Inflation in Canada: causes and cures

Inflation in Canada is higher than normal right now. As workers, understanding the reasons for higher prices helps us push for real wage increases at the bargaining table.

The Bank of Canada tracks many economic indicators, like unemployment and levels of business inventories, to understand what might be causing changes in prices now and in the months to come. Changes in Bank of Canada policy take a long time to impact the economy, typically around two years, so they pay more attention to long term trends.

Policy-makers will respond to price increases in different ways, depending on the cause. Temporary increases in some prices don't always lead to permanent increases in the overall level of price. For example, the temporary chip shortage is affecting toys, cars and other consumer goods, but won't last. Monetary policy is only helpful in addressing long term changes in price levels that are the result of domestic economic capacity shortfalls or overheating.

There are three main causes of the higher-than-normal inflation that we're seeing in Canada right now: global supply chain disruptions, a temporary increase in pent-up demand for items that weren't available during the pandemic, and widespread droughts affecting agriculture output.

Global supply chain disruptions have continued for longer than expected, but they should resolve within the next year. Overwhelmed ports and delayed shipping have been affected by a continued COVID-zero policy in China that is affecting production of many manufactured goods. This policy is expected to continue at least until after the 2022 Olympics.

Not only are these changes temporary, adjusting Canadian monetary policy would not improve the situation. These are global problems that require global coordination to resolve, such as climate action to reduce the impact of climate change on our food supply. Raising interest rates now would only slow our economy at exactly the same time that governments are withdrawing historic levels of fiscal stimulus.

What does this mean for workers? It will be especially important for workers to bargain cost of living increases to their wages, and to push back against claims that wage increases will add to existing inflation. When workers have enough money in their pockets to meet their basic needs, their local economies benefit.

Evolving views on inflation

In the 1970s, many economists thought the only cause of inflation was too much money in the economy

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On November. 2, over 5,000 striking frontline workers and supporters rallied at the New Brunswick legislature to demand real wage increases.

ECONOMIC BRIEFS

Executive compensation skyrockets during COVID

Some executives at Canadian companies publicly announced cuts to their salary during the pandemic in solidarity with front-line workers, but a closer look reveals that half of these executives saw their total pay increase in 2020 anyway. This is mostly because salaries make up a very small amount of an executive's total take-home pay, and some of Canada's biggest companies changed their rules so that they could boost bonuses during the pandemic. The Canadian Centre for Policy Alternatives (CCPA) examined public filings from 209 publicly traded companies to review the total compensation of over 1,000 named executive officers. The analysis finds that average executive compensation was up 17 per cent in 2020 compared to 2019, an average of $171,000 per top executive. There are two reasons for this increase - either the companies they worked at were lucky enough to profit from the pandemic, or their companies changed how bonuses were calculated to ensure bonuses were bigger despite poor pandemic performances. Meanwhile, some groups like the Chamber of Commerce and the Canadian Federation of Independent Business howl from the rooftops about 10 cent increases in the minimum wage!

New project links trade and climate action

What do international trade deals have to do with climate change? A lot, says a newly launched collaboration between four think tanks: the New York office of Rosa Luxemburg Stiftung, the CCPA, the Institute for Agriculture and Trade Policy, and the Institute for Policy Studies. For example, US lobby groups are trying to use NAFTA's successor, the CUSMA, to prevent Canada from implementing a new plastics management plan, claiming it violates our international trade obligations. The new project clearly shows how trade deals have been a barrier to better environmental policy around the world and explains what we need to change about trade deals so that we can expand public services and get serious about climate action.

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CUPE Canadian Union of Public Employees

ECONOMIC DIRECTIONS

Get the latest update on economic growth, jobs, wages, inflation, and interest rates – all in one place.

Economic growth – The Bank of Canada has downgraded their economic growth forecast for Canada – from 6.0 per cent to 5.0 per cent for 2021, and from 4.5 per cent to 4.25 per cent for 2022.

Jobs – Total employment has recovered to the level it was at in February 2020, although the job market remains weaker for young workers, women over 55, and those without university degrees. Even though most pandemic restrictions that affected employment have been relaxed or fully removed, employment related to tourism and hospitality remains significantly below pre-pandemic levels.

Wages – While employers in some sectors have made a lot of noise about labour shortages, we haven't seen wages increase in these sectors to attract more workers. Over the past two years, average wage increases have fallen slightly short of increases in CPI.

Inflation – The overall Consumer Price Index (CPI) increase in October 2021 was 4.7 per cent compared to October 2020, but the Bank's three measures of core inflation remained lower – between 3.4 per cent and 1.8 per cent. Many of the factors influencing price increases are temporary and global in nature.

Interest rates – The Bank of Canada has indicated that it expects to keep its key lending rate at 0.25 per cent through to the middle of 2022.

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chasing the existing supply of goods and labour. Central banks set their policy to match the increase in the money supply to expected economic growth. Canada adopted this approach, called monetarism, in 1975. Limiting the growth in the money supply using the rules of monetarism brought inflation back under control, but led to devastating economic recessions, as investment by businesses and governments fell at the same time.

Central banks began to realize that the link between economic growth and the money supply was more complicated, and by 1991, the Bank of Canada shifted to targeting the rate of inflation instead. Targeting inflation still works by changing the amount of money in our economy – which can either limit or encourage borrowing and spending - but allows more flexibility in the timing and size of the changes than the limited rules of monetarism.

In 2016, the Bank of Canada moved away from monitoring a single measure of core inflation to tracking three measures of core inflation: CPI-trim, CPI-median, and CPI-common (see the Fall 2021 issue of *Economy at Work* for details). The Bank explained that these measures were better able to 'see through' temporary or isolated fluctuations in prices and reflected more permanent or persistent movements in prices.

Charting a new normal for the labour market

While the overall number of jobs in Canada is back to where it was before the pandemic, there are some changes that have happened below the surface. We can break down the numbers in different ways to get a better idea of what's actually happening.

Full-time employment for core-age workers (between 25 and 54) has returned to pre-pandemic levels for both men and women. Overall employment is still lower than it was before the pandemic for workers under 25 and for women over 55. Employment also lags for workers without university degrees in large urban centers.

The number of self-employed workers has fallen and is at its lowest level since 2007. Most of the positions lost were the most precarious form of self-employment: those who are not incorporated as a business and do not have paid employees. In some industries, like professional and scientific services, the increase in permanent positions has been much larger than the loss in self-employment, revealing a shift towards more secure employment in those sectors. In other industries, like construction and agriculture, there was no increase in stable employment to offset the losses in self-employment.

In some sectors the overall level of employment masks big shifts within the sector. For example, in transportation and warehousing, employment for couriers and messengers is up 25 per cent compared to February 2020, but employment in air transportation is down 38 per cent. Within retail, employment at non-store retailers is up 16 per cent and big-box retail employment is up eight per cent, but employment is down about the same amount in clothing, sporting goods, book, and music stores. This reveals that the shift to online and big box shopping that we saw during the pandemic may be sticking around.

There are higher numbers of job vacancies in several industries, most notably food service and accommodation, as well as health care – especially for registered nurses and nurses' aides. Economists would expect to see wage increases to attract workers into these positions. However, for some of these positions, wages have not even kept up with inflation. For example, wages for food and beverage services workers and managers are virtually unchanged compared to 2019. For registered nurses and nurses' aides, the average wage offered has increased by six per cent - just slightly higher than the rate of inflation over that period, which increased by 4.9 per cent.

There is a great deal of discussion about the "great resignation" in the United States labour market, where workers are voluntarily leaving their jobs without having a new one lined up. Looking at the available data, there is no indication that workers in Canada are doing the same thing, in fact, the proportion of people aged 25-54 who are working or looking for work is at a record high.