especially Canadians who have less to start with.”

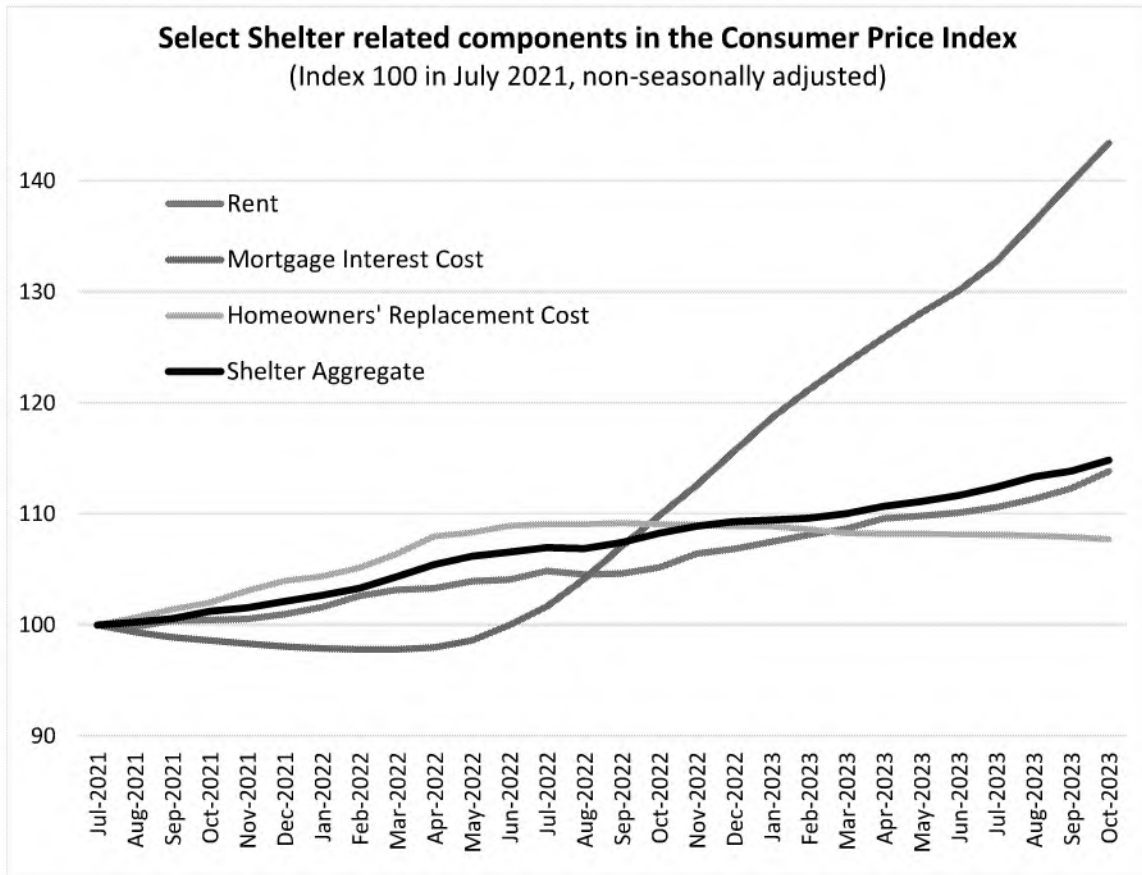
## While the Consumer Price Index somewhat stabilized since July 2023, some components improved while others worsened in recent months...

- From July 2021 (when inflation started to increase more rapidly), overall prices were up by 11.5% as of October 2023, only marginally higher than in July 2023 at 11.1%.
- Groceries and gasoline prices are down but shelter prices are up (mortgage costs and rent).





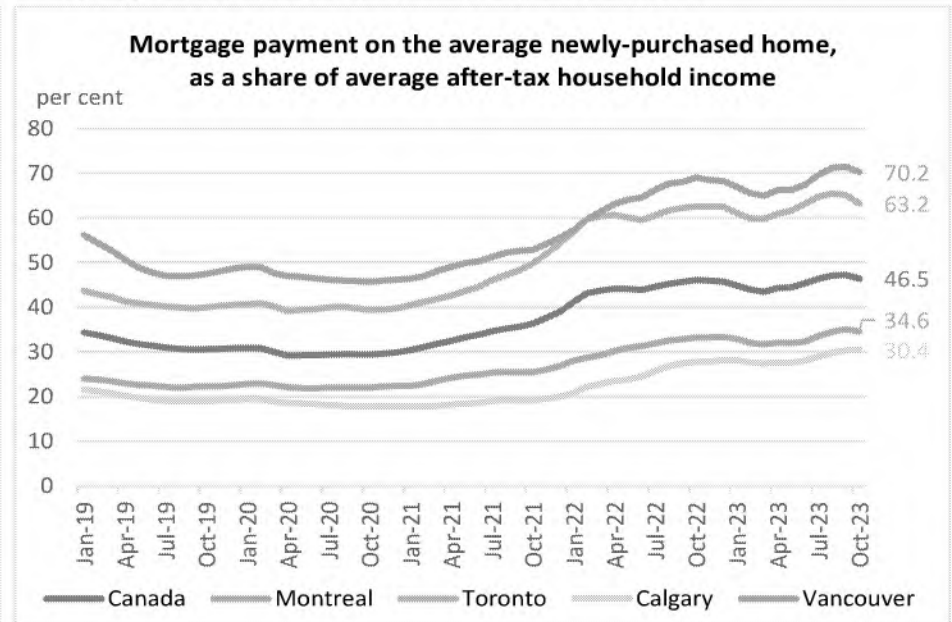
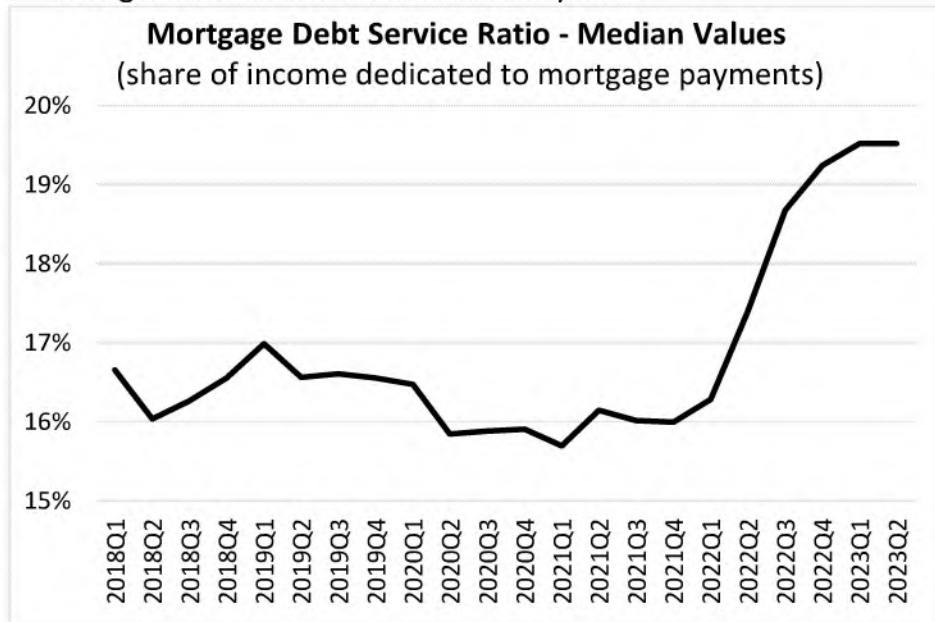
# Shelter costs are biggest share of affordability challenge



- Homeowners' replacement costs first increased in 2021 reflecting higher prices for new homes, but have trended down since mid-2022, as higher interest rates led a moderate correction in housing prices.
- Mortgage interest costs, which are directly affected by policy rate increases by the Bank of Canada, surged from the low point in March 2022 and have trended up as more homeowners are having to renew their mortgage.
- The rent component of CPI, which captures the average rent growth among all renters (including those on an existing lease) has accelerated over the summer, to 8.2% year-over-year as of October.

## Homeowners are weighed by higher mortgage payments and homebuyers are discouraged by both home prices and mortgage rates

- For **homeowners**, mortgage payments are taking an increasing share of households' income. Across all mortgages, the median Debt Service Ratio (DSR) increased to 19.5% in 2023-Q2, 3 p.p. above pre-pandemic.
- About half of existing mortgages will still need to be renewed at higher rates over the next three years.
- For **homebuyers**, modest home price declines led to marginal improvement in home purchase affordability since the summer.
- However, affordability remains extremely challenging in many cities – for example, the average mortgage payment on a newly purchased home in Vancouver would consume roughly 70% of the average household's after-tax income in Vancouver.





# Homeowners with variable rate mortgages particularly affected

About 37% of households are renters

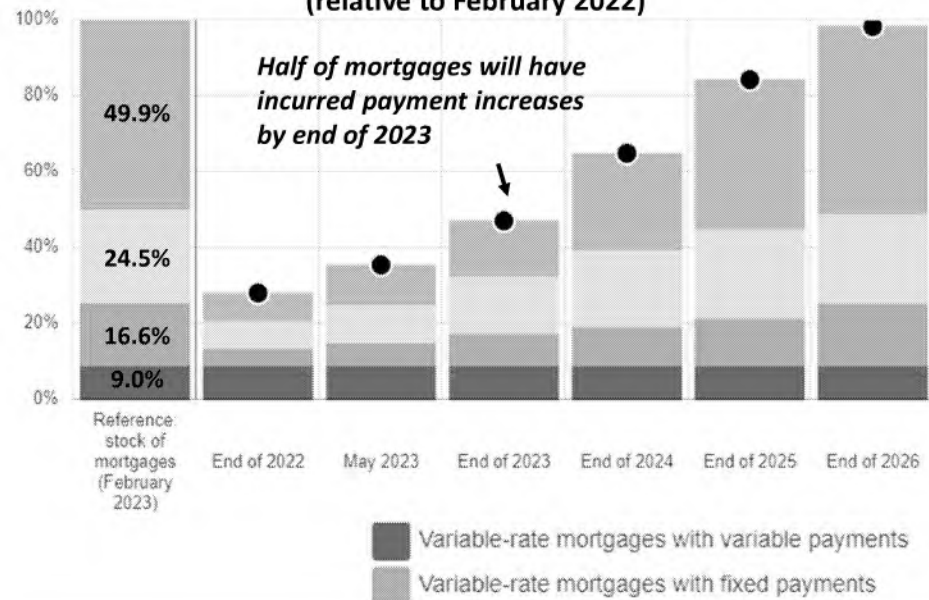
About 35% of households have mortgages

About 28% of households are owners without a mortgage (fully-paid)

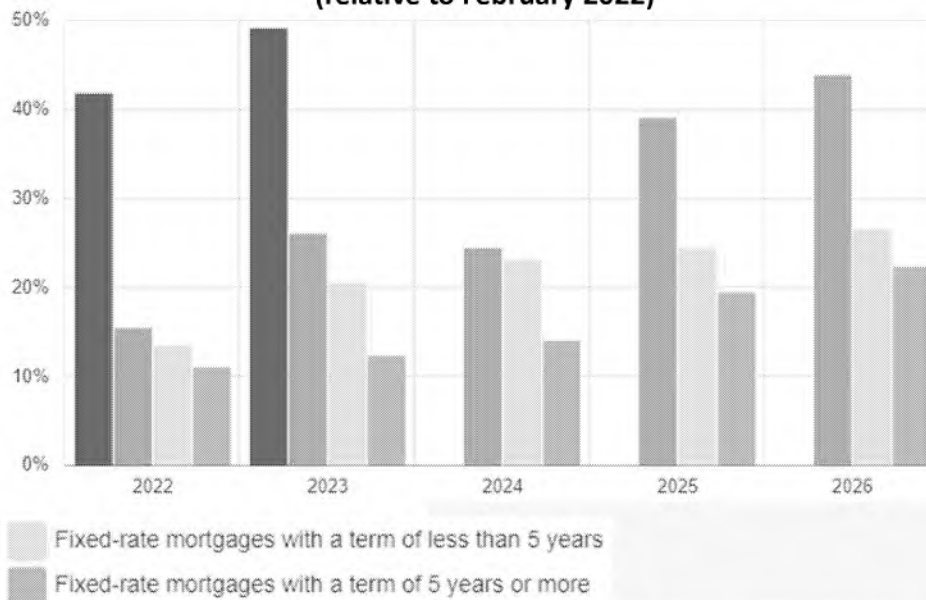
Households with mortgages will be impacted by higher rates based on timing of renewal and mortgage type.

Households with variable-rate mortgages (*red* and *green*) will be most affected, with mortgage payments ultimately increasing by 40% to 50% above February 2022 levels.

Cumulative share (by count) of mortgages subject to a payment increase (relative to February 2022)



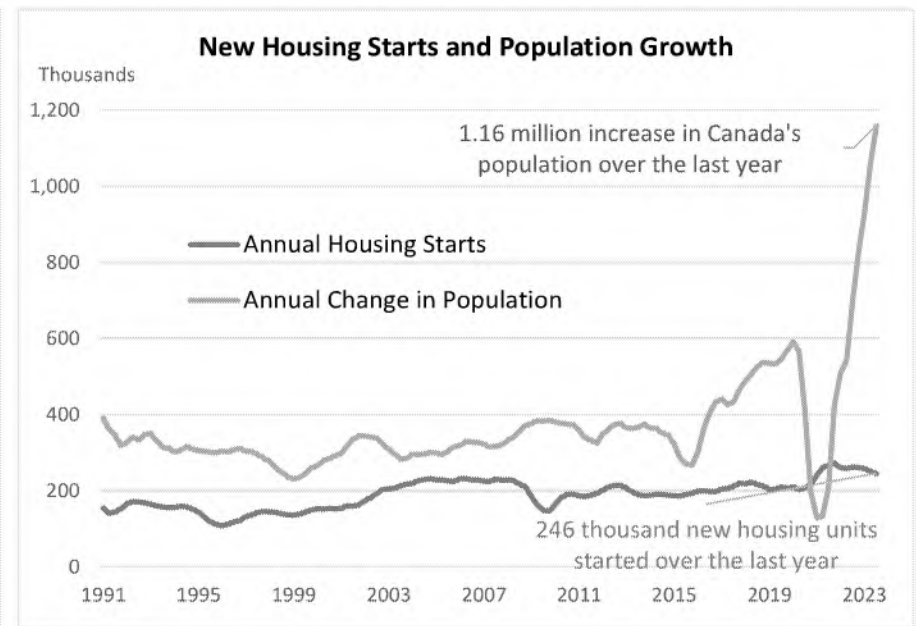
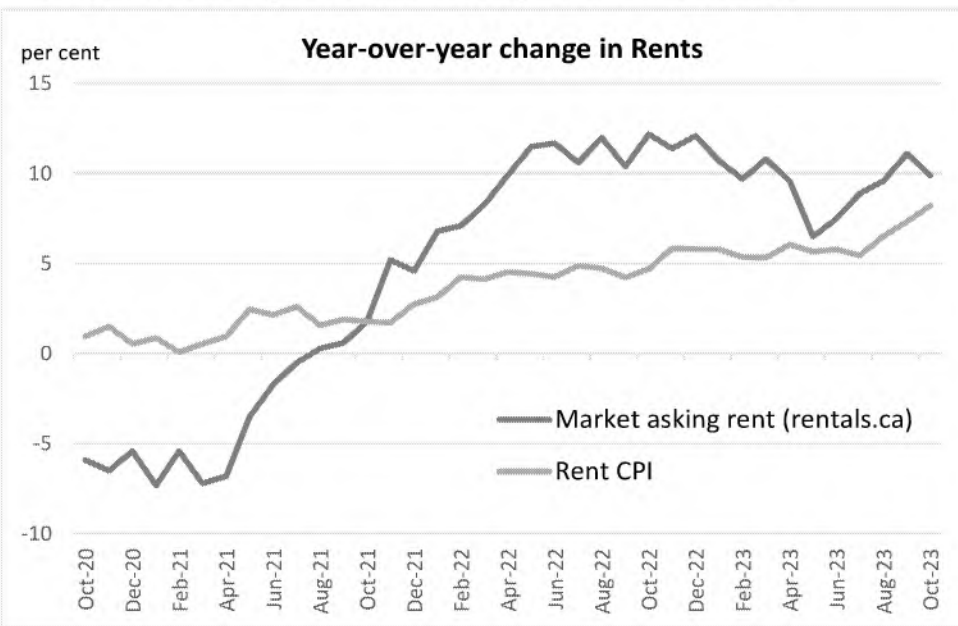
Average percentage increase in mortgage payment (relative to February 2022)



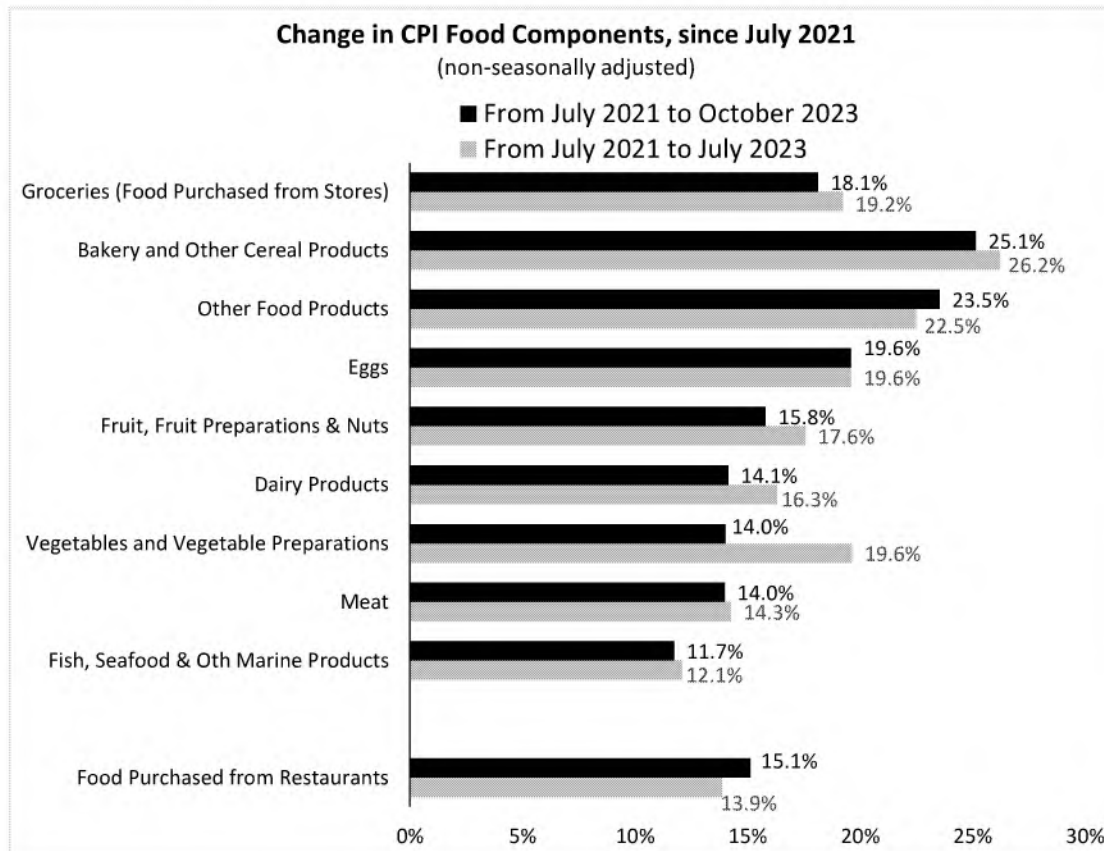
Source: Bank of Canada Financial System Review - 2023

# Rent is accelerating reflecting insufficient housing supply

- While rent is up 8.2% year-over-year according to the CPI, there is a distinction between renters with an existing lease and new renters facing much higher asking rents.
- Asking rents are growing even more quickly -- 9.9% as of October, likely signaling continued strong growth in rent CPI, as those on existing leases eventually face market rents.
- Ongoing pressure comes from insufficient new housing supply, not keeping up with historic population growth.
- This is notably affecting permanent and temporary immigrants, as they are disproportionately likely to be renters in large cities and will face high asking rents.

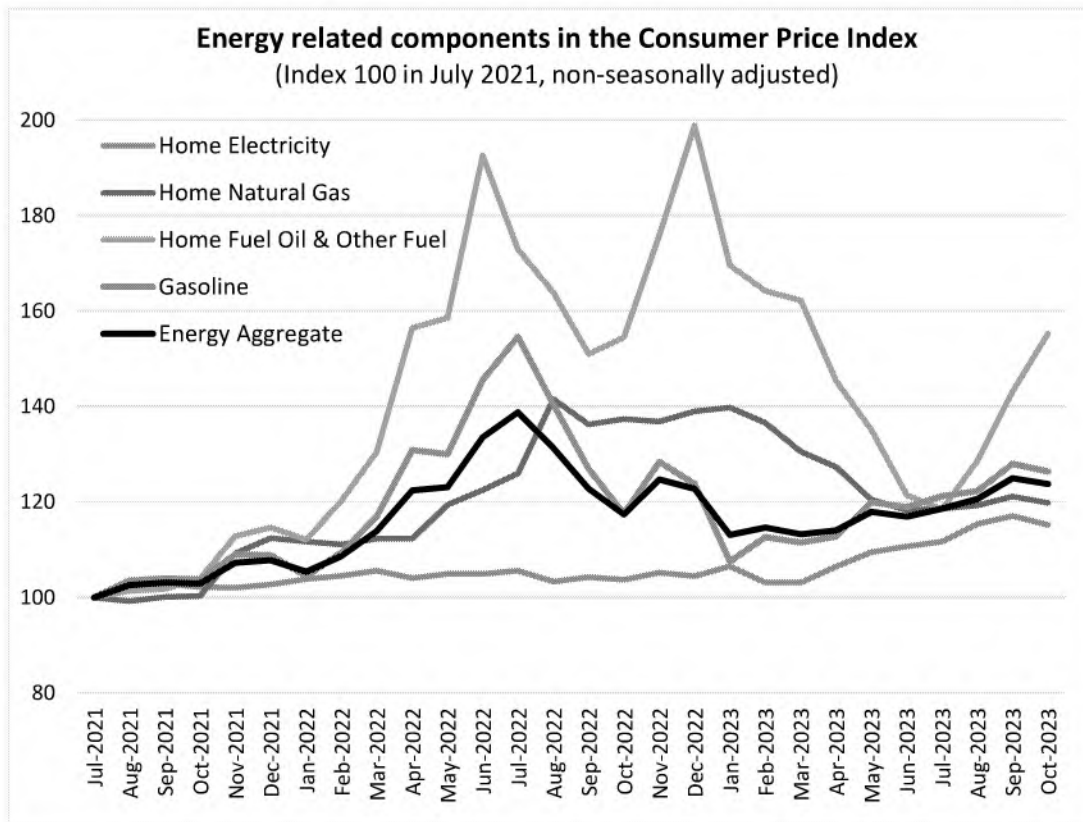


# Food and groceries inflation has moderated, but remains high



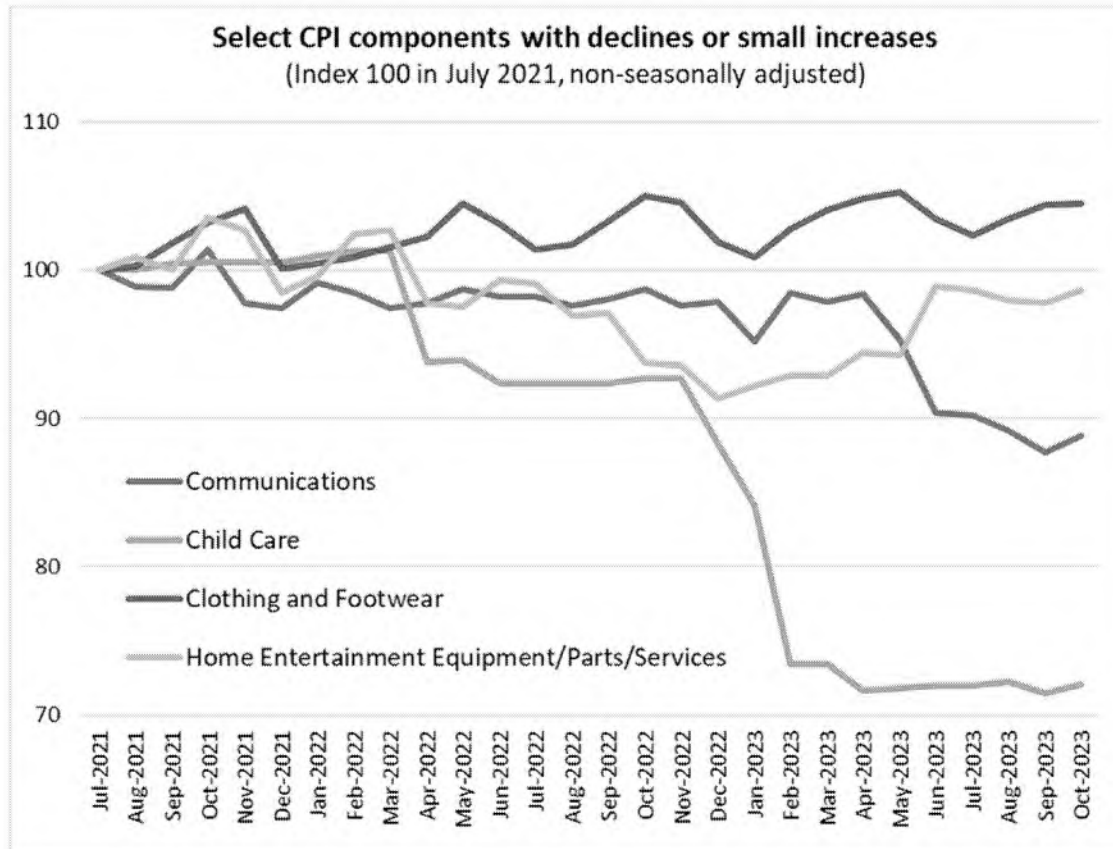
- Groceries make up about 11% of the CPI basket, in addition to 5.6% for restaurants, for a total food component share of 16.6%.
- For low-income families, the entire food component takes a larger share at about 28% of the consumption basket, according to the Market Basket Measure estimate.
- From mid-2021 to the mid-2023, price increases have been particularly severe for bakery and cereal products, fruits and vegetables.
- However, prices for vegetables and fruits have improved in recent months.
- Prices for bakery and cereal products are mostly plateauing but declines in many grain commodity prices (corn and wheat) could encourage upcoming price cuts.

## Energy costs are mostly lower than in 2022 but remain volatile



- Energy components make up about 6.8% of the CPI basket, including 3.9% for gasoline alone.
- Gasoline prices peaked in June 2022 following Russia's invasion of Ukraine and related sanctions, which affected oil supplies.
- Households relying on electricity to heat their homes were less affected than those using fossil fuels.
- As CPI prices includes taxes, the recent increase in home fuel oil prices coincided with the introduction of the carbon tax in Atlantic provinces.
- While energy prices came down over the past year, they remain volatile and could still represent an upward inflation pressure going forward.

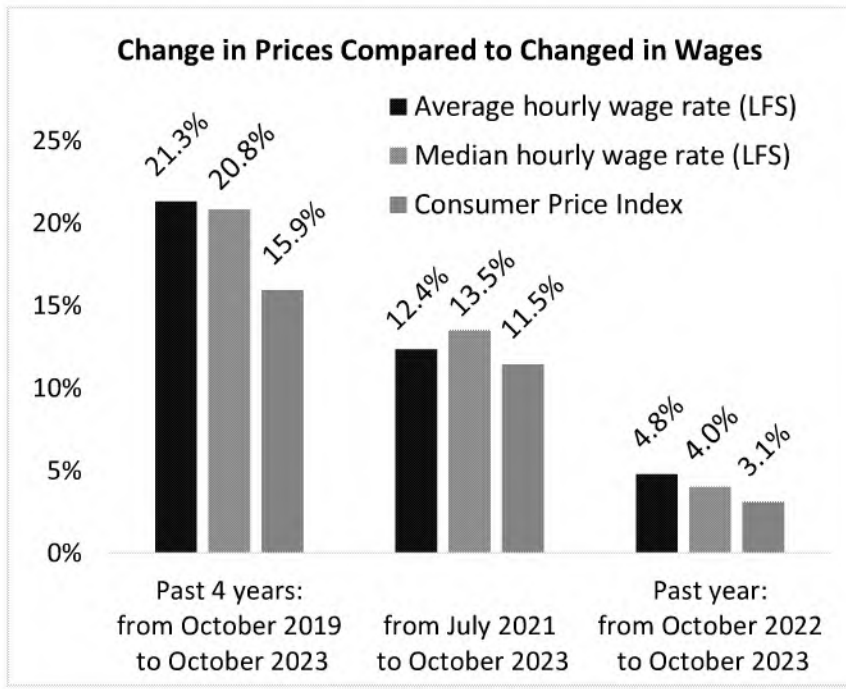
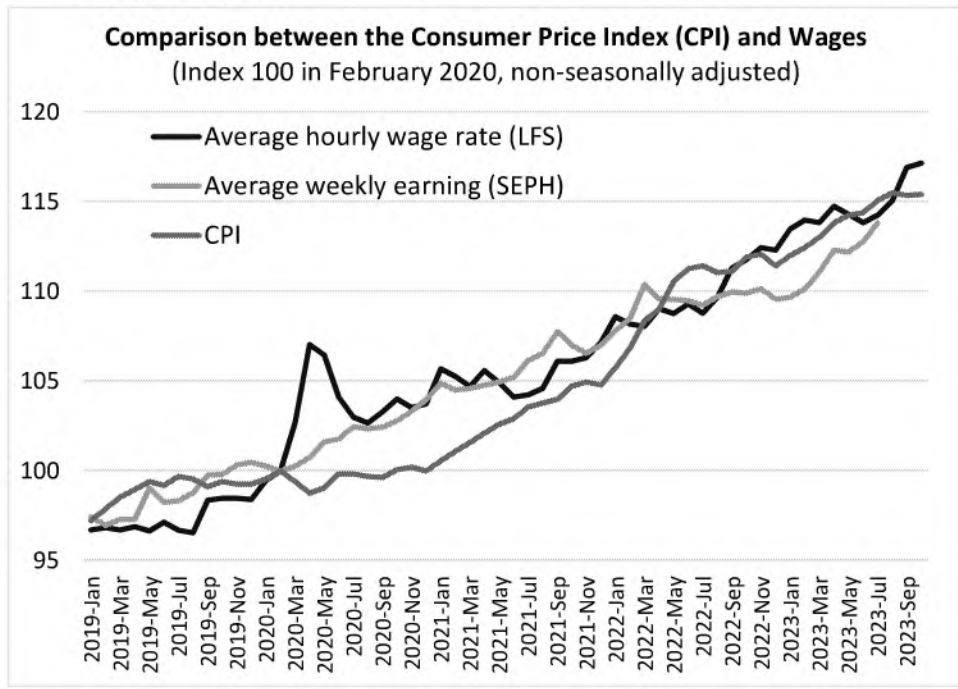
## Other costs: What hasn't gone up?



- Some CPI components recorded declines over the past two years.
- Childcare expenses are down the most (-28%) – reflecting the Government’s plan with PTs to reduce fees.
- Prices for communications and for home entertainment equipment are also down.
- The Clothing and Footwear index (which represents 4.7% of the CPI basket) grew below the 2% inflation target.
- Air transportation is typically very volatile and seasonal. However, prices are much lower than at the same time last year (-19.4%).

# How does income growth compare with inflation?

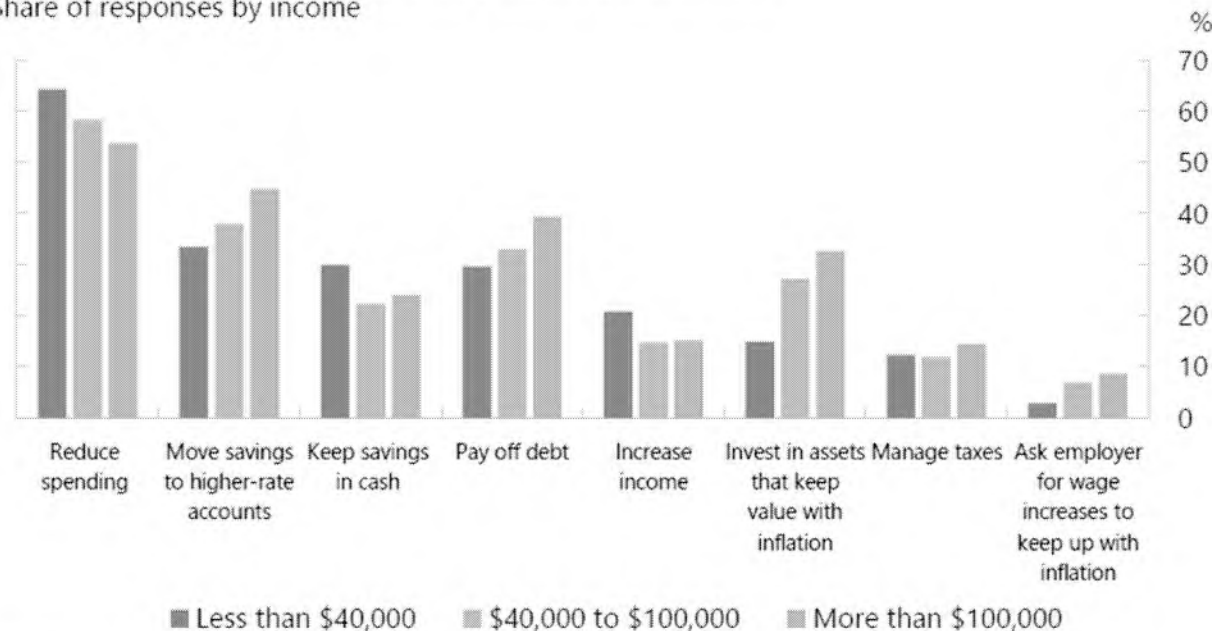
- Overall, wages have broadly kept pace with inflation since the start of the pandemic, thanks to a strong economic recovery in 2021 and 2022 and a still resilient labour market.
- Both average and median hourly wages (respectively +4.8% and +4.0%) grew more than inflation (+3.1%) in the past year.





# In response to affordability challenge, many Canadians are reducing spending, especially those with low incomes

What actions are you taking to protect yourself against inflation?  
Share of responses by income



Note: Data are from the Canadian Survey of Consumer Expectations.  
Source: Bank of Canada  
Last observation: 2023Q3

BoC Governor remarks (Nov. 22, 2023):

- “Inflation is changing behaviour. We can see in our surveys that families are changing their spending to protect themselves from inflation. They’re spending less and trying to find cheaper goods and services.”
- “This is particularly difficult for lower-income Canadians. When people are spending more of their income on necessities, it’s hard to shift what they need to buy, and they have little savings to buffer higher prices.”

# What this means for typical working-class family of four

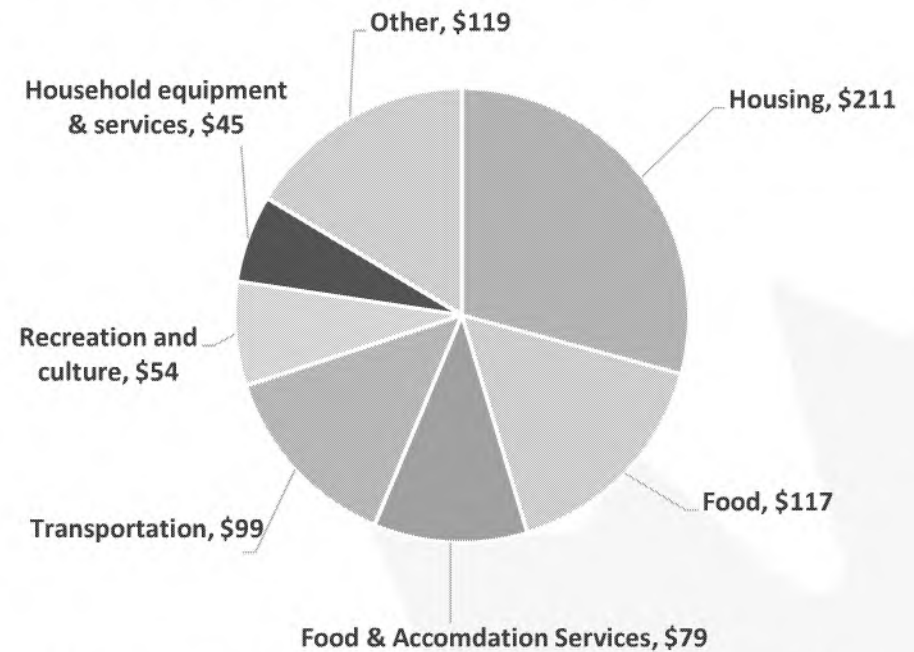
## For a typical working-class family of four with a disposable income of \$80,000 in 2021:

- The cost of living has increased to about \$724 per month as of October 2023, compared to July 2021\*.
- Whereas disposable income has increased to about \$610 per month as of October 2023 (assuming wage growth and all else equal).
- As a result, this family is facing a net loss in purchasing power of about \$114 per month as of October 2023, or about 1.5% of its disposable income.

## To afford a modest, basic standard of living:

- A low-income family of four needed about \$45,655 in 2021. As of October 2023, they could need up to \$51,600.
- This represent an extra cost of living of about \$500 a month, with a larger share of consumption for essential items such as housing and groceries.

Extra cost of living of \$724 per month comes from:  
(estimated between July 2021 and October 2023)



\* PCO calculations based on consumption pattern from Household final consumption expenditure (HFCE) in 2021-Q3 for the third income quintile.

## Conclusion

- Since Summer 2023, inflation has further moderated, including in grocery prices. However, shelter inflation has not shown signs of moderation.
- In addition, despite the downward trend in inflation, getting down from current levels – between 3% and 4% – to achieve 2% inflation will take more time – perhaps until the end of 2025. It could also remain bumpy in the near term.
- The Bank of Canada has held its rate since July 2023 and has signaled a pause. Higher interest rates, while necessary to bring down inflation, is nevertheless painful for indebted households.
  - For homeowners, mortgage payments are taking an increasing share of households' income, which increases financial strain. Households are prioritizing mortgage payments, but some are falling behind on non-mortgage debt (like auto loans). That said, home prices remain resilient, offering some financial buffer.
  - For homebuyers, affordability remains extremely challenging in many cities. [REDACTED]
  - Given higher interest rates, debt service ratios will continue to creep up in 2024. Overall, households will have a smaller share of disposable income available for consumption, thereby creating more drag on the economy.
- Low-income households and renters are of particular concern.
  - Low-income households without savings are experiencing significant financial strain, due to higher prices and limited access to credit. As they dedicate more of their income in essentials such as shelter and groceries, further slowing in price increases in these components would provide the most relief.
  - Unlike homeowners, renters are paying for housing without accumulating wealth. [REDACTED]

s.21(1)(b)

s.21(1)(b)

## Affordability – Grocery Update

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### CONTEXT

The costs of living and doing business in Canada have significantly increased in recent years, with rising interest rates and escalating costs outpacing growth in earnings and employment. An increasing number of **individuals, households, and businesses are experiencing challenges with affordability**, which is generally defined as the ease of covering basic needs and expenses – such as groceries - without financial strain.

On September 14, 2023, the Prime Minister held a press conference, alongside the Deputy Prime Minister and the Minister for Innovation, Science and Industry (ISI), and issued a statement (“Fighting For the Middle Class”) outlining the Government’s actions to build more rental housing, provide relief to small business owners, and drive down the cost of groceries.

October 2023 Consumer Price Index (CPI, released November 21) rose 3.1% on a year-over-year basis, down from 3.8% in September, continuing a downward trend. **While grocery price growth remained at elevated levels**, it also continued the trend of slower year-over-year growth, with a 5.4% increase in October, down from a 5.8% gain in September. Experts **expect this downward trend to continue**, driven by usual industry practices to freeze prices during the Fall and early Winter period, which may have been expanded to further stabilize food prices.

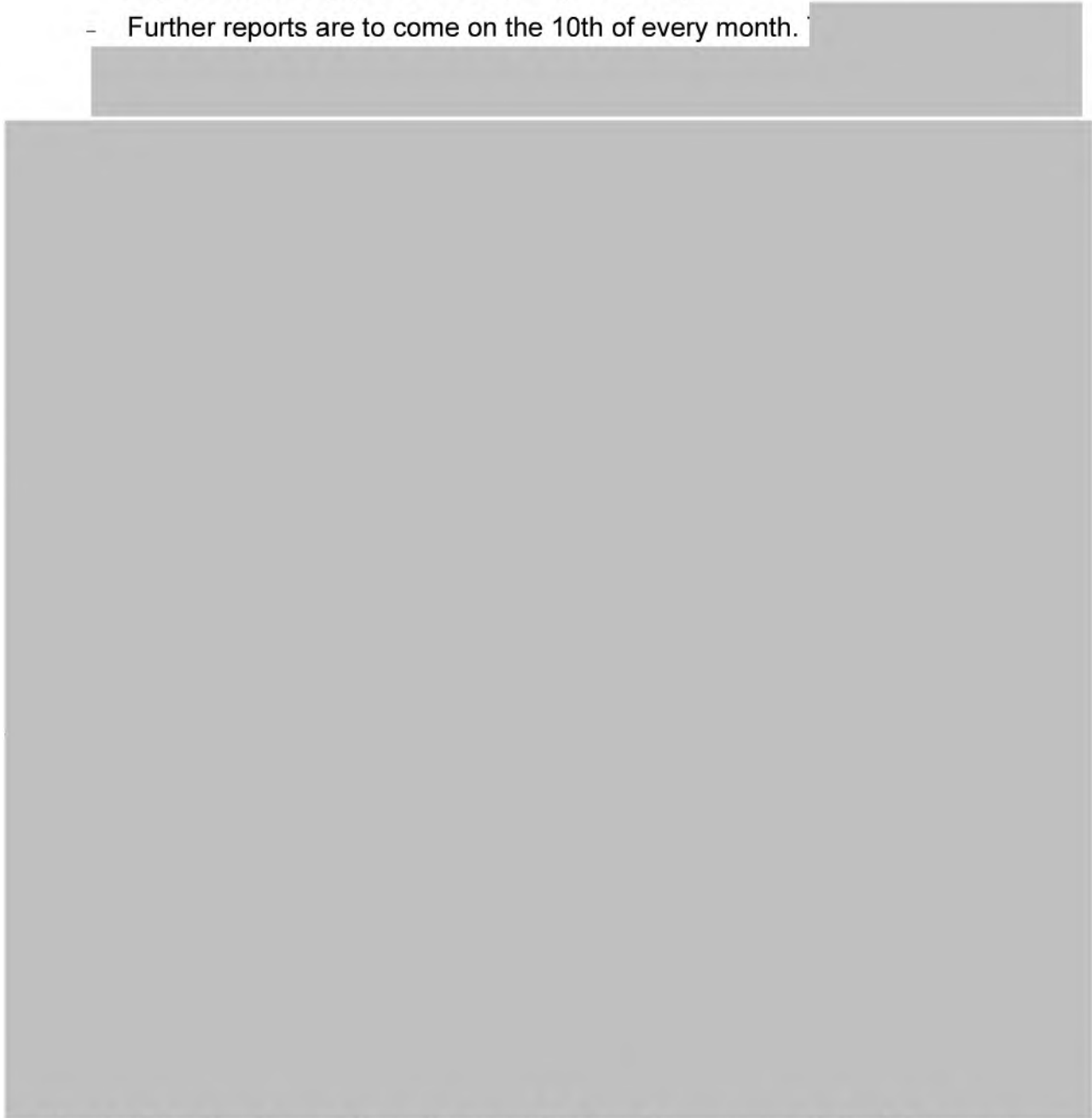
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### GROCERY AFFORDABILITY

- Call was issued in September 2023 for major grocery store chains to stabilize grocery prices in the near term.
  - It was announced that the Deputy Prime Minister and the Minister of ISI would meet with CEOs of the largest grocery chains in Canada to begin discussions toward this goal; and,
  - Grocery chains were warned that the Government would consider all tools, including the use of tax measures to restore grocery price stability.
- Since the mid-September announcement, the Minister of ISI has directed the formation of a **Grocery Task Force** within Innovation, Science and Economic Development Canada (ISED) to develop and deliver a detailed plan of action aimed at stabilizing grocery prices for Canadians.
- On October 5, just ahead of Thanksgiving, the Minister of ISI reported to the media that **initial commitments** had been secured from the top five major grocery chain CEOs to support efforts aimed at stabilizing food prices.
  - **Each grocer identified an initial series of actions** to be implemented in the coming days and weeks.

- Canadians were to see actions such as aggressive discounts **across a basket of key food products** that represent the most important purchases for most households, price freezes, and price-matching campaigns.
- o On November 3, ISED received a **submission from each of the five major grocers** reporting on the actions taken.
  - Grocer quantitative reporting submitted ranged in formats, with some companies providing more complete information than others, with most pointing to usual or expanded promotional activity (e.g. product promotion, expanded holiday price freezes, coupons, etc.).
  - Further reports are to come on the 10th of every month.

s.21(1)(a)



s.21(1)(a)

s.20(1)(c)

- o **No decision has been taken about publishing the grocery chains' letters** or

issuing a statement in response from the Minister.

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s.21(1)(c)



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## CONSUMER AWARENESS AND ADVOCACY

### Contributions Program

- o **Increased funding** (from \$1.67M to \$5M annually) of ISED's Contributions Program for Non-Profit Consumer and Voluntary Organizations.
  - o Recently launched **targeted call for proposals** to immediately and significantly strengthen support for consumers and consumer advocacy, **with a focus on the retail sector, including groceries**.
  - o Call has supported 4 new consumer movement projects with the following priority topics:
    - 1) Support for consumer stakeholder groups to examine retail practices that negatively impact consumers that include "**shrinkflation**" and "**skimpflation**"; and
    - 2) Support for consumer stakeholder groups in developing, promoting and reporting on a **standard grocery basket** in Canada.
    - Three existing projects were also amended to provide additional funding to expand activities to include work in these priority areas.
- o Plan for a **supplemental call for proposals** in Winter 2024 that will **focus on innovative practices** that will help better inform consumers on grocery price challenges and may include for example, crowdsourcing initiatives, and the development of new tools to help consumers make informed choices.

### FPT Collaboration

- o The Minister of ISI will be proposing to his PT counterparts that **FPT Ministers responsible for consumer affairs meet for a preliminary discussion on**



### **affordability on December 11.**

- Discussion to **focus on sharing key information and findings** from federal partners such as the Competition Bureau and Agriculture and Agri-Food Canada that have advanced affordability work.
  - Minister will gauge PT reactions to the presented work and help **set the stage and inform the agenda for a potential more substantive FPT Ministerial meeting in 2024 focused on targeted collaboration.**
- 

### **GROCERY CODE OF CONDUCT**

- Agriculture and Agri Food Canada (AAFC) is responsible for the coordination of an **industry-led process to develop a Grocery Sector Code of Conduct.**
  - The Industry Steering Committee is committed to code implementation and has seen unprecedented collaboration across the supply chain.
  - **Code has been finalized** (awaiting confirmation of final version)
  - Office of the Grocery Sector Code of Conduct has been established (first board meeting will be held on Nov. 27, 2023)
  - Recruitment process for an adjudicator is underway
  - Industry will be encouraging voluntary adoption through various communication channels
  - There would be a review of the Code's effectiveness at the 18-month mark.



s.21(1)(c)

s.21(1)(c)

- However, **Loblaw's has been publicly critical of the Code of Conduct, saying it is likely to increase costs to the consumer. Loblaw has not agreed to sign on.**

s.21(1)(a)

s.20(1)(c)

**Pages 23 to / à 24  
are withheld pursuant to section  
sont retenues en vertu de l'article**

**20(1)(c)**

**of the Access to Information Act  
de la Accès à l'information**

**(FOR REFERENCE)**

## **COMPETITION ACT AMENDMENTS**

- The Government introduced a first set of amendments to the *Competition Act* through **Bill C-56**, which is currently at Second Reading in the House of Commons.
- These amendments to the Act would:
  - create a formal market study authority with the ability to compel industry to provide requested data (as mentioned above);
  - tighten exception rules for mergers by removing the efficiencies exception; and,
  - allow the Competition Bureau to take action against vertical collaboration.
- A subsequent set of amendments to the *Competition Act* were announced in the Fall Economic Statement on November 21 and seek to:
  - **modernize the merger review regime**, including by revising certain notification rules, clarifying the Act's application to labour markets, allowing the Competition Tribunal to consider market shares and likelihood of coordination following a merger, extending the limitation period for mergers that have not been notified to the Commissioner of Competition, and placing a temporary restraint on the completion of mergers until the Tribunal has heard an injunction application;
  - **improve the effectiveness of the provisions that address anti-competitive conduct**, including by easing the test for a prohibition order for abuse of a dominant position, allowing the Commissioner to review the effects of past agreements and arrangements, ensuring that a refusal to deal order may address denial of means of repair, and to ensure that environmental representations must be supported by adequate and proper tests;
  - **strengthen the enforcement framework**, including through the creation of new remedial orders including administrative monetary penalties for those collaborations that harm competition, by creating a civilly enforceable procedure against non-compliance with orders and consent agreements, and by broadening the classes of person who may bring private cases before the Competition Tribunal, including with the possibility of monetary payments in remedy;
  - insert **new procedures** into the law, including the certification of agreements between competitors **designed to protect the environment** and a remedial process for reprisal actions; and,
  - amend the *Competition Tribunal Act* to **prevent cost orders from being awarded against the Crown** except in specific circumstances.

s.21(1)(a)

**Comment**

o [Redacted]

efforts are underway by Minister Champagne and ISED to improve the situation through the work with CEOs and consumer advocacy groups, collaboration with PTs, attracting international grocery chains and implementing *Competition Act* reforms. To note, *Competition Act* reforms, once enacted, are broad-based, economy-wide measures that will take some time to affect markets.

o [Redacted]

s.21(1)(a)

# Transmittal Note / Bordereau de transmission

<b>To / Pour :</b>	<b>Date :</b>
Prime Minister	Nov 24, 2023

**Subject / Objet:**  
**Briefing on Affordability**

From / De :		Via:	
Name / Nom	Office / Bureau	Name / Nom	Office / Bureau
+ - Antoine Brunelle-Côté	LSMP	+ - Antoine Brunelle-Côté	LSMP
+ - Ji-Youn Kim	LSMP		

Approved By / Approuvé par :		Drafting Officer / Rédacteur :
Name / Nom	Office / Bureau	
+ - Mollie Johnson	Plans and Consultations	Julien Bourély
		Admin typist / Dactylographe _____

**Action Requested / Mesure de suivi :**

- Your Signature / Votre signature
  Your Comments / Vos commentaires
  Your Meeting / Votre réunion  
 Your Decision / Votre décision
  Your Information / À titre d'information

**For the attention of / À l'attention du:**

- Prime Minister / Premier ministre
  Clerk / Greffier
  Minister / Ministre \_\_\_\_\_

**Remarks / Observations :**

**Proactive Disclosure / Divulgateion proactive**

Can the briefing note title be released to the public? / Le titre de la note d'information peut-il être divulgué au public?

- Yes / Oui  
 Partial / Partielle\*

\*Provide the exact text to be released / Indiquez le texte exact à publier

No / Non\*\* \*\*Please confirm which Section applies / Veuillez confirmer selon quel article

- Section/ Article 13
  Section/ Article 14
  Section/ Article 15
  Section/ Article 19
  Section/ Article 20  
 Section/ Article 21
  Section/ Article 22
  Section/ Article 23
  Section/ Article 69

See page 2 for a description of each Section / Consultez la page 2 pour obtenir une description pour chaque article.

**ATIP delegated authority approval / Autorisation de l'autorité déléguée de l'AIPRP :**

Name / Nom	Signature
+ - Antoine Brunelle-Côté	BrunelleCote, Antoine <small>Digitally signed by BrunelleCote, Antoine Date: 2023.11.24 17:03:42 -05'00'</small>

**Reference Numbers / Numéros de référence :**

- WEBCIMS # 2023-LSMP-00158**      **GCDocs** Transmittal Note / Bordereau de transmission  
**GCDocs** Briefing Note / Note d'information  
**GCDocs** Other Numbers / Autres numéros

**In consultation with / En consultation avec :**

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