

The Covid-19 pandemic has forced Canadians to embrace online shopping and contactless payments, accelerating a shift that's seen consumers reach more for credit cards than loose change in recent years. Despite that, cash is thriving.

At the end of 2020, about \$100 billion worth of banknotes were in circulation, a year-over-year increase of \$13.8 billion, according to the Bank of Canada. With typical growth rates, banknotes would have swelled by \$4.9 billion last year -meaning the pandemic led to an extra \$8.9 billion surge in demand.



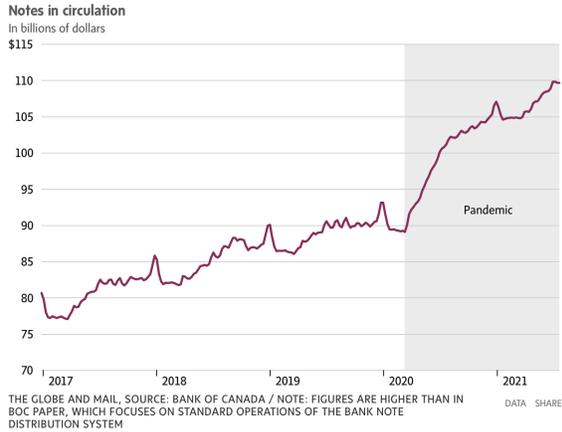
"I'd like to give you an allowance, but who carries cash anymore?"

In the early states of the pandemic, there was a sharp spike in withdrawals, driven by demand for \$50 and \$100 bills. Meanwhile deposits of cash into accounts were persistently low through 2020. This may have been partly owing to lockdown restrictions that slowed the turnover of cash in the economy.

Ultimately, the flood of demand points to a particular reaction as the health crisis escalated: people hoarded cash. Notably, the extraordinary increase in notes in circulation during this period was driven more by demand for large, rather than for small-denomination notes, suggesting that a store of value was an important factor.

This is not solely a Canadian phenomenon. Britain, the U.S. and other Developed World economies have seen a marked increase to their notes in circulation. While there was pandemic bump, it's part of a long-running trend that's been dubbed the *paradox of banknotes*. Even as people use less cash, there is ever-increasing demand for paper currency.

The Bank of England published a report that unpacked the apparent paradox. First, there is the rising attractiveness of holding cash when interest rates are at historic lows. The Bank of Canada rate is at a record low of 0.25 per cent, while in some countries, key rates are negative. Why keep your money in the form of savings deposits that benefit only the Banks (who can loan these amounts out at a rate of 10:1). Second, demand can rise when currencies weaken, as seen when the British Pound plummeted in 2016 following the Brexit vote. Third, there are also notable increases in cash demand when there concerns about banks or the economy, as evidenced by an uptick around the global financial crisis of 2008. The uncertainty in the early days of Covid-19 would understandably lead savers to want to keep their cash close at end (if not under their mattress).



Cash appears to have enduring appeal and a poll taken by the Bank of Canada at the end of 2020 showed that 80 per cent of Canadian said they weren't planning on going cashless. Covid-19 has driven change around the world, but it seems that these changes haven't brought about an end to a well-known saying: **cash is king**. Be safe, be well!

Be safe, be well!

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