



Here's How Canadians Can Help Stop High Inflation ... Without the Bank of Canada's Help

Description

So, I made a mistake.

I was sure — absolutely sure — that if the Bank of Canada began to hike rates, we would start to see a downward trend in high inflation. I didn't expect a sudden trend but at least a few percentage points lower each month.

Now I'm second-guessing myself. The war in Ukraine will have ripple effects in our economy that, I believe, will only compound the factors affecting high inflation. While it's too early to say if inflation will grow any higher, the path forward isn't as certain as I once thought.

One thing is for certain, however: the Bank of Canada will raise their benchmark mark by a quarter of a percentage point this Wednesday, March 2. Will that help curb high inflation? It's not likely. But at this point, the Bank of Canada has to do something.

And so do we. Sometimes we talk about inflation and the economy as if they were their own entities. They're not. Our economy is a patchwork of supply and demand. It exists because we have wants, needs, and money. High inflation exists — at least in part — because we want things that are in short supply.

To be fair, some problems are beyond the individual consumer to fix. You won't fix the supply crunch unless you have a brilliant logistics idea. And you won't fix the worker shortage unless you're a great motivational speaker.

Others are still in our hands. It would have to be a collective effort (not impossible), but if Canadians want to stop contributing to high inflation, they can do one thing: demand less of those products that are in short supply.

Less demand; More supply

Unlike other parts of the world, the pandemic left Canadians in great financial shape. By some estimates, Canadians saved around \$300 billion from 2020 to the second quarter of 2021. That's around 13% of Canada's GDP.

Now, we're living in the "Great Rebound." Pent-up demand, along with massive amounts of savings, not to mention stimulus from the Bank of Canada, has led Canadians to spend money. While that's good for the economy, it hasn't necessarily been good for supply chains.

And supply chains haven't been good for inflation.

To be sure, the economy is a massive, complex machine. To suggest that Canadians could stop inflation by spending less money would be inaccurate and a gross oversimplification. But when you look at the hundreds of price categories, only a handful are driving inflation: housing, energy, cars, and meat. And for these, we can certainly make compromises, though it might involve sacrifices.

Gas is a major sore spot. Prices have hit record highs across the country. The war in Ukraine hasn't helped; neither has OPEC's slow introduction of more barrels to the market to reach pre-pandemic levels.

Demand for gas is likely to rise in 2022: businesses are reopening, and workers are trickling back into the office. Some old solutions might help — like carpooling, taking public transportation, or riding a bicycle when it's warm — but we'll likely need to do this on a big scale in order to notice anything in the economy.

It's not impossible, but, again, it would need to be collective.

In some cases, our demand hasn't changed. It's supply that's changed. Consider meat, for instance. Canadians aren't all of a sudden voracious carnivores. Meat prices have risen because agriculture has had a number of setbacks, like weather events, poor farming conditions, and supply crunches. In this case, it's we who have to adjust, demanding less than we normally demand.

The same could be said for cars, which are affected by a low supply of semiconductors, as well as an industry push toward electric vehicles. But it can't be said for housing, which is heavily impacted by our demand.

To be sure, we have to spend money to keep the economy running. But the more we demand goods that are in short supply, the more we'll spend to buy those goods. As we await the Bank of Canada's decision to raise interest rates, let's not forget our own role in this. The economy isn't some entity that operates outside of our behaviour. We *are* the economy. We might not be able to raise rates, but we can buy less stuff.

CATEGORY

1. Personal Finance

PARTNER-FEEDS

1. Business Insider
2. Koyfin

3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Smart News

PP NOTIFY USER

1. kduncombe
2. sporrello

Category

1. Personal Finance

Date

2025/07/31

Date Created

2022/02/28

Author

sporrello

default watermark

default watermark