FIRST CAPITAL FINANCIAL

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Yesterday's blog covered the subject of rising housing prices in the face of a Covid-19 economic slow-down, so today we thought we'd tackle the issue of inflation and look at what is going on there. According to Statistics Canada, inflation is all but nonexistent and clocks in at a paltry 0.5%. Any movement away from zero and towards our Central Bank's target range of 1 to 3 per cent lowers the need to add monetary stimulus through purchases of government bonds. This is the process of monetary alchemy known as quantitative easing, where countries issue notional bonds on the one hand, while their Central Banks buy them with the other. This drives down interest rates and floods the system with liquidity. More money sloshing around in the economy is inherently stimulative and produces economic growth (I'm not making this up -though it sounds crazy!)

"Sometimes I wonder if it's right to bring a child into this income."

An article in today's Globe & Mail <here> further weighs in on this, and concludes that *the lack of inflation is a direct reflection of an economy that still has a virus standing between it and any true normal [inflationary environment].* But is this really the case? As highlighted yesterday, housing prices continue to climb and alone register inflation rates of between 5% and 10% depending on location. Then there is the matter of food prices, which too have seen significant increases, as have materials including lumber. Anecdotally, I had a contractor quote on re-doing the decks at my cottage, and my hair turned white when I saw the price. Year-over-year the cost of materials shot up a whopping 25%! So the old decks will have to make do for now.

My suspicion is that inflation is significantly higher than what the Consumer Price Index (CPI) is reading, and what's more, the CPI doesn't actually measure inflation, but rather a range of consumer spending behaviours. The cost of a cruise or a rental car is also part of the CPI and those costs are down anywhere from 25 to 50 per cent. But here's the thing, No-one is booking a Caribbean cruise these days, or flying to a destination that requires they rent a vehicle to tour around. So what gives? Well, government programs are tied to inflation, so by keeping official inflation numbers low, it means that cash-strapped governments don't have to spend as much on income supports for eligible recipients. Clever!

The economist Milton Friedman opined that *inflation is always and everywhere a monetary phenomenon*. So it doesn't makes sense that with money supply increasing 5% this year, that inflation would remain basically flat. Finally, there is the matter of currency. Canada exports a lot of goods and services, but we import a great deal too. Have a look at where the fruits and vegetables you buy each week are coming from. Our growing season is over and we rely on countries with warmer climates for these items. And too be sure, year-over-year the cost of the blueberries I put in my buttermilk pancakes (yum!) have almost doubled. The buttermilk too has gone up by 10% or more, meaning that my stack of flapjacks will have to be a little shorter on Sundays to stay on budget! Have a read through the article <here> in Forbes which sheds more light on the difference between the CPI and inflation. And I'd love to get some feedback on this from all of you. What's your personal inflation rate? (not counting the extra glasses of wine consumed each week) and how has Covid-19 changed your spending habits.

Be safe, be well!

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