

COST OF LIVING IS OUT OF CONTROL

THE GOVERNMENT MUST DO MORE TO CONTROL RISING PRICES, WRITES MICHAEL CHONG



MICHAEL CHONG
Column

The cost of living continues to skyrocket.

In May, the consumer price index, Canada's main inflation barometer, rose 7.7 per cent — the largest year-over-year gain since 1983.

Everything is costing more — bread, beef, gas, rent, appliances. And the list goes on. Energy prices rose 34.8 per cent on a year-over-year basis in May.

This dramatic increase is hitting Canadians hard at the pumps and having a downstream effect on other items, such as groceries and durable goods.

In June, Statistics Canada reported that two out of five Canadians are being affected by rising food prices (up 9.7 per cent in May). Canadians continue to pay more for basic food staples, including fruits, vegetables and meat. While the housing market has started to cool, prices are still double what they were six years ago.

Factors external to Canada have no doubt contributed to domestic inflation, including COVID-19-related supply chain disruptions and Russia's war on Ukraine.

It's also clear, in my

opinion, that the arm's-length and independent Bank of Canada did not respond quickly enough to rising inflation.

But the Trudeau government doesn't get a free pass. Their budgets, I believe, have contributed to the rising cost of living by pouring the gasoline of fiscal stimulus on the fires of inflation.

Last December, I wrote about the need for the Trudeau government to address the rising cost of living. Since then, the government has, I feel, introduced a budget that only further contributes to rising inflation.

The government is now spending \$70 billion more annually than before the pandemic.

That's more than four per cent of Canada's GDP per year in additional spending. This is fuelling inflation — and it's not sustainable.

The budget should have focused on controlling spending. It should have introduced meaningful tax breaks for struggling Canadians, including families and seniors.

It should have encouraged increased investment rather than increasing consumption. Finally, it should have put in place stronger measures to protect Canadians from over-extending themselves and taking on too much debt.

The Trudeau government must do better to address the rising cost of living that disproportionately impacts lower-income individuals and families.

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Bill McKenzie photo

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INTEREST RATE HIKE WILL HURT MANY CANADIANS

The Bank of Canada made an aggressive move to increase interest rates.

That increase will impact many individuals.

The underlying story is just how serious the risk of inflation is to the Canadian economy, and that such extreme measures have been taken.

Three facts help paint the picture of the severity of current inflationary concerns.

One: The one per cent increase to interest rates was four times the size of recent interest rate hikes.

Two: The current policy interest rate as set by the Bank of Canada is 2.5 per cent, which is the highest since the financial crisis of 2008.

Three: Canada's inflation rate is 8.1 per cent, which is the highest since 1983.



PETER WATSON
Column

Interest rate hikes are a delicate balancing act by the Bank of Canada, with plenty of pros and cons on the impact they will have. Consider this a financial trade-off.

Financial pain will be felt by many individuals from both higher borrowing costs and — likely — continued decreases in the

value of people's largest assets, their homes.

As for the Canadian economy, this increase in interest rates and the expected future interest rate increases could push our economy into a recession.

The priority is to get inflation under control, which will slow price increases and wage hike demands. Consider this the necessary steps to maintain a strong economic foundation.

It's short-term pain for long-term gain. This, ultimately, will be good for our economy; however, many will be hurt in the process.

Peter Watson, of Watson Investments MBA, CFP, R.F.P., CIM, FCSI offers a weekly financial planning column, Dollars & Sense. He can be contacted through www.watsoninvestments.com.

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