Loss of Confidence? 63.5% of Canadians Say Bank of Canada Can't Curb Inflation

Description

Bank of Canada's constant reminders about rising inflation and supply chain bottlenecks might be sending the wrong signal. The results of a Nano Research Group survey commissioned by Bloomberg News show there's a lack of confidence in the bank to rein in inflation and bring it back to pre-pandemic levels.

About 63.5% of poll respondents are unconvinced that the Bank of Canada can overcome price pressures and alleviate the worries of Canadians. Only 30.6% believe the inflation rate will revert to pre-corona trends.

Mikal Skuterud, a labour economics professor at the University of Waterloo, said, "Things can spiral out of control if those expectations aren't managed." He adds that it isn't just something you can blow off as unimportant.

Unusual recovery

Despite the high vaccination rates and broad reopening, a global phenomenon affects Canada's economic recovery. Currently, there's an obvious imbalance in supply and demand in that consumers and businesses might take longer to adjust. The bank maintains that inflation will stay high in the first half of 2022 and ease in the back half towards 2%.

On December 13, 2021, Finance Minister Chrystia Freeland and BOC governor Tiff Macklem issued a joint statement. Freeland and Macklem said the objective of Canada's monetary policy is to promote the economic and financial well-being of Canadians. Based on experience, the best way monetary policy can achieve this goal is by maintaining a low and stable inflation environment.

New five-year mandate

A five-year mandate is now in place and should serve as a compass to guide BOC's monetary policy decisions until year-end 2026. Under the new mandate, the inflation target is still 2%, although the fed must emphasize on the labour market when weighing policy options. For CIBC chief economist Avery Shenfeld, the new mandate is a repackaging of BOC's existing mandate.

No loss of confidence in a Big Bank

Investors will not lose confidence in a Big Bank on the stock market. **Bank of Montreal** (TSX:BMO)(NYSE:BMO) remains a top-of-mind choice because of its sterling dividend track record. Canada's fourth-largest bank hasn't missed a dividend payment in 192 years.

This $89.86 billion dividend pioneer can provide the financial cushion if you're investing to counter inflation. At $138.62 per share, the dividend yield is 3.84%. BMO recently announced a 25% dividend increase, the highest among the Big Banks.

In Q4 fiscal 2021, BMO's net income rose 36.3% to $2.15 billion versus Q4 fiscal 2020. More importantly, its CFO, Tayfum Tuzum, said BMO has other ways to respond to inflationary pressure if it goes higher than expected.

Brace for less buying power

The historic low-interest rate spurred economic activity, but it's driving inflation higher. Canadians should brace for higher prices of goods and services. Furthermore, it will be more expensive for individuals and businesses to borrow when the BOC increases interest rates in 2022.

CATEGORY

1. Bank Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:BMO (Bank of Montreal)
2. TSX:BMO (Bank Of Montreal)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Smart News
8. Yahoo CA

PP NOTIFY USER

1. cliew

2. gsmiley

Category

1. Bank Stocks
2. Investing

Date
2025/08/21
Date Created
2021/12/18
Author
cliew